SUPERANNUATION FUND COMMITTEE

Friday, 18th November, 2011

10.00 am

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

Kent County Council

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 18th November, 2011 at 10.00 am **Darent Room, Sessions House, County Hall, Maidstone**	Ask for: **Geoff Rudd** Telephone: **01622 694358**

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 (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 press and public)

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Minutes (Pages 5 - 6)

2. Baillie Gifford

3. DTZ

4. Fund Structure (Pages 7 - 24)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Fund Position Statement (Pages 25 - 32)

2. Collaborative Working (Pages 33 - 34)

3. Changes to the LGPS (Pages 35 - 56)

4. CIPFA Code of Practice On Public Sector Pensions / Finance Knowledge And Skills (Pages 57 - 60)

5. Application For Admission To The Fund (Pages 61 - 64)

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 10 November 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, 2 September 2011.

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

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

UNRESTRICTED ITEMS

A. COMMITTEE BUSINESS

42. Declarations of Interests by Members in items on the Agenda for this meeting.
(Item A2)

There were none.

43. Minutes
(Item A3)

RESOLVED that the Minutes of the meeting held on 1 July 2011 are correctly recorded and that they be signed by the Chairman.

44. Dates of Meetings - 2012
(Item A4)

RESOLVED that the following meeting dates for 2012 be noted;

10 February 2012
2 March 2012
18 May 2012
29 June 2012
31 August 2012
16 November 2012

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

45. Superannuation Fund Report & Accounts And External Audit
(Item D1- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement – Ms E Robinson of the Audit Commission was in attendance for this item)

RESOLVED that:

(a) the contents of the Annual Report and Accounts for 2010 – 11 be noted and confirmed that they can be published:

(b) the external auditor's Annual Governance Report be noted: and

(c) the position with regard to the Governance and Audit Committee be noted.

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

RESOLVED that the report be noted.

47. 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) a revised legal agreement be entered into in respect of Kent Music School:

(b) a revised legal agreement be entered into in respect of Turner Contemporary Centre, subject to the cessation report; and

(c) once legal agreements have been prepared for all of the above matters, the Kent County Council seal can be affixed to the legal documents.

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

48. Minutes
(Item C1)

RESOLVED that the exempt Minutes of the meeting held on 1 July 2011 are correctly recorded and that they be signed by the Chairman.

49. Schroder Investment Management
(Item C2)

(1) Mr G Day, Mrs S Noffke and Mr P Duncombe, of Schroders were in attendance for this item to give a presentation on Schroders performance and to answer Members questions.

(2) RESOLVED that the report be noted.

50. LGPS Reform Update Barnett Waddingham
(Item C3)

(1) Mr G Muir, of Barnett Waddingham addressed the Members on his tabled report regarding Local Government Pension Scheme Reform.

(2) RESOLVED that the report be noted.

51. Fund Structure
(Item C4 - report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

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

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

To: Superannuation Fund Committee – 18 November 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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Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

30 September 2011

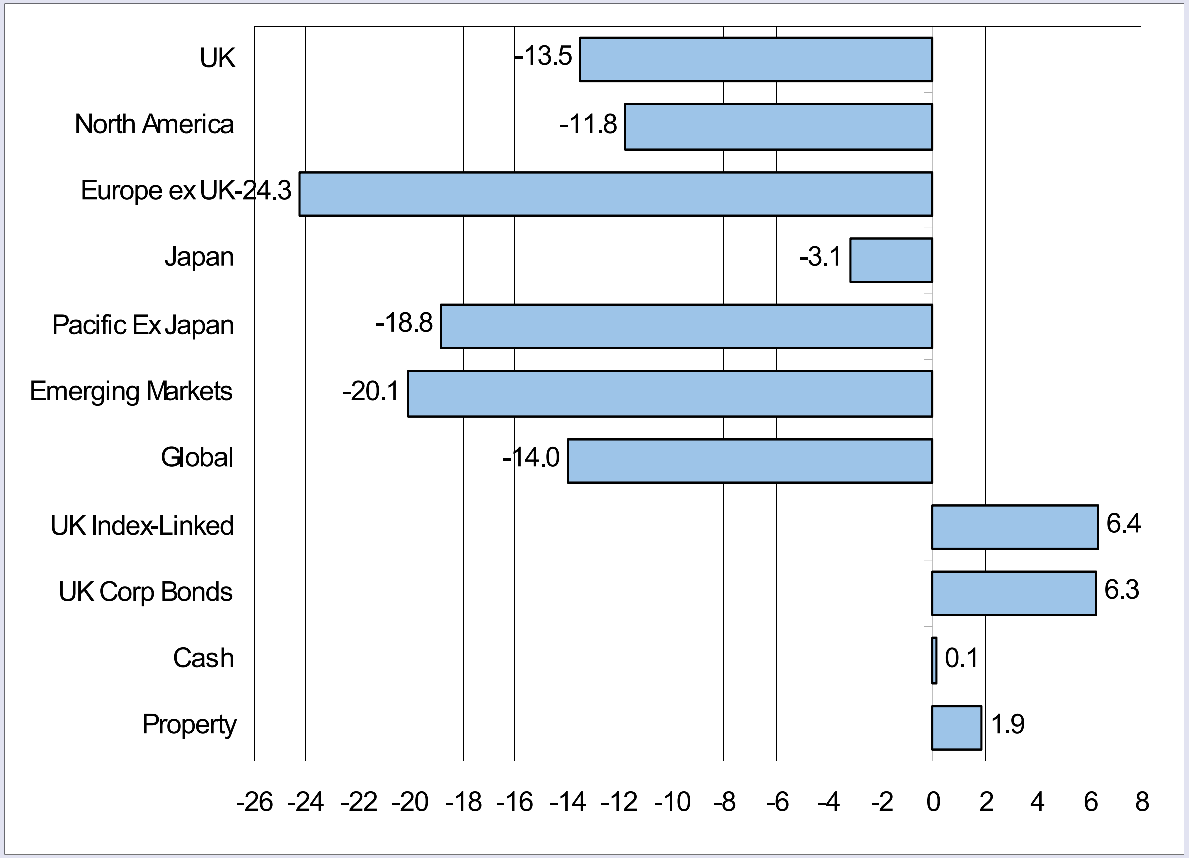
By: Chairman Superannuation Fund Committee

Acting Director of Finance

Kent County Council
Superannuation Fund 2011

Nick Vickers—Head of Financial Services

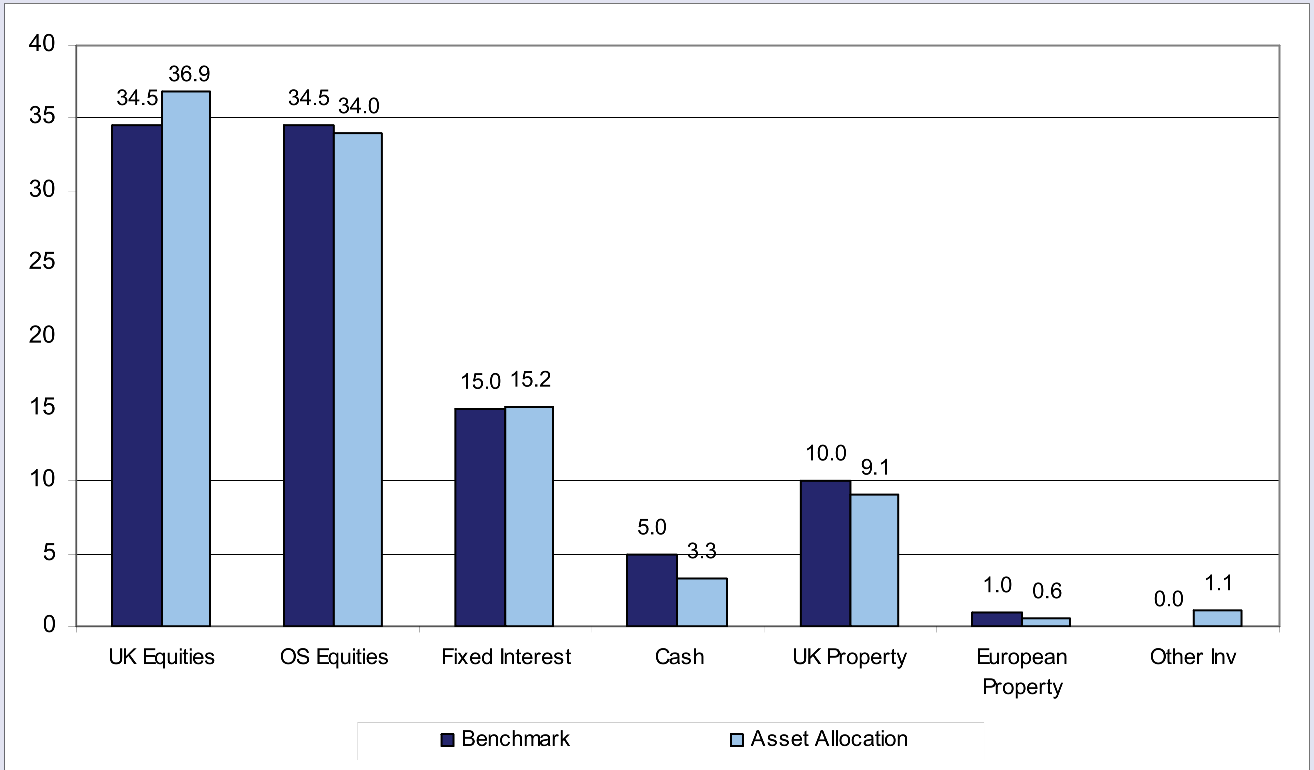
Market Returns - 3 months to 30 September 2011



- This was the worst quarter for stock markets since the beginning of the financial crisis in late 2008.
- Equity markets across the globe fell sharply as investor confidence in the authorities ability to cope with the debt crisis increased.
- Unsurprisingly, Europe ex UK performed least well , where markets fell over 24% as the Eurozone debt crisis continued to unravel.
- Japan had the best performing equity market but still saw falls of over 3%
- UK Indexed Linked and UK Corporate bonds were the best performing asset classes overall with respectable returns of around 6%

Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D2 refers



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,075	36.9	34.5
Overseas Equities	989	34.0	34.5
Fixed Interest	441	15.2	15.0
UK Property	264	9.1	10.0
European Property	17	0.6	1.0
Cash	95	3.3	5.0
Other Inv	32	1.1	-
Total Value	2,914	100	100

Asset Distribution Fund Manager

Classification: Unrestricted
Item: D2 refers

Values (GBP)'000	Mandate	Value at 30/06/2011	Transactions	Capital Gain / loss	Income	Value at 30/09/2011	% Fund	Benchmark
Schroders	UK Equity	548,686	5,529	-86,746	5,570	467,470	16	Customised
Invesco	UK Equity	372,036	0	-14,168	0	357,868	12	Customised
State Street	UK Equity	244,660	0	-32,923	0	211,737	7	FTSE 100 All Share
State Street	Global Equity	293,409	5	-43,631	0	249,783	9	FTSE All World ex UK
Baillie Gifford	Global Equity	579,302	2,636	-77,765	2,901	504,173	17	Customised
GMO	Global Quantitative	194,423	0	-26,750	0	167,673	6	MSCI World
Schroders	Global Quantitative	150,649	0	-25,244	0	125,404	4	MSCI World
Goldman Sachs	Fixed Interest	252,809	184	4,012	176	257,005	9	ML £ Broad Market
Schroders	Fixed Interest	197,492	710	-559	710	197,643	7	ML £ Broad Market
Impax	Environmental	25,830	0	-4,883	0	20,947	1	MSCI World
DTZ	Property UK	264,982	-29	730	3,314	265,683	9	IPD All Properties Index
DTZ	Property Europe	18,130	0	-912	25	17,217	1	IPD All Properties Index
Harbourvest	Private Equity	1,206	1,232	-240	0	2,198	0	
YFM	Private Equity	2,091	378	511	0	2,980	0	
Partners	Infrastructure	14,660	4,035	-466	0	18,229	1	
Henderson	Infrastructure	8,130	0	750	0	8,880	0	
Internally Managed	Cash	38,895	531	0	62	39,427	1	LIBID 7 Day Rate
Total Fund		3,207,391	15,212	-308,286	12,758	2,914,317	100	Kent Combined Fund

Classification:
Unrestricted
Item: D2 refers

Performance Returns to 30 September 2011

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	-9.2	-8.7	-0.9	-0.8	6.5	6.0
UK Equity						
Schroders UK	-14.8	-13.2	-6.3	-4.2	7.7	6.0
State Street	-13.5	-13.5	-4.3	-4.4		
Invesco	-3.8	-13.5	6.3	-4.4	8.2	6.0
Overseas Equity						
Baillie Gifford	-12.9	-15.5	-2.8	-5.7	10.1	5.5
GMO	-13.8	-14.1	-3.3	-3.2	3.5	4.8
Schroders GAV	-16.8	-14.1	-7.1	-3.2	7.6	4.8
State Street	-14.9	-14.9	-4.0	-4.0		
Impax Environmental Fund	-18.9	-14.1				
Fixed Interest						
Goldman Sachs Fixed Interest	1.7	6.3	3.2	6.1	9.1	9.0
Schroders Fixed Interest	0.1	3.2	1.0	3.5	8.4	6.8
Property						
UK Property	1.5	1.9	8.7	8.7	5.6	2.5
Overseas Property	-4.9	1.9	9.1	8.7	-12.8	2.5
Private Equity						
Harbourvest	-11.0	0.1				
YFM	23.6	0.1				
Infrastructure						
Partners	-2.9	0.1				
Henderson	9.2	0.1				

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

- The fund fell back below the £3bn mark this quarter as global equity markets fell dramatically.
- Invesco were the top performing equity manager who despite seeing a fall of over 3% , outperformed the benchmark by 10%. Their defensive portfolio stood up well against the current economic backdrop.
- Over the longer term, all our active equity fund managers have outperformed their benchmarks with the exception of GMO.
- Baillie Gifford performed best over 3 years with returns of just over 10%, an outperformance of almost 5%.
- Both fixed interest managers performed badly this quarter but have still performed well over the longer term.

Fund Structure

UK Equities	Global Equities	Fixed Interest	Alternative
Schroders +1.5% £467m	Baillie Gifford +1.5% £504m	Goldman Sachs +0.75% £257m	DTZ UK Property £266m
State Street +0.0% £212m	GMO +3.0% £168m	Schroders +1.0% £198m	DTZ Europe Property £17m
Invesco Unconstrained £358m	Schroders +3.0 - +4.0% £125m		Kent Cash £39m
	State Street +0.0% £250m		Henderson Secondary PFI £9m
	Impax £21m		YFM Private Equity £3m
			Harbour Vest £2m
			Partners £18m

Market Value £2.9bn
as at 30th September 2011

By:	Chairman Superannuation Fund Committee Acting Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 18 November 2011
Subject:	**COLLABORATIVE WORKING**
Classification:	Unrestricted

Summary: To update on work underway on collaborative working.

FOR INFORMATION

INTRODUCTION

1. This report is to update the Committee on areas which could be examined for collaborative working with other South East Councils (the SE7 Group – KCC, East Sussex County Council, West Sussex County Council, Surrey County Council, Hampshire County Council, Brighton & Hove Council and Medway Council).

LGPS PROPOSALS ACROSS SE7

2. Pensions administration were amongst a number of joint procurement activities previously considered by SE7 but this did not progress due to national developments. The Final Independent Public Service Pensions Commission Report (Hutton Report) was published in March 2011 and recommended new initiatives to save costs by sharing administrative services and contracts (which are being trialled by a number of LGPS authorities and Central government across the UK). These should monitor the benefits associated with the current cooperative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all LGPS authorities.

3. The Environment Agency has lead such a collaborative project in the South West to procure actuarial, benefits and investment advisory services for 6 Authorities on the basis that it is time-intensive and costly to run separate procurement exercises and collaboration provides better value for money in terms of service received and fees paid.

4. It is proposed that the SE7 should consider collaborative procurement of the following services on the basis of single or multi-provider framework arrangements:

    - Actuarial Services (triennial valuation, IAS19 reports, inter-valuation work, admission agreements, employer specific advice);

- Performance Measurement;
- Transition Management;
- Custody (safe keeping and transactions);
- Consultancy (advice on specific investment issues, investment strategy review, asset liability modelling, fund manager selection, and investment reports); and
- Specialist Legal Services.

For Kent there would be no question of including either the Actuarial Service from Barnett Waddingham or the legal service from KCC's in-house Legal Department. Other areas could be in scope.

5. The proposed way forward is:

- Pension Chief Financial Officers to discuss the list of potential service areas where they may be a clear advantage in cooperative procurement:
- The options to be discussed at each Fund's Pension Committee (those charged with governance) to determine the appetite going forward; and
- Any proposals to be reported back to a future meeting of SE7 Leaders.

RECOMMENDATION

6. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext 4603

By:	Chairman Superannuation Fund Committee Acting Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 18 November 2011
Subject:	**CHANGES TO THE LOCAL GOVERNMENT PENSION SCHEME**
Classification:	Unrestricted

Summary: To report on the latest position on changes to the LGPS.

FOR INFORMATION

INTRODUCTION

1. This report updates on the changes proposed for the scheme.

2. There are two main areas of activity which impact on the future of the LGPS, the Hutton Review and the review of costs stemming from the Comprehensive Spending Review in October 2010.

HUTTON REVIEW

3. Lord Hutton was asked by the Government to look at all public sector pension schemes and his final report was produced in March 2011. The report made 27 recommendations but the most fundamental were:

   - Accrued rights of existing scheme members would be fully protected.

   - A career average as opposed to final salary basis for all public sector schemes.

   - Increases in the pensions age.

4. The Government have broadly accepted the recommendations and work is underway to come up with detailed proposals for each public sector scheme. On 2 November Government made various announcements and a summary by Barnett Waddingham is attached in Appendix 1. We believe changes to the LGPS arising from Hutton are unlikely to be implemented before 2015.

CSR 2010

5. In the CSR 2010 the Chancellor of the Exchequer announced that employee contribution rates in all public sector pension schemes would increase by 3%. To be clear this is purely a revenue raising initiative linked to reducing the budget deficit, the LGPS is to provide £900m.

6. This poses a very serious challenge to the LGPS:

   (1) It is the only funded public sector scheme – its economics are fundamentally different to other schemes.

   (2) By public sector standards contributions rates ranging from 5.5% to 7.5% are relatively high already.

   (3) The bulk of the LGPS membership is very low paid and to get sufficient additional revenue rates would have to increase very substantially.

   (4) This then gives rise to concern over employee op outs which again could adversely affect the economics of the LGPS.

CURRENT POSITION

7. Negotiations between the local authority trade unions and the Local Government Group have been continuing through the summer and on 21 September LGG submitted their proposal to the Secretary of State for Communities and Local Government. This submission was not supported by the trade unions.

8. The LGG response is attached in Appendix 2. It is based upon:

   (1) An increase in the scheme retirement age from 65 to 66.

   (2) No change to employee contribution levels or accrual rate for staff earning less than £15,000.

   (3) Staff earning more than £15,000 would have the choice of either paying higher employee contributions or having a lower accrual rate. The accrual rate is the rate at which an individual pension benefits increase for each year of service.

   The LGG proposals seem well balanced and do minimise the increase in employee contribution rates.

9. On 28 September CLG published their proposals and these are summarised in Appendix 3. CLG have not opted to increase the retirement age and instead have proposed steeper increases in employee contribution rate and lower accrual rates.

10. The CLG proposals are out for consultation and at this stage we do not know what final form they will take. Assuming that they are largely implemented there are potentially 2 main issues to consider:

    (1) Impact on the employee – at a time when many LGPS members will have had no pay award for 2 years and face an extended period of pay restraint the higher employee contributions are a real reduction in net pay.

    (2) Impact on LGPS funds – much has been made over the summer of the potential for individuals to opt out of the LGPS because of the higher employee contribution rates. This is seen as a problem because of the negative effect it would have on the Fund's cash flows. The Superannuation Fund Committee was briefed on this issue by the fund actuary on 2 September. Whilst there is no doubt that there could be an impact LGPS Funds have tools and techniques available to deal with the consequences – after all most defined benefit schemes in the corporate sector are closed to new members and they have to manage the cash flows of their funds accordingly.

11. Officers have arranged for Terry Crossley the senior official at CLG responsible for the LGPS to speak to all employers at a seminar in Maidstone on 6 December.

12. KCC will make a formal response as administering authority and this will be cleared with the Committee before it is set.

RECOMMENDATION

13. Members are asked to note this report.

Nick Vickers
Head of Financial Services

Ext 4603

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Barnett Waddingham
Public Sector Consulting

Public Sector Pensions – Client Briefing Note

Public Sector Pension Reform - the Government sets out a new offer: Work longer, pay more, get more?

A new offer

In an attempt to head off mass strike action on 30 November and to conclude reform of the public sector pensions by the end of the year, on Wednesday 2nd November the Government set out a new and improved offer to the unions, followed by a statement by Danny Alexander to update the House of Commons.

The revised offer follows months of discussions with the unions and other interested parties following the Hutton reports on public sector pension reform and feedback that the cost ceilings set in October 2011 were not generous enough to ensure the protection of low and middle income workers and that protections for workers nearing retirement were required.

In summary, the new offer consists of two key elements:

- increased cost ceilings (see table below) allowing the new schemes to be based on a pension to the value of 1/60th of average salary for each year worked rather than 1/65th,representing an increase of 8% and enabling the lowest paid to be protected as originally intended.

Pension Scheme	Gross cost ceiling	Taxpayers	Employees
NHS Pension Scheme *(England and Wales)*	21.9%	12.1%	9.8%
Principal Civil Service Pension Scheme	22.5%	16.9%	5.6%
Teachers Pension Scheme *(England and Wales)*	21.7%	12.1%	9.6%
Local Government Pension Scheme *(England and Wales)*	20.4%	10.9%	9.6%

Source: HM Treasury following advice from the Government Actuary's Department

- Transitional arrangements for those closest to retirement, reflecting the approach taken to the increases in the State Pension Age. The protection will cover those within 10 years of retirement at 1st April 2012 and ensure that they have no change in when they would otherwise retire and no reduction in the pension they would otherwise receive. The protection can be provided outside of the cost ceiling.

Work longer, pay more, get more?

Under the new offer, the Government expects that some workers will receive larger pensions at retirement, though they will have to work longer and in most cases pay more to get them. They quote the following examples, at normal pension age, after a full career in the new scheme:

- a nurse with a salary at retirement of £34,200 would receive £22,800 of pension each year if these reforms were introduced – under the current NHS Pension Scheme 1995 arrangements, they would only get £17,300;
- a teacher with a salary at retirement of £37,800 would receive £25,200 each year under our proposals, rather than the £19,100 they would currently earn in the final salary Teachers' Pension Scheme (pre-2007);
- a civil servant with a salary at retirement of £29,800 would receive a pension of £24,300 each year under our proposals – under their current Nuvos Pension Scheme arrangements, they would only receive £20,100 per year;
- a housing benefits officer with a salary on retirement of £21,500 would receive £17,500 each year under our proposals, rather than the £13,600 they would currently get in the Local Government Pension Scheme (1 April 2008);
- a hospital porter with a salary at retirement of £14,600 would receive pension benefits of £11,900 each year, as opposed to the £9,300 they would currently get in the NHS Pension Scheme (2008); and

- a senior civil servant with a salary at retirement of £100,000 would receive a pension of £37,000 each year under our proposals, rather than the £44,400 they would currently get in their Premium Pension Scheme arrangements.

A conditional offer!

The offer is dependent upon all sides reaching agreement by year end on new schemes formed within the revised cost ceilings, with an expectation that strikes will be avoided. In the meantime, the increase in member contributions, or equivalent increase and benefit changes in the LGPS, for those earning over £15,000 a year will continue to proceed.

Commenting on the revised offer, Danny Alexander noted that the revised package was affordable and fair to public sector workers while delivering long term saving to taxpayers.

Our initial view

Commenting post Danny's statement,
Graeme Muir noted that:

"So we now seem to be back to a 60th accrual rate from the originally proposed 65th for public sector pension schemes after 2015. If that's where we end up then at least it will mean that most public service employees will earn the same amount of pension each year as they are already earning.

Victor Meldrew will no doubt be not believing it and the fact that Mr Cameron has indicated to the Commons that the changes will mean in some cases even bigger pensions than before will no doubt push Victor one step closer to the grave.

The bottom line, however, is that whilst some may receive bigger pensions than before they will have to still pay in more and for longer to get their bigger pensions - so save up more for longer and get more - seems fair enough.

We await the reaction of the unions with interest"

Further information

We will of course be digesting the announcements in more detail and will issue further information.

In the meantime, for further information please contact Graeme Muir or Alison Hamilton on 0141 243 4400 or email publicsector@barnett-waddingham.co.uk

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Local Government Group

Rt Hon Eric Pickles, MP
Secretary of State for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU

21 September 2011

Dear Eric,

Local Government Pension Scheme – Proposed increase in employee contributions

Thank you for your letter of 20 July 2011 inviting the Local Government Group to conduct discussions with the local government trade unions with a view to establishing a package of measures to secure short term savings by 2014/15, equivalent to a 3.2% increase in employee pension contribution rates.

The LG Group and the unions have held a series of constructive discussions over the last 8 weeks. We are committed to ensuring that the Local Government Pension Scheme is affordable and sustainable, and is fair to employees and taxpayers.

The LGPS is unique amongst the main public service pension schemes in that it is a funded scheme. This means that, as recognised in your letter of 20 July 2011, it is possible to come forward with a bespoke solution for the LGPS which delivers the required savings in ways not readily available to the other public service pension schemes. Unfortunately, despite the best efforts of both sides, it has not so far been possible to reach an agreement. However, we are still committed to continuing with those discussions.

During the discussions to date the employers' side has put forward a proposal which delivers the required level of savings, other than wholly through an increase in employee contributions, minimises the impact on the lower paid and offers choice to individuals. Our proposition is outlined further in this letter.

Background

Following your letter of 20 July 2011, the LG Group and the unions held their first joint meeting on 27 July 2011. This was followed by joint meetings on 11

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and 19 August during which a range of matters for consideration were discussed, including some suggested potential solutions outlined by the employers' side, and it was agreed that costings on a number of items should be obtained from our actuarial adviser.

Following an employers' side meeting on 31 August a further joint meeting was held on 2 September at which the unions put forward a view that changes already made to the scheme (e.g. the changes made in 2008 and the move to link the indexation of benefits to the rise in CPI rather than RPI), and the combined effects of no pay rises and a reduction in the number of active scheme members, meant that enough savings had already been made. The employers' side was of the view that these could not be used as offsets against the 3.2% (£900 million) savings target.

As no further progress was made at a joint meeting held on 9 September the LG Group sought clarification from yourself and the Chief Secretary to the Treasury on the questions of whether some additional time could be granted to try to reach a solution and whether any of the items identified by the unions could be used as offsets against the 3.2% savings target. It was agreed that the employers should seek a further joint meeting with the unions during week commencing 19 September with a view to making progress towards an agreement but that the matters identified in the paragraph above could not be used as offsets.

A joint meeting between the employers and unions was held on 21 September at which the proposed solution set out later in this letter was outlined by the employers' side.

Unfortunately, despite the efforts of both parties to the discussions, it has not so far proved possible to reach an agreement.

The employers' side is, however, of the view that the following offers a good solution to deliver the level of savings required (as an alternative to the level of increases in contributions that DCLG might otherwise come forward with).

Core elements of the employers' side proposal

In coming forward with our proposal we have sought to ensure that the level of savings required are met other than wholly through an increase in employee contributions, that the higher paid nevertheless have to pay some extra contributions if they wish to retain a 1/60th accrual rate, that the lower paid are protected, and that there is an element of choice for individuals.

Our proposal offers a bespoke solution for the LGPS and allows for the effects to be reflected in employer contribution rates from 1 April 2014 (following the 31 March 2013 valuation of the Funds).

For the purpose of our proposal we have used national salary data to estimate the possible savings and have assumed a £30bn payroll split as shown in the following table.

	Lower band	Upper band	Current rate	Actual salary
Band 1	£0	£12,600	5.5%	£465,749,324
Band 2	£12,601	£14,700	5.8%	£903,561,303
Band 3	£14,701	£18,900	5.9%	£4,336,702,797
Band 4	£18,901	£31,500	6.5%	£12,966,837,271
Band 5	£31,501	£42,000	6.8%	£6,132,933,585
Band 6	£42,001	£78,700	7.2%	£4,433,984,527
Band 7	£78,701	Plus	7.5%	£730,231,193
Total				£30,000,000,000

We appreciate that the pay bandings in the table above do not correlate to the current level of pay bandings but we have used them as we only have salary data broken down by reference to the pay bandings in the table. All salary levels quoted in this letter relate to full-time equivalent salary rates. Our proposal assumes that opt out rates do not increase beyond current levels.

<u>Core element 1</u>

We propose that the normal pension age in the LGPS is increased from 65 to 66 in respect of future service[1] from 1 April 2014. It is estimated that this would generate savings in the range of 1.0% to 1.5% of pensionable payroll although this will vary across Funds. We assume that GAD may value this on detailed national data on an average set of fund valuation assumptions and so, for the purposes of our proposal, we will assume that 1% of payroll will be saved by adopting this change. This equates to £300m per year based on the data shown above.

<u>Core element 2</u>

We propose that the balance of £600m should be delivered via an increase in the employee contribution rates. We would protect those earning less than £15,000 from any increase in contributions, raise the level of contributions for those earning between £15,000 and £21,000 by 1.5%, and increase the contributions of those earning over £21,00 by between 2.0% and 2.5%. This would generate around £605m and could be implemented on 1 April 2014 or, subject to core element 3, could be phased in over a three year period starting April 2012, as shown in the attached tables (assuming 20% of the increase is applied in 2012/13, another 40% in 2013/14, and the final 40% in 2014/15). The benefit accrual rate would remain 1/60th.

The above meets the objective of ensuring those earning less than £15,000 (the "lower paid" threshold) see no increase in their contributions and that those earning between £15,000 and £21,000 pay no more than an additional 1.5%. The spread of the size of increases for those earning above £21,000 is much narrower than under suggested tariff tables put forward to date by DCLG but this is to accommodate the option set out in core element 3.

[1] The normal pension age for service prior to April 2014 would remain age 65.

Core element 3

Given that, due to a range of other pressures on their income, an increase in contributions may be difficult for some employees to fund, we propose that employees be given the choice of a reduction in their accrual rate instead. This would mean that those earning above £15,000 would see no increase in their contribution rate, but a reduction in the accrual rate to in the region of 68ths. Those earning below £15,000 would see a corresponding reduction in their contribution rate if they wished to move to a reduced accrual rate (e.g. their contribution rate would reduce to 60/68ths of their current contribution rate if the reduced accrual rate was 68ths).

If all members simply chose to pay the contribution rates shown under core element 2, this would generate £605m. If all members chose, instead, to move to the lower accrual rate, this would generate in the order of £675m. As it is not possible to predict with any degree of certainty which members may choose to pay the contribution rates shown under core element 2 and which may choose, instead, a lower accrual rate, and in order to avoid selection against the fund, it is necessary to err on the side of caution when setting the level of the accrual rate (i.e. to a level around a 68ths accrual rate).

If core element 3 is taken forward then it would seem logical, given the timescales needed to communicate the option to scheme members, for members to make their election and for payroll and pensions administration systems to be amended, for any increase in contributions or reduction in the accrual rate not to be implemented until 1 April 2014. Furthermore, it would not appear to be a workable solution to offer choice from, say, 1 April 2013 i.e. the choice of a reduced accrual rate from 1 April 2013 or stepped increases in employee contributions over 2013/14 and 2014/15. Hence, our view is that offering choice means there should be a single implementation date (i.e. 1 April 2014).

Given the administrative complexity, and that we expect a new scheme to be in place from April 2015, a scheme member's election for the higher contribution rate or a reduced accrual rate would be a one off choice[2]. Members should not be allowed to change their option at some future time. If a member has multiple jobs they should have an election in respect of each job.

Overall impact of core elements 1, 2 and 3

The overall impact of core elements 1, 2 and 3 would be as follows:

i) the normal pension age in the LGPS would rise by 1 year for future service from 1 April 2014. This draws forward part of an element proposed for the new, post 2015, scheme (i.e. to link normal pension age to the rising State Pension Age)

[2] Unless the concept of a choice between contribution rate and accrual rate carries forward into the design of a new look LGPS post March 2015.

ii) those whose full-time equivalent salary is above the "lower paid" threshold of £15,000 will see their contributions rise if they wish to retain the current 1/60th accrual rate (although the rise will be limited for those whose salary is between £15,000 and £21,000). Alternatively, they can continue to pay the present contribution rate but their accrual rate for future service will drop.

iii) those whose full-time equivalent salary is below the "lower paid" threshold of £15,000 will retain the current 1/60th accrual rate for the same contribution rate as they currently pay. Alternatively, they can choose the lower accrual rate for future service and, in return, see a reduction in their contribution rate.

Variations

Other variations on the accrual and contribution rates set out above are possible. Samples are set out in the attached document. These are based on national data available to our actuarial adviser on a summary basis and the proposals have been costed on what we consider a reasonable average funding approach.

Why are our proposals a good solution?

We believe our proposals:

- overcome the issue of part-time employees having to pay an increased contribution rate determined by reference to their full-time equivalent salary (i.e. they would have the choice of being able to take the reduced accrual rate option instead)
- encourage the low paid to stay in the scheme and reduce opt out rates
- give employees choice
- ensure that those employees earning above the "lower paid" threshold who want to keep their current accrual rate will have to pay more to retain that accrual rate
- reduce the risk of industrial action

The fact that there is an element of choice in our proposed solution enables employees to make a decision in the light of their own personal circumstances. Giving choice will have the benefit of minimising opt out rates i.e. those concerned about the level of their take home pay can choose the lower accrual rate option instead and, when coupled with the reduction in the contribution rate for those earning less than the "lower paid" threshold, it has the added advantage that it might encourage more of the lower paid to join / stay in the scheme (assuming it is in their interests to do so). Reducing opt out rates is a crucial factor for the funded LGPS which needs, for cash flow and investment profile / fund maturation reasons, to maintain a strong level of active membership.

Other elements for possible inclusion in a package of measures

Other elements which we believe should form part of the package are:

1) adjust the current actuarial reduction factors to a cost neutral level (as, based on current life expectancy levels, we believe they are currently overly penal at present)
2) move to a 2 year vesting period (with existing active members who leave with 3 or more months but less than 2 years membership having the choice of a deferred benefit or a refund of contributions). This would generate minimal savings on the employer contribution rate, of around 0.02%, but there would be considerable administrative advantages and savings on administration costs. The LGPS in England and Wales is the only public service pension scheme with a 3 month vesting period and the DWP has recently concluded that it will not reduce the compulsory vesting period for defined benefit schemes to below the current level of 2 years.

Councillor members

Our proposals only relate to employees who are active members of the Local Government Pension Scheme (LGPS). They do not relate to councillors who are already in the Career Average Revalued Earnings (CARE) section of the LGPS. Whether any changes to the CARE scheme for councillors are required is a matter for the government to consider.

Conclusion

It is unfortunate that, despite the efforts of both the employer and trade union negotiators, it has not so far proved possible to reach agreement on a joint proposal to put to you. However, we hope that the suggestions we have put forward in this letter will be of help to you when considering how best to take this matter forward.

Yours sincerely

Chairman, Local Government Association

Costings

Client: Terry Edwards, LG Employers

Date 9 September 2011

Subject: Options raising 3.2% of payroll or £600m from the LGPS

1 Data

1.1.1 We have used national salary data to estimate the possible savings. We have assumed a £30bn payroll split as shown below.

	Low er Band	Upper Band	Current Rate	Actual Salary
Band 1	£0	£12,600	5.5%	£465,749,324
Band 2	£12,601	£14,700	5.8%	£903,561,303
Band 3	£14,701	£18,900	5.9%	£4,336,702,797
Band 4	£18,901	£31,500	6.5%	£12,996,837,271
Band 5	£31,501	£42,000	6.8%	£6,132,933,585
Band 6	£42,001	£78,700	7.2%	£4,433,984,527
Band 7	£78,701	plus	7.5%	£730,231,193
Total				£30,000,000,000

1.1.2 This is the best available national data we have and is available in summary form only.

1.1.3 We note that contribution bands have changed but the overall shape of the salary distribution is assumed to remain relevant for this exercise. Any further up to date data becoming available should be used to update the calculations.

1.2 Core element 1 - increasing normal retirement age

1.2.1 Increasing the retirement age for all by one year reduces the ongoing cost of the Scheme by about 1% to1.5% of payroll though this will vary by fund. We have assumed that GAD may value this on detailed national data on an average set of fund valuation assumptions and have assumed that 1% of payroll will be saved by adopting this change. This is equivalent to £300m per year on the data shown above.

1.3 Core element 2 - accrual or contribution rate changes

1.3.1 We have therefore considered how we can raise the further £600m being required by HM Treasury.

1.3.2 There are infinite combinations of contribution increases that will provide the £600m provided there are no opt outs, the data remains as estimated above and at this stage we are considering that 60ths accrual remains.

1.3.3 We have shown 3 examples below. These show the impact and make no allowance for any further options being proposed.

Table 1.3	Low er Band	Upper Band	Current contribution	a) same increase	b) same uplift	c) steeper increase
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	1.9%	1.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%	1.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%	2.0%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.2%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.3%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£605m	£605m

1.3.4 We have assumed that lower paid protection level is set at £15,000 and members with salaries below this level will not be required to increase their contribution levels going forward.

1.3.5 As can be seen, all these options will provide for the required income target. However, there is a higher risk of opt out for higher contribution increases, especially at lower salary levels. We consider that steeper patterns than option c) will effect much higher levels of opt out at higher salary bands, with the possible cascade effect as members follow behaviour patterns of their senior managers or directors.

1.3.6 Option c) also meets the patterns required for other public sector schemes in that a 1.5% limit it set for those with salaries up to £21,000.

1.4 Core element 3 - reduce accrual option

1.4.1 This section shows the possible savings from providing a reduced accrual option.

1.4.2 These savings assume that all members opt for the reduced accrual option.

Table 1.4	Low er Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduce accrual (68ths)	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.4%	2.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.4%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.4%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£675m	£715m

1.4.3 The accrual reduction that provides for £600m will depend upon both how the GAD value the reduced accrual change of the benefits on national detailed data.

1.4.4 It will also depend upon where the lower paid protection limit gets set and the above assumes that this is set at £15,000.

1.5 Core element 3 – the lower paid

1.5.1 The model suggested allows for lower paid members to pay reduced contributions if they choose the lower accrual route. We have used 68^{th} accrual in the following table and assumed that a reduction in contributions of say 60/68 times the current rate would be a fair level of reduction.

Table 1.5	Lower Band	Upper Band	Current contribution rate	Reduce accrual (67ths)	Reduced contributions	Net effect
Band 1	£0	£12,600	5.5%	2.4%	0.6%	1.7%
Band 2	£12,601	£14,700	5.8%	2.4%	0.7%	1.7%
Band 3	£14,701	£18,900	5.9%			
Band 4a	£18,901	£21,000	6.5%			
Band 4b	£21,001	£24,000	6.5%			
Band 4c	£24,001	£31,500	6.5%			
Band 5	£31,501	£42,000	6.8%			
Band 6	£42,001	£78,700	7.2%			
Band 7	£78,700	plus	7.5%			
Total raised				£32m	£10m	£22m

1.5.2 As can be seen above the saving will depend upon how much a reduction in contributions is offered to the lower paid members and how many of the lower paid opt for reducing accrual compared to the status quo.

1.5.3 However, we feel it remains equitable to offer this reduced cost option, setting the possible accrual level at the same level as the higher paid to provide the lower paid with a similar choice.

1.5.4 Any savings made from the above will depend on members choice so should not be included as certain in the total costs.

1.6 Core element 3 – the higher paid

1.6.1 The model suggested that higher paid members will retain their current 60th accrual by paying more into the scheme. However we recognise that this will not be attractive and perhaps unaffordable for some.

1.6.2 In this section therefore we have shown possible reduced accrual options that would provide these members with an alternative allowing their current contribution rates to remain.

1.6.3 We have shown three cases below corresponding to the tables of proposed contribution increase tariffs within section 1.4.

Table 1.6 a	Lower Band	Upper Banc	Current contribution rate	a) same increase	Reduce accrual (67ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.1%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%
Band 5	£31,501	£42,000	6.8%	2.1%	2.1%
Band 6	£42,001	£78,700	7.2%	2.1%	2.1%
Band 7	£78,700	plus	7.5%	2.1%	2.1%
Total raised				£600m	£600m

Table 1.6 b	Lower Band	Upper Banc	Current contribution rate	b) same proportionate increase	Reduce accrual (68ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.9%	2.4%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%
Band 5	£31,501	£42,000	6.8%	2.2%	2.4%
Band 6	£42,001	£78,700	7.2%	2.3%	2.4%
Band 7	£78,700	plus	7.5%	2.4%	2.4%
Total raised				£605m	£675m

Table 1.6 c	Lower Band	Upper Banc	Current contribution rate	c) steeper increase	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.5%	2.5%
Band 4a	£18,901	£21,000	6.5%	1.5%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.0%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.5%	2.5%
Band 5	£31,501	£42,000	6.8%	2.5%	2.5%
Band 6	£42,001	£78,700	7.2%	2.5%	2.5%
Band 7	£78,700	plus	7.5%	2.5%	2.5%
Total raised				£605m	£715m

1.6.4 Of course there is no way of telling which way members will opt and most will need some help and financial advice to make the correct decision but the above shows that we can design a scheme which meets the required target.

1.6.5 As there is a risk of members selecting the option that does not raise sufficient income the accrual rate for a steeper contribution increase pattern than 1.3 c) will mean the accrual that can be offered as an option will become very unattractive.

1.7 Stepping any changes

1.7.1 We understand that stepping any changes over the three year period may be acceptable. Administratively no changes will be very straightforward but stepping changes to the contribution patterns will be possible whereas stepping the reduction in accrual will not be feasible.

1.7.2 A possible spread of increase in step of 20%/40%/40% will defer much of the change until the new scheme takes shape.

1.8 Summary

1.8.1 Therefore we have the following patterns or options.

- Steeper stepping patterns for contributions than we have considered in section 1.3 which incur very high opt out risk, especially at middle to high salary bands. We have rejected this option due to opt out risk at all levels that may cascade throughout the workforce in general.
- Contribution patterns considered like those in section 1.3, which also have the appeal of being more easily phased in over a three year period.
- Contribution patterns with a suitable accrual reduction depending upon the upper contribution bands to ensure the required savings are met. As accrual reduction cannot be phased in it would need to be accepted that this change would only be practical in say year 2014.

1.8.2 Due to administration simplicity and the ability to step the costs it seem that an option like 1.3 c) may be most favourable.

1.8.3 However if options and choice for members are consider a more key factor then 1.6 b) would appear to offer a good solution as the accrual reduction is minimised.

1.8.4 Alternatively, option 1.6 c) meets the contribution increase limits applying to other public sector funds, whereby the increases at lower salary bands are restricted. It also offers flexibility and choice for members, perhaps being an advantage outweighing the simplicity of 1.3c)

1.8.5 I trust this helps show possible saving patterns and the consequences of the options for the members.

1.8.6 I look forward discussing this with you in due course.

Regards
Alison Hamilton FFA
ACA LGPS committee, chair.
Partner, Barnett Waddingham LLP

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Local Government Pension Scheme: Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates

This consultation paper sets out the Government's draft proposals to achieve short term savings of £900million within the Local Government Pension Scheme by 2014-15, equivalent to the 3.2 percentage point contribution increases in the unfunded public service pension schemes.

The closing date for responses is **6 January 2012**. However, to assist the Department's considerations, consultees who may wish to submit alternative proposals:

- are invited to signal their intention to do so as soon as possible, please, and by **28 October** at the latest and
- are requested, please, to submit any specific costed options by no later than **25 November**, to allow an opportunity for discussion and appraisal

Option 1

Increase in Employee contributions from April 2012 = £450m
Change in scheme accrual rate from April 2013 = £450m

Tariff Band (% of membership)	**Current**	**2012/13**	**2013/14**	**2014/15**
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	8.0% (1.5%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.3% (1.5%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)

£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

The balance of £450m in this case would be achieved a by a stepped change in the scheme's accrual rate from the current rate of 1/60ths to 1/64ths with effect from April 2013 and to 1/65ths with effect from April 2014

Option 2

Increase in Employee contributions from April 2012 = £300m
Change in scheme accrual rate from April 2013 = £600m

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400 (31.34%)	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300 (11.16%)	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)
£43,301- £60,000 (4.18%)	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000 (0.16%)	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 + (0.05%)	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

It is proposed that the balance of £600m (equivalent to 2 per cent) would be achieved by a change in the Scheme's accrual rate from the current 1/60th to 1/67th with effect from 1 April 2014.

OTHER ISSUES

Para 4.6 notes that increasing the LGPS pension age to the national State Pension Age would deliver £330m of the savings.

Normally employer contributions cannot be amended between the three-yearly actuarial valuations. The Consultation proposes that a technical amendment is made to permit employer rates to be varied from April 2012.

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

To: Superannuation Fund Committee – 18 November 2011

Subject: **CIPFA CODE OF PRACTICE ON PUBLIC SECTOR PENSIONS / FINANCE KNOWLEDGE AND SKILLS**

Classification: Unrestricted

Summary: To report on the Code of Practice

FOR DECISION

INTRODUCTION

1. The Committee has always been well aware of the importance of members and officers associated with the Fund developing and maintaining their knowledge and skill base.

2. The Committee last formally discussed this issue in June 2010 following the publication earlier in the year of a CIPFA technical guide master minded by the CIPFA Pensions Panel.

CODE OF PRACTICE

3. CIPFA have now published a Code of Practice with new requirements introduced.

4. The Training Plan agreed by the Committee in June 2010 has been updated for the requirements of the Code.

RECOMMENDATION

5. Members are asked to agree the Training Plan.

Nick Vickers
Head of Financial Services
Ext 4603

KENT SUPERANNUATION FUND

Training Plan

Objective

The objective is that members and Officers have the necessary skills and knowledge to properly undertake their role.

Knowledge and Skills Policy Statement

- This organisation recognises the importance of ensuring that all staff and members charged with the financial administration and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

- It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pensions decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Key Principles

- This organisation adopts the key recommendations of the *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.

- This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.

- Accordingly, this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.

- These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

- This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

- This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Corporate Director Finance and Procurement who will act in accordance with the organisation’s policy statement and with CIPFA Standards of Professional Practice.

Training and Development Opportunities

- All relevant training opportunities will be drawn to the attention of all Members and Officers associated with the work of the Fund.

- Where training opportunities are not free all reasonable costs will be met from the Fund.

- The main training opportunities are:

  - Annual half-day session provided by the investment consultant, actuary or an investment manager for the Committee.

  - Annual half-day KCC Pensions and Investment Conference.

  - Investment consultant, actuary and investment manager seminars and conferences (normally free).

  - LGC Investment Summit.

Monitoring

- All training undertaken should be notified to the Treasury & Investments Manager and a record maintained.

- This will be reported to the Committee periodically.

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By:	Chairman Superannuation Fund Committee Acting Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 18 November 2011
Subject:	**APPLICATION FOR ADMISSION TO THE FUND**
Classification:	Unrestricted

Summary: To report on the cessation report for Turner Contemporary Centre and recommended changes to bond levels.

FOR DECISION

INTRODUCTION

1. At the September 2011 meeting the Committee were concerned that KCC had agreed to act as guarantor for Turner Contemporary Centre.

2. A cessation report has now been provided by Barnett Waddingham for Turner Contemporary Centre, who cease to be a participating employer on 18 November 2011.

3. Attached is a report from Barnett Waddingham concerning bonds levels, provided by admitted bodies, which are reviewed on an annual basis.

TURNER CONTEMPORARY CENTRE

4. A cessation report has now been prepared by Barnett Waddingham, on the basis KCC agreed to act as a guarantor for Turner Contemporary Centre.

5. On this basis, the cessation report shows the Turner Contemporary Centre to be fully funded.

6. As there have been changes to the original Admission Agreement a new agreement will be drafted for agreement between the parties.

BOND LEVELS

7. The attached report from Barnett Waddingham explains why they recommend an increase to bond levels provided by admitted bodies.

8. This approach would broaden the risks the bond is intended to cover, thus further protecting the letting authority and the Pension Fund. However, the bigger the bond, the greater the cost of securing it, which may be of concern to the admitted bodies.

9. By way of examples the recommended level of new bonds for these employers is as follows –

Transfer Admission Body	**Current bond level**	**Recommended level of new bond**
Mitie Cleaning	£5,000	£16,000
Quadron	£104,000	£132,000
Compass Group	£11,000	£24,000
Norwest Holst	£36,000	£68,000
Mitie PFI	£34,000	£65,000
Orchard Theatre	£73,000	£81,000
MCCH Limited	£20,000	£47,000
Fusion Lifestyle	£56,000	£151,000
Reliance Task Management	£85,000	£110,000
Northgate Services	£31,000	£64,000

RECOMMENDATION

10. Members are asked to:

(1) Note the details of the cessation report for Turner Contemporary Centre, and

(2) Determine the approach to be taken concerning the bond levels.

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Client Briefing Note

Client:	Kent County Council Pension Fund	**Date**	18 August 2011
Subject:	Bond Levels		
Prepared by	Graeme D Muir FFA		

1 Introduction

1.1 When a Scheme employer outsources a service that is to be provided by a transferee admission body, the LGPS Regulations state that the letting authority should "*carry out an assessment, taking account of actuarial advice, of the level of risk arising on the premature termination of the provision of the service by reason of insolvency, winding up or liquidation of her transferee admission body*".

1.2 The Regulations also state that the assessment should be "*carried out to the satisfaction of the administering authority*".

2 Potential Risks

2.1 When transferee admission bodies were first allowed to join the LGPS the consensus view was that the key risk was early retirement strain costs associated with any redundancies over age 50 (now age 55). However this view has developed with experience and we now suggest including other risks.

2.2 When an employer is in difficulty it is not unusual for them to default on payment of employer contributions. Further if the transferee admission body does fail and the admission agreement comes to an end, then there will be costs associated with the termination of the admission agreement – an actuarial valuation is required and some legal costs and additional work for the Fund may are also likely.

2.3 These costs would normally fall to the transferee admission body but assuming they are insolvent then they would have to be met elsewhere. Thus to protect the Fund (or more likely the letting authority) from incurring these costs, we recommend that letting authorities consider including some allowance in the bond value for these costs.

2.4 Finally we have considered making some allowance for any funding deficit at the date the admission agreement comes to an end.

2.5 With transferee admission bodies, the concept is that they start off fully funded and pay contributions to remain fully funded throughout the contract period. In practice this is difficult to achieve without keeping a constant eye on funding levels and there is a material chance that the funding position at the date the admission agreement will reveal a deficit. Assuming the transferee admission body is insolvent then the deficit will ultimately fall to the letting authority.

2.6 We do have some experience of transferee admission bodies going under with deficits, and where there was the mistaken belief that the bond was intended to cover the deficit. We therefore we suggest including some allowance for a possible deficit in the calculations. There is of course no guarantee that it will be sufficient but at least some provision is being made.

3 Conclusions

3.1 Ultimately the risks the bond are intended to cover, and the resulting level of bond, is a decision for the letting authority – the bigger the bond the less risk for the letting authority of having to pick up any early retirement costs, termination costs and deficit should the transferee admission body fail.

3.2 However the bigger the bond the greater the cost of securing the bond and in some cases whether the transferee admission body is able to secure the level of bond may also be a factor.

3.3 Our role is to assess the potential risks and quantify the potential costs should they materialise. We are always happy to discuss with authorities, the various issues in setting the bond level.