

SUPERANNUATION FUND COMMITTEE

Friday, 21 June, 2019

10.00 am

Medway Room - Sessions House





AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 21 June, 2019 at 10.00 am
Medway Room - Sessions House

Ask for: **Theresa Grayell**
Telephone: **03000 416172**

Membership

| | | |
|---------------------------------------|--|---|
| Conservative (8): | Mr C Simkins (Chairman), Mr P V Barrington-King, Mr P J Homewood, Mr J P McInroy and Mr J Wright | Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mr P C Cooper, |
| Liberal Democrat (1) | Mr D S Daley | |
| District Council (3) | Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green | |
| Medway Council (1) | Cllr Mrs J Iles | |
| Kent Active Retirement Fellowship (2) | Mrs M Wiggins and Mr D Coupland | |
| UNISON (1) | Mr J Parsons | |
| Staff Representative (1) | Vacancy | |

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

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

UNRESTRICTED ITEMS

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

- 1 Substitutes
- 2 Declarations of interest by Members in items on the agenda for this meeting.
- 3 Minutes of the meeting held on 31 May 2019 – to follow
- 4 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.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

EXEMPT ITEMS

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

- 5 DTZ
- 6 Woodford
- 7 Investment Strategy (Pages 5 - 14)
- 8 ACCESS Pooling Update (Pages 15 - 38)

UNRESTRICTED ITEMS

(meeting open to the public)

- 9 Fund Position Statement (Pages 39 - 48)
- 10 Pensions Administration (Pages 49 - 56)
- 11 Fund Employer Matters (Pages 57 - 72)
- 12 Date of next meeting

The next meeting of the committee will be held on Friday, 6 September 2019 at 10.00am

Benjamin Watts
General Counsel
03000 416814

Thursday, 13 June 2019

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 their items.

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

Agenda Item 7

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ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Committee Room 4 - Islington Town Hall on Monday, 18th March, 2019.

PRESENT: Cllr Andrew Reid - Chairman (Suffolk CC), Cllr Richard Stogdon (East Sussex CC), Cllr Susan Barker (Essex CC), Cllr Vanessa Churchman – substitute (Isle of Wight), Cllr Jeremy Hunt (West Sussex), Cllr Mark Kemp-Gee (Hampshire CC), Cllr Graham Lawman (Northamptonshire CC), Cllr Adam Mitchell – substitute (Hertfordshire), Cllr Terry Rogers (Cambridgeshire CC), Cllr Charlie Simkins (Kent CC) and Cllr Judy Oliver (Norfolk)

ALSO PRESENT: Mark Paget (ASU), Clifford Sims (Squire Patton Boggs), John Wright (Hymans Robertson)

OFFICERS: Andrew Boutflower (Hampshire), Nicola Mark (Norfolk), Kevin McDonald (Essex), Alison Mings (Kent), Ola Owolabi (East Sussex), Patrick Towey (Hertfordshire), Paul Finbow (Suffolk), Sharon Tan (Suffolk) Jo Thistlewood (Isle of Wight), Mark Whitby (Northamptonshire), Rachel Wood (West Sussex), and Joel Cook (Kent - Clerk)

UNRESTRICTED ITEMS

121. Minutes of the meeting held on 10 December 2018.
(Item. 3)

RESOLVED that the minutes of the meeting on 10 December 2018, subject to the correction of a minor error in paragraph 110, were a correct record and that they be signed by the Chairman.

122. 2019/20 Business Plan & Budget [11:10 - 11:30].
(Item. 4)

1. Alison Mings (Kent) provided an update on the business plan and current budget.
2. Members suggested that Sub-Fund Tranche 3a should be better distinguished from Tranche 3 in the Strategic Business Plan.
3. Members were also presented with the 2019-20 Budget for consideration and approval. The proposed budget had been reviewed by ACCESS s151 Officers in advance of the meeting.
4. Members requested that the cost of professional advice related to possible new structures (e.g. illiquid structures) be separated from the overall

Strategic and Technical costs budget line or be accompanied by a budget note.

5. In response to a question about auditing the accounts, it was explained that the host authority, Kent County Council, sought assurance from their auditors regarding record keeping. In future, the ASU would be audited by Essex's auditor. Individual Authorities were responsible for auditing their share of the costs. Historically, Kent's auditors had not provided formal assurance around record keeping as they had not deemed the costs to be significant, but the Joint Committee asked that this be requested in future.
6. In response to a question about the line of communication between the s151 Officers and the Joint Committee, Kevin McDonald (Essex) confirmed that the OWG was the conduit for communication, and also the expectation was that a s151 officer would be in attendance at future Joint Committee meetings (apologies had been received for this meeting).

RESOLVED that

- the updated business plan and 2018/19 forecast spend be noted;
- the business plan be recommended to the administering authorities; and
- The 2019/20 budget be agreed.

123. Motion to Exclude the Press and Public.

(Item. 5)

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 paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

124. Pooling Guidance Consultation [11:30 - 12:30].

(Item. 6)

1. Andrew Boutflower (Hampshire) updated the Committee on the new draft investment pooling guidance from MHCLG along with a proposed response by ACCESS.
2. The draft pooling guidance would replace the 2015 version. It was published on 3rd January 2019 to a limited group of parties with a response timeframe of 12 weeks (i.e. 28 March 2019).
3. Elements of the draft guidance had raised concern within the industry. For example, the Joint Committee felt the guidance was unclear around the fiduciary obligation of Pension Committee members.

4. In light of these concerns, ACCESS authorities had sought legal advice, and Norfolk CC had also taken their own legal advice through a QC. Clifford Sims (Squire Patton Boggs) gave a brief overview of the advice and confirmed that the two professional opinions were not in conflict.
5. The Joint Committee suggested that Norfolk's legal advice was also considered and taken into account in ACCESS' final response to the consultation. Cllr Oliver was in agreement.
6. It was noted that in addition to ACCESS submitting its collective response by 28 March 2019, individual administering authorities were still able to submit their own consultation response as well.

RESOLVED that

- the consultation that was published by MHCLG be noted;
- The cost of additional legal advice commissioned by Norfolk County Council be shared between administering authorities as a 'shared cost'; and
- Authority be delegated to Andrew Boutflower (Hampshire), in consultation with the Chairman, Vice-Chairman and Cllr Oliver (Norfolk), to amend ACCESS' draft response in line with the additional legal advice and to submit the final version on behalf of ACCESS by the deadline of 28 March 2019.

125. ACS Implementation update - Phase 1 & 2 and Illiquid Investment [12:30 - 12:45].
(Item. 7)

1. Andrew Boutflower updated the Joint Committee on the progress of launching the ACS, the sub-funds that would be created within it and investigation into pooling illiquid investments.

RESOLVED that

- The progress in launching the ACS investment sub-funds be noted;
- The progress in identifying options of pooling illiquid investments be noted.

126. Contract Management Update [12:45 - 13:00].
(Item. 8)

1. Mark Paget updated the Joint Committee on the first three months activity of the Authorised Contractual Scheme (ACS).
2. The contract for the provision of Operator Services for the Authorised Contractual Scheme (ACS) was awarded to Link Fund Solutions (LFS) in March 2018, with a Contracts Manager commencing in December 2018. Some areas had been identified for improvement and these were being addressed.

3. Members requested that Link Fund solutions, the provider of ACCESS' ACS, attend the next meeting to provide an update on their activity.

RESOLVED that the establishment of management protocols with the supplier and the activity that has taken place since the appointment of the Contracts Manager be noted.

127. ACCESS Support Unit update [13:30 - 14:00].

(Item. 9)

1. Kevin McDonald and Mark Paget provided an update on the developments regarding the ACCESS Support Unit (ASU).
2. Following the update from the previous meeting, Essex County Council had appointed a specialist recruiter to assist in the recruitment of the Director post (previously titled "Programme Director"). The selection process was underway, with the expectation the Chairman and Vice-Chairman of the Joint Committee would participate in the final interviews in late March.
3. The roles of Technical Lead Officers had been filled by LGPS staff from ACCESS Member authorities.
4. The role of the ASU Support Officer had also been filled and was due to commence during April.

RESOLVED that the updates be noted.

128. Governance update [14:00 - 14:15].

(Item. 10)

1. Nicola Mark (Norfolk) provided an update on Phase 3 of the Governance work, following the consultation with Section 151 Officers during January 2019.
2. Terms of Reference had been written for Section 151 Officers, setting out their responsibilities and a definition of their relationship with Joint Committee members.
3. It was clarified that the Terms of Reference for the Officer Working Group would be removed from the IAA (a static document) and included in the Governance Manual (a working document), which would allow their role to be adapted in future, once the ASU was fully implemented.
4. The need for training was reiterated, and officers advised this would take place around June time, though the detail was still being finalised.

5. The IAA had also been under review, to reflect necessary changes that had occurred since the pool was formed.
6. It was anticipated that the final documents for the IAA and Governance Manual would be sent to each authority's Monitoring Officer in late April for approval. The Joint Committee could expect to see the final versions of the documents at their next meeting, subject to approval.

RESOLVED that

- The actions taken to address feedback following the Section 151 meeting be noted;
- The revised timetable for completion of phase 3 governance deliverables be noted.

129. Communications Plan [14:15 - 14:30].
(Item. 11)

1. Responding to an identified need for clear communications to external parties, Sharon Tan (Suffolk) presented the Key Messages for ACCESS document, which had been written following a communications workshop hosted by Hymans and consultation with the OWG.
2. The internal, working document was created to aid ACCESS members answer questions, in order to promote greater clarity and ensure consistency. An updated document would be taken to the Joint Committee on a quarterly basis.
3. Members would be offered media training during April 2019.
4. A Member commented that the key messages could be quite complex to understand for LGPS members, who may not even be aware of the existence of ACCESS. It was clarified that individual authorities were responsible for communicating with their staff about ACCESS, though could of course use the key messages document as an aide memoir.
5. Members requested that an overall statement regarding policy changes be written that they could use if required.
6. A member requested that the use of the word "funds" was clarified, making it clear that the document was referring to "pension funds of administering authorities".

RESOLVED that the Key Messages document be approved, subject to the addition of a policy change statement and clarification of the word "funds".

130. Responsible Investment [14:30 - 14:45].

(Item. 12)

1. Alison Mings (Kent) updated members of the Joint Committee on the status of the Responsible Investment Policies of each administering authority in the ACCESS pool.
2. A brief review of the authorities' policies had shown that they were all broadly aligned with the existing ACCESS policy. Authorities would be undertaking an investment strategy review during 2019, so it was agreed that the subject be added to a future agenda of the Joint Committee.

RESOLVED that the content of the report is noted, and that an update be considered at a future meeting.

131. Items for information or advice from the Committee [14:45 - 15:00].

(Item. 13)

There were no additional items for information or advice.

132. Date of next meeting.

(Item. 14)

1. In response to comments from Members regarding future dates, the Clerk agreed to review plans and update Members in due course.

RESOLVED that it be noted the next meeting would be held on Tuesday 11 June 2019.

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

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

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By: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 21 June 2019

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.
2. The Quarter saw very strong performance from equity and fixed income markets. The Fund strongly outperformed the benchmark with a return of 7.34% against a benchmark of 5.42%. The Fund increased in value by £420m in the quarter.

INVESTMENT RETURN QUARTER TO 31 MARCH

2. The investment returns in the quarter were driven primarily by strong returns from the Global Equity managers; Baillie Gifford, Sarasin and M&G.
3. Both Fixed Income managers also outperformed well.
4. After a run of disappointing performance both Pyrford and Ruffer outperformed.

LONGER TERM INVESTMENT RETURN

5. The Fund outperformed its benchmark over 1 years (7.09% v 7.05%) and also over three years (10.76% v 9.89%). The latter is particularly significant in light of the actuarial valuation at 31 March 2019 with the return well ahead of that assumed by the actuary.
5. The strength of Global Equities drove the longer term returns and in the year Baillie Gifford continued to perform very strongly but M&G and Sarasin also produced strong returns. The main areas of concern are the Woodford UK Equities and Schroder Global Equities.
6. Elsewhere in these papers the strong performance of DTZ Direct Property is considered.

ASSET ALLOCATION

9. The Committee is formally required to consider asset allocation at each meeting. Additional investment in Multi Asset Credit is considered by members in the Investment Strategy report.

RECOMMENDATION

10. Members are asked to note this report.

Nick Vickers
Business Partner (Pension Fund)
Tel: 07920 428575
E-mail: nick.vickers@kent.gov.uk

FUND POSITION STATEMENT

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

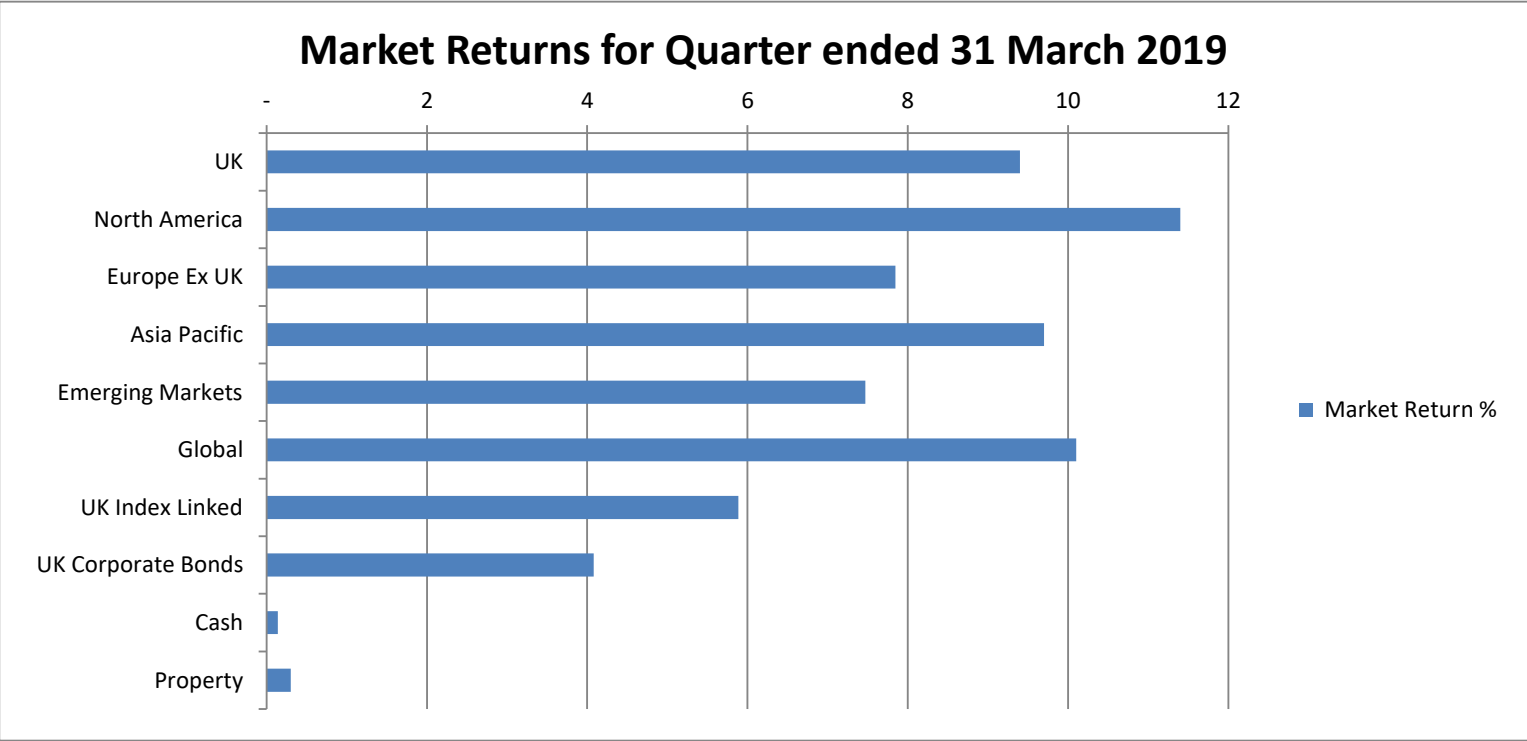
By: Chairman Superannuation Fund Committee
Acting Corporate Director of Finance



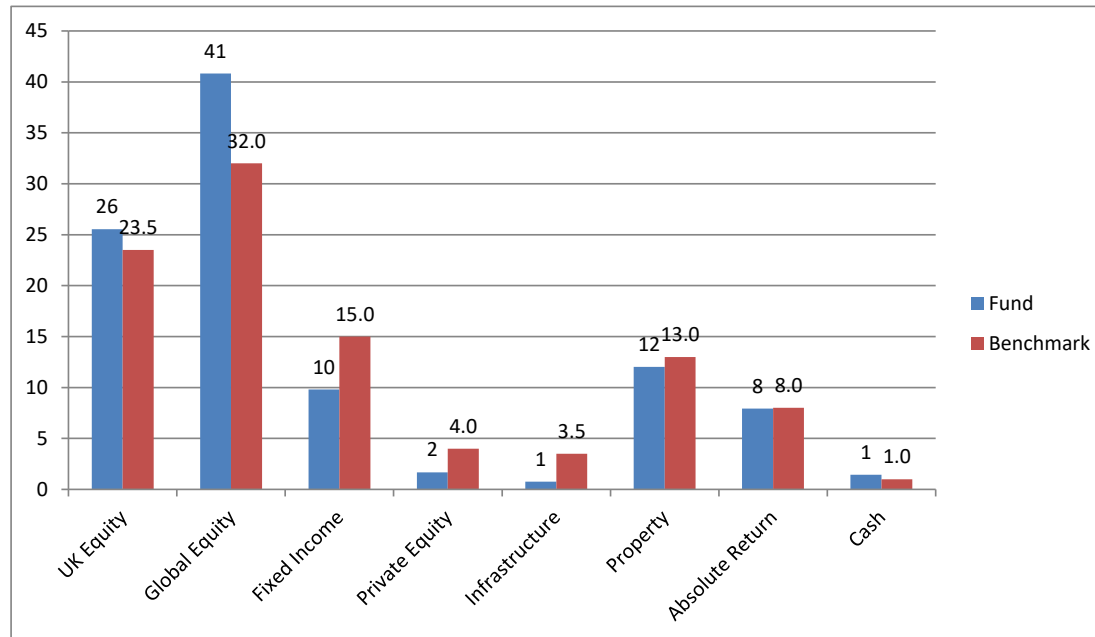
Kent County Council
Superannuation Fund Q4 2018-19

Nick Vickers - Business Partner (Pension Fund)

Market Returns for Quarter ended 31 March 2019

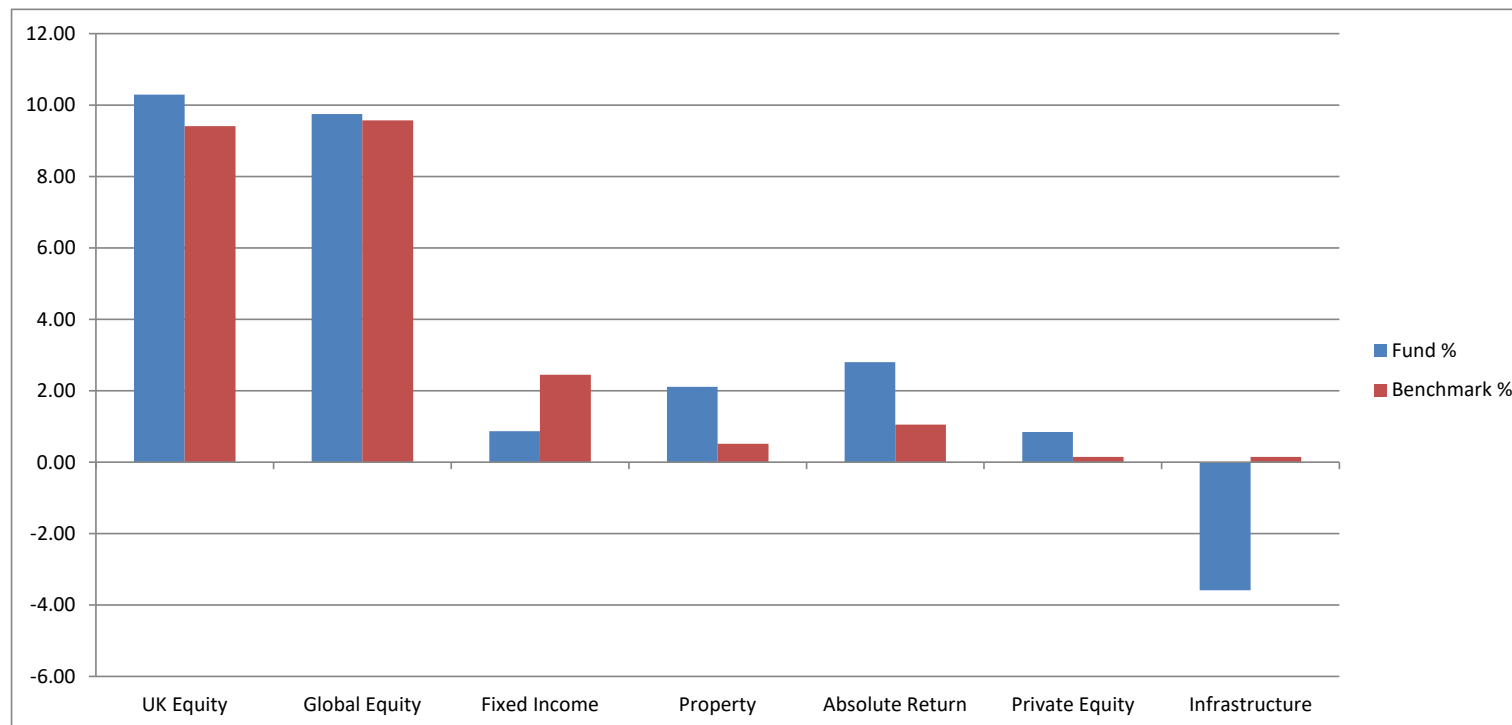


Fund Asset Allocation vs Benchmark as at 31 March 2019



| Asset Class | Fund | | Benchmark |
|-----------------|--------------|------------|------------|
| | £m | % | % |
| UK Equity | 1,587 | 25.5 | 23.5 |
| Global Equity | 2,535 | 40.8 | 32 |
| Fixed Income | 610 | 9.8 | 15 |
| Private Equity | 105 | 1.7 | 4 |
| Infrastructure | 47 | 0.7 | 3.5 |
| Property | 747 | 12.0 | 13 |
| Absolute Return | 492 | 7.9 | 8 |
| Cash | 89 | 1.4 | 1 |
| Total | 6,211 | 100 | 100 |

Fund Asset Class Performance for Quarter ending 31 March 2019



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| Asset Class | Fund % | Benchmark % | Outperformance % |
|-----------------|--------|-------------|------------------|
| UK Equity | 10.29 | 9.41 | 0.88 |
| Global Equity | 9.75 | 9.57 | 0.18 |
| Fixed Income | 0.86 | 2.45 | -1.59 |
| Property | 2.11 | 0.51 | 1.60 |
| Absolute Return | 2.80 | 1.05 | 1.75 |
| Private Equity | 0.85 | 0.14 | 0.70 |
| Infrastructure | -3.59 | 0.14 | -3.73 |

Market Value Summary by Fund Manager as at 31 March 2019

| Fund Mandate | Asset Class | Market Value as at 31 December 2018 (£m) | Market Value as at 31 March 2019 (£m) | Change in Market Value (£m) | % of Total Fund 31 March 2019 |
|-------------------------|-----------------|--|---|-----------------------------------|----------------------------------|
| Baillie Gifford * | Global Equity | 1,157 | 1,302 | 145 | 21.0% |
| Schroders * | UK Equity | 874 | 958 | 84 | 15.4% |
| DTZ | Direct Property | 457 | 487 | 30 | 7.8% |
| Pyrford | Absolute Return | 413 | 424 | 11 | 6.8% |
| Goldman Sachs | Fixed Interest | 368 | 385 | 17 | 6.2% |
| M&G * | Global Equity | 320 | 358 | 38 | 5.8% |
| UBS UK | UK Equity | 309 | 336 | 27 | 5.4% |
| UBS Global | Global Equity | 276 | 303 | 27 | 4.9% |
| Schroders GAV | Global Equity | 273 | 292 | 19 | 4.7% |
| Woodford | UK Equity | 255 | 260 | 4 | 4.2% |
| Sarasin | Global Equity | 230 | 254 | 24 | 4.1% |
| Schroders | Fixed Interest | 235 | 241 | 6 | 3.9% |
| Fidelity | Pooled Property | 131 | 131 | 0 | 2.1% |
| Internally managed cash | Cash | 87 | 68 | -19 | 1.1% |
| Harbourvest | Private Equity | 79 | 77 | -2 | 1.2% |
| Ruffer | Absolute Return | 66 | 68 | 2 | 1.1% |
| Kames | Pooled Property | 54 | 52 | -2 | 0.8% |
| DTZ Pooled Funds | Pooled Property | 52 | 50 | -1 | 0.8% |
| Impax | Global Equity | 43 | 48 | 5 | 0.8% |
| Partners | Infrastructure | 49 | 47 | -3 | 0.7% |
| YFM | Private Equity | 25 | 29 | 4 | 0.5% |
| M&G Property | Pooled Property | 25 | 26 | 2 | 0.4% |
| UBS Emerging Markets | Global Equity | 14 | 15 | 1 | 0.2% |
| Total Kent Fund | | 5,790 | 6,211 | 420 | 100.0% |

* Mandates transferred to Link ACCESS Funds in Feb 2019

| |
|--|
| Performance Returns as at 31 March 2019 |
|--|

| | Quarter | | 1 Year | | 3 Year (p.a.) | |
|--------------------------|---------|-----------|--------|-----------|---------------|-----------|
| | Fund | Benchmark | Fund | Benchmark | Fund | Benchmark |
| Total Fund | 7.34 | 5.42 | 7.09 | 7.05 | 10.76 | 9.89 |
| Uk Equity | | | | | | |
| Schroders UK Equity | 9.50 | 9.41 | 6.28 | 6.36 | 9.36 | 9.51 |
| UBS | 9.40 | 9.41 | 6.37 | 6.36 | -- | -- |
| Woodford | 1.70 | 9.41 | -5.34 | 6.36 | -2.60 | 9.51 |
| Global Equity | | | | | | |
| Baillie Gifford | 12.53 | 8.50 | 10.90 | 7.41 | 18.38 | 13.31 |
| Sarasin | 10.51 | 9.64 | 10.36 | 10.46 | 15.56 | 14.35 |
| Schroders GAV | 7.00 | 9.64 | 5.49 | 10.46 | 11.91 | 14.35 |
| UBS Emerging Markets | 7.88 | 7.94 | 1.62 | 1.90 | -- | -- |
| UBS World Ex UK Equity | 9.78 | 9.82 | 12.09 | 12.09 | -- | -- |
| Impax | 11.79 | 9.64 | 7.11 | 10.46 | 12.95 | 14.35 |
| M&G | 9.10 | 8.45 | 10.60 | 10.46 | -- | -- |
| Fixed Interest | | | | | | |
| Goldman Sachs | 4.54 | 0.86 | 4.49 | 3.50 | 5.66 | 3.50 |
| Schroders Fixed Interest | 2.45 | 0.30 | -2.53 | 1.05 | 1.68 | 0.69 |
| Property | | | | | | |
| DTZ | 2.87 | 0.51 | 7.18 | 5.52 | 10.17 | 6.74 |
| Fidelity | 0.14 | 0.30 | 6.88 | 4.88 | 7.62 | 6.18 |
| Kames | -0.04 | 0.30 | 6.47 | 4.88 | 8.00 | 6.18 |
| M&G Property | 0.98 | 0.30 | 8.08 | 4.88 | 4.27 | 6.18 |
| Private Equity | | | | | | |
| Harbourvest | -2.99 | 0.14 | 23.95 | 0.51 | 17.98 | 0.31 |
| YFM | 12.75 | 0.14 | 37.71 | 0.51 | 22.60 | 0.31 |
| Infrastructure | | | | | | |
| Partners | -3.59 | 0.14 | 10.55 | 0.51 | 12.47 | 0.31 |
| Absolute Return | | | | | | |
| Pyrford | 2.75 | 1.05 | 3.60 | 7.43 | 3.11 | 8.04 |
| Ruffer | 3.15 | 1.05 | -- | -- | -- | -- |

Fund Manager Benchmarks and Performance Targets

| Asset Class / Manager | Performance Benchmark | Performance Target |
|---|-------------------------------|---|
| UK Equities: | | |
| Schroders UK Equity | Customised | +1.5% pa over rolling 3 years |
| Woodford | FTSE All Share | Unconstrained |
| UBS UK Equity | FTSE All Share | Match |
| Global Equities: | | |
| Baillie Gifford | Customised | +1.5% pa over rolling 3 years |
| Sarasin | MSCI AC World Index NDR | +2.5% over rolling 3 - 5 years |
| M&G | MSCI AC World Index GDR | +3% pa |
| Schroders GAV | MSCI AC World Index NDR | +3% - 4% pa over rolling 3 years |
| Impax | MSCI AC World Index NDR | +2% pa over rolling 3 years |
| UBS Global Equity | FTSE (Dev) World ex UK | Match |
| UBS Emerging Market Equities | FTSE Emerging Markets | Match |
| Fixed Income: | | |
| Schroders Fixed Interest | 3 months Sterling Libor | +4% pa over a full market cycle |
| Goldman Sachs | +3.5% Absolute | +6% Absolute |
| Property: | | |
| DTZ | IPD Pension Fund Index | ≥ 3 year rolling average of benchmark returns |
| Fidelity | IPD UK PF Property Fund Index | |
| Kames | IPD UK PF Property Fund Index | |
| M&G Property | IPD UK PF Property Fund Index | |
| Alternatives: (Cash / Other Assets) | | |
| Private Equity – YFM | GBP 7 Day LIBID | |
| Private Equity – HarbourVest | GBP 7 Day LIBID | |
| Infrastructure – Partners Group | GBP 7 Day LIBID | |
| Absolute Return – Pyrford | Retail Price Index (RPI) | RPI + 5% |
| Absolute Return – Ruffer | Retail Price Index (RPI) | |
| Internally managed cash – KCC Treasury and Investments team | GBP 7 Day LIBID | |

Fund Structure as at 31 March 2019

| UK Equities | Global Equities | Fixed Interest | Property | Cash/Alternatives |
|---|--------------------------------------|---------------------------------------|--------------------------------|---|
| Schroders +1.5% £958 m | Baillie Gifford +1.5% £1,302 m | Goldman Sachs +6.0% Abs. £385 m | DTZ Property £538 m | Internally managed Cash £68 m |
| UBS 0.0% £336 m | M&G +3.0% £358 m | Schroders +4.0% £241 m | Fidelity Property £131 m | Partners Infrastructure £47 m |
| Woodford £260 m | Schroders +3.0% - +4% £292 m | | Kames Property £52 m | YFM Private Equity £29 m |
| | UBS +0.0% £318 m | | M&G Property £26 m | HarbourVest Private Equity £77 m |
| | Impax +2.0% £48 m | | | Pyrford Abs. Return RPI + 5% £424 m |
| | Sarasin +2.5% £254 m | | | Ruffer Abs. Return RPI £68 m |
| <div style="border: 2px solid blue; padding: 5px; display: inline-block;"> Total Fund £6.2 bn </div> | | | | |

By: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 21 June 2019

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- CIPFA Benchmarking Survey Results 2018
- Preparation for Fund Valuation

FOR INFORMATION

INTRODUCTION

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

WORKLOAD POSITION

2. Appendix 1 shows the year on year comparison of work levels being received in the section.
3. The majority of work categories have increased levels when compared to 2017/18 and overall when comparing the work completed in 2014/15 to 2018/19, work completed has increased by 54%.
4. As reported previously the category where there is the most marked increase, when compared to 2014/15, is regarding communications to the section. Emails and written correspondence increased to 5789 during 2018/19, with the peak months being July through to September, and the quietest December. The peak months are probably as a result of communications to deferred and active members of the scheme regarding the current value of their pension benefits which then raise questions. We encourage members of the scheme to visit our website www.kentpensionfund.co.uk, with approximately 110,000 visits in 2018/19, to answer as many of their questions as possible however many still require a personal response. These figures do not include telephone calls received in the section, which averages at approximately 1630 each month.

5. The increase in the number of pension benefits paid during the year 2018/19 is likely to be due to the scheme regulations changing in May 2018 to allow former members of the scheme, i.e. deferred beneficiaries, to access their pension benefits from age 55 without their employer's consent. Previously this option had only been available to those that had left the scheme after 1 April 2014 but was now opened to all deferred beneficiaries. This new option was communicated to these scheme members in June 2018 with an increase in those seeking information and taking up this option.
6. The increase in the number of deferred benefit calculations shown in Appendix I for 2018/19 is as a result of us increasing the amount of resource in this area to help to alleviate the backlog of these cases built up over the previous years. However, backlogs still exist in this area and work continues to try to lessen the amounts before the valuation of the Fund takes place.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

7. Appendix 2 shows the achievements of the section in meeting its KPIs for the year 2018/19 compared to the previous 4 years.
8. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.
9. 3 categories of work show a KPI percentage within the agreed target however as a result of concentrating efforts on certain areas of work and due to the changes to the scheme still impacting, especially with regard to data received from employers, and the requirement in the scheme regulations that annual benefit illustrations and deferred benefit updates have to be issued by 31 August, the turnaround of estimates and other areas of work have suffered.

CIPFA BENCHMARKING SURVEY RESULTS 2018

10. The Kent Pension Fund participates in the annual CIPFA administration costs benchmark survey.
11. The survey in 2018 compared our costs with those of 31 other administering authorities.
12. Appendix 3 shows our performance against other authorities in a range of administrative areas. I have shown Kent's performance for 2017 and 2018 for comparison.
13. The results place Kent 10th of the 32 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.
14. In comparison to other administering authorities our administration cost per member at £17.18 is lower than the average of £21.46.

15. Staff costs and communication costs per member are on a par with the average although as members will be aware, we have and remain understaffed regarding our structure and therefore if fully staffed it is likely that our staff costs would exceed the average. The payroll cost per pensioner is higher than the average and detailed discussions are being undertaken with Cantium Business Solutions, who provide the pension payroll function, with regard to the breakdown of their costs and initiatives, like the introduction of member self service, would bring down the costs of providing payslips etc to pensioners, which are included in these costs
16. The report indicates that Kent has the 9th highest number of employers in the Fund when compared to the other 31 authorities.
17. The most significant variance is seen in the number of unprocessed leavers that we currently have when compared to the other authorities. This is as a result of the changes to the scheme from 2014, the added complexities to administering the scheme, the increase in communications and the statutory requirement to provide annual benefit illustrations by 31 August. Work is being undertaken to process these cases and more information regarding this is detailed below.
18. With the exception of this area of work in general terms I believe the results reflect well on our achievements particularly given, there is no 'quality' measure, built into the survey.

PREPARATION FOR FUND VALUATION

19. In preparation for Barnett Waddingham undertaking the scheme valuation, and due to our problems in recruiting and retaining staff, various initiatives have been undertaken in the last 12 months to assist with clearing outstanding cases. During last summer temporary staff were employed and in the autumn several staff from Barnett Waddingham assisted with clearing cases.
20. However it soon became apparent that due to the number of cases outstanding additional help was needed and at the Superannuation Committee meeting, that took place on 16 November 2018, agreement was given for the Fund to call off from the Norfolk Framework to engage with a company to help to clear backlog cases.
21. The expectation was that the company could help to clear 10,000 cases before the scheme information for the valuation had to be sent to the scheme actuary at the end of July 2019. Two companies on the framework responded to the option however it soon became apparent that neither company could commit to clearing 10,000 cases within the timeframe.
22. It was therefore decided to engage with both companies, Independent Transition Management and JLT Employee Benefits, both of which have been allocated 5000 cases. These cases include deferred benefits, refunds of contributions and aggregation cases. Some of the cases have the information available in order to proceed, others require information from the scheme member's former employer, which the companies are required to obtain where possible.

23. In order to clear the cases, the companies received training from the Pensions Section regarding processes. Work is progressing on the cases with weekly update calls and reports being provided. Updates on the number of outstanding cases are provided to Barnett Waddingham on a regular basis.
24. The companies are experiencing the same problems as the Pension Section has in obtaining leaver information from the former employers but contacts have been made and it is hoped that information will be provided in order that the cases can be completed within the timeframe.

RECOMMENDATION

25. Members are asked to note this report.

Barbara Cheatle
Pensions Manager
03000 415270

Tasks completed in key administration areas
Workload summary

| Case Type | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--|----------------|----------------|----------------|----------------|----------------|
| Benefit calculation | 1928 | 1766 | 2238 | 2008 | 2591 |
| Correspondence | 3450 | 4719 | 5370 | 5339 | 5789 |
| Divorce case | 293 | 385 | 381 | 329 | 398 |
| Estimate calculation | 2541 | 2810 | 3145 | 3025 | 3681 |
| Deferred benefit | 2475 | 993* | 1357* | 1720* | 3914 |
| Transfer/Interfunds in (including quotes) | 189 | 204 | 286 | 422 | 432 |
| Transfer/Interfunds out | 558 | 651 | 644 | 859 | 788 |
| Dependants | 323 | 377 | 410 | 578 | 529 |
| Total | 11,757 | 11,905 | 13,831 | 14,280 | 18,122 |

*These represent the number of leavers that have been identified as deferred benefits and have been processed. It does not include members who have left the scheme where we have still to process the leaver

Achievements against Key Performance Indicators

| Case Type | Target Time | 14/15 | | 15/16 | | 16/17 | | 17/18 | | 18/19 | |
|---|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|
| | | No | % in target | No | % in target | No | % in target | No | % in target | No | % in target |
| Calculation and payment of retirement benefit | 20 days | 1928 | 99% | 1766 | 96% | 2238 | 95% | 2008 | 98% | 2591 | 96% |
| Calculation and payment of dependant benefit | 15 days | 323 | 87% | 377 | 86% | 410 | 95% | 578 | 99% | 529 | 97% |
| Calculation and provision of benefit estimate | 20 days | 2541 | 63% | 2810 | 62% | 3145 | 67% | 3025 | 72% | 3681 | 72% |
| Reply to correspondence | 15 days | 3450 | 98% | 4719 | 98% | 5370 | 99% | 5339 | 99% | 5789 | 100% |

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

CIPFA Administration Benchmark Survey 2018

| | Kent Pension Fund | | Average over all participants 2018 |
|--|-------------------|--------|------------------------------------|
| | 2017 | 2018 | |
| Total administration costs per member | £18.08 | £17.18 | £21.16 |
| Staff costs per member | £9.02 | £9.21 | £9.04 |
| Payroll costs per pensioner | £6.67 | £8.68 | £4.89 |
| Communication costs per member | £0.72 | £0.62 | £0.75 |
| Number of LGPS Employers | 422 | 428 | 357 |
| Leavers unprocessed/in progress | 12.7% | 12% | 3.2% |

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By: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 21 June 2019

Subject: **Fund Employer Matters**

Classification: Unrestricted

Summary: To report on employer related matters

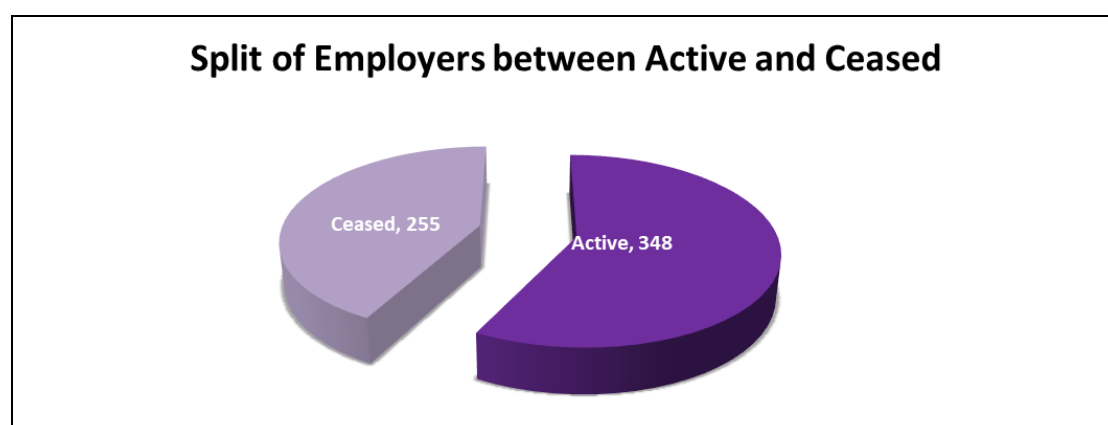
FOR DECISION

INTRODUCTION.

1. This report sets out information on employer related matters and an application from an organisation to become an admitted body within the Superannuation Fund. It also advises on officer delegations, consultations and actuary issues.
2. The Committee are advised that the minutes relating to the matters are to be signed at the end of today's meeting.

EMPLOYERS IN THE FUND AT 31 MARCH 2019

3. There were a total of 603 employers in the Kent Pension Fund.



4. The number of active employers regularly paying contributions decreased in the 3 months January to March 2019 to 348 as a result of 1 employer joining the Fund while 19 employers either merged to trust, changed their payroll provider or ceased to have active members in the LGPS. The ceased employers no longer have active contributing members in the LGPS and the Fund has an existing or future liability to pay any pensions.

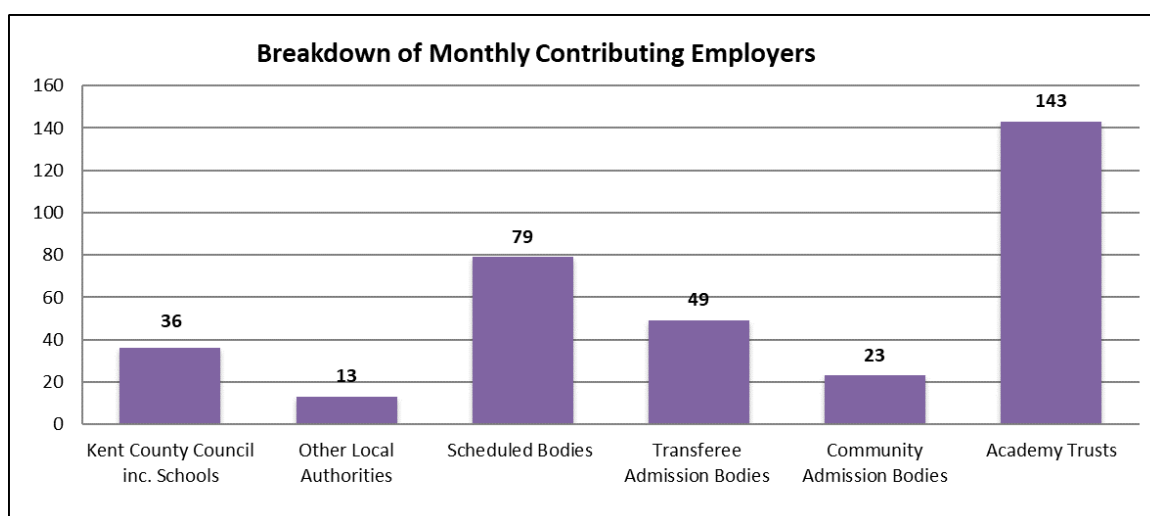
5. The following table lists employers who either joined or ceased to have active members in the Fund during 2018-19.

| New Employers | Effective date |
|---|------------------|
| <i>Scheduled Bodies</i> | |
| Westgate on Sea Parish Council | 1 April 2018 |
| Cantium Business Solutions Limited | 1 July 2018 |
| EDSECo Ltd trading as The Education People | 1 September 2018 |
| <i>Academy Trusts</i> | |
| Veritas Multi Academy Trust | 1 May 2018 |
| Fortis Trust | 1 June 2018 |
| The Pioneer Academy | 1 July 2018 |
| Coppice Primary Partnership | 1 September 2018 |
| Fort Pitt & Thomas Aveling Academies Trust | 1 September 2018 |
| <i>Admitted Bodies</i> | |
| Nourish Contract Catering Limited (Swale Academy Trust) | 1 April 2018 |
| Solo Service Group Limited | 1 July 2018 |
| Churchill Contract Services Limited (SJWM) | 16 July 2018 |
| Cater Link Limited (re Rivermead Inclusive Trust) | 1 August 2018 |
| Kingdom Services Group Limited | 1 August 2018 |
| Nourish Contract Catering Limited (re Stour) | 1 September 2018 |
| Monitor Services Group Limited | 1 December 2018 |
| The Marlowe Trust | 1 December 2018 |

| Ceased/Merged to Trust Employers | Effective date |
|--|------------------|
| <i>Academy joined a Multi-Academy Trust / Change of Trust</i> | |
| Danecourt Academy (Argent) | 1 April 2018 |
| Veritas Academy | 1 May 2018 |
| Bradfields Academy | 1 June 2018 |
| Meopham Community Academy | 1 August 2018 |
| Schools Company Trust | 1 August 2018 |
| Rosherville Church of England Academy | 1 September 2018 |
| Walderslade Girls' School Trust | 1 October 2018 |
| St James CE Primary School Academy-WAT | 1 January 2019 |

| Admitted Bodies | |
|--|-----------------|
| Principal Catering (Our Lady Of Hartley) | 1 December 2017 |
| Mitie Security Limited | 1 August 2018 |
| TCS Independent Limited | 1 December 2018 |
| Scheduled Bodies | |
| Sholden Parish Council | 1 July 2018 |
| Temple Ewell Parish Council | 1 January 2019 |

6. The following chart shows the Employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the County's and schools' relationships with several payroll providers.



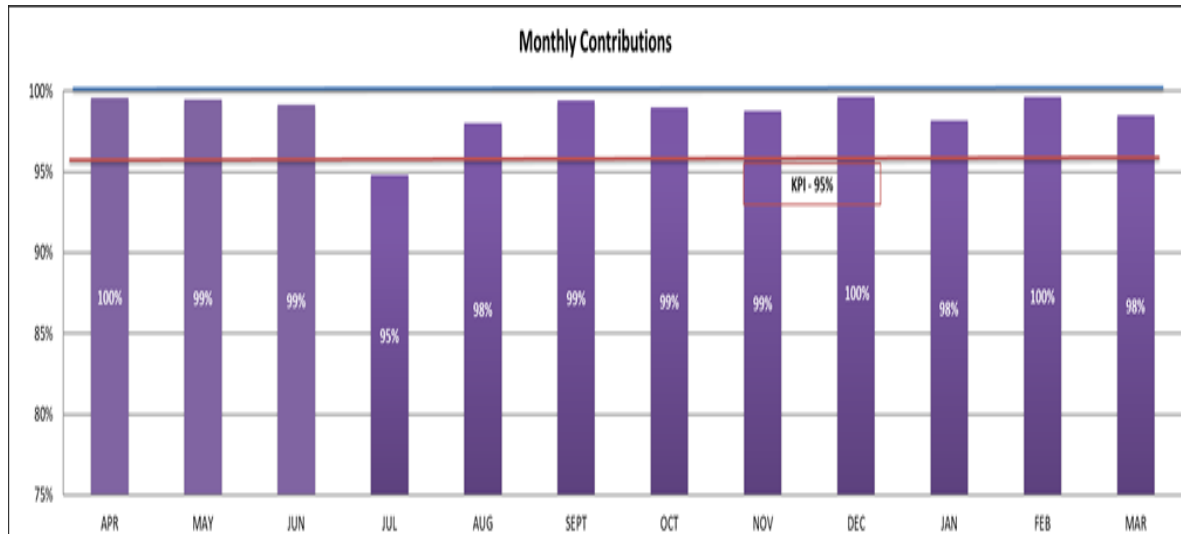
CONTRIBUTIONS FROM EMPLOYERS

7. In 2018-19 the Fund received £228m from Employers in respect of their monthly contributions (employer and employee) as follows:

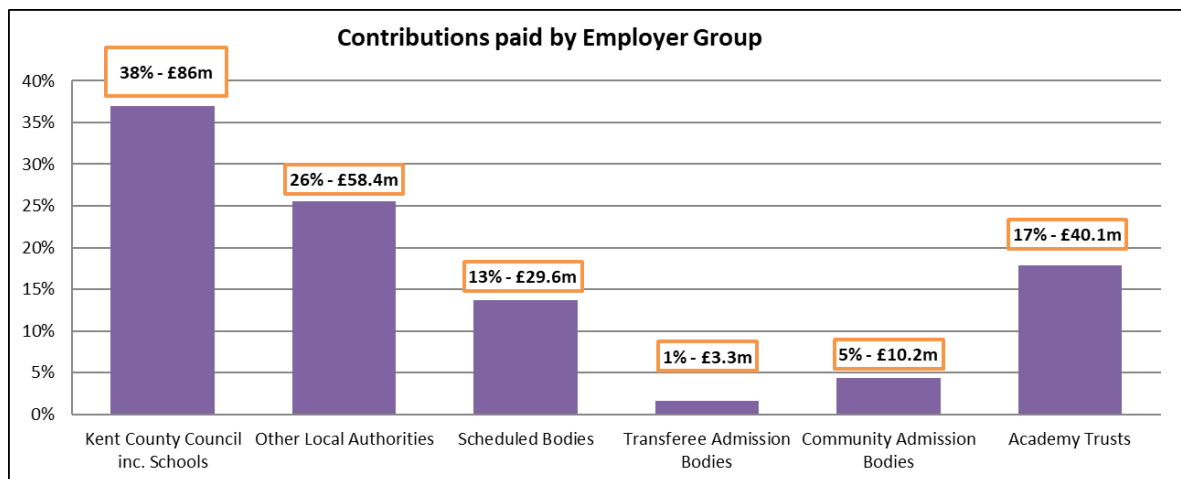
| | Received Early | Cash on 19th | Received Late | Total |
|-----------|-----------------------|---------------------|----------------------|--------------|
| | £ | £ | £ | £ |
| April | 10,125,904 | 9,140,793 | 84,200 | 19,350,896 |
| May | 11,766,335 | 7,105,259 | 93,664 | 18,965,259 |
| June | 10,401,830 | 8,559,473 | 150,331 | 19,111,634 |
| July | 9,095,181 | 8,875,664 | 1,023,703 | 18,994,548 |
| August | 10,080,883 | 8,391,175 | 375,229 | 18,847,287 |
| September | 11,091,649 | 7,609,068 | 42,917 | 18,743,635 |
| October | 10,310,159 | 8,398,323 | 221,816 | 18,930,299 |
| November | 10,620,515 | 8,090,218 | 262,675 | 18,973,409 |
| December | 11,278,990 | 7,928,484 | 68,972 | 19,276,445 |
| January | 11,776,824 | 6,756,046 | 348,653 | 18,881,522 |

| | | | | |
|--------------|--------------------|-------------------|------------------|--------------------|
| February | 12,161,209 | 6,976,720 | 72,003 | 19,209,932 |
| March | 9,951,104 | 8,590,306 | 286,869 | 18,828,279 |
| Total | 128,660,583 | 96,421,529 | 3,031,032 | 228,113,145 |

8. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. The KPI was exceeded in 11 out of the 12 months and the average for this quarter for contributions received was 99%. The late receipts in July and August were 1-2 days late from 2 local authorities and a college, and officers followed up with the employers.



9. The following chart shows the proportion paid by KCC and other employers of contributions received.



ALLIANCE IN PARTNERSHIP LTD

10. Endeavour Multi Academy Trust has awarded a three-year contract for catering services. This involves the transfer of some 7 employees from Endeavour Multi Academy Trust to Alliance in Partnership Ltd.

11. To ensure the continuity of pension arrangements for these employees, Alliance in Partnership Ltd has made an application 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 employer contribution rate at 14.6% and the bond for the first year at £8,000.
14. The completed questionnaire and supporting documents provided by Alliance in Partnership Ltd have been examined by Officers to ensure compliance with the LGPS Regulations, and Invicta Law has given a favourable opinion.

YBC CLEANING SERVICES LTD

15. YBC Cleaning Services Ltd is an admission body in the Kent Pension Fund following a transfer of staff from The Future Schools Trust.
16. As their contract has been extended for a further year from 16 February 2019 it is proposed we enter into an updated agreement with them.

HADLOW COLLEGE

17. Hadlow College is a scheduled body in the Kent Pension Fund and its staff both past and present are members of the LGPS.
18. On 14 May 2019 the Secretary of State for Education made an application at the High Court of Justice for an Education Administration Order pursuant to the Technical and Further Education Act 2017 in respect of the Corporation of Hadlow College of Hadlow, Tonbridge, Kent, TN11 0AL. This is a formal insolvency process. Partners at BDO LLP have been appointed as education administrators of the College with effect from 22 May 2019.
19. BDO LLP have written to the Kent Pension Fund, as they are required to inform all creditors of the College, that the Education Administration Order has been made.
20. BDO have also confirmed that the purpose of the Education Administration Order is to protect education provision for learners as the College is facing financial difficulties. They plan to implement a solution to ensure a sustainable future for the College and its learners and this aligns with the law governing the Education Administration Order process.

21. In order to safeguard the Kent Pension Fund's interests' officers will work closely with BDO to resolve the financial position of the Hadlow College LGPS fund and it is proposed that authority for making any decisions on this matter is delegated to the Corporate Director of Finance.
22. Officers will monitor the progress of the administration and report to the Board and Committee on any further developments.

PROPOSED OFFICER DELEGATIONS

23. From time to time KCC officers are required to provide authorisation to the Office of the General Counsel and Invicta Law in respect of property transactions and employer matters. Usually the timing available for these authorisations does not allow for these matters to be referred to the Committee for consideration and it is therefore proposed that in respect of certain matters authority is delegated to named officers as follows:
 - a) DTZ property transactions:– Pension Fund Business Partner (Nick Vickers) and in his absence Corporate Director of Finance (Zena Cooke) / Head of Finance (Policy, Planning & Strategy) (Dave Shipton) / Head of Finance (Operations) (Cath Head) / Revenue and Tax Strategy Manager (Simon Pleace)
 - b) Legal agreements re admission body arrangements:– Treasury and Investments Manager (Alison Mings) / Senior Accountant – Pension Fund (Steve Tagg) / Investments Accountant (Sangeeta Surana) / Pension Fund Business Partner (Nick Vickers)
 - c) Termination letters re returns of surplus up to £20k and notifications re deficits, as described in the actuary's reports:- Treasury and Investments Manager (Alison Mings) / Senior Accountant – Pension Fund (Steve Tagg) / Investments Accountant (Sangeeta Surana) / Pension Fund Business Partner (Nick Vickers).
 - d) As above, delegate authority on the Hadlow College matter to the Corporate Director of Finance.

CONSULTATIONS

Fair Deal – Strengthening pension protection

24. The Ministry of Housing, Communities & Local Government (MHCLG) ran a consultation from January to April 2019 called Fair Deal – Strengthening pension protection. Officers did not respond to the consultation on behalf of the Fund however we broadly welcome the proposals. As at the date of this report we have yet to be advised of the outcome.

25. The purpose of the Government's proposals is to strengthen pension protection on TUPE transfers, and they are in summary;
- a) The removal of a Broadly Equivalent alternative to the LGPS.
 - b) Deemed Employer status rather than entry via an admission agreement particularly for short term contracts. This should make contracts easier and cheaper to let as well as helping to manage the increasing number of employers in the LGPS which nationally are now at some 16,000.
 - c) Risk sharing between the letting authority and Deemed Employer to be included in commercial contracts on which the Scheme Advisory Board are expected to issue advice.
 - d) All employers, except Admission Bodies, Further Education Corporations, Colleges and Higher Education Corporations to be Fair Deal employers.
 - e) Commercial Contracts must state if LGPS membership to be via an admission agreement or the deemed employer route.

Changes to the Local Valuation Cycle and the Management of Employer Risk

26. MHCLG is presently running a consultation on changes to local valuation cycles and employer risk which closes on 31 July 2019. Both the Fund and employers are invited to respond. The main proposals are:
- a) Move to valuations on a 4-year quadrennial cycle starting with the 31 March 2024 valuation, and 2 proposals have been made for the transition;
 - the 31 March 2019 valuation to certify contribution rates for 5 years
 - the 31 March 2019 valuation to certify contribution rates for 3 years and have an additional valuation to certify rates for a further 2 years

The government favours the latter option.

- b) Introduction of interim valuations if required and strengthening the ability to amend employer contribution rates between valuations.
- c) Review the return of exit credits to an employer when they leave the LGPS, particularly in light of any risk sharing agreements between the exiting employer and the letting authority.

- d) Provide greater flexibility around the recovery of exit deficits where an employer leaves the fund including the concept of Deferred Employer Status which would allow an employer to continue to make contributions even when they have no active members left.
- e) Remove the requirement for Higher Education Corporations and Colleges to offer LGPS membership to new staff, although existing staff will continue to be eligible.

ACTUARY ISSUES

27. Barnett Waddingham have provided a briefing note which is attached and has been published on the Pension Fund website. The main issues are:

31 March 2019 triannual valuation

28. The 31 March 2019 valuation is currently underway, and the results are expected in the autumn and will be shared with employers. The valuation must be signed off by Barnett Waddingham on 31 March 2020 and the new employer contribution rates will apply from 1 April 2020.

Cost management in the LGPS.

29. The cost control mechanism was introduced following the Hutton review, with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs.
30. There are two cost control mechanisms in place for the LGPS carried out by the Scheme Advisory Board (SAB) and the Treasury (HMT). The SAB test is first and gives early warnings although HMT has the final say.
31. The 2016 valuation was the first time the mechanism was utilised. Contrary to what was anticipated the cost of the LGPS is now estimated to be lower than it was previously on both mechanisms, based on the assumptions used. This means benefit improvements are required to bring the total cost back to target.
32. SAB have proposed the following benefit improvements to bring the LGPS cost back within the 2% corridor and does not then trigger the HMT cost cap mechanism;
- a) Removal of Tier 3 ill-health benefit with any eligible member receiving Tier 2 instead;
 - b) Introduction of a minimum death in service benefit of £75,000 – this is per member, not per employment; and
 - c) Enhanced early retirement factors for members active on 1 April 2019, applied to all service.

33. The net cost of these benefits is estimated to be an increase of 0.5% of pay.
34. The review also includes some recommendations around changes to employee contribution rates.

The McCloud Judgement

35. The McCloud judgement recently ruled that the transitional protections for older members built into the Judges' Pension Scheme when the scheme changed breached age discrimination rules (there was also a similar case in the Firefighters' Scheme).
36. The SAB has therefore considered it has no option but to pause its own cost management process pending the outcome of McCloud. They commissioned the Government Actuary Department to prepare an assessment of the potential impact on a LGPS scheme wide basis. We have received a copy of the report and Barnett Waddingham are discussing this with fund employers.

RECOMMENDATION

37. Members are asked to resolve to agree:
 - a) to the admission to the Kent County Council Superannuation Fund of Alliance in Partnership Ltd;
 - b) an updated agreement can be entered with YBC Cleaning Services Ltd;
 - c) the proposed officer delegations;
 - d) that the Chairman may sign the minutes relating to recommendations (a) to (c) at the end of today's meeting; and
 - e) that once legal agreements have been prepared for the admission matters the Kent County Council seal can be affixed to the legal documents.
38. Members are asked to note the update on Consultations and Actuary Issues.

Steven Tagg
Treasury and Investments
03000 416747

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Briefing

Cost management in the LGPS and the 2019 valuation outlook

RISK | PENSIONS | INVESTMENT | INSURANCE

The 2019 formal valuations for the English and Welsh funds in the Local Government Pension Scheme (LGPS) are fast approaching and preparation is key. As if there wasn't enough to do already, the cost control mechanism has been triggered.

This mechanism was introduced following the Hutton review, with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs.

Lord Hutton's recommendation was:

.....
"The Government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached."
.....

This would ensure that the anticipated risks of the rising cost of pensions would be shared fairly between employers and employees. What we ended up with though was not just a cost ceiling but also a floor so that if costs reduced then changes would be required to increase costs back to the fixed cost.

So 2016 was the first time the mechanism was utilised. Contrary to what was anticipated when these mechanisms were being built – at least by their architects – it was the floor that was breached rather than the ceiling.

As a result, changes will be needed to the design of the LGPS to actually improve benefits. This will return the total cost of the LGPS to the target rate of 19.5% p.a. of pay (split 13% employer and 6.5% employee contributions). So, the outcome of the cost management process has shown the cost of the Scheme has actually decreased since implementation in 2014. So how has this happened and what does it mean?

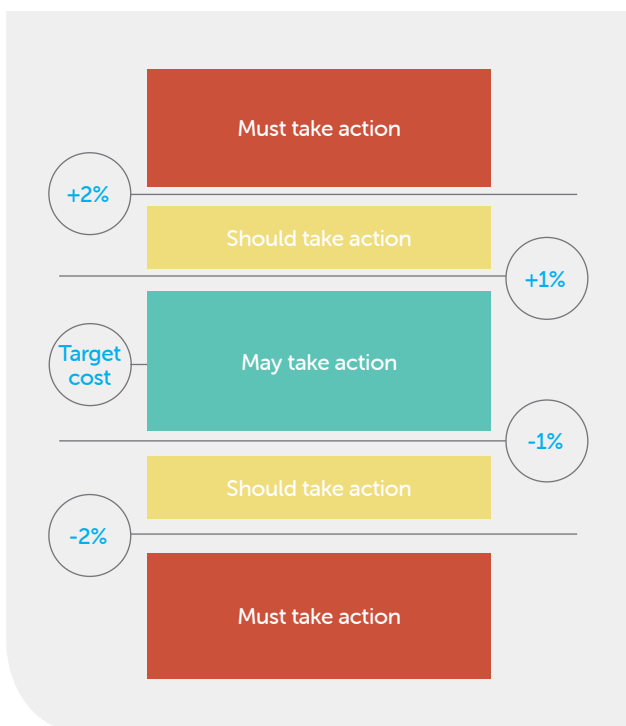
In this briefing note we explain the key reasons for the outcome of the cost management process and cover the likely changes to the LGPS set out in the consultation soon to be underway as we understand it. We discuss how this might affect administering authorities, employers and members. We also consider what administering authorities can do to prepare for the 2019 valuation as a result.

Cost management process outcome

As a reminder there are two cost control mechanisms in place for the LGPS. One is calculated by the Treasury (HMT) and the other is calculated by the Scheme Advisory Board (SAB). Below is a summary of the key differences:

- The SAB mechanism is tested first and gives an early warning. The HMT mechanism is then tested allowing for any changes proposed by SAB. HMT, however, has the final say!
- The HMT mechanism is the same across the public sector schemes but the SAB mechanism takes into account the additional features of the LGPS as a funded scheme.
- So, the SAB mechanism considers total future cost only whereas the HMT mechanism uses a model LGPS fund and considers both past and future service cost that fall to the employer.

In both cases, the mechanism is triggered if the absolute change in the cost of the Scheme is more than a pre-specified level. Under the SAB mechanism, the Scheme design may, or must, be changed to bring the total future service cost back to the target of 19.5% p.a. of pay. Under the HMT mechanism it is to bring the total employer cost back to 14.6% as follows:



The SAB have carried out their calculations as part of their 2016 Scheme valuation and assess the future service cost to be 19% p.a. of pay, so the cost has decreased by 0.5% p.a. since inception. GAD has suggested that the key reason for this decrease is a result of the latest projections of future life expectancy. Available evidence suggests that longevity improvements have slowed down since 2014 and so although future life expectancy continues to increase, it is increasing at a slower rate than previously assumed. This reduces the length of time that pensions will typically be paid for and lowers the expected cost by around 0.4% p.a.

There are other factors which have also resulted in a decrease in cost relating to early retirement assumptions and withdrawal assumptions, but these have a smaller effect.

The cost control mechanism only considers “member costs”. These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

So, after the reviews, the cost of the LGPS is now estimated to be lower than it was previously on both mechanisms, based on the assumptions used. This means benefit improvements are required to bring the total cost back to target. The SAB get to go first and the upcoming SAB consultation will consult on these proposed benefit changes as follows.

Recommendations

The following benefit changes have been proposed by the SAB so that, hopefully, the LGPS cost falls within the 2% corridor and does not then trigger the HMT cost cap mechanism:

- Removal of Tier 3 ill-health benefit with any eligible member receiving Tier 2 instead;
- Introduction of a minimum death in service benefit of £75,000 – this is per member, not per employment; and
- Enhanced early retirement factors for members active on 1 April 2019, applied to all service.

⋮ **The net additional cost of these benefits is estimated to be an increase of 0.5% p.a. of pay.**

The review also includes some recommendations around changes to employee contribution rates. This involves a proposal to reduce employee contributions at the lowest salary bands to remove tax relief anomalies. The expected reduction to contribution yields, and therefore potential increases in employer contributions, is 0.8% p.a. of pay. This will vary by employer, depending on their employee profile, with employers where there are mainly lower paid workers being more significantly affected.

The communications from the LGA suggest that employer contributions could increase by up to 2% p.a. but, as mentioned above, this will vary by employer. The actual change in employer contributions will be more heavily driven by the assumptions used in the 2019 actuarial valuation by the local Fund actuary.

The SAB process must be carried out before the HMT cost management process can be completed. However, we understand that HMT will take into account these proposals by SAB, if they are accepted by the Government, when determining whether the cost floor has been breached in the HMT cost cap review.

It is important to note that if these changes are agreed the employee contribution rates would change with effect from 1 April 2019. Any changes to the employer rates would start from 1 April 2020 when new rates will be certified by the local Fund actuary as part of the 2019 formal valuation. Discussions are being held with software providers but it is important that payroll providers are ready to implement any changes as soon as they are confirmed.

We also understand that there could be some changes proposed to the revaluation of CARE benefits but we will cover this in a separate blog once we know more.

A further potential complication could however impact on this process. The recent McCloud judgement recently ruled that the transitional protections for older members built into the Judges' Pension Scheme when the scheme changed breached age discrimination rules (there was also a similar case in the Firefighters' Scheme). Whilst the transitional protections in the LGPS and the other public service schemes were slightly different, there is the possibility that they too could be deemed to have breached age discrimination rules. This would then mean that all the public service schemes would need to be amended and would most likely mean an improvement in benefits. Therefore, there is the possibility that the outcome of the cost management reviews of all public service schemes could be put on hold until this is resolved. This will clearly take some time and will not be resolved before 1 April 2019. We understand that ministers are considering the position and will make a decision very soon.

Perhaps, not unsurprisingly, a further recommendation is that the cost cap mechanism process is reviewed prior to the next review.

⋮ **We will provide a further update, if required, as the cost management process progresses and any proposed changes are agreed.**

2019 valuation outlook

The 2019 valuation gives us the opportunity to review and monitor the assumptions we agreed with funds as part of the 2016 valuation. The key assumptions impacting the valuation are the assumed future investment return (or in actuarial terms, the discount rate), price inflation, longevity and, to a lesser extent, the levels of future salary increases (as this assumption only effects the ever diminishing proportion of pre-CARE benefits).

The Section 13 valuation commissioned by MHCLG resulted in an independent review of the 2016 local fund actuarial valuations for compliance, consistency, long term cost efficiency and solvency. Increased consistency of assumptions across funds was one of the recommendations made by GAD in their final report. However we still believe that they have misinterpreted their obligation to comment on inconsistencies or outliers, rather than lack of consistency.

However, although the Section 13 valuation considers consistency, there are good reasons why assumptions vary across funds. For example, different investment strategies lead to different assumed future returns and a fund's geographical region and membership profile has a significant impact on longevity assumptions. In addition, a fund's attitude to risk is factored into our discount rate model through a transparent and bespoke level of prudence.

Changes in assumptions will only be made if considered appropriate in light of experience and factors emerging since the 2016 valuation. There are no hard and fast rules. Although some of our assumptions are consistent across the funds we advise, we do not have a house view on assumptions. Instead, we discuss and agree appropriate assumptions with each fund so that they understand the level of risk being taken.

Having said that, typically we might expect the following changes for 2019:

- A reduction in the discount rate - markets have outperformed expectations over the last three years and future investment return expectations are likely to be lower, therefore placing a higher value on liabilities / future cost - as prices go up yields come down;

- Low salary growth to continue for longer, placing a lower value on liabilities (no impact on future cost);
- A small increase in the gap between the Retail Prices Index (RPI) and the Consumer Prices Index (CPI) placing a lower value on liabilities / future cost, as this reduces the future assumed inflationary increases applied to all benefits in the Scheme linked to CPI; and
- A reduction in longevity improvements placing a lower value on liabilities / future cost.

Even after allowing for recent market falls, assets have still outperformed expectations since 2016 and so funding levels have typically increased, assuming liabilities are valued on current market conditions and assumptions are set consistent with the 2016 approach.

With all else being equal, the proposed changes in benefits and potentially updated assumptions will increase primary contributions. Any improvement in funding level should reduce secondary (deficit) contributions, hopefully resulting in overall stability of total contribution rates. However, this will vary by employer depending on their membership profile and actual experience since 2016. Therefore, it may be useful to carry out approximate calculations for some employers to help engagement and avoid any nasty surprises. This will provide an early indication of any likely changes in contribution rates from 1 April 2020.

New employers commencing post 31 March 2019

There is a second reason why carrying out some indicative calculations is beneficial. As a result of any formal valuation review, there will always be a “cliff edge” as a result of a review and potential changes in assumptions at each valuation date. This will be a particular issue for employers who join a fund after 31 March 2019, but before the valuation assumptions and approach have been finalised.

The size of the problem will be different for different funds based on:

- The amount of employer work in each fund, particularly in terms of the number of new employers that are likely to join in this period and the related administrative work; and
- How much employer contributions will change by, and the need to budget for future costs. This will depend on how the assumptions may change relative to 2016.

It is therefore difficult to recommend a single approach that will be the optimal solution for all funds. The options are likely to be:

1. Don't change the approach until the assumptions have been agreed following the initial discussions meeting (around September 2019). For employers between 31 March 2019 and this time, calculations are carried out on the 2016 assumptions. This would mean either:
 - a. providing a contribution rate on the 2016 assumptions and apply this to 31 March 2020 and recalculate the contribution rate, assets and liabilities for consistency with the other employers on the 2019 assumptions once agreed;
 - b. setting contributions at a notional level, using the current level of the local authority/guarantor for outsourced employers and recalculating once the assumptions are known. However, this may not be appropriate for some employers where a bidder needs a good indication of the contribution rate to complete the tender.
2. Carry out calculations from a current date but consider a review of the assumptions used to be based on any likely changes to the 2019 valuation assumptions. This will provide an assessment that will be close to the 2019 valuation results for such employers, once the assumptions are finalised.

Option 1 results in less work and fees.

However, it may be less satisfactory from the new employer's view point. Option 2 requires some work to determine the assumptions ahead of the valuation (although this has other benefits through an early indication of results to help budgeting). But it will be more helpful in contract negotiations/assessing bids.

In both scenarios a bulk exercise can be done once the 2019 assumptions are agreed to calculate the accurate starting positions and appropriate contribution rates for each employer.

The agreed approach should be consistent across all employer work. Therefore, administering authorities should consider how any changes in approach would affect employers leaving a fund and the basis to apply for their cessation valuation.

This is an important issue and we strongly recommend that you give this consideration before 31 March 2019.

We will get in touch with you to discuss and agree an approach or please speak to your actuary if you have any concerns. We would also be happy to help administering authorities to communicate these changes to employers, members and committees in the form of bulletins, training sessions or one-to-one discussions.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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