

SUPERANNUATION FUND COMMITTEE

Friday, 17th March, 2017

10.00 am

Darent Room, Sessions House, County Hall, Maidstone

Please note the change of meeting room





AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 17th March, 2017 at 10.00 am
Darent Room, Sessions House, County
Hall, Maidstone

Ask for: **Denise Fitch**
Telephone: **03000 416090**

Membership

- Conservative (5): Mr J E Scholes (Chairman), Mr J A Davies, Mr R A Marsh,
Mr R J Parry and Mr C Simkins
- UKIP (1) Mrs Z Wiltshire
- Labour (1) Mr T A Maddison
- Liberal Democrat (1): Mr D S Daley (Vice-Chairman)
+ 1 unallocated seat
- District Council (3) Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green
- Medway Council (1) Cllr L Wicks
- Kent Active Retired Mrs M Wiggins and Mr D Coupland
Fellowship (2)
- UNISON (1) Mrs S Lysaght

Please note: that the unrestricted part of this meeting may be filmed by any member of the public or press present.

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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 - 10 February 2017 (Pages 5 - 8)

B. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- B1 Fund Position Statement (Pages 9 - 10)
- B2 Investment Strategy Statement (Pages 11 - 20)
- B3 Pension and Tax (Pages 21 - 22)
- B4 Employer Issues (Pages 23 - 30)
- B5 Motion to exclude the Press and Public
That under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- C1 Pырford
- C2 Fund Structure (Pages 31 - 108)

John Lynch,
Head of Democratic Services
03000 410466

Thursday, 9 March 2017

In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Item C1

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 10 February 2017.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr J Burden, Mr D Coupland, Mr J A Davies, Cllr N Eden-Green, Mrs S Lysaght, Mr T A Maddison, Mr R A Marsh, Mr R J Parry, Mr C Simkins, Mrs Z Wiltshire and Mrs M Wiggins.

ALSO PRESENT: Mrs M E Crabtree and Mr J D Simmonds, MBE

IN ATTENDANCE: Ms B Cheatle (Pensions Manager), Ms D Fitch (Democratic Services Manager (Council)), Mrs A Mings (Treasury and Investments Manager), Mr S Tagg (Senior Accountant - Pension Fund) and Mr N Vickers (Business Partner (Pension Fund)).

UNRESTRICTED ITEMS

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

Councillor Eden-Green declared a personal interest in part of the Fund Structure item as his daughter in law worked as a Finance Director at State Street, London.

205. Minutes
(Item A3)

(1) Mr Vickers informed the Committee that Mr Talbot-Rice, Fund Manager, was no longer at Sarasin. Mr Vickers undertook to report back to the next meeting of the Committee following a meeting he was attending on 27 February 2017.

(2) RESOLVED that the minutes of the meeting held on 4 November 2016 are correctly recorded and that they be signed by the Chairman.

206. Motion to exclude the Press and Public
(Item A4)

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.

EXEMPT ITEMS

207. M&G Real Estate
(Item B1)

(Mr Greaves and Ms Williams from M & G Real Estate were present for this item)

(1) The Chairman welcomed Mr Greaves and Ms Williams to the meeting and invited them to present their report on the M & G UK Residential Property Fund in which the Kent Fund had been investing since 2014.

- (2) Mr Greaves and Ms Williams responded to questions from the Committee.
- (3) RESOLVED that the presentation and the response to the Committee's questions be noted.

(Mr Greaves and Ms Williams withdrew from the meeting at the end of this item.)

208. Fund Structure

(Item B2)

(1) Mr Vickers introduced a report on a number of confidential issues relating to the management and structure of the Fund, which included, the Royal Bank of Scotland (RBS) claim, private equity and infrastructure investment and investment manager's fees.

(2) RESOLVED that:

- (a) the position on the RBS claim be noted;
- (b) the investments and returns on Private Equity and Infrastructure be noted;
- (c) a report be submitted to the March meeting of the Committee on the source and sterling cost of the €6m currently held by the Fund. In the event that it becomes necessary for action to be taken to sell these euros for sterling prior to the March meeting, authority is delegated to the Corporate Director for Finance and Procurement in consultation with the Chairman of the Committee to sell the euros;
- (d) the reductions in the Sarasin and Baillie Gifford fees be noted; and
- (e) the State Street fee reduction offer be refused and instead the Kent Fund draw down from the framework at lower fees.

(In accordance with his personal interest, Councillor Eden-Green took no part in the discussion on State Street fee reduction and abstained from the voting on decision (e) above)

209. Local Government Pension Scheme Pooling Update

(Item B3)

(1) Mr Vickers introduced a report which updated the Committee on the progress made on LGPS Pooling, the report included an update on the meeting of the Chairmen representing the ACCESS funds, the Inter-Authority Agreement (IAA) and the operator procurement.

(2) The Committee discussed the meeting with the Minister and agreement by the ACCESS Chairmen to seek further legal advice. The view of the Committee was that there should be a united approach across ACCESS to any publicity for their concerns around the pooling process.

(3) Mr Simmonds stated that it would be possible to ask Mr Carter as Chairman of the County Council's Network to lobby regarding the Pooling process.

(4) Regarding the IAA, which would establish the formal Joint Committee, Mr Vickers informed the Committee that Mr Watts as KCC's Monitoring Officer had been consulted on the Agreement. All Councils within ACCESS would be asked to approve the IAA and the

establishment of the Joint Committee. Mr Vickers confirmed the intention for Kent to provide secretarial support for the Joint Committee and the costs for this would be shared across the 11 ACCESS authorities.

(5) Mr Vickers set out the approach to the proposed CIV operator procurement, including the proposal for Kent to be the lead authority for procurement and confirmed that the mechanism for sharing the costs of providing support for ACCESS was set out in the IAA.

(6) The Chairman advised that he would be attending a meeting of Chairmen of ACCESS authorities on 15 February and noted the views expressed by the Committee.

(7) RESOLVED that:

- (a) the Minister's response and the comments made by the Committee be noted;
- (b) the approach taken to the inter-authority agreement be endorsed and the agreement be recommended to County Council, with the Council's General Counsel being given delegated authority to agree final amendments to the document in consultation with the Chairman;
- (c) it be noted that KCC had been asked to provide the secretarial support to the Joint Governance Committee;
- (d) the approach proposed for the CIV Operator procurement and KCC's role as lead authority for the procurement be noted.

UNRESTRICTED ITEMS

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

210. Pensions Administration

(Item C1)

(1) Mr Vickers introduced a report which set out the planned restructure of the Pensions Administration section.

(2) Mrs Cheatle answered questions of clarification on the details of the planned restructure.

(3) Mr Vickers confirmed that the six monthly updates to the Committee on Pensions Administration would include an update on the operation of the new structure.

(4) RESOLVED that the restructure be noted and the increase in the charge to the Superannuation Fund of £112,000 in a full year, be approved.

211. Passive Manager Procurement

(Item C2)

(1) Mr Vickers introduced a report which sought agreement to the approach to the Passive Manager procurement set out in paragraphs 9 to 13 of the report.

(2) RESOLVED that the Corporate Director of Finance & Procurement be delegated authority, in consultation with the Chairman of the Committee, to call-off from the National Framework for Passive Investment Management and contract with the selected supplier(s)

212. Fund Employer Matters
(Item C3)

- (1) Mrs Mings and Mr Tagg introduced a report on a number of admission matters.
- (2) RESOLVED that:
 - (a) the amalgamated society formed by the amalgamation of AmicusHorizon, an admission body in the Kent Fund, and Viridian Housing be admitted to the Kent County Council Superannuation Fund, by Deed of Modification; and
 - (b) a Deed of Modification be entered into with NSL Ltd; and
 - (c) the Chairman sign the minutes relating to the above recommendations at the end of today's meeting; and
 - (d) once legal agreements have been prepared for these matters the Kent County Council seal be affixed to the legal documents.

213. Date of next meeting
(Item C4)

It was noted that the next meeting of the Committee will be held on Friday 17 March 2017 at 10.00am.

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

To: Superannuation Fund Committee – 17 March 2017

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

FOR INFORMATION

INTRODUCTION

1. The Fund Position Statement is attached in the Appendix.

QUARTER TO 31 DECEMBER

2. The Fund returned +2.97% in the Quarter, behind the benchmark return +3.71%.
3. Once again there were good returns from equities, particularly Global equities in sterling terms. On Fixed Income, UK Index Linked and Corporate Bonds gave negative returns but the Fund has very little exposure to these markets.
4. The overweight position in Equities continued (68% v 64%) but the Overseas Equities overweight is +6%. Fixed Income is 4% underweight.
5. Generally our active equity managers struggled and underperformed; the exception being both Schroders mandates and M&G Global Equities. After a period of outperformance Pyrford had a poor quarter.

12 MONTHS TO 31 DECEMBER

6. At Fund level the return of +16.91% compares with a benchmark of +15.55%. Within the equity managers there were some extremes of under and over performance:
 - Woodford +3.31% against a benchmark of +16.76%.
 - Sarasin +19.64% against a benchmark of +28.66%.
 - Schroders GAV +33.08% against a benchmark of +28.67%.
 - M&G +41.13% against a benchmark of +29.40%.
7. Both Fixed Income managers outperformed.

8. Pyrford also outperformed in the year.

ASSET ALLOCATION

9. The Committee will be reviewing asset allocation in detail later this year. At the current time it is recommended that no changes are made.

RECOMMENDATIONS

10. Members are asked to note this report.

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

To: Superannuation Fund Committee – 17 March 2017

Subject: **INVESTMENT STRATEGY STATEMENT**

Classification: Unrestricted

Summary: To seek approval to the Investment Strategy Statement.

FOR DECISION

INTRODUCTION

1. This report seeks agreement to the Investment Strategy Statement (ISS) in the Appendix.

NEW REGULATIONS

2. A report was made to the meeting of the Committee on 4 November 2016 in regards to new Investment Regulations published by the Department for Communities and Local Government in September 2016. This introduced the new requirement for a ISS replacing the Statement of Investment Principles previously required.

RECOMMENDATION

3. Members are asked to agree the ISS.

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KENT COUNTY COUNCIL SUPERANNUATION FUND INVESTMENT STRATEGY STATEMENT

Introduction

1. Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of their investment strategy, in accordance with guidance issued from time to time by the Secretary of State
2. Kent County Council is responsible for administering the Kent County Council Superannuation Fund under the Local Government Pension Scheme (LGPS) Regulations. The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated responsibilities to the Superannuation Fund Committee.
3. The Committee has prepared the Investment Strategy Statement (ISS) in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.
4. In September 2016 the Department for Communities and Local Government (DCLG) published Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS). This replaces the previous requirement for a Statement of Investment Principles and the ISS must be published by 1 April 2017.
5. The ISS required by Regulation 7 must include:
 - A requirement to invest money in a wide range of investments;
 - The authority's assessment of the suitability of particular investments and types of investments;
 - The authority's approach to risk, including the ways in which risks are to be measured and managed;
 - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - The authority's policy on the exercise of rights (including voting rights) attaching to investments.

6. As set out in the Regulations the ISS will be reviewed at least every three years.

Investment Strategy

7. The Kent Fund's primary objective is to ensure that over the long term it will have sufficient assets to meet pension liabilities as they fall due.
8. In order to achieve this objective the investment strategy seeks to:
 - Maximize returns for a given level of risk;
 - Ensure liquidity requirements are met at all times;
 - Aims to achieve and maintain a 100% funding level;
 - Maintains stable employer contribution rates.
9. The Fund has had a customised benchmark since 1998 and has regularly reviewed the benchmark in light of valuation results, changes in liabilities and investment cycles. Analysis undertaken by the Fund's investment consultant has not convinced the Committee that achievement of any of these objectives will be enhanced by major diversification away from the traditional asset classes for Local Government Pension Scheme (LGPS) funds and so the asset allocation is predominantly equities, fixed income and property. The Fund's current asset allocation is shown in the table below:

Table 1: Asset Allocation

Asset Class	Allocation %
UK Equities	32
Overseas Equities	32
Fixed Income	15
Property	13
Private Equity and Infrastructure	2
Absolute Return	5
Cash	1
Total	100

The asset allocation will be reviewed later in 2017.

10. Although the Fund's funding level improved to 89% as at 31 March 2016 it is still short of 100% funding and the asset allocation reflects a strong bias towards "growth" assets, primarily equities, reflecting the need for higher returns than fixed income assets would traditionally return over the long term.

11. The Fund's view is that returns on all asset classes have been significantly impacted by the long period of very low or even negative interest rates. The existence of cheap money over such a long period has been strongly supportive of returns for most asset classes and the Committee believes that there is scope for this continuing in the medium term in-particular in relation to equities and property. The Fund will look in the medium term to maintain or add to these asset classes before considering de-risking strategies as the Fund achieves 100% funding.
12. The Fund looks to achieve diversification by asset class through investing in property, private equity, infrastructure and absolute return funds. The Fund seeks to invest in UK property through a variety of routes; primarily in directly held commercial property, in pooled commercial and UK residential property funds.
13. All investment management activities are carried out externally and there is no internal management other than of cash flow.
14. The Fund has a policy of appointing specialist managers who are expert in managing specific investment strategies which should help the Fund deliver over different investment cycles. The Fund currently has quite a low comparative allocation to passive equities reflecting an underlying concern that passive management mimics inefficiencies in the tracked indices.
15. The current manager structure and the rationale for this is set out in the table below:

Table 2: Investment Manager Structure

Asset Class/Manager	Performance Target	Style
UK Equities		
Schroders	Customised UK equity + 1.5%	High concentration
Woodford	FTSE All Share	Unconstrained
StateStreet	FTSE All Share	Tracking
Global Equities		
Baillie Gifford	Customised regional equity + 1.5%	Fixed weight regional equity
Sarasin	MSCI AC World + 2.5%	Thematic
M&G	MSCI AC World + 3%	Dividend growth
Schroders	MSCI AC World + 3-4%	Quantitative value

Impax	MSCI AC World + 2%	Environmental themed
StateStreet	FTSE World ex UK	Tracking
Fixed Income		
Schroders	3 months sterling Libor + 4%	Absolute return
Goldman Sachs	+3 1/2-6%	Target return long term hold
Property		
DTZ	IPD Customised Pension Fund Index	Direct UK property
Fidelity	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund open ended
Kames	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund close ended
M&G	IPD UK PF All Balanced Property Fund Index	UK residential fund property
Absolute Return		
Pryford	RPI + 5%	Low risk equities/fixed income /cash
Alternatives		
Private Equity-YFM	LIBID	Small value direct UK
Private Equity-Harbourvest	LBID	Global fund of funds
Infrastructure-Partners Group	LBID	Global fund of funds

Risk Measurement and Management

16. A full Risk Register is maintained and is reported annually to the Committee. This covers the full range of risks faced not just investment risks.
14. By definition all investment activities are inherently risky; the Committee in arriving at its asset allocation and investment manager structure has to assess these risks in the context of how it will achieve the required investment return of 5.4% per annum assumed by the Fund actuary.
15. Investment risk is considered formally at four of the Committee's five planned meetings during the year. The Committee considers asset class performance, looks at the overall asset allocation and then more specifically considers the risks at investment manager level. These discussions are informed by reports from Officers based upon their discussions with investment managers and their

examination of other relevant information. This approach is particularly helpful in taking opportunistic tactical asset allocation decisions.

16. The principal investment risks faced are:

Table 3: Investment Risks

Risk	Mitigation
Equity allocation	The Fund holds equities in order to achieve higher investment returns and considers that the extra level of return over the long term compensates for the additional risk. The Fund invests in managers with a variety of investment styles and there are managers who will tend to outperform in falling equity markets.
Active manager risk	The Committee believes that good active managers will add value to the Fund. It aims to establish long term relationships with managers which helps to deal with short term variations in investment performance.
Liquidity risk	The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Regulatory risk	Regulatory risk is predominantly transferred to the externally appointed investment managers who have to meet regulatory requirements. The Fund only manages cash internally and complies with CIPFA and DCLG requirements in relation to that.
Exchange rate risk	The Fund is a long term investor and can tolerate short term currency fluctuations. At Fund level there is no currency hedging as the Committee view it as a zero sum game.
Alternative asset classes	The Fund has made quite limited investments in non property alternative investments . The Committee believes that it can achieve diversification and similar investment returns through investing in more mainstream asset classes which can be more liquid and more readily valued.
Custody risk	The Fund must maintain its beneficial ownership of Fund assets when held in custody or trading and it does this through its global custodian.

Transition risk	The risk of incurring additional costs in relation to the transitioning of assets between external managers is managed through the use of professional advisers and experienced in house staff.
Stock lending	The Fund's current custodians, Northern Trust, undertake a limited programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.
Investment advice	The Fund has a long standing relationship with Hymans Robertson as its investment consultant. The Committee regularly considers the effectiveness of the advice given.

Asset Pooling

17. The Fund is part of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool. This is a group of like-minded funds valued at £32bn who came together to meet the Government criteria for pooling set out in November 2015. The Kent Fund would prefer to work on joint collaborative procurements with neighbouring funds and avoid the large and unnecessary cost overhead that pooling in the prescribed way which Government wants it done. The ACCESS funds emphasize retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.
18. ACCESS committed in its July 2015 submission to Government to setting a Collective Investment Vehicle and ACCESS is commencing a procurement process for renting an Authorised Contractual Scheme (ACS). The operator will be Financial Conduct Authority regulated. The ACCESS pool will not be managing investments internally.
19. Independent benchmarking undertaken in 2016 showed that the Kent Fund had the lowest investment management costs within the ACCESS pool and globally the costs were in the lowest quartile. Regulation 7 (2) (d) states that "administering authorities must provide a summary of assets to be held outside the pool and how this demonstrates value for money". The Fund takes this a rationale for not putting assets into the pool if it increases costs.
20. The current focus of ACCESS is establishing a Joint Committee and the CIV. The Kent Fund will rigorously apply the value for money test before moving assets in to the pool from April 2018 onwards.

21. Good progress is being made on a collaborative procurement for a passive manager. This will mean that well in advance of April 2018 around £10bn of ACCESS assets will be pooled.
22. Direct property will continue to be held outside the pool as allowed in the Regulations.

Corporate Governance

23. The Committee firmly believes that it has a fiduciary responsibility to scheme members and employers to maximize the investment returns it can achieve for a given level of risk. It therefore holds that it is not the role of the Committee to impose ethically based screens which restrict investment managers from investing in certain companies.
24. The Committee is also committed to promoting good corporate governance in the firms which it invests in. It is expected that investment managers will have their own policies on voting on shareholder issues and on environmental, social and governance issues. The Committee expects the investment managers who hold shares on its behalf to fully comply with the Financial Reporting Council's (FRC) UK Stewardship Code and to fully participate in voting at company Annual General Meetings. Engagement with companies is taken very seriously and this is regularly discussed with investment managers. The investment managers report quarterly on corporate governance issues including voting.

Advice

25. The Committee takes advice and information from:
 - The Council's Section 151 Officer and his staff;
 - Barnett Waddingham the Fund's actuary;
 - Hymans Robertson the Fund's investment consultant;
 - Investment managers;
 - Discussions with other LGPS funds;
 - Attendance at seminars and conferences; and
 - Financial press and media.

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

To: Superannuation Fund Committee – 17 March 2017

Subject: **PENSIONS AND TAX**

Classification: Unrestricted

Summary: To agree an administering authority policy on the use of voluntary scheme pays.

FOR DECISION

INTRODUCTION

1. Over the last few years the Government has made major changes to the tax regime which applies to pensions. This report seeks an administering authority decision in relation to voluntary scheme pays.

TAX RULES

2. There are three main elements to the tax changes on pensions:
 - (1) Lifetime Allowance- the lifetime allowance is the maximum level of benefits that an individual can draw without incurring tax charges. This was reduced from £1.8m to £1.5m from 6 April 2012, a further reduction to £1.25m from 6 April 2014 and to £1m from 6 April 2016. This is a very significant reduction over a short period and is explicitly intended to raise additional tax revenue for deficit reduction. The changes will draw in large numbers of individuals across the whole of the public sector, this is not a change that will only impact a small number of the most senior officers.
 - (2) Annual Allowance- this is the value of the annual increase in the value of an individual's pension pot. This was reduced from £255,000 to £50,000 on 6 April 2011 and was further reduced to £40,000 from 6 April 2014. A quite junior officer who has a significant promotion and consequential pay rise can have a tax liability related to their pension under these arrangements.
 - (3) Additionally from April 2016 individuals earning over £150,000 will lose £1 of annual allowance for every £2 of salary over £150,000. This change will impact upon a very small number of Officers across the scheme.
3. In all of these arrangements the Pension Fund is effectively acting as an agent of HMRC to facilitate the collection of income tax.
4. The Pensions Section now has to notify individuals affected by annual allowance issues by 6 October. This timescale is earlier than previously and will be very hard

to achieve given that we only receive pay information from employers as part of the year end process which with many employers is a very protracted process. Calculations are manually based and have to look at a three year period as individuals can use unused allowance from previous years. Two of our most senior technical consultants focus wholly on this work for a 6 to 8 week period. We have to achieve these timescales as individuals then have a very limited period in which to pay any tax.

5. The long standing arrangement has been that individuals where the tax liability is more than £2,000 can elect to use voluntary scheme pays. This means that the Kent Fund will pay the tax and this is deducted from the individuals personal pension pot.
6. Late in 2016 it was picked up that changes in the tax legislation has the effect of placing the discretion required to continue to allow scheme pays to each administering authority.
7. In each of the last couple of tax years scheme pays has applied to a handful of individuals each year.
8. A decision is required before the end of the financial year so that the Pensions Section can issue clear guidance for scheme members.

RECOMMENDATION

9. Members are asked to agree to a voluntary scheme pays option for all scheme members where their individual annual allowance has been exceeded and there is a tax liability in excess of £2,000.

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By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 17 March 2017

Subject: **Fund Employer Matters**

Classification: Unrestricted

Summary: To report on employer related matters, applications to join the Superannuation Fund and a number of admission matters.

FOR DECISION

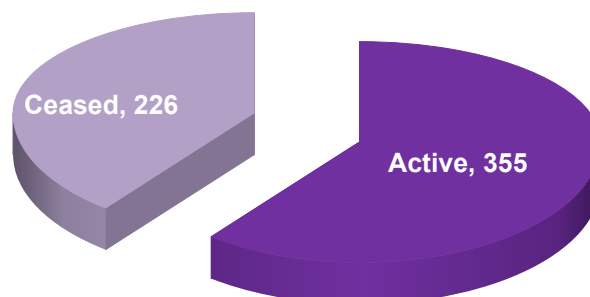
INTRODUCTION

1. This report sets out information on employer related matters and applications from organisations to become admitted bodies within the Superannuation Fund. It also advises of three contract extensions. The Committee’s approval is sought to enter into these agreements.
2. The Committee is advised that the minutes of the admission matters are to be signed at the end of today’s meeting to facilitate completion on the desired dates.

EMPLOYERS IN THE FUND AT 31 DECEMBER 2016

3. There are currently a total of 581 employers in the Kent Pension Fund.

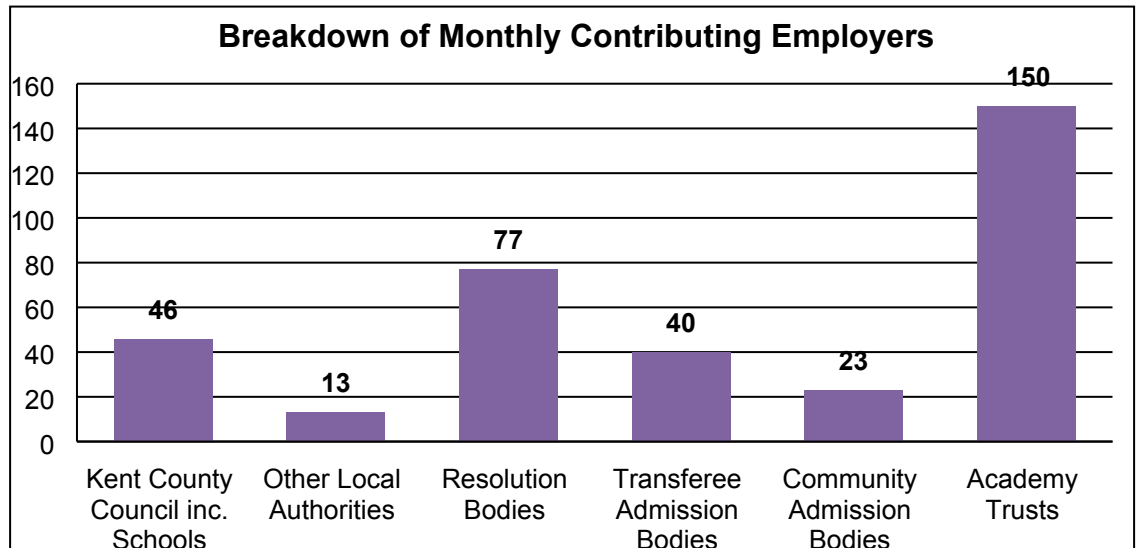
Split of Employers between Active and Ceased



4. During the 3 months to the end of December 2016 the number of Active employers who are regularly paying contributions has increased from 352 to 355 as the result of 7 new employers joining the Fund, being 4

parish councils and 3 new academy trusts. The number of Ceased employers has increased from 222 to 226. These no longer have active contributing members in the LGPS and the Fund has an existing or future liability to pay pensions.

5. The following chart shows the Employers from whom the Fund receives monthly contributions, by Employer Group.



6. The following is a list of new Active / Ceased employers in the Kent Pension Fund

Active employers	Effective date
<i>Scheduled Bodies</i>	
Harrietsham Parish Council	1 October
Meopham Parish Council	1 October
Westbere Parish Council	1 October
Smeeth Parish Council	1 November
<i>Academy Trusts</i>	
The Island Learning Trust	1 November
Tenterden Schools Trust	1 December
The Pilgrim Multi Academy Trust	1 December

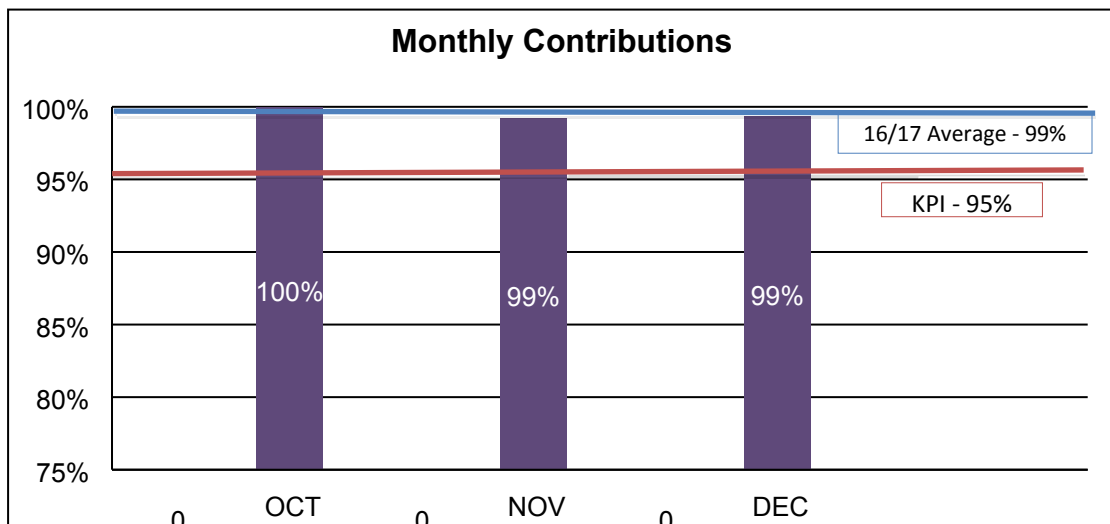
Ceased Employers	Effective date
<i>Kent County Council Incl Schools</i>	
Bredgar School	30 November
<i>Transferee Admission Bodies</i>	
Compass Group UK & Ireland	30 November
<i>Academy Trusts</i>	
Homewood School and 6th Form Centre Trust	30 November
The Lilac Sky Schools Academies Trust	31 December

CONTRIBUTIONS FROM EMPLOYERS QUARTER 3 2016/17

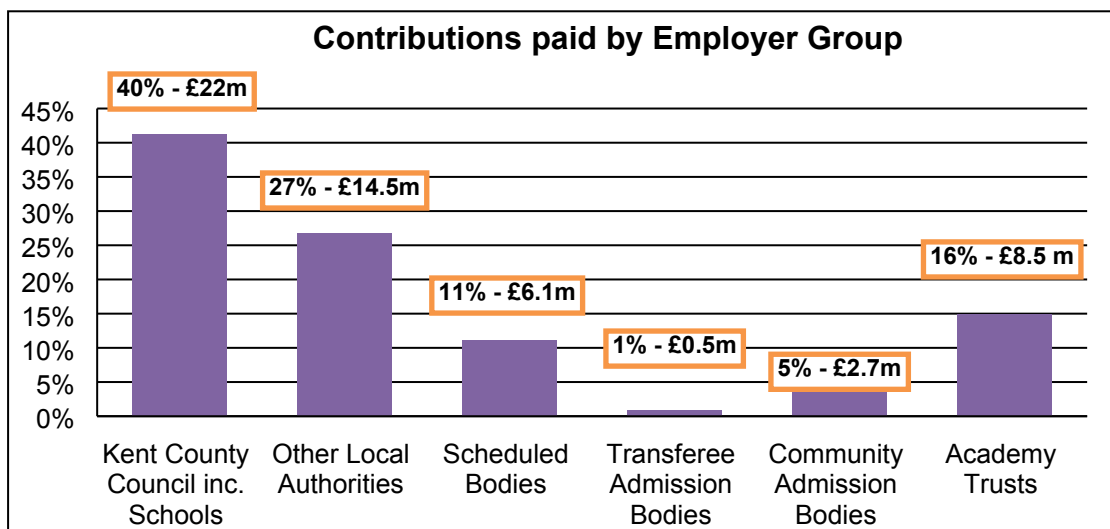
7. In quarter 3 2016 - 17 the Fund received £54.3m from Employers in respect of their monthly contributions (employer and employee) as follows:

	October £	November £	December £
Received Early	8,892,461	9,166,195	10,772,224
Cash on 19th	9,128,726	8,750,509	7,311,203
Received Late	6,314	146,689	120,405
Total	18,027,501	18,063,393	18,203,832

8. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. During quarter 3 2016-17 the KPI has been exceeded each month with an average 99% of all contributions being received on or before the due date.



9. The following table shows that KCC and other local authorities have paid £36.5m, 67% of all contributions received from employers.



MONITOR CLEANING SERVICES LTD

10. St. Anselm's Catholic School, an academy in the Kent Catholic Schools Partnership multi academy trust, is awarding a 3 year contract with a possible 2 year extension, for cleaning services, although the effective date is not yet known. This involves the transfer of approximately 10 employees from the Kent Catholic Schools Partnership to Monitor Cleaning Services Ltd.
11. To ensure the continuity of pension arrangements for these employees, Monitor Cleaning Services Ltd has applied for admission to the Superannuation Fund.
12. The admission application has been made under Schedule 2 Part 3 1 (d) (i) of the Local Government Pension Scheme Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity.
13. The Fund Actuary has assessed the level of bond at £22,000 for the first year and the employer's contribution rate has been set as 20.2% for a closed agreement.
14. The completed questionnaires and supporting documents provided by the Monitor Cleaning Services Ltd have been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the application.

MITIE SECURITY LTD

15. Mitie Security Ltd is a Transferee Admission Body which joined the Superannuation Fund on 1 April 2015 following the transfer of staff from North Kent College.
16. As this contract has been extended to 31 July 2018 it is necessary to extend the original admission agreement by way of a Deed of Modification.

CAPITA IT SOLUTIONS LTD (re St George's School Broadstairs)

17. Capita Managed IT Solutions Ltd is a transferee admission body in the Superannuation Fund following the transfer of staff from KCC on 20 December 2012.
18. As this contract has been extended to 20 February 2019 it is necessary to extend the original admission agreement by way of a Deed of Modification.

MYTIME ACTIVE

19. Mytime Active is a transferee admission body in the Kent Superannuation Fund following the transfer of staff from Maidstone Borough Council on 1 January 2011. The commercial contract relates to the running of Cobtree Golf Course in Maidstone.
20. At the time Mytime joined the Fund in 2011 a bond was not required as the risk was assessed as being limited to early retirement strain costs, and none of the transferring staff were near age 55 when, on early retirement, such costs can arise.
21. A new contract has now been agreed with Mytime Active to run from 1 April 2017 for 20 years with a possible 5 year extension.
22. It is proposed that the original admission agreement is further extended by a Deed of Modification and Mytime Active is now required to put a bond in place which the actuary has calculated as £17,000 for the first year.
23. The bond's value reflects the actuary's assessment of risk which is now more cautious and also extends to unpaid contributions, expenses and the potential for a deficit when an employer leaves the Superannuation Fund.

RUSSET HOMES LTD

24. Russet Homes Ltd (which changed its name from Tonbridge & Malling Housing Association in 2005) is a Community Admission Body. It has been in the Superannuation Fund under an open Admission Agreement since 25 February 1991.
25. Russet Homes Ltd and Circle Thirty Three Housing Trust Ltd, along with a number of other housing associations, are subsidiaries of the Clarion Housing Group Ltd. The Clarion Housing Group Ltd has advised KCC that it has been engaged over the last year or so in consolidating its subsidiaries and that it is doing this by transferring the engagements, employees and property of some subsidiaries to other subsidiaries in the Clarion Group. As part of that process, KCC has been advised that Russet Homes Ltd will be passing a resolution to transfer its engagements, employees and property to Circle Thirty Three Housing Trust Ltd.
26. Clarion Housing Group Ltd and Russet Homes Ltd accept that this will trigger the end of the Russet admission agreement and necessitate that a closing valuation be obtained. Where the valuation reveals a deficit, it would usually result in the deficit being collected from the exiting employer. As at 31 March 2016 the indicative exit liability was £13,051m.

27. Circle Thirty Three Housing Trust Ltd who will receive staff from Russet wish to enter into an admission agreement so that the staff transferring to it can continue to participate in the Kent Pension Fund.
28. In relation to the Russet deficit, Circle Thirty Three Housing Trust Ltd and Clarion Housing Group Ltd have proposed that the Fund could agree that if Circle take on liability for all of the former Russet employees that were admitted to the Fund under the Russet admission agreement (including deferred members) the Fund is permitted to certify that no exit payment is due at the time of exit. They have asked the Fund to do this in order that current assets can be applied to its community purposes and on the basis that any final exit payment will take into account liability of all the Russet and Circle employees who have participated in the Fund under the two admission agreements.
29. Legal Services have approved the application of Circle Thirty Three to be admitted to the Fund provided that a bond is also provided in relation to risk identified by the Fund Actuary further to the usual risk assessment. Commercial considerations aside, in relation to the deferral of collection of the exit payment, the Regulations are not specific on the extent to which deferral of the exit payment is properly capable of deferment as proposed and Legal Services have advised that if the Committee were minded to agree the proposal it should be on the basis that Circle Thirty Three Housing Trust Ltd and Clarion Housing Group Ltd should be required to give an indemnity for the value of the exit payment as part of the new admission arrangement so as to mitigate risk arising.

COMPASS CONTRACT SERVICES (UK) LIMITED

30. A verbal report will be provided to the Committee.

RECOMMENDATION

31. Members are asked to note the employer report and to agree:
 - a) to the admission to the Kent County Council Superannuation Fund of Monitor Cleaning Services Ltd; and
 - b) that a Deed of Modification be entered into with Mitie Security Ltd; and
 - c) that a Deed of Modification be entered into with CAPITA IT Solutions Ltd; and
 - d) that a Deed of Modification and Bond be entered into with Mytime Active Ltd; and
 - e) to the admission to the Kent County Council Superannuation Fund of Circle Thirty Three Housing Trust Ltd; and

- f) that the Chairman may sign the minutes relating to recommendations a) to e) at the end of today's meeting.
- g) that once legal agreements have been prepared for these matters the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
03000 416747

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