



## AGENDA

### SUPERANNUATION FUND COMMITTEE

Friday, 7th March, 2008 at 10.00 am  
Medway Suite, Sessions House,  
County Hall, Maidstone

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

#### **UNRESTRICTED ITEMS**

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

#### **A. COMMITTEE BUSINESS**

1. Substitutes
2. Declarations of Interests by Members in items on the Agenda for this meeting.
3. Minutes - 23 November 2007 (Pages 1 - 2)

#### **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 - 23 November 2007 (Pages 3 - 4)
2. Societe Generale Asset Management
3. Invesco Perpetual
4. Fund Structure (Pages 5 - 10)

#### **D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE**

#### **UNRESTRICTED ITEMS**

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

5. External Audit (Pages 11 - 12)
6. Fund Position Statement (Pages 13 - 14)
7. Actuarial Valuation (Pages 15 - 18)

8. Funding Strategy Statement (Pages 19 - 20)
9. Governance Compliance Statement (Pages 21 - 26)
10. Admission to the Fund (Pages 27 - 28)

**E. OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**

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

**Thursday, 28 February 2008**

- (i) *Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.*
- (ii) ***In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Items 2 and 3.***

**KENT COUNTY COUNCIL**

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**SUPERANNUATION FUND COMMITTEE**

MINUTES of a meeting of the Superannuation Fund Committee held at Sessions House, Maidstone, Kent on Friday, 23 November 2007.

PRESENT: Mr J E Scholes (Chairman), Mr P Clokie, Mr D S Daley, Mrs J De Rochefort, Mr M J Fittock, Mrs S V Hohler (substitute for Mr J Simmonds), Mr J F London, Mr R A Marsh, Mr J I Muckle, Mr R Parry (substitute for Mr J A Davies), Mr S Richards and Mrs M Wiggins.

IN ATTENDANCE: Acting Director of Finance, Mr N Vickers and the Democratic Services Manager, Mrs M Cooper.

**UNRESTRICTED ITEMS**

**28. Minutes**

RESOLVED that the Minutes of the meeting held on 14 September 2007 are correctly recorded and that they be signed by the Chairman.

**29. Fund Position Statement**

*(Item D1 – Report by Acting Director of Finance)*

RESOLVED that the report be noted.

**30. Pensions Administration**

*(Item D2 – Report by Acting Director of Finance)*

RESOLVED that:-

- (a) the report be noted; and
- (b) the acquisition of AXISe Employer Internet be approved.

**31. Climate Change**

*(Item D3 – Report by Acting Director of Finance)*

RESOLVED that:-

- (a) the report be noted; and
- (b) the subscription to the Institutional Investors Group on Climate Change be approved.

**32. Process for Admission to the Fund**

*(Item D4 – Report by Acting Director of Finance)*

RESOLVED that:-

- (a) the process on admissions to the Pension Scheme be noted; and

- (b) that the paragraph stating “Organisations must employ 20 or more people, but those with a lesser number would be accepted only if they had been set up to take over a function divested either from the County or District Councils be deleted from the admission application criteria agreed by the Superannuation Fund Group in 1990.

**33. Application for Admission to the Fund**  
*(Item D5 – Report by Acting Director of Finance)*

RESOLVED that ReMade South East Limited be admitted to the Fund.

**EXEMPT ITEMS**  
**(Open Access to Minutes)**

**34. Minutes**

RESOLVED that the Minutes of the meeting held on 14 September 2007 are correctly recorded and that they be signed by the Chairman.

**35. Baillie Gifford**

*(Item C2)*

*(Mr N Morecroft and Ms L Dewar were in attendance for this item)*

RESOLVED that the report be noted.

**36. GMO**

*(Item C3)*

*(Mr A Hene, Mr N Burgoyne and Mr N Bashir were in attendance for this item)*

RESOLVED that the report be noted.

**SUMMARY OF EXEMPT ITEM**  
**(Where Access to Minutes Remains Restricted)**

**37. Fund Structure**

*(Item C4 – Report by Acting Director of Finance)*

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

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

Agenda Item C1

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

Agenda Item C4

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By: Director of Finance  
To: Superannuation Fund Committee – 7 March 2008  
Subject: **EXTERNAL AUDIT**  
Classification: Unrestricted

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Summary: To report the external audit arrangements and plan for the 2007-08 accounts.

## **FOR DECISION**

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### **INTRODUCTION**

1. Two years ago for the first time the Committee commissioned PricewaterhouseCoopers, as KCC's auditors, to undertake a full audit of the pension fund accounts. At that time PwC were only legally required to express an opinion on the pension fund accounts included in KCC's statutory accounts.

### **CURRENT POSITION**

2. There have been two major changes to the position:
  - (1) DCLG have introduced a statutory requirement for a separate audit of the pension fund accounts from 2008-09 onwards.
  - (2) The Audit Commission have replaced PwC as KCC's auditors for 2007-08 onwards.
3. The Audit Commission's draft plan is attached and the proposed fee is £55,600.

### **RECOMMENDATION**

4. Members are asked to agree the audit plan.

**Nick Vickers**  
**Head of Financial Services**  
**Ext: 4603**

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Item No. D2

By: Director of Finance  
To: Superannuation Fund Committee – 7 March 2008  
Subject: **FUND POSITION STATEMENT**  
Classification: Unrestricted

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

## **FOR INFORMATION**

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### **INTRODUCTION**

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

**Katherine Gray**  
**Senior Accountant (Investments)**  
**Ext: 4642**

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By: Director of Finance  
To: Superannuation Fund Committee – 7 March 2008  
Subject: **ACTUARIAL VALUATION**  
Classification: Unrestricted

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Summary: To report the outcomes of the 2007 actuarial valuation.

## **FOR INFORMATION**

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### **INTRODUCTION**

1. Under the Local Government Pension Scheme (LGPS) Regulations all local authority pension funds have to be valued every 3 years. For funds in England and Wales a valuation had to be undertaken at 31 March 2007. The fund is independently valued by the fund actuary, Hymans Robertson LLP, the actuary sets employer contribution rates.
2. This report explains the valuation process, in outline, and the results at Fund and major employer level.

### **VALUATION PROCESS**

3. At the last valuation in 2004 the fund was 63% funded ie. assets represented only 63% of total liabilities.
4. The cost to the employer, normally expressed as a percentage of payroll consists of 2 elements:
  - (1) Future Service Rate – future costs of pensions for existing staff.
  - (2) Past Service Rate – this is to make good the deficit. The deficit is being recovered over a 20 year period, for local authority employers.

The deficit on the Kent Fund arises primarily from a contribution holiday 1989-92, the abolition of tax relief on (Advanced Corporation Tax) ACT in 1997 and the downturn in equity markets 2000-02.

5. There are 2 main aspects of the valuation; expected investment returns on assets and the value placed on liabilities.
  - (1) Asset Returns - in the 2004 valuation the actuary assumed a return of 6.3% pa, the Kent Fund achieved an above average return of 14.1% pa. This improved the valuation level in 2007 by around 16%.

- (2) Liabilities - the actuarial profession uses a discount rate based on gilt yields to value the future value of pensions liabilities. Gilt yields are substantially lower than in 2004 and this reduced the funding level by 12%.
6. The actuary has also had to take account of the introduction of the new LGPS from 2008, which does have some small cost reduction. But, the Government reneged on the full abolition of the 85 Year Rule after contribution rates had been set in 2004, which increases costs.
7. The other key issue for the actuary is that mortality rates have been improving rapidly ie. on average people are living longer. This has 2 main impacts, actuarial assumptions about existing pensioners dying are not being met and the actuary has to assume that future pensioners will live longer. The actuary has made a limited improvement in mortality in his 2007 valuation but further allowance will have to be made in the future.

## **VALUATION RESULTS**

8. The overall 2004 and 2007 valuation results are shown below:

Valuation Date	2004	2007
Past service liabilities	£m	£m
Employees	1,064.7	1,555.9
Deferred pensioners	391.8	547.9
Pensioners	1,086.8	1,454.3
Total liabilities	2,543.4	3,558.1
Assets	1,602.8	2,580.3
Surplus/(deficit)	(940.6)	(977.8)
Funding Level	63%	73%

Overall the 10% improvement in the funding level is to be welcomed but unfortunately the increase in the value of liabilities means that we do not get the full benefit from the much higher investment returns.

9. In- terms of contribution rates at Fund level this means:

Valuation Date	2004	2007
Future Service costs	% of pay	% of pay
Total cost	16.7%	20.8%
Employee conts	6.0%	6.5%
Expenses	0.4%	0.4%
Net employer share	11.0%	14.7%
Past service adj (20 yrs)	10.8%	8.4%

Common contribution rate	21.8%	23.1%
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So the Future Service Rate has increased substantially from 11% to 14.7% of pay as a result of the change in financial assumptions and improvements in life expectancy from 2004 to 2007. The Past Service Rate has reduced from 10.8% to 8.4% of pay as a result of the improvement in the funding level, mainly from outperformance of assets 2004-07.

10. The figures above are at Fund level. For the local authority employers there are significant variations in the size of increases in contribution rate from -0.2% to +4.7% (Appendix). This reflects differences in:
  - (1) Membership profiles
  - (2) Experience – salaries, mortality, other demographics, outsourcings.
  - (3) Level of maturity – the value of liabilities relative to the size of payroll.
  - (4) Previous contributions paid to recover the deficit.
11. There are significant variations between District Councils but some are more mature and highly geared due to a higher average age of member and the workforce contracting due to outsourcing.
12. It should also be remembered that up until 1998 the District Councils and KCC had a shared employer contribution rate. This was no longer feasible with the creation of the unitary Medway Council. Since then whilst KCC and Medway have seen small increases in contribution rates, there have been very substantial increases for District Councils.
13. Looking at the total employer results the other group of employers to have experienced significant increases in contribution rates are the town and parish councils.

## **SUMMARY**

14. Even after a period of strong investment returns at Fund level the cost of pensions has once again had to increase. Most commentators would not expect such strong returns over the next 3 years, coupled with the mortality issue and the difficulties faced by individual District Councils there is likely to be further upward pressure on contribution rates in the future.
15. Hymans Robertson have been commissioned to undertake modelling on the effect of different financial assumptions using proprietary software, comPASS. We will also undertake more formal inter-valuation updates of the funding position.

## **RECOMMENDATION**

16. Members are asked to note this report.

**Nick Vickers**  
**Head of Financial Services**  
**Ext 4603**

By: Director of Finance  
To: Superannuation Fund Committee – 7 March 2008  
Subject: **FUNDING STRATEGY STATEMENT**  
Classification: Unrestricted

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Summary: To update the Funding Strategy Statement.

**FOR DECISION**

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**INTRODUCTION**

1. We are required to update our Funding Strategy Statement to coincide with the 2007 actuarial valuation.

**RECOMMENDATION**

Members are asked to agree the document.

**Nick Vickers**  
**Head of Financial Services**  
**Ext: 4603**

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By: Director of Finance  
To: Superannuation Fund Committee – 7 March 2008  
Subject: **GOVERNANCE COMPLIANCE STATEMENT**  
Classification: Unrestricted

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Summary: To agree a Governance Compliance Statement.

## **FOR DECISION**

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### **INTRODUCTION**

1. Last year the Department for Communities and Local Government consulted on a Governance Compliance Statement and subsequently amended the Local Government Pension Scheme Regulations (LGPS) to make it a requirement.
2. The statement had to be published by 1 March 2008.

### **STATEMENT**

3. The draft statement is attached in the Appendix. Given the requirement to publish by 1 March, the statement has been agreed with the Chairman, Vice Chairman and Spokesman.
4. I did respond to last years consultation and overall felt that DCLG were being too prescriptive and the final guidance has reflected this to some extent.
5. I have two major issues with the document:
  - (1) The promotion of independent or “external” advisers – it has been clear to me that over a period a number of these advisers have been promoting their use and DCLG have picked up on this. From my contacts with advisers at other funds I have had a mixed experience. My personal view is that our arrangement of experienced and trained members supported by Hymans Robertson and KCC Officers leaves us with clarity on decision making and clear accountability. I believe the use of an independent adviser would reduce transparency and accountability for decision making. The Committee could decide to use an independent adviser.
  - (2) Meetings of a secondary committee or panel – the guidance states this should meet twice a year. Many funds still have a small committee or

panel, often drawn from only the administering authority or focussing on investment issues only. We have a main committee with a broad representation and remit, and the annual conference which all employers are invited to attend. I believe that given this structure one meeting a year for all employers is sufficient.

## **RECOMMENDATION**

6. Members are asked to agree the draft statement.

**Nick Vickers**  
**Head of Financial Services**  
**Ext: 4603**

## KENT PENSION FUND

### GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance
<b>A Structure</b>	<p><i>(a) the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</i></p> <p><i>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee</i></p> <p><i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i></p> <p><i>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i></p>	<p>Yes</p> <p>See Statement of Investment Principles</p>
<b>B Representation</b>	<p><i>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</i></p> <ul style="list-style-type: none"> <li><i>(i) Employing authorities (including non-scheme employers, eg admitted bodies)</i></li> <li><i>(ii) Scheme members (including deferred and pensioner scheme members)</i></li> <li><i>(iii) Independent professional observers</i></li> <li><i>(iv) Expert advisers (on an ad hoc basis)</i></li> </ul>	<p>Partial</p>
<p>(1) The Superannuation Fund Committee includes 3 representatives nominated by the 12 District Councils, a Medway Council representative, 1 Unison representative, 1 KCC staff representative and 2 Kent Active Retirement Fellowship representatives.</p> <p>(2) The Fund's investment advisers, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee's policy to use independent advisers.</p>		

Principle		Full Compliance
<b>C Selection and Role of Lay Members</b>	<i>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i>	Yes
<b>D Voting</b>	<i>(b) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	Yes
<b>E Training / Facility Time / Expenses</b>	<i>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision – making process. (b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i>	Yes
(1) All additional costs of attending training courses will be reimbursed from the Fund.		
<b>F Meetings - Frequency</b>	<i>(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Partial
<p>(1) The Superannuation Fund Committee meets quarterly.</p> <p>(2) The Chairman, Vice Chairman and Spokesman meet monthly when required to deal with urgent matters.</p> <p>(3) All employers are invited to attend a half-day conference which takes place annually.</p> <p>(4) The Pensions Forum meets twice a year for all employers focussing on administration issues.</p>		

Principle		Full Compliance
<b>G Access</b>	<i>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.</i>	Yes
<b>H Scope</b>	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	Yes
<p>(1) The Committee has always included pensions administration issues in it's work whereas in many authorities the focus of the committee or panel are investment issues.</p> <p>(2) The Committee has developed a scrutiny type approach to its review of investment managers.</p>		
<b>I Publicity</b>	<i>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i>	Statement of Investment Principles on the KCC website.
(1) Statement of Investment Principles on the KCC website.		

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By: Director of Finance  
To: Superannuation Fund Committee – 7 March 2008  
Subject: **APPLICATION FOR ADMISSION TO THE FUND**  
Classification: Unrestricted

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Summary: To report on the request from Kent & Medway NHS Trust & Social Care Partnership to participate in the Superannuation Fund

### **FOR DECISION**

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1. In 2002, following the establishment of the West Kent NHS & Social Care Trust, Medway Council seconded its mental health services to the Trust for a period of two years. In 2006, West Kent NHS & Social Care Trust merged with East Kent NHS & Social Care Partnership to form the Kent & Medway NHS Trust & Social Care Partnership. The new organisation inherited the existing staff secondment arrangements.
2. Medway Council decided in January 2007 to undertake a fundamental review which would look at three areas, including the staff secondment arrangements. The review found that the employees should be employed by the Kent & Medway NHS Trust & Social Care Partnership.
3. There are forty eight employees who will be transferred to the Kent & Medway NHS Trust & Social Care Partnership on 1 April 2008. The employees would be eligible to join the NHS scheme upon transfer to the new employer. The NHS scheme will be changing from 1 April 2008. The most significant of these changes are that the final salary will be based on the average of the last three years rather than the highest and the normal retirement age will be 65 instead of 60.
4. The NHS scheme changes are significant and the Kent & Medway NHS Trust & Social Care Partnership are considering the option, subject to Board approval, of transferring the employees on 31 March 2008. They would then be eligible to join the current NHS pension scheme.
5. Medway Council did not look at pension arrangements until after their fundamental review of health services had been completed. Consequently this was too late for a bulk transfer arrangement to be considered in the event that the transferring employees wish to join the NHS scheme. Any transfer will have to be on an individual basis. This may be less beneficial to the employees.

6. In order to provide choice to the employees of their future pension arrangements, the Kent & Medway NHS Trust & Social Care Partnership have made an application to join the Kent Pension Scheme.
7. The application has been made under Regulation 5(2) (a) (i) of the Local Government Scheme Regulations. There is no requirement under this Regulation for a form of Bond or indemnity to be provided. Medway Council have indicated that they are not prepared to act as guarantor to meet any deficit or unpaid pension contributions should the Kent & Medway NHS Trust & Social Care Partnership cease to participate in the Kent Pension Scheme. The fund actuary has been asked to reflect this decision in his calculation of the employer contribution rate.
8. NHS Trusts are established as bodies corporate and may be dissolved by the Secretary of State. Upon dissolution of an NHS Trust the Secretary of State must transfer the property rights and liabilities of that Trust to a Health Authority, another NHS Trust, a Primary Care Trust or the Secretary of State. In the event that the Kent & Medway NHS Trust & Social Care Partnership ceases to exist, there would be a successor body to accept liability for any pension deficit.
9. The completed questionnaire and Memorandum and Articles have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

### **RECOMMENDATION**

10. Members are asked to agree the admission of Kent & Medway NHS Trust & Social Care Partnership to the Pension Fund.

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