SUPERANNUATION FUND COMMITTEE

Wednesday, 2nd July, 2014

10.00 am

Darent Room, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Wednesday, 2nd July, 2014 at 10.00 am	Ask for:	**Denise Fitch**
Darent Room, Sessions House, County Hall, Maidstone	Telephone:	**01622 694269**

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 Minutes (Pages 5 - 8)

B. EXEMPT ITEMS

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

B1 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.

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

C1 Minutes (Pages 9 - 10)

C2 Investment Strategy (Pages 11 - 22)

C3 Fund Structure (Pages 23 - 96)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

D1 Local Government Pension Scheme Consultation: Opportunities for collaboration; cost savings and efficiencies (Pages 97 - 128)

D2 Fund Position Statement (Pages 129 - 136)

D3 Fund Position Structure (Pages 137 - 162)

D4 Facing the Challenge (Pages 163 - 166)

D5 Treasury Update (Pages 167 - 168)

D6 Pensions Administration Update (Pages 169 - 174)

D7 Admissions to the Fund (Pages 175 - 178)

D8 Date of next meeting - 29 August 2014 at 10.00am

Peter Sass
Head of Democratic Services
(01622) 694002

Tuesday, 24 June 2014

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Friday, 21 March 2014.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr P Clokie, Mr A D Crowther, Ms J De Rochefort, Cllr N Eden-Green, Ms S Lysaght (Substitute for Mr S Richards), Mr B E MacDowall, Mr T A Maddison, Mr R A Marsh, Mr R J Parry, Mr C Simkins, Mrs M Wiggins and Cllr L Wicks.

ALSO PRESENT: Miss S J Carey and Mr J D Simmonds, MBE

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

UNRESTRICTEDITEMS

51. Minutes - 7 February 2014
(Item A3)

RESOLVED that the minutes of the meeting held on 7 February 2014 are correctly recorded and that they be signed as a correct record.

EXEMPTITEMS(OPENACCESSTOMINUTES)

52. Motion to Exclude the Press and Public

RESOLVED 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.

53. Exempt Minutes - 7 February 2014
(Item C1)

(1) Following the presentation by Harbourvest (minute no 43) Mr Vickers suggested that a date be arranged in the summer for an informal visit by members of the Committee to the offices of Harbourvest.

(2) RESOLVED that the exempt minutes of the meeting held on 7 February 2014 are correctly recorded and that they be signed by the Chairman as a correct record.

54. Schroder Investment Management
(Item C2)

(1) The Chairman welcomed Mr Day, Client Director and Ms Noffke, UK Equity Fund Manager, from Schroder Investment Management to the meeting and invited them to give a brief presentation to the Committee on the 3 mandates that they managed on behalf of the Fund. They answered questions from members of the Committee.

(2) RESOLVED that the presentation and the comments made by members of the Committee be noted.

UNRESTRICTED ITEMS
(Committee open to the press and public)

55. Fund Position Statement
(Item D1)

(1) Mr Vickers introduced a report which provided a summary of the Fund asset allocation and performance.

(2) The Committee discussed the Fund's overweight position in equities, and referred to the possibility of increasing investment in property. Concern was expressed at the impact that the volatile situation in the Crimea could have on the investment market

(3) Mr Vickers informed the Committee that Woodford Investment Management was due to start trading on 1 May 2014. It had been agreed by the Chairman and Mr Wood that Mr Vickers would meet with Woodford Investment Management and report back to the Committee at the next meeting.

(4) Mr Vickers explained that if the Committee wanted to take some money out of equities to protect the Fund from the potential volatility of the equities market then it may be necessary to put this money into Cash which would have a low rate of return but temporarily bank gains on equities. This would give the Committee time to look at other forms of investment, and have the flexibility to invest quickly. The Committee discussed withdrawing £150m of the Fund's £2.75bn equity holdings.

(5) RESOLVED that

a) the Fund Position Statement be noted
b) Mr Vickers report back to the Committee at their next meeting following his meeting with Woodford Investment Management
c) delegated authority be given to the Corporate Director of Finance and Procurement in consultation with the members of the Committee to remove £150m from equities and to invest this money taking into account the views of members.

56. Fund Structure
(Item D2)

1) Mr Vickers introduced a report on a number of issues relating to the structure and management of the Fund, including the treasury strategy, probation staff transfer out of the Fund, DTZ Investment Management, the indirect property portfolio, Invesco, Sarasin and Kames.

(2) RESOLVED that

a) the counterparties used for cash management be noted.
b) the Probation transfer be noted and the Corporate Director of Finance and Procurement be delegated authority in consultation with members of the Committee to make the necessary transfer of monies from the Fund, and .
c) the position on the DTZ discretionary portfolio be noted.
d) no action be taken to sell any of the indirect property holdings at this time.
e) the Invesco transition be noted.
f) the Sarasin transition be noted.
g) the Kames investment be noted.

57. Risk Register
(Item D3)

(1) Mr Vickers introduced a refreshed version of the Pension Fund Risk Register which had last been presented to the Committee on 31 August 2012.

(2) Members considered the Risk Register and asked that future updates include the risk score definitions.

(3) RESOLVED that the Pension Fund Risk Register and the comments made by members of the Committee be noted.

58. Update on Local Government Pension Scheme Reforms
(Item D4)

(1) Mr Vickers informed the Committee of the retirement of Mr Luscombe, Pensions Manager and introduced Ms Cheatle, Deputy Pensions Manager, who would be responsible for the Pensions Section from April 2014. Ms Cheatle would be responsible for implementing the new pensions regulations and technology over the next 5 years. .

(2) The Chairman, on behalf of the Committee, recorded thanks to Mr Luscombe for the support that he had provided to the Committee and in particular acknowledged the leading role he has played nationally in the Local Government Pension Scheme..

(3) Ms Cheatle introduced a report which updated the Committee on the current situation regarding reforms to the Local Government Pension Scheme. She informed the Committee that some of the new regulations had not been issued until 10 March 2014 and therefore the letter to all members of the scheme informing them of the changes was going to be sent shortly.

(4) In response to a question Mr Tagg undertook to make parish councils aware, via the Kent Association of Local Councils, of the implications of passing a resolution to

enable their Clerk to join the Local Government Pension Scheme and that this information also be sent to those parish councils that were not members of KALC.

(5) RESOLVED that the report be noted.

59. Admissions to the Fund
(Item D5)

(1) Mr Tagg introduced a report which set out information on an application to join the Pension Fund and a number of admission matters.

(2) In relation to the Orbit South Housing Association Limited (previously Thanet Community Housing Association Limited) Mr Tagg explained that further legal advice was required and therefore the Committee's consideration of a new admission agreement needed to be deferred until their next meeting.

(3) RESOLVED that

a) the admission to the Kent County Council Pension Fund of TCS Independent Limited be agreed,
b) an amended agreement be entered into with Project Salus,
c) an amended agreement be entered into with Children and Families Limited,
d) an amended agreement and a termination agreement be entered into with Connexions Kent and Medway (2) (CXL Limited),
e) an amended agreement be entered into with Maidstone Housing Trust/Golding Homes,
f) a termination agreement be entered into with Mitie Cleaning and Support Services,
g) Consideration of the admission agreement and supplementary agreement with Orbit South Housing Association Limited and parent company guarantee from their parent company, be deferred until the next meeting of the Committee,
h) once legal agreements have been prepared for (a) to (f) above, the Kent County Council seal be affixed to the legal documents.

60. Date of next meeting - 27 June 2014 at 10.00am
(Item D6)

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 2 July 2014
Subject:	**LOCAL GOVERNMENT PENSION SCHEME: OPPORTUNTIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES**
Classification:	Unrestricted

Summary: To agree a response to the consultation document.

FOR DECISION

INTRODUCTION

1. The Government published the consultation document in Appendix 1 at the beginning of May. The end date of the consultation is 11 July and the draft response is attached in Appendix 2.

RECOMMENDATION

2. Members are asked to agree the response.

Nick Vickers
Head of Financial Services
Ext 4603

Department for Communities and Local Government

Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Consultation

May 2014
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

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1. The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	The structure of the Local Government Pension Scheme and opportunities to reduce administration and investment management costs.
Scope of this consultation:	The consultation sets out the evidence for proposals for reforms to the Local Government Pension Scheme and opportunities to deliver savings of £660 million a year for local taxpayers. The Government seeks respondents' views on the proposals set out in section four, and asks respondents to consider how if adopted, these reforms might be implemented most effectively.
Geographical scope:	This consultation applies to England and Wales.
Impact Assessment:	It is not possible to provide an impact assessment at this stage as the detailed mechanism needed to implement the proposed reforms is still being developed.

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/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions division.
Duration:	The consultation will last for 10 weeks, opening on 1 May and closing on 11 July 2014.
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by **11 July 2014**. Electronic responses are preferred. However, you can also write to: Victoria Edwards

	Department for Communities and Local Government Zone 5/F5, Eland House Bressenden Place London, SW1E 5DU 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.
After the consultation:	The responses to the consultation will be analysed and a Government response published. Should any legislative changes be needed, a further consultation will follow.
Agreement with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	This consultation has been developed drawing on three sources of evidence: • A call for evidence on the future structure of the Local Government Pension Scheme, which ran from 21 June to 27 September 2013. 133 responses were received and analysed, helping to inform this consultation. • An analysis of the responses to the call for evidence provided by the Shadow Scheme Advisory Board. • Supplementary cost-benefits analysis of proposals for reform commissioned from Hymans Robertson using the Contestable Policy Fund. The commission did not extend to making recommendations. The Shadow Board's analysis, the Hymans Robertson report and the Government's response to the call for evidence are all available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.
Previous engagement:	As outlined above, this consultation follows a call for evidence that gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The call for evidence was run in conjunction with the Local Government Association and the responses were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their recommendations and analysis of the responses. The call for evidence also drew on a round table event that took place on 16 May 2013 with representatives of administering

	authorities, employers, trade unions, the actuarial profession and academia. This event discussed the potential for increased co-operation within the Scheme, including the possibility of structural change to the existing 89 funds.

Additional copies

1.1 This consultation paper is available on the Government's website at: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

Confidentiality and data protection

1.2 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).

1.3 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.

1.4 The Department 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

1.5 Questions about the policy issues raised in the document can be sent to LGPSReform@communities.gsi.gov.uk.

1.6 A copy of the Consultation Principles is at 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

1.7 Alternatively, you can write to:

DCLG Consultation Co-ordinator,
Zone 8/J6, Eland House,
Bressenden Place
London SW1E 5DU.

2. Introduction and background

Introduction

2.1 The Government believes that there is scope for significant savings, of £660 million per year, to be achieved through reform of the Local Government Pension Scheme. To that end, from 21 June to 27 September 2013, the Government ran a call for evidence on structural reform of the Local Government Pension Scheme. The paper asked respondents to consider what might be done to improve fund performance and drive efficiencies across the Scheme.

2.2 This consultation represents the next step in reform of the Scheme, building on the responses to the call for evidence and further cost benefit analysis of potential options for reform. It sets out the Government's preferred approach to reform and seeks views on the proposals.

Background

2.3 With assets of £178 billion in 2012-13, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.[1] The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

2.4 The Scheme is managed through 89 funds which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London Boroughs. In most cases, the fund administering authorities are upper tier local authorities such as a county or unitary council, but there are also some administering authorities established specifically to manage their fund, for example the Environment Agency Pension Fund and the London Pension Fund Authority. The fund authorities have individual governance and working arrangements. Each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy, which is normally agreed by the councillors on the fund authority's pensions committee.

2.5 Employer contributions to the Scheme, the majority of which are funded by taxpayers, were more than £6 billion in 2012-13. The costs of managing and administering the scheme were estimated as being £536 million in 2012-13.[2] However, the actual costs are likely to be rather higher; the investment costs alone have recently been estimated as in excess of £790 million.[3] While investment returns and the costs of providing

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[1] Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013

[2] Local government pension scheme funds summary data: 2012 to 2013

[3] Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson p.11. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

benefits are the most significant drivers of the overall financial position of funds, management costs also have an impact on funding levels and thus the pension contributions made by employers and scheme members.

2.6 Under the Public Service Pensions Act 2013, there will be a requirement for a national scheme advisory board, as well as a local board for each of the 89 funds. The regulations that will establish national and local governance arrangements have not yet been made and the Department will be consulting on these issues shortly. In the meantime, scheme employers and the trade unions have established a Shadow Board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. In addition, the Minister for Local Government has asked the Shadow Board to consider how the transparency of the funds might be improved.

Getting to this stage

2.7 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they might be made more sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers.

2.8 Lord Hutton's final report was published on 10 March 2011 and formed the basis for major reforms to all public service pension schemes. The new Local Government Pension Scheme which came into effect on 1 April 2014 is the first scheme to be introduced that follows Lord Hutton's principles for reform as enacted in the Public Service Pensions Act 2013.

2.9 Lord Hutton highlighted the collaborative approach being taken by funds within the Local Government Pension Scheme and recommended that the benefits of co-operative working between local government pension funds and opportunities to achieve efficiencies in administration more generally should be investigated further.[4]

Recommendation 23: Central and local government should closely monitor the benefits associated with the current co-operative projects within the Local Government Pension Scheme, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.

2.10 More generally, Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:[5]

[4] Independent Public Service Pensions Commission: Final Report p.17 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf
[5] Independent Public Service Pensions Commission: Final Report p.122

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

2.11 The Department therefore co-hosted a round-table event to consider these issues with the Local Government Association in May 2013. There were 25 attendees from administering authorities, employers, trade unions, the actuarial profession and academia. The discussion centred on the possible aims of reform, the potential benefits of structural change and the work required to provide robust evidence to analyse the emerging options and establish a starting point and target.

2.12 The objectives for reform identified at the round-table fed into a call for evidence on the future structure of the Scheme, which ran from 21 June to 27 September 2013. This asked respondents to set out the data required to enable a reliable comparison of fund performance and to consider how the administration, management and structure of the Scheme might be reformed to address the objectives identified at the round-table event. These objectives included reduced fund deficits and improved investment returns, as well as reduced investment fees and administration costs, greater flexibility of investment, especially in infrastructure and more use of better in-house investment management.

2.13 133 responses were received to the call for evidence and these submissions have been analysed to inform this consultation. A separate response to the call for evidence has been published and is available at: https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme. The Shadow Scheme Advisory Board has also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Its findings have been considered in the development of this consultation and are available via a link on its webpage or from the Shadow Board's website: http://www.lgpsboard.org/index.php/structure-reform/board-analysis-menu.

2.14 To support the call for evidence, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. The Fund gives Ministers direct access to external policy advice through a centrally managed match fund, allowing Ministers to draw directly on the thinking, evidence and insight of external experts. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:

- Establishing one common investment vehicle for all funds;
- Creating five to ten common investment vehicles for fund assets
- Merging the existing structure into five to ten funds.

2.15 The analysis set out the costs and benefits of each option; the time required to realise savings; the practical and legal barriers to implementation and how they might be addressed. Hymans Robertson's findings have been reflected in this consultation, alongside the call for evidence responses and analysis by the Shadow Scheme Advisory Board. A copy of the Hymans Robertson report, which did not extend to making recommendations, is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

3. The case for change

Summary of the proposals

3.1 Having considered the responses to the call for evidence, as well as the Shadow Board's recommendations and the Hymans Robertson report, the Government believes that the following steps are needed to help ensure that the Scheme remains affordable in the long term for both employers and members. The proposals aim to balance the opportunities from aggregation and scale whilst maintaining local accountability.

3.2 The package of proposals set out in this document include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3.3 Hymans Robertson's analysis, which was based on detailed, standardised data, demonstrated that the significant savings could be achieved by the Scheme if all of the funds adopt the following proposals in full. The Government is interested in exploring these proposals further with a view to maximising value for money for taxpayers, Scheme employers and fund authorities.

Proposal	**Estimated Annual saving**
Moving to passive fund management of all listed assets, accessed through a common investment vehicle.	£420 million
Ending the use of "fund of funds" arrangements in favour of a common investment vehicle for alternative assets	£240 million

3.4 The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

The performance that is reported by the Local Government Pension Scheme funds is net of these transaction costs.

3.5 The savings associated with passive fund management can be achieved quickly, within one to two years. The annual savings arising from using common investment vehicles for alternative assets would build gradually, with the full annual savings reached over 10 years, as existing contracts came to an end.

3.6 This package of proposals provides a clear opportunity to substantially reduce the investment costs of the Scheme. They are most effective when adopted by all 89 funds and the Government proposes to implement them together. Indeed, the passive management of listed assets could be most easily facilitated through a common investment vehicle.

3.7 In addition, the cost of investment has been estimated to be considerably higher than previously reported. Recognising the need for more reliable and comparable performance and cost data, the Government will continue to work with the Shadow Scheme Advisory Board to improve the transparency of fund data as set out in paragraph 5.3.

3.8 The remainder of this section sets out the objectives and rationale for reform and the evidence underpinning the approach taken. A more detailed explanation of the proposals for reform is provided in section four.

The objective of reform

3.9 The cost of the Local Government Pension Scheme has risen considerably since the 1990s, with the increased costs falling predominantly on Scheme employers and local taxpayers. In England alone, the cost to Scheme employers has almost quadrupled from £1.5 billion in 1997-98 to £5.7 billion in 2012-13. Indeed, when the Welsh funds are also considered, the total cost to employers is around £6.2 billion a year.[6] The Government has already taken action to reduce the cost of the Scheme and make it more sustainable and affordable to employers and taxpayers in the long term. For example, the new 2014 Scheme with a revised benefit structure came into effect on 1 April, helping to reduce and rebalance the cost between members and employers. However, it is clear from examining the aggregate data on the Scheme which has come to light as part of this review, that there is more that can be done to improve the sustainability of the funds.

3.10 At present, the funds report that administration and investment management costs are £536 million per year, of which £409 million is attributed to investment. Indeed, the reported cost of investment in cash terms has continued to rise in recent years: from £340 million in 2010-11; to £381 million in 2011-12; and £409 million in 2012-13.[7] In fact, using more detailed and standardised data CEM Benchmarking Incorporated, as sub-contractors to Hymans Robertson, identified that the fees for investment management of the Scheme could be much higher than reported, at in excess of £790 million. Some of the fees for investment management are not fully transparent to the funds and are therefore difficult to quantify. In practice, the actual cost of investment to the funds is likely to be even higher than £790 million, as their analysis did not include other costs in their calculation such as transaction costs and performance related fees on alternative assets.

3.11 Coupled with the responses to the call for evidence, Hymans Robertson's analysis has provided a system review, shedding light on the aggregate performance of the Scheme by asset class, as well as the transactions and processes that underpin the

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[6] Local government pension scheme funds summary data: 2012 to 2013
[7] Local government pension scheme funds summary data: 2012 to 2013

costs of investment. The work carried out by CEM Benchmarking Incorporated found that while funds were paying investment fees comparable with a peer group of funds of much larger size with similar mandates, there remained considerable scope for savings through a more efficient approach to investment.

3.12 The priorities of reducing fund deficits and improving investment returns set out in the call for evidence are underpinned by one overarching objective: that the Scheme remains sustainable and affordable for employers, taxpayers and members in the long term. Having considered this new aggregate view of the funds, the evidence indicates that there are opportunities to reduce costs without damaging overall Scheme performance. The Government therefore believes that it is right to consider opportunities to reduce costs and deliver value for money for employers and taxpayers, in pursuit of the overarching objective of a more sustainable and affordable Scheme.

Reducing fund costs or tackling deficits?

3.13 Although the call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns, very few responses set out ideas for managing deficits in a different way. The Shadow Scheme Advisory Board argued that more thinking could be done to consider how deficits might be addressed in the longer term. Its sixth recommendation stated[8]:

> The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

3.14 The Government agrees that opportunities to improve funding levels should continue to be explored and looks forward to considering the Shadow Board's proposals for alternative ways of managing deficits. **Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

3.15 While very few submissions effectively tackled deficit reduction, both public and private sector respondents recognised that the Scheme may benefit from addressing the secondary aim of reducing investment costs, partly by managing investments more efficiently. Taking action to reduce the cost of running the Scheme will help to meet this objective by increasing the funding available for investment. In the longer term, this should help to improve the funding level of the Scheme and reduce the pressure on employer contribution rates. This consultation therefore focuses on the cost savings to be found through collaboration and more efficient investment.

Achieving scale to reduce fund costs

3.16 There is already a growing consensus across the Local Government Pension Scheme that there are opportunities to deliver further efficiencies and savings for local taxpayers through collaboration. When the call for evidence was launched, funds in

[8] Call for Evidence on the Future Structure of the Local Government Pension Scheme: The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.4 http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL

Wales, Scotland and London had already begun to research the benefits of scale and explore the relative merits of mergers and common investment vehicles. Similarly, shared administration arrangements had been established in a number of areas including across Kensington and Chelsea, Hammersmith and Fulham, and Westminster; as well as in Northamptonshire and Cambridgeshire.

3.17 Several responses to the call for evidence cited earlier reports or academic research into the benefits of fund size, drawing heavily on the exploratory work of Scotland, Wales and London, as well as the international experience of countries including Australia and Canada.[9] On balance, these reports found that there was no clear link between investment returns and fund size. However, they did show that there were significant benefits to scale, such as lower investment and administration costs, easier access to alternative asset classes like private equity and hedge funds, and improved governance. This view was also reached by the Shadow Board in its analysis of the call for evidence responses, which argued that:[10]

> The evidence appears to show indirect benefits of larger fund sizes, although any direct link between fund size and investment return in the Local Government Pension Scheme is inconclusive.

3.18 Although managed as 89 funds, with an asset value of £178 billion the Local Government Pension Scheme clearly has the potential to achieve the benefits of scale realised by larger funds. Whilst many of the funds have gone some way to achieving this by using procurement frameworks or establishing joint-working arrangements, there is more that can be done. This consultation will set out how using common investment vehicles and passive management for listed assets can in the long term lead to savings of over £660 million a year for the Scheme.

Achieving efficiencies and safeguarding local accountability

3.19 The call for evidence asked interested parties to suggest options for reform that would best meet the primary and secondary objectives set out in paragraph 2.12 above. A range of tools and approaches to achieving greater economies of scale were suggested, with fund mergers, common investment vehicles, and existing collaborations such as procurement frameworks all discussed extensively.

3.20 Two themes were discussed consistently when respondents sought to evaluate the merits of the main proposals for reform:

- The potential cost and time required for implementation;
- The importance of local accountability.

Costs and benefits of the proposals

3.21 Around half of the responses discussed the cost effectiveness of merging funds and how this might be implemented. Many argued that while savings could be achieved as a result of economies of scale, more analysis was needed to ensure that the benefits

[9] A list of the most commonly referenced papers can be found on the Shadow Scheme Advisory Board's web-pages: http://www.lgpsboard.org/index.php/structure-reform/responses-public-view

[10] The Local Government Pension Scheme Shadow Scheme Advisory Board analysis and recommendations, p.3

of mergers outweighed the cost and time required to implement them successfully.

3.22 Analysis was undertaken by Hymans Robertson who evaluated the costs and benefits of three options for reform over 10 years. They found that although significant savings could be realised over the period by amalgamating into five funds, merger could take around 18 months longer to implement than common investment vehicles; the delay in the emergence of savings leading to a significant reduction in the net present value of savings over 10 years. The report also showed that the savings achieved by pooling assets into two common investment vehicles would be slightly higher than if 10 were used.[11]

Possible model for reform	**Net present value of savings over 10 years (£ billions)**
Assets pooled into two common investment vehicles	£2.8
Assets pooled in 10 common investment vehicles	£2.6
Fund assets and liabilities merged into five funds	£1.9

3.23 The calculations shown exclude the impact of the reduced transaction costs, which Hymans Robertson showed would also help to deliver additional savings of £1.9 billion for the Scheme over 10 years.

3.24 A number of fund authorities also submitted evidence of the benefits to their fund of procurement frameworks such as the National LGPS Frameworks. A procurement framework provides authorities with a short list of organisations who can bid for contracts, reducing the time and cost of running a more substantial process.

National LGPS Frameworks' response to the call for evidence cited one fund who had used their actuarial framework to secure services at a procurement cost of £4,000 instead of the estimated £30,000-£40,000 required for a full procurement process. If this same rate of savings applies to Global Custodian procurements, with costs again reduced by 90 per cent, the Framework believes savings of £90,000 per fund can be found.

3.25 Although there are clear benefits to using frameworks, the scale of savings achievable does not match those possible through more substantial reform such as common investment vehicles. However, the Government believes that there is still a role for procurement frameworks to play in delivering savings for the Scheme and is keen to see this opportunity taken up by more of the funds.

Local accountability

3.26 Most call for evidence responses stressed the importance of local accountability and the direct link to elected councillors, which would be lost if funds were merged. At present the authority's Councillors, usually through the pensions committee, are asked to agree the fund's investment strategy. The authority then publishes an annual report which details the costs and investment performance of the fund, enabling the public to assess how effective the investment strategy has been. Some respondents argued that this allows local taxpayers to hold the fund and local councillors to account. As one fund authority stated:

[11] Local Government Pension Scheme structure analysis; Hymans Robertson p.6.

“There is a clear, democratic link to local voters and businesses through elected members sitting on pensions committees…

The regulatory requirements to produce an annual report and accounts and policy statements…ensure that key information on the management of funds is held in the public domain. This approach ensures local and national accountability.

The Pensions Committee believes that a forced merger of funds could only weaken accountability and the democratic link.”

3.27 However, a smaller number of respondents queried the benefit of this link, emphasising the importance of Myners Principle 1 – that administering authorities should ensure that investment decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make effective decisions and monitor their implementation.[12] Although Councillors on the committee receive training, there is a risk that they have neither a background in finance nor the time to invest in developing the knowledge required to a sufficient depth. In addition, some suggested that the frequent turnover of Pensions Committee members as a result of the electoral cycle made it difficult to ensure a long term view of the investment strategy.

3.28 The ability to set a tailored investment strategy and determine the asset allocation locally was seen as vital amongst respondents from both the public and private sectors. This is perceived as an important tool for managing each fund’s unique funding position and cash-flow requirements. Several respondents also emphasised the importance of local accountability as a means to ensuring the representation of Scheme members and employers. As one Scheme employer set out in their response to the call for evidence:

The existing arrangements in English County Council and London Funds promote and facilitate a clear link between the relevant individual Fund and employing bodies… As the public sector continues to fragment the number of scheduled/ admitted bodies will increase making all the more important a genuinely “local”, as presently exists, link between employers and Funds.

3.29 Under a fund merger, asset allocation would need to take place at the new, larger fund authority level. However, common investment vehicles offer greater flexibility and can be established with the asset allocation made either centrally within the vehicle, or by the local fund authority.

3.30 Around 15 responses to the call for evidence stressed that common investment vehicles could achieve the benefits of scale attributed to fund mergers, without the associated disruption, implementation time, cost or loss of local accountability. As one fund outlined when talking of pooling assets in common investment funds:

[12] Pensions Regulator – adaptation of Myners principles for the Local Government Pension Scheme http://www.thepensionsregulator.gov.uk/docs/igg-myners-principles-update.pdf

This approach might realise significant scale benefits more speedily and with less disruption, while still retaining local accountability and decision making on key matters such as deficit recovery plans and asset allocation.

3.31 Having considered the responses to the call for evidence and Hymans Robertson's analysis, the Government has decided not to consult on fund mergers at this time. However, there remains a strong case for achieving economies of scale through the use of common investment vehicles.

4. Proposals for reform

Proposal 1: Common investment vehicles

The case for change

4.1 Using common or collective investment vehicles to aggregate the Scheme's investments and moving to passive investment of listed assets has the potential to deliver significant savings of over £660 million per year, through reduced investment and other costs for all asset classes in the Scheme. These savings were set out by Hymans Robertson, whose report showed that it was likely that the economies of scale from aggregation would be best accessed through common investment vehicles.

4.2 Further savings arise from the efficient structure offered by a common investment vehicle. Within any common investment vehicle or pooled fund, money will flow in and out as investors purchase and redeem units in the fund. If those buying and selling units within a pool can be matched, fund managers will not need to sell assets to meet redemption requests and as such the volume of transactions can be minimised, improving cost efficiency.

4.3 Common investment vehicles may also deliver savings by reducing the use of "fund of funds" to access alternative assets, such as hedge funds, private equity, property and infrastructure. Fund of funds are used to achieve the scale required for individual funds to make investments they may not be able to access directly. However, this introduces an additional layer of fees, increasing the total cost of investment. Setting up a common investment vehicle would help funds achieve the scale required to invest, without the high costs associated with a "fund of funds".

4.4 Hymans Robertson found that investment fees for alternative assets were particularly high compared to other asset classes, accounting for less than 10 per cent of the Scheme's assets, but for at least 40 per cent of fees.[13] The firm's analysis showed that savings of up to £240 million per year could be achieved by ending the use of "fund of funds" across the Scheme, provided that the existing contracts were permitted to run their full course in order to avoid potentially significant termination costs. Consequently, although some savings would begin to accrue straight away, this annual total would be reached over 10 years.[14]

4.5 The wider benefits of common investment vehicles include improved transparency. As the funds would be subject to the same investment costs and asset managers, the effect of asset allocation and local decision making would become more transparent, revealed in part by the variation in investment returns. This should provide the Department, fund authorities and taxpayers with an opportunity to compare the effectiveness of a fund's asset allocation. In addition, the vehicle could provide a platform for the operation of national framework agreements, helping to minimise the cost of procurement and other administrative costs of investment such as actuarial and custodial services.

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[13] Local Government Pension Scheme structure analysis; Hymans Robertson p.11
[14] Local Government Pension Scheme structure analysis; Hymans Robertson p.7

4.6 A common investment vehicle for alternative assets could also help to improve governance by providing an independent assessment of alternative investment strategies, particularly for local infrastructure investment. A pooled vehicle could make it easier for funds to invest in infrastructure when appropriate opportunities arise, by providing a cost effective way to realise the scale needed.

4.7 As discussed in paragraph 3.28, local determination of a fund's asset allocation was seen as a vital consideration amongst respondents to the call for evidence. A common investment vehicle could be designed to allow asset allocation to remain at local fund authority level, consistent with ensuring that decisions are taken in line with existing local accountabilities.

Proposal for reform

4.8 The Government believes that there are clear advantages to funds in pooling their assets in common investment vehicles for all asset classes, but that all asset allocation decisions should remain with the fund authorities.

4.9 Hymans Robertson's analysis demonstrated that there were slightly higher returns over ten years if the funds were organised through one common investment vehicle for listed assets and a second for alternatives, rather than a greater number. This evidence suggests that savings will be maximised by the creation of two vehicles: a single common investment vehicle for listed assets organised by asset class (for example, UK equity, European equity, UK bonds and so on), and a second vehicle for alternative assets.

4.10 Concentrating the Scheme into two common investment vehicles may increase its exposure to risk. Several public and private sector responses to the call for evidence also stressed that capacity constraints may begin to apply if a fund became too large. As one fund authority stated in their response to the call for evidence:

> Furthermore there may be issues about capacity – the best fund managers may be closed to new business, and even if indeed the capacity exists, they may be reluctant to have too much business from a single client (as that creates business risks).

4.11 However, the Government believes that the exposure to risk should be mitigated if the asset allocation remains as diversified as it is at present. The Hymans Robertson report noted that the issue of capacity constraint would not apply to the common investment vehicle for listed assets if it were invested in passive funds.

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Further considerations

A. Changes to the investment regulations

4.12 The current investment regulations place restrictions on the amount of a fund that can be invested in certain types of vehicle, for example limited partnerships in aggregate are subject to a limit of 30 per cent. In addition, while some types of common investment vehicle are listed within the regulations, others are not. Squire Sanders, as subcontractor to Hymans Robertson, indicated that secondary legislation could be used to reform the investment regulations, removing the anomalies created between different types of vehicle and any ambiguity about the funds' ability to invest substantially in common investment vehicles.

4.13 The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. **However, any initial thoughts would be welcome in response to this consultation.**

B. The type of common investment vehicle

4.14 The term collective or common investment vehicle can be used very broadly and take different forms. At this time, the Government would like to seek views on the specific type of common investment vehicle to be used, but anticipates that the following principles might underpin the design:

- Pooling of assets, possibly on a unitised or share basis;
- Safeguards for individual funds, for example through Financial Conduct Authority authorisation;
- Governance arrangements considered as part of wider governance reforms arising from 2013 Public Service Pensions Act;
- Strategic asset allocation remains with individual funds; and
- An option for other funded public service pension schemes to participate in the common investment vehicles if they wish.

4.15 There are a number of types of common investment vehicle available that might fulfil some or all of these principles. One such model currently under review is the tax transparent Authorised Contractual Scheme.[15] However, careful consideration of the governance arrangements for any common investment vehicle would be needed before any more detailed proposals are developed.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Proposal 2: Passive fund management of listed assets

4.16 There are two main types of investment approach, which can be used individually or in combination.

- Passive management typically invests assets to mirror a market in order to deliver a

[15] More information can be found on the Financial Conduct Authority's website: http://www.fca.org.uk/firms/firm-types/collective-investment-schemes/authorised-contractual-schemes

return comparable with the overall performance of the market being tracked.

- An actively managed fund employs a professional fund manager or investment research team to make discretionary investment decisions on its behalf.

4.17 The Local Government Pension Scheme makes use of both of these approaches, although active management is used more extensively than passive. By applying their expertise, it is hoped that active managers will deliver a level of return in excess of the market's performance, although this comes at a much higher cost than passive management. A few funds gave examples of how they had benefited from active management in their response to the call for evidence.

For example, the active manager of one fund had outperformed their performance benchmark by 3.2 per cent since 2007 and by 5.7 per cent in the last three years.

4.18 However, Hymans Robertson cite evidence from defined benefit pensions funds in the United States which shows that for equities, returns are explained predominantly by market movements and asset allocation policy, with active management playing no role[16].

The case for change

4.19 There are some risks associated with paying for active management, since not all active managers will be able to achieve returns higher than the market rate. Hymans Robertson was therefore asked to examine the performance of the Scheme in aggregate to see whether the funds' overall performance was benefiting from active management.

4.20 Hymans Robertson considered the performance before fees of equities and bonds in aggregate across the Scheme over the 10 years to March 2013. This new analysis, evaluating the funds' investment as one Scheme, showed that there was no clear evidence that the Scheme as a whole had outperformed the market in the long term. They concluded that listed assets such as bonds and equities could have been managed passively without affecting the Scheme's overall performance.

Equity market [17]	**UK**	**North America**	**Europe excluding UK**	**Japan**	**Developed Pacific excluding Japan**	**Emerging Markets**
FTSE Index	10.7	9.5	11.4	7.4	16.4	18.2
Aggregate Local Government Pension Scheme	10.8	8.4	11.6	7.5	17.3	17.1
Excess active return gross of fees	0.1	-1.1	0.2	0.1	0.9	-1.1

16 Local Government Pension Scheme structure analysis; Hymans Robertson, p.19. Data based on 'Rehabilitating the Role of Active Management for Pension Funds' by Michel Aglietta, Marie Briere, Sandra Rigot and Ombretta Signori.

17 Local Government Pension Scheme structure analysis, Hymans Robertson, table 9 p.20. Sources: State Street Investment Analytics (The WM Company), CEM Benchmarking Inc. *This is Hymans Robertson's estimate of the extra cost which reflects the low fees that the Local Government Pension Scheme in aggregate pay for active management of UK equities. The global cost premium is estimated by CEM as 0.56%

Extra cost (per annum) of active	0.34*	0.27	0.20	n/a	0.49	0.53

4.21 This analysis of investment return is specific to the performance of the Local Government Pension Scheme in aggregate.

4.22 In their report, Hymans Robertson quantified the fees savings achievable from moving to passive management of listed assets as £230 million per annum, assuming that all funds participated.[18]

4.23 In addition to the savings arising from lower fees, a move to passive management will also reduce the level of asset turnover. This occurs as investment managers buy and sell assets within an asset class. Both passive and active managers buy and sell assets, but turnover is generally much higher, and therefore more costly, under active management. Hymans Robertson estimated that if all of the Scheme's UK and overseas equities had been managed passively in the financial year 2012-13, turnover costs would have been around £190 million lower.[19]

4.24 Hymans Robertson also conducted a detailed analysis of the transition methodology and costs to move to passive management of all listed assets. They identified that the cost of transition could be around £215 million.[20] These transition costs are approximately equal to the savings achieved from reduced turnover costs in just one year.

4.25 Their analysis of transition also concluded that any market disruption will be limited as there is no proposed change to asset allocation. Hymans Robertson suggested that a single coordinated but phased transition would minimise market impact.

Proposals for reform

4.26 The Hymans Robertson report concluded that if the Scheme acts collectively and moves all listed assets into passive management, investment fees and turnover costs could be reduced by up to £420 million per year. This represents a significant saving for the funds, employers and local taxpayers which would begin to accrue within two years of moving to passive management of listed assets.

4.27 Having considered this analysis, the Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities. Alternative assets such as property, infrastructure or private equity would continue to be managed actively through a separate common investment vehicle.

Further consideration

A. Take up of passive management

4.28 A number of the responses to the call for evidence emphasised that a small movement in investment performance has the potential to have a more significant impact on the Scheme's finances than the savings achievable from investment management fees. It is therefore important that full consideration is given to the

[18] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[19] Local Government Pension Scheme structure analysis; Hymans Robertson p.7
[20] Local Government Pension Scheme structure analysis; Hymans Robertson p.17

impact of a move to passive management on overall Scheme performance.

4.29 The Government acknowledges that, as set out in paragraph 4.17, there are funds who feel they have benefited from active management. However, Hymans Robertson's analysis of the savings associated with moving to passive management of listed assets is underpinned by a full consideration of investment performance by asset class across the Local Government Pension Scheme. This analysis shows that a move to passive management would not have damaged returns across the Scheme as, in aggregate, the funds' investment performance has replicated the market in much the same way as passive investment.

4.30 The Government therefore wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

5. Additional considerations

Data transparency

5.1 Although all of the funds publish annual reports setting out their costs and investment returns, a theme common to the majority of responses to the call for evidence was the need for greater transparency and more comparable data. As one fund outlined in its response to the call for evidence:

> There is currently insufficient information available to permit a robust comparison of different Local Government Pension Scheme funds. This includes data on investment performance, investment management costs, pension administration costs, and actuarial information. All of this data should already be available within each Local Government Pension Scheme fund but there needs to be a central repository to collate and analyse the information and ensure that it is comparable.

5.2 Moving to a common investment vehicle will help to facilitate this transparency, as the investment fees derived from a common vehicle will be more comparable. It will also help to highlight the effect of asset allocation and fund decision making. Since the funds would be investing through the same vehicles, the effect of asset allocation will be more easily seen from the resulting variation in investment returns. The common investment vehicles would also allow greater clarity over variations between asset allocations and actuarial discount rates.

5.3 However, it is clear that further improvements are needed to ensure published Scheme data is comparable between funds. The Minister for Local Government has asked the Shadow Board to look at data transparency in more detail and it has already made progress in this area, bringing together all of the funds' annual reports on its website. The Government is keen to support the Shadow Board in this work and looks forward to working with it to ensure more comparable data is available in the future.

Procurement frameworks

5.4 As set out in paragraph 3.24, there are clear advantages and savings to making use of the National LGPS Frameworks. The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

5.5 At present, frameworks have been established by the National LGPS Framework for investment consultancy, global custody and benefit and actuarial services. The Government believes that funds can deliver further savings, using these frameworks to procure a range of services including actuarial and investment advice. Funds should give serious consideration to making greater use of these frameworks. In addition, common investment vehicles could be used as a platform from which to operate such frameworks.

Administration

5.6 The question of how to improve the cost effectiveness of administration was posed in the call for evidence as a secondary objective for structural reform. Around 12 submissions suggested that larger funds were able to achieve lower administration costs. Some fund authorities and pensions administrators set out the benefits they had seen from aggregating administration services, arguing that significant savings could be achieve from reduced staff and accommodation costs, greater automation, member and employer self service and I.T cost reductions. For example, as a shared service for fund authorities set out in their response:

Local Government Shared Services ("LGSS") Pensions Service is a collaborative venture between two Scheme funds established in October 2010, which has already saved £500k per annum in pensions administration.

5.7 However, while these savings are valuable to the Scheme, they are small in comparison to the cost reductions associated with greater passive management of listed assets and the use of common investment vehicles. In addition, as some respondents stressed, the administration of the Scheme is already facing a period of significant change with the introduction of the 2014 Scheme from 1 April 2014.

5.8 Having considered these factors, the Government has decided not to consult on administration reform at this time. However, the call for evidence has highlighted the scope for potential administrative efficiencies as well as the associated risks. At this stage, the Government proposes to allow the administration arrangements for the 2014 Scheme to mature before considering reform any further.

Appendix 2

Local Government Pension Scheme Consultation: Opportunities for collaboration, cost savings and efficiencies.

Kent County Council Superannuation Fund Committee Response

Introduction

1. The Superannuation Fund Committee is appreciative of the opportunity to respond to the consultation document and we have some general comments to make before addressing the specific questions posed.

2. The Committee welcomes the decision by the Local Government Minister not to proceed with the forced amalgamation of funds. But the issue of a suitable size for funds to operate effectively was and still is a valid issue. As one of the larger LGPS funds we feel our size gives economies of scale but without being too remote from our 500 employers and 110,000 scheme members.

3. The emphasis on cost savings is also welcomed. The need to ensure that the scheme is managed cost effectively is vital. However, as with a number of issues we will flag the empirical evidence in the supporting Hymans Robertson report does not seem to have been properly reflected in comments in the consultation document. So on page 11 of the report Hymans state based upon the CEM research that "the LGPS as a whole is paying on average less than the peer group for external investment management". They also state in their report "the inevitable conclusion is that there is a limit to the benefit that can be secured by seeking further reductions in manager fees".

4. The Hymans Robertson and CEM work is based upon only 18 funds. We wonder why such a limited sample has been used when:

   (1) CLG hold the SF3 annual returns from all funds – so they have investment manager costs etc. but for some reason this date source has not been used. On page 9 of the consultation document reference is made to "lack of consensus" on key facts and figures and lack of readily available and relevant data". We question why we do these very detailed returns to CLG if they don't use the data.

   (2) All but a handful of funds make use of the WM company performance management service. This collates investment management data taken from the investment managers into fund level data. Our officers have comprehensive reports going back nearly 20 years. This includes annual league tables (anonymised quarterly reports are also produced). So there is a mass of very useful information here which is not acknowledged in any way. If CLG officials or members of the Shadow Advisory Board wish to see this data then we suggest they approach WM. Key people such as the Chair of the Shadow Advisory Board, the Chair of the CIPFA Pensions Panel or the LGA Pensions Lead would not have this data as they are not practitioners in local government pension fund investment.

5. The Funds have been subject to a full external audit for a number of years and this audit covers governance as well as the standard of the accounts. This is an existing means of picking up on problems in funds.

6. The major weakness of the consultation document is that it makes generalised statements across the whole of the LGPS. Given the size of funds managed there will inevitably be an averaging exercise encompassing investment managers who out and underperform. Setting out our credentials the independent WM performance figures show:

	Funds	Benchmark	Percentile
1 Year	+8.5	+7.5	10th
3 Years	+8.5	+7.1	25th
5 Years	+13.7	+12.9	26th

So across a reasonably long period we have been a top quartile performer. This has been based upon:

- Active managers primarily Schroders, Baillie Gifford, Invesco and DTZ significantly outperforming their benchmark. Baillie Gifford have calculated that over the 10 years where they have managed an active global equity mandate they have added over the benchmark £102m net of fees on a fund which started at £178m and is now £749m.

- Sacking underperforming active investment managers, prior to this last 5 year period and allocating those funds to passive equities managed by State Street.

7. As a Fund we strongly believe in good active managers who do add alpha and a significant allocation to passive equities. For Fixed Income and Property we strongly believe that active management is the only sensible action. Since March 2009 the Fund has doubled in size to £4.1bn.

8. We do not accept the savings figures quoted in the Consultation document as being soundly based due to:

(1) The sample upon which they are based.

(2) Of the £420m “saving” on moving to passive management, £190m relates to transaction costs which are already reflected in the performance returns. So this is double counting and should be excluded.

(3) To deny all LGPS funds the option of active management and the outperformance that good active managers can deliver makes no financial sense. As Baillie Gifford’s auditable figures show their outperformance for one fund equities to 25% of these claimed savings.

(4) The “savings” figures do not allow for the transaction costs of the changes which will be very large.

(5) The Fund of Funds approach to alternative investments ignores totally the fact that Funds are already locked into liquid long term arrangements which they cannot withdraw from. So this £240m “saving” is not soundly based either.

9. The consultation paper and the Local Government minister seem to totally misunderstand the reason why Funds are in deficit. This is not about poor investment returns. It is due to:

(1) The contribution holiday when the Community Charge was introduced.

(2) Funds being too slow to increase employer contribution rates during the 1990’s.

(3) The abolition of tax relief on ACT by Gordon Brown in 1997.

(4) Huge increases in longevity.

(5) Very low gilt yields from Government monetary policy.

The only real option to eliminate the deficit is to outperform indices through active management of assets.

10. Overall the Kent Fund believes that the Consultation document is significantly flawed and the headline savings figures are unsound. Legal responsibility for managing the funds stays with the administering authorities and this is the best way of continuing to contain the costs of the scheme and to eliminate the deficit.

Specific Questions

Q1 Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Yes we believe that CIV’s do have a future role in the management of LGPS funds. We believe the case is far more compelling for alternative asset classes (hedge funds, private equity, infrastructure) than listed equities.

We believe that as a large fund we achieve good value through EU procurement processes for active managers. For our largest, most successful equity mandates the fees we pay are low by any standards.

Q2 Do you agree with the proposal to keep decisions about asset allocation with local authority funds?

Yes

The Kent Fund is a very large regional fund. We believe that we have the in-house and advisory expertise to most appropriately take these decisions to meet local needs.

Q3 How many common investment vehicles should be established and which asset classes do you thank should be separately represented in each of the listed asset and alternative asset common investment vehicles?

This should be a bottom up process not a top down imposition.

We would like to see how the vehicles created by the London Boroughs proceed and we will continue discussions with other South East Councils.

On infrastructure and private equity we were advised by Hymans Robertson 4 years ago to go down a fund of funds route and appointed high quality managers for each asset class. We are not currently looking to add to the allocations.

Q4 What type of common investment do you believe would offer the most beneficial structure? What governance arrangements should be established?

We do not intend to use CIV's at the current time and we will monitor developments.

Q5 In-light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, scheme members and employers?

As we have set out above we do not accept the arguments put forward on aggregate performance.

We strongly believe that active management should predominate. We have 30% of our equities managed passively and we feel this is relatively high in proportion.

If forced to choose from the four options the Kent Fund would favour "comply or explain" as the best option.

We totally reject any proposal for regulation for a minimum proportion of assets to be held passively. We find that the key issue for employers is how to reduce employer contribution rates and the financial contribution made by good active managers is central to achieving this.

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 2 July 2014
Subject:	**FUND POSITION STATEMENT**
Classification:	Unrestricted

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

FOR DECISION

INTRODUCTION

1. The Fund Position Statement is attached as at 31 March 2014. With the reports received from the WM Company it is possible to analyse the investment returns in more detail.

QUARTER

2. This was the worst quarters performance in relative terms for some time. The Fund underperformed its benchmark of +0.5% by -0.1%, but the strategic benchmark actually returned +0.8%. The Quarter's performance was in the 89th percentile on the WM Local Authority returns.

3. Baillie Gifford, Schroders Global Equities, Schroders Fixed Income and Goldman Sachs Fixed Income all outperformed. Schroders UK Equities gave back around a quarter of their outperformance in 2013 and M&G also started disappointingly.

2013-14

4. The financial year performance showed a return of +8.5% against the benchmark of +7.5%, although outperformance against the strategic benchmark of +7.1% was even higher. The Fund return was in the 10th percentile against the WM Local Authority returns.

5. This outperformance was led by Schroders UK Equities which outperformed the benchmark by +4.1%, Invesco (+6.7%12 months to December), Schroders Global Equities (+1.3%), Schroders Fixed Income (+2.2%) and of course DTZ. There was very limited under performance in the year – Baillie Gifford -0.1% and Goldman Sachs Fixed income -0.4%.

6. The Fund also received substantial transaction costs from the major changes to the fund managers which were made particularly in the January-March 2014 quarter..

LONG TERM

7. The longer term performance figures are:

	Fund %	Benchmark %	Relative %	Percentile
3 Years	+8.5	+7.1	+1.3	25th
5 Years	+13.7	+12.9	+0.7	26th

So upper quartile performance over the 3 and 5 year periods.

8. The Fund has doubled in value over the 5 years since the low point of March 2009 adding £2bn.

RECOMMENDATION

9. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext 4603

FUND POSITION STATEMENT

Classification: Unrestricted
Item: D2

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

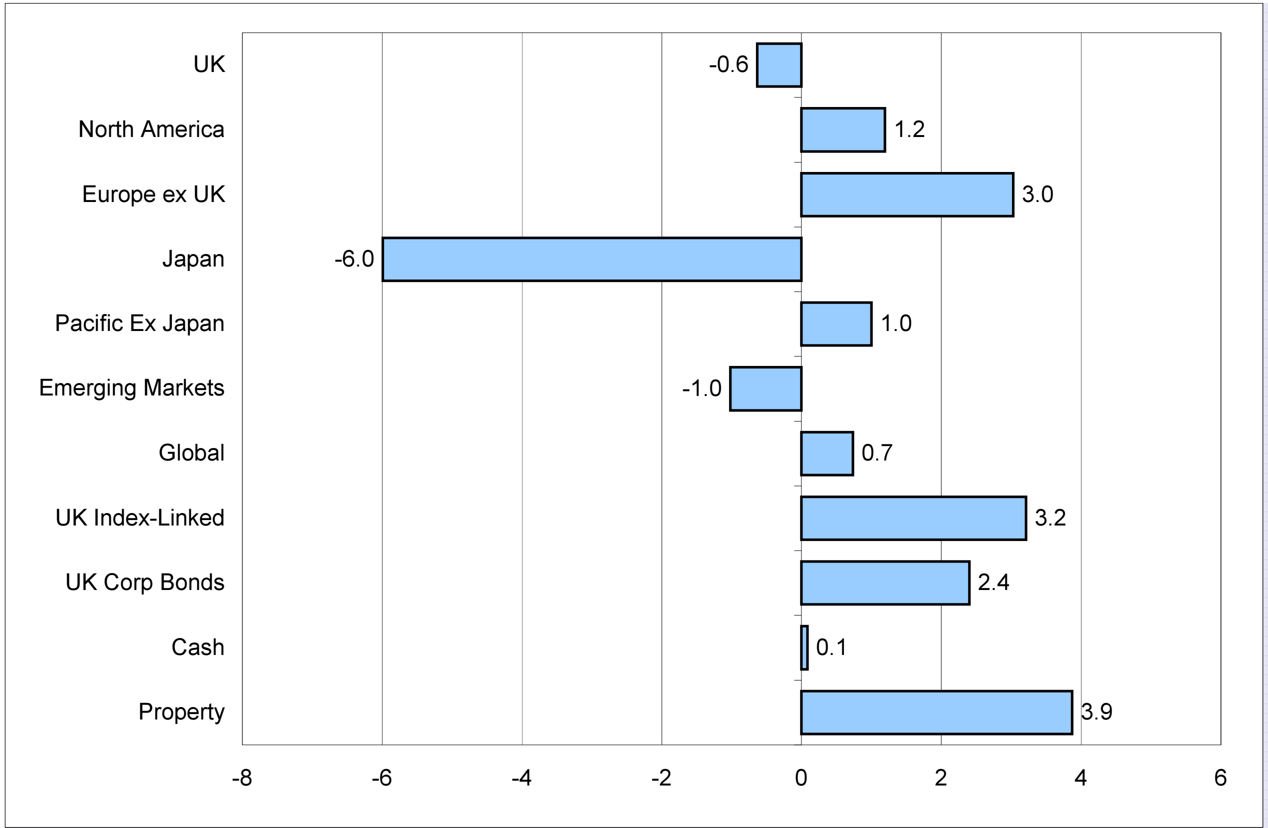
By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

Kent County Council
Superannuation Fund Q1 2014

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 31 March 2014

Classification: Unrestricted
Item: D2



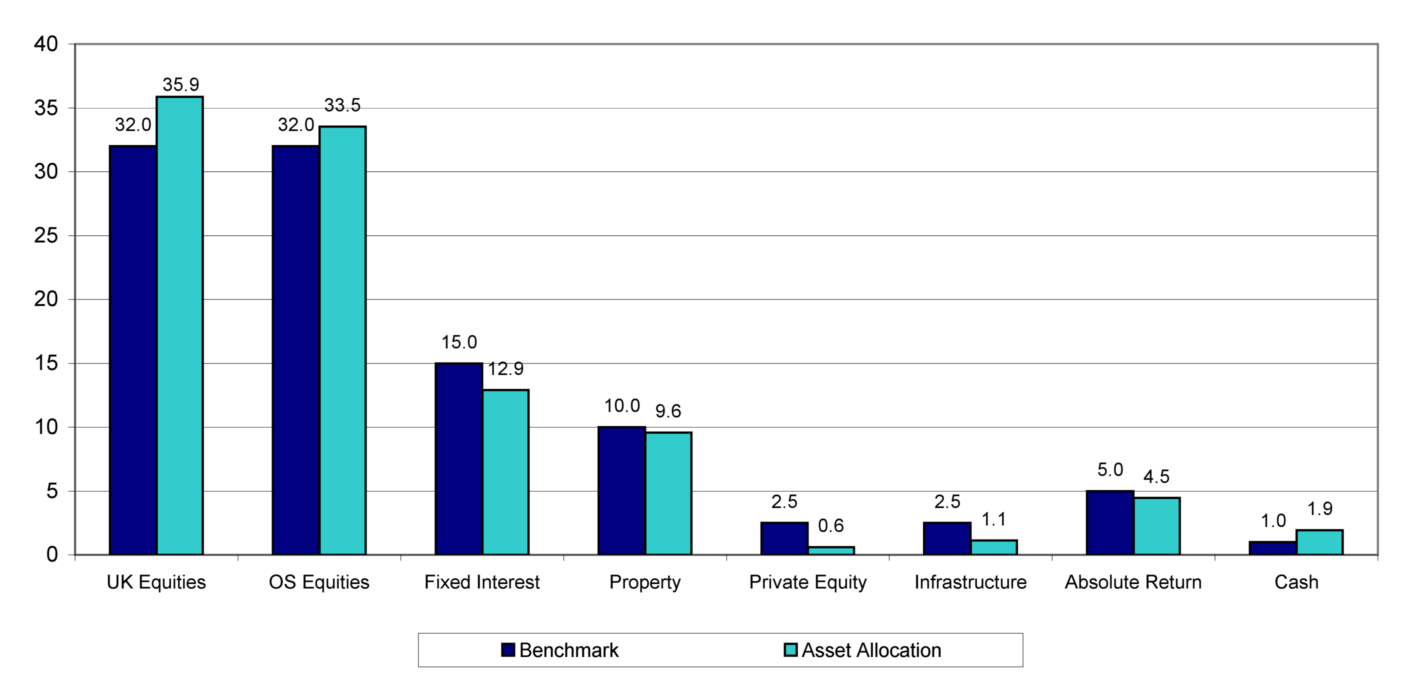
The strongest returns came from property markets.

Fixed Income returns were also strong..

Equity market returns were variable, Japan performed the worst and Europr ex UK the strongest. Overall Global equities outperformed UK equities.

Asset Allocation vs Fund Benchmark - 31 March 2014

Classification: Unrestricted
Item: D2



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,475	35.9	32.0
Overseas Equities	1,379	33.5	32.0
Fixed Interest	531	12.9	15.0
Property	394	9.6	10.0
Private Equity	24	0.6	2.5
Infrastructure	46	1.1	2.5
Absolute Return	183	4.5	5.0
Cash	79	1.9	1.0
Total Value	4,112	100	100.0

Asset Distribution Fund Manager - 31 March 2014

Classification: Unrestricted
Item: D2

Values (GBP)'000	Mandate	Value at 31/12/2013	Transactions	Capital Gain / loss	Income	Value at 31/03/2014	% *Fund*	Benchmark
Schroders	UK Equity	727,131	8,940	-30,814	8,983	705,257	17	Customised
Invesco	UK Equity	533,397	-528,413	-4,985	-	-	0	Customised
State Street	UK Equity	180,542	532,540	-967	-	712,115	17	FTSE All Share
State Street	Global Equity	322,150	-150,002	1,300	-	173,448	4	FTSE All World ex UK
Baillie Gifford	Global Equity	738,447	2,608	8,023	4,283	749,078	18	Customised
M&G	Global Equity	200,804	159	-214	-	200,749	5	MSCI AW
Sarasin	Global Equity	-	149,547	214	214	149,762	4	MSCI AC World Index NDR
Schroders	Global Quantitative	181,718	-	3,588	-	185,307	5	MSCI World NDR
Goldman Sachs	Fixed Interest	303,528	-	7,114	-	310,642	8	+3.5% Absolute
Schroders	Fixed Interest	215,453	-	5,164	-	220,617	5	Customised
Impax	Environmental	29,380	-	816	-	30,196	1	MSCI World NDR
DTZ	Property	366,742	-3,827	5,974	6,021	368,889	9	IPD All Properties Index
Fidelity	Property	10,005	15,466	262	-	25,733	1	IPD All Properties Index
Harbourvest	Private Equity	16,768	2,328	1,201	-	20,298	0	GBP 7 Day LIBID
YFM	Private Equity	4,098	-	-91	-	4,007	0	GBP 7 Day LIBID
Partners	Infrastructure	32,550	3,622	-275	-	35,898	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,993	-	1,034	-	10,026	0	GBP 7 Day LIBID
Pyrford	Absolute Return	183,059	284	138	-	183,481	4	RPI + 5%
Internally Managed	Cash	31,831	-5,418	-	27	26,413	1	GBP 7 Day LIBID
Total Fund		4,086,596	27,835	-2,517	19,529	4,111,913	100	Kent Combined Fund

Performance Returns - 31 March 2014

Classification: Unrestricted
Item: D2

	Quarter		1 year		3 years (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%	%	%	%
Total Fund	0.4	0.5	8.5	7.5	8.5	8.1
		0.8*		7.1*		7.6*
UK Equity						
Schroders UK	-3.0	-0.6	13.1	8.6	9.3	8.6
State Street	-0.6	-0.6	9.0	8.8	8.9	8.8
Overseas Equity						
Baillie Gifford	1.7	0.5	7.2	7.3	9.3	7.2
Sarasin	**0.3	0.4	n/a	n/a	n/a	n/a
Schroders GAV	2.0	0.6	9.9	8.4	7.3	8.8
State Street	0.8	0.8	7.6	7.6	8.2	8.2
Impax Environmental Fund	2.8	0.6	15.0	8.4	4.0	8.8
M&G	-0.1	0.5	n/a	n/a	n/a	n/a
Fixed Interest						
Goldman Sachs Fixed Interest	2.3	0.9	3.1	3.5	7.9	7.5
Schroders Fixed Interest	2.4	1.2	2.2	0.0	4.0	3.6
Property						
DTZ Property	3.3	3.9	15.2	14.0	9.0	7.6
Fidelity	-0.2	3.9	n/a	n/a	n/a	n/a
Private Equity						
Harbourvest	6.2	0.1	7.4	0.4	0.0	0.4
YFM	-2.2	0.1	8.3	0.4	19.2	0.4
Infrastructure						
Partners	-0.9	0.1	-2.1	0.4	-3.1	0.4
Henderson	11.5	0.1	22.1	0.4	7.5	0.4
Absolute Return						
Pyrford	0.1	1.8	-0.5	7.4	n/a	n/a

Data Source: The WM Company
- returns subject to rounding differences
* Strategic Benchmark
** Indicates not invested for the entire period

Fund Structure - 31 March 2014

Classification: Unrestricted
Item: D2

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £705m	Baillie Gifford +1.5% £749m	Goldman Sachs +6.0% Abs. £311m	DTZ Property £369m	Kent Cash £26m
State Street +0.0% £712m	M&G +3.0% £201m	Schroders +2.0% £221m	Fidelity Property £26m	Henderson Secondary PFI £10m
Invesco Unconstrained £0m	Schroders +3.0 - +4.0% £185m			Partners £36m
	State Street +0.0% £173m			YFM Private Equity £4m
	Impax +2.0% £30m			HarbourVest £20m
	Sarasin +2.5% £150m			Pyrford RPI +5.0% £183m

Market Value £4.1bn
as at 31 March 2014

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 2 July 2014
Subject:	**FUND STRUCTURE**
Classification:	Unrestricted

Summary: To report on a number of issues relating to the structure and management of the Fund.

FOR

INTRODUCTION

1. This report covers a number of issues relating to the structure and management of the Fund which are not commercially sensitive.

SELLING EQUITIES

2. At the last meeting of the Committee on 21 March the Committee agreed to sell £150m of equities to "bank" some of the profit made by staying overweight in equities in 2013. This would be taken from the State Street UK Equity mandate.

3. As has been reported by email £110m was moved out of the UK Equities on 23 April and where this Cash is now held is covered in item D5 on Treasury Management. Funds were withdrawn with the FTSE at 6,674, above the level of the 21 March decision.

4. The balance of £40m was to remain in equities until Fidelity and Kames draw down their additional funding. As none of this additional funding was drawn before June the extra drawdown from State Street was not made.

5. The Fund remains overweight in Equities with a total allocation of 69.4% against a benchmark of 64%. Looking at the UK the FTSE100 reached its highest level of 6,930 in December 1999. In the last 4 months the index has risen above 6,850 on 6 occasions but has fallen back. More bullish commentators are particularly concerned about valuations of UK equities with average Price/Earnings ratio at 24.5 well above the average of 15. Hymans Robertson's latest Capital Marketsis attached in the Appendix. Members are asked to consider whether they wish to retain their overweight position.

DTZ

6. DTZ will be attending this meeting of the Committee to present their 2014 strategy and their quarterly report was sent to members of the committee.

7. The main issues to highlight are:

   (1) The Fund returned +13.1% against the customised Investment Property Databank return of +11.1% - outperforming by +1.8%.

   (2) The longer term performance numbers also show strong outperformance.

	Fund %	Benchmark %	Relative %
3 Years	9.6	6.8	+2.6
5 Years	11.3	8.0	+3.0
10 Years	8.8	6.4	+2.2

This very strong performance is reflected in the Fund winning the IPD UK Property Awards 2014 Highest Annualised Return to 31 December 2013 for Segregated Funds £100 – 500m.

   (3) DTZ have purchased 1-3 and 4-8 The Sanctuary, London a multi-let office adjacent to Westminster Abbey for £21.18m.

   (4) In the 3 months to March 2014 All Property returned +3.9% made up of capital growth of +2.3% and income return of 1.6%.

   (5) DTZ forecast property will return +6.7% per annum over the next 5 years but with returns front loaded to 2014 and 2015.

8. On 16 June it was announced that DTZ's latest owner, UGL, has sold DTZ to a consortium of TPG Capital, TPG Asia Capital and the Ontario Teachers Pension Plan.

SECONDARY PROPERTY

9. Fidelity invested the majority of their first £30m quickly and their Fund returned +4.1% in the 1st quarter of 2014. Fidelity's view is that the investment by the Committee is well timed and they forecast returns of 9-12% over the next 2-3 years and beyond that returns in the region of 8%. The residual from the first £30m will be drawn down on 19 June and they hope to commit the other £20m by the end of July.

10. Kames applied for their first drawdown of £10.5m to be settled on 17 June.

RECOMMENDATION

11. Members are asked to:

(1) Determine whether to maintain the existing overweight position in equities.

(2) Note the position on the DTZ discretionary mandate.

(3) Note the position on funding the two Secondary Property mandates.

Nick Vickers
Head of Financial Services
Ext 4603

capital markets

service

Quarterly update Q2 2014

Flying so high

Graeme Johnston

Economic optimism has waned a little since the end of 2013, but there has been little sustained effect on financial markets: valuations have generally become more demanding in 2014. Many commentators (not all wholly disinterested) would emphasise an absence of bubbles in markets and, while valuations may be stretched, they are not at historic extremes. However, records don't have to be broken before corrections are triggered and, even if valuations adjust gradually, prospective returns could be disappointing.

It might be time to look again at the merits of cash. Yes, returns are likely to remain very low for some time and it is absolutely not a strategically suitable asset for pension schemes. However, it can have a part to play in their short- to medium-term risk management frameworks. Those schemes with flexibility to hold some cash should be doing so.

"… the terms for de-risking are still close to the best of recent years

… it is difficult to find any part of the yield curve that does not look expensive

Our problem with equities is that we can't work out what will sustain future returns."

Government bonds (p3)

A modest fall in conventional gilt yields in 2014, coupled with the resilience of equities, means that the terms for de-risking are still close to the best of recent years. At a more detailed level, it is difficult to find any part of the yield curve that does not look expensive, although if your view is that interest rates will normalise very slowly, there may be opportunities to hedge at shorter maturities.

Real yields have dropped a little, too, and hedging here is even more a transaction of necessity rather than choice. It is nevertheless important to recognise necessity where it exists and design programmes to exploit plausible opportunities and not remain exposed to unwanted levels of risk by waiting for an unlikely return to historic norms.

Credit markets (p4)

As yield margins have continued to compress, there is an increasing likelihood that they are unsustainably low. A rising risk of correction is common to many markets, so even if the tactical outlook for credit is unsettled, it can continue to fulfil a strategic role. It is important to be clear what the role is: the wrong response to lower yields is to raise risk simply to maintain a fixed target.

Equities (p5)

Our problem with equities is that we can't work out what will sustain future returns. Valuations have become much more demanding since the last serious setback in summer 2011, by no means in bubble territory, but likely to face a stiffer comparison with higher risk-free rates as economies normalise. Of course, a failure of economies to normalise would call into question the outlook for earnings growth. And while some markets have still to see a cyclical recovery in earnings, US equity earnings have already passed previous peaks.

Property (p6)

As capital values continue to push higher in the absence of rental growth, yields have fallen to their lowest levels in over five years. Valuations do not look particularly stretched relative to other assets, but illiquidity and dealing costs are considerations. Pushing on with strategic plans to reduce exposure makes more sense than scrabbling to close small shortfalls from target.

MARKET BACKGROUND

Chart 1: G10 economic surprise index

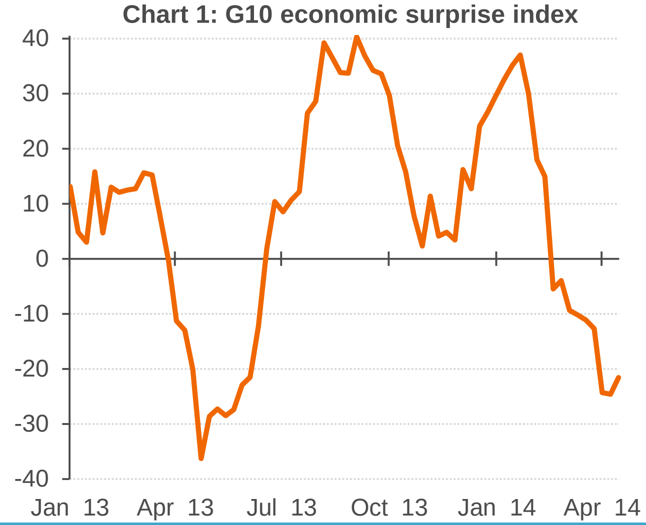


Chart 2: 10-year Eurozone gov't bonds
Yield spread over Germany (% p.a.)

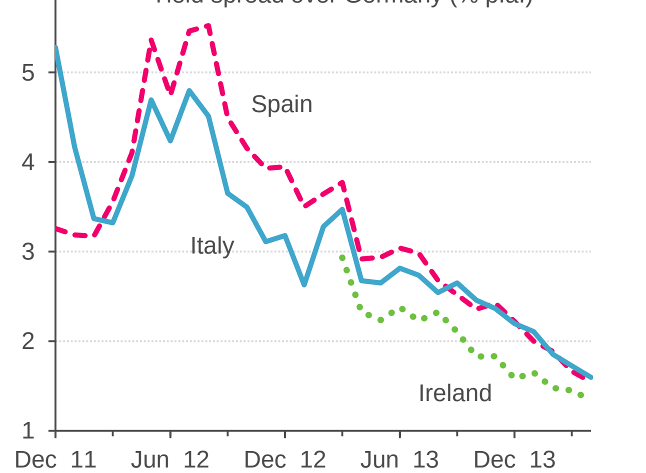
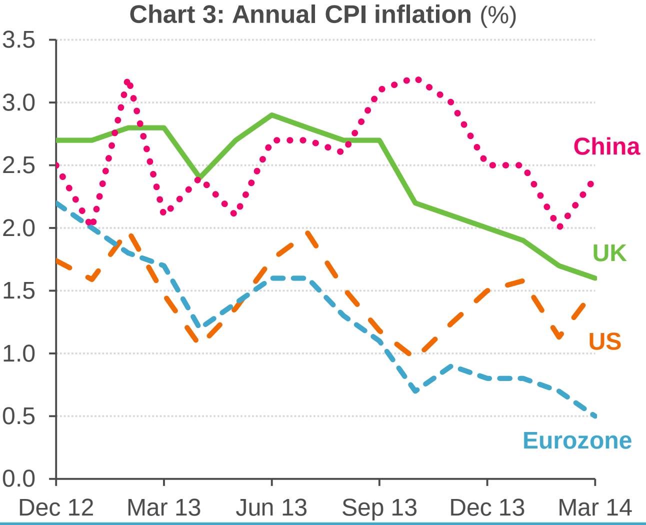


Chart 3: Annual CPI inflation (%)



Unsurprised

Data have played their part in a waning of global economic optimism so far in 2014. (The UK is an exception.) A stalling of the US economy in the first quarter was clear long before the release of flat GDP numbers; PMI surveys in Japan fell sharply. However, the elevated level of optimism at the end of last year was perhaps a more important factor. Chart 1 shows the Citigroup economic surprise indicator for the G10 economies (most of North America, Japan and Western Europe). It shows to what extent data releases are beating (>0) or falling short (<0) of forecasts. The scale of the swing in recent months is evident. Market resilience is perhaps understandable – leading indicators still signal expansion; most forecasts suggest higher global growth in 2014 than in 2013. But, as markets climb higher, the margin for disappointment looks very thin.

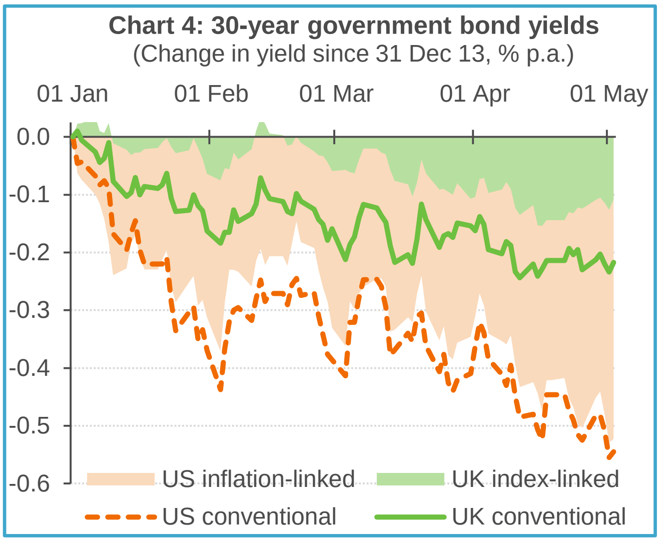
Forgotten but not gone

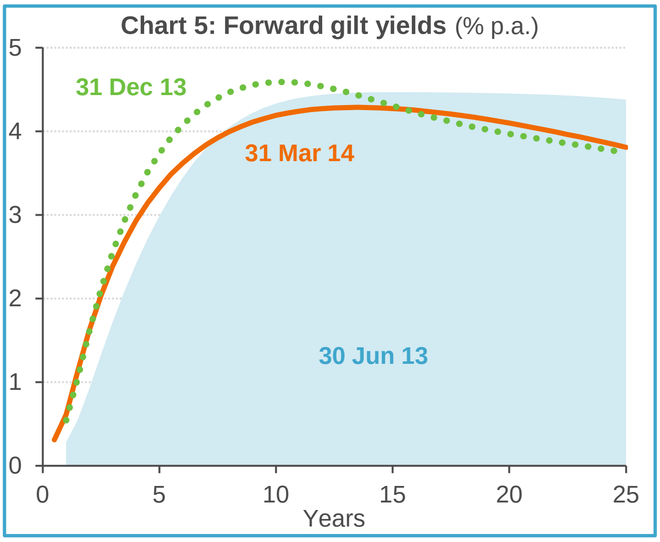
If a dose of realism has been injected into investors' overall expectations for the global economy, the more extreme risks are apparently perceived as less and less likely. In some cases , this can be easily justified. The improvement in the budget deficit leaves the US fiscal outlook exposed only to problems inflicted by a tribal Congress for the next few years. Other issues look more problematic. The easing of the Eurozone debt crisis can be illustrated by the sharp fall in the yield spreads on peripheral government bonds relative to Germany since the Governor of the ECB, Mario Draghi, promised to do "whatever it takes" to save the euro in July 2012 (chart 2). That pledge has not been put to the test, nor has it been backed up by underlying institutional reform. Cyclical factors have helped here, as the Eurozone has pulled out of recession. If this goes into reverse, the effect could be more disruptive than markets currently allow.

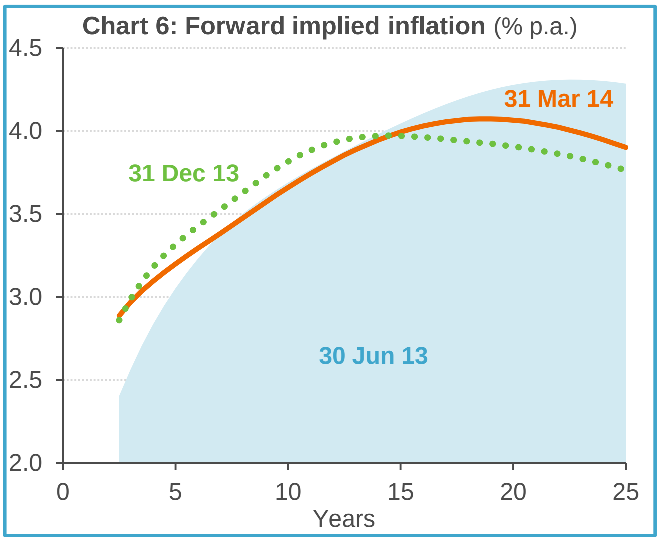
No pressure

Offsetting current risks is the good behaviour of inflation (chart 3), which should give relevant authorities scope to respond to a downturn in the real economy. It is welcome for the US and UK central banks, which are keen to proceed cautiously in tightening policy even if growth is sustained. It should be good news for a Eurozone flirting with deflation, where a monetary stimulus could fulfil dual objectives. Yet, as it did in 2012, the ECB is relying mostly on talk: then, it mainly needed to calm market nerves, now something more tangible may be needed. Perhaps the most interesting case is China, where a substantial slowdown has been a major concern for both the Chinese authorities and global investors. Inflation is low and recent economic data suggest growth is undershooting the official 7.5% target, but so far there have been no significant policy changes. It may be that deflating a huge credit bubble is more pressing.

GOVERNMENT BONDS







A detour on the road to normal

General caution and the particular problems of some emerging economies made for a bright start to 2014 for major government bond markets. However, an initial fall in yields was extended even as market sentiment revived later in the quarter (chart 4). All of this makes valuations less attractive, although the appeal of risk-free assets when risk premiums are so low should not be ignored. The relatively modest fall in the yield on 30-year UK gilts reflects their insensitivity to short-term economic sentiment rather than the buoyancy of the UK economy. 10-year UK and US yields would be much closer. In the US, the fall in conventional yields was more or less tracked by a fall in inflation-linked yields. In the UK, the fall was split more evenly between index-linked yields and implied inflation, perhaps still reflecting the unexpected fall in UK inflation since the middle of 2013.

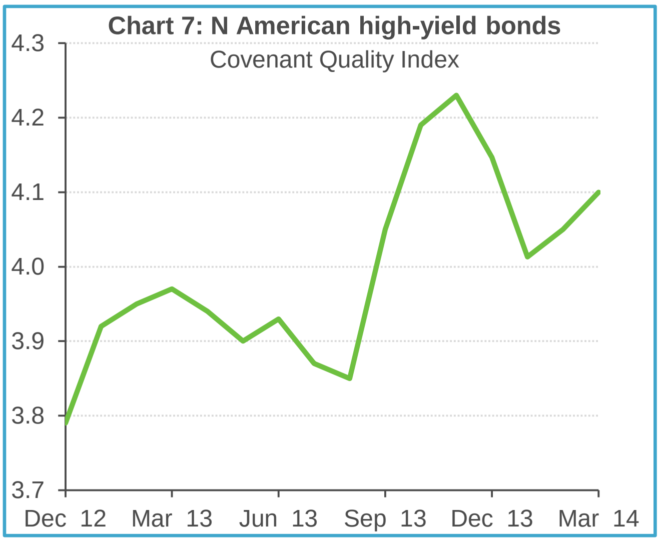
Value destruction

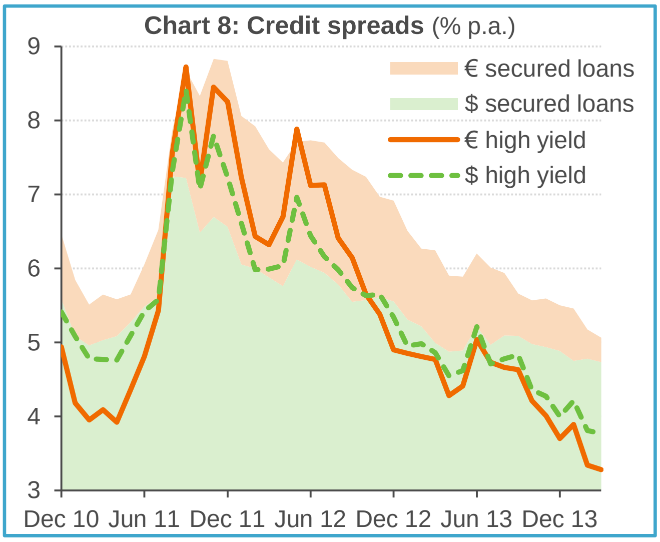
Chart 5 shows how the future progression of interest rates implied by the prices of gilts has changed in the first quarter of 2014. The position in the middle of last year, after the initial setback in bond markets is also shown. At that time, forward yields from around 10 years onward were close to 4.5% p.a. and, in our view, offered fair value in the context of a low-inflation, moderate-growth economy. Subsequent weakness in gilts in the second half of 2013 had little impact on the longest maturities. The consequence was to depress longer forward yields below what we would consider fair value, while creating a bulge between 5 and 15 years. The rally in 2014 has removed that bulge, but longer yields have remained below 4% p.a. Hedging now looks expensive across most of the yield curve. Our view is that short forward yields still rise too slowly. Those who demur may find hedging opportunities at short maturities.

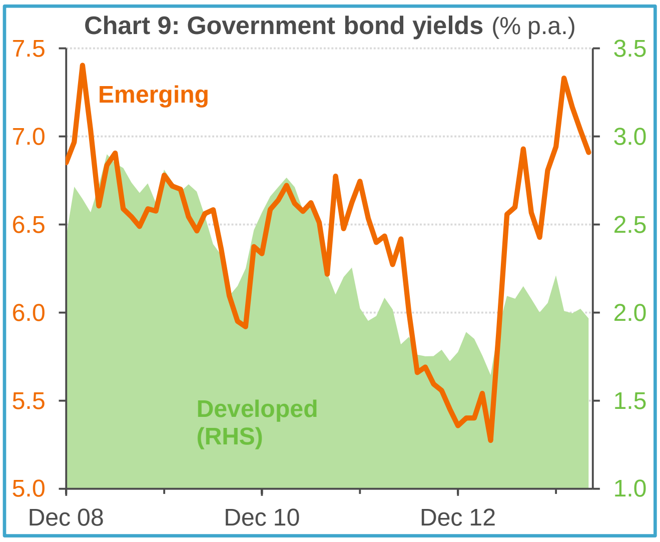
A series of short terms

Chart 6 is analogous to chart 5, but shows future inflation rates implied by yields on gilts and index-linked gilts. Neither chart should be interpreted as forecasts, but implied inflation in particular includes a risk premium over expected inflation that tends to increase with time. In recent years, that premium has been high (relative to a central estimate of 3% p.a. for RPI inflation). It has rarely looked attractive from an investment perspective to hedge inflation, especially at longer maturities. Recent shifts in the forward curve have done little to alter this view. Implied inflation has fallen a little overall (and is well below the levels that prevailed in the middle of last year), but the improvements have been at short maturities, while longer forward rates have increased Our natural bias remains to pay a lower premium and build inflation protection outward from the shorter maturities.

OTHER BOND MARKETS







Quality control

Income-hungry investors have long since picked off the easy prey in their hunt for yield. Their continuing search may turn them into the easy prey. Strong demand attracts supply and eager buyers are not always the most discriminate. However, after very strong issuance at the end of last year, 2014 has been relatively quiet so far. That can simply magnify another problem: in a sellers' market, product quality can suffer. Moody's Covenant Quality Index measures the average level of investor protection in the North American high yield bonds, on a scale of 1 (strongest) to 5 (weakest). The average during 2011 and 2012 was 3.65 and it has deteriorated since then (chart 7). Clients should avoid this race to the bottom. When investing in credit markets, it is more important to determine an appropriate level of risk and then stick with it than to vary risk to target an absolute level of income.

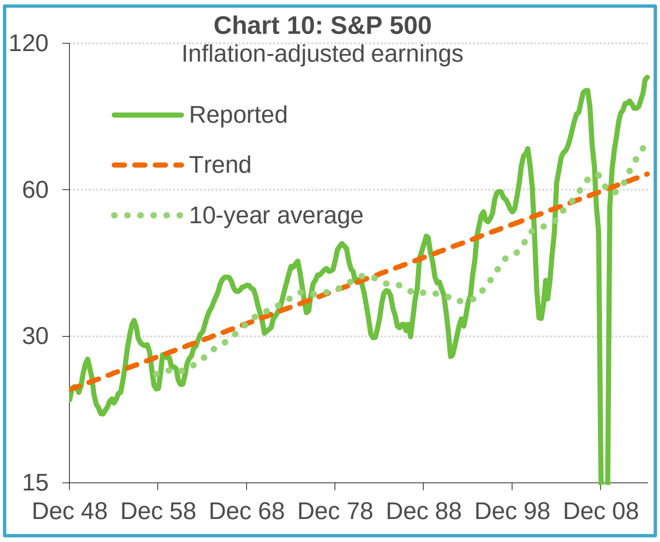
Credit analysis

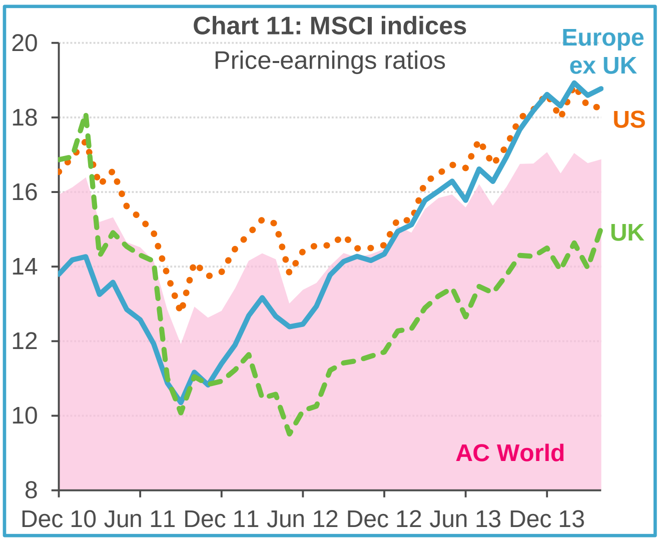
Valuations are getting more demanding in almost all credit markets as yield spreads narrow, but there are still some interesting differences in relative value. A short-term preference for liquidity over security has resulted in higher spreads on secured loans (the light-coloured areas in chart 8) than high-yield bonds (the darker lines). We think long-term investors should have the opposite bias. Within loan markets, we have had a preference for European loans over US loans. Higher spreads on European loans reflect the fact that European retail investors cannot easily invest in loans, unlike their US counterparts. (The same reason helps to explain why the reverse position holds for bonds.) However, institutional demand has been increasing in Europe as the collateralised loan obligation market has re-opened. As loan margins in Europe and the US converge, a more neutral geographical exposure may be appropriate.

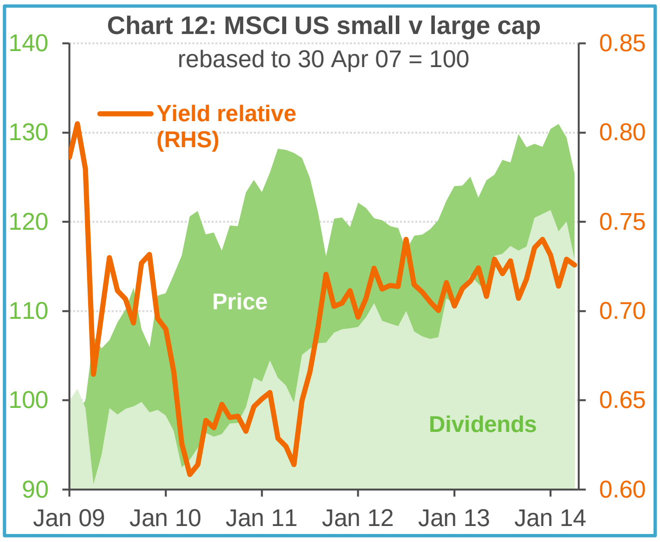
Credit alternatives

January's jitters in emerging market debt (EMD) may have calmed, but local currency index yields are still around 7% p.a., very much towards the high end of the last decade. Currencies have strengthened against the dollar since the end of January; this only takes them in aggregate back to year-end levels. Essentially, EMD remains as cheap as it has been since the immediate aftermath of the Lehmans' collapse (and not much more expensive than it was even then). The travails of emerging markets have emphasised the disparity within the EMD universe rather than its coherence as an asset class. However, it can offer tactical opportunities and diversification from corporate credit (however unwelcome that has been recently). That certainly makes it worth considering for an actively managed return-seeking bond portfolio.

EQUITIES







Facing the headwinds (I)

At a global level, the equity rally of the last three years has been driven by revaluation rather than earnings growth, which petered out in 2011 after recovering sharply from depressed recession levels. The US market has been an exception here. Chart 10 plots inflation-adjusted earnings per share on the S&P 500 index and shows at the right-hand edge a revival in recent quarters. This has taken earnings even further above their post-war trend (based on average growth of just over 1.5% p.a.). A return to that trend would represent a significant drag on US equity returns over the medium term. Earnings still look extended on the assumption of faster trend growth (one that could perhaps be justified by the last 30 years but seems optimistic in light of most long-term economic projections). It seems unlikely that earnings will drive medium-term performance for almost half of the global equity universe.

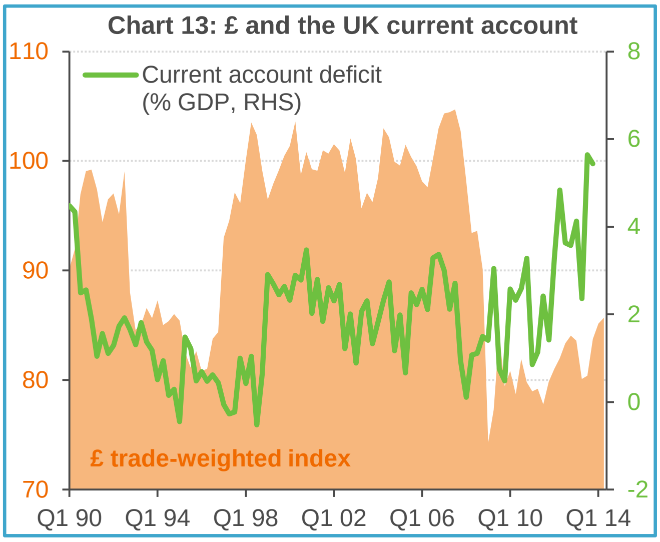
Facing the headwinds (II)

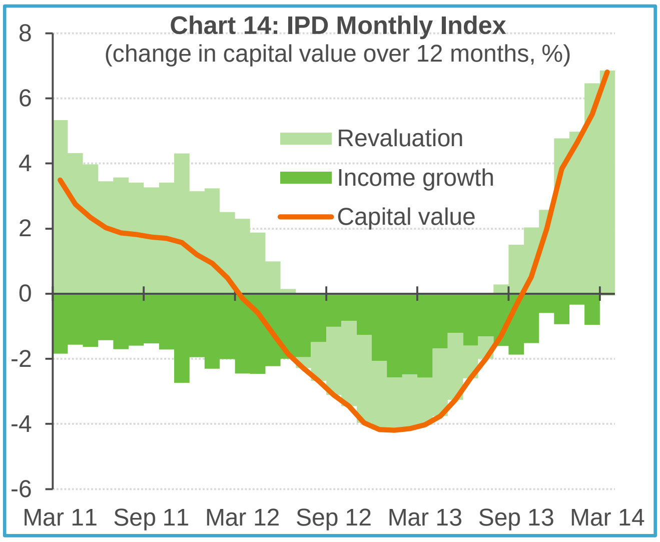
Other markets may have scope to grow earnings more quickly over the medium term. For example, real earnings on MSCI indices for Europe and the UK are still about 40% below pre-recession peaks (although any shortfall from trend will be rather lower). While this gives these markets a better base on which to build medium-term returns, the impact of revaluation has to be considered as well. Chart 11 shows how valuation levels have become extended since summer 2011. Current levels are by no means at historic extremes, but could come under pressure if economies build a self-sustaining recovery and risk-free rates drift higher. (This could well be an additional headwind for the US.) Of course, if the economic background proves tougher, the earnings growth that might drive returns for non-US markets could prove equally hard to deliver.

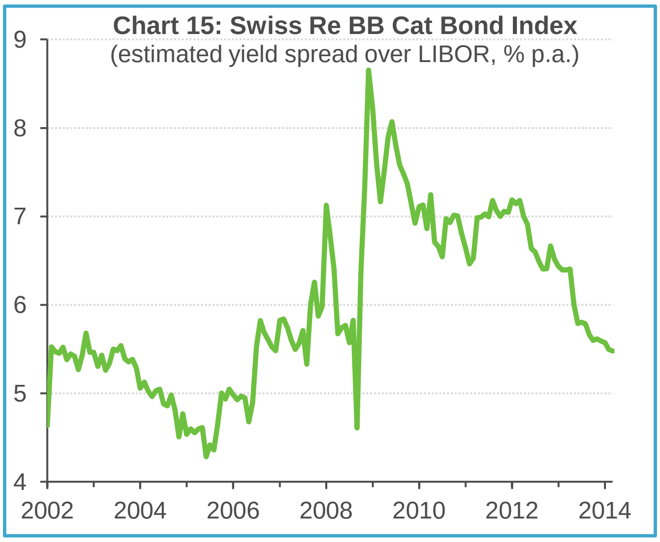
Small claims

Recent US experience illustrates some broader themes in global small cap investment. Small cap have performed well: the MSCI small cap index is 25% ahead of the main index since the end of 2008 (chart 12). Superior dividend growth has played a part but a longer-term history suggests this is not inevitable. In any case, small cap stocks really have to deliver superior growth to compensate for a lower dividend yield. This gap has widened since the end of 2008 (boosting relative performance) and a current dividend yield just above 70% of the main index is not cheap compared to history. The tactical arguments for small cap investment may not be compelling, the rationale should really be strategic: to open up opportunities covering about 15% of the global universe which is otherwise largely ignored. You can't buy the index in any case – you also need to find an active manager able to exploit the opportunities.

OTHER INVESTMENTS







Attention! Deficit disorder

Sterling maintained its momentum into 2014 as the UK economy bucked the trend of moderating growth. In April its trade-weighted index reached a five-year high (chart 13). Currency momentum can be powerful and persistent and sterling is still almost 20% below its 2007 highs, but sentiment may already be running ahead of reality. The deterioration in the UK current account is already much worse than in the late 1990s and early 2000s after a much larger rise in sterling. Our advice has been and remains that clients should avoid tinkering with currency strategy. However, those who have hedged should have banked some profits in recent years, while long-term valuation measures do not point to sterling being cheap. If the operational aspects and/or costs of hedging have proved inconvenient, this could represent an opportunity for a relatively graceful exit.

Still waiting for the rent

It was no great surprise that UK property returns in the first quarter did not match the near-5% of the previous quarter, but the rally retains considerable momentum. The total return on the IPD Monthly Index in the 12 months to March was 14%. This includes a 7% was a rise in capital values, which is entirely explained by revaluation (chart 14). This can be rationalised as catch up: property valuations languished until the middle of 2013, while valuations in many other markets were increasing. However, the latest spurt in property has taken the income yield on the IPD Monthly Index below 6% p.a. for the first time in over 5 years. And while rental growth has stabilised, there is little sign of the growth that might sustain future returns. Funds that are below target in property should be in no rush to close the gap. Those with long-terms plan to reduce exposure should be more expeditious.

Hunted down

Insurance-linked securities (ILS) have been just as caught up in the search for yield as many other asset categories. Our estimates suggest that yield spreads on catastrophe bonds are at a level as low as they have been able to sustain since before the credit crunch (chart 15). As with credit, the primary market has responded: new issues of catastrophe bonds in 2014 have been higher than for many years. Of course, valuations across many asset classes are demanding, and so the relative attractions of ILS are not necessarily diminished. The strategic case – insensitivity to economic factors – remains intact. And there are plenty of less liquid ILS opportunities other than catastrophe bonds that investors can exploit. However, here too, investment should be structured to match risk appetite, not to chase a particular level of return regardless of price.

MARKET RETURNS 2014 (%)				Local currency		Sterling	
UK	April	Q1	OVERSEAS	April	Q1	April	Q1
EQUITIES	2.2	-0.6	**EQUITIES**				
BONDS			North America	0.7	2.1	-0.5	1.2
Conventional gilts	0.7	2.1	Europe ex UK	1.2	3.6	0.4	3.0
Index-linked gilts	0.9	3.2	Japan	-3.4	-7.3	-3.8	-6.0
Credit	1.1	2.4	Developed Asia ex Japan	1.4	0.2	0.8	1.0
PROPERTY	n/a	3.9	Emerging Markets	0.3	-0.8	-0.8	-0.7
STERLING			**GOVERNMENT BONDS**	0.6	2.1	-0.2	2.0
v US dollar	1.3	0.7	**HEDGE FUNDS** *	n/a	0.9		
v Euro	0.7	0.6	**COMMODITIES** *	1.2	6.1		
v Japanese yen	0.5	-1.4	** Local currency = $; Property and Hedge Funds to 31 March*				

SOURCES

CHARTS

Babson Capital, Bank of England, Bloomberg, Datastream, Hymans Robertson, IPD, Moody's, Standard & Poor's

TABLE

Datastream – indices as shown below

Equities	
UK	FTSE All-Share
Overseas (developed)	FTSE World
Emerging Markets	FTSE All-World
Bonds	
Conventional gilts	FTSE-A UK Gilts All Stocks
Index-linked gilts	FTSE-A UK Index Linked Gilts All Stocks
UK credit	iBoxx Non Gilts All Maturities
Government	JP Morgan Global
Property	IPD Monthly
Hedge Funds	Dow Jones Credit Suisse Hedge Fund
Commodities	S&P GSCI Light Energy

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By:	Deputy Leader & Cabinet Member for Finance & Procurement Corporate Director Finance and Procurement
To:	Superannuation Fund Committee
Subject:	**FACING THE CHALLENGE**
Classification:	Unrestricted

Summary: To update on the pension implications of KCC's Facing the Challenge programme.

FOR INFORMATION

INTRODUCTION

1. This report sets out issues for the management of the Superannuation Fund from the Council's Facing the Challenge: Delivery Better Outcomes process.

FACING THE CHALLENGE

2. A report on Facing the Challenge was agreed by County Council in September 2013. It is a major transformational programme and Finance was one of 12 service areas included in Phase 1. Service reviews were to be undertaken by April 2014 which would cover:

   - A comprehensive understanding of the current service.
   - A spectrum of options for future design and delivery, including potential providers.
   - A preferred option for decisions, supported by an outline business case.
   - Authorisation to proceed to a full business case to progress the preferred option towards implementation.

3. Finance has undertaken this work and broadly categorised it's activities into:

   - Strategic/client management
   - Intelligence and Shaping

- Transactional activity

4. County Council in May agreed to proceed with a full market engagement process for Finance, HR and ICT on a joint basis reflecting the scope for greater savings from an integrated approach to these services. So these 3 functions will now proceed to a Full Business Case. The County Council report emphasises that no formal decisions have yet been taken and they will not be until the Full Business Case has been fully developed.

5. Work is now starting on developing output specifications and the EU procurement process has commenced. It is envisaged that the Pre-Qualification Questionnaire will be received in July and then a small number of suppliers will enter into a competitive dialogue process in the last 5 months of 2014. Final decisions will then be taken in the first quarter of 2015.

6. As far as pensions administration is concerned there is a well developed market and in the South East, West Sussex County Council have outsourced the activity to Capita and East Sussex and Surrey County Councils are working in a shared service arrangement.

7. At this stage included in the Finance scope are elements of pensions administration, insurance, payments and assessment and income. The final scope will depend upon the programme of work now commencing.

8. The pensions administration function is a key part of the overall management of Fund's liabilities and a key support service for employers and scheme members. Any changes will only be made if maximum assurance can be given over their future delivery.

9. There is a great deal of work to be done before the Council will make any decisions and the Committee will be kept fully informed.

KCC EMPLOYER CONTRIBUTION RATE

10. At the last actuarial valuation the actuary calculated an employer contribution rate for KCC of 20.7%. However, the Deputy Leader & Cabinet Member for Finance & Procurement and the Corporate Director of Finance & Procurement retained a rate of 21% to help allow for the impact of the continued fall in the size of the Council's payroll.

11. The 21% rate is split between

    - Future Service Rate (14%) – this is the cost of future pension provision for existing scheme members.

    - Past Service Rate (7%) – this is the deficit element to be made good over a period of 20 years.

12. As KCC moves towards less direct service provision and a more strategic commissioning role it is likely that fewer staff will be directly employed by the Council and more staff transfers will occur, whether through outsourcing, establishing trusts or joint ventures or other options. Under existing legislation we would expect the external providers to apply to become admitted bodies for the future provision of pensions for staff transferring.

13. Where staff transfer the Council will no longer pay the Future Service Rate of 14%. The Past Service Deficit will remain a liability of the Council and we will need to retain funding to be able to pay this. It is proposed that we achieve this by ring-fencing this funding within KCC budget.

14. This approach takes full account of the financial liability the Council has to the Pension Fund and retains core budget to meet this liability.

RECOMMENDATION

15. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext 4603

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 2 July 2014
Subject:	**TREASURY MANAGEMENT**
Classification:	Unrestricted

Summary: To report on the Fund's Cash holdings.

FOR INFORMATION

INTRODUCTION

1. The Fund has its own Treasury Management policy which is based on the use of a HSBC deposit account and Money Market Funds. The decision of the Committee to withdraw £150m of UK Equities from State Street and hold as Cash led to a number of new funds being brought into use. The Council receives advice from Arlingclose its treasury advisors on which funds to use and we also ensure that we do not hold more than 0.5% of any one fund (2% limit for Government funds). HSBC were introduced to replace the longstanding Nat West deposit account – since the latest downgrade NatWest does not meet the Council's minimum credit rating.

LATEST POSITION

2. Cash holdings on 4 June were:

Class	Type	Counterparty	Principal O/S (£)
Deposit	Call	HSBC Bank plc	30,000,000.00
	Call Total		**30,000,000.00**
Deposit	MMF	HSBC Global Liquidity Fund	20,006,194.73
Deposit	MMF	Deutsche Managed Sterling Acc	35,009,901.76
Deposit	MMF	SWIP Global Liquidity Sterling Inst	19,953,153.35
Deposit	MMF	Black Rock ICS Institutional Sterling Government Liquidity Core Dis	6,002,780.25
Deposit	MMF	Goldman Sachs Sterling Government Liquid Reserves x Dis	4,890,774.88
Deposit	MMF	Insight Liquidity Sterling C5	20,006,803.91
	MMF Total		**105,869,611.88**
Deposit Total			**135,869,611.88**

3. Given the capacity constraints we are also adding 4 new funds; Aviva, Legal & General, Northern Trust and State Street all with a £10m limit.

RECOMMENDATION

4. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext 4603

By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 2 July 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)
- Automatic Enrolment
- Pensions Administration system
- Tax changes from April 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. 1 April 2014 saw changes to the LGPS with the principal changes being from a final salary scheme to a Career Average Revalued Earnings Scheme and the introduction of the 50/50 section allowing members to pay half rate contributions to provide half rate pension.

3. 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.

4. These delays have also affected our pension administration software provider which has resulted in the software not being updated in order to deal with some of the changes. This has caused problems in processing some benefit calculations with manual calculations being undertaken in some cases.

5. These delays have occurred at the same time as we are receiving an increase in requests for estimates of pension benefits as employers go through cost saving exercises.

6. As a result of the above our Key Performance Indicators are being affected in a detrimental way.

7. Resource within the section has been diverted from other areas of work to help to tackle the backlog of the day to day administration work for a period of 2 weeks to ensure that the Key Performance Indicators return to acceptable levels

WORKLOAD POSITION

8. Appendix 1 shows the year on year comparison of work levels being received in the section.

9. Work levels have increased on the levels seen in 2012/13 particularly in the areas of correspondence, estimates and deferred benefits.

10. The reasons for these increases are increased correspondence from members regarding the changes to the scheme and the increase in estimates and deferred benefits following the continuation of restructures throughout fund employers.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

11. Appendix 2 shows the achievements of the section in meeting its KPIs 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. It is pleasing to report that nearly all cases have been completed in the agreed turnaround time and the section has exceeded the agreed target time in all areas.

AUTOMATIC ENROLMENT

14. Members were previously advised that both Kent County Council and Medway Council had taken the decision to postpone their staging dates until October 2017.

15. As the automatic enrolment timetable reaches employers with smaller payroll numbers we are aware that a number of employers have reached their staging dates and have automatically enrolled their employees not currently in the LGPS into the scheme.

16. This has increased the number of new entrants to the scheme but has also led to an increasing number of members opting out of the scheme which the Pensions Regulator requires us to record. The whole process of Automatic Enrolment continues to place particular pressure on both employers and the administration section.

PENSIONS ADMINISTRATION SYSTEM

17. The decision was previously made by the Corporate Director of Finance and Procurement, in consultation with members, that the administration system that would be used to administer the pension scheme, for the 2 year period to 31 December 2016, would be the Heywood's Altair product.

18. Initial work has been undertaken by both Heywood and the pensions section with regard to the migration of data from the Axise system to Altair with data cleansing being undertaken.

19. A functionality study has been produced by Heywood with the technical study currently under discussions with Heywood, the pensions section and KCC's ICT department.

20. A project initiation document has been produced by Heywood with work progressing from June through to the Live migration of data in October 2014. This work includes the parallel running of pension payroll over 2 months to ensure this can be carried out successfully via the Altair system.

21. Advice from ICT section has highlighted considerable problems with regard the technical hardware required and the provision of back ups, disaster recovery plans and ongoing support needed with the Altair product from the ICT section.

22. Significant delays with regard to being able to implement solutions to these problems have already been highlighted by the ICT section which in turn would have a serious impact on the PID timescales which we cannot let move backwards.

23. A solution to these problems is to use Heywood's hosting service at an initial cost of £115,000 per annum. ICT are supportive of this approach.

24. A summary of the savings and advantages of using this service are:

- Altair implementation costs reduced by £14,000
- No ongoing disaster recovery costs - currently £26,000
- No hardware purchases or ongoing maintenance costs
- No initial set up costs and ongoing costs with regard to ICT's support for the Altair product
- Single point of contact for support and tier 4 security of hardware

TAX CHANGES FROM APRIL 2014

25. In 2006 the Government introduced restrictions with regard to the growth of pension savings that receive tax relief. These are the Annual Allowance, which restricts the amount of pension growth in any year, and the Lifetime Allowance, which restricts the amount of pension savings over a member's lifetime.

26. From April 2014 the Annual Allowance was reduced from £50,000 to £40,000 pa and the Lifetime Allowance from £1.5m to £1.25 million.

27. For those members who had either exceeded or were projected to exceed the Lifetime Allowance they could if they wished apply for HMRC protections, know as Fixed Protections, which would allow them to apply the previous allowance amounts but they would no longer be able to accrue further pension benefits.

28. The Lifetime Allowance only affects a small number of members of the scheme and as advice on this topic is particularly complex and specialised advice was sought from Barnett Waddingham with regard to these members.

RECOMMENDATION

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

Barbara Cheatle
Pensions Manager
Extension 6095

Appendix I

Tasks created in key administration areas
Workload summary

Case Type	2009/10	2010/11	2011/12	2012/13	2013/14
Benefit calculation	1797	2076	2434	2056	1978
Correspondence	1722	1705	1473	1152	1467
Divorce case	490	544	449	351	312
Estimate calculation	2348	2871	3133	2672	2861
Deferred benefit	3913	3732	5185	4769	5244
Transfer in	664	547	283	365	374
Transfer out	555	407	418	403	478
Dependants	311	315	364	305	364
Total	**11,800**	**12,197**	**13,739**	**12,073**	**13,078**

Appendix II

Achievements against Key Performance Indicators

Case Type	Target Time	09/10		10/11		11/12		12/13		13/14	
		No	% in target	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%	2056	99%	1978	99%
Calculation and payment of dependant benefit	15 days	311	98%	315	99%	364	98%	305	99%	364	99%
Calculation and provision of benefit estimate	20 days	2348	98%	2871	98%	3133	99%	2672	99%	2861	98%
Reply to correspondence	10 days	1722	99%	1705	99%	1473	98%	1152	99%	1467	98%

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

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 2 July 2014
Subject:	**APPLICATION FOR ADMISSION TO THE FUND**
Classification:	Unrestricted

Summary:

FOR DECISION To report on applications to join the Pension Fund and a number of admission matters.

INTRODUCTION

1. This report sets out information on applications from organisations to become admitted bodies within the Pension Fund. It also advises of three contract extensions and two name changes. The Committee's approval is sought to enter into these agreements.

2. The Committee are advised that the minutes relating to the two new admission applications, Total Facilities Management matter and the MCCH Society Limited matter are to be signed at the end of today's meeting to facilitate completion on the desired dates.

MEARS LIMITED

3. Medway Council is awarding a 5 year contract for housing repairs from 1 September 2014.

4. This involves the transfer of 5 employees from Medway Council to the successful bidder, Mears Limited. To ensure the continuity of pension arrangements for these employees, Mears Limited has made an application for admission to join the Pension Fund.

5. 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 £15,000 for the first year and set an employer contribution rate of 16.5%.

6. The completed questionnaire and supporting documents provided by Mears Limited has 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.

ROCHESTER CARE HOME LIMITED

7. Medway Council is awarding a 15 year contract for emergency care at their Robert Napier Unit.

8. This involves the transfer of 24 employees from Medway Council to Rochester Care Home Limited. To ensure the continuity of pension arrangements for these employees, Rochester Care Home Limited has made an application for admission to join the Pension Fund.

9. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and a guarantee will be provided by Medway Council as letting authority under Regulation 38 (3) (a) of the LGPS (Administration) Regulations 2008. The Fund Actuary has set an employer contribution rate of 21.1%.

10. The completed questionnaire supporting documents provided by Rochester Care Home 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

TOTAL FACILITIES MANAGEMENT (East Kent, Mid Kent and West Kent)

11. At their meeting on the 7 February 2014 the Committee agreed to the admission of the successful bidders for the KCC Total Facilities Management contracts.

12. The Committee are now asked to note that the level of Bond and required employer contribution rates have been recalculated following changes to the staff being transferred and a limited guarantee being provided by KCC as the letting authority. The revised Bond and required employer contribution rates are £85,000 for the first year and 21.1% (East Kent), £321,000 for the first year and 20.4% (Mid Kent) and for West Kent £65,000 for the first year and 19.3% for an open agreement or 19.9% for a closed agreement.

CAPITA MANAGED IT SOLUTIONS LIMITED (regarding St George's CE Foundation School, Broadstairs)

13. Capita Managed IT Solutions Ltd is a Transferee Admission Body in the Kent Fund following the transfer of staff from KCC.

14. As this contract has now been extended by 16 months from 20 April 2014 it is necessary to extend the original admission agreement by way of an updated admission agreement.

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

15. Capita Managed IT Solutions Ltd is a Transferee Admission Body in the Kent Fund following the transfer of staff from KCC.

16. As this contract has now been extended by one year from 10 January 2014 it is necessary to extend the original admission agreement by way of an updated admission agreement.

PROJECT SALUS

17. Project Salus is a transferee admission body who joined the Pension Fund on 1 June 2011 the following the transfer of staff to them from KCC.

18. The original contract has been extended to 22 June 2015 it is necessary to extend the original admission agreement by way of an updated admission agreement.

MITIE CLEANING AND SUPPORT SERVICES LIMITED

19. MITIE Cleaning and Support Services Limited is a transferee admission body who left the scheme on the 31 January 2014. This cessation was presented to Committee at their meeting on the 21 March 2014 and a cessation report is currently being obtained.

20. The Committee are asked to note that MITIE Cleaning and Support Services Limited has changed its name to MITIE Cleaning and Environmental Services Limited.

MCCH SOCIETY LIMITED

21. At their meeting on 2 March 2012 the Committee agreed that a Deed of Modification could be entered into to reflect the continuation of the contract beyond the original expiry date of June 2012.

22. At their meeting on 28 June 2013 the Committee agreed that a termination agreement could be entered into as MCCH gave notice to leave the Fund on 1 July 2013. At that time a cessation report was being obtained from the actuary.

23. The cessation report shows that MCCH has a £140,000 surplus, which the pension regulations do not allow to be returned to them.

24. On 1 April 2014 MCCH Society Limited became a registered charity and a company limited by guarantee. They also changed their name and are now just known as MCCH. The previously agreed documents will now need to be entered into with MCCH.

RECOMMENDATION

25. Members are asked to:

1) Agree to the admission to the Kent County Council Pension Fund of Mears Limited, and

2) Agree to the admission to the Kent County Council Pension Fund of Rochester Care Home Kent Limited, and

3) Note the amended Bond levels and employer contribution rates for KCC's Total Facilities Management contract relating to the admissions agreed by Committee on the 7 February 2014, and

4) Agree that an amended agreement can be entered into with Capita IT Managed Solutions Limited (re St George's CE Foundation School, Broadstairs), and

5) Agree that an amended agreement can be entered into with Capita IT Managed Solutions Limited (re Thamesview School, Gravesend), and

6) Agree that an amended agreement can be entered into with Project Salus, and

7) Note the name change of MITIE Cleaning and Support Services Limited and,

8) Note the name change for MCCH Society Limited,

9) agree that the Chairman may sign the minutes of today's meeting relating to recommendations 1), 2), 3) and 8) above at the end of today's meeting, and

10) Agree that once legal agreements have been prepared for (1) to (9) above, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
X4625