SUPERANNUATION FUND COMMITTEE

Friday, 8th February, 2013

10.00 am

Medway Room, Sessions House, County Hall, Maidstone

Kent County Council

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 8th February, 2013 at 10.00 am	Ask for:	**Ann Hunter** **ann.hunter@kent.gov.uk**
Medway Room, Sessions House, County Hall, Maidstone	Telephone:	**01622 694703**

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 of the meeting held on 16 November 2012 (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 - 8)

2. Invesco

3. Fund Structure (Pages 9 - 52)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Infrastructure Investment (Pages 53 - 60)

2. Pension Administration 6 Month Update (Pages 61 - 70)

3. LGPS - Consultation Response (Pages 71 - 76)

4. Application for Admission to the Fund (Pages 77 - 80)

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 31 January 2013

(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 Fund Managers have been given notice of the meeting and will be in attendance for Item C2.*

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, 16 November 2012.

PRESENT: Mr J E Scholes (Chairman), Cllr J Burden, Mr D C Carr, Mr P Clokie, Mr D S Daley, Ms J De Rochefort, Ms A Dickenson, Mr N Eden Green, Mr P J Homewood (Substitute for Mr R A Marsh), Mr M J Jarvis, Mr J F London, Mr R J Parry, Mr S Richards, Mr R Tolputt (Substitute for Mr J A Davies) and Mrs M Wiggins.

ALSO PRESENT: Miss S Carey

IN ATTENDANCE: Mr A Wood (Corporate Director Finance & Procurement), Mr N Vickers (Head of Financial Services), Ms A Mings (Treasury & Investments Manager), Ms S Surana (Senior Accountant - Investments), Mr S Tagg (Deputy Pensions Manager) and Mr P D Wickenden (Democratic Services Transition Manager).

UNRESTRICTED ITEMS

46. Mr Michael Snelling

The Committee bowed their heads and sat in silence as a mark of respect for the late Mike Snelling who had passed away suddenly since the last meeting of the Committee following a short illness. The Committee acknowledged the significant contribution Mike had made to the Committee.

47. Minutes of the meeting held on 31 August 2012
(Item A3)

RESOLVED that the minutes relating to the unrestricted items of the meeting held on 31 August 1012 are correctly recorded and that they be signed by the Chairman.

EXEMPT ITEMS (Open Access to Minutes)

(The Committee resolved that, under Section 100A of the Local Government Act 1972, the 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)

48. Exempt Minutes of the meeting held on 31 August 2012
(Item C1)

RESOLVED that the minutes of the meeting held on 31 August 2012 relating to exempt items are correctly recorded and that they be signed by the Chairman.

49. Baillie Gifford
(Item C2 - Mrs L Dewar was in attendance for this item)

Mrs Dewar gave an oral update on the mandates for the Kent County Council Superannuation Fund and responded to the questions of detail from Members.

RESOLVED that the information given in the update and in response to questions be noted.

50. Bond Review
(Item C3 - Mr A Elliott, Hymans Robertson, was in attendance for this item)

The Committee agreed the proposed changes to the Bond mandates.

51. Fund Structure
(Item C4)

The Committee agreed a number of issues relating to the Fund Structure.

52. Superannuation Fund Report & Accounts and External Audit
(Item D1 - Alison Mings, Treasury and Investments Manager, was in attendance for this item)

RESOLVED that: the Annual Report and Accounts for 2011/12 be published.

53. Fund Position Statement
(Item D2 - Sangeeta Surana, Senior Accountant (Investments), was in attendance for this item)

RESOLVED that the Fund Position Statement Report be noted.

54. Application for Admission to the Fund
(Item D3 - Steve Tagg, Deputy Pensions Manager was in attendance for this item)

RESOLVED that:-

(a) Principal Catering Consultants in respect of Meadowfields Special School be admitted to the Kent County Council Pension Fund;

(b) The successful bidder from the Canterbury City Council grounds maintenance contract be admitted to the Fund;

(c) That a termination agreement be entered into for Orbit South Housing based on the Closed Fund Approach;

(d) That a Deed of Modification can be entered into for Project Status;

(e) Agree that a Deed of Modification can be entered into for Connexions and Partnership Kent and Medway;

(f) Agree that a deed of Modification can be entered into for the Caldecott Community; and

(g) Agree that once legal agreements have been prepared for the above matters the Kent County Council seal can be affixed to the legal documents.

55. Local Government Pension Scheme
(Item D4)

(1) In May a Joint statement was made by the Local Government Association and trade unions setting out the new basis of the Local Government Pension Scheme and this was reported to the Committee in June.

(2) It was expected that the first draft regulations would be published in September but as yet nothing has been received.

(3) On 2 November 2012 Officers received a Joint Statement on the Scheme of Governance and Cost Management Workstream Proposals which there had been no consultation on its contents.

(4) RESOLVED that a response be prepared on behalf of the Chairman of the Committee to lobby the Local Government Association on the appropriateness of the LGPS 2014 – Joint Statement.

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 8 February 2013
Subject:	**INFRASTRUCTURE INVESTMENT**
Classification:	Unrestricted.

Summary: To set out the key issues around Pension Fund investment in Infrastructure and related assets.

FOR DECISION

INTRODUCTION

1. There has been a considerable amount of Government and media reference in the last 6 months to investment in UK Infrastructure by UK Pension Funds. This report sets out the latest position.

CURRENT POSITION

2. Members will be aware that the Fund already has a significant allocation to the Infrastructure asset class. Partners Group were appointed to a £75m Fund of Funds mandate in 2010.

3. Partners Group are a Swiss based partnership specialising in private markets investment management with total assets under management of €27bn. They have over 30 LGPS clients as well as leading UK companies such as J. Sainsbury plc, British Airways and BP. They invest through 3 main approaches:

   - Primary investments (45%) – investing in an infrastructure fund in its first 12-18 months fundraising period.

   - Secondary investments (32%) – buying an interest in a fund from an existing investor.

   - Direct investments (23%) – investments directly into companies both in the form of debt and equity.

4. Partners look for brown field infrastructure assets providing stable cash flows with the following characteristics:

   - Operational assets

   - Steady revenues.

- Regular cash yield.
- High spread over Government bonds.
- Low growth exposure.

5. They look to construct a very diversified portfolio of investments by type as set out in paragraph 3 above and by geography. The current programme is split as follows:

- Western Europe 52%
- North America 22%
- Asia Pacific 21%
- Rest of World 5%

6. Hymans Robertson view this Fund of Funds approach as being the most effective way of a Fund such as Kent investing in the asset class despite the high cost of fees. One of the key challenges facing the market at present is to try and create an opportunity to invest in a more cost efficient manner.

UK DEVELOPMENTS

7. In November 2011 the Government published the new National Infrastructure Fund which was a strategy for coordinating and planning public and private investment in UK infrastructure. The report puts improvements in the UK's infrastructure at the heart of future economic growth as well as providing a stimulus to the economy. The report sets out the constraints on the ability of project sponsors to raise project finance debt from commercial banks. It says less about public funding but the Government has been highly critical of the previous PFI regime and deficit reduction restricts its ability to fund directly. The report highlighted the previous reluctance of institutional investors and pension funds in-particular to invest in infrastructure assets. It states the reasons for this as being:

- Limited capacity to assess project risks and make direct investments, as a result of which most pension funds tend to invest in infrastructure indirectly through intermediaries such as infrastructure funds or by buying shares or bonds in publicly listed utilities.
- The lack of clear benchmark for measuring performance of infrastructure investments.
- A shift in the future infrastructure pipeline to assets, such as infrastructure associated with a low carbon economy, that lie outside the risk appetite of many institutional investors.

- The report then announced a Memorandum of Understanding with the National Association of Pension Funds and Pension Protection Fund “to work together to help establish a platform to facilitate increased pension fund investment in infrastructure”. Reference was also made to a group of pension funds including the Greater Manchester Pension Fund and the London Pension Fund Authority to develop proposals for investment in greenfield infrastructure. The Government targeted investment of £20bn through these routes.

8. In October 2012 it was announced that a group of the UK’s largest pension funds including Strathclyde Pension Fund and West Midlands Pension Fund had come together as founding investors in the Pension Infrastructure Platform (PIP). The NAPF website refers to a fund of £2bn to invest in core infrastructure assets with target returns of RPI +2-5%.

9. In November the CLG announced a consultation on LGPS Investment in Partnership which rather spuriously has been presented as allowing Funds to increase their investment in Infrastructure.

10. In October 2012 the Future Homes Commission set up by the Royal Institute of British Architects published a report “Building the Homes and Communities Britain needs”. This report identified a need for 300,000 additional new homes every year (three times the current level) and proposed a £10bn local Housing Development Fund financed and owned by local authority pension funds. The report states “this fund would be a cornerstone investor in local developments of sustainable mixed tenure communities across the country, particularly in our larger cities. Once these developments are mature they will be ideal investments for UK and international institutional investors, many of whom want to invest in UK residential property for rent, but are not about to take any development risk”. The report seems to have identified local authority pension funds solely because they have money without any reflection on the liabilities the funds have to match. It refers to a return of 6-7% per annum, not unreasonable for mature projects but far too low for providing high risk development finance.

11. In November 2012 it was announced that the London Borough of Islington had invested £20m in the Hearthstone residential property fund. Hearthstone set the fund up earlier in 2012 and it is said to be the UK’s only regulated residential property fund. The fund targets a return of 4% from income and capital gains from many residential property capital values which it estimates will reach 5% by 2017 A research note by Hymans Robertson on residential property investment is attached in the Appendix.

12. Locally senior officers at Ashford Borough Council and Maidstone Borough Council have approached the Head of Financial Services about investing in social housing and a senior officer from Thanet District Council enquired about infrastructure investment in Margate.

FUTURE APPROACH

13. A common theme of the initiatives set out in this report is that restrictions on borrowing from banks, the loss of confidence in PFI and Government deficit reduction has created a major funding issue for infrastructure investment. This has stimulated the promotion of investment by pension funds to fill this gap.

14. The stated aim of the Fund is to maximize investment returns for a given level of risk. The Fund has no broader "social" obligations. Therefore any Infrastructure investments need to stand as investment propositions alone when compared with the other asset classes on a global basis that the Fund is legally able to invest in.

15. A major theme for the Fund moving forward will be cashflow and the liquidity of investments. Major development finance for infrastructure is not liquid and for developed infrastructure funds may be run on an open or closed basis. The Fund does not have to have all its assets in liquid assets but it should earn a return premium for illiquidity.

16. In paragraph 7 the Government set out the reasons for the limited pension fund investment in infrastructure very well and development risk and project risk are fundamental to this. At a recent discussion panel including the Head of Financial Services the consistent theme from the local authority pension fund officers was that there are very limited investable opportunities currently in the UK in Infrastructure.

17. Any future approach to Infrastructure investing needs to meet the following criteria:

    - Well diversified – by geography and the sector invested in eg. housing, rail, roads, water.

    - Developed assets – even an organisation with the depth of resource that Partners Group has will not invest more than a small proportion of assets in development projects. Across all sectors the risk is much higher and major public sector projects have demonstrated a tendency to large cost over runs. This risk would not be compensated for in the returns received.

    - Secure income flows – predominately income flows need to be underwritten in some way by government or quasi government organisations.

    - Returns – for the overall return required by the Fund and to reflect the risk returns need to be high single digit or low double digit.

    - Management arrangements – potential investments need to have well proven management arrangements, managers with excellent credentials and a fully development commercial fund.

18. Any investment propositions can then be evaluated against these criteria.

RECOMMENDATIONS

19. Members are asked to:

    (1) Note this report.

    (2) Agree the criteria set out in paragraph 17.

Nick Vickers
Head of Financial Services

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Should LGPS funds invest in UK housing?

With the UK government committed to deficit reduction, it is eyeing the capital managed by pension funds in the private and public sector to satisfy an investment gap in the UK economy. Media attention has focussed on infrastructure. In this paper, we look specifically at housing, where there is significant undersupply.

LGPS funds are responsible for an estimated £150 billion of assets. If Committees were to consider investing a proportion of these funds in areas such as social or affordable housing, what issues would they need to consider? Do these investments represent an attractive opportunity or are there good reasons why almost no investment has taken place in the past?

Background

There is a chronic shortage of UK housing. This can be traced back to the sell-off in Council housing stock in the 1980s, which encouraged a generation of rental householders into home ownership, with much of the remaining Council rental stock transferring to Housing Associations. Since that time, population growth has far outdistanced new home construction. Official projections estimate that the number of UK households will grow by 272,000 per year until 2033. At the same time, the supply of new homes is falling. Between 2006-07 and 2010-11 the number of new dwellings completed annually fell from 219,070 to 130,790 – a fall of 40%. This is not expected to reverse any time soon. Local authority budgets are being squeezed, and private developers are feeling the strain of tighter bank lending policies.

Houses remain unaffordable for many; the ratio of average house prices to average earnings remains high at around 4.5 times. This is particularly true for the current generation of young adults, debt-laden from university and unable to afford the quality of housing that their young families desire. The average size of the required deposit has doubled from 5-10% to 15-20% of purchase price. As a result, pressure on the rental market is increasing and average rents are being pushed higher.

Is this an investment opportunity?

Although institutional investment in residential property is common in many countries, it has never figured significantly in the UK. This is blamed on small lot sizes and tenant management issues (rent collection, maintenance), all of which are more easily accommodated in Office, Retail and Industrial properties. However, there is also a major issue, in that many stakeholders in UK housing (owners, builders, realtors, politicians) are more interested in high and rising house prices. Other things being equal, investors should be more interested in buying cheap assets on which satisfactory future returns can be generated.

Most products we have seen in this area have been relatively modest in scale and almost all depend on rising house prices as a key factor in driving future investment returns. Notwithstanding the current shortage of supply, we cannot see how prices can continue to rise when they are unaffordable for many. Further, at an economic level, rising house prices do not add to UK wealth. Instead, they result in a regressive transfer payment, typically from the poor to the rich and from the young to the old.

What would make investment in this area attractive?

For LGPS funds, we believe that returns comparable with equities are necessary (allied with no greater risk), to aid in deficit repair. This would be satisfied most appropriately by an inflation linked rental stream (net of costs) with a starting yield in the order of 4-5% p.a. We believe this would be more viable in current circumstances if the unit housing cost could be reduced significantly below prevailing prices, e.g. by making land available cheaply to pension funds (possibly re-zoning for residential use) and building condominium style (apartments) to a common (though not identical) design template. In some ways, this would mean setting up the pension fund as private landlords, almost in competition with existing regulated social landlords (RSLs), although we would anticipate that residential management would typically be outsourced to these RSLs and the pension fund and RSL would work in partnership.

There are spin-off advantages, e.g. increased housebuilding will increase local employment opportunities. Further, there is a local benefit arising from an increased supply of affordable rental accommodation available on long-lease; this should stabilise or reduce private sector rents (making housing subsidies more affordable for Councils), but competing private landlords are unlikely to be pleased. Local house prices may also stabilise, because of an increased supply of accommodation.

We have seen products which provide long-term lending to regulated social landlords (replacing the lending they previously obtained from banks). We do not believe the returns generated by these products (typically CPI + 2%) are sufficiently high to satisfy the needs of LGPS funds (CPI + 4-5% net).

Social housing has the potential to be a key area of investment for pension funds. It has low correlation with the economic cycle and provides cash flows that are well matched to pension funds' liabilities through its embedded inflation linkage from rents. However, it is likely to be attractive only to long-term investors, such as local government pension funds, due to its illiquid nature and the timescales required to realise sufficient returns.

What do Committees need to ask?

Investment in social housing could present an attractive case for those looking to address any social responsibility and localism concerns. However, the primary aim must be an appropriate risk/reward profile and there are a number of issues that Committees need to address:

- Will the investment returns be satisfactory and what are the risks?
- Can we find people with the right expertise to provide unconflicted advice to our Fund?
- How do we persuade ourselves that returns from investment in social housing opportunities in our locality are sufficiently attractive to compensate for the loss of diversification that would result from a wider investment pool?
- What additional costs (e.g. for legal advice and specialist investment knowledge) might be incurred?
- Could we work in an appropriate partnership with local RSLs?
- What reputational issues might emerge, e.g. in setting rental levels or where there are particular management problems with tenants?

Conclusion

On the surface, social housing would seem to present an attractive investment opportunity for local government pension schemes – long-term, inflation-linked cash flows that provide a steady income stream in line with scheme liabilities. There is further appeal through its 'socially responsible' nature. However, this should not be the definitive factor behind any decision making; there are significant issues of conflict of interest to take into account. Ultimately, Committees should remember that they have a fiduciary responsibility to the Scheme and their primary goal is to safeguard the interests of its members. Maximising returns for an appropriate level of risk must be a guiding factor.

HYMANS ROBERTSON
CLUB VITA

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance & Procurement
To:	Superannuation Fund Committee – 8 February 2013
Subject:	**PENSION ADMINISTRATION**
Classification:	Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Automatic Enrolment
- Update on fraudulent overpayment cases
- Framework tender
- Annual Benefit Illustrations
- CIPFA benchmark survey 2012

FOR INFORMATION

INTRODUCTION

1. This report brings members fully up to date with a range of issues concerning the administration of the Kent Pension Scheme.

WORKLOAD POSITION

2. Successive reports have confirmed increasing levels of workload being dealt with by the administration team.

3. Appendix I confirms that in the 9 months to December 2012, volumes of daily administration tasks, are slowing down after the peak in 2011/12.

4. Workload levels seem to be returning to the volumes seen in the year 2010/11. I am confident this reflects a period of calm following the downsizing activity seen in the previous year.

5. Members were advised at the last report of my fear that young/low paid staff were opting out of the scheme for financial reasons. I am pleased to say that of 123 optants out since 1 February 2012; only 8 have been under 21 years of age. This suggests my concern was unfounded, but, we will continue to monitor the position (see also remarks on automatic enrolment).

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

6. We are charged to complete 95% of all tasks within the target time.

7. Despite the slowing down of cases, it is still very pleasing to report almost all cases have been completed within turnaround times.

8. We continue to run on an establishment with 5 FTE vacancies. We have recruited 3 Pension Support Assistants who have settled in to the team very well. Two of these new staff were taken on after successful apprenticeship periods.

9. Despite reporting further successes in the achievement of key performance indicators, members are advised that the section faces yet a further period of intense change, in the year 2013/14. This is due to the 3 year valuation, preparation for automatic enrolment and the introduction of the new LGPS on 1 April 2014.

AUTOMATIC ENROLMENT

10. Members were given a summary of the initiative known as ‘Automatic Enrolment’ and the demands this will place on the Pension Section.

11. Since the last report, Kent County Council has decided to use the option of postponement until October 2017. This will require that KCC automatically enrol all new staff, meeting the criteria, but, can postpone the enrolment of existing staff who are not members of the LGPS.

12. We await the outcome of consideration of a similar decision by Medway Council.

13. All training for employers, who are largely responsible for the statutory requirements of automatic enrolment, is now complete. All stationery is also complete and available from the section website.

14. We have yet to receive responses from all employers, of the numbers of eligible staff, who are presently not members of the Pension Scheme. This will give us a clear guide of the number of new members to expect and potentially, the number of opt outs that may follow.

15. The whole process of automatic enrolment will place considerable burden upon scheme employers and administrators alike. Whilst we are well prepared it does present further pressure to be placed upon the section.

UPDATE ON FRAUDULENT OVERPAYMENT CASES

16. Members were advised of 4 overpayment cases, totalling £39,449.97, which it was suspected to be the result of fraudulent activity, on the part of surviving relatives.

17. Internal Audit continue to work with the Kent Police, who initially displayed some reluctance to pursue these cases. I understand some progress has been made but I remain less than confident that those responsible for these frauds will be prosecuted.

18. I will advise members if further progress is made and if this is not forthcoming it may be necessary to write these sums off.

FRAMEWORK TENDER

19. Members agreed that Kent County Council should act as lead authority, in the open framework tender initiative, to procure the necessary IT software systems, to administer the LGPS, Police and Fire Pension Schemes.

20. The initiative was formally approved by the KCC Procurement Board in late 2012.

21. The process is moving forward well and it is anticipated that contracts will be awarded by late summer 2013.

22. Within the overall group of 11 founder members, a core group of 6 authorities, including Kent, have agreed to move the process forward, to ensure the completion of the process by late summer 2013.

23. Members will be kept informed as further progress is made.

ANNUAL BENEFIT ILLUSTRATIONS 2012

24. I have to formally advise members of a breach of the requirements of the Data Protection Act, during the process of despatching Annual Benefit Illustrations for the year ending 31 March 2012.

25. We were required to send out circa 40,000 illustrations to members of the LGPS.

26. The Pension Section has a robust, documented, established and longstanding procedure, which ensures that data needed to print statements and personal data for all members, is sent securely and confidentially to our internal printers at Kent Commercial Services.

27. Within hours of illustrations being delivered at home addresses, telephone calls made it abundantly clear, that a problem had occurred.

28. It transpires that 1682 statements became corrupt during the printing process at Kent Commercial Services. This resulted in each of the 1682 members, receiving the personal and pension details, of the member who preceded them on the print run.

29. The extent and impact of the problem was identified and considered under advice to the Corporate Director Finance & Procurement, the Corporate Director Enterprise & Environment, the Head of Financial Services, Internal Audit and our Data Protection department.

30. A series of communications by email via scheme employers and by direct letter to the affected member's home addresses was commenced. These letters acknowledged the problem, extended an unreserved apology and asked those affected to return the incorrect illustrations.

31. At the time of writing this report we have received 1130 incorrect statements returned. Where statements had been opened by recipients, we asked if they would sign confidentiality agreements. Circa. 500 agreements have been received.

32. A full external audit of the process was commissioned and undertaken by Deloittes under instruction from the Corporate Director Finance & Procurement.

33. In summary, the Pension Section were exonerated of all blame, for the error, having conducted the process entirely in line with our documented process.

34. The audit discovered that a mechanical problem in the printer occurred, during one of four print runs, which resulted in this error. The error was confined to scheme members with surnames commencing in the alphabetic sequence of Mi-No (1682 cases).

35. Our colleagues in Kent Commercial Services continue to engage with the machine manufacturers to establish what caused the error and how to avoid it in the future.

36. In the interim, an initial report of the incident was sent to the Information Commissioners Office. The Information Commissioner has passed the matter to his Compliance Team who will investigate the error on his behalf.

37. A further detailed questionnaire has been received from and returned to the Information Commissioner and we await further developments in this respect.

38. All 1682 scheme members will be sent a replacement illustration and each of these statements will be checked manually, by the Pension Section, prior to despatch.

39. Further complaints/correspondence received from scheme members, will be dealt with on an individual case by case basis.

40. We await the outcome of the Information Commissioners investigation. In the event that a fine is to be imposed as consequence of this breach of the Data Protection Regulations, it will be important to establish if any liability passes to the machine manufacturers. Any fine to be borne by Kent County Council will not fall to the Pension Fund.

41. A series of recommendations has been made to Kent Commercial Services, by the auditor, when dealing with confidential printing runs in the future.

42. The Kent Pension Fund will go out to tender to external print organisations when undertaking this process next year.

43. Throughout this unfortunate event the scheme members have acted with huge integrity and understanding and have made the recovery process much easier than otherwise it might have.

<u>CIPFA BENCHAMRK SURVEY - ADMINISTRATION</u>

44. The Kent Pension Fund participates in the CIPFA Benchmark Survey. This survey compares the cost of pension's administration services with both a comparator group (19 authorities) and an all scheme survey (62 authorities).

45. The comparator group consists generally of shire counties of various sizes, whereas, the all scheme survey, compares against every authority which takes part in this annual evaluation.

46. The survey simply compares costs on a 'per member' basis. No allowance or comparison is made of the extent or quality of service. An authority may therefore perform well in a simple cost comparison but, may equally provide a service of a significantly lower quality.

47. I must also stress that there exists considerable variance in the manner in which individual authorities account for costs. The clearest example being the cost of payroll per pensioner, which varies from a low of less than £2 to the highest at something close to £60 per pensioner.

48. Despite this, I find it useful if only as a marker to identify any key variance from the average across both surveys.

49. In this sense we compare reasonably in most areas. Setting payroll aside, for the reasons above, our actuarial costs are somewhat higher than the average, but, we also have significantly more employers, than almost all other schemes. Kent has 400 compared to an all schemes average of 125 per scheme. This employer base will impact upon a range of other costs including communications and the actuarial fees.

50. Our communication costs are double the average. This is accounted for in our sending a pensioners newsletter twice per year and the costs of developing our excellent website over the last couple of years.

51. The key to reducing communication costs is clearly use of technology in providing scheme members with direct online access to the website. This already exists in a number of the larger authorities but to date we are struggling to overcome the extent of firewalls and security measures existing on the Kent County Council platform.

52. Our accommodation costs reflect our proximity to London and our IT costs whilst presently lower than the average will increase as we manage to reduce our communication costs by use of technology.

53. Our total cost at £19.57 is lower than both the peer group and all schemes average. We place 28th out of 62 schemes in the all scheme comparison.

54. The report confirms that private sector administrators, both internal and external, are significantly more expensive, at £47 and £41 per member respectively.

RECOMMENDATION

55. Members are asked to note the content of this report.

Patrick Luscombe
Pensions Manager
Extension 4714

Appendix I

Tasks created in key administration areas
Workload Summary

Case Type	2009/10	2010/11	2011/12	9 months 2012 to date
Benefit calculation	1797	2076	2434	1561
Divorce cases	490	544	449	225
Estimate calculation	2348	2871	3133	2079
Preserved Benefit	3913	3732	5185	3682
Transfers In	664	547	283	270
Transfers Out	555	407	418	279
Widows Benefit	311	315	364	222
TOTAL	**10,078**	**10,492**	**12,266**	**8,318**

Appendix II

Achievements against Key Performance Indicators

Case Type	Target	2009/10		2010/11		2011/12		9 months to date (2013)	
		No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement benefit	20 days	1797	98%	2076	99%	2434	99%	1561	99%
Calculation and payment of dependant benefit	15 days	311	98%	315	99%	364	98%	222	99%
Calculation and provision of benefit estimate	20 days	2348	98%	2871	98%	3133	99%	2079	99%
Reply to correspondence	10 days	1722	99%	1705	99%	1473	98%	854	99%

NB. All targets run from the day the section hold full/correct documentation.

Appendix III

CIPFA Administration Benchmark Survey 2012

Cost Element	Kent County Council	Average Comparator Group	Average All Schemes
Total administration costs per member	£19.57	£19.60	£21.54
Staff costs per member	£9.61	£8.55	£9.58
Payroll costs per member	£1.65	£2.84	£3.04
Communication costs per member	£2.07	£0.91	£0.81
Actuarial costs per member	£2.15	£1.13	£1.48
Accommodation costs per member	£1.21	£0.78	£0.83
IT costs per member	£1.94	£2.70	£3.22

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By: The Chairman Superannuation Fund Committee
Corporate Director of Finance & Procurement

To: Superannuation Fund Committee – 8 February 2013

Subject: **LGPS CONSULTATION RESPONSE**

Classification: Unrestricted

Summary: To provide members with a draft response to the statutory consultation on proposed reform of the Local Government Pension Scheme to be introduced 1 April 2014.

FOR DECISION

INTRODUCTION

1. This paper provides members with the proposed response, to the Department for Communities and Local Government (DCLG) consultation paper, relating to the proposed reforms of the Local Government Pension Scheme 2014.

SCOPE OF THE CONSULTATION

2. This initial consultation focuses on the key changes proposed to the core elements of the new scheme, relating to membership, contributions and benefits only.

3. Further consultation papers will follow which will deal with issues around fair deal, cost control and the governance of the scheme These elements of the scheme are the subject of ongoing discussion between Ministers, LGA and Local Government Trade Unions.

4. It is proposed that these new design features of the New LGPS be introduced, with effect from 1 April 2014. In addition, on the assumption that statutory regulations can be in place by 1 April 2013, the reform elements of the scheme, may be given complete consideration by our Actuary, Barnett Waddingham, when undertaking the scheme valuation.

5. It was this particular element of the reform timetable, which allowed Ministers to avoid significantly higher increases in member contributions, which have been introduced to the other public service schemes. It is hoped that the overall changes to the scheme design will achieve the overall savings target.

KEY REFORMS

6. Following long and at times, challenging negotiations, agreement was reached upon the future design of the scheme. The proposals were the subject of informal consultations with union members and interested parties.

7. These informal consultations received overwhelming support and gave a clear mandate, to take forward the proposed scheme design, as the basis for this statutory consultation exercise.

8. I have provided members with a summary of the key reforms at Appendix I. Members will be familiar with the proposed changes.

9. It is also proposed that existing scheme members enjoy a number of transitional protections. These are shown at Appendix II.

10. Our proposed response to the detailed consultation is as follows:-

    “Thank you for sending a copy of the statutory consultation in respect of the proposed reforms to the Local Government Pension Scheme 2014.

    Kent County Council, in the capacity of the Administering Authority for the County of Kent, welcomes the opportunity to comment upon the proposed scheme design contained in the consultation document.

    We welcome the switch to CARE from final salary, which we believe to represent a fairer model for the diverse employee base in local government. We equally welcome the concept of tiered rates through which contributions are linked to levels of pay, enabling lower contributions to be paid by those earning less. We hope this will lead to greater take up of the scheme in this sector of the workforce.

    The idea of an option to pay 50% of contributions, in order to build up an equal proportion of the benefit package, is to be encouraged. We would however, like to see some monitoring of this new concept, particularly, to ensure it is achieving the desired outcome of attracting new scheme members who, would otherwise not save toward their retirement.

    Kent has long advocated a return to a 2 year vesting period in common with other public service schemes.

    I understand further discussions are ongoing, in relation to, the ill health regulations, which it is proposed should not at this stage be reformed, and will therefore continue on the 3 tier system currently in place. Kent considers the existing 3 tier system is cumbersome and costly to administer and is responsible for a significant increase in formal appeals by scheme members. We also consider it has given rise to inconsistent treatment across the UK, as confirmed, by a number of reviews of benefits that have been undertaken. We welcome the need for some form of a graduated benefit structure, but, that this should be fair across the scheme and consistently applied. We therefore welcome the continued review of this element of the scheme design.

    Finally, we look forward to the formal consultation around cost management and governance, which we hope will, in conjunction with the proposes scheme design reforms, deliver the savings needed and ensure a further reform programme, will not be necessary in the longer term."

11. Members will be consulted in respect of the forthcoming consultations around cost management and governance of the scheme. These are seen as complimentary to the changes to the scheme design and essential to the sustainability of the LGPS.

RECOMMENDATION

12. Members are asked to note the content of this report and endorse the proposed response to the formal consultation; presented by the DCLG.

Patrick Luscombe
Pensions Manager
Extension 4714

Appendix I

Key changes proposed for the reform of the LGPS 2014

	Now	**Proposed**
Nature of scheme	Final salary	Career average
Accrual rate	1/60th	1/49th
Revaluation/Pension increase	CPI	CPI
Normal pension age	65	In line with State pension age for all post 2014 service
Earliest point pension benefits payable	55 years	55 years
Flexible retirement	55 years	55 years
Ill health retirement	3 tier	3 tier
Death in service	3 x salary	3 x salary
Option to commute pension for increased lump sum	£1 pension to £12 lump sum	£1 pension to £12 lump sum
Average contribution rate with tiered rates based upon earnings	6.5%	6.5%
Low cost option	Not available	50% contributions for 50% benefits
Vesting period	3 months	2 years
Spouse and partner benefits	1/160th for each year of service	1/160th for each year of service

Proposed transitional protection for existing scheme members

- All accrued rights and benefits built up to April 2014 will be linked to final salary when the member leaves the scheme.

- There will be a protected underpin for members aged 57-59.

- The rule of 85 protection to be retained as in the current scheme.

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By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 8 February 2013

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

Classification: Unrestricted

Summary: To report on applications to join the Pension Fund and a potential admission application relating to Tonbridge and Malling Borough Council's leisure centres and golf centre.

FOR DECISION

INTRODUCTION.

1. This report sets out information on applications from organisations to become admitted bodies within the Pension Fund and seeks committee approval to enter into an admission agreement with these organisations. It also provides information on a potential admission application and seeks committee approval for Tonbridge and Malling Borough Council to act as guarantor, rather than having a bond in place.

MEDWAY COMMUNITY HEALTHCARE CIC

2. From 1 April 2013 Medway Community Healthcare CIC are taking over the running of care services at Balfour Day Centre from Medway Council.

3. This involves the transfer of approximately 31 employees from Medway Council to Medway Community Healthcare CIC. To ensure the continuity of pension arrangements for these employees, Medway Community Healthcare CIC 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 £395,000 for the first year and set an employer's contribution rate of 19.6%.

5. The completed questionnaire and Memorandum and Articles of Association provided by Medway Community Healthcare CIC have been examined by Legal Services to ensure compliance with the Local

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

LINKED SERVICE CENTRES

6. Medway Council is awarding contracts for residential and day care services at Robert Bean Lodge and Nelson Court, and a further contract for Platters Farm Lodge, effective from 1 April 2013.

7. This involves the transfer of approximately 139 employees from Medway Council to the successful bidders. To ensure the continuity of pension arrangements for these employees, four bidders have made an application for admission to join the Pension Fund.

8. Three out of the four bidders will, if successful, be awarded the contracts for Robert Bean Lodge and Nelson Court. The fourth bidder, Strode Park Foundation for People with Disabilities, has been awarded Platters Farm Lodge.

9. The applications have 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.

10. For a single contract covering Robert Bean Lodge and Nelson Court the Fund Actuary has assessed the level of bond at £662,000 for the first year and set an employer's contribution rate of 19.3%

11. For a single contract covering just Robert Bean Lodge the Fund Actuary has assessed the level of bond at £443,000 for the first year and set an employer's contribution rate of £19.5%

12. For a single contract covering just Nelson Court the Fund Actuary has assessed the level of bond at £256,000 for the first year and set an employer's contribution rate of £19.1%

13. For Platters Farm Lodge the Fund Actuary has assessed the level of bond at £350,000 for the first year and set an employer's contribution rate of 19.5%.

14. The completed questionnaire and Memorandum and Articles of Association provided by the bidders have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

HAZLITT ARTS CENTRE

15. Maidstone Borough Council is awarding a contract for the running of the Hazlitt Arts Centre, effective from 1 April 2013.

16. This involves the transfer of approximately 28 employees from Maidstone Borough Council to the successful bidder. To ensure the continuity of pension arrangements for these employees, one of the bidders has made an application for admission to join the Pension Fund. There is a second bidder who if successful will provide a broadly comparable pension scheme of their own.

17. 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 £52,000 for the first year and set an employer's contribution rate of 18.6%.

18 The completed questionnaire and Memorandum and Articles of Association provided by the bidder have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

CATERLINK LTD. (re Upton Junior School)

19. KCC is awarding a contract to Caterlink Ltd for catering services at Upton Junior School, although the effective date is currently not yet known.

20. This involves the transfer of 1 employee from KCC to Caterlink Ltd. To ensure the continuity of pension arrangements for this employee, Caterlink Ltd has made an application for admission to join the Pension Fund.

21. 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 £5,300 for the first year and set an employer's contribution rate of 12.6%.

22. The completed questionnaire and Memorandum and Articles of Association provided by Caterlink Ltd have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

TONBRIDGE AND MALLING BOROUGH COUNCIL

23. Tonbridge and Malling Borough Council are considering establishing a trust to run their leisure centres and golf centre, although a final decision has not yet been made.

24. This would involve the transfer of approximately 390 employees from Tonbridge and Malling Borough Council to the trust. To ensure the

continuity of pension arrangements for these employees, the trust would then make an application for admission to join the Pension Fund.

25. The Fund Actuary has assessed the level of bond at £456,000 for the first year, increasing to £492,000 in the second year and £775,000 in the third year. The employer's contribution rate has been set at 15%.

26. As it would not be desirable for the trust to finance bonds at these levels, Tonbridge and Malling Borough Council propose to act as guarantor as provided for under Regulation 38 (3) (a) of the LGPS (Administration) Regulations 2008 This arrangement would be included in the admission agreement and Barnett Waddingham supports this approach.

RECOMMENDATION

27. Members are asked to:

(1) Agree to the admission to the Kent County Council Pension Fund of Medway Community Healthcare CIC, and

(2) Agree to the admission to the Kent County Council Pension Fund of the successful bidder(s) for the Linked Services Contract(s), and

(3) Agree to the admission to the Kent County Council Pension Fund of the successful bidder for the Maidstone Borough Council Hazlitt Arts Centre contract, and

(4) Agree to the admission to the Kent County Council Pension Fund of Caterlink Ltd, and

(5) Agree that the admission agreement made by the trust established by Tonbridge and Malling Borough Council relating to the leisure centres and golf centre, provides for a guarantee from Tonbridge and Malling Borough Council as the letting authority, and

(6) Agree that once legal agreements have been prepared for the above matters, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
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