

SUPERANNUATION FUND COMMITTEE

Friday, 1st July, 2011

9.30 am

**Medway Room, Sessions House, County Hall,
Maidstone**



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 1st July, 2011 at 9.30 am Ask for: **Geoff Rudd**
Medway Room, Sessions House, County Telephone: **01622 694358**
Hall, Maidstone

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 (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 press and public)

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Minutes (5 - 6)
2. Invesco (930am-1015)
3. YFM Private Equity (1015am-11)
4. Baring Asset Management (11am-12)
5. Fund Structure (7 - 38)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Kent Investment Fund (39 - 46)
2. Fund Position Statement (47 - 54)
3. Pensions Administration (55 - 62)

4. Treasury Management (63 - 64)
5. Admission to the Fund (65 - 68)

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 23 June 2011

- (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 in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 20 May 2011.

PRESENT: Mr J E Scholes (Chairman), Mr J Burden, Mr P Clokie, Mr D Daley, J A Davies, Mrs J De Rochefort, Ms A Dickenson, Mr M J Jarvis, Mr J F London, Mr R A Marsh, Mr S Richards, Mr M V Snelling and Mrs M Wiggins.

ALSO PRESENT: Mr D Boyd and Mr A Elliott of Hymans Robertson, Miss S J Carey and Mr J Simmonds.

IN ATTENDANCE: Mr A Wood (Acting Corporate Director of Finance and Procurement), Mr N Vickers (Head of Financial Services), Ms K Gray (Senior Accountant Investments), Ms A Mings (Treasury & Investments Manager) and Mr G Rudd (Assistant Democratic Services Manager).

UNRESTRICTED ITEMS

20. Membership

The Committee noted that Mr K Bamber was no longer Medway Representative, Mr R Packham was no longer District Council Representatives and that Mr G Rudd would liaise to seek replacement members.

21. Declarations of Interests by Members in items on the Agenda for this meeting.

(Item A2)

Mr D Daley declared a non – pecuniary interest as a Maidstone Borough Councillor regarding the Maidstone Borough Council Parking Services application to join the Pension Fund referred to in item D3.

22. Minutes

(Item A3)

RESOLVED that the Minutes of the meeting held on 4 March 2011 are correctly recorded and that they be signed by the Chairman.

23. External Audit Plan

(Item D1- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement. Mr D Wells of the Audit Commission was in attendance for this item)

RESOLVED that the report be noted;

24. Superannuation Fund Business Plan 2011-12

(Item D2- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the business plan be agreed

25. Application for Admission to the Fund

(Item D3- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that:-

- (a) the application for admission to the Kent County Council Pension Fund by APCOA be agreed;
- (b) the application for admission to the Kent County Council Pension Fund by Children and Families Limited be agreed;
- (c) the application for admission to the Kent County Council Pension Fund by the successful contractor from the three companies tendering for the KCC highways contract be agreed; and
- (d) that once legal agreements have been prepared for the above matters, the Kent County Council seal can be affixed to the legal documents.

26. Minutes

(Item C1)

RESOLVED that the exempt Minutes of the meeting held on 4 March 2011 are correctly recorded and that they be signed by the Chairman.

27. DTZ Property Strategy

(Item C2)

- (1) Mr P O’Gorman, Mr C Sim and Mr C Saunders of DTZ were in attendance for this item.
- (2) RESOLVED that the report be noted.

28. Hymans Robertson Investment Strategy

(Item C3 -report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

- (1) Mr D Boyd and Mr A Elliott, of Hymans Robertson were in attendance for this item.

(2) The Committee noted items in the report and agreed on how it wished to proceed with its Investment Strategy.

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By: Kevin Lynes, Cabinet Member for Regeneration and Enterprise
Barbara Cooper, Director of Economic Development

To: Superannuation Fund Committee – 1 July 2011

Subject: **KENT & MEDWAY INVESTMENT FUND**

Classification: Unrestricted

Summary: To update on proposals by KCC to develop a Kent and Medway Investment Fund

FOR INFORMATION

PURPOSE OF THE REPORT

1. This report sets out proposals to establish a Kent and Medway Investment Fund. The intention is to provide an outline of the concept and model, with a view to presenting more a detailed investment proposition to the Committee in September.

INTRODUCTION

2. CBRE has been appointed by KCC to develop proposals for a Kent and Medway Investment Fund. A Feasibility Report has been produced which outlines how the KMIF could operate. It also identifies the key issues to be taken forward by KCC in partnership with Medway and the District and Borough Councils to set up the KMIF. This follows an initial Scoping Paper prepared in February and presented to Kent Forum. The Feasibility Report was presented to the Kent Joint Chief Executives on 21st June. Medway, District and Borough partners are currently considering whether they want to participate, subject to internal decision making processes.

AIMS AND PURPOSE OF KMIF

3. The KMIF aims to unlock regeneration and development by using local authority assets and funds to lever significant private sector investment. It will generate returns to be reinvested in a revolving fund in order to maximise benefits.

4. The purpose of KMIF is to:
 - continue to deliver economic growth in a context of reduced central and local government funding streams;
 - maximise value towards this from local authority owned assets and support the delivery of asset management strategies that assist regeneration;
 - lever and unlock significant private sector investment across Kent.
5. KMIF provides a direct response to current constraints on public sector funding and offers an alternative approach to traditional grant funding streams by maximising the efficient and effective use of local authority assets. It provides an opportunity for achieving a commercial return on investments whilst delivering against the primary goal of regeneration and economic growth across Kent.

THE KMIF MODEL

6. The model outlined in the Feasibility Report proposes the creation of a local authority led partnership that will pool cash and assets to create a Fund. The partnership agrees an Investment Strategy that determines how the Fund will be invested, including output targets, level of risk and rate of return on investment. Only projects that meet the criteria set out in the Investment Strategy will be supported by the Fund.
7. The partnership appoints an independent, professional Fund Manager to deliver the Investment Strategy. Investment may be in the form of debt, equity or guarantee and returns will be recycled back into the Fund for reinvestment. At this stage it is anticipated that investments will be locked into the Fund for an initial period of 10 years.
8. KMIF will provide a commercial market return on investments and is not intended to provide gap funding. It will only invest in circumstances where it can enable projects to become financially viable and where they would otherwise not proceed if purely privately financed. In this way, KMIF will complement, not supplant, existing private finance to deliver benefits for Kent. It will provide finance for both public and private sector led projects that deliver against regeneration outputs.
9. KMIF will harness the benefits of scale that can be realised through local authorities working in partnership. It is hoped that KMIF will be joined by most authorities within Kent to create a critical mass of projects and access to finance which makes it a size that becomes of interest to the private sector. Based on the experience of setting up the North West Evergreen Fund, the KMIF will need to be seeded with cash and assets totalling £20m to £30m in value from the local authority partners. All

partners will be required to make a minimum contribution towards this to participate in the Fund. It will be for each authority to determine whether their contribution is in cash or assets. The model makes provision for Local Asset Backed Vehicle to enable local authority partners to pool high quality assets and package these in a way that is attractive to the market and can lever investment.

10. The intention is that KMIF will attract a broad mix of finance at both Fund and project levels. In developing the concept, the aim has been to create a model that would be of interest to investors, including potentially the Kent Pension Fund. Private sector funding can be invested at either Fund level in the entire portfolio, or project level enabling investors to select which projects they invest in.
11. The level of return achieved by the Fund is dependant upon the risk profile partners choose to invest in which will be defined in the Investment Strategy. In order to comply with state aid rules, the Fund can only invest on commercial terms and in accordance with EU reference rates. It is therefore likely that the lending rate offered will be somewhere between a high single figure return and a double figure mezzanine position. The Investment Strategy and target return will be defined as the next stage of developing KMIF progresses. This will include financial modelling to assess different pricing structures and potential returns.

GOVERNANCE

12. The proposed governance structured for KMIF is intended to be as simple and transparent as possible so that it remains attractive to the market whilst protecting the interests of the public sector partners. The Feasibility Report recommends that the KMIF is established through a Limited Partnership as the simplest and most tax efficient structure that is also widely recognised by the market. A structure chart for the proposed governance arrangements is attached as appendix 1.
13. In order to operate KMIF through a Limited Partnership structure (within which partners will have limited liability) a General Partner (with unlimited liability) will also need to be established. The founding partners will need to decide the extent to which they would like to be involved in the day to day operation of the fund. They will be presented with two options based on differing levels of engagement:
 - (1) The partners form a special purpose vehicle to act as the General Partner. A separate Fund Manager is then appointed and managed by the General Partner. The General Partner can then determine the extent to which it delegates responsibilities to the Fund Manager.

- (2) A General Partner is appointed by the Limited Partnership to also be the Fund Manager. Although this is a more arms length option for the partners, they retain control over the General partner / Fund Manager through the Partnership Agreement and the Investment Strategy.
14. In practice the approach is likely to be a combination of the two options above, with an SPV General Manager established (option 1) to oversee operations in the early days and this function then transferring to option 2 at a later date.

CONSULTATION

15. In developing the KMIF proposals, KCC and CBRE have met with the Chief Executives of Medway and all Borough and District councils who expressed an initial interest. The purpose of these meetings was to introduce the KMIF concept and explore the extent to which it could deliver against a range of aspirations. The response from these meetings has been positive with eleven of the twelve continuing to be involved in discussions to understand more and consider whether it is an appropriate vehicle for them.
16. Initial soft market testing suggests there is private sector interest for KMIF. Skanska, Denne and Aviva have all expressed an interest and invited further discussions.

TIMETABLE AND NEXT STEPS

17. The Feasibility stage of work completed to date has focused on the Fund concept, how it could operate and the key decisions that will need to be made by the founding partners in setting up the KMIF. The next stage of work will comprise three main workstreams:
- Development of the Investment Strategy
 - Development of the Project Pipeline
 - Development of the Governance Structure
18. The development of the Investment Strategy will also include financial modelling to determine the risk profile and target return. An Indicative timetable is attached at Appendix 2. This is intended to outline the principle work-streams for the next stage of work. This will be developed in more detail following the appointment of consultancy support.
19. A further report providing a more detailed proposition for investment will be presented to the Superannuation Fund Committee in September.

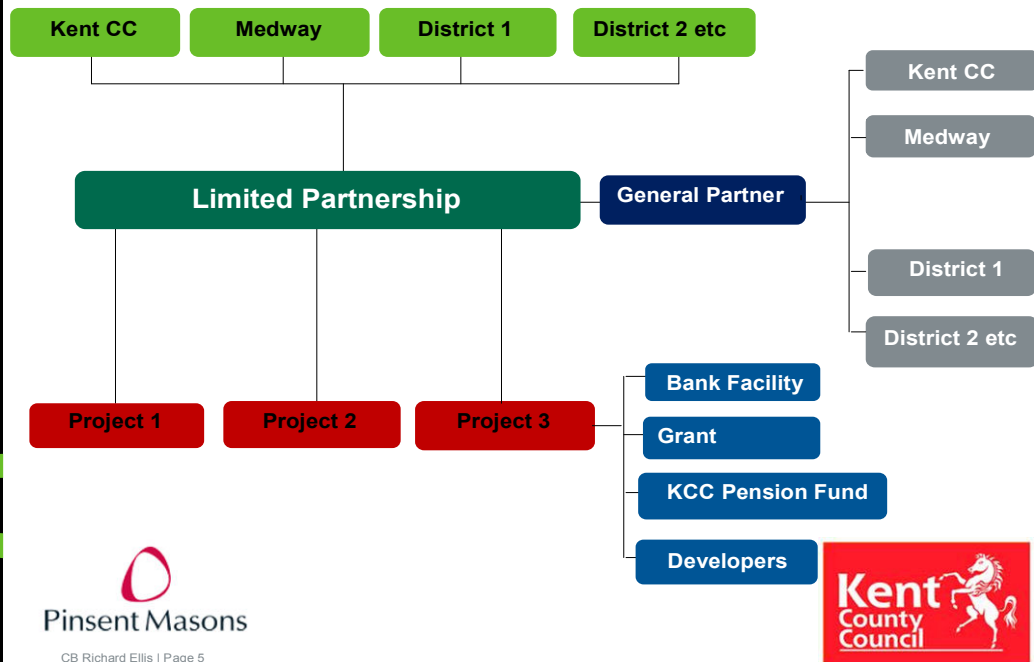
RECOMMENDATIONS

20. Members are asked to note the proposals set out in the report.

Adele Harrison
Regeneration Manager

Appendix 1

Governance Structure – Kent & Medway and Districts



Appendix 2
Kent and Medway Investment Fund
Indicative Timetable

	2011							2012				
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May
Establish Interim Governance												
Procure Advisors												
Legal review and governance					+							
Set up Limited Partnership												
Investment Strategy												
Call for projects												
Project Pipeline Development												
Agree Partner Contributions								+				
Financial modelling												
Risk Register												
Decision to implement KMIF												+
Procure LABV partner												Post KMIF set up

denotes key decision / break points

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By: Chairman Superannuation Fund Committee
Acting Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 1 July 2011

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.

RECOMMENDATION

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: D2 refers



Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

1st July 2011

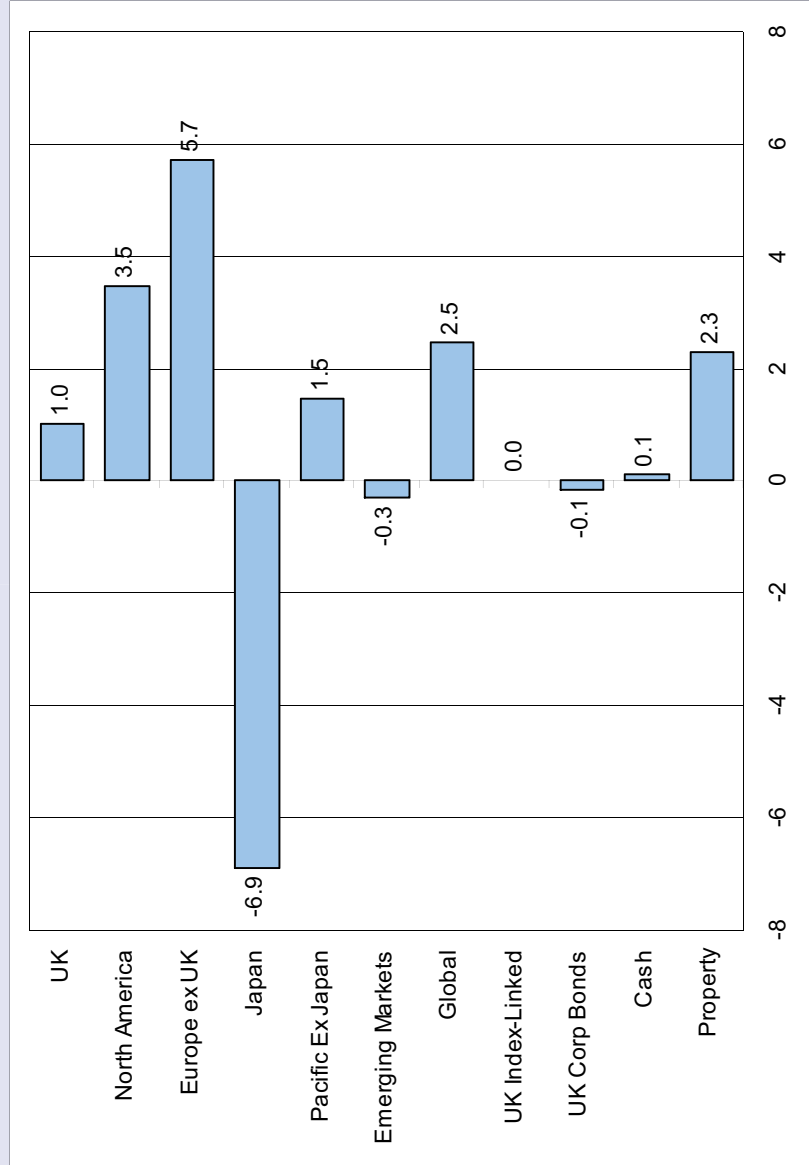
By: Chairman Superannuation Fund Committee
Acting Corporate Director of Finance and Procurement



Kent County Council
Superannuation Fund 2011

Nick Vickers—Head of Financial Services

Market Returns-3 months to 31 March 2011

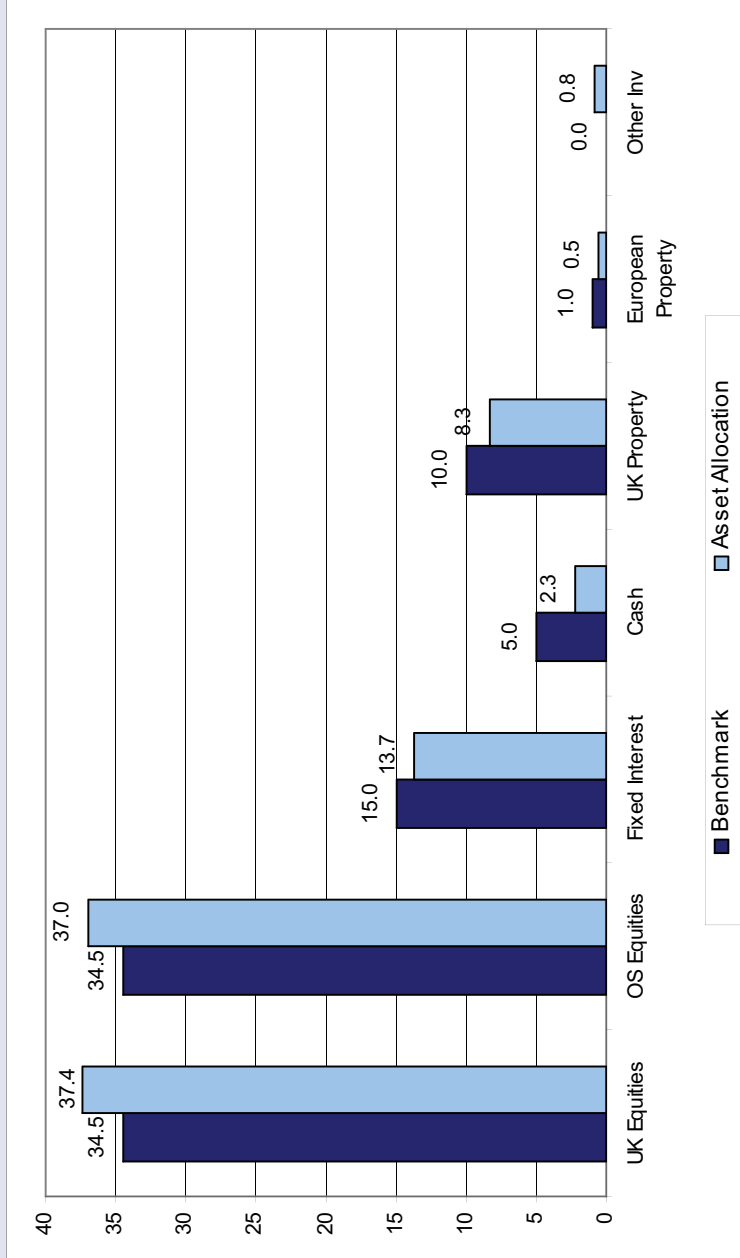


- Equity markets started the quarter reasonably strongly as corporate earnings continued to recover and inflation expectations were normalizing
- This optimism was short lived, however, when geopolitical risks emerged early in the quarter, starting in Tunisia then spreading across the middle east.
- The massive earthquake and subsequent Tsunami that hit Northern Japan toward the end of the quarter resulted in a fall in the Japanese equity markets
- Further debt problems in the Euro-zone's peripheral markets also featured with the Portuguese government requesting a financial bailout at the end of the quarter.
- With all this uncertainty in one quarter, it is surprising how little equity markets were affected with the strongest performance being in Europe ex UK.
- UK Corporate bond markets fell again this quarter



Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D2 refers



	Kent Fund		Benchmark
	£m	%	%
Asset Class			
UK Equities	1,181	37.4	34.5
Overseas Equities	1,168	37.0	34.5
Fixed Interest	434	13.7	15.0
UK Property	262	8.3	10.0
European Property	17	0.5	1.0
Cash	71	2.3	5.0
Other Inv	26	0.8	-
Total Value	3,160	100	100

Asset Distribution Fund Manager

Classification: Unrestricted
Item: D2 refers



Values (GBP)'000	Mandate	Value at 31/12/2010	Transactions	Capital Gain / loss	Income	Value at 31/03/2011	Fund	Benchmark
Schroders	UK Equity	535,774	3,323	1,627	3,347	540,724	17	Customised
Invesco	UK Equity	350,628	0	5,233	0	355,861	11	Customised
State Street	UK Equity	242,428	54	2,527	0	245,009	8	FTSE 100 All Share
State Street	Global Equity	286,091	0	6,601	0	292,691	9	FTSE All World ex UK
Baillie Gifford	Global Equity	563,532	2,647	8,574	3,218	574,753	18	Customised
GMO	Global Quantitative	187,554	0	3,935	0	191,489	6	MSCI World
Schroders	Global Quantitative	146,166	0	3,827	0	149,993	5	MSCI World
Goldman Sachs	Fixed Interest	245,071	170	1,628	177	246,869	8	ML £ Broad Market
Schroders	Fixed Interest	193,861	713	1,248	713	195,822	6	ML £ Broad Market
Impax	Environmental	26,564	0	313	0	26,877	1	MSCI World
DTZ	Property UK	264,007	-2,245	287	3,899	262,049	8	IPD All Properties Index
DTZ	Property Europe	16,037	27	1,092	41	17,156	1	IPD All Properties Index
Harbourvest	Private Equity	685	470	-16	0	1,138	0	LIBID 7 Day Rate
YFM	Private Equity	1,847	0	192	97	2,039	0	LIBID 7 Day Rate
Partners	Infrastructure	8,271	6,478	319	0	15,067	0	LIBID 7 Day Rate
Henderson	Infrastructure	6,971	0	1,194	0	8,165	0	LIBID 7 Day Rate
Internally Managed	Cash	37,319	-3,343	0	70	33,976	1	LIBID 7 Day Rate
Total Fund		3,112,805	8,293	38,581	11,562	3,159,679	100	Kent Combined Fund

Performance Returns to 31 March 2011

Classification:
Unrestricted
Item: D2 refers

	Quarter			1 year			3 years		
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %	Fund %
Total Fund	1.6	1.4	9.0	8.1	6.2	5.7			
UK Equity									
Schroders UK	0.9	1.0	12.9	8.6	8.6	5.3			
State Street	1.0	1.0	8.8	8.7					
Invesco	1.5	1.0	8.8	8.7	5.4	5.4			
Overseas Equity									
Baillie Gifford	2.1	1.9	12.4	7.5	11.1	7.6			
GMO	2.1	2.4	6.5	7.4	6.1	7.6			
Schroders GAV	2.6	2.4	10.2	7.4	10.0	7.6			
State Street	2.3	2.0	7.8	8.0					
Impax Environmental Fund	1.2	2.4							
Fixed Interest									
Goldman Sachs Fixed Interest	0.7	-0.1	5.5	5.3	6.5	5.6			
Schroders Fixed Interest	1.0	0.0	4.1	3.0	7.0	4.8			
Property									
UK Property	1.6	2.3	10.7	10.7	1.9	-1.4			
Overseas Property	7.1	2.3	-1.8	10.7	-10.1	-1.4			
Private Equity									
Harbourvest	-2.8	0.1							
YFM	15.9	0.1							
Infrastructure									
Partners	3.2	0.1							
Henderson	17.1	0.1							
Data Source: The WM Company									

- The Fund increased in value over the quarter to almost £3.2bn.
- The fund outperformed the benchmark over the quarter. This put the fund 31st in the WM local authority rankings.
- The fund produced a return of 9% over the year, an outperformance of nearly 1% ranking us 31st in the WM Local Authority rankings. The fund is ranked 27th over 3 years returning 6.2%.
- Most equity fund managers marginally outperformed their benchmarks over the quarter, with Invesco being the top performer relative to their benchmark. .
- Schroders, GMO and Impax all marginally underperformed relative to their benchmarks
- Over the longer term, Baillie Gifford, Schroders UK Equity and Schroders GAV have performed particularly well, outperforming their benchmarks by around 3% over 3 years
- Both Fixed Interest managers outperformed their benchmark for the quarter, over 1 year and 3 years.

Fund Structure

<u>UK Equities</u>	<u>Global Equities</u>	<u>Fixed Interest</u>	<u>Alternative</u>
Schroders +1.5% £541m	Baillie Gifford +1.5% £575m	Goldman Sachs +0.75% £247m	DTZ UK Property £262m
State Street +0.0% £245m	GMO +3.0% £191m	Schroders +1.0% £196m	DTZ Europe Property £17m
Invesco Unconstrained £356m	Schroders +3.0 - +4.0% £150m		Kent Cash £34m
	State Street +0.0% £293m		Henderson Secondary PFI £8m
	Impax £27m		YFM Private Equity £2m
			Harbour Vest £1m
			Partners £15m

Market Value £3.2bn
as at 31st March 2011

By: Chairman Superannuation Fund Committee
Acting Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 1 July 2011

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Progress in technology development
- Changes to pensions tax regime
- Other topical issues

FOR INFORMATION

INTRODUCTION

1. This report updates members on a range of issues concerning the administration of the Kent Pension Scheme.

WORKLOAD POSITION (APPENDIX I)

2. Members have previously been advised that workload in the section is increasing year on year.
3. Appendix I confirms the trend to be continuing. In particular, calculation of estimates and benefits, in the year to March 2011, has increased sharply.
4. It is anticipated, in light of the need of most key employers to reduce staffing levels that significant increases in these areas will continue over the next 2-3 years.
5. Estimates being received in the office, during April and May 2011, show a very marked increase. We are now receiving over 400 estimate requests each month, representing a significant increase. We are also running bulk estimate calculations of employer costs for batches of staff who are seeking voluntary redundancy.
6. In similar terms, it is anticipated that numbers of benefit calculations will increase as people are selected for redundancy and retirement.

7. Following changes made to the scheme regulations, it has been necessary to allow all scheme members, with previous service at other local authorities, a one-off opportunity to amalgamate their pension service. We have over 500 interfunds to complete as a consequence of this amendment.
8. The review of all Police and Fire injury allowances has now been completed. Members were advised of this review at the last report. Both the Police and Fire Authorities have been advised of the outcome of the review, which has led to large numbers of over/under payments of benefits. All pensions have now been amended. These over/under payments have arisen as a consequence of non-advice, by the scheme members, of changes to DSS benefits as a result of the injury sustained in service.

KEY PERFORMANCE INDICATORS

9. Despite the increases in workload, I am pleased to advise members that in the year ending March 2011, the section out performed the benchmark target, in each of the areas reported to committee.
10. Members are advised that in light of the significant levels of estimate requests being received, together with the anticipated increase in benefits to be calculated, it will be difficult to maintain the KPI service levels, particularly during the main holiday period.
11. Staff have been advised that overtime will be necessary in all likelihood, if we are to clear the work in reasonable timescales.
12. The section is presently running with 7 FTE vacancies, a number of staff absent due to maternity with a further maternity due to commence very shortly.
13. Every effort will be made to maintain our high standard of service, despite these circumstances and the increase in workload.
14. All employers are treated equitably in terms of the turnaround of work. Whilst KCC is clearly the largest single employer, it is agreed that KCC will not be given preferential service, in the difficult period that all employers face in the next few years.

TECHNOLOGY DEVELOPMENTS

16. **Axis Employer**
I am pleased to confirm that Axis Employer has now been installed at 5 test sites. This software enables employers to perform a range of administrative tasks online with direct access to the pensions administration system. One of the test sites includes 4 districts working collaboratively.
17. During testing, the tasks undertaken by employers were monitored to ensure the member data and transactions, held on our system, are not compromised.

18. Following this testing, further employer training of the system will be made available to other employers in a phased release.
19. It is anticipated that this development will reduce workloads, particularly in terms of relatively simple tasks within the section.
20. **Pension Fund Website**
I regret that I must advise members that transfer of the Pension Fund website, from its existing location on the Kent County Council website, to its own unique web domain, has yet to be completed.
21. Progress is painfully slow, in light of a lack of progress being made by our ICT colleagues. I have written to our account manager, seeking assurance of completion by September 2011 but, to date have had no response.
22. Our need to develop an interactive website for scheme members, together with the need to communicate the significant changes following the Hutton Report, make this initiative an essential part of our future plans, to utilise technology solutions.
23. We have to date invested £6014 in this project over 3 phases via ICT with little progress being achieved. This is an initial payment on an estimate of phase 1 predicted to cost £14,000, phase 2 and 3 are yet to be costed.
24. It may be necessary at some future point, to contract the services of an external website organisation, in order to complete the initiative.
25. **Pensions Administration system**
The KCC Pension Scheme, together with 88 other administering authorities, utilise the Heywood AXISe administration platform.
26. Development, system releases, testing and technical specification of the system is facilitated by the CLASS Group. The CLASS Group is a consortium of 88 local authorities, out of 90 in total, administering the LGPS.
27. However, each authority currently contracts individually with Heywood (Acquila Group) for the provision of the package of software, upon which the scheme database and calculations are maintained.
28. The development of the system (i.e. when a regulation change occurs) when undertaken nationally by the CLASS Group, represents a significant saving to all CLASS members.
29. I am Chairman of the CLASS management team for the UK, responsible for all matters relating to the functionality and development of the Heywood product, used to administer the LGPS.
30. Members of the CLASS Group, have requested the Management Team, by way of achieving greater collaborative working, to seek to tender as a single framework arrangement, or alternatively, via a separate procurement vehicle, a national contract with the software providers.

31. The Management Team is therefore seeking advice via DCLG, Independent Legal Advisers and the Central Procurement Officers (SIPPS), to establish the most suitable and cost effective way of achieving a national tender process.
32. I will advise members as progress is made, but in the interim, would ask members to endorse our continued support of the CLASS arrangement and this initiative in particular.
33. The Management Team is very conscious of the likely changes to be made to the LGPS following the Hutton Report (see separate paper on Hutton). It is likely therefore, that a specification of the system needs, will not be possible until 12 months hence.
34. The Management Team envisage the national framework to be completed by April 2013, providing a 2 year period, to accommodate the changes in 33 above.
35. In addition, it will be necessary to accommodate recent changes to HMRC Tax Rules (see latter remarks) and the requirements of overarching legislation being part of the NEST proposals (all non-members to be auto enrolled on a 3 year cycle).
36. Much work therefore needs to be undertaken by the Management Team over the next 2 years.

CHANGES TO PENSION TAX REGIME

37. Members are advised that HMRC have recently changed the rules which govern the amount of tax relief an individual may receive on an annual basis and over their lifetime of pension savings.
38. The annual limit is called the 'Annual Allowance' (AA), whilst the lifetime savings limit is called the 'Lifetime Allowance' (LTA).
39. The previous limits of AA £250,000 and LTA £1.8m have been reduced to £50,000 and £1.5m respectively.
40. In addition, the calculation of the annual accrual or increased pension pot value has been changed.
41. The changes to the regime are anticipated to reduce the UK tax relief cost to the Exchequer, by £4bn per annum.
42. Whilst originally intended to limit tax relief to 'high earners', the new rules have the potential to impact upon a much wider populations of LGPS members.

43. By virtue of the method of calculating annual 'pension pot values', LGPS members on much more modest salaries, could exceed the AA if:-
- They have long service and have a promotion, and
 - Enjoy a significant pay rise
44. Details of the revised rules, together with useful links to detailed information, are to be added to the 'current scheme members' area of the Pension Fund website.

OTHER TOPICAL ISSUES

45. **Mortality/Data cleansing screening**
Members were advised at the last report of our intention to appoint a mortality screening and data cleansing agent.
46. A specification was issued, informally, to the three key players in this area. Quotes from all three were received.
47. A key element of the selection criteria was the need to transfer pension scheme data without risk of compromise.
48. We have contracted with ATMOS Ltd (a part of the Aquila/Heywood Group) who were best able to meet the full specification and offered the very best security solution.
49. Annual contract value is £7200 per annum. An initial data cleanse was undertaken at a cost of £11,000. This provides a full monthly mortality screening on the complete pensioner database and in addition, provides a full address/postcode matching service across the UK, as we require it in the future.

RECOMMENDATION

50. Members are asked to note the content of this report and endorse the continued involvement of the Kent Pension Section in the CLASS Group and its intent to seek a national procurement framework.

Patrick Luscombe
Pensions Manager
Extension 4714

Appendix I

Cases completed in key administration areas Workload Summary

Case Type	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Benefit calculation	1255	1547	1544	1814	1797	2076
Divorce quotation	-	304	306	373	490	544
Estimate calculation	1206	2302	2121	2364	2348	2871
Preserved benefit calculation	-	3810	3923	4443	3913	3732
Transfers in	-	499	754	597	664	547
Transfers out	-	239	430	542	555	407
Widows	342	307	346	379	311	315

Appendix II

Achievements against Key Performance Indicators

Case Type	Target Time
Calculation and payment of retirement award	20 days
Calculation and payment of dependant benefit	15 days
Calculation and provision of benefit estimate	20 days
Reply to correspondence	10 days - Full reply

2008/2009		2009/2010		2010/2011	
No	% in target	No	% in target	No	% in target
1814	95%	1797	98%	2076	99%
372	98%	311	98%	315	99%
2364	95%	2348	98%	2871	98%
1603	95%	1722	99%	1705	99%

* All targets run from the day the section has full/correct data from employer to complete task.

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By: Chairman Superannuation Fund Committee
Acting Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 1 July 2011

Subject: **CASH MANAGEMENT**

Classification: Unrestricted

Summary: Update on the Pension Fund's cashflow and internally managed cash

FOR INFORMATION

INTRODUCTION

1. The Pension Fund's cash is managed in accordance with the Treasury Management Strategy agreed by the Superannuation Committee on 18 June 2010. The aim is to maintain a minimum balance of £15m to cover the payment of pensions and other ongoing expenses. Any surplus may be transferred to existing fund managers or used to fund new investments.

CASH MANAGEMENT

2. At 1 April 2011 the available cash balance was £12.77m. This was lower than forecast following the transfer of £5.8m to the Partners Group infrastructure fund.
3. The overall return on the cash in 2010 -11 was 1.0364% pa against the 7 day LIBID rate of 0.4362%.
4. As at 31 May 2011 the internally managed cash balance was £29.27m. £24.35m was in a NatWest Special interest Bearing Account (SIBA), £4.92m invested in the JP Morgan Sterling Liquidity Fund and £0.65m in the RBS call account.
5. Since April cash has been withdrawn from the RBS account and new deposits made instead to a NatWest SIBA. The interest rate on the SIBA is the same as that paid on the RBS account at 1.15%. This change was made ahead of the sale of the RBS retail business to Santander UK due later this year.
6. The overall return on the cash to date in 2011-12 is 1.0342% pa against the 7 day LIBID rate of 0.4605%.

RECOMMENDATION

7. Members are asked to note the Pension Fund's cash balance and cashflow.

Alison Mings
Treasury and Investments Manager

By: Chairman Superannuation Fund Committee
Acting Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 1 July 2011

Subject: **APPLICATION FOR ADMISSION TO THE FUND**

Classification: Unrestricted

Summary: To report on an application to join the Pension Fund, a notice to withdraw from the Pension Fund and to provide an update on Academies.

FOR DECISION

INTRODUCTION

1. This report sets out information on an application from an organisation to become an admitted body within the Pension Fund and seeks committee approval to enter into an admission agreement with this organisation. It also advises of an admitted body who has given notice to cease as a participating employer in the Pension Fund and provides information on academies that have joined the Fund as scheme employers.

PRINCIPAL CATERING CONSULTANTS LIMITED

2. Upton Junior School which is a KCC school is awarding a contract to Principal Catering Consultants Limited for catering services, effective from 1 September 2011.
3. This involves the transfer of one employee from Upton Junior School to Principal Catering Consultants Limited. To ensure the continuity of pension arrangements for this employee, Principal Catering Consultants Limited have made an application for admission to join the Pension Fund.
4. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £1,000 for the first year and set an employer's contribution rate of 12.6%.
5. The completed questionnaire and Memorandum and Articles of Association provided by Principal Catering Consultants Limited have been examined by Legal Services to ensure compliance with the Local

Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

ASHFORD'S FUTURE COMPANY LIMITED

6. Ashford's Future Company Limited is a Community Admission Body which joined the Pension Fund on 31 March 2009.
7. Under the terms of their admission agreement Ashford's Future Company Limited are required to give the Administering Authority three months written notice to terminate this agreement. This notice was received on 19 April 2011.
8. The scheme actuary has been asked to provide a cessation report at 18 July 2011 that will show if any payment is due from Ashford's Future Company Limited to the Pension Fund. If any payment is required, it will be made before the termination is completed.

ACADEMIES

9. As at 31 March 2011 there were 42 academies in the Pension Fund as scheme employers and we are aware of a further 50 schools converting during 2011/2012, the majority due at 1 September 2011. The number converting is likely to increase in the future.
10. The current actuarial fee for each conversion calculation is £1,575 which is charged to the Pension Fund.
11. The 2010/2011 actuarial fees relating to academies joining the fund and new admissions totalled £76,325. This figure includes fees incurred for some academies who are due to convert during 2011/2012.

RECOMMENDATION

12. Members are asked to:
 - (1) Agree to the admission to the Kent County Council Pension Fund of Principal Catering Consultants Limited, and
 - (2) Note the withdrawal of Ashford's Future Company Limited as a participating employer in the Pension Fund, and
 - (3) Agree that once legal agreements have been prepared for the above matters, the Kent County Council seal can be affixed to the legal documents, and
 - (4) Note the information provided on academies.

Steven Tagg
Deputy Pensions Manager
Ext. 4625

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