

SUPERANNUATION FUND COMMITTEE

Friday, 14th November, 2014

10.00 am

Darent Room, Sessions House, County Hall, Maidstone





AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 14th November, 2014 at 10.00 am Ask for: Denise Fitch
Darent Room, Sessions House, County Telephone: 01622 694269
Hall, Maidstone

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By entering into this room you are consenting to being filmed. If you do not wish to have your image captured please let the Clerk know immediately.

UNRESTRICTED ITEMS

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

A. COMMITTEE BUSINESS

- A1 Substitutes
- A2 Declarations of Interests by Members in items on the Agenda for this meeting.
- A3 Motion to exclude the Press and Public

B Motion to Exclude the Press and Public

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)

- C1 Sarasin (Pages 5 - 6)
- C2 M & G (Pages 7 - 8)
- C3 Fund Structure (Pages 9 - 58)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- D1 Fund Position Statement (Pages 59 - 66)
- D2 LGPS Governance Regulations (Pages 67 - 92)
- D3 Pensions Administration (Pages 93 - 100)
- D4 Admissions to the Fund (Pages 101 - 104)

E. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- E1 Date of next meeting

The next meeting of the Committee will be held on Friday 6 February 2015 at 10.00am

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 6 November 2014

- (i) *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 C1 and C2 .*

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

Agenda Item C2

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By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee - 14 November 2014

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

FOR DECISION

INTRODUCTION

1. The Fund Position Statement as at 30 September 2014 is attached.

PERFORMANCE RETURNS

2. The quarter was a poor one for the Fund, returning just +1% and underperforming the benchmark. Performance by the active equity manager was disappointing with only Schroders UK Equities and Sarasin outperforming. Pyrford's continued underperformance is a cause of concern.

ASSET ALLOCATION

3. The allocation to equities is 65.6% against the benchmark of 64% or +£68m in cash terms. Members are asked if they wish to reduce the equity allocation.

RECOMMENDATION

4. Members are asked to note the report and decide whether to reduce the equity overweight position.

Nick Vickers
Head of Financial Services
Ext 4603

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Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

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

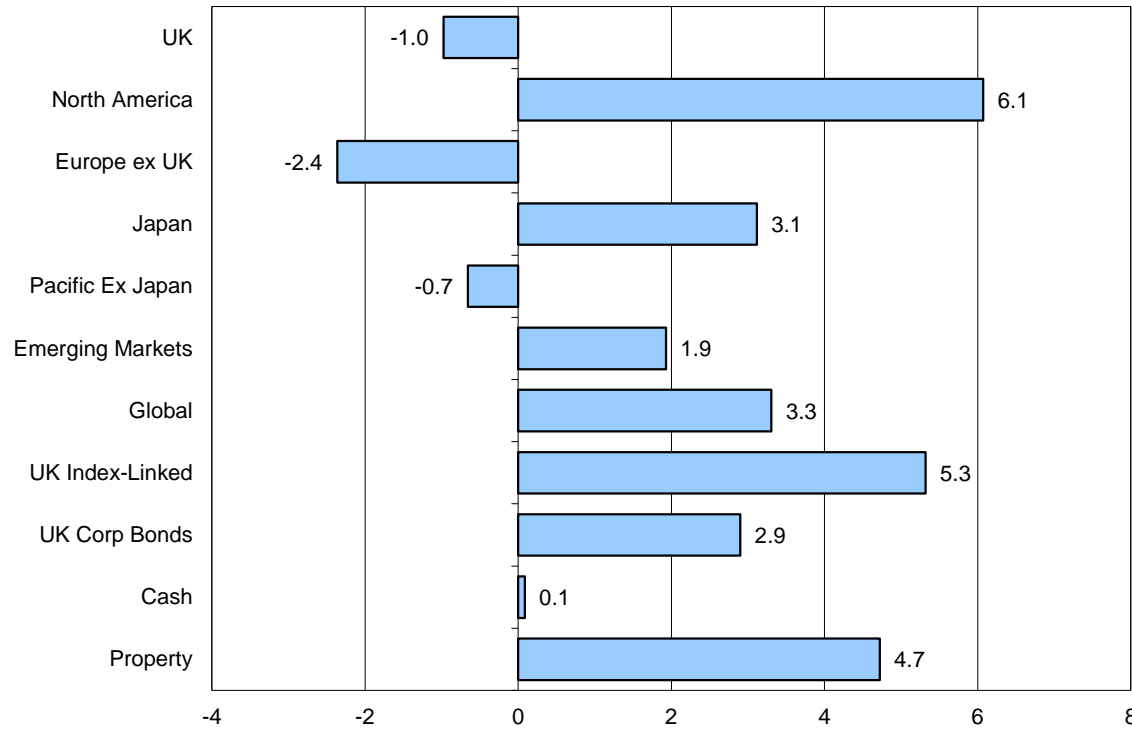
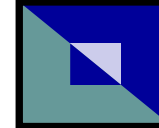


Kent County Council
Superannuation Fund Q3 2014

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 30 September 2014

Classification: Unrestricted
Item: D1



The June to September quarter saw significant variations in returns by asset class—with hindsight this presaged the turbulent equity market conditions in October.

The US was the strongest performing market for equities despite this being seen as the most over valued developed market.

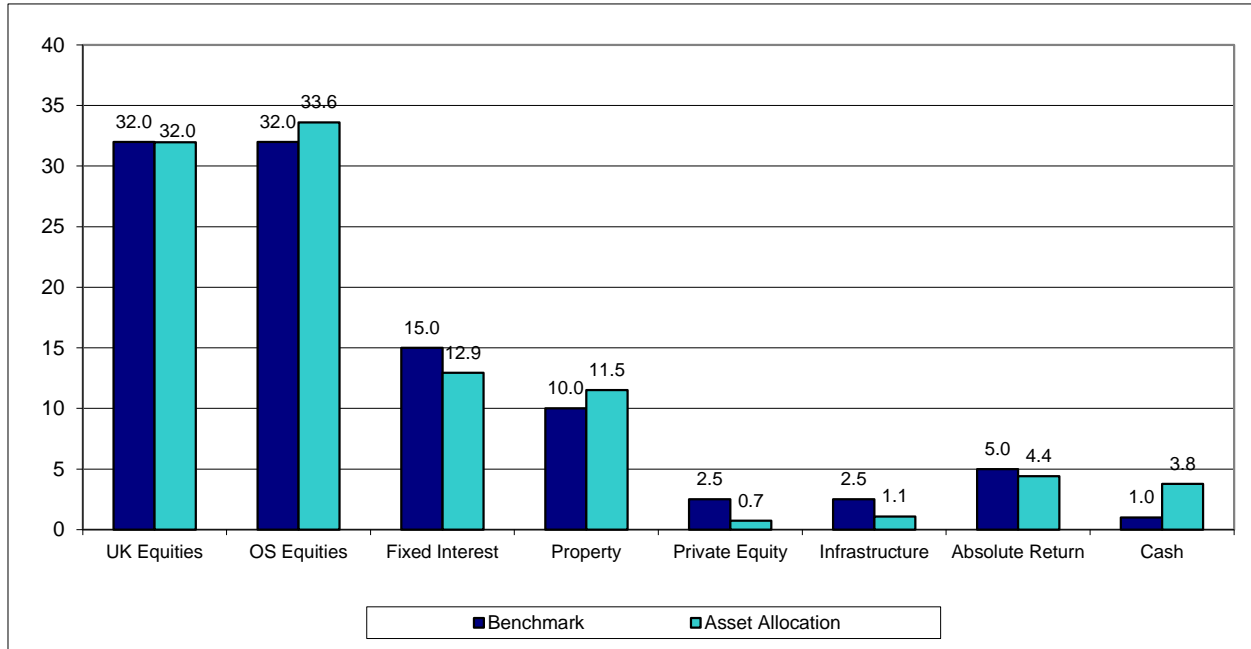
Fixed income performed strongly in the quarter.

UK property returns were strong.

Asset Allocation vs Fund Benchmark - 30 September 2014

Classification: Unrestricted
Item: D1

| Asset Class | Kent Fund | | Benchmark |
|--------------------|--------------|------------|--------------|
| | £m | % | % |
| UK Equities | 1,357 | 32.0 | 32.0 |
| Overseas Equities | 1,425 | 33.6 | 32.0 |
| Fixed Interest | 548 | 12.9 | 15.0 |
| Property | 489 | 11.5 | 10.0 |
| Private Equity | 31 | 0.7 | 2.5 |
| Infrastructure | 46 | 1.1 | 2.5 |
| Absolute Return | 187 | 4.4 | 5.0 |
| Cash | 160 | 3.8 | 1.0 |
| Total Value | 4,243 | 100 | 100.0 |



Asset Distribution Fund Manager - 30 September 2014

Classification: Unrestricted
Item: D1

| Values (GBP)'000 | Mandate | Value at 31/06/2014 | Transactions | Capital Gain / loss | Income | Value at 30/09/2014 | % Fund | Benchmark |
|--------------------|---------------------|------------------------|---------------|------------------------|---------------|------------------------|------------|---------------------------|
| Schroders | UK Equity | 727,790 | 7,878 | -4,671 | 7,907 | 730,998 | 17 | Customised |
| State Street | UK Equity | 615,496 | -40,000 | -5,081 | - | 570,414 | 13 | FTSE All Share |
| State Street | Global Equity | 177,690 | - | 6,119 | - | 183,809 | 4 | FTSE All World ex UK |
| Baillie Gifford | Global Equity | 759,014 | 3,672 | -3,004 | 3,253 | 759,683 | 18 | Customised |
| M&G | Global Equity | 205,421 | - | 2,084 | - | 207,505 | 5 | MSCI AC World GDR |
| Sarasin | Global Equity | 151,418 | 607 | 5,036 | 487 | 157,061 | 4 | MSCI AC World NDR |
| Schroders | Global Quantitative | 189,413 | - | 4,241 | - | 193,654 | 5 | MSCI World NDR |
| Goldman Sachs | Fixed Interest | 318,861 | - | -1,447 | - | 317,414 | 7 | +3.5% Absolute |
| Schroders | Fixed Interest | 223,241 | 0 | 7,832 | 0 | 231,073 | 5 | Customised |
| Impax | Environmental | 29,924 | 7 | -1,116 | - | 28,816 | 1 | MSCI World NDR |
| DTZ | Property | 379,890 | 18,412 | 10,938 | 5,635 | 409,240 | 10 | IPD All Properties Index |
| Fidelity | Property | 31,588 | 17,909 | 1,499 | - | 50,996 | 1 | IPD All Properties Index |
| Kames | Property | 9,898 | 19,500 | -355 | - | 29,043 | 1 | IPD All Properties Index |
| Harbourvest | Private Equity | 21,325 | 5,751 | 2,052 | - | 29,128 | 1 | GBP 7 Day LIBID |
| YFM | Private Equity | 3,764 | - | -285 | - | 3,480 | 0 | GBP 7 Day LIBID |
| Partners | Infrastructure | 37,330 | 1,047 | 395 | - | 38,772 | 1 | GBP 7 Day LIBID |
| Henderson | Infrastructure | 9,985 | -230 | -858 | - | 8,896 | 0 | GBP 7 Day LIBID |
| Pyrford | Absolute Return | 185,846 | - | 1,403 | - | 187,249 | 4 | RPI + 5% |
| Internally Managed | Cash | 124,863 | -19,317 | - | 85 | 105,546 | 2 | GBP 7 Day LIBID |
| Total Fund | | 4,202,757 | 15,236 | 24,783 | 17,368 | 4,242,776 | 100 | Kent Combined Fund |

Performance Returns - 30 September 2014

Classification: Unrestricted
Item: D1

| | Quarter | | 1 year | | 3 years (p.a.) | |
|------------------------------|---------|-------------|--------|-------------|----------------|-------------|
| | Fund % | Benchmark % | Fund % | Benchmark % | Fund % | Benchmark % |
| Total Fund | 1.0 | 1.4 | 8.1 | 8.6 | 12.6 | 12.2 |
| | | 1.8* | | 9.1* | | 11.9* |
| UK Equity | | | | | | |
| Schroders UK | 0.4 | -1.0 | 8.0 | 6.0 | 16.1 | 13.7 |
| State Street | -1.0 | -1.0 | 6.1 | 6.1 | 14.1 | 13.9 |
| Overseas Equity | | | | | | |
| Baillie Gifford | 0.0 | 1.6 | 5.6 | 8.6 | 14.6 | 14.5 |
| Sarasin | 3.6 | 3.0 | n/a | n/a | n/a | n/a |
| Schroders GAV | 2.2 | 3.2 | 11.3 | 12.1 | 15.6 | 16.4 |
| State Street | 3.4 | 3.4 | 12.4 | 12.4 | 16.3 | 16.4 |
| Impax Environmental Fund | -3.7 | 3.2 | 4.4 | 12.1 | 11.2 | 16.4 |
| M&G | 1.0 | 3.2 | n/a | n/a | n/a | n/a |
| Fixed Interest | | | | | | |
| Goldman Sachs Fixed Interest | -0.5 | 0.9 | 6.9 | 3.5 | 7.3 | 6.5 |
| Schroders Fixed Interest | 3.5 | 1.8 | 7.8 | 3.6 | 5.3 | 3.0 |
| Property | | | | | | |
| DTZ Property | 4.2 | 4.7 | 20.5 | 19.7 | 11.0 | 9.6 |
| Fidelity | 2.4 | 4.7 | n/a | n/a | n/a | n/a |
| Kames | -1.2 | 4.7 | n/a | n/a | n/a | n/a |
| Private Equity | | | | | | |
| Harbourvest | 7.9 | 0.1 | 16.8 | 0.3 | 4.5 | 0.4 |
| YFM | -7.6 | 0.1 | -12.1 | 0.3 | 1.8 | 0.4 |
| Infrastructure | | | | | | |
| Partners | 1.0 | 0.1 | -3.0 | 0.3 | -1.6 | 0.4 |
| Henderson | -8.7 | 0.1 | 1.3 | 0.3 | 1.3 | 0.4 |
| Absolute Return | | | | | | |
| Pyrford | 0.8 | 1.7 | 2.5 | 7.3 | n/a | n/a |

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

The Fund underperformed its benchmark in the quarter.

We do not have the WM Local Authority Average returns but we are likely to have underperformed due to our high UK equity weighting and low Fixed Income.

Schroders UK equities and Sarasin global equities were the only equity managers to outperform.

Schroders Fixed Income performed strongly but Goldman Sachs underperformed.

Pyrford continued to underperform.

Fund Structure - 30 September 2014

Classification: Unrestricted
Item: D1

UK Equities

Schroders
+1.5%
£731m

State Street
+0.0%
£570m

Global Equities

Baillie Gifford
+1.5%
£760m

M&G
+3.0%
£208m

Schroders
+3.0 - +4.0%
£194m

State Street
+0.0%
£184m

Impax
+2.0%
£29m

Sarasin
+2.5%
£157m

Fixed Interest

Goldman Sachs
+6.0% Abs.
£317m

Schroders
+2.0%
£231m

Property

DTZ
Property
£409m

Fidelity
Property
£51m

Kames
Property
£29m

Cash/Alternatives

Kent Cash
£106m

Henderson
Secondary PFI
£9m

Partners
£39m

YFM Private
Equity
£3m

HarbourVest
£29m

Pyrford
RPI +5.0%
£187m

Market Value £4.2bn
as at 30 September 2014

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee - 14 November 2014

Subject: **LGPS GOVERNANCE REGULATIONS**

Classification: Unrestricted

Summary: To agree a response to the latest Governance Regulations

FOR DECISION

INTRODUCTION

1. On 10 October the Government published its latest proposals for changes to the governance of the LGPS. The Government's proposals are attached in Appendix 1.
2. Responses are required by 21 November.

PROPOSALS

3. The proposals broadly fell into two main parts; Scheme level proposals and draft regulations for the new Local Pension Board.
4. Scheme Proposals
 - (1) The Secretary of State is appointing the Government Actuary's Department to be the Scheme Actuary.
 - (2) A cap to the Scheme's employer cost will be set – this relates to the future service rate, not the deficit element. This is welcome in seeking to set a cap on employer contributions. However, it is not clear what this will mean in practice as local factors relevant to each employer are the key issues in determining the employer contribution rate. Once again it would seem that principles being applied to all public sector pension schemes do not fit easily with a locally administered scheme.
 - (3) A "target overall cost" of 19.5% is referred to, with employers meeting two thirds of the cost and employees one third. The future service rate for the Kent Scheme is currently 13.7%.
 - (4) All these additional "Scheme" costs will be recharged to individual funds.

DRAFT REGULATIONS

5. Of more interest are the draft regulations governing Local Pension Boards.

6. The most important change relates to the ability for elected members to serve on the Board (para. 2.6). However, there is the following restriction.

“No officer or elected member of an administering authority who is responsible for the discharge of any function under these regulations may be a member of a local pension board.”
7. I take this to mean that a KCC or District Council member could sit on the Pension Board, but they could not be a member of the Superannuation Fund Committee. Given the requirement for individuals to have “relevant experience and capacity” this seems a strange position to take.
8. Other than that the bare essentials are unchanged – there should be at least four members and four employer representatives and the responsibilities remain very limited.
9. A proposed response is attached in Appendix 2.
10. Proposals for the board will be brought to the meeting of the Committee on 6 February 2015.

RECOMMENDATION

11. Members are asked to agree the response

Nick Vickers
Head of Financial Services
Ext 4603



Department for
Communities and
Local Government

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

Better Governance and Improved Accountability in the Local Government Pension Scheme

Consultation

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October 2014

ISBN: 978-1-4098-4304-7

The Consultation Process and How to Respond

Scope of the consultation

| | |
|---|---|
| <p>Topic of this consultation:</p> | <p>The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.</p> <p>1. The intention of these draft regulations is to ensure that the Local Government Pension Scheme in England and Wales is managed well at both national and local levels. They also set out proposals for how the future costs of the scheme to employers and taxpayers will be controlled. Similar arrangements are being introduced for all major public service pension schemes.</p> <p>2. A national scheme advisory board would advise the Department on changes to the scheme’s regulations, for example to reflect changes in costs. In addition, each of the 89 administering authorities in England and Wales would establish a local pension board to assist them in managing the Scheme at a local level.</p> <p>3. The Department would need to ensure that any increases or decreases in the cost of the scheme of two percentage points or more would be offset, for example, by varying the rate at which scheme members’ benefits build up. This would protect employers and taxpayers against unexpected increases in pension costs.</p> <p>4. In addition, the proposed national scheme advisory board would aim to ensure that the total pension contributions paid by employers and employees were within one percentage point of 19.5% of pensionable pay and that employee contributions were one third of the overall costs. The national board could make recommendations to the Department on changes to the scheme to achieve these targets.</p> <p>5. A more detailed explanation of the arrangements described at paragraphs 3 and 4 above can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf</p> |
| <p>Scope of this consultation:</p> | <p>This consultation seeks responses from interested parties on a new Part 3 (Governance) of the Local Government Pension Scheme Regulations 2013 (“the Principal 2013 Regulations”) which came into force on 1 April 2014. In addition to the proposed provisions on cost control, the draft regulations at Annex A also includes regulations on Scheme governance that were the subject of a consultation earlier in June at</p> |

| | |
|----------------------------|--|
| | <p>https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322356/consultation_letter_on_June_2014_governance_regulations_final_version-23_june_-with_ISBN.pdf .</p> <p>The closing date for comments on those draft regulations was 15 August, but this consultation now provides a second opportunity to comment on those provisions alongside what is now being proposed on cost control. However, it should be noted that in the light of discussions with the shadow scheme advisory board and comments from other scheme interested parties, the draft regulations relating to the local pension boards and the Scheme Advisory Board consulted on earlier have been revised. Comments are therefore invited on the complete set of draft regulations at Annex A</p> <p>The comments received in response to the June consultation will be taken into account with those received in response to this consultation.</p> |
| Geographical scope: | England and Wales. |
| Impact Assessment: | These Regulations have no impact on business or the voluntary sector. |

Basic Information

| | |
|--|---|
| To: | The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted . |
| Body responsible for the consultation: | The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise. |
| Duration: | The consultation period will be 6 weeks ending on 21 November 2014. As timing allows, account will be taken of representations made after the close of the consultation. |
| Compliance with "Principles of Consultation": | This consultation complies with the "Principles of Consultation" . The consultation will be for 6 weeks. This reflects the extensive discussions already held with key interested parties on the development of policy in this area and the extent to which the regulations need to comply with Treasury directions and regulations that have already been subject to consultation. |

Background

| | |
|--------------------------------------|---|
| <p>Getting to this stage:</p> | <p>The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer.</p> <p>Since 1996, the cost of the Local Government Pension Scheme to employers and taxpayers has increased from £1.3 billion to £5.9 billion in 2010/11. The proposals in this consultation on scheme governance and cost management are a key element of the Government's reform agenda and will ensure that those who pay the Scheme's costs are fully protected against the rising costs associated with improving longevity. Fairness to the taxpayer is at the heart of the agenda.</p> <p>The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013 ("the 2013 Act"). A key objective of the 2013 Act is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, the Government has established an employer cost cap mechanism to provide backstop protection to the taxpayer and to ensure that the risks associated with pension provision are shared more fairly between employers and scheme members. Details of how the employer cost cap is to be calculated, maintained and the process to be followed when the employer cost cap is breached can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_13_0314.pdf</p> <p>In addition to making provision for the employer cost cap, the regulations also make provision for the agreement reached with the Government by the Local Government Association and local government trade unions to provide greater control over the contribution rates actually paid by employers and scheme members. Details of how this element of the proposed cost control arrangement is intended to work can be found at Chapter 5 of the above pdf document.</p> |
|--------------------------------------|---|

How to respond

1. You should respond to this consultation by **21 November 2014**.
2. You can respond by email to Robert.Ellis@communities.gsi.gov.uk. When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternatively you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Workforce Pay & Pensions
2nd Floor
South East Quarter
Fry Building
2 Marsham Street
LONDON SW1P 4DF

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: <https://www.gov.uk/government/organisations/department-for-communities-and-local-government>

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about any issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the principles on which this consultation is being conducted is at <http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Department for Communities and Local Government,
Fry Building, 2 Marsham Street, London SW1P 4DF.

Contents

[Chapter 1 - Introduction](#)

[Chapter 2 - Proposals for consultation](#)

[Annex A - Draft regulations](#)

Chapter 1

Introduction

- 1.1 This document, in accordance with section 21 of the 2013 Act, commences a period of consultation on the new governance provisions, including cost control arrangements, for the Local Government Pension Scheme. Your comments are invited on the set of draft regulations at **Annex A**.
- 1.2 **The closing date for responses is 21 November 2014.**

Background and context

- 1.3 This consultation represents another step in the process of reform that began with the Government's commitment to review the efficiency, effectiveness and sustainability of public service pension schemes.
- 1.4 A key aim of the reform process is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, section 12 of the 2013 Act requires schemes to set a rate, expressed as a percentage of pensionable earnings of members of the scheme, to be used for the purposes of measuring changes in the cost of the scheme.
- 1.5 The 2013 Act also provides for costs to be measured via regular actuarial valuations and for the establishment of an employer cost cap mechanism to ensure that these costs remain sustainable and fair to taxpayers. Treasury Directions and Regulations specify how valuations are to be carried out and how the employer cost cap mechanism is to operate. In the case of the Local Government Pension Scheme, the employer cost cap will be calculated by a Scheme actuary appointed by the Secretary of State under these regulations based on the 2013 model fund valuation and in accordance with Treasury Directions.
- 1.6 Copies of the relevant Treasury Directions, regulations and accompanying policy paper can be found at <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism>.
- 1.7 In addition to the Treasury employer cost cap process, provision is also to be made for the internal cost management process agreed between Government, the Local Government Association and local government trade unions. Unlike the Treasury's employer cost cap process which will monitor changes in the value of benefits in the new Scheme over time, the aim of the internal process is to stabilise the actual contribution rates paid by employers and members in respect of the new Scheme within the overall target cost of 19.5% of pensionable paybill with the target yield from scheme members' contributions being one third of the overall cost.
- 1.8 A detailed explanation of how the internal element of the proposed cost control arrangement is intended to work and the role of the Local Government Pension Scheme Advisory Board in both processes can be found at Chapter 5 of the

document at

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf

Consultation responses

- 1.9 The consultation period is 6 weeks.
- 1.10. To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.
- 1.11. Your comments should therefore be sent by 21 November 2014 to Department for Communities and Local Government, Workforce Pay & Pensions, 2nd Floor, Fry Building, South East Quarter, 2 Marsham Street, London SW1P 4DF and marked "LGPS Governance Regulations 2014". Electronic responses can be sent to Robert.Ellis@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

- 2.1. The Regulations are being made under the powers conferred by the 2013 Act. Section 3(5) of the 2013 Act requires the consent of Treasury before the Regulations can be made.

Preliminary Provisions

- 2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and for the most part will come into operation on 1 April 2015.
- 2.3 **Regulations 2 to 8** amend the Principal 2013 Regulations.
- 2.4 **Regulation 8** inserts new regulations 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115 and 116 into the Principal 2013 Regulations. These provisions are described in detail immediately below, but in the case of regulations 105 to 113, only to the extent where they differ from the earlier consultation on Scheme governance.

Main Provisions

- 2.5 **New Regulation 106(6)** has been added to ensure that local pension boards are not unduly restricted in the way they choose to discharge their functions under the regulations.
- 2.6. To reflect concerns expressed by the Shadow Scheme Advisory Board and other scheme interested parties, **Regulation 107** has been amended to allow elected members to become members of a local pension board. However, **Regulation 107(3)** qualifies this provision by not allowing elected members or officers of an administering authority who are responsible for the discharge of any function under the Principal 2013 Regulations (apart from being a member of the Scheme Advisory Board or a local pension board) to become a member of that authority's local pension board.
- 2.7. **Regulation 110(3)** now extends the responsibility of the Scheme Advisory Board to include "connected schemes". Those elements of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") that concern members who receive entitlement to benefits calculated in accordance with those regulations is regarded as such a connected scheme and this amendment will ensure that the Scheme Advisory Board is able to advise local pension boards on both the Principal 2013 Regulations and the Transitional Regulations
- 2.8. **New Regulation 110(5)** confers the same wider power described at paragraph 2.5 above on the Scheme Advisory Board.

- 2.9. In addition to being responsible for appointing the Chairman of the Scheme Advisory Board, **Regulation 111(1)** has now been amended to make the Secretary of State responsible for appointing members of the Board. Previously, members of the Board were to be appointed by the Chairman and approved by the Secretary of State.
- 2.10. **New Regulation 111(4)** allows the Chairman of the Scheme Advisory Board, with the agreement of the Board, to appoint a maximum of three non-voting advisory members to sit on the Board. **Regulation 111(5)** confers a power for the terms and conditions of such advisory members to be determined.
- 2.11. **Regulation 111(6)** has been amended to the effect that the Chairman's decision to appoint non-Board members as members of any sub-committee is now subject to the agreement of the Board.

Scheme actuary (Regulation 114)

- 2.12 **New Regulation 114** confers power on the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme in accordance with Treasury Directions. The Scheme actuary must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme. **Regulation 114(4)** requires administering authorities to provide the Scheme actuary with any data that is reasonably required where this is in accordance with directions made by Treasury under section 11 of the 2013 Act.
- 2.13. Having considered the role of the scheme actuary under **Regulations 115** and **116** and, in particular, the need for data collection and analysis at national scheme level, the Department proposes to appoint the Government Actuary's Department as the Scheme actuary under Regulation **114**. Subject to the outcome of the consultation, the appointment would be confirmed in a letter from the Secretary of State to the Government Actuary's Department.

Employer cost cap (Regulation 115)

- 2.14 **New Regulation 115(1)** will set the Scheme's employer cost cap. At this stage, the employer cost cap has not been finalised but during the period of this consultation, a draft valuation report prepared by the Government Actuary's Department in accordance with the Treasury's Public Service Pensions (Valuations and Employer Cost cap) Direction 2014 will be issued to you for information. The draft report will include the proposed employer cost cap figure.
- 2.15. The number of assumptions underlying the calculation of the proposed employer cost cap are set out in the Treasury Direction and cannot be varied. But where appropriate, other scheme specific assumptions must be determined by the Secretary of State after consultation with such persons as he considers appropriate. In this case, consultation on the scheme specific assumptions with the shadow scheme advisory board is considered to be appropriate.
- 2.16. Subject to any comments on the proposed employer cost cap included in the draft valuation report and the views of the shadow board on the scheme specific

assumptions, the final figure will be introduced into **Regulation 115(1)** when the regulations are made.

- 2.17. **Regulation 115(2)** provides that where the cost of the Scheme following a Scheme valuation under Treasury Directions exceeds the margins specified in Treasury regulations, the Secretary of State must follow the procedure set out in **Regulation 115(3)** for reaching agreement on the steps to be taken to bring costs back to the employer cost cap. At present, the margins specified in Treasury regulations are 2% either side of the Scheme's employer cost cap.
- 2.18. **Regulation 115(3)** sets out the procedure for reaching agreement under **Regulation 115(2)**. This requires the Secretary of State to consult the Local Government Pension Scheme Advisory Board on proposals to bring the Scheme's costs back to the employer cost cap and for all members of the Board to reach an agreed position. The period of consultation is at the Secretary of State's discretion.
- 2.19. **Regulation 115(4)** provides that if the agreement required by **Regulation 115(3)** is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to achieve the target cost by adjusting the rate at which benefits accrue under Regulations 23(4) or (5) of the Principal 2013 Regulations.

Scheme advisory board – additional functions (Regulation 116)

- 2.20. **Regulation 116(1)** requires the Local Government Pension Scheme Advisory Board to obtain a Scheme cost assessment from the Scheme actuary. The assessment must include the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members as at the date of each actuarial valuation under Regulation 62(1)(a) of the Principal 2013 Regulations.
- 2.21 Except where either **Regulation 115(5) and (6)** applies, **Regulation 116(2)** enables the Local Government Pension Scheme Advisory Board following a Scheme cost assessment, to make recommendations to the Secretary of State to bring the overall cost of the Scheme back to the target overall cost.
- 2.22. **Regulation 116(3)** provides that where the Scheme cost assessment shows that the proportion of the overall cost of the Scheme is above or below the target proportion defined at **Regulation 116(7)**, the Local Government Pension Scheme Advisory Board may make recommendations to the Secretary of State to bring that proportion back to the target proportion.
- 2.23. Prior to any Scheme cost assessment, **Regulation 116(4)** requires the Local Government Pension Scheme Advisory Board to publish its policy on the recommendations it may make to the Secretary of State under **Regulation 116(2) and (3)**. It is envisaged that the policy statement could include a set of trigger points as well as the circumstances when recommendations must or may be made.
- 2.24. **Regulation 116(5)** switches off the internal Local Government Pension Scheme Advisory Board process during any period when the employer cost cap under **Regulation 115** has been breached. This reflects Government policy that the

employer cost cap process will always take precedence over any internal cost management process. (see Chapter 3 for connected policy question)

- 2.25. **Regulation 116(6)** provides that the Local Government Pension Scheme Advisory Board must make recommendations to the Secretary of State where the overall cost of the Scheme exceeds the target overall cost by 2% or more.
- 2.26. **Regulation 116(7)** defines certain terms used in this regulation including :-
- “**the overall cost of the Scheme**” the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment based on assumptions and a methodology determined by the Local Government Pension Scheme Advisory Board.
- “**the target overall cost**” set at 19.5% of the pensionable earnings of members of the Scheme, and
- “**the target proportion**” set at Scheme employers meeting two thirds and members meeting one third of the overall cost of the Scheme.
- 2.27. **Regulation 116(8)** requires each administering authority to provide the Scheme actuary with any data required to carry out valuations and produce reports for the purposes of this Regulation in accordance with directions from the Local Government Pension Scheme Advisory Board.
- 2.28. **Regulation 116(9)** requires the Local Government Pension Scheme Advisory Board to publish a report, including the items listed at **Regulation 116(9)(a) to (d)**, within 23 months of obtaining a Scheme cost assessment unless the Board is prevented from making recommendations to the Secretary of State by the provisions in **Regulation 116(5)**.
- 2.29. **Regulation 116(10)** requires a copy of the report published under **Regulation 116(9)** to be sent to the Secretary of State and Scheme actuary by the Local Government Pension Scheme Advisory Board.
- 2.30. **Regulation 116(11)** has been amended to extend the period required for the Secretary of State to publish his response to the report published by the Local Government Pension Scheme Advisory Board from 3 to 6 months of receiving the Scheme Advisory Board’s report. We believe that this represents a more appropriate timescale.

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

| | |
|-------------------------------|------|
| <i>Made</i> - - - - | 2014 |
| <i>Laid before Parliament</i> | 2014 |
| <i>Coming into force</i> - - | 2015 |

These Regulations are made in exercise of the powers conferred by sections 1, 3, 5(7), 7(2), 12(6) and 12(7) of, and Schedule 3 to, the Public Service Pensions Act 2013⁽¹⁾.

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, interpretation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.

(2) In these Regulations “the Principal Regulations” means the Local Government Pension Scheme Regulations 2013⁽²⁾.

(3) These Regulations come in to force as follows—

- (a) on 1st January 2015, this regulation and regulations 2, 7 and 8—
 - (i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

⁽¹⁾ 2013 c. 25
⁽²⁾ S.I. 2013/2356.

- (ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and
 - (iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 110 (scheme advisory board: membership) and 111 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and
- (b) on 1st April 2015—
- (i) this regulation and regulations 2, 7 and 8 so far as not already commenced, and
 - (ii) the remainder of these Regulations.
- (4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations are amended in accordance with regulations 3 to 8.
3. Omit regulation 53(4) (scheme managers: establishment of pension board).
4. Omit regulation 63 (aggregate Scheme costs).
5. Omit regulation 65 (aggregate Scheme costs: revised certificates).
6. In regulation 66 (supply of copies of valuations, certificates etc) for “regulations 62 (actuarial valuations of pension funds), 64 (special circumstances where revised actuarial valuations and certificates must be obtained) or 65 (aggregate Scheme costs: revised certificates)” substitute “regulations 62 (actuarial valuation of pension funds) or 64 (special circumstances where revised actuarial valuations and certificates must be obtained)”.
7. In Schedule 1 (interpretation)—
 - (a) after the entry for “local government service” insert—

““Local Government Pension Scheme Advisory Board” means a board established under regulation 110 (Scheme advisory board: establishment);

“local pension board” means a board established under regulation 106 (local pension boards: establishment);”

and
 - (b) after the entry for “the Scheme” insert—

““Scheme actuary” means the actuary appointed under regulation 114 (Scheme actuary);”.
8. After regulation 104⁽³⁾ insert—

“PART 3 Governance

Delegation

- 105.—(1) The Secretary of State may delegate any functions under these Regulations.
- (2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

⁽³⁾ Regulation 104 was inserted by S.I. 2014/1146.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—

- (a) to secure compliance with—
 - (i) these Regulations,
 - (ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme, and
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Scheme; and
- (b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses.

(6) A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

(7) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

- (a) the membership of the local pension board;
- (b) the manner in which members of the local pension board may be appointed and removed;
- (c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives⁽⁴⁾ and for these purposes the administering authority must be satisfied that—

- (a) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and
- (b) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) No officer or elected member of an administering authority who is responsible for the discharge of any function under these regulations (apart from any function relating to local pension boards or the Local Government Pension Scheme Advisory Board) may be a member of a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest⁽⁵⁾.

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

⁽⁴⁾ See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.

⁽⁵⁾ See section 5(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

Scheme advisory board: establishment

110.—(1) A scheme advisory board (“the Local Government Pension Scheme Advisory Board”) is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and any connected scheme and their pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

(5) The Local Government Pension Scheme Advisory Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of a Chairman and at least 2, and no more than 12 members appointed by the Secretary of State.

(2) When deciding whether to make appointments under paragraph (1), the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

(4) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint a maximum of 3 persons to be non-voting advisory members of the Board.

(5) An advisory member of the Local Government Pension Scheme Advisory Board is to hold and vacate that position in accordance with the terms of that member’s appointment.

(6) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(7) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest⁽⁶⁾.

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

- (a) its annual budget approved by the Secretary of State; and
- (b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.

Scheme actuary

114.—(1) The Secretary of State must appoint an actuary as Scheme actuary to carry out valuations of the Scheme in accordance with Treasury directions made under section 11 of the Public Service Pensions Act 2013⁽⁷⁾ (“the Treasury directions”).

(2) The person appointed as Scheme actuary under paragraph (1) must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme.

(3) The Secretary of State must secure that the Scheme actuary carries out actuarial valuations of the assets and liabilities of the Scheme on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds) and prepare valuation reports in accordance with the Treasury directions, within a time-frame which enables the requirements in those directions to be met.

(4) Administering authorities must provide the Scheme actuary with any data that the Scheme actuary reasonably requires, in accordance with the Treasury directions, in order to carry out a valuation and prepare a report on the valuation.

Employer cost cap

115.—(1) The employer cost cap for the Scheme is []% of pensionable earnings of members of the Scheme.

(2) Where the cost of the Scheme, calculated following a valuation in accordance with Treasury directions under section 11 of the Public Service Pensions Act 2013 is more than the margins specified in regulations made under section 12(5) of the Public Service Pensions Act 2013⁽⁸⁾ (“the Cost Cap

⁽⁶⁾ See section 7(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

⁽⁷⁾ 2013 c. 25.

⁽⁸⁾ 2013 c. 25; see regulation 3 of S.I. 2014/575.

Regulations”) above or below the employer cost cap, the Secretary of State must follow the procedure specified in paragraph (3) for reaching agreement with administering authorities, employers and members (or representatives of employers and members) as to the steps required to achieve the target cost specified in the Cost Cap Regulations.

(3) The procedure specified for the purposes of section 12(6)(a) of the Public Service Pensions Act 2013 is consultation for such period as the Secretary of State considers appropriate with the Local Government Pension Scheme Advisory Board with a view to reaching an agreement endorsed by all members of that Board.

(4) If, following such consultation, agreement is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to adjust the rate at which benefits accrue under regulation 23(4) or (5) (active member’s pension accounts) so that the target cost for the Scheme is achieved.

Scheme advisory board: additional functions

116.—(1) The Local Government Pension Scheme Advisory Board (“the Board”) must obtain a Scheme cost assessment from the Scheme actuary detailing the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds).

(2) Subject to paragraphs (5) and (6), where the overall cost of the Scheme is above or below the target overall cost, the Board may make recommendations to the Secretary of State as to the steps to take to bring the overall cost of the Scheme back to the target overall cost.

(3) Where the proportion of the overall cost of the Scheme which is met by contributions by employers is above or below the target proportion, the Board may make recommendations to the Secretary of State as to the steps to take to bring the proportion of the overall cost of the Scheme which is met by contributions by employers and members back to the target proportion.

(4) The Board must, before obtaining a Scheme cost assessment under paragraph (1), prepare and publish a statement setting out its policy concerning recommendations to the Secretary of State about the steps to be taken to bring the overall cost of the Scheme back to the target overall cost and the proportions of that cost met by Scheme employers and members, back to the target proportion.

(5) The Board must not make recommendations under paragraph (2) if steps are required to be taken under regulation 115 (employer cost cap).

(6) Subject to paragraph (5) the Board must make recommendations under paragraph (2) if the overall cost of the Scheme is above or below the target overall cost by 2% or more of pensionable earnings of members.

(7) In this regulation—

“the overall cost of the Scheme” means the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment making use of the data provided under regulation 114(4) (Scheme actuary) according to such methodology and assumptions as are determined by the Board;

“the target overall cost” is 19.5% of the pensionable earnings of members of the Scheme;

“the target proportion” means Scheme employers meeting two-thirds and members meeting one-third of the overall cost of the Scheme.

(8) Each administering authority must provide the Scheme actuary with any data that the Scheme actuary requires in order to carry out any valuations and produce reports in accordance with directions from the Board for the purposes of this regulation.

(9) Unless the Board is prevented by paragraph (5) from making recommendations under this regulation, it must, within 23 months of the date on which a Scheme cost assessment is obtained under paragraph (1), publish a report setting out—

(a) the overall cost of the Scheme;

(b) the proportions of the overall costs of the Scheme met by employers and members;

(c) the assumptions and methodology used by the Scheme actuary; and

(d) any recommendations made to the Secretary of State under this regulation.

(10) The Board must send a copy of a report published under paragraph (9) to the Secretary of State and the Scheme actuary.

(11) The Secretary of State must publish a response to a report received under paragraph (10) within six months of receipt of that report.

We consent to the making of these Regulations

Date *Names*
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Date *Name*
Parliamentary Under Secretary of State
Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 to 7 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pension board. Local pension boards must have equal representation of employer representatives and member representatives who must not be officers or councillors of the administering authority responsible for the discharge of local government pension functions.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Regulation 114 requires the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme.

Regulation 115 sets the employer cost cap and requires the Secretary of State to seek agreement from those affected as to the changes to the design of the Scheme necessary to bring costs back to that level if valuation reports indicate that costs have varied by more than a margin specified in regulations made by the Treasury. If agreement can not be reached the Secretary of State must make amendments to the Scheme to vary the rate of accrual of benefits to bring the costs of the Scheme back to the employer cost cap level.

Regulation 116 confers additional functions on the Local Government Pension Scheme Advisory Board to monitor the overall costs of the Scheme and the proportion of those costs met by employers and members

respectively and to make recommendations to the Secretary of State for changes to the Scheme where overall costs or respective proportions met by employer or member contributions vary from the initial costs.

Draft Response

LGPS GOVERNANCE REGULATIONS

Thank you for the consultation document on the LGPS Governance Regulations and this is the response of Kent County Council as administering authority.

We welcome the amendment which allows elected members to be members of the board. But the absolute refusal to allow elected members of the administering authority to be on the board is unhelpful. The greatest level of expertise resides with these members and the board would greatly benefit from their involvement. We would ask the Secretary of State to allow elected members of the administering authority to serve on the board but in a minority.

Other than that we would encourage regulations to be issued as soon as possible so that we can progress establishing the board with full sight of the regulations which will govern its activities.

James Scholes
Chairman Superannuation Fund Committee

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

To: Superannuation Fund Committee – 14 November 2014

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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

- Changes to the LGPS from 1 April 2014
- Workload position
- Achievements against Key Performance Indicators (KPIs)
- Pensions Administration system
- CIPFA Benchmarking Survey Results 2014.

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.

CHANGES TO THE LGPS FROM 1 APRIL 2014

2. Members were informed at the last committee meeting that delays had been experienced in the release of key elements of the regulations and guidance needed in order to administer the changes to the scheme from 1 April 2014 with some of the guidance not being delivered until 4 days before the changes were effective.
3. The delays also impacted on our pension administration software provider which meant that software had not been updated in order to deal with some of the changes resulting in manual calculations being undertaken in some cases. These problems have now been resolved.
4. There are still some outstanding issues regarding the scheme that the Local Government Association is pursuing with DCLG and Treasury particularly regarding aggregation of pension benefits where members have previous LGPS pension rights.
5. As a result of the problems detailed some of our Key Performance Indicators were affected in a detrimental way during the 6 months to September 2014.

WORKLOAD POSITION

6. Appendix 1 shows the year on year comparison of work levels being received in the section together with the 6 month position as at September 2014.
7. Most work categories appear to be in line with 2012/13 levels with the exception of correspondence and deferred benefits.

8. The level of enquiries and correspondence has increased dramatically with 1447 being dealt with during the 6 month period ending September 2014 compared to 1467 responded to during the 12 months ending March 2014. This is mainly due to increased enquiries from members regarding the impact of the changes to the pension scheme on their pension benefits.
9. In addition the Government announced 'Freedom and Choice' options to come into force in April 2015 for those in defined contribution (DC) schemes. There have been a growing number of enquiries from members as to whether these changes will be introduced into the LGPS or whether they can transfer their pension rights to a DC scheme in order that they may take advantage of the changes.
10. The decrease in the number of deferred benefits is largely due to members now requiring 2 years' membership of the scheme before being entitled to a deferred benefit, an increase in the previous requirement of 3 months membership.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

11. Appendix 2 shows the achievements of the section in meeting its KPIs in the 6 month period to September 2014 compared to the previous 4 years.
12. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.
13. In the categories of the calculation and payment of retirement benefits and correspondence, although these dipped during the 6 month period due to the reasons described previously, the overall averages are within target.
14. However as a result of concentrating efforts on these areas of work the targets were not met with regard to the calculation and payment of dependent benefits and the calculation of estimates. The targets in these areas of work improved during the latter end of the 6 month period.

PENSIONS ADMINISTRATION SYSTEM

15. As previously reported to members the decision was made that the administration system that would be used to administer the pension scheme would be the Heywood's Altair product.
16. The decision was also made at the last meeting to use Heywood's hosted service.
17. After a period of data cleansing, training and user acceptance testing a copy of the data on the Axise database was sent to Heywood on 6 October to migrate to the Altair environment.
18. During the 6 day migration period staff in both the pensions section and the payroll team were not able to access or use the new Altair database and had read only access to the old Axise database.
19. From the 14 October the Altair environment was made available and staff have gradually become accustomed to its use. However issues still existed with scanning incoming documents and reporting from Altair.

20. The October pension payroll was processed on the Altair environment on 23 October.
21. Due to the system down time, the familiarisation with the new system and the ensuing problems it is likely that the KPIs may again unfortunately be detrimentally affected, certainly in the short term.

CIPFA BENCHMARK SURVEY RESULTS 2014

22. The Kent Pension Fund participates in the annual CIPFA administration costs benchmark survey.
23. The survey this year compared our costs with those of 49 other authorities (all authorities survey) and 19 comparator authorities, largely Shire Counties.
24. Appendix 3 shows our performance against both groups in a range of administrative areas. I have shown the Kent performance for 2013 and 2014 for additional information.
25. The results place Kent 12th of the 49 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.
26. In the headline results of Kent only, in 2013 and 2014, we see reductions in per member costs, in all but two areas. Payroll costs have increased slightly on the previous year to £1.45 per member.
27. IT costs have also increased from £2.18 to £3.31 per member respectively. This is as a result of additional costs for developing the Axise system to deal with changes to the LGPS and costs associated with the purchase of the Heywood Altair product.
28. In comparison to all schemes and comparator group figures total administration costs per member at £17.61 is lower than both averages (£20.75 and £18.67 respectively).
29. Although payroll costs per member have increased they are still lower than both survey averages (£1.45 compared to £1.97 and £2.02).
30. Accommodation costs tend to be higher than the average.
31. Actuarial costs are lower this year as unlike previous years the costs reported relate solely to the actuarial costs associated with the administration of the scheme rather than the Kent Pension Fund's total actuarial costs. The balance of the costs are as a result of work undertaken by the Investments and Treasury section and should not be reported in this benchmarking exercise.
32. The report indicates that Kent has the third highest number of employers in the Fund when compared to the other 49 authorities.
33. The most significant variance is seen in our communication costs. These are high when compared to others but the Kent Pension Fund has always strived to provide clear and regular communication which receives positive feedback from our members. The costs have decreased slightly when compared to last year, despite the increase in postage costs, and we continue to strive to reduce communication costs without impacting on the service we provide.

34. Another anomaly with regard to the communication costs is that we believe there is disparity between some of the participants in the benchmarking survey as to the costs that are included in this category. We now have a member of the pensions section on the CIPFA working party with regard to this survey and will be pursuing clarity regarding the costs that should be included in the communication category.
35. In general terms I believe the results reflect well on our achievements particularly given, there is no 'quality' measure, built into the survey.

RECOMMENDATION

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

Barbara Cheatle
Pensions Manager
Extension 6095

**Tasks created in key administration areas
Workload summary**

| Case Type | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 6 months to September 2014 |
|----------------------|----------------|----------------|----------------|----------------|---------------------------------------|
| Benefit calculation | 2076 | 2434 | 2056 | 1978 | 1028 |
| Correspondence | 1705 | 1473 | 1152 | 1467 | 1447 |
| Divorce case | 544 | 449 | 351 | 312 | 151 |
| Estimate calculation | 2871 | 3133 | 2672 | 2861 | 1300 |
| Deferred benefit | 3732 | 5185 | 4769 | 5244 | 1991 |
| Transfer in | 547 | 283 | 365 | 374 | 114 |
| Transfer out | 407 | 418 | 403 | 478 | 220 |
| Dependants | 315 | 364 | 305 | 364 | 149 |
| Total | 12,197 | 13,739 | 12,073 | 13,078 | 6,400 |

Achievements against Key Performance Indicators

| Case Type | Target Time | 10/11 | | 11/12 | | 12/13 | | 13/14 | | 6 months to September 2014 | |
|---|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|----------------------------|-------------|
| | | No | % in target | No | % in target | No | % in target | No | % in target | No | % in target |
| Calculation and payment of retirement benefit | 20 days | 2076 | 99% | 2434 | 99% | 2056 | 99% | 1978 | 99% | 1028 | 99% |
| Calculation and payment of dependant benefit | 15 days | 315 | 99% | 364 | 98% | 305 | 99% | 364 | 99% | 149 | 81% |
| Calculation and provision of benefit estimate | 20 days | 2871 | 98% | 3133 | 99% | 2672 | 99% | 2861 | 98% | 1300 | 57% |
| Reply to correspondence | 10 days | 1705 | 99% | 1473 | 98% | 1152 | 99% | 1467 | 98% | 1447 | 98% |

NB. All target turnaround times commence when we have all the necessary documentation to complete the particular task.

CIPFA Administration Benchmark Survey 2014

| | Kent County Council | | Average comparator group 2014* | Average all schemes 2014 |
|--|---------------------|--------|--------------------------------|--------------------------|
| | 2013 | 2014 | | |
| Total administration costs per member | £18.31 | £17.61 | £18.67 | £20.75 |
| Staff costs per member | £9.31 | £8.49 | £7.76 | £8.87 |
| Payroll costs per member | £1.38 | £1.45 | £2.02 | £1.97 |
| Communication costs per member | £2.23 | £2.18 | £0.91 | £0.87 |
| Actuarial costs per member | £1.44 | £0.57 | £1.70 | £1.74 |
| Accommodation costs per member | £1.19 | £1.12 | £0.64 | £0.69 |
| IT costs per member | £2.18 | £3.31 | £3.22 | £3.81 |

* 19 shire counties

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

To: Superannuation Fund Committee – 14 November 2014

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

Classification: Unrestricted

Summary: To report on applications to join the Pension Fund and a termination agreement.

FOR DECISION

INTRODUCTION.

1. This report sets out information on applications from organisations to become admitted bodies within the Pension Fund, and a termination agreement. The Committee's approval is sought to enter into these agreements.
2. The Committee is advised that the minutes relating to the new admission matters are to be signed at the end of today's meeting to facilitate completion on the desired dates.

CATER LINK LIMITED (re Christchurch CEP School Academy, Folkestone)

3. Christchurch CEP School Academy, Folkestone is awarding an 18 month contract for catering services effective from 1 February 2015.
4. This involves the transfer of 3 employees from Christchurch CEP School Academy, Folkestone to Cater Link Limited.
5. To ensure the continuity of pension arrangements for these employees, Cater Link Limited has made an application for admission to join the Pension Fund.
6. The admission application has been made under Schedule 2 Part 3 1 (d) (i) of the Local Government Pension Scheme Regulations 2013, 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 £7,000 for the first year and set an employer's contribution rate of 19.9%.
7. The completed questionnaire and supporting documents provided by Cater Link have been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the application.

BIRKIN CLEANING SERVICES LIMITED

8. Dartford Grammar School for Girls is awarding a 3 year contract for cleaning services effective from 1 September 2014.

9. This involves the transfer of 13 employees from Dartford Grammar School for Girls to Birkin Cleaning Services Limited.
10. To ensure the continuity of pension arrangements for these employees, Birkin Cleaning Services Limited has made an application for admission to join the Pension Fund.
11. The admission application has been made under Schedule 2 Part 3 1 (d) (i) of the Local Government Pension Scheme Regulations 2013, 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 £10,000 for the first year and set an employer's contribution rate of 18% if open or 21.9% for a closed agreement.
12. The completed questionnaire and supporting documents provided by Birkin Cleaning Services Limited have been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the application.

MITIE SECURITY LIMITED

13. North West Kent College is awarding a 3 year contract for security services effective from 1 August 2014.
14. This involves the transfer of 4 employees from the current incumbent to Mitie Security Limited.
15. To ensure the continuity of pension arrangements for these employees, Mitie Security Limited has made an application for admission to join the Pension Fund.
16. The admission application has been made under Schedule 2 Part 3 1 (d) (i) of the Local Government Pension Scheme Regulations 2013, 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 £14,000 for the first year and set an employer's contribution rate of 18.2%% for an open agreement or 19.9% if closed.
17. The completed questionnaire and supporting documents provided by Mitie Security Limited have been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the application.

CAPITA IT MANAGED SOLUTIONS LIMITED (regarding Thamesview School, Gravesend)

18. Capita Managed IT Solutions is a Transferee Admission Body in the Kent Fund following the transfer of staff from KCC.
19. This contract will expire on 9 January 2015 and Capita will become an exiting employer. We will then obtain an actuarial valuation which will show what, if anything, is payable to the Pension Fund.
20. It is proposed that we enter into a termination agreement with Capita.

RECOMMENDATION

21. Members are asked to agree:

- 1) to the admission to the Kent County Council Pension Fund of Cater Link Limited;
- 2) to the admission to the Kent County Council Pension Fund of Birkin Cleaning Services Limited;
- 3) to the admission to the Kent County Council Pension Fund of Mitie Security Limited;
- 4) that a termination agreement may be entered into in respect of Capita IT Managed Solutions Limited (re: Thamesview School, Gravesend);
- 5) that the Chairman may sign the minutes of today's meeting relating to recommendation (1) to (3) above at the end of today's meeting; and
- 6) that once legal agreements have been prepared for (1) to (4) above, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
X 4625

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