SUPERANNUATION FUND COMMITTEE

Wednesday, 30th March, 2022

10.00 am

Council Chamber, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Wednesday, 30th March, 2022 at 10.00 am		Ask for:	**Theresa Grayell**
Council Chamber, Sessions House, County Hall, Maidstone		Telephone:	**03000 416172**

Membership

Conservative (8):	Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mrs P T Cole, Mr P Cole, Mr P C Cooper, Mr J P McInroy and Mr J Wright
Labour (1):	Ms M Dawkins
Liberal Democrat (1):	Mr D S Daley
Green and Independent (1):	Mr P Stepto
District Council (3)	Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green
Medway Council (1)	Cllr R Thorne
Kent Active Retirement Fellowship (2)	Two vacancies
UNISON (1)	Mr J Parsons
Staff Representative (1)	Vacancy

UNRESTRICTED ITEMS

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

1 Apologies and Substitutes

2 Declarations of interest by Members in items on the agenda for this meeting.

3 Minutes of the meetings held on 1 December 2021 and 3 February 2022 (Pages 1 - 12)

4 Pension Fund Business Plan (Pages 13 - 20)

5 Fund Employer and Governance Matters (Pages 21 - 90)

6 Pension Administration (Pages 91 - 94)

7 Report from the Pension Board - verbal

8 ACCESS update (Pages 95 - 104)

9 Fund Position (Pages 105 - 116)

10 Governance Review update (Pages 117 - 148)

11 Date of next meeting

The next meeting of the committee will be held on Wednesday 22 June 2022, commencing at 10.00 am at Sessions House, Maidstone.

Motion to exclude the press and public for exempt business

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)

12 Pension Fund Risk Register (Pages 149 - 154)

13 Manager Presentation - Baillie Gifford (Pages 155 - 184)

14 Invasion of Ukraine - impact on the Fund (Pages 185 - 200)

15 Update from the Equity Protection working group - TO FOLLOW

16 Pension Fund Cash Flow (Pages 201 - 204)

17 Investment Strategy (Pages 205 - 252)

18 Responsible Investment update (Pages 253 - 258)

19 Fund Employer Admission Matters (Pages 259 - 262)

Benjamin Watts
General Counsel
03000 416814

Tuesday, 22 March 2022

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.

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KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Wednesday, 1 December 2021.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Cllr J Burden, Mrs P T Cole, Mr P Cole, Ms M Dawkins, Cllr N Eden-Green, Mr J P McInroy, Mr J Parsons, Cllr R Thorne and Mr J Wright.

ALSO PRESENT: Mr P J Oakford, Mr T English, Mr N Page and Mrs A van Bochove Allen

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mrs B Cheatle (Pensions Manager), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Ms S Surana (Investments, Accounting and Pooling Manager), Mr S Tagg (Senior Accountant - Pension Fund), Hayley Savage (Democratic Services Officer) and Mrs A Taylor (Scrutiny Research Officer).

UNRESTRICTED ITEMS

1. Apologies and Substitutes
(Item 1)

Apologies for absence had been received from Cllr P Clokie, Mr P Cooper, Mr D S Daley and Mr P Stepto.

2. Declarations of interest by Members in items on the agenda for this meeting.
(Item 2)

1. Mr P Bartlett declared an interest in agenda item 15 as he was employed by the Bank of New York Mellon, the parent company of Insight, which was managing the equity downside protection programme. He stated that he would not participate for that item.

2. Cllr R Thorne declared his wife and daughter both worked for Kent County Council.

3. Minutes of the meeting held on 8 September 2021
(Item 3)

It was RESOLVED that the minutes of the meeting held on 8 September 2021 are correctly recorded and that a paper copy be signed by the Chairman when this can be done safely. There were no matters arising.

4. Pension Fund Business Plan
(Item 4)

1. Mrs Mings introduced the report and highlighted that the latest forecast costs for 2021-22 would be lower than originally anticipated due to the delayed recruitment of staff and the changes to the restructure of finance support.

2. Asked what progress had been made in recruiting a Head of Pensions and Treasury, Ms Cooke said following an extensive recruitment process and a Member

Stakeholder Panel, the role had been offered and accepted by an individual and enhanced reference checks were being carried out. Ms Cooke hoped the appointment would be confirmed within the next few days.

3. It was RESOLVED that the information set out in the report be noted, with thanks.

5. Fund Employer and Governance Matters
(Item 5)

1. Mrs Mings introduced the report and responded, with Mr Tagg, to comments and questions from the committee, including the following:

a) asked what would happen if Sevenoaks Leisure Ltd (SLL) went into receivership, Mr Tagg said SLL joined the fund back on 26 January 2004 and, at that time, the LGPS regulations did not require them to have a scheme employer party to their admission agreement, nor a Bond. If SLL breached their admission agreement, a legal process could be required. SLL were not able to pay their arrears of employer contributions in one go and therefore an instalment arrangement, with an element of interest, had been proposed, under advice from Barnett Waddingham. There would be a legal agreement supporting the instalment arrangement; and

b) asked what would happen to future beneficiaries of SLL regarding their pension, Mr Tagg said they were protected by the LGPS regulations and the benefits of active, pensioner, dependent pensioner and deferred members would be unaffected.

2. Members asked that an update be provided to the next committee meeting.

3. The committee RESOLVED to note the report and to agree:

a) to entering into an employer contribution instalment payment plan with Sevenoaks Leisure Ltd;

b) to the admission to the Kent County Council Superannuation Fund of Birkin Cleaning Services Ltd (re Maritime Academy);

c) to the admission to the Kent County Council Superannuation Fund of Dolce Ltd (re The Academy of Woodlands);

d) to the admission to the Kent County Council Superannuation Fund of Town & Country Cleaners Ltd (re Maritime Academy);

e) to the admission to the Kent County Council Superannuation Fund of Purgo Supply Services Ltd (re Leigh Academy Trust);

f) that the Chairman may approve the minutes relating to recommendations a) to e) at the end of today’s meeting; and

g) Once legal agreements have been prepared for matters a) to e) the Kent County Council seal can be affixed to the legal documents.

6. Pensions Administration
(Item 6)

1. Mrs Cheatle introduced the report and provided an update on the material breach of the pension scheme regulations where the Council had not been able to provide the non-uniformed staff employed by Kent Police and the Police and Crime Commissioner with Annual Benefit Illustrations by 31 August 2021. Mrs Cheatle and Ms Cooke responded to comments and questions from the committee, including the following:

a) asked about performance against Key Performance Indicators, Mrs Cheatle said system issues had been resolved and more resource was being used to reduce the backlog, which had resulted in gradual improvement. The committee offered their support for additional resource to help clear the backlog. Ms Cooke reassured members that conversations were ongoing to look at ways in which the backlog could be reduced; and

b) asked about the availability of Member Self Service to pensioner members and the plan for implementation, Mrs Cheatle said officers were currently working on providing access to pensioner members. Member Self Service would be advertised on employer intranet sites to ask active and deferred members to register. Feedback received from those who had registered so far was positive.

2. It was RESOLVED that the report be noted, with thanks.

7. Report from the Pension Board meeting - verbal
(Item 7)

1. Mr R Thomas, Chairman of the Pension Board, gave a verbal update which included a summary of items discussed at the Pension Board meeting on 18 November 2021.

2. It was RESOLVED that the verbal update be noted, with thanks.

8. ACCESS update
(Item 8)

1. Mrs Mings introduced the report, about which there were no questions.

2. It was RESOLVED that the report be noted, with thanks.

9. Fund Position
(Item 9)

1. Mrs Mings introduced the report, about which there were no questions.

2. It was RESOLVED that the report be noted, with thanks.

10. Date of next meeting
(Item 10)

It was noted that the next regular meeting of the Committee would be held on Thursday 3 February 2022.

11. Motion to exclude the press and public for exempt items

The committee 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
(Open access to minutes)

12. Governance review presentation
(Item 11)

1. Mrs van Bochove Allen gave a presentation to members which set out an overview of the project which she had undertaken, its findings and recommendations. The Kent Pension Fund Governance project was split into two reviews which ran separately but concurrently: Management and resources of the treasury and investments team and Governance of the Kent Pension Fund. Meetings had been held with key officers, Board and Committee Chairs, and committee meetings were also observed.

2. Mrs Mings confirmed that updates on progress would be brought to future meetings of the Committee, along with recommendations for consideration.

3. Mrs Mings and Mrs van Bochove Allen responded to comments and questions of detail from the committee, including the following:-

a) the induction process for new members: a possible way forward could be a basic induction for new members and then a yearly update – some members considered that this should apply to substitutes as well as members of the committee. It was suggested that training should be a condition of membership of the committee. There was hesitation from some members about making training compulsory particularly for non-KCC members, this may also restrict the use of substitutes;

b) the need for a process for dealing with urgent decisions and those taken outside the committee cycle;

c) attendance and participation in committee meetings: expectations of members should be made clear; and

d) a member highlighted the opportunities available for remote attendance at meetings and hybrid meetings, where appropriate, although there were concerns about this.

4. The Chairman thanked Mrs van Bochove Allen for undertaking such a thorough review and for her clear presentation

13. Pension Fund Cash Flow
(Item 12)

1. Ms Surana introduced the report, about which there were no questions.

2. It was RESOLVED that the information set out within the report be noted, with thanks.

14. Manager presentation - Schroders
(Item 13)

Sue Noffke and Paul Myles of Schroders were present for this item at the invitation of the committee.

1. Ms Noffke and Mr Myles thanked the committee for inviting them and presented a series of slides which set out the composition, value and performance of the UK equity portfolio which Schroders managed on behalf of the Kent Fund. This included Schroders' approach to responsible investment and environment, social and governance issues. They responded to comments and questions of detail from the committee about these issues.

2. The Chairman thanked Ms Noffke and Mr Myles for attending.

3. It was RESOLVED that the information set out within the presentation and given in response to comments and questions be noted, with thanks.

15. Equity Downside Protection - update
(Item 14)

Mr Bartlett left the room for this item due to a previously declared interest.

1. Mr Page introduced the report, about which there were no questions.

2. It was RESOLVED that the information set out within the report be noted, with thanks.

16. Investment Strategy
(Item 15)

1. The Chairman introduced the report and Mr English introduced the quarterly Mercer management report. The Chairman, officers and Mr English responded to comments and questions of detail and the committee considered each of the recommendations individually.

2. It was RESOLVED that the information set out within the report be noted and that all the recommendations contained within the report be agreed.

17. Pension Fund Risk Register
(Item 16)

1. Ms Surana introduced the report and confirmed that there had been no major changes to the risk register since the last meeting. There were no questions about this item.

2. It was RESOLVED that the information set out within the report be noted, with thanks.

18. Responsible Investment update
(Item 17)

1. Mr Chard updated members on the work of the Responsible Investment working group and the ACCESS ESG guidelines.

2. The Chairman thanked Mr Chard for chairing the working group and thanked the members who were a part of it.

3. It was RESOLVED that the report be noted, with thanks.

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 3 February 2022.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Cllr J Burden, Cllr P Clokie, OBE, Mrs P T Cole, Mr P Cole, Mr P C Cooper, Ms M Dawkins, Mr J P McInroy, Mr J Parsons, Mr P Stepto and Mr J Wright.

ALSO PRESENT: Mr P J Oakford and Mr T English

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Mr N Buckland (Head of Pensions and Treasury), Miss T A Grayell (Democratic Services Officer) and Ms E Kennedy (Democratic Services Officer).

UNRESTRICTED ITEMS

19. Apologies and Substitutes
(Item 1)

Apologies for absence had been received from Mr D S Daley, Cllr N Eden-Green and Cllr R Thorne.

There were no substitutes.

20. Chairman's welcome

The Chairman welcomed Nick Buckland, who had joined the County Council on 1 February 2022, in the new role of Head of Pensions and Treasury. Mr Buckland was in attendance to observe the meeting.

21. Declarations of interest by Members in items on the agenda for this meeting.
(Item 2)

1. Mr P Bartlett declared that he was employed by the Bank of New York Mellon, the parent company of Insight, which was managing the equity downside protection programme (agenda item 6). He was advised that he did not need to leave the meeting during discussion of that item.

2. Mrs P T Cole declared that she was an employee of M&S, an employer which was mentioned as part of the background information for agenda item 4.

22. Minutes of the meeting held on 23 November 2021
(Item 3)

It was RESOLVED that the minutes of the meeting held on 23 November 2021 are correctly recorded and that they be signed by the Chairman when this can be done safely. There were no matters arising.

23. Responsible Investment working group update
(Item 4)

1. Mrs Mings introduced the report, which set out a recommendation, arising from the work of the Responsible Investment (RI) working group and the outcomes of the Environmental, Social and Governance (ESG) beliefs survey, that the Kent Fund join the Local Authority Pension Fund Forum (LAPFF).

2. The Forum Officer, Keith Bray, then presented a series of slides (included in the agenda pack), which set out the role and structure of the LAPFF and highlighted ESG issues of concern for responsible owners, examples of successful engagement between the Forum and companies, and the benefits of membership.

3. The Vice-Chairman, Mr N J D Chard, as Chairman of the working group, commented that the annual subscription was modest and recommended that the committee agree that the Kent fund should join.

4. Mr Bray responded to comments and questions from the committee, including the following:-

a) some Local Government Pension Scheme funds had been members of the Forum in the past and had left, but most of these had later re-joined;

b) the Forum had no statutory power or authority but was able to use its extensive membership as a tool to lobby and was adept at using the media to engage and influence; and

c) the Forum's agenda was driven by its members, and it used its many years of experience of engagement and research with investee companies to be able to comment on developments and changes for the benefit of its members.

5. It was RESOLVED that the Kent County Council Superannuation Fund join the Local Authority Pension Fund Forum and the Corporate Director for Finance be authorised to apply for membership of the Forum.

24. Date of next meeting
(Item 5)

It was noted that the next meeting of the committee would be held on Wednesday 30 March 2022, commencing at 10.00 am at Sessions House, Maidstone.

25. Motion to exclude the press and public for exempt business

The committee 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

(open access to minute 26,
summary of exempt minute 27, where access remains restricted)

26. Equity protection programme - verbal update

(Item 6)

1. Mr Sinnott provided an update and summarised the discussions around the trigger point for the protection of the Fund's UK equity exposure. Mr Simkins, as the Chairman of the Equity Protection working group, advised the committee that the group had met on 1 February 2022 and had had a long and thorough debate. The group would meet again on 1 March and a full report would be made to the committee at its 30 March 2022 meeting.

2. It was RESOLVED that the verbal update be noted, with thanks.

27. Report of the Responsible Investment (RI) working group - ACCESS Environmental, Social and Governance (ESG) Guidelines and follow up to the beliefs survey

(Item 7)

1. Mrs Mings introduced the report and advised that the eleven ACCESS authorities were being asked to consider and provide feedback on a set of ESG guidelines for investments in the ACCESS pool. These represented a set of principals with the aim of helping each fund to meet its ambitions through the pool. She advised that comments were being requested ahead of the next meeting of the ACCESS Joint Committee on 7 March 2022.

2. The committee also received a report on the work of the Responsible Investment working group.

3. The committee considered and commented on each of the three recommendations set out in the report separately and ultimately agreed them.

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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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From:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 30 March 2022
Subject:	Pension Fund Business Plan
Classification:	Unrestricted

Summary:

To advise the Committee of the progress made to date on the 2021-22 business plan and related outturn for 2021-22.

Recommendation:

The Committee is recommended to note the report.

FOR INFORMATION

1. Introduction

1.1 The Committee is asked to note the updated business plan and costs incurred to deliver the plan forecast for 2021-22.

2. 2021-22 Business plan

2.1 The Fund's business plan has been updated to reflect progress made to date and anticipated for 2021-22 and a copy is at appendix 1.

2.2 Members are asked to particularly note the following developments:

i) Restrike of the Equity Downside Protection programme for global equites.

ii) As part of the development of the Fund's RI policy committee members completed an ESG beliefs survey with results considered at a special meeting on 23 November. Members also received training on ESG issues on 3 February 2022.

iii) The Committee approved the updated Funding Strategy Statement following consultation with employers and other interested parties, at its September meeting and this has been published to the website.

iv) The Committee approved the updated Investment Strategy Statement at its meeting in September and this has been published to the website.

v) The Fund accounts and audit timetable was extended to the end of November and the Committee approved the Fund report on 1 December deadline.

vi) KCC has completed the implementation of the restructure of the finance support for the Fund in line with the recommendations of the Barnett Waddingham review.

vii) Barnett Waddingham completed their review of the governance of the Pension Fund and issued their report. During calendar year 2022 efforts will be focused on the implementation of the recommendations.

3. 2021-22 forecast

3.1 The forecast costs to support the 2021-22 business plan are expected to amount to some £4.84m compared to the budget of £5.07m, a reduction of £230,000. Both Pension administration costs and Investment accounting and governance staffing costs are forecast to be lower than originally anticipated due to the later than planned recruitment of additional staff agreed as part of the implementation of the recommendations of the review of the finance function. These savings are offset by higher fees relating to the equity protection programme and actuarial costs.

3.2 It is anticipated that the resources required to support the changes to the Fund's governance arising from the Barnett Waddingham review will be provided from within the restructured Treasury and Investments team with support from Democratic Services colleagues.

4. Pension Fund Management Costs

4.1 The table below details forecast costs for 2021-22 compared to budget for the delivery of the Fund's business plan.

	Budget 2021-22	**Forecast 2021-22**
	£ '000	**£ '000**
Pensions Administration	3,610	3,356
Pension Payroll Services	226	226
Payment services	17	17
Financial Services	69	69
Administration Expenses	**3,922**	**3,668**
Actuarial Fee including cost of valuation	250	310
Legal Fees	50	42
Direct recovery of actuary, legal fee, and admin costs	-225	-230
Subscriptions	46	42
ACCESS pooling costs	115	115
Investment Accounting and Oversight costs	600	585
Performance Measurement Fees	30	30
Investment and governance consultancy	180	150
Equity Protection consultancy*	30	*125

Other professional advice	20	20
Governance and Oversight Expenses	**1,096**	**1,126**
Audit fee	50	50
Total	**5,068**	**4,885**

*Includes Equity Protection restructuring advice cost that was not factored in the budget

5. Review of the Finance support for the Fund

5.1 The recommendations of the Barnett Waddingham review have been implemented. The recruitment of the Head of Pensions and Treasury has been completed with Nick Buckland joining KCC on 1 February. The restructure of the Treasury and Investments team has also been completed

5.2 The review recommended the recruitment of 3 project officers to support the Pensions Administration team and the recruitment of these staff is underway.

5.3 Pension administration and Fund investment, accounting and oversight costs are expected to be higher in 2021-22 than in 2020-21 as a result of the restructure however this increase is less than budgeted due to the restructure and recruitment being completed later than originally planned.

6. 2022-2023 Business Plan

6.1 Due to the relatively recent appointment of the Head of Pensions and Treasury, and the effective creation of the wider service the Business Plan and budget for 2022-23 and future years needs some more development, and as such will be presented to the next meeting on the Committee for approval. It was felt better to present the final version rather than a draft.

Nick Buckland, Head of Pensions and Treasury

T: 03000 413984

E: nick.buckland@kent.gov.uk

March 2022

Kent Pension Fund Business Plan

Action No.	Description	Accountable Officer(s) (see note 1)	Proposed 2021-22 activity	March 2022 update

1. Investment Strategy

1.1	Implement the revised asset allocation agreed by Superannuation Fund Committee on 9 February 2018.	Zena Cooke / Alison Mings	Finalise monitoring and reporting for equity protection programme	Implementation of the UK cover pending review re FTSE100 trigger point. Restrike of the global protection programme completed October 2021 Currency hedging review to be rolled forward into future Strategic Asset Allocation Review
1.2.1	Strategic review of asset allocation taking account of results of the 2019 valuation	Zena Cooke / Alison Mings / Sangeeta Surana	Engage investment consultant to undertake review Q1, report outcome to June committee	Review deferred to 2022-23
1.2.2	Implement the agreed recommendations of the strategic asset allocation review	Zena Cooke / Alison Mings / Sangeeta Surana	Engage investment consultant to advise on new investment options including ACCESS funds, and selection of managers	See 1.2.1
1.3	Manage the transition of investments including to the ACCESS pooled funds	Alison Mings / Sangeeta Surana	Transition fixed Income sub-fund investments as already agreed to the ACCESS platform Implement other transitions arising from recommendations of strategic asset allocation review	Timing for fixed income sub-fund transition to be reviewed Carry forward to 2022-23
1.4	Monitoring the performance of investment managers and funds.	Zena Cooke / Alison Mings / Sangeeta Surana	Investment Managers attending quarterly committee meetings Monthly flash reports, quarterly fund performance reports Investment consultant attending every committee meeting. Quarterly manager reviews. Asset allocation review at every meeting against Rebalancing Framework	completed
1.5	Develop enhanced Responsible Investment (RI) / Environmental Social and Governance (ESG) policy / reporting	Alison Mings Sangeeta Surana Katherine Gray	Ongoing - RI working group monthly meetings, recommendations to the committee, training for the committee on RI developments	RI beliefs survey completed Joined LAPFF Agreed ACCESS ESG guidelines Training session completed for Committee 3 February 2022, next steps agreed and followed up by RI working group. Continue to 2022-23
1.6	Investment Consultant procurement	Sangeeta Surana Alison Mings	Ongoing management of Investment consultant contract	Continue to 2022-23
1.7	Update investment strategy statement (ISS) reflecting CIPFA guidance and best practice	Alison Mings Sangeeta Surana	ISS to be updated with assistance from the investment consultant reflecting revised strategic asset allocation	Updated ISS approved by Committee at its September meeting and published to the website completed
1.8	Custody contract	Sangeeta Surana Katherine Gray	Complete procurement of a long-term custody contract Q2 and manage transition to new provider if required.	Procurement completed. New contract awarded from 1 August 2021 Completed

2. ACCESS Pool

2.1	Support the Chairman in his role on the Joint Committee (JC).	Alison Mings	Quarterly meetings	Ongoing

Kent Pension Fund Business Plan

Action No.	Description	Accountable Officer(s) (see note 1)	Proposed 2021-22 activity	March 2022 update
	Membership of the S151 group	Zena Cooke	Quarterly meetings before the Joint Committee meetings	ongoing
2.2	Membership of the Officer working group (OWG) and other working groups to support the progress of the pooling agenda	Alison Mings Sangeeta Surana Katherine Gray	Continue to support the progression of pooling in ACCESS through participation in working groups as required. Most of the current working groups are expected to continue in 2021-22	Continued membership of OWG, Active listed assets sub-group, Reporting sub-group, Non-listed assets sub-group, Investor user group RI task and finish group – work due to be completed before JC June 2022 with agreement of ESG guidelines Custody procurement task and finish group – work complete Working groups continuing to 2022-23
2.3	Support the role of host authority and Access Support Unit (ASU)	Alison Mings	Kent Democratic Services providing clerking support to the JC	ongoing
2.4	Ensure the Superannuation Fund Committee and Board are kept fully informed on ACCESS issues.	Alison Mings	Quarterly updates for the board and committee	ongoing

3. Governance and employer matters

3.1	Support the Superannuation Fund Committee and the Pension Board members to effectively undertake their roles and ensure that appropriate training is available.	Zena Cooke / Alison Mings	Put in place permanent resources and agreed management structure within the KCC finance function Implement updated training plan See actions 3.7 and 3.8	Report on the review of KCC finance support received 23 April. Recommendations implemented and completed February 2022. Recruitment of Head of Pensions and Treasury and handover of responsibilities from the Acting Business Partner. Arrangements being made to transition responsibilities in anticipation of the retirement of the Pensions Admin manager at the end of April 2022. Members' Training programme launched 1 April 2021 Ongoing support for committee and board
3.2	Prepare the Fund's annual accounts and report including compliance with cost transparency requirements and with revised reporting guidelines	Sangeeta Surana / Katherine Gray	Complete accounts and report in line with timetable agreed with KCC Chief Accountant and external auditors.	Accounts signed off by G&A Committee 30 November and the Committee approved the report on 1 December 2021. Report and accounts published on 15 December. Requirement for 2022-23
3.3	Response to consultations and regulation changes	Alison Mings / Barbara Cheatle	ongoing	ongoing
3.3.1	Employer flexibilities	Alison Mings	Work with the Fund Actuary on implementing changes re exiting employers.	Updated FSS agreed by the Committee at its September meeting, following consultation with employers and other interested parties, and published to the website Admission agreement documents updated accordingly completed
3.3.2	McCloud remedy	Barbara Cheatle	Implement changes required, see action 4.5	see action 4.5
3.3.3	Public Sector Exit Payments	Barbara Cheatle	Implement changes required, see	see action 4.6

Kent Pension Fund Business Plan

Action No.	Description	Accountable Officer(s) (see note 1)	Proposed 2021-22 activity	March 2022 update
			action 4.6	
3.4	Actuarial triennial valuation	Fund actuary / Alison Mings / Steve Tagg / Barbara Cheatle	Planning for 31 March 2022 valuation	Planning commenced for the valuation exercise, continuing to 2022-23
3.5	Update Funding Strategy Statement (FSS)	Alison Mings / Stave Tagg	FSS to be updated taking account of advice from Governance consultant	See 3.3.1
3.6	Fund actuary contract	Alison Mings / Steve Tagg	Ongoing management of actuary contract	ongoing
3.7	Review governance arrangements considering internal audit recommendations.	Zena Cooke / Alison Mings	Complete review and implement recommendations	Review completed by Barnett Waddingham. Report received and agreed by officers. Board and Committee received report and accepted recommendations Work in hand on implementation of recommendations. Proposed recruitment of dedicated resource to complete implementation of the recommendations. Carry forward to 2022-23
3.8	Undertake review of finance resources considering internal audit recommendations.	Zena Cooke / Alison Mings	Implement recommendations Q1	Implementation Q2 and Q3 2021-22 completed

4. Administration

4.1	Roll out i-Connect employer self service	Barbara Cheatle	Further rollout planned	Discussions and planning ongoing with larger employers and other employers onboarded Continue to 2022-23
4.2	Preparation of annual benefit illustrations for despatch to members by the statutory deadline	Barbara Cheatle	Ongoing	ongoing
4.3	Follow up GMP (guaranteed minimum pension) reconciliation exercise	Barbara Cheatle	HMRC have confirmed errors in previous information supplied for GMP reconciliation and so rework required by external company	Following HMRC confirming errors in previous information supplied for GMP reconciliation rework carried out by external company. New reconciliation queries to be actioned before stage 3 can be commenced. Continue to 2022-23
4.4	Develop plan for introducing member Self Service (MSS)	Barbara Cheatle	Planned roll out to members	Details of how to register for member self-service supplied to deferred members in statements despatched in July and to active members in September. Plan to roll out to pensioners end March 2022 Continue to 2022-23
4.5	McCloud remedy project - changes to LGPS following the McCloud judgement	Barbara Cheatle	Project to commence once remedy agreed	Project to commence once remedy agreed. Pilot actioned with one employer based on guidance before launch to all employers Continue to 2022-23
4.6	Exit payments £95k cap	Barbara Cheatle	Implementation of changes per LGPS regulations and guidance	Legislation withdrawn, awaiting further information

note 1

With effect from 1 February 2022 Nick Buckland as Head of Pensions and Treasury is the leading accountable officer for the implementation of the Fund's business plan replacing Alison Mings.

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From: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 30 March 2022

Subject: Fund Employer and Governance Matters

Classification: Unrestricted

Summary:

This report provides an update on Fund employers, and details of the transfer of Kent Institute of Art and Design to the Surrey Pension Fund and of the proposed transfer of Oasis Community Learning Trust and Sodexo Ltd to the LPFA. It also provides an update on the progress being made on the payment plan agreed with Sevenoaks Leisure Ltd and a summary of the GAD Section 13 report on the LGPS 2019 valuations, as well as some admission matters.

Recommendations:

The Committee is asked to note the report and to resolve to agree:

a) to the admission to the Kent County Council Pension Fund of Seeclear Facilities UK Ltd (re Future Schools Trust).

b) to the admission to the Kent County Council Pension Fund of Sports and Leisure Management Ltd (re Sevenoaks Leisure Ltd).

c) to the admission to the Kent County Council Pension Fund of Town and Country Cleaners Ltd (re Stour Academy Trust).

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 matters a) and c) the Kent County Council seal can be affixed to the legal documents.

FOR DECISION

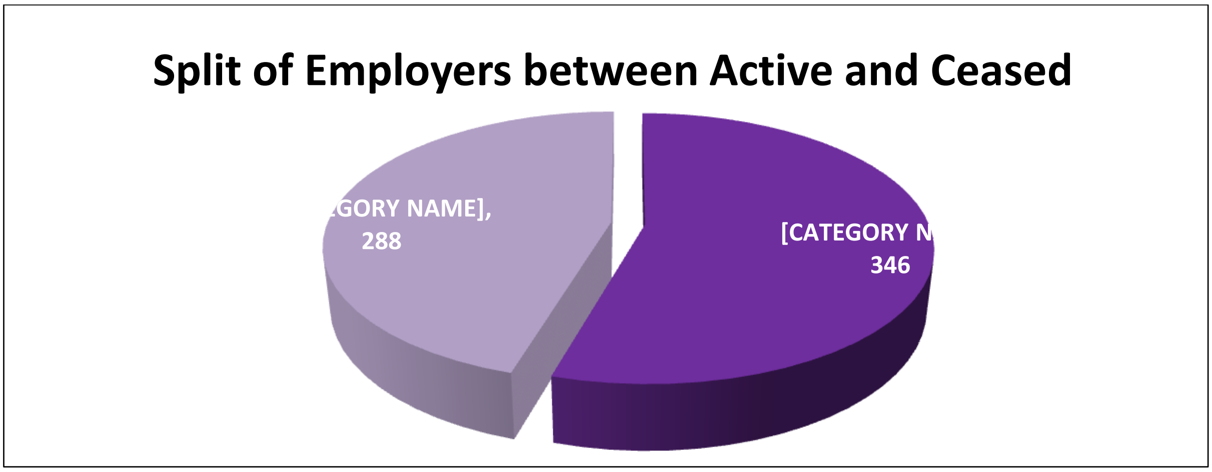
1 Introduction

1.1 This report sets out information on employer related matters for the 9 months ending 31 December 2021.

1.2 It also provides details of the transfer of Kent Institute of Art and Design to the Surrey Pension Fund and of Oasis Community Learning Trust and Sodexo Ltd to the LPFA. In addition, it provides an update on the progress being made on the payment plan agreed with Sevenoaks Leisure Ltd and a summary of the GAD Section 13 report as well as some admission matters.

2 Fund Employer update

2.1 There was a total of 634 employers in the Fund on 31 December 2021, an increase of one from 30 September 2021.



2.2 The number of active employers regularly paying contributions increased by one with a new transferee admission body. Two employers ceased to have active members in the Local Government Pension Scheme (LGPS).The ceased employers include both those employers that have ceased to have active members but for whom the legal termination process is incomplete, and those that no longer have active contributing members in the LGPS and for whom the Fund has an existing or future liability to pay any pensions.

2.3 The following table lists employers who joined the Fund as well as those who ceased to have active members in the Fund during the 9 months to 31 December 2021.

New Employers	**Effective Date**	**New Notification**
Admission Bodies		
Churchill Contract Services Ltd (re: Thinking Schools Academy Trust)	1 September 2019 (backdated admission)	
Cleantec Services Ltd (re: Dartford Grammar School for Girls Academy)	1 October 2019 (backdated admission)	×
Scheduled Bodies		
Canterbury Environment Company Ltd	1 February 2021 (backdated)	
Kite College	1 May 2021 (backdated)	
Academy Trusts		
Inspire Trust	1 April 2021	

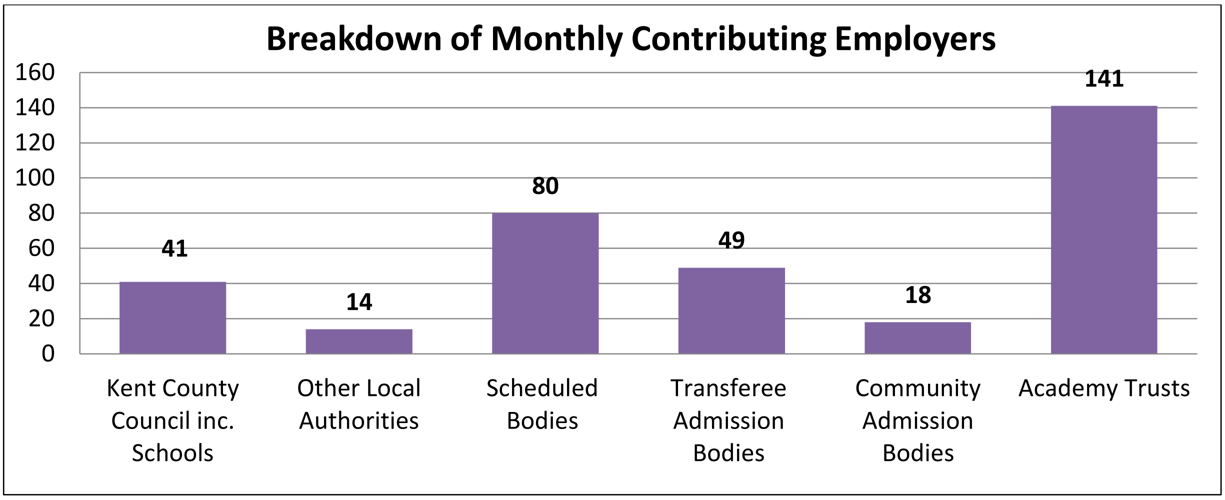
Ceased / Merged to Trust Employers	Effective Date	New Notification
Admission Bodies		
Kent College Canterbury	31 January 2021 (late notification of last active member leaving)	
Rochester Care Homes Ltd	31 March 2021	
Deep Beat Entertainment Ltd (Medway Park)	18 May 2021	
Deep Beat Entertainment Ltd (Strood)	18 May 2021	
Busy Bee Cleaning Services Ltd	31 July 2021	
Academy Trusts		
Village Academy Trust	31 May 2021	
Brook Learning Trust	31 August 2021	
Castle Academy Trust	31 December 2021	×
Scheduled Bodies		
Kent Magistrates Courts Committee	31 March 2021	
Farningham Parish Council	30 November 2020 (late reporting to Committee)	×

2.4 In the 9 months to December 2021 the Fund received £202.7m from employers in respect of their monthly contributions (employer and employee) as follows:

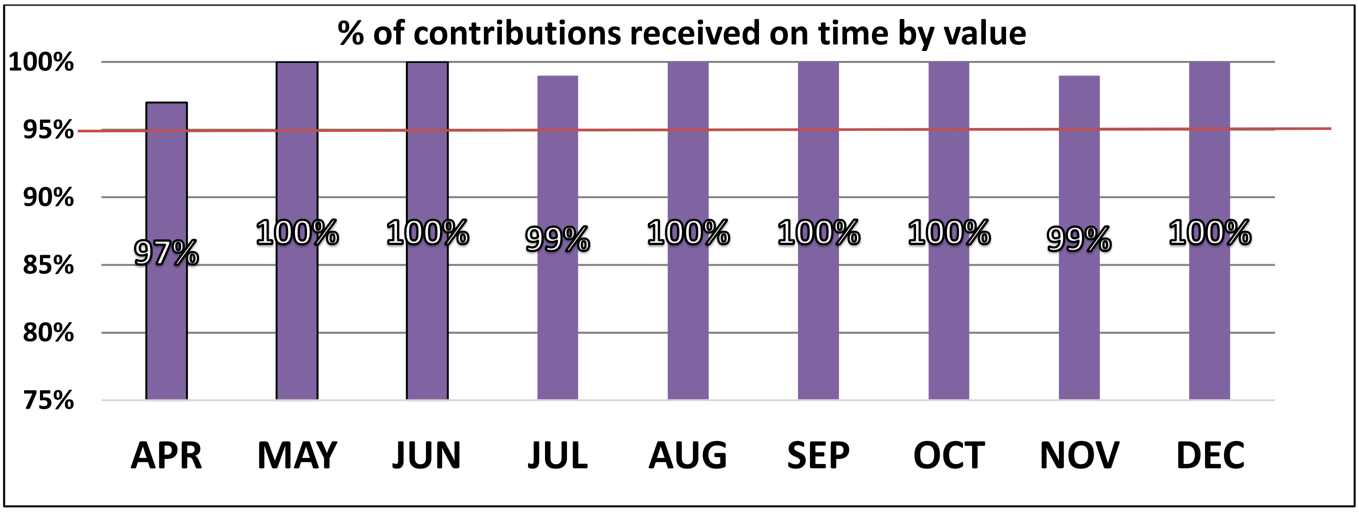
	Received Early	Cash on 19th	Received Late	Total
	£	£	£	£
April	12,840,115	8,765,012	589,197	22,194,324
May	12,276,966	9,762,932	62,210	22,102,108
June	12,718,141	9,642,629	78,924	22,439,694
July	13,285,059	8,791,062	224,727	22,300,848
August	12,744,554	9,598,102	40,569	22,383,226
September	13,131,657	9,111,522	30,236	22,273,415
October	13,848,463	8,591,048	23,538	22,463,048
November	13,228,237	9,662,220	122,099	23,012,556

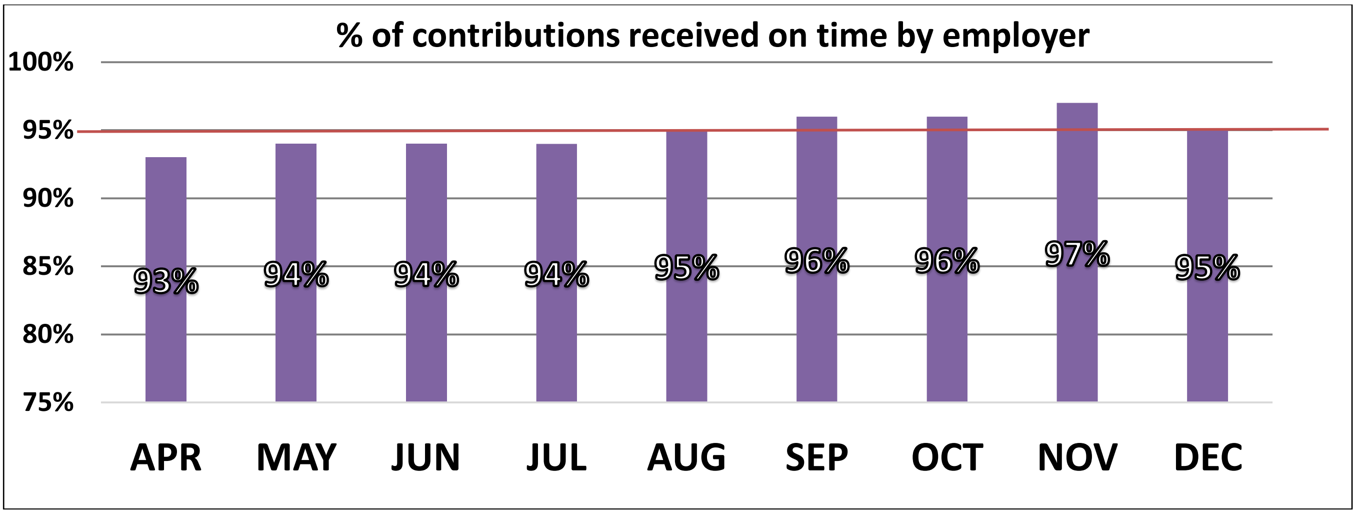
December	13,864,535	9,643,963	69,929	23,578,427
Total	**117,937,727**	**83,568,490**	**1,241,429**	**202,747,646**

2.5 The following table shows employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the council's and schools' relationships with several payroll providers.



2.6 Officers continue to monitor the receipt of these contributions and the following two charts show the % of employer contributions received on time by two different measures; by value and by number of employers. The Key Performance Indicator (KPI) of 95% for % of contributions received on time by employer was not achieved in April, May, June or July due to backdated admissions and some Parish Councils having issues with their bank. Since August we have achieved our KPI of 95% each month.





3 Kent Institute of Art and Design (KIAD)

3.1 KIAD, a scheduled employer in the Kent Fund, amalgamated with Surrey Institute of Art and Design (SIAD) following the KIAD Higher Education Corporation (Dissolution) Order 2005. Staff transferred on 1 April 2006.

3.2 In 2007 the Committee agreed that all KIAD's active members in the Kent Fund should be transferred to the Surrey Pension Fund and that all pensioners including survivor pensioners, and deferred members should remain in the Kent Fund.

3.3 There are 216 active members involved in this matter.

3.4 The amalgamation of two colleges who are members of different LGPS funds is unusual and the conclusion of this matter has been delayed, however legal advice received by officers has been to proceed with the bulk transfer as originally agreed, updated to a current value.

3.5 It is not unusual for bulk transfers to take some time to complete but this is one of the longer running ones. There have been a number of factors over the years contributing to the passage of time, such as agreement of member data, dialogue with the actuary for Surrey and the Kent actuary, Barnett Waddingham. Also, there are historical administrative backlogs in the Kent Fund which have previously been discussed by Committee, which included the KIAD project.

3.6 The terms of the bulk transfer for the active members were agreed between the Kent Fund's actuary Barnett Waddingham and Hymans Robertson, the actuary for the Surrey Fund.

3.7 A bulk transfer payment of £11.3m was made from the Kent Fund to the Surrey Fund on 15 March 2022.

3.8 Whilst there has been a change of administering authority for the active members, there is no financial impact on them or the deferred, pensioner and survivor pensioner members as their benefits are set out in the LGPS regulations.

4 Proposed transfer of Oasis Community Learning Trust Academy (Oasis) and Sodexo Ltd to the LPFA

4.1 At their meeting on 23 June 2021 the Committee were advised that Oasis, a scheduled employer in the Kent Fund and in some fifteen other LGPS Funds, wished to consolidate these arrangements into the LGPS Fund administered by the London Pension Fund Authority (LPFA).

4.2 In June 2021 the Secretary of State undertook a consultation with interested parties including the Kent Fund on a Direction Order under Schedule 3, Part 2, paragraph 3 of the 2013 LGPS Regulations and having taken advice from Barnett Waddingham, the Kent Fund was able to respond positively. The consultation elicited a range of views from consultees including a request for more time to consider the issues and responses requesting more information.

4.3 The Department for Levelling Up, Housing and Communities (DLUHC) ran a second consultation and on 14 February 2022 the Kent Fund responded positively. The outcome of the consultation has yet to be published so a further update will be provided at future meetings of the Committee and Board.

4.4 The proposal also includes Sodexo Ltd which is an admission body in the Kent Fund following a transfer of staff from Oasis to them on 18 November 2019.

5 Sevenoaks Leisure Ltd (SLL)

5.1 At their meeting on 1 December 2021 the Committee agreed a 6-year instalment plan for the payment of the arrears of employer contributions be entered into with SLL under advice from Barnett Waddingham, on the basis that monthly employer contributions started being paid again from November 2021. Payment was received on 17 December 2021.

5.3 The first payment under the monthly instalment arrangement of £3,943 was received on 18 February 2022 and further payments are due until 31 March 2028.

5.4 SLL paid their January 2022 employee and employer contributions on 18 February 2022, which was the due date given, the 19th was a non-working day.

5.5 Officers will continue to monitor payments by SLL and provide an update at future meetings of the Committee and Board.

6 GAD Section 13 Report on the LGPS 2019 valuations

6.1 On 16 December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) published the GAD (Government Actuary Department) report on the 2019 fund valuations, as required by Section 13 of the Public Service Pensions Act 2013.

6.2 A copy of the report is at Appendix one.

6.3 Section 13 requires GAD to report on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

6.4 Barnett Waddingham have advised that the four recommendations that GAD make are largely achievable for the imminent 2022 valuations. They are:

a) The Scheme Advisory Board (SAB) should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

b) The SAB consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

c) Fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

d) The SAB review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

6.5 The number of flags has reduced, and a "white flag" introduced which is simply an advisory flag to highlight general issues but where no action is needed. There were no red flags (i.e., material issues) and only two amber flags (i.e., potential material issues) which is all positive for the LGPS after a very turbulent period.

6.6 There have been no flags raised in respect of the Kent Fund.

7 Admission matters

7.1 The following organisations have applied retrospectively for admission to the Pension Fund to ensure the continuity of pension arrangements for staff.

7.2 The admission applications have been made under Schedule 2 Part 3 1(d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide some form of security.

7.3 The completed questionnaires and supporting documents provided by the applicants have been examined by officers to ensure compliance with the LGPS Regulations, and Invicta Law has given favourable opinions.

8 Seeclear Facilities UK Ltd (re Future School Trust)

8.1 The Future Schools Trust awarded a 4-year contract for cleaning services from 1 September 2020, and this involved the transfer of some twenty-six employees to Seeclear Facilities UK Ltd. A retrospective admission agreement is proposed.

8.2 The Fund actuary has assessed the employer contribution rate as 24.3% for a closed agreement and the Bond for the first year as £34,000.

8.3 Future Schools Trust has agreed to provide a guarantee as the scheme employer party to the admission agreement. A satisfactory assessment of the financial strength of the Academy has been undertaken and the terms of the guarantee will be captured in the admission agreement.

9 Sports and Leisure Management Ltd (re Sevenoaks Leisure Ltd)

9.1 Sevenoaks District Council has awarded a 15-year contract with a possible five year extension for leisure services from 14 January 2022. This involves the transfer of some nineteen employees from Sevenoaks Leisure Ltd to Sports and Leisure Management Ltd and a retrospective agreement will be put in place.

9.2 The Fund actuary has assessed the employer contribution rate as 26% for a closed agreement and the Bond for the first year as £88,000.

10 Town and Country Cleaners (re Stour Academy Trust)

10.1 The Stour Academy Trust has awarded a 3-year contract for cleaning services from 1 August 2021. This involves the transfer of one employee to Town and Country Cleaners Ltd and a retrospective agreement will be put in place.

10.2 The Fund actuary has assessed the employer contribution rate as 31.8% and the Bond for the first year as £19,000.

10.3 Stour Academy Trust has agreed to be provide a guarantee as scheme employer party to the admission agreement. A satisfactory assessment of the financial strength of the Academy has been undertaken and the terms of the guarantee will be captured in the admission agreement.

Alison Mings, **Pension Fund and Treasury Investments Manager**

T: 03000 416488

E: Alison.mings@kent.gov.uk

March 2022

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Section 13 Report as at 31 March 2019

November 2021

Martin Clarke FIA and John Bayliss FIA

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At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes **the standards** we apply.

1 Executive Summary

1.1 The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the Local Government Pension Scheme in England and Wales ("LGPS" or "the Scheme").

1.2 Section 13 requires the Government Actuary to report on whether the following aims are achieved:

> Compliance

> Consistency

> Solvency

> Long term cost efficiency

1.3 This is the second formal section 13 report. Section 13 was applied for the first time to the fund valuations as at 31 March 2016. We refer to this as the 2016 section 13 report. The 2016 section 13 report was published in September 2018.

1.4 This report is based on the actuarial valuations of the funds, other data provided by the funds and their actuaries, and a significant engagement exercise with relevant funds. We are grateful to all stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims listed above. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Progress since 2016

1.5 We made five recommendations as part of the 2016 section 13 report. In summary we recommended that:

1. Standard information should be provided in a uniform dashboard format to facilitate comparisons between funds.
2. Consideration should be given to how greater clarity and consistency of actuarial assumptions could be achieved.
3. A common basis for academy conversions should be sought.
4. Within a named closed fund a plan should be put in place to ensure that benefits are funded in the event of insufficient contributions and exit payments.
5. Recovery plans could be demonstrated to be consistent with CIPFA guidance.

1.6 We are pleased to note good progress in relation to recommendations 1, 4 and 5. However we note that further progress is needed in relation to recommendations 2 and 3.

1.7 We set out our comments on this progress in more detail in Chapter 3.

Overall Comments

1.8 In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position, specifically:

> Total assets have grown in market value from £217 bn to £291 bn

> Total liabilities disclosed in the 2019 local valuation reports amounted to £296 bn. The local bases are required to be set using prudence

> The aggregate funding level on prudent local bases has improved from 85% to 98% (at 2019)

> The improved funding level is due in large part to strong asset returns over the 3 year period to 31 March 2019. Equities in particular performed strongly, averaging a return of circa 10-12% pa over the period. Funding also improved due to the continuation of substantial financial contributions from most LGPS employers

> The aggregate funding level on GAD's best estimate basis is 109% (at 2019). GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence. There is a 50:50 likelihood of the actual experience being better or worse than the best estimate assumption, in our opinion

> We note that the size of funds has grown significantly over the three years to 31 March 2019. However, the ability of tax backed employers to increase contributions if this was to be required (as measured by their core spending power) has not kept pace. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes

1.9 We set out below our findings on each of the four aims and our recommendations.

Compliance

1.10 Our review indicated that fund valuations were compliant with relevant regulations. However greater clarity on the assumptions used to determine contributions in the Rates and Adjustment certificate for some funds would be helpful.

Consistency

1.11 We interpret "not inconsistent" to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should facilitate comparison by a reader of the reports. Local circumstances may merit different assumptions. For example financial assumptions are affected by the current and future planned investment strategy, and different financial circumstances might lead to different levels of prudence being adopted.

1.12 Further to our recommendation as part of the 2016 section 13 report, we are pleased to note all funds have adopted a consistent "dashboard". We consider this a useful resource to aid stakeholders' understanding, because information is presented in a consistent way in the dashboards. We have suggested a few minor changes to further assist stakeholders going forward.

1.13 However, even given consistency in presentation in the dashboards, differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We encourage further discussion on how assumptions are derived based on local circumstances in valuation reports.

1.14 We welcome the improvements of the evidential consistency of key assumptions, fund actuaries have provided more consistent rationalisation of assumptions in funding strategy statements. However, we note there appear to remain some areas of inconsistency. Furthermore, there are particular inconsistencies in the way Academy conversions are carried out in different funds, which derive from different valuation approaches. We believe that there are substantial benefits to improving consistency which are discussed later in the report.

Recommendation 1:
The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Solvency

1.15 As set out on the CIPFA website in [CIPFA's Funding Strategy Statement Guidance], the employer contribution rate is appropriate if:

- the rate of employer contributions is set to target a funding level for the whole fund of 100% over an appropriate time period and using appropriate actuarial assumptions

and either:

- employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

- there is an appropriate plan in place should there be an expectation of a future reduction in the number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

1.16 Over the three years to 31 March 2019, funds' assets have grown by around a third and liabilities by around 15%. However, the size of the employers has not grown at the same pace. This increases the risk to funds if, for example, there was to be a sustained reduction in the value of return seeking assets. This represents a general increase in risk for the LGPS as a whole, so we provide a general risk comment (rather than focus on any individual funds).

1.17 In GAD's view, the prevailing economic conditions have deteriorated between 2016 and 2019. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in economic conditions may have warranted a strengthening of the valuation basis, resulting in a requirement to maintain or increase contributions.

1.18 We have performed an asset liability modelling (ALM) exercise for the scheme as a whole. This modelling illustrated:

- potential for material variability around future employer contribution rates (the current investment strategy includes a high proportion of equity investments which contribute to this variability but has the upside potential of greater expected long term investment returns)
- the potential impact on funding levels if there were to be constraints on the level of employer contributions

1.19 The following risk comment highlights the ongoing risk that pension funding presents to local authorities. We are not suggesting administering authorities and their advisors are unaware of this risk, but we have illustrated possible implications in our ALM.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than local authority budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor it over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Long term cost efficiency

Under solvency and long term cost efficiency we have designed a number of metrics and raised flags against these metrics to highlight areas where risk may be present, or further investigation is required, using a red/amber/green rating approach. Where we do not expect specific action other than a general review, we have introduced a white flag.

1.20 As set out in CIPFA's Funding Strategy Statement Guidance, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if it is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

1.21 In 2019 we are flagging four funds as raising potential concern in relation to long term cost efficiency; this is two fewer than in 2016.

1.22 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures.

1.23 For a further two funds we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers).

1.24 During our review, we engaged with a number of funds with concerns in relation to a combination of deficit period, required return and return scope measures. We are pleased to note that, following these discussions, we were able to take into account a post valuation asset transfer in respect of one fund and allow for a firm commitment to make additional contributions in respect of a further fund. As a result, we have not raised long term cost efficiency amber flags in respect of these two funds.

1.25 In the 2016 section 13 exercise, we noted that several funds were extending their deficit recovery end points and recommended that funds reviewed their funding strategy. Whilst we note the improved funding position has reduced or removed deficits for some funds, where a deficit remains, we are pleased to observe that most funds in 2019 have maintained their deficit recovery end points.

1.26 However, this does not appear to be the case for two funds which we have flagged on this measure.

1.27 We note that different approaches have been taken by different actuarial advisors to determine deficit recovery plans. Whilst we acknowledge that different approaches may be appropriate, it is important for stakeholders to be able to assess how the deficit recovery plan changes over time. We have therefore made a recommendation to extend the information provided, and the appendices include the information to be provided.

Recommendation 2:
We recommend the Scheme Advisory Board consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

Recommendation 3:
We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

1.28 Some councils have made or may be considering asset "gifts" to their pension funds. These arrangements are novel, may be complex and in some cases are established with a long time horizon. For these reasons, the governance around any such asset transfer arrangements requires careful consideration.

Recommendation 4:
We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

2 Introduction

What is Section 13?

The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 88 funds in the Local Government Pension Scheme in England and Wales ("LGPS" or "the scheme").

This is the second formal section 13 report and sets out the Government Actuary's findings following the fund valuations as at 31 March 2019.

Section 13 was applied for the first time to the fund valuations as at 31 March 2016, following a "dry run" which was undertaken as at 31 March 2013.

What are Local Government Pension Scheme valuations?

The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.

Each LGPS pension fund is required to appoint their own fund actuary, who carries out the fund's valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Costs are split between those that relate to the past (the past service cost) and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.

2.1 This report is addressed to the Department for Levelling Up, Housing and Communities (DLUHC) as the responsible authority for the purposes of subsection (4) of section 13 of the Public Services Pensions Act 2013 ("the Act"). GAD has prepared this paper to set out the results of our review of the 2019 funding valuations of LGPS. This report will be of relevance to administering authorities and other employers, actuaries performing valuations for the funds within LGPS, the LGPS Scheme Advisory Board (SAB), HM Treasury (HMT) and the Chartered Institute of Public Finance & Accountancy (CIPFA) as well as other LGPS stakeholders.

2.2 As at 31 March 2019 there were 88 funds participating in the LGPS, excluding the West Midlands Integrated Transport Authority Pension Fund which merged with the West Midlands Pension Fund on 1 April 2019.

2.3 In addition to requirements under section 13 of the Public Service Pensions Act 2013 outlined above, the Scheme Advisory Board has established Key Performance Indicators. These state that "the SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of "under-performing" funds, and concurrently seeking to raise the level of performance of "average" funds to that of the "highest performing" funds."

2.4 Subsection (4) of section 13 requires the Government Actuary as the person appointed by DLUHC to report on whether the four main aims are achieved, namely:

- Compliance: whether the fund's valuation is in accordance with the scheme regulations
- Consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within Local Government Pension Scheme England and Wales (LGPS)
- Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- Long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

2.5 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved

a. the report may recommend remedial steps

b. the scheme manager must—

i. take such remedial steps as the scheme manager considers appropriate, and

ii. publish details of those steps and the reasons for taking them

c. the responsible authority may—

i. require the scheme manager to report on progress in taking remedial steps

ii. direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Identifying if the aims of section 13 are met

2.6 We have looked at a range of metrics to identify exceptions under the solvency and long term cost efficiency objectives. Each fund is given a colour coded flag under each measure, where:

Key

RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure solvency and/or long term cost efficiency may be considered.

AMBER indicates a potential material issue that we would expect funds to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure solvency and/or long term cost efficiency.

WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency.

2.7 The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope at a point in time. Where appropriate we have maintained consistency with the approach adopted in 2016.

2.8 While they should not represent targets, these measures and flags help us determine whether a more detailed review is required. For example, we would have a concern where multiple measures are triggered amber for a given fund.

2.9 It should be noted that these flags are intended to highlight areas where risk may be present, or further investigation is required. For example, where an amber flag remains following engagement, we believe this relates to an area where some risk remains that administering authorities and pension boards should be aware of. There is no implication that the administering authority was previously unaware of the risk.

2.10 A green or white flag does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

2.11 We have had regard to the particular circumstances of some funds, following engagement with the administering authority and the fund actuary. In some cases, the action taken or proposed has been sufficient to remove flags. We have described these outcomes in the relevant sections below.

2.12 The figures shown in the tables in this report are based on publicly available information and/or information provided to GAD.

2.13 Further detail is provided in the solvency and long term cost efficiency chapters and appendices. In addition we have considered the overall funding position of the funds within the LGPS in our funding analysis report published alongside this document.

2.14 Local valuation outputs depend on both the administering authorities' Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13. It is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuaries, or other stakeholders.

2.15 The following key has been used to identify the actuarial advisers for each fund:

Aon
Barnett Waddingham
Hymans Robertson
Mercer

2.16 The Environment Agency Closed Pension Fund is different from other LGPS funds. The benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs, thus guaranteeing the security of these benefits. Details of this can be found in the Environment Agency Closed Pension Fund valuation published on the LGPS SAB website. In general, the fund has been excluded from the analyses that follow.

2.17 More generally it is important to note that this report focuses on the funding of future member benefits. The calculation of members' benefits is set out in regulations. Consequently, the benefits paid to members are not dependent on the funding position of any particular fund.

Limitations

2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

2.19 Because of the nature of this exercise, generally only post valuation experience allowed for in the valuation disclosures has been taken into account. However, where we have engaged with funds regarding their long term cost efficiency and a firm commitment has been made to improving the fund position, this has been recognised.

Standardised basis

2.20 There are some areas of inconsistency highlighted in Chapter 5, which make meaningful comparison of valuation results set out in local valuations reports difficult.

2.21 To address this, we have referred to results restated on two bases:

> The standard basis established by the SAB, as calculated by fund actuaries

> A best estimate basis consistent with market conditions as at 31 March 2019 derived and calculated by GAD

2.22 This use of standardisation does not imply the bases are suitable to be used for funding purposes as we would expect a funding basis to be consistent with the market and prudent. We note that:

> The SAB standard basis is not consistent with current market conditions

> The GAD best estimate basis is based on our views of likely future returns on each broad asset class across the Scheme. Regulations and CIPFA guidance call for prudence to be adopted when setting a funding basis. Our best estimate basis does not include prudence and is based on the average investment strategy for the overall Scheme, so will not be pertinent to any given fund's particular investment strategy. Further, we do not take into account any anticipated changes in investment strategy that may be planned/in train

2.23 The local valuations and our calculations underlying this report are based on specific assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario.

Future review

2.24 We are grateful to stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims in the legislation. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Appendices

2.25 Appendices are contained in a separate document.

Other important information

2.26 The previous section 13 report was published on 27 September 2018 following the valuations as at 31 March 2016 details of which can be found in the Local Government Pension Scheme: review of the actuarial valuations of funds as at 31 March 2016.

2.27 GAD has no liability to any person or third party other than DLUHC for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.28 In performing this analysis, we are grateful for helpful discussions with and cooperation from:

> Actuarial advisors

> CIPFA

> DLUHC

> Fund administrators

> HM Treasury

> LGPS Scheme Advisory Board

> The Pensions Regulator (TPR)

We note that this report is GAD's alone and the stakeholders above are not responsible for the content.

2.29 GAD would like to acknowledge the commitment shown by the funds and their advisors, which is illustrated through the improvement in the funding position of funds since the previous valuation.

2.30 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report. The appointment to report under section 13 does not give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

2.31 In preparing this report, we are aware that our analysis may be affected by risks arising from the impact of the COVID-19 pandemic. At this stage, the full impact of the COVID-19 pandemic is not known and will remain uncertain until further evidence has been established. No margins have been applied to the analysis to reflect these risks unless otherwise stated.

2.32 This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

3 Progress

We made five recommendations in the 2016 section 13 report. We have reported on the progress made against each of these recommendations in the table below:

2016 Recommendation	Progress
1: We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view to making a recommendation to the DLUHC minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.	We are pleased to report that good progress has been made on this recommendation. The Scheme Advisory Board agreed standard disclosures which were included as an annex in each actuarial valuation report.
2: We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the DLUHC minister in advance of the next valuation.	Some progress appears to have been made in this area. Fund actuaries have engaged with the Scheme Advisory Board and provided more consistent rationalisation of assumptions in funding strategy statements. However there remains some evidence of inconsistency.

2016 Recommendation	Progress
3: We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the DLUHC minister in advance of the next valuation.	The Scheme Advisory Board established a working group in 2018, including stakeholders with a range of perspectives, and discussed a variety of options for achieving a common basis for academy conversion. However, a common basis has not yet been implemented and further discussions are necessary to determine if a common basis is achievable and if so what that should consist of.
4: We recommend that the administering authority put a plan in place to ensure that the benefits of members in the West Midlands Integrated Transport Authority Pension Fund can continue to be paid in the event that employers' contributions, including any exit payments made, are insufficient to meet those liabilities.	We are pleased to report good progress regarding this recommendation. Following a public consultation, the West Midlands Integrated Transport Authority Pension Fund merged with the West Midlands Pension Fund with effect from 1 April 2019. The West Midlands fund merger consultation and the Government Response on the Proposed Merger of the West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund can be found at gov.uk
5: We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.	We are pleased to report there has been progress on this recommendation with most funds now maintaining their deficit recovery end points. However, our analysis shows that further improvements could be made.

4 Compliance

Key Compliance findings

- All reports checked contained a statement of compliance
- The reports checked contained confirmation of all material requirements of regulation 62
- We concluded the aims of section 13 were achieved under the heading of Compliance in terms of valuation reporting

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the actuarial valuations of the funds have been completed in accordance with the scheme regulations.

In this Chapter:

- **We set out our approach to reviewing compliance and our conclusions from that review**

Summary of compliance outcomes

4.1 Valuation reports materially complied with the regulations.

4.2 There is a great deal of consistency between the actuarial methodologies and the presentation of the actuarial valuation reports for funds that are advised by the same firm of actuarial advisors (see Chapter 5 on Consistency). Accordingly, GAD has selected one fund as a representative example from each of the firms of actuarial advisors and has assessed whether these reports have been completed in accordance with Regulation 62. The statutory instrument governing the publication of actuarial valuations for the LGPS in England and Wales is Regulation 62 of the Local Government Pension Scheme Regulations 2013.

4.3 We found that the actuarial valuation reports have been completed in accordance with Regulation 62 and have therefore concluded that the compliance criteria of section 13 have been achieved. We note that this is not a legal opinion.

4.4 We did note that whilst the regulations require a reference to the assumptions on which the Rates and Adjustment Certificate (the certificate setting out employer contributions) was given, this was not always clear. It would be helpful to ensure such information is clearly stated in future. We did not consider this to be material non-compliance.

4.5 In line with the required actuarial standards we noted that the four valuation reports reviewed contained confirmation that the required Technical Actuarial Standards had been met.

4.6 Our review of compliance is focused on the actuarial valuation reports produced under Regulation 62. We have not, for example, systematically reviewed Funding Strategy Statements prepared under Regulation 58.

4.7 The comments we make in subsequent chapters on consistency, solvency and long term cost efficiency do not imply that we believe that the valuations are not compliant with the regulations. These comments relate only to whether the valuations appear to achieve the aims of section 13.

5 Consistency

Key Consistency findings

- **Funds have adopted a consistent "dashboard" which greatly aids stakeholders' understanding. We expect this information will be available as an informative resource for all users going forward and have recommended some changes to further assist users.**
- **We welcome the observed move towards greater consistency in relation to key assumptions. We recognise that different advisors will recommend different assumptions. However, this makes comparability difficult. Stakeholders in the LGPS would benefit from greater comparability.**
- **We recommend the SAB gathers further evidence on consistency from stakeholders and considers what further steps could be taken to advance this objective, particularly in relation to future academy conversions and wider emerging issues.**

Section 13 requires that GAD must report on whether each actuarial valuation has been carried out in a way which is not inconsistent with other valuations. This requires both presentational and evidential consistency and is important to enable readers to make comparisons between different valuation reports.

In this Chapter we:

- **Provide some background on the legislation and importance of consistency**
- **Discuss presentational consistency with a focus on contribution rates**
- **Consider evidential consistency in more detail, looking at liability values, funding assumptions, McCloud treatment and academy conversions**
- **Comment on emerging issues and academies**
- **Conclude and make recommendations**

Presentational Consistency:

Information may be presented in different ways in different reports, and sometimes information is contained in some reports but not others (eg discount rate derived to determine future contribution rates), so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency.

Evidential Consistency:

When the reader has located the relevant information (eg funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (e.g. financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted) but that wherever possible information should be presented in a way that facilitates comparisons.

Importance of Consistency

5.1 LGPS is a common pension scheme locally administered by separate Administering Authorities. Section 13 requires valuations to be carried out in a way that is not inconsistent with other LGPS fund valuations. This is important to enable readers to draw comparisons between the results from two valuation reports. We also believe that there are greater benefits that could be attained by adopting a more consistent funding approach.

5.2 Where members are provided with identical benefits it is hard to justify large variations in the apparent cost of these benefits. This is particularly pronounced where one employer is participating in numerous different LGPS funds and can be required to contribute differing costs. In this situation it is increasingly important to understand what is driving the difference and ensure that this is clear to employers. The greater the difference in cost between different funds, the more significant this issue.

5.3 Furthermore, given the mobility of the workforce it is not unusual for members to transfer between funds. The greater the variation in different funding basis the greater the potential strain. In addition, in relation to bulk transfers protracted discussions on the appropriate transfer basis can result, which are not helped by differences in funding bases.

5.4 We also note that there is a common basis used for various calculations within the LGPS. Where this basis diverges from funding basis this can be a source of additional strain, which needs to be managed.

Presentational Consistency

5.5 As previously we note a high degree of similarity between reports produced by each consultancy. Therefore, we have taken at random a report produced by each actuarial advisor to assess whether the information disclosed is consistent across all four advisors. We do not have any specific concerns about these funds, which have been chosen at random and note none of the funds raise any amber or red flags. These funds are:

London Borough of Enfield Pension Fund (Aon)	London Borough of Sutton Pension Fund (Barnett Waddingham)
Derbyshire Pension Fund (Hymans Robertson)	Lancashire County Pension Fund (Mercer)

5.6 All funds completed information in the format of a standard dashboard, which was recommended as part of the 2016 section 13 exercise. The final format of the dashboard was agreed by the SAB. This includes the key information that one might expect to find in an actuarial valuation report and will be helpful to readers in comparing funding valuations.

5.7 Table B1 in Appendix B sets out the dashboard information required in the actuarial valuation reports for funds.

5.8 We note as previously each report contains a section that summarises the changes to the funding position since the 2016 reports, and these are presented in very similar ways, again making for easy comparison.

Contribution rates

5.9 Contribution rates include the following components:

> Primary Contribution Rate

> Secondary Contribution Rate

> Member Contribution Rate

5.10 The analysis below focuses on the employer contributions (the primary and secondary contributions payable by the employer). Total employer contributions expected to be received in the three years covered by the 2019 valuation are set out in the following table:

Table 5.1: Total Recommended Employer Contributions

Contribution	2020-21 £bn	2021-22 £bn	2022-23 £bn
Primary contributions	6.5	6.7	6.9
Secondary contributions	1.3	1.2	1.1
Total Employer contributions	7.7	7.9	8.1

The trend in secondary contributions may reflect some fund employers paying their secondary contributions in one lump sum to cover three years. Whilst this may be expedient for employers in the short term, and we do not object, we do encourage a focus on the longer term, and in particular budgeting over the whole deficit recovery period.

The primary contribution rates are easily found in the valuation reports for each fund, and, as they are all expressed as a percentage of pay, are easily comparable. The same is true of member contribution rates.

Secondary contribution rates are more complex. All actuarial advisors provide a detailed breakdown of the secondary contribution rates by employer for each of the next three years in their Rates and Adjustments Certificates.

Secondary Contribution Rates

5.11 Table 5.2 summarises the information about secondary contribution rates that is given in the valuation reports for the different actuarial advisors. We note that these are provided as cash amounts in each year in line with CIPFA guidance. In addition, three of the four reports also provide an alternative expression of the contributions.

Aon expressed the secondary contribution as both a fixed monetary amount and as a combination of monetary amount and a percentage of pay.

Barnett Waddingham expressed the secondary contribution as both a monetary amount and a percentage of pay.

Hymans Robertson expressed the secondary contribution as a monetary amount only

Table 5.2: Secondary Contribution Rates

Fund (Actuarial Advisor)	Secondary Contribution Rates 2020	2021	2022
London Borough of Enfield Pension Fund (Aon)	£2,099,000 or 1.3% of pensionable pay plus £8,100	£2,175,000 or 1.3% of pensionable pay plus £8,400	£2,253,000 or 1.3% of pensionable pay plus £8,700
London Borough of Sutton Pension Fund (Barnett Waddingham)	4.5% of pensionable pay or £4,879,000	4.5% of pensionable pay or £5,058,000	4.5% of pensionable pay or £5,242,000
Derbyshire Pension Fund (Hymans Robertson)	£17,432,000	£17,752,000	£18,079,000
Lancashire County Pension Fund (Mercer)	£3,200,000 or £9,300,000 less 0.6% of pensionable pay	£3,300,000 or £9,700,000 less 0.6% of pensionable pay	£3,400,000 or £10,000,000 less 0.6% of pensionable pay

Mercer expressed the secondary contribution as both a fixed monetary amount and a combination of a monetary amount and a (negative) percentage of pay.

5.12 All fund actuaries gave the equivalent monetary amount. In many cases, this is consistent with how they frame the advice to their clients. Only one fund actuary gave a single headline figure that summarises the average secondary contribution rate over the three post valuation years. In our view this is a helpful way to express those contributions, as it gives the reader a clear sense of the total employer contributions being paid in.

Table 5.3: Information provided on spreading surplus/deficit:

Fund	Information provided on spreading deficits
London Borough of Enfield Pension Fund (Aon)	Statement setting out spreading of deficit under 100% over maximum of 16 years and any surplus over 105% over 19 years
London Borough of Sutton Pension Fund (Barnett Waddingham)	Statement setting out spreading of deficit (maximum of 16 years)
Derbyshire Pension Fund (Hymans Robertson)	Provide recovery horizon set by employers instead of deficit recovery period. Detail provided in funding strategy statement.
Lancashire County Pension Fund (Mercer)	Statement setting out spreading of deficit and surplus including detail on funding level and maintenance of deficit recovery end point. Deficit recovery over average of 16 years

5.13 We note that whilst comparison of secondary contributions over the next three years is relatively easy, it is harder to understand what funds' objectives are to making good the deficit over the longer term. We recommend reviewing the information set out in the dashboard to consider if further data could be easily provided to address this issue. This is discussed further in the Chapter 7 on long term cost efficiency.

Comparison with prior valuation contribution rates

5.14 Regulations require contribution rates to be split into primary and secondary contribution rates for employers. This makes comparison with the previous valuation easier compared to earlier valuation cycles.

5.15 A comparison of aggregate employer rates is provided in some cases. In other cases, a comparison of primary rates only is provided, see table 5.4.

5.16 We consider it would be helpful for stakeholders to see a comparison and explanation of recommended primary and secondary contribution rates with those from the previous valuation. We also believe a comparison of the total level of contributions being paid into the fund is useful to enable the reader to make a comparison of the current and past contributions and to facilitate comparisons between funds. We suggest these additional items should be included in an updated dashboard (see Appendix B).

Table 5.4 Comparison with prior valuation contribution rates

Fund	Comparison provided
London Borough of Enfield Pension Fund (Aon)	Analysis of the change in primary contribution rates, and comparison of secondary rate and total rate (as a % of pay)
London Borough of Sutton Pension Fund (Barnett Waddingham)	Analysis of the change in primary contribution rates
Derbyshire Pension Fund (Hymans Robertson)	Comparison of primary rate (as % of pay) and secondary rate (as fixed monetary amounts)
Lancashire County Pension Fund (Mercer)	Breakdown of the primary employer contribution rate compared with the previous valuation

Evidential Consistency

5.17 We have considered whether the local fund valuations have been carried out in a way which is not inconsistent with each other. We have found that whilst inconsistencies in the methodologies and assumptions adopted remain, these are less pronounced than observed in 2016.

5.18 Primary contribution rates range between 14% and 22% in 2019. This range is a function of differences in age profile as well as different assumptions adopted. It is a slightly narrower range than that emerging following the 2016 valuations, which we take to imply an improvement in evidential consistency. The range of secondary contributions is wider reflecting different deficit/surplus levels of the individual funds.

5.19 The value assigned to liabilities in each actuarial valuation report has been calculated on assumptions set locally. Differing levels of prudence are to be expected and may be reflective of local variations in risk appetite, but care needs be taken when comparing results.

Reported liabilities

5.20 Table 5.5 shows a comparison of the local basis liability values vs liability values calculated using the SAB basis. Whilst there are also other reasons for differences between bases, this does illustrate the variation in levels of prudence adopted in each of the four valuations chosen, and therefore the difficulty in drawing conclusions based on liability values. See also charts B1 and B2 in Appendix B which compares local and SAB basis funding levels.

Table 5.5: Liability Values

Fund	Local Basis £m	SAB Standard Basis £m	Difference between Local and SAB Basis
London Borough of Enfield Pension Fund (Aon)	1,146	1,075	7%
London Borough of Sutton Pension Fund (Barnett Waddingham)	732	670	9%
Derbyshire Pension Fund (Hymans Robertson)	5,092	4,258	20%
Lancashire County Pension Fund (Mercer)	8,398	6,893	22%

5.21 The liability value on the local basis is higher than that calculated on the SAB standard basis for all funds in this sample. Across the four funds examined, the difference between the liabilities calculated on the two bases is between 7% and 22%. More widely across all funds the range is between -1% and 36%. As noted in paragraph 2.22, the SAB standard basis is not useful for assessing liabilities for funding purposes. However, this analysis illustrates the range of difference in liability values, and it is not clear the extent to which these are local differences which makes valuation reports difficult to compare directly.

5.22 The analysis above focuses on four funds chosen at random. It should not therefore be extrapolated to all funds advised by a particular advisor.

Assumptions

5.23 We compared the following key assumptions that need to be made for the actuarial valuations for all funds to consider whether variations in those assumptions are justified in terms of local conditions.

Discount Rate

5.24 The discount rate is the most significant assumption in terms of impact on the valuation results. We have therefore focused on the derivation of this assumption in this section. It is expected that different advisors will have different views on expected future investment returns, from which discount rates are derived.

5.25 The discount rate is used to value past service liabilities. A way of measuring the level of prudence included is to consider the implied asset outperformance within the discount rate (see Appendix B for more details). Note this applies to all assets, not just "return seeking" assets. The range of implied asset outperformance by actuarial advisor is set out in Chart 5.1 below.

Chart 5.1 Implied asset outperformance range

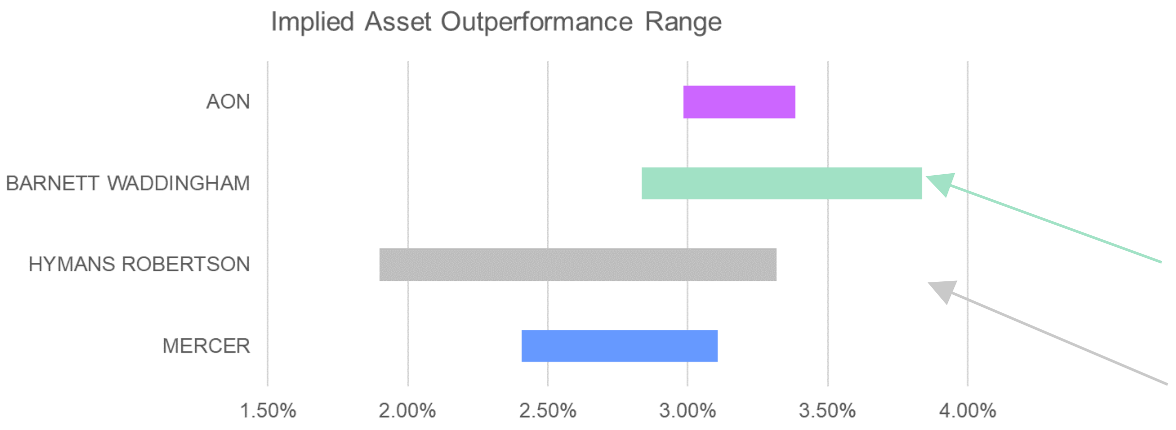

Chart 5.1 illustrates one aspect of the difference in assumptions applied by the four actuarial advisors (with the EA closed fund excluded)

Some funds advised by Barnett Waddingham have the highest level of outperformance within the discount rate used for assessing past service liability values.

Some funds advised by Hymans Robertson have the lowest level of asset outperformance within the discount rate.

5.26 Whilst there appears to be some link between the implied asset outperformance and the firm of advisors, the range of different assumptions is slightly narrower and overlap more than in 2016.

5.27 The implied asset outperformance in chart 5.1 relates to the discount rate for past service liabilities only. Whilst Aon and Barnett Waddingham adopt the same assumption for setting future contribution rates, Mercer and Hymans Robertson have different approaches.

5.28 Mercer's approach allows for the fact that contributions made after the valuation date will receive a future investment return that is not directly linked to market conditions at the valuation date. This resulted in a higher discount rate assumption for setting future contribution rates than used to value past service liabilities.

5.29 Hymans Robertson use stochastic techniques leading to a probability of success ("meeting the funding target by the funding time horizon") over a projection period (such as, for example, twenty years) to help set their contribution rates. GAD would encourage Hymans Robertson to disclose the effective discount rate used for setting future contributions, as required by CIPFA guidance in relation to Rates and Adjustment Certificates.

5.30 We would expect some fund by fund variation due to asset strategy and different levels of risk appetite, hence we do not consider the fact that funds adopt different discount rates to be a particular cause for concern. Future asset returns are highly uncertain, and hence there is a wide range of reasonable assumptions that may be adopted.

5.31 To aid comparison, we propose that the discount rate used for contribution rate setting (which may be different to the rate used for assessing past service liabilities) be disclosed in the dashboard (see Appendix B).

Other assumptions

5.32 We have compared the following assumptions used by funds advised by different actuarial advisors:

> Future mortality improvements

> Inflationary and economic salary increases

> Commutation assumptions

5.33 We expect assumptions to vary between funds. To aid transparency, this variation should be justified in relation to local circumstances. We are pleased to note improvements in some reports that reference local considerations in assumption setting. We encourage further progress in this area.

Emerging Issues

5.34 A number of issues affecting the LGPS are emerging. These issues require consideration from the funds and their advisors. We encourage dialogue with a view to treating these issues consistently in the 2022 valuation and beyond.

Climate risk

5.35 Two of the four funds reference climate change as a known risk within the valuation report as set out below. The other two funds may have considered this risk in ancillary advice but chose not to include within the valuation report.

5.36 DLUHC will be consulting on proposals for new requirements for assessing and reporting on climate risks in 2021 in line with the recommendations of the Taskforce on Climate-related Financial Risks (TCFD), and new regulations and guidance are expected to follow. Climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted.

Table 5.6 Reference to climate change within valuation report

Fund	Reference in valuation report
London Borough of Enfield Pension Fund (Aon)	Mentioned under other potential risks in valuation report
London Borough of Sutton Pension Fund (Barnett Waddingham)	Not mentioned in valuation report
Derbyshire Pension Fund (Hymans Robertson)	Mentioned under other risks and taken into account by administering authorities
Lancashire County Pension Fund (Mercer)	Not mentioned in valuation report

Allowance for COVID-19

5.37 As evidence emerges on the impact on mortality following the COVID-19 pandemic, we encourage dialogue to ensure a consistent approach is adopted in allowing for this.

Allowance for McCloud remedy

5.38 The government is committed to remedy age discrimination that arose when the LGPS was reformed in 2014. This is commonly referred to as McCloud remedy. At the time of the 2019 valuations there was considerable uncertainty around the possible McCloud remedy and hence cost impact. The Scheme Advisory Board advised in May 2019 that when setting employer contributions rates from 2020 it was appropriate for funds to: "consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks." We note that all advisors have included an allowance for McCloud but the approach adopted varies. Table 5.7 show the treatment in each of the four funds chosen:

Table 5.7: McCloud treatment

Fund	McCloud treatment
London Borough of Enfield Pension Fund (Aon)	Converted calculated past service cost into a % of pay over the maximum recovery period plus a further addition to primary contribution rates
London Borough of Sutton Pension Fund (Barnett Waddingham)	McCloud allowed for in the derivation of the discount rate
Derbyshire Pension Fund (Hymans Robertson)	McCloud allowed for as additional prudence in setting employer contribution rates.
Lancashire County Pension Fund (Mercer)	Additional margin of prudence included in the discount rate to determine employer contribution rates.

5.39 There has been communication between actuarial advisors during the 2019 valuation when considering the allowance to be made for McCloud. Given that there is now greater certainty around the McCloud remedy we would expect a consistent and explicit calculation approach to be adopted at the next valuation.

Academies

5.40 A recommendation was made in the 2016 report that the Scheme Advisory Board should seek a common basis for future conversions to academy status, with a view to making a recommendation to the DLUHC Minister in advance of the next valuation.

5.41 Although the different treatments are not invalid, inconsistent treatment when academies are admitted can lead to differences in valuation outcomes. For this reason, it is an important element of section 13.

5.42 Whilst we are aware that initial discussions were held and an academies funding working group was established in early 2018, to consider amongst other things a common approach to assess the costs associated with academy conversion, a common basis has not yet been agreed and implemented.

5.43 We have limited data to consider the basis on which academy conversions have occurred. However, we have liaised with the actuarial advisors to request their input as summarised below:

Table 5.8: Advisors comments on whether a move to greater consistency has occurred

Actuarial advisor	Response to question "has there been a move to greater consistency for academy conversions?"
Aon	Aon confirmed that a move to greater consistency across all LGPS funds had not been observed, although improved funding levels may have resulted in more similarity in practice between different approaches. They also noted that consistency within a fund over time is important.
Barnett Waddingham	Barnett Waddingham confirmed that they have consistently adopted an active cover approach.
Hymans Robertson	Hyman Robertson commented "We are not aware of any significant change in approach by funds for the reason of ensuring consistent treatment of academy conversions with other funds. The approach used by each fund was, generally, formed in 2010/2011 when academy conversion first occurred. In the absence of any guidance from the Department of Education or DLUHC (DCLG at the time) about the pensions treatment of these new academies, the approach adopted by each fund was one that was in line with their approach to funding other employers in the fund and reflected what they thought fair to all stakeholders involved – the new academy, the

Actuarial advisor	Response to question "has there been a move to greater consistency for academy conversions?"
	ceding LEA and all other employers in the Fund. By the time the 2016 Section 13 report was published in Autumn 2018, there had been 8 years of academy conversions and as such there was little desire by funds to revisit their approach. Especially as they may have created a two-tier academy funding regime in the fund, and it is unlikely that one funds approach will provide the best funding outcome for another fund."
Mercer	Mercer confirmed that consistency applies to their Funds as they have generally applied the same principles i.e. that the contribution pre/post conversion is the same other than profile differences. Some Funds adopt variations on this but on a consistent basis. For Multiple Academy Trusts new academies will generally pay the pooled Multiple Academy Trust rate.

5.44 It appears that despite work by both the SAB and the actuarial firms, limited progress has been made to move towards a more consistent funding approach for academies. It would seem appropriate for the SAB to review whether the advantages of convergence should reignite this debate with the aim of taking more definitive steps towards a future convergence.

Table 5.9: Advisors comments on whether a move to greater consistency is likely to occur

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
Aon	Aon commented that a change in approach to make all funds more consistent would be difficult without a compelling reason such as legislation or SAB guidance. In respect of pooling of academies, they noted that there are arguments for pooling notwithstanding the inherent cross subsidies, but that academies aren't as homogenous a group as initially anticipated.
Barnett Waddingham	Barnett Waddingham commented that the same approach would be adopted for funds advised by Barnett Waddingham in future.
Hymans Robertson	Hyman Robertson commented: "As noted in the previous question [on whether there has been a move to greater consistency or not], academies have now participated in LGPS funds for over a decade and the approach used to allocate a starting funding position has likely been settled and consistent within each fund for a long period of time. Therefore, unless there was a significant change in the nature of academies as an employer, removal of the DfE guarantee or a particular approach mandated

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
	via regulation (which would also need to consider how historic conversions are managed), we would not anticipate any future change in the approach around academy conversion."
Mercer	Mercer commented that the consistency will remain the same until an approach is either mandated or further guidance is provided e.g. via the SAB

Recommendation 1:
The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Conclusion

Improvements since 2016

We were pleased to note that generally there appeared to have been a move towards more consistent assumptions.

Previously we set out a possible dashboard to facilitate the Scheme Advisory Board's consultation with stakeholders and are pleased to note that all funds have included such a dashboard within their valuation reports. This has helped significantly in understanding the funds' approach. However, some items remain unclear and we think it would be helpful for stakeholders to be presented with clear information. We are working with the SAB to see how this can be achieved.

Objectives for improving consistency

We remain convinced of the advantages of achieving greater consistency. We therefore recommend engagement between the SAB and stakeholders to gain a better understanding of the issues and how steps towards greater consistency could be taken forward.

We encourage dialogue to aid consistency of approach between advisory firms, particularly for emerging issues of climate risk, COVID-19 and McCloud.

Examples of where the criterion may not have been achieved include:

- Opportunities to improve consistency in reporting of whole of fund secondary contribution rates
- Academy conversions

These differences contribute, alongside genuine local variations, to differences between funding levels and recommended contribution rates on local bases which a reader may find it difficult to interpret without undertaking further analysis.

6 Solvency

Key solvency findings

- **Funding levels have improved on local bases since 2016, primarily due to asset outperformance. This asset performance means that on average the funds of the LGPS are nearly 100% funded on their local funding bases.**
- **Growth of funds' assets and liabilities has been faster than growth in the size of the underlying local authorities (as measured by Core Spending Power and Financing data). This means that those funds that are in deficit are more likely to trigger our asset shock measure. Where this is the only concern raised we have considered this a white flag and we have focused on the greater risk that is implied by this across a range of funds in the LGPS, rather than engaging with specific funds affected.**
- **No other solvency flags have been raised due to the improvements in funding position.**
- **There is a general risk that funds are growing relative to the size of the local authority employers, so this volatility can have a more profound effect.**

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Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund.

In this Chapter:

- **We provide a definition of solvency**
- **We provide some background on solvency issues, and some of the measures and flags we have used in considering them**

Definition of solvency

In line with the definition in CIPFA's Funding Strategy Statement Guidance, which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level, to ensure the solvency of the pension fund, if

- **the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions**

and either:

- **employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%**

or

- **there is an appropriate plan in place should there be, or there is expected in future to be, no or a limited number of fund employers and/or a material reduction in the capacity of fund employers to increase contributions as might be needed**

Summary of solvency Outcomes

6.1 Following the 2019 valuations 62 funds (71%) were in surplus on our best estimate basis, with the aggregate best estimate funding level being 109%. This compares to the position in 2016, where around 60 funds were in surplus with an aggregate funding level of 106%. GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence, hence with a 50:50 likelihood of the actual experience being higher or lower than the assumption being adopted, in our opinion. Where the funding level on such a basis is higher than 100% we expect there is a greater than 50% likelihood that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due.

6.2 There is a range of funding levels on this basis from 76% to 145% (excluding the Environment Agency Closed fund, as benefits payable and costs of the fund are met by Grant-in-Aid funding by DEFRA). The solvency definition above means those funds that are relatively poorly funded are not considered insolvent, but they do need to be taking adequate action to resolve that deficit (which is the subject of long term cost efficiency).

6.3 Although funding levels have improved across the board, GAD's view is that the outlook for prevailing economic conditions has deteriorated as at 2019 compared to 2016. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in outlook may have warranted a strengthening of valuation bases, resulting in a requirement to maintain or increase contributions.

6.4 The period from 2016-19 saw strong equity returns of around 10-12% per annum, leading to high Price/Earnings ratios. Hence GAD's view is that markets were highly valued at 31 March 2019, and so we might expect to see lower future returns. A fall in gilt and bond yields over a similar period supports GAD's view of downward pressure on expected returns.

6.5 Based on Scheme funding analysis annexure produced by TPR the real discount rates of private pension schemes valued between September 2018 and September 2019 (i.e. including 31 March 2019) were around 1% lower than those used between September 2015 and September 2016 (i.e. including 31 March 2016). This coincides with a decrease in the return seeking assets held by schemes. TPR reporting indicates this is at least partly explained by the ongoing shift towards a lower proportion of return seeking assets in those schemes between 2016 and 2019. Whilst a reduction in the real discount rate was observed between 2016 and 2019 in the LGPS this was significantly smaller on average. The proportion of return seeking assets held by LGPS funds has not changed significantly over this period. Our Funding Analysis report contains further information.

SAB Funding Level

6.6 Five funds have a "white" flag in relation to their SAB funding level as these are the poorest funded on the SAB basis, with the distance from the mean SAB funding shown below:

Fund	SAB Funding Level Distance below mean
Bedfordshire Pension Fund (Barnett Waddingham)	**19%**
London Borough of Waltham Forest Pension Fund (Mercer)	**21%**
London Borough of Havering Pension Fund (Hymans Robertson)	**22%**
London Borough of Brent Pension Fund (Hymans Robertson)	**27%**
Royal County of Berkshire Pension Fund (Barnett Waddingham)	**31%**

6.7 We note that this is a purely relative measure and we did not engage with those funds that flag on this measure only. We would consider this a "white" flag. However, we encourage funds to review their long term budgeting process to allow appropriately for additional expected contributions to eliminate the deficit and to help to demonstrate solvency.

Asset Shock

6.8 This is a stress test. It considers what may happen if there is a sustained reduction in the value of return seeking assets of tax raising employers (those employers whose income is covered by core spending and financing data). For example, a market correction in which asset values do not immediately recover and losses are not absorbed by changes in assumptions.

6.9 We model the additional contributions that would be required by tax raising employers to meet the emerging deficit. This is different to considering the total contributions required following the shock – i.e. we are looking at where there is a risk of large changes to the contribution rate, rather than a risk of the total contribution rate exceeding some threshold.

6.10 Funds with a high level of return seeking assets are more exposed to asset shocks and more likely to trigger this flag.

6.11 More funds flag on the asset shock measure in 2019 than in 2016.

6.12 Funds have grown considerably, measured by the value of either their assets or liabilities, over the three years to 31 March 2019. The size of the employers, and particularly that of the relevant local authorities, as measured by their core spending power and financing data, has not grown at anything like the same pace. (Core spending power and financing data is used as a measure of the financial resource of the underlying tax raising employers, as detailed in Appendix C).

6.13 We have considered this situation carefully and concluded that it would be difficult for funds to take specific action in response to individual fund flags which have been primarily driven by the increase in the size of funds relative to the possible contributions available. Therefore we are noting these concerns as a "white" for information only flag in Appendix C. This is an advisory flag that highlights a general concern but one which may require monitoring rather than action.

6.14 A key message is that this reflects the increased risk to the whole of the LGPS. If a shock were to occur, that shock would be more significant than before, since the fund has grown relative to the size of the local authority. Therefore, the ability of the employer to meet the increased contributions that could result will be diminished.

6.15 We have included a list of the funds with a white flag in Appendix C.

6.16 The potential for future variation in contribution rate is discussed further in our Asset Liability Modelling (ALM) section below. The ALM primarily focuses on potential variability of future employer contribution rates. We encourage actuarial advisors to provide commentary in relation to this risk in their valuation reports, both in general, and in relation to emerging risks such as climate change.

Asset Liability Modelling (ALM)

Introduction

6.17 An Asset Liability Model ('ALM') allows us to simultaneously project the assets and liabilities of the scheme under a range of simulations to investigate possible outcomes for key variables and metrics. Modelling the scheme in this way allows us to understand not only central, expected outcomes but also the wider range of possible outcomes and associated probabilities. It also demonstrates the importance of considering the assets and liabilities together to understand how particular risks and relationships might manifest in simultaneous movements in both sides of the balance sheet.

6.18 The ALM exercise was undertaken to illustrate:

> Uncertainty of future employer contributions

> Impact on scheme funding levels if there are constraints on employers' and local authorities' pension contributions

> Scheme risks and possible risk management

6.19 The contribution and funding analyses in the ALM section are for illustrative purposes and are based on a set of assumptions and methodology set by GAD. It should be noted that this type of analysis is particularly dependent on the assumptions and methodology adopted. Other models could produce different outcomes.

6.20 The ALM charts in this report include an allowance for the reduction in the asset value following the onset of the COVID-19 pandemic in the 2019/20 scheme year but no allowance has been made for the rebound of assets that is expected to have occurred in the LGPS for 2020/21. GAD currently hold no information on the extent of recovery by funds, however we have included charts in Appendix E which illustrate the impact of setting the funding level to 100% at 2021 for all scenarios.

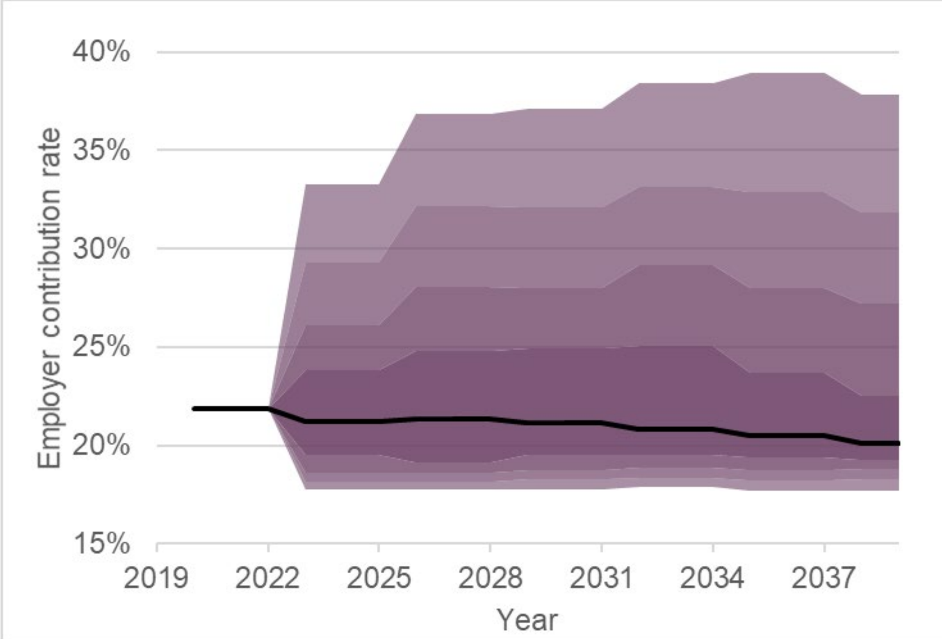
6.21 The methodology used for the ALM is set out in Appendix E.

Volatility of contributions

6.22 Variability of asset returns and changes in economic outlook may place significant pressures on the future rate of employer contributions.

6.23 Chart 6.1 Illustrates the range of total employer contributions (primary and secondary rates) projected over future valuations. This output is driven by the assumption that the impact of changes in asset values and/or the economic outlook will feed through directly to contribution setting.

Chart 6.1 – Illustrations of total employer contributions



6.24 In chart 6.1, the thick black line represents the median of the range of contribution rates simulated at each future valuation. Each shade of purple represents the range of funding levels for a decile (10%) of scenarios, with the subsequent lighter shade representing the next decile. We have not shown the most extreme deciles (0-10% and 90-100%)

6.25 Chart 6.1 illustrates that LGPS employers could be subject to significant pressures as there is around a 25% likelihood that the employer contributions could exceed 30% from 2031.

6.26 In our modelling, there is limited likelihood of significant reduction in contributions due to our assumptions that no reduction is applied when the LGPS is in surplus.

6.27 In practice these pressures may not follow through directly into changes in employer contribution rates. For example, if there was a downward (or upward) cost pressure then the following adjustments might be considered:

- the asset strategy might be considered and refined (for example switching to something more defensive or return seeking) which would be expected to alter the future volatility and expected future return
- the length of the recovery period might be considered and adjusted
- the level of prudence might be considered and adjusted, which could alter the chance that future experience was better/worse than assumed

However, such short-term adjustments may not be indefinitely repeatable in practice.

6.28 The output of our model should not therefore be regarded as a prediction of changes in future employer contribution rates, but rather an illustration of the potential pressures on the employer contribution rate that might need to be managed in some way. Any changes to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

- increasing the length of recovery periods transfers costs onto future generations of taxpayers
- choosing a more return seeking asset strategy would be expected to increase volatility and risk

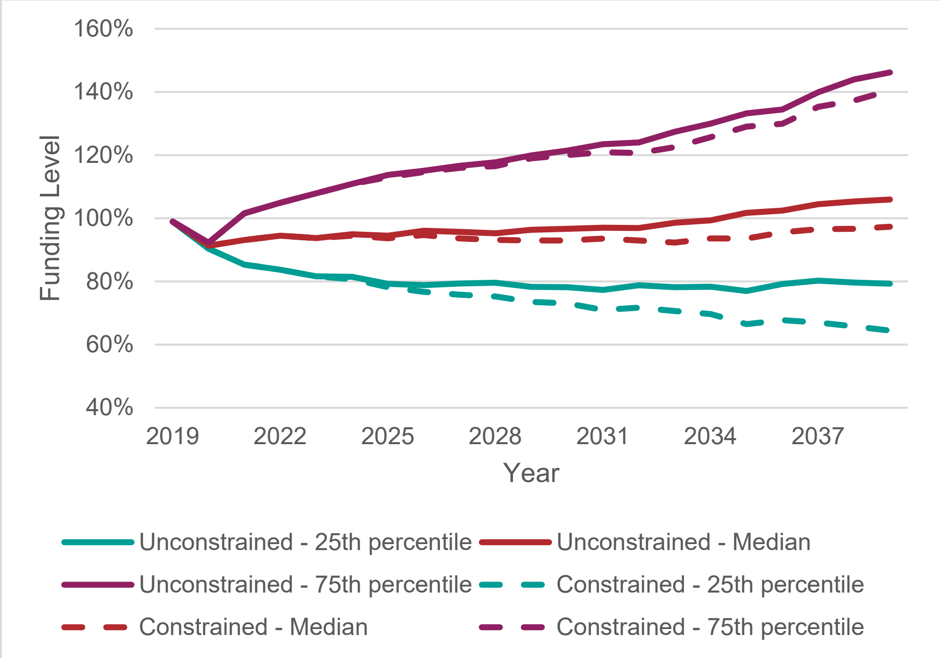
Funding of benefits at future valuations

6.29 The level of future funding available to local authorities is unknown. However if recent trends were to continue, there may be some constraints on the funding available to local authorities.

6.30 The funding strategies set by LGPS funds often seek to maintain stability of contributions, and the LGPS regulations require the actuary to have regard to the desirability of maintaining as nearly a constant primary rate of employer contributions as possible. The range of employer contribution rates that emerge at future valuations may be narrower than shown in chart 6.1 above because of this stability. Stability helps to avoid frequent upward and downward changes in employer contribution as a result of short-term volatility. However, there is significant variability in long term asset returns and adverse experience at a valuation might not be a short term 'blip', but the start of a long-term trend. If employer contributions do not change to reflect adverse experience in these circumstances, then there is a risk that funding levels fall in the medium-long term.

6.31 The two points raised above illustrate scenarios where employer contributions may be constrained and chart 6.2 illustrates the consequential impact that constraints on contributions could have on the projected funding levels.

Chart 6.2 – Illustration of the impact constrained contributions could have on funding levels



6.32 Chart 6.2 shows the median value (red) and the upper (purple, 75th) and lower (green, 25th) quartiles for the projected funding level. The thick lines represent unconstrained contributions and the broken lines are where employer contributions are constrained. Note that none of the lines shown on this chart represent any simulated scenario – instead they are intended to represent the distribution of possible outcomes and how the range of simulated scenarios changes over the projection period.

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6.33 The constraint being applied is that average employer contribution rates do not exceed 22% of pensionable pay at any time (this is based on the average 2019 valuation contribution rate).

6.34 Chart 6.2 illustrates the downside risk that the LGPS may be subject to. There is just over a 25% chance of the funding level being below 65% by the end of the projection period, whereas for the unconstrained scenario there is a 25% likelihood of the funding level being below 80%.

6.35 This analysis is an illustration of how constraints on contribution rate may affect the LGPS, with similar points flagged in the discussion on asset shock – see paragraphs 6.8 – 6.16 and risk comment below.

Scheme risk

6.36 The ALM study is based on a projection of the fund in aggregate. In practice, the 88 funds each have their own individual circumstances and are starting from unique positions which alters the risk. To demonstrate this at a high level, we have considered sensitivity analysis which varies the initial funding level at the 2019 valuation as follows:

(a) Funding level is set to 75%, which is around the lowest funding level of the funds on GAD's best estimate basis at 2019

(b) Funding level is set to 100% at 2019

(c) Funding level is set to 145%, which is the highest funding level of the LGPS funds on GAD's best estimate basis at 2019

6.37 For these scenarios we have not allowed for a rebound of asset values in 2020/21 and have assumed contributions are constrained.

6.38 The table below illustrates the likelihood of achieving certain funding levels at 2037:

Table 6.1 – Illustrations of funding sensitivities

Scenario	Likelihood of being at most 75% funded at 2037	Likelihood of being at least 100% funded at 2037	Likelihood of being at least 145% funded at 2037
75% at 2019 valuation	50%	25%	10%
100% at 2019 valuation	30%	50%	20%
145% at 2019 valuation	10%	75%	50%

6.39 Table 6.1 illustrates the potential risks to well-funded funds, as continued well-funded status is not guaranteed. So even funds that are well-funded need to consider how best to manage downside risks.

6.40 Conversely a relatively poorly funded fund could recover, through a combination of employer contributions and strong investment returns.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than their budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions will be required in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor this over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Management of Risks

6.41 The ALM section above highlights some of the key risks that the LGPS may be exposed to over future valuations. It illustrates some of the risks which funds should consider when making investment decisions:

> Investment risk, primarily equity returns

> Volatility of contributions

6.42 GAD does not comment on the investment strategy that LGPS funds should adopt or the types of investments which the LGPS funds should invest in. Nevertheless, when choosing an investment strategy we would expect funds to consider the ongoing cost of the benefits and their capacity to increase contributions if required.

7 Long term cost efficiency

Key long term cost efficiency findings

- **In 2019 we are flagging four funds in relation to long term cost efficiency. This is two fewer than in 2016**
- **For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures**
- **For a further two funds we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers)**
- **We recommend all funds review their funding strategy statements to ensure handling of surplus/deficit is fair to both current and future taxpayers**
- **We are pleased to report an improvement in funds maintaining their deficit recovery plans; however, we are concerned about the lack of transparency of some funds around their deficit recovery period**

- **Some funds have entered into long term arrangements with their sponsoring councils to receive future assets in return for reducing deficit contributions that would otherwise be expected to be paid into the fund. These can be complex arrangements. Careful consideration is required to ensure they fully comply with all regulations and are consistent with long term cost efficiency. We suggest that the SAB examine such arrangements to check appropriate governance is in place to ensure long term cost efficiency**

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the long term cost efficiency of the scheme, so far as relating to the pension fund.

In this Chapter:

- **We provide a definition of long term cost efficiency**
- **We provide some background on long term cost efficiency issues, and the measures and flags we have used in considering them**
- **We set out flagged long term cost efficiency issues: deficit reconciliation and deficit recovery period**
- **We set out specific concerns and recommendations in respect of two types of asset transfer arrangements**

Definition of long term cost efficiency

In line with the definition in CIPFA's Funding Strategy Statement Guidance, which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

Summary of long term cost efficiency outcomes

7.1 Long term cost efficiency (LTCE) relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately.

7.2 In total, four funds are flagged under LTCE in the 2019 review. This compares with six funds flagged in 2016.

7.3 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures. Where the deficit period is the implied deficit recovery period and the required return considers the investment return rates required to achieve full funding in 20 years' time (both calculated on GAD's best estimate basis). Return scope considers how the required investment return compares to the fund's expected best estimate future return assuming the current asset split (these are defined in Appendix D in more detail). In Table 7.1 below we set out these measures for:

- Royal County of Berkshire Pension Fund
- City of London Corporation Pension Fund

Table 7.1 – Funds with amber flag on deficit period, required return and return scope measures with rankings out of 87 funds (excluding the Environment Agency closed fund)

Pension fund	Deficit period (rank)	Required return (rank)	Return scope (rank)
City of London Corporation Pension Fund	15 years (86)	4.1% (84)	0.3% (76)
Royal County of Berkshire Pension Fund	25 years (87)	4.6% (87)	0.1% (84)

7.4 For a further two funds, Redbridge Pension Fund and Barking and Dagenham Pension Fund, we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This led to these two funds raising a flag in relation to their deficit recovery period.

7.5 We also engaged with Islington Council Pension Fund and Devon County Council Pension Fund. Prior to engagement, these funds raised initial amber flags and we were concerned that employer contributions were set too low. We were able to remove the amber flags following our engagement and their commitments to make additional contributions prior to 2023.

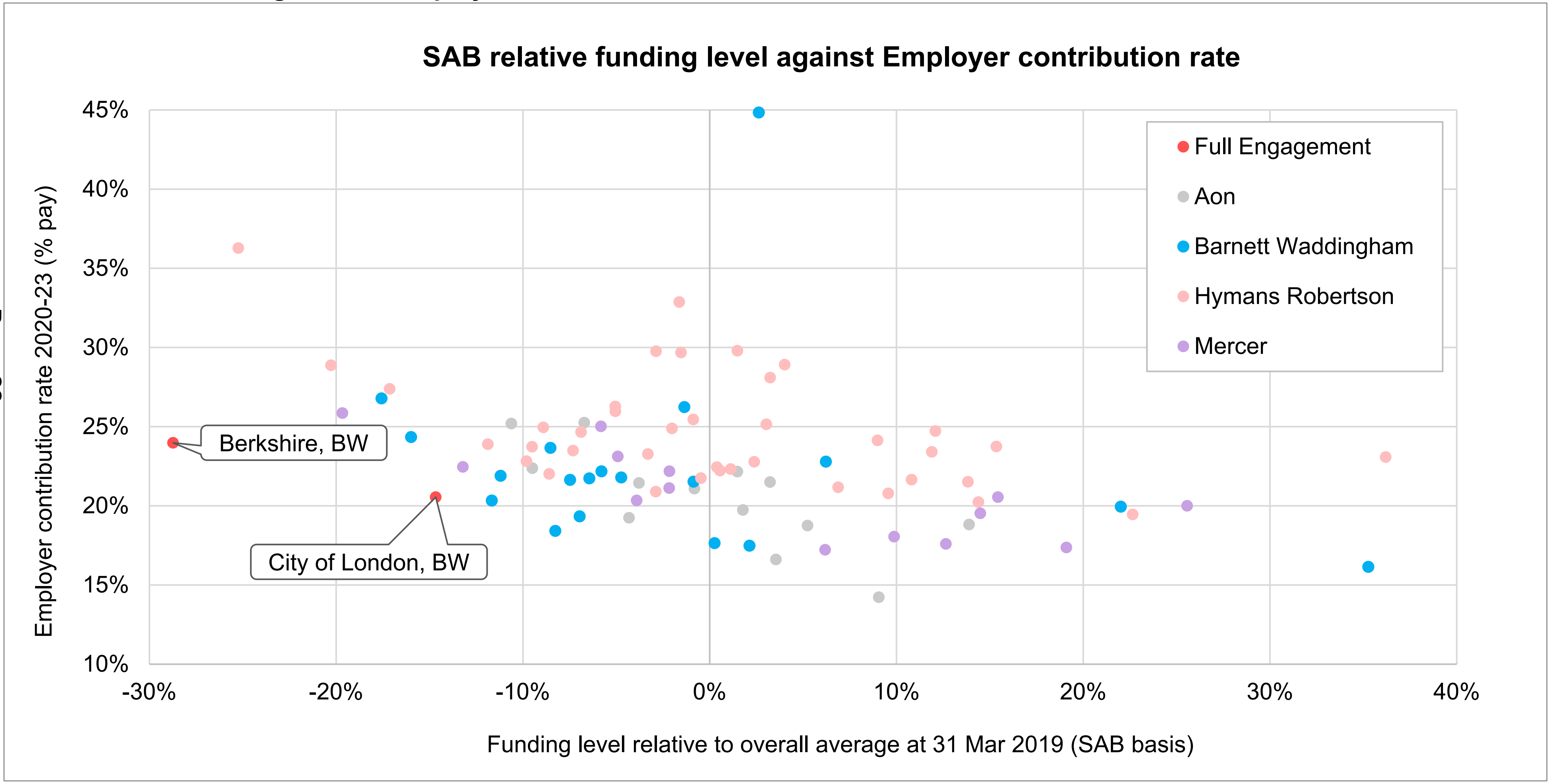
7.6 We engaged with a number of funds for which we did not raise a combination of flags. This was as a courtesy to explain that they were close to being flagged and may want to take action as part of the 2022 valuation to reduce the likelihood of being flagged then. These funds are listed in Appendix D as "light engagements".

7.7 Some funds also raised flags against some LTCE measures, but on closer review most were not considered to be sufficiently wide outliers to warrant further investigation or engagement.

7.8 Chart 7.1 plots the funding level relative to the average (normalised to the SAB basis) against employer total contributions (expressed as a percentage of pensionable earnings). Those funds on the bottom left of the chart are therefore those receiving lower total employer contributions compared to other funds and which are relatively weakly funded on a standardised basis. The two funds discussed in 7.3 above appear furthest to the lower left and also flag on a number of relative LTCE measures. This combination of flags led us to raise further concerns and engage with those funds.

Deficit Period, Required Return and Return Scope

Chart 7.1 SAB funding level vs Employer contribution rate



Royal County of Berkshire Pension Fund

7.9 The Royal County of Berkshire Pension Fund is one of the least well funded on the local basis, with a funding level of 78%. It is the worst funded on the common SAB basis (excluding Environment Agency Closed fund). The funding level is higher, and therefore less prudent, than GAD's best estimate basis.

7.10 Proposed total contributions are 24.0% of pensionable pay (increased from 21.2% in 2016). This is partly an increase in primary rates (up 0.9% to 15.4%). However, under a worse economic outlook and relative to contributions being paid into other funds, we consider this to be lower than necessary to ensure long term cost efficiency.

7.11 The Royal County of Berkshire Pension Fund raised an amber flag in relation to some long term cost efficiency measures: deficit recovery period (25 years on GAD's best estimate basis), required return (where it ranks lowest at 87 of 87) and return scope.

7.12 Chart 7.1 shows that the Royal County of Berkshire Pension Fund is ranked lowest on funding level, and its contribution levels are not correspondingly high. Around 25 funds are receiving greater contributions.

7.13 The Royal County of Berkshire Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040 in 2016.

7.14 Following engagement with the Royal County of Berkshire Pension Fund, we were advised that employers participating in The Royal County of Berkshire Pension Fund have been for the last few years increasing their contributions by 1% per year to reduce the deficit over the longer term. We were reassured by this long-term commitment.

7.15 The officers we engaged with appreciated that additional funding would be required over a long timeframe and reaffirmed their commitment to do so. They noted that there were strong constraints on affordability at this point in time.

7.16 They have also reviewed their governance processes, with recommendations currently being implemented and additional permanent staff being recruited to facilitate this.

7.17 They advised that in particular they are engaging with the Local Pension Partnership investment pool to tailor their strategic asset allocation specifically to the circumstances of the Royal County of Berkshire Pension Fund.

City of London Corporation Pension Fund

7.18 The City of London Corporation Pension Fund is funded at 90% on the local basis and just over 90% on SAB and best estimate bases. Overall the total employer contributions being paid into the fund have decreased since 2016 to 20.5% (down 0.2%; the primary rate has increased by 2.2% to 15.0% but secondary rates have fallen by 2.4% to 5.5%). We note that this is a feature of the mix of employers and that individual total employer's contributions have not generally decreased.

7.19 The City of London Corporation Pension Fund has retained its deficit recovery end point, at 2033. This has been the target since the 2013 valuation.

7.20 The City of London Corporation Pension Fund raises amber flags in relation to recovery period (15 years on GAD's best estimate basis) and return scope. It ranks 84 of 87 on required return (also an amber flag).

7.21 Chart 7.1 shows that the City of London Corporation Pension Fund ranks 8th lowest on funding level but this is not reflected in its contribution level. Around 61 funds are receiving greater contributions.

7.22 Following engagement with the City of London Corporation Pension Fund we were advised that employers have been adhering to their plan to remove the deficit by 2033. We were reassured by this long-term commitment.

7.23 The officers we engaged with referred to some reassignment of priorities and impacts on their funding as a result of COVID-19 but stressed that overall finances are robust and adequate to maintain this strategy.

Engagement with funds where flags subsequently removed

7.24 Islington Council Pension Fund is funded at 85% on the local basis and just over 90% on SAB and best estimate bases. On average across the three years, overall contributions have remained unchanged since 2016 at 20.0% of pensionable pay (primary rate has increased by 2.2% to 16.9% but average secondary rates have fallen by 2.2%, from 5.3% to 3.1%).

7.25 Islington Council Pension Fund has retained its deficit recovery end point, at 2038.

7.26 Prior to engagement, Islington Council Pension Fund would have raised an amber flag on deficit recovery period (17 years on GAD's best estimate basis) and return scope. It would have ranked 86 of 87 on required return (also an amber flag).

7.27 We engaged with relevant officers of Islington Council Pension Fund. They confirmed that they were committed to improving the funding level and there was already an agreement in place to a phased increase in contributions after the 2022 and 2025 valuations. Further there had been initial discussions on whether secondary contributions could be paid earlier. Following the engagement with GAD, Islington Council provided a firm commitment to paying in an additional contribution to the fund prior to 2023. If secondary contributions after 2023 are maintained this is sufficient to remove all amber flags for Islington Council Pension Fund.

7.28 We are pleased to confirm therefore that no amber flags apply to Islington Council Pension Fund in this report.

7.29 Devon County Council Pension Fund is funded at between 90% and 95% on local, SAB and best estimate bases. Overall contributions have decreased since 2016 to 20.3% of pensionable pay (down 0.6%). The primary rate has increased by 2.1% to 16.9% but secondary rates have fallen by 3.1% to 3.4%.

7.30 Devon County Council Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040.

7.31 Based on the data provided, and prior to our engagement Devon County Council Pension Fund raised amber flags on deficit recovery period (19 years on GAD's best estimate basis) and return scope. It ranked 87 of 87 on required return (also an amber flag).

7.32 Following engagement with Devon County Council Pension Fund we established that an asset transfer had been made in October 2019. This increased in total fund assets by £72 million. As a post-valuation event this had not been considered in our initial calculations and was not reflected in the data received.

7.33 In our engagement meetings we agreed that it is appropriate to allow for this one-off increase in asset value and this was sufficient to remove the amber flags on deficit recovery period and return scope.

Deficit Reconciliation

7.34 Where a fund is in deficit administering authorities should avoid continually extending the deficit recovery period end point at each and subsequent actuarial valuations as this will not meet the LTCE requirements. Over time and given stable and better than expected market conditions, administering authorities should aim to, where possible and appropriate:

> Maintain the levels of contributions and/or

> Reduce deficit recovery periods by maintaining the end point of the recovery period

7.35 We believe it is appropriate for funds to consider their plans for the duration of the deficit recovery period, so that future contributions are recognised and these form part of employers' budgeting process.

7.36 We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This expectation considers the desire for intergenerational fairness which is required for LTCE.

7.37 We appreciate there may be limited circumstances where new deficit may emerge between valuations, as a result of the fund's experience, where it may be appropriate to extend the recovery period. For example, if a fund within the last three years of its deficit recovery period experienced a material reduction in its funding level, it may not be appropriate in the context of fairness between current and future generations of taxpayers to repay that new deficit within three years.

7.38 We consider that reconciliation of the deficit recovery plan is an essential component for all funds to demonstrate they meet LTCE requirements.

7.39 We note that most funds have now maintained their deficit recovery end points in accordance with our recommendation 5 from our 2016 section 13 report.

7.40 Hymans Robertson use stochastic techniques leading to a probability of success ("meeting the funding target by the funding time horizon") over a projection period (such as, for example, twenty years) to help set their contribution rates. This makes reconciliation as outlined in 7.38 difficult. It would be helpful if Hymans Robertson could also illustrate what the deficit recovery period would be based on for the proposed contribution pattern.

7.41 To ensure that we can compare future recovery plans; we propose that the following additional information is added to the dashboard for each fund (see Appendix B).

> Three year average of total expected employer contributions, expressed as a percentage of pensionable pay

And, for funds in deficit only where deficit recovery period is defined:

> Deficit end point at current valuation and prior valuation (weighted average for all employers in deficit)

Where a deficit recovery period is not defined:

> success probability at the end point of the prior funding time horizon (current and prior valuation)

7.42 Where funds are in surplus, we are comfortable that there is more flexibility on whether to extend the end point over which surpluses are spread.

7.43 We engaged with two funds that were flagged on this measure:

> Redbridge Pension Fund, which reduced contributions, had a success probability (i.e. the probability of being fully funded on the local valuation basis) at 2033 of 55%, compared with 64% in the 2016 projection. Redbridge Pension Fund therefore raises a flag for deficit reconciliation

> Barking and Dagenham Pension Fund had a 67% probability of success at 2033. However, because it has moved to a different advisor, Hymans Robertson were not able to provide the success probability at the previous valuation or any other information for us to assess whether this meets LTCE requirements. Barking and Dagenham Pension Fund therefore raises a flag for deficit reconciliation

7.44 We note that both funds use a 17 rather than 20 year projection period, which itself is shorter (hence more prudent) than that used for a number of other funds.

Recommendation 2:
We recommend the Scheme Advisory Board considers how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

Recommendation 3:
We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

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Asset transfer arrangements

7.45 A number of councils have or may be considering an asset "gift" to their pension funds. We are aware of two general types of arrangement as follows:

> "Asset transfers" where council assets are transferred to an investment company, with the cash subsequently used to pay down part or all of the council's pension fund deficit

> "Contingent property transfer" where councils establish a special purpose vehicle in which a portfolio of social housing owned by the council is managed often for a long period of time (eg 40 years). The assets are not immediately transferred to the pension fund but at the end of the agreed management period, the property portfolio is gifted to the pension fund, on the expectation that the underlying properties will generate revenues and/or sales proceeds that will reduce or eliminate any deficit that remains in the pension fund at that time. In return, the council providing the gift receives an immediate reduction in deficit contributions, calculated as a present value of the expected future revenue from the portfolio of properties

7.46 Whilst we are not commenting on the actions of any fund that holds such an asset, potential concerns with these two types of arrangements could include:

> Funds need to carefully consider compliance aspects of such arrangements, including:

  - Compliance with local authority capital requirements, which specify that pension contributions should be met via revenue rather than capital accounts. At the point the gift is realised, this could be considered a capital asset transfer arrangement

  - Compliance with restrictions on employer related investments in the Occupational Pension Schemes (Investment) Regulations 2005 (as amended)

> The assets may not be the form of asset which best meets a pension fund's long term objectives and hence we have concerns whether they will ultimately meet the LTCE objective

> Due to complexity such asset transfer arrangements are likely to be associated with high set-up and management costs

> They are potentially high risk asset classes which the pension fund will need to monitor - again increasing costs

> As a minimum, we would expect the pension fund to need specific advice on the suitability of these assets

> The governance around future pension funds' decisions to accept such transfers should be carefully considered

7.47 The list above may not be exhaustive but is included to ensure that any council or fund considering entering into such an arrangement has considered relevant factors. We do not imply that funds that have already entered such an arrangement have not considered these aspects.

7.48 The asset transfer arrangements considered in this section do include those associated with bulk transfers of members between funds.

Recommendation 4:
We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to ensure long term cost efficiency.

From:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 30 March 2022
Subject:	Pension Administration
Classification:	Unrestricted

Summary:

This report updates the Committee on the activity of the Administration team in recent months and covers the following areas:

- Breach of regulations
- KPIs
- i-Connect
- Members Self Service
- Backlog project
- Retirement of Pensions Manager and appointment of successor

Recommendations:

The Committee is recommended to note and comment on this update

1. Breach of the LGPS 2013 regulations

1.1 It was reported to the Committee in December 2021 that a regulatory breach had been reported to the Pensions Regulator in respect of the late provision of annual benefit statements to non-uniformed Kent Police scheme members. The Pensions Regulator advised that whilst they cannot waive the requirements of the Pensions Acts, they are able to take a risk-based approach and can apply an element of pragmatism.

1.2 The Regulator advised the Fund that no action would be taken so long as the annual benefits statements were provided by 31 December 2021. I can confirm that this deadline was met, and all outstanding statements were issued.

2. System and connectivity problems – impact on KPIs

2.1 It was reported to the Committee in December that there had been a significant deterioration in the quality of IT connectivity for staff working at home for a period of approximately 10 days. This had resulted in lack of productivity and reduction is overall Key Performance Indicators (KPIs).

2.2 The situation was resolved but the reduction in productivity will affect the KPIs reported at the end of the financial year. The team has been making a concerted effort to improve certain KPIs and this has seen improvement, however there will inevitably be a fall in the overall performance reported to the Committee at the next meeting.

2.3 I am pleased to report improvements in key areas, and this will be covered in greater detail at the next meeting.

3. Roll out of i-Connect to KCC's non-schools' payroll

3.1 Engagement with the Fund's employers is key to providing a high level of service to members, and one way in which this can be improved is to use technology to support information exchange. i-Connect is a service that the Fund uses, and I am pleased to report that the Fund is currently in discussion to onboarding KCC non-schools' payroll by the end of March 2022.

4. Member self-service to be extended to pensioner members

4.1 Following collaboration with the Fund's pension payroll provider, we will be offering Member Self Service (MSS) to the Fund's pensioners at the end of March 2022, and his will be communicated in our pensioner newsletter (Openlines).

4.2 Pension Payroll are also very keen to help advertise this service to the Fund's pensioners. The Fund is planning to amend the wording of our benefit award letter to mention this facility. Pensioners will be able to view their payslip and P60 figures online as well as informing us of any address changes and change of bank details. We will continue to post the payslips & P60s, but we are also working with our software provider to work towards being able to provide these documents in a PDF format so that they can be printed.

5. Backlog project – ITM support

5.1 The Committee will recall that ITM are supporting the Fund in addressing its backlog project. This arrangement was due to end on 31 March 2022, but due to availability of information and difficulty in engaging with certain employers the Fund has not been able to provide ITM with the necessary information to complete the work. As ITM have been engaged to undertake a set number of items of work, they have agreed to extend this arrangement at no additional cost to ensure that they can complete the contract.

6. Retirement of Pensions Manager

6.1 Barbara Cheatle, the Pensions Manager for the Kent Fund is due to retire from her role on 30 April 2022. Barbara has served the Kent Fund for almost 40 years and has delayed her retirement pending the outcomes of the Governance review of the Fund. Barbara has been a loyal servant to the Fund, and I would like to take the opportunity to pay tribute to her work. I commend that Committee to mark her retirement in an appropriate way.

6.2 I am pleased to report that the Fund has been successful in appointing a successor to Barbara. Clare Chambers will be joining the Fund on 25 April 2022, and I look forward to welcoming Clare and introducing her to the Committee at future meetings.

Nick Buckland, Head of Pensions and Treasury – Kent Pension Fund

T: 03000 413984

E: nick.buckland@kent.gov.uk

March 2022

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From: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 30 March 2022

Subject: ACCESS update

Classification: Unrestricted

Summary:

This update provides a summary of the activities of the ACCESS pool

Recommendation:

The Superannuation Fund Committee is recommended to note this report

FOR INFORMATION

1. Introduction

1.1 This report is to update the Committee on the work being undertaken by the ACCESS pool.

2. Joint Committee

2.1 The Joint Committee (JC) has met twice since the last update, on 6 December 2021 and on 7 March 2022. Copies of the agendas and unrestricted papers for the two meetings are available at: ACCESS Joint Committee 6 December 2021 ACCESS Joint Committee 7 March 2022. Minutes of the meeting on 6 December 2021 are at appendix 1.

2.2 At their meetings the Joint Committee noted the updated business plan reflecting progress on the following issues:

- Communications
- Responsible Investment
- Implementation Adviser appointment
- BAU evaluation next steps
- Sub-fund performance and implementation
- Contract Management

2.4 On 7 March the JC noted the publication of the Government's white paper on their levelling up ambitions including the request that LGPS funds increase their local investment i.e., investment in the UK, including setting a target of up to 5% of assets invested in projects which support local areas. A further DLUHC consultation is expected in summer 2022.

2.5 The Committee also noted progress on ACCESS costs and a forecast underspend against the budget for 2021-22 of £215k, (£20k per authority) was reported to the Committee on 7 March 2022. The underspend reflects savings on staff costs due to the delayed recruitment of additional ASU staff, reduced charges from Essex County Council who act as host authority for ACCESS, and lower than anticipated strategic and legal fees.

3. Recent Activity

3.1 Since the last report to the Committee the Officer Working Group (OWG) as well as other working groups with Kent being represented on each group, have continued to meet on a periodic basis. Progress continues to be made on the set up of new sub-funds as well as on the establishment of suitable platforms for pooling non listed assets.

3.2 Since 2016 Alison Mings has represented the Kent Fund on the Officer Working Group however Alison has now stepped back from this involvement and Nick Buckland, Head of Pensions and Treasury, will take over this role going forward. Sangeeta Surana and Katherine Gray will continue to represent Kent on the officer sub-groups responsible for progressing the pooling arrangements for the Fund's investments, ESG issues and reporting requirements.

4. Local Pension Board observation of Joint Committee meetings

4.1 The previously agreed position has been to limit membership of the Joint Committee to the chairs of the eleven ACCESS pension fund committees. However, in August 2021 UNISON representatives on the ACCESS pension boards and committees re-presented their request for scheme membership representation on the JC.

4.2 At its meeting on 7 March the Joint Committee agreed a proposal from officers for scheme member representation and a press release was issued confirming the new arrangements as follows:

'**ACCESS *Joint Committee agrees observer proposals***

- *Each ACCESS Authority's Local Pension Board will be invited to send observers, on a rotational basis, to Joint Committee meetings.*

At its meeting on Monday 7 March 2022, the ACCESS Joint Committee (JC) agreed proposals enabling each ACCESS Authority's Local Pension Board (LPB) to send two observers, on a rotational basis, to Joint Committee meetings. In practice, observers from three ACCESS Authority LPBs at a time will attend JC meetings in person, allowing each LPB to be represented at least once a year.

The observers can be drawn from scheme member representatives, employer representatives or independent LPB members. Whilst it will be for each LPB to agree the two observers, it is desirable that at least one of the observers from each LPB is a scheme member representative. This arrangement will be reviewed after its first full year.

***Commenting, Cllr Kemp-Gee, Chairman of the ACCESS Joint Committee, said**, "I warmly welcome the Joint Committee's decision enabling observers from Local Pension Boards to observe our meetings, which will further enhance our Pool's transparency"*

Alison Mings, Pension Fund and Treasury Investments Manager

T: 03000 416488

E: Alison.mings@kent.gov.uk

March 2022

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ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Bevin Hall - 18 Smith Square, LGA Offices, London on Monday, 6th December, 2021.

PRESENT: Cllr Mark Kemp-Gee (Hampshire), Cllr Susan Barker (Essex), Cllr Charlie Simkins (Kent), Cllr Debbie Andre (Isle of Wight), Cllr Jeremy Hunt (West Sussex), Cllr Judy Oliver (Norfolk), Cllr Andrew Williams (Hertfordshire), Cllr Charles Morton (West Northants)

ALSO PRESENT: Kevin McDonald (ASU), Mark Paget (ASU), Paul Tysoe (ASU), Dawn Butler (ASU) Clifford Sims (Squire Patton Boggs), John Wright (Hymans Robertson) and David Crum (Minerva).

OFFICERS: Alison Mings (Kent), Andrew Boutflower (Hampshire), Glenn Cossey (Norfolk), Jo Thistlewood (IoW), Jody Evans (Essex), Mark Whitby (West Northants), Patrick Towey (Hertfordshire), Rachel Wood (West Sussex), Sharon Tan (Suffolk), Sian Kunert (East Sussex), Katherine Eberhart (West Sussex), Alexander Younger (Norfolk), Kay Goldsmith (Kent) and Joel Cook (Clerk)

UNRESTRICTED ITEMS

18. Apologies/Substitutes.
(Item. 1)

1. Apologies were received from Cllr Jarman (Cllr Andre substituting), Cllr Whelan, Cllr Soons (joined virtually as a guest), Cllr Fox (joined virtually as a guest) and Cllr Longley (Cllr Morton substituting).

RESOLVED apologies be noted.

19. Declaration of interests in items on the agenda.
(Item. 2)

None.

20. Minutes of the meeting held on 6 September 2021.
(Item. 3)

RESOLVED that the minutes from the meeting held on 6 September 2021 be signed as a true and accurate record.

21. Chair's remarks.
(Item. 4)

1. The Chair noted that Kemi Badenoch MP was the new Minister for the Department for Levelling Up, Housing and Communities.

2. He highlighted the importance of Members sending substitutes to meetings when they were unable to attend.

RESOLVED that the Chair’s remarks be noted.

22. Business plan, budget and risk summary.
(Item. 5)

1. Mr McDonald provided an update to the Committee. He commented that a number of workstreams included in the Business Plan would be discussed in more detail in later agenda items.

2. The Committee asked if the figures on expenditure and savings (para 1.3 in agenda) could be compared with other Pools. Mr McDonald offered to follow-up on a dialogue with other pools that he had already started.

3. Mr McDonald expressed that the timing of consultations in relation to climate related disclosures and LGPS Pooling remained unclear but would likely be in the new year.

4. In response to a question about the additional budget allocated to “external professional costs”, Mr McDonald agreed to provide a breakdown of the figures sitting under that budget line. He confirmed that any third-party review of the ACCESS Support Unit (ASU) would be brought to the Joint Committee before it commenced.

RESOLVED that

1. The 2020/21 outturn, Business Plan update, the 2021/22 budget update, and summary risk register be noted.

2. The 2022/23 business plan be recommended to the ACCESS Authorities; and the recommendation of the s151 Officers from ACCESS Authorities to determine the 2022/23 budget totalling £1.366m to support the proposed business plan be accepted.

23. Communications update.
(Item. 6)

1. Mr McDonald provided an update, explaining that the partnership with Engine MHP was almost one year into a two-year contract. They would attend the March 2022 meeting with a review of the first year.

2. Following the appointment of ACCESS spokespeople at the last meeting, media training had been completed. Mr McDonald confirmed that the ACCESS website had been updated in line with Engine’s recommendations, but that further work was due to take place.

3. Mr McDonald explained that Engine MHP had been kept apprised of developments around the draft Responsible Investment (RI) guidelines so that they could prepare statements and communications ready for when the guidance was approved. He confirmed that the intention was for individual authorities to agree the RI policy before any communications were finalised.

RESOLVED that the report be noted.

24. Motion to Exclude the Press and Public.
(Item. 7)

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.

25. Draft RI Guidelines and governance next steps.
(Item. 8)

1. Mark Whitby (Northamptonshire) provided an update on the ACCESS Responsible Investment guidelines.

2. The proposed guidelines were scheduled to be on the 7 March 2022 agenda. However, Members commented that in view of the significance of this work it was important for all Administering Authorities to have time to give them further consideration before any decisions were made by the Joint Committee. It was agreed that inter-authority communication would be delegated to the Officer Working Group (OWG) and a final document would come to the June 2022 meeting. A workshop or webinar would also be held between March – June 2022 allowing for further discussion on the draft.

3. A Member sought clarification over the status of the guidance, and it was confirmed that the document was not statutory but an internal document that would be agreed by individual ACCESS Authorities. It was intended to provide an overarching set of common principles for ACCESS authorities.

RESOLVED that the update on the ACCESS RI Guidelines project be noted.

26. Implementation Adviser procurement.
(Item. 9)

1. Mr Paget updated the Committee on the procurement of an Implementation Advisor.

RESOLVED that the report be noted.

27. Performance Report.
(Item. 10)

1. Sharon Tan (Suffolk) provided an overview of current ACCESS performance, including reference to the Investment Performance Report, which showed that pooled assets of all ACCESS Authorities amounted to £32.915bn at the

end of September 2021 (up from £31.602bn in June 2021). Pool aligned assets represented 55% of total assets.

RESOLVED that the report be noted.

28. Response to EM review: Protocol for new sub-funds.
(Item. 11)

1. Mr McDonald provided an update on the responses to the recommendations of the Emerging Markets review, particularly in relation to the creation of a protocol for the establishment of future sub-funds and how this was to be adopted as guiding principles rather than set criteria.

2. It was noted that the guiding principles now proposed, had been developed through detailed work at the Officer Working Group, and had been discussed in depth by s151 Officers prior to their recommendation to the Joint Committee.

RESOLVED that

1. the sub-fund criteria proposed by the Officer Working Group (OWG) in August 2021 (paragraphs 3.6 - 3.9) be adopted, not as criteria, but as guiding principles; in recognition of the concepts of both self-regulation and peer review.

2. The revised protocol flowchart be adopted.

3. The impact of the guiding principles and the protocol on ACCESS sub-funds be monitored by the OWG and the ASU, kept under review at future s151 meetings and subject to formal review by s151 Officers at a meeting in November 2022.

29. Sub-fund implementation.
(Item. 12)

1. Mr Tysoe provided an update on the progress with sub-funds. Three Multi-Asset Credit sub-funds were included in tranche 5b, and the ASU was working closely with Link to prepare for this. Mr Tysoe was invited to provide an update on those conversations at the next meeting.

2. Members discussed and acknowledged some areas where issues had negatively impacted individual Authorities. It was highlighted that areas of key learning for the future were being finalised.

RESOLVED that

1) the report be noted.

2) the creation of two emerging market equity sub-funds, reflecting growth and value investment styles, be approved.

30. Contract Management.
(Item. 13)

1. Mr Paget provided the regular update on Contract and Supplier Relationship Management activity, with key work and future areas of focus highlighted to the Committee.

RESOLVED that the report be noted.

31. Risk Management.
(Item. 14)

1. Mr Paget updated the Committee on the current risk profile of the Pool. He agreed to provide a more detailed commentary on the elevated risks in future reports.

RESOLVED that the risk register update be noted.

32. BAU evaluation next steps.
(Item. 15)

1. John Wright (Hymans Robertson) provided an update from the Business As Usual Evaluation.

2. Members discussed the recommendations and asked a range of questions for clarification. John Wright and Mr McDonald provided answers and information to support the consideration of the recommendations regarding future operating arrangements for the ACCESS Pool as part of Business As Usual.

RESOLVED that the proposed timetable be noted.

33. Date of next meeting - Monday 7 March 2022
(Item. 16)

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From:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 30 March 2022
Subject:	Fund Position
Classification:	Unrestricted

Summary:

To provide a summary of the Fund's asset allocation and performance.

Recommendation:

The Committee to note the Fund's asset allocation and performance as of 31 December 2021

FOR INFORMATION

1. Introduction

1.1 This report provides an update on the asset allocation and manager performance.

1.2 A copy of the Fund Position Statement is at Appendix 1

2. Asset Allocation

2.1 As of 31 December 2021, the Fund's value was £7.76bn, a decrease of £95m over the quarter and table 1 below compares the actual asset allocation to that set out in the Fund's Investment Strategy.

Table 1 asset allocation

Asset Class	Value £m	Actual %	Benchmark %	Over / (Under) weight %
UK Equity	1,511	19.5	23.5	-4.0
Global Equity	3,120	40.2	32	8.2
Fixed Income	1,151	14.8	15	-0.2
Private Equity	261	3.4	4	-0.6
Infrastructure	135	1.7	3.5	-1.8
Property	852	11.0	13	-2.0
Absolute Return	554	7.1	8	-0.9
Cash	171	2.2	1	1.2
Total	**7,755**	**100**	**100**	

2.2 During the quarter the fund restructured its equity protection programme to capture the gains made during the last few quarters and to increase the protection level. The Fund sold equities worth £300m from the ACCESS Baillie Gifford Fund and used the proceeds to add collateral to the programme.

2.3 At the end of the quarter, the total equity allocation of the Fund (including the synthetic equity and equity protection options) was 59.7%. which continues to remain overweight to its strategic allocation of 55.5%. However, it remains within the target of 63% for the purpose of the rebalancing decision.

2.4 The Fund is underweight in all other asset classes other than internally managed cash which remains high at 2.2%. This position is kept under regular review to avoid the “drag” on returns from holding too much cash.

3. Investment performance quarter to 31 December 2021

3.1 Global and UK equities extended their rally and the UK commercial property market delivered near double digit returns over the quarter. On the other hand, rising inflation and potentially less quantitative easing from central banks slowed the Fixed Income markets.

3.2 The combined effect of the above market movements was a strong positive benchmark return of 4.3% however the Fund returned -1.2%, a significant underperformance

3.3 The main contributor to the Fund’s underperformance was the tech focused global equity mandate managed by Baillie Gifford. The mandate constituted over 20% of the total Fund and the -7.6% underperformance swung the balance of the Fund’s performance away from the benchmark. The mandate had achieved very strong performance during the previous couple of years but more recently has seen negative returns for two quarters, as several companies in the portfolio have been impacted by concerns about a post lockdown slowdown in demand.

3.4 Performance from the rest of the Fund’s active managers across all asset classes also fell short of benchmark returns, except for the private equity mandates.

4. Longer term investment returns

4.1 Both equities and property markets recorded high double-digit 1-year returns followed by moderate double digit returns from the absolute return mandates.

4.2 The Fund’s one-year performance was 4.81% compared to the benchmark return of 14.02% for the same period

4.3 The Fund has recorded below benchmark returns in the 1-year period due to its two biggest mandates (Baillie Gifford Global Equities and Schroders UK Equity) which constitute nearly 34% of the Fund, underperforming their benchmarks. However, both these mandates and the Fund outperformed in the three-year period.

4.4 Most of the Fund’s active managers underperformed their benchmarks except for Schroders in equities (global value equities) and MAC managers CQS and M&G in fixed income and DTZ and Fidelity in property mandates.

4.5 The Fund achieved an annualised return of 10.34% compared to 9.45% over the three-year period ending December 2021, with the two biggest mandates again driving the outperformance.

4.6 Private Equity returns have been strong during the last three years and had an exceptional rebound in recent quarters. The 'building-up stage' of the bulk of our infrastructure fund investments managed by Partners Group has contributed to the slow movement in valuations in that portfolio.

5. Events post December

5.1 The market backdrop has continued to be difficult over the last few months. Concerns from quantitative tightening to inflation and supply chain disruptions have resulted in volatility across major stock markets. The Bank of England's Monetary Policy Committee raised the base rate twice in the period in an attempt to curb inflationary pressures but the impact on the real economy from the Ukraine conflict is likely to limit future rate rises.

5.2 Despite months of escalating geopolitical tensions, markets were largely surprised by the scale and severity of the Russia – Ukraine conflict. Bonds and stocks fell on fears that the war will dent growth and increase already rising inflation. The developments in the conflict continue to drive market sentiment. There is a separate paper on the agenda addressing the impact on the Fund in more detail.

Alison Mings, Pension Fund and Treasury Investments Manager

T: 03000 416488

E: Alison.mings@kent.gov.uk

March 2022

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FUND POSITION STATEMENT

Summary of Fund Asset Allocation and Performance

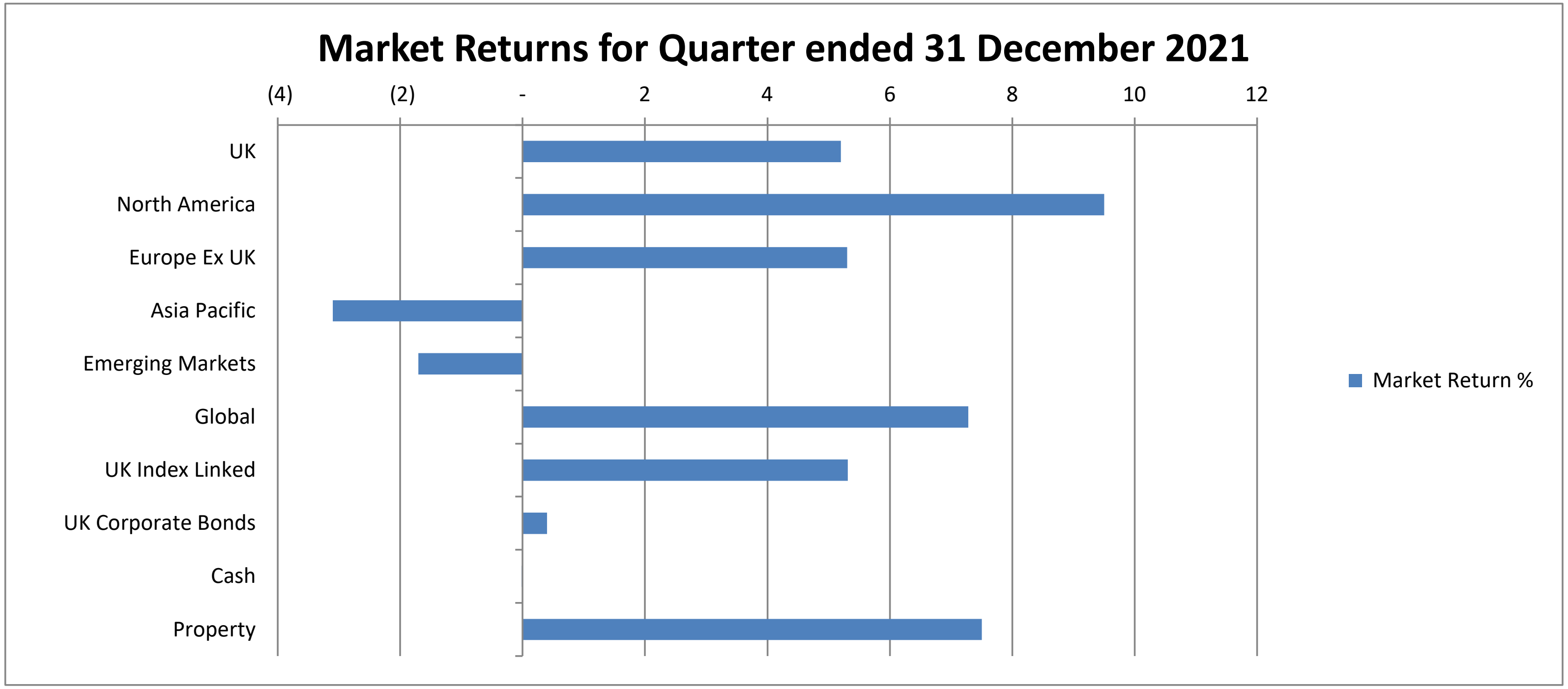
Superannuation Fund Committee

By: Chairman Superannuation Fund Committee
Corporate Director of Finance

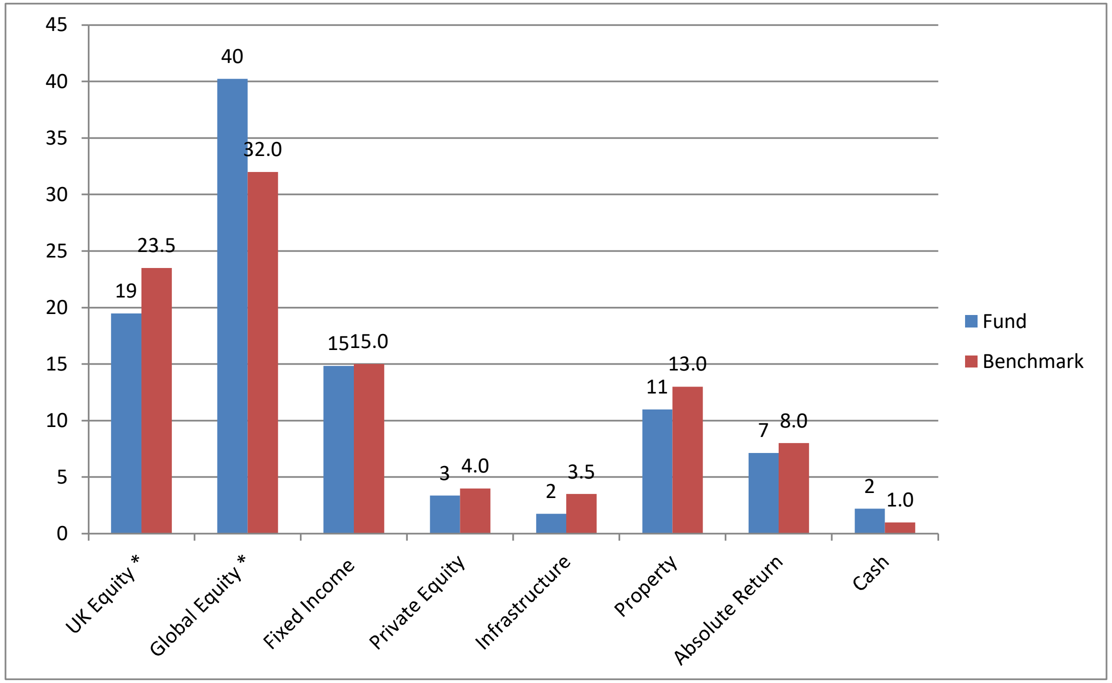
Kent County Council
Superannuation Fund Q3 2021-22

Alison Mings- Acting Business Partner - Kent Pension Fund

Market Returns for Quarter ended 31 December 2021



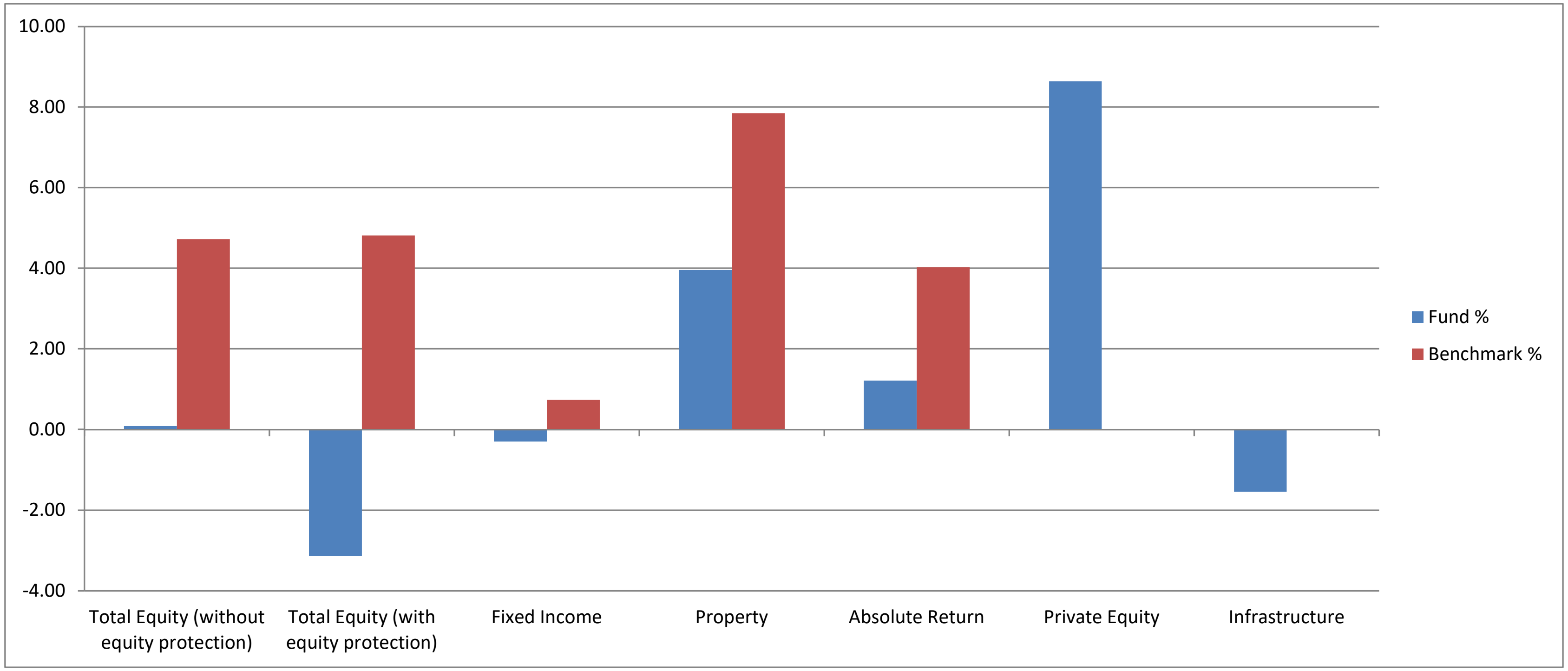
Fund Asset Allocation vs Benchmark as at 31 December 2021



Asset Class	Fund £m	Fund %	Benchmark %	Over / (under) weight %
UK Equity *	1,511	19.5	23.5	-4.0
Global Equity *	3,120	40.2	32	8.2
Fixed Income	1,151	14.8	15	-0.2
Private Equity	261	3.4	4	-0.6
Infrastructure	135	1.7	3.5	-1.8
Property	852	11.0	13	-2.0
Absolute Return	554	7.1	8	-0.9
Cash	171	2.2	1	1.2
Total	7,755	100	100	

* Our synthetic equity exposure with Insight is included in UK and Global Equities

Fund Asset Class Performance for Quarter ending 31 December 2021



Asset Class	Fund %	Benchmark %	Outperformance %
Total Equity (without equity protection)	0.08	4.72	-4.63
Total Equity (with equity protection)	-3.14	4.82	-7.96
Fixed Income	-0.30	0.73	-1.03
Property	3.96	7.85	-3.89
Absolute Return	1.22	4.02	-2.81
Private Equity	8.64	-0.02	8.66
Infrastructure	-1.54	-0.02	-1.53

Market Value Summary by Fund Manager as at 31 December 2021

Fund Manager	Asset Class	Market Value as at 30 September 2021 (£m)	Market Value as at 31 December 2021 (£m)	Change in Market Value (£m)	% of Total Fund 31 December 2021
Baillie Gifford - LF ACCESS Global Equity Core Fund *	Global Equity	1,842	1,475	-367	19.0%
Schroders - LF ACCESS UK Equity Fund	UK Equity	1,092	1,114	21	14.4%
Insight *	Equity Protection Program	524	670	147	8.6%
DTZ	Direct Property	524	538	14	6.9%
M&G - LF ACCESS Global Dividend Fund	Global Equity	480	493	13	6.4%
Goldman Sachs	Fixed Interest	423	423	0	5.5%
Sarasin	Global Equity	379	395	16	5.1%
Schroders GAV - LF ACCESS Global Active Value Fund	Global Equity	376	394	18	5.1%
Pyrford	Absolute Return	366	370	5	4.8%
Schroders	Fixed Interest	253	249	-3	3.2%
M&G Alpha Opportunities	Fixed Interest	241	242	0	3.1%
CQS	Fixed Interest	240	240	0	3.1%
Harbourvest	Private Equity	195	204	9	2.6%
Ruffer - LF ACCESS Absolute Return Fund	Absolute Return	182	184	2	2.4%
Fidelity	Pooled Property	149	159	9	2.0%
Partners	Infrastructure	101	135	34	1.7%
Impax Environmental Markets	Global Equity	79	81	2	1.0%
M&G Residential Property	Pooled Property	66	67	1	0.9%
YFM	Private Equity	48	57	9	0.7%
DTZ Pooled Funds	Pooled Property	43	46	4	0.6%
Aegon (Kames)	Pooled Property	44	43	-2	0.5%
Woodford	UK Equity	8	9	1	0.1%
Internally managed cash	Cash	193	167	-26	2.2%
Total Kent Fund		**7,850**	**7,755**	**-95**	**100.0%**

Total investments in ACCESS pooled funds		**3,675**	**3,660**
Percentage of the total Fund		**47%**	**47%**

* £300m redeemed from Baillie Gifford and invested into Insight Equity Protection Program in December

Performance Returns as at 31 December 2021

	Quarter		1 Year		3 Year (p.a.)	
	Fund	**Benchmark**	**Fund**	**Benchmark**	**Fund**	**Benchmark**
Total Fund *	-1.20	4.31	4.81	14.02	10.34	9.45
UK Equity						
Schroders - LF ACCESS UK Equity Fund	1.96	4.36	13.48	18.66	8.42	2.28
Woodford	13.29	4.20	-24.47	18.32	-24.43	8.34
Global Equity						
Baillie Gifford - LF ACCESS Global Equity Core Fund	-3.69	3.91	3.33	15.59	27.47	15.59
Sarasin	4.11	6.20	15.41	19.63	19.76	17.94
Schroders - LF ACCESS Global Active Value Fund	4.69	6.20	24.13	19.63	13.00	17.94
Impax	2.20	6.20	18.91	19.63	23.91	17.94
M&G - LF ACCESS Global Dividend Fund	2.71	6.20	14.94	19.63	15.43	17.94
Fixed Interest						
Goldman Sachs	-0.10	0.86	0.57	3.50	4.72	3.50
Schroders Fixed Interest	-1.28	0.01	0.04	0.08	1.62	0.56
CQS	0.04	1.00	5.39	4.08	--	--
M&G Alpha Opportunities	0.06	1.00	3.37	4.08	--	--
Property						
DTZ	4.18	7.85	21.41	19.99	7.21	6.73
Fidelity	6.27	7.50	22.42	19.17	6.62	6.21
Aegon (Kames)	-1.99	7.50	3.89	19.17	-0.24	6.21
M&G Property	0.80	7.50	2.00	19.17	1.16	6.21
Private Equity						
Harbourvest	6.92	-0.02	54.27	-0.08	27.97	0.19
YFM	15.72	-0.02	70.11	-0.08	30.71	0.19
Infrastructure						
Partners	-1.54	-0.02	-4.28	-0.08	-4.01	0.19
Absolute Return						
Pyrford	1.26	4.02	3.60	12.55	3.95	8.62
Ruffer - LF ACCESS Absolute Return Fund	1.13	4.02	10.03	12.55	11.09	12.55

* The total fund return includes the impact of the equity protection program, a separate report detailing the performance of the program is provided as a separate report

Fund Manager Benchmarks and Performance Targets

Asset Class / Manager	Performance Benchmark	Performance Target
UK Equities:		
Schroders - LF ACCESS UK Equity Fund	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
Global Equities:		
Baillie Gifford - LF ACCESS Global Equity Core Fund	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G - LF ACCESS Global Dividend Fund	MSCI AC World Index GDR	+3% pa
Schroders - LF ACCESS Global Active Value Fund	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
Fixed Income:		
Schroders Fixed Interest	3 months Sterling Libor **	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
CQS	Libor + 4%**	
M&G Alpha Opprtunities	Libor + 4%**	
Property:		
DTZ	IPD Pension Fund Index	≥ 3 year rolling average of benchmark returns
Fidelity	IPD UK PF Property Fund Index	
Aegon (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%
Ruffer - LF ACCESS Absolute Return Fund	Retail Price Index (RPI)	
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID *	

Fund Structure as at 31 December 2021

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £1,114 m	Baillie Gifford +1.5% £1,475 m	Goldman Sachs +6.0% Abs. £423 m	DTZ Property £584 m	Internally managed Cash £167 m
Woodford £9 m	M&G +3.0% £493 m	Schroders +4.0% £249 m	Fidelity Property £159 m	Partners Infrastructure £135 m
	Schroders +3.0% - +4% £394 m	CQS £240 m	Aegon(Kames) Property £43 m	YFM Private Equity £57 m
	Impax +2.0% £81 m	M&G Alpha Opps £242 m	M&G Property £67 m	HarbourVest Private Equity £204 m
	Sarasin +2.5% £395 m			Pyrford Abs. Return RPI + 5% £370 m
	Insight Equity Protection £670 m			Ruffer Abs. Return RPI £184 m

Total Fund £7.8 bn

ACCESS fund

From: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 30 March 2022

Subject: Governance Review update

Classification: Unrestricted

Summary:

To advise the Committee of the progress made to date on implementing the recommendations of the review of the Fund's governance.

Recommendation:

The Committee is recommended to note the report, and the proposed name change and resolve to approve:

i) The Fund Governance Policy and Compliance Statement.

ii) The Fund Training Strategy

iii) That should the name change be agreed the word "Superannuation" will be replaced by Pension in each document

FOR DECISION

Introduction

1. At their last meeting members were advised that progress on the implementation of the recommendations of the governance review would be reported to future committee meetings.

2. Since the committee meeting in December 2021 officers have prepared a Governance Policy and Compliance Statement at appendix 1 and training strategy at appendix 2.

3. In addition, a proposal to change the name of the Committee from the "Superannuation Fund Committee" to the "Pension Fund Committee" was also one of the recommendations of the review, and a report is being taken to KCC's Selection and Member Services Committee on 29 March 2022. Subject to this being agreed the change will be recommended to County Council at its next meeting. Report attached at appendix 3

Fund Governance Policy and Compliance Statement

4. The current published Governance Compliance statement dates from November 2020 and Barnett Waddingham were asked to undertake an audit of the statement and review compliance with statutory guidance and good practice.

5. Barnett Waddingham made 17 recommendations noting that the current statement does not fully comply with regulation 55 of the 2013 LGPS regulations.

6. Officers have drafted a governance policy and compliance statement taking account of the Barnett Waddingham recommendations in particular making sure that all references to the Fund and committee within this statement are consistent with other Council published documents, and Barnett Waddingham have confirmed that this version is compliant with the LGPS regulations and good practice.

7. The revised document is more comprehensive than the current compliance statement including the Fund's governance policy.

8. The Governance Policy sets out details of the Fund's aims and objectives in relation to the governance of the Fund as follows:

Aims and Objectives

In relation to the governance of the Fund we will aim to:

- Provide a high-quality service whilst maintaining value for money
- ensure compliance with the LGPS regulations, other relevant legislation, and the Pension Regulator's Codes of Practice
- ensure the Fund is managed, and its services delivered by people who have the appropriate knowledge and expertise
- evolve and look for new opportunities, ensuring efficiency at all times
- act with integrity and be accountable to our stakeholders
- understand and monitor risk and compliance
- continually measure and monitor success against our objectives
- ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved

9. The governance policy also sets out a summary of the governance structure of the Fund, and details of the role and function of the Committee as follows:

Superannuation Fund Committee

Role and Function

The Superannuation Fund Committee applies all the powers and duties of Kent County Council (KCC) as the administering authority for the Fund. The committee is responsible for:

- monitoring the administration of the Fund, including compliance with Local Government Pension Scheme (LGPS) and other legislation, ensuring that it delivers best value and compliance with statutory and non-statutory best practise guidance where considered appropriate
- determining pension fund policy regarding employer admission and cessation arrangements
- determining, reviewing, and monitoring the Fund's aims, objectives, strategies, compliance statements and procedures relating to the funding strategy, including approving its Funding Strategy Statement
- determining, reviewing, and monitoring the Fund's other aims, objectives, policies, strategies, compliance statements and procedures for the overall management of the Fund, including but not limited to administration, communication, and governance
- setting investment strategy, carrying out regular reviews, and monitoring the Fund's investments
- appointing the Fund's advisers, including actuaries, governance advisers and specialist lawyers (where required) and to periodically review those arrangements
- appointing professional fund managers relating to the investments of the Fund
- considering the Fund's financial statements
- approving an Annual Report on the activities of the Fund in line with legislation and guidance

10. The policy also sets out details of the membership of the Committee and the role of the Pension Board as well as details of the governance arrangements of the ACCESS pool and the role of the Joint Committee.

11. The updated Governance Compliance statement is included as an appendix to the Policy.

Training Strategy

12. The Fund Training Strategy was agreed in 2019 and has been updated taking account of the recommendations of the Governance review.

13. Members are reminded that the strategy is intended to assist the Superannuation Fund Committee and Local Pension Board members, as well as officers, in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities.

14. The Strategy reflects the current requirements of frameworks, codes and guidance issued by a range of bodies including CIPFA, the Pensions Regulator and the Scheme Advisory Board.

15. The Fund has delegated responsibility for the implementation of the Strategy to the Corporate Director of Finance.

16. In line with the strategy all new board and committee members receive an initial induction session and where possible existing board, and committee members act as mentors to their new colleagues.

17. Board members are also reminded that they are expected to complete the TPR toolkit shortly after joining the Board. If any member requires help with this activity, they should contact Steve Tagg (steve.tagg@kent.gov.uk)

18. All members are asked to advise officers of what learning they need, and internal and external courses will be arranged accordingly.

19. Members are also reminded that they should keep a log of all training undertaken so that their records can be agreed with officers at least annually, and the Fund will demonstrate compliance with its training strategy on a yearly basis through an annual report to both the Superannuation Fund Committee and Local Pension Board.

20. Name change

21. The Superannuation Fund Committee discharges the functions of the Council in relation to the control and investment of the Pension Fund. It does this in accordance with the Local Government Pension Scheme (LGPS) Regulations and associated legislation.

22. The 1995 LGPS regulations were the first to make reference to ‘pension funds’ rather than “superannuation funds”. The more recent 2016 LGPS Investment Regulations also make several references to “pension fund(s)”. The Kent Fund is known as the “pension” fund; however, the name of the Committee still refers to the outdated term in its title and in its terms of reference.

23. A paper has therefore been drafted and will be considered by KCC’s Selection and Member Services Committee on 29 March 2022 to change the name to the Pension Fund Committee. Should this be agreed, a recommendation will be taken to the next County Council meeting to formalise the change. A copy of the report is attached as an appendix to this report.

24. Given this proposed change of name, the Committee is asked to approve the Fund Governance Policy and Compliance Statement and the Fund Training Strategy as they are currently drafted. Officers will then reflect the change of name in the documents by replacing the word Superannuation with Pension appropriately.

Alison Mings, Pension Fund and Treasury Investments Manager

T: 03000 416488
E: Alison.mings@kent.gov.uk

March 2022

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Kent County Council Superannuation Fund

Governance Policy and Compliance Statement

March 2022

Introduction and Legal Requirements

Kent County Council is the Administering Authority for maintaining and managing the Kent County Council Superannuation Fund (the Fund) on behalf of its stakeholders; the Scheme Members and Employers participating in the Fund. These responsibilities are primarily set out in the Local Government Pension Scheme (LGPS) Regulations.

Regulation 55 of The Local Government Pension Scheme Regulations 2013 requires the administering authority to prepare and maintain a Governance Compliance Statement setting out whether the authority delegates its functions, or part of its functions to a committee, a sub-committee, or an officer of the authority, and if it does so:

a. the terms, structure, and operational procedures of the delegation.

b. the frequency of any committee or sub-committee meetings.

c. whether such a committee or sub-committee includes representatives of Scheme Employers or Members, and if so, whether those representatives have voting rights.

d. the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not comply, the reasons for not complying; and

e. details of the terms, structure and operational procedures relating to the local pension board

An administering authority must keep a statement under review and make such revisions as are appropriate, following a material change to any of the matters mentioned in the statement.

Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

An administering authority must publish its statement under this regulation, and any revised statement.

This document is the Governance Policy and Compliance Statement for Kent County Council Superannuation Fund that has been prepared to meet the requirement of the LGPS Regulations. The Governance Compliance Statement noted in point d. above is included as Appendix 1.

About the Kent County Council Superannuation Fund (“the Fund”)

Under the regulations, Kent County Council is required to maintain a pension fund (the Fund) for its employees and those of other scheme employers within its area.

The Fund Summary Report provides an update on the Fund’s position at the end of each financial year and references the number of members & employers in the scheme.

Aims and Objectives

In relation to the governance of the Fund we will aim to:

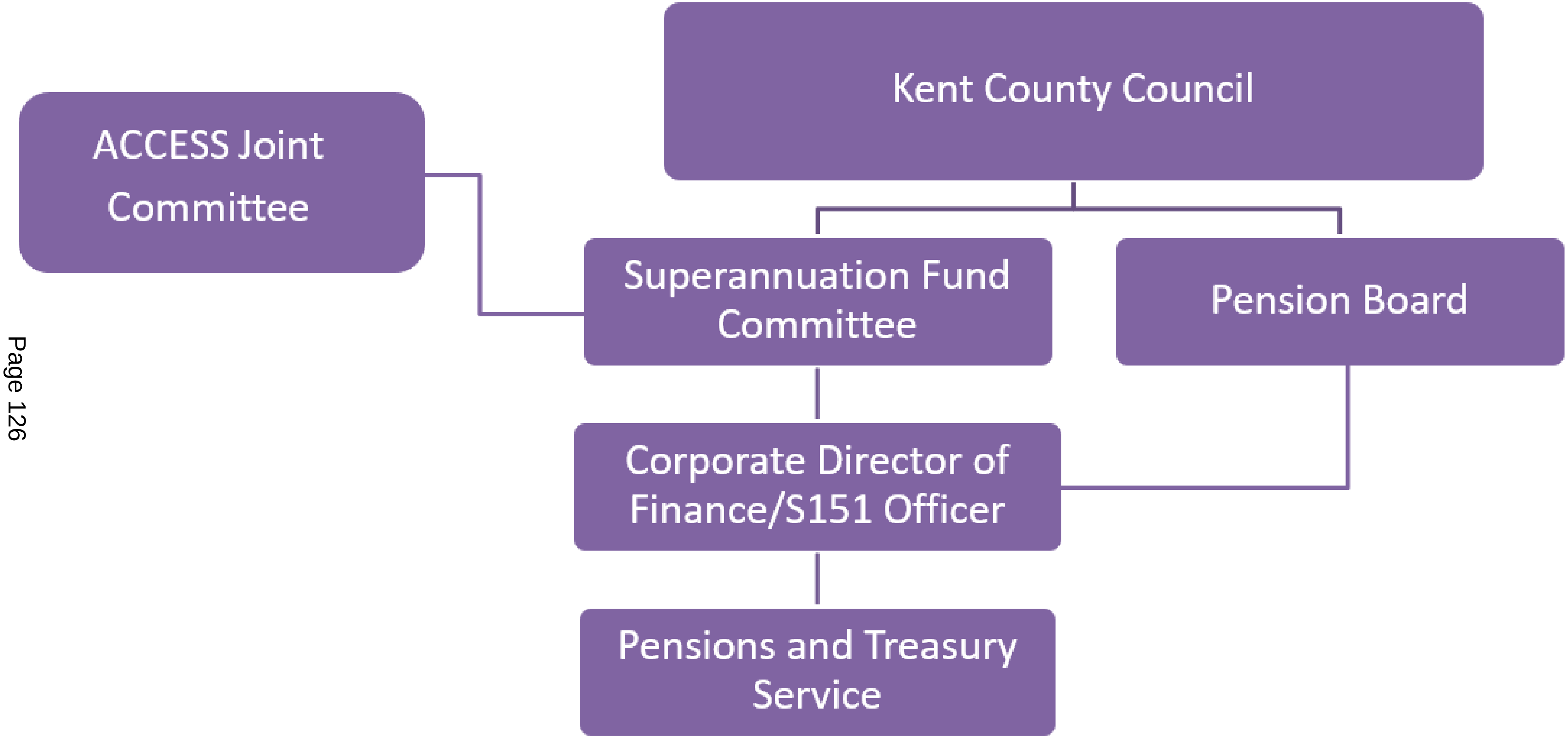
- Provide a high-quality service whilst maintaining value for money
- ensure compliance with the LGPS regulations, other relevant legislation, and the Pension Regulator’s Codes of Practice
- ensure the Fund is managed, and its services delivered by people who have the appropriate knowledge and expertise
- evolve and look for new opportunities, ensuring efficiency at all times
- act with integrity and be accountable to our stakeholders
- understand and monitor risk and compliance
- continually measure and monitor success against our objectives
- ensure the confidentiality, integrity and accessibility of the Fund’s data, systems and services is protected and preserved

Kent County Council Superannuation Fund Governance Structure

The Fund’s governance structure relates to the Administering Authority’s responsibilities only. Kent County Council is also an Employer within the Fund, and a separate governance structure and Scheme of Delegation is in place in relation to Kent County Council’s employer pension responsibilities.

Full details of the delegations from Kent County Council as Administering authority are set out in the council’s constitution.

The following is a summary of the structure.


ACCESS Joint Committee
Kent County Council
Superannuation Fund Committee
Pension Board
Corporate Director of Finance/S151 Officer
Pensions and Treasury Service

Page 126

The role and membership of the Committee is covered on the following pages.

The Role of Officers

The chief officers of Kent County Council have certain statutory and formal responsibilities. Executive powers are delegated to named chief officers under the council's constitution which sets the parameters within which the officers can implement the Committee decisions and operate the day-to-day business of the Pension Fund.

Superannuation Fund Committee

Role and Function

The Superannuation Fund Committee applies all the powers and duties of Kent County Council (KCC) as the administering authority for the Fund. The committee is responsible for:

- monitoring the administration of the Fund, including compliance with Local Government Pension Scheme (LGPS) and other legislation, ensuring that it delivers best value and compliance with statutory and non-statutory best practise guidance where considered appropriate
- determining pension fund policy regarding employer admission and cessation arrangements
- determining, reviewing, and monitoring the Fund's aims, objectives, strategies, compliance statements and procedures relating to the funding strategy, including approving its Funding Strategy Statement
- determining, reviewing, and monitoring the Fund's other aims, objectives, policies, strategies, compliance statements and procedures for the overall management of the Fund, including but not limited to administration, communication, and governance
- setting investment strategy, carrying out regular reviews, and monitoring the Fund's investments
- appointing the Fund's advisers, including actuaries, governance advisers and specialist lawyers (where required) and to periodically review those arrangements
- appointing professional fund managers relating to the investments of the Fund
- considering the Fund's financial statements
- approving an Annual Report on the activities of the Fund in line with legislation and guidance

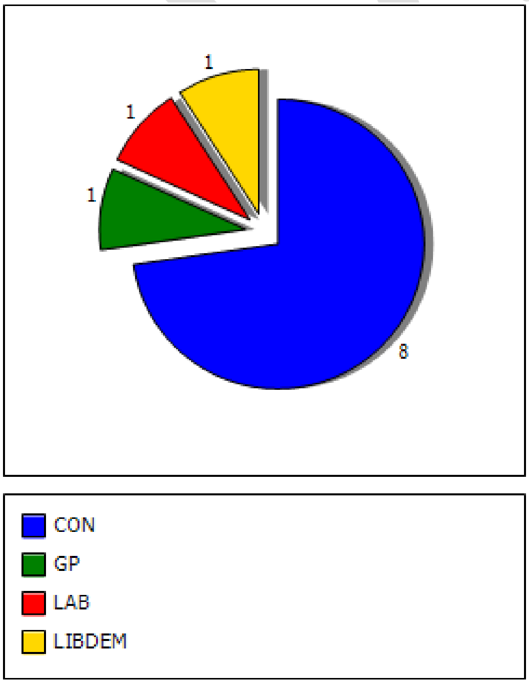
Membership

Voting Members	Members Breakdown	How Nominated or Appointed	Term of office
15 Employer Representatives	11 Members of the County Council (Including Chair)	Appointed by the Council	4 years as appointed at the annual meeting of the Council or as changed from time to time by the

			Constitution
	3 representatives from the 12 district / borough Councils	Appointed by Kent Leaders Group	4 years from the relevant borough and district elections
	1 Medway Council representative	Nominated	4 years from the relevant Unitary Council elections
Non-voting Members			
4 Member Representatives	2 Kent Active Retirement Fellowship (KARF) Representatives	Nominated by KARF and must be a member of the Fund	4 years from date of appointment
	1 County Council Staff Representative	Nominated by panel of KCC Finance and HR officers who advise the Board Chairman. Must be a member of the Fund	4 years from date of appointment
	1 Trade Union Representative	Nominated by Unison and must be a member of the Fund	4 years from date of appointment

The Chair of the Committee is one of the 11 County Council representatives and elected by these members only.

The political balance of the 11 appointed County Council Representatives is as follows:



- 8 Conservative
- 1 Green
- 1 Labour
- 1 Liberal Democrat

The Committee will meet 5 or 6 times a year with secretarial support provided by KCC Democratic Services.

Quorum and Substitutes

The quorum for a meeting is one third of its total voting membership.

If a Member cannot attend a meeting of the Committee, a nominated spokesperson of their political group or authority may nominate a substitute by written notice to the Clerk.

Pension Board

A local pension board (the Board) was established in 2015 in accordance with regulation 106 of the LGPS 2013 regulations. Its purpose is to assist Kent County Council as the Administering Authority for the Kent Fund to secure compliance with the 2013 regulations and to ensure the effective and efficient governance and administration of the scheme.

Membership

Members	Members Breakdown	How Nominated or Appointed
4 Employer representatives from each of the following groups in the Fund:	2 drawn from the County Council (including the chair)	Appointed (not members of Superannuation Fund Committee)
	1 Member representing the 12 district, borough and Medway Councils	Nominated
	1 Member representing other employing bodies (Police/Fire)	Nominated
4 Scheme member representatives from each of the following groups:	1 Trade Union representative	Nominated by Unison
	1 KCC Staff representative	Chosen by panel of KCC Finance and HR officers who advise the Board Chairman.
	1 representative from non KCC (Medway and District) Councils	Chosen by panel of Finance and HR officers from employers who advise the Board Chairman.
	1 representative from the Kent Active Retirement Fellowship	Nominated by Kent Active Retirement Fellowship

The Chair of the Board is appointed by the County Council and the Vice Chair is elected by the Board.

Terms of Office

Membership will be for 4-year renewable periods with a maximum of 8 years.

A member will cease their office where:

- They have a conflict of interest which cannot be managed in accordance with the Board's conflicts policy
- A member dies or becomes incapable of acting
- A member who is a councillor of the Administering Authority is appointed to the Superannuation Fund Committee
- A member is appointed to the role of an officer of the Administering Authority with responsibility for the discharge of functions under the Regulations
- A member resigns
- A representative member ceases to represent his constituency, for example if an employer representative leaves the employment of his employer and therefore ceases to have the capacity to represent the Fund's employers; and
- A member fails to attend 2 consecutive meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training.

The Board will meet quarterly. The KCC Corporate Director of Finance will be responsible for providing professional advice to the board and secretarial support will be provided by KCC Democratic Services.

Quorum

A minimum of 4 members will need to be present for the board to be quorate.

Substitutes

Substitutes will be allowed for the Kent Active Retirement and Unison members of the Board but they must be a named individual who will undertake the necessary training and development.

All representatives receive appropriate training and development and all costs of attending meetings and additional costs of attending training courses are reimbursed from the Fund.

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of eleven Local Government Pension Schemes (LGPS) Administering Authorities:

- Cambridgeshire County Council
- East Sussex County Council
- Kent County Council
- Norfolk County Council
- Essex County Council
- Northamptonshire County Council
- Hampshire County Council
- Hertfordshire County Council
- Suffolk County Council
- Isle of Wight Council
- West Sussex County Council

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as do all decision making on their individual Fund asset allocations and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

ACCESS Joint Committee

The Joint Committee (JC) within the ACCESS pool is made up of the 11 Chairs of the pension committees of the 11 participating LGPS funds. The JC has been appointed by the eleven Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool-aligned asset providers (for passive asset management), to the Administering Authorities. The Joint Committee also reviews ongoing performance.

The Section 151 Officers of the ACCESS Authorities provide advice to the Joint Committee to ensure appropriate resourcing and support is available to implement the Committee's decisions and to run the ACCESS Pool.

The Joint Committee is further supported by the Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group consists of officers identified by each of the ACCESS Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration, and technical support services. There are five full time ASU roles, hosted by Essex County Council. These roles are also supplemented with additional technical support from Officers within the ACCESS Authorities.

Appendix 1

Governance Compliance Statement

As can be seen from the table below, the Fund's governance arrangements in respect of the Superannuation Fund Committee are fully or partially compliant with the most recent guidance issued by the Secretary of State for Housing, Communities and Local Government (issued in 2008):

Principle	Kent County Council Superannuation Fund's position	Compliance
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	The Superannuation Fund Committee is a delegated committee of Kent County Council and exercises all the powers and duties of Kent County Council as the Administering Authority for the Kent County Council Superannuation Fund. The matters the Committee is responsible for include: • setting investment strategy • appointing professional fund managers • carrying out regular reviews • monitoring of investments • monitoring the administration of the pension scheme • determining pension fund policy in regard to employer admission arrangements.	Fully Compliant
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Membership of the Committee is drawn from the County Council as well as other scheme employers and member representatives. All representatives receive appropriate training and development.	Fully Compliant
Committee Membership and Representation		
That all key stakeholders are	Committee members serve for a	Partially compliant

afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies) • scheme members (including deferred and pensioner scheme members) • independent professional observers • expert advisers (on an ad hoc basis)	4-year term. The Committee consists of 19 members: 15 employer representatives and 4 member representatives. Of the employer representatives 11 are drawn from the County Council, 3 are nominated by the 12 district councils and Medway Council has 1 representative. Of the 4 member representatives Unison and County Council staff have 1 representative each and the Kent Active Retirement Fellowship has 2 representatives. The Fund's investment advisors, Mercer Ltd, attend every Committee meeting and facilitate workshops on any significant changes to investment strategy.	
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	All members of the Committee are treated equally in terms of access to papers and meetings, as well as training and are given full opportunity to contribute to the decision-making process, with or without voting rights	Fully compliant
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	All 15 employer representative members have full voting rights in the Committee. The 4 member representatives do not have voting rights but are able to engage in and contribute to decision making. The political balance of the 11 County Council representatives who have voting rights is as follows: 8 Conservative members, 1 Green Party member, 1 Labour member & 1 Liberal Democrat member.	Partially compliant

	The voting rights of Superannuation Fund Committee members are regularly reviewed, the most recent review being October 2017.	
Training / Facility time / expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. That where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels, or any other form of secondary forum.	Arrangements for training, facility time and expenses of Committee and Pensions Board members are described in the Kent County Council constitution. This policy applies equally to all Committee and Pensions Board members. The Fund's training policy was updated in March 2022. This sets out its expectations of the minimum level of knowledge and understanding that Committee members should have. Both Committee and Board members have been provided with a copy of the Pension Fund training plan. This includes training for members to enable them to understand their roles on the committee board. Members' training is regularly reviewed with support from officers. All additional costs of attending training courses are reimbursed from the Fund.	Compliant
Meetings – Frequency		
That an administering authority's main committee or committees meet at least quarterly.	The Superannuation Committee usually meets 5 or 6-times year.	Fully Compliant
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Pensions Forum meets twice a year for all employers focussing on administration issues.	Not compliant

Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All Committee members have access to committee papers, documents and advice that falls to be considered at meetings of the Committee. Meeting papers are also available on the Kent County Council website.	Fully compliant
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The Committee monitors the administration of the pension scheme and determines pension fund policy in regard to employer admission arrangements.	Compliant
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Details of all Committee meetings are available on the Kent County Council website including all unrestricted committee papers. The Fund's Governance Policy Statement is published on the Fund's website	Compliant

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Kent County Council Superannuation Fund

Training Strategy

March 2022

Kent County Council Superannuation Fund Training Strategy

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Introduction

1. This is the training strategy of Kent County Council as Administering Authority of the Kent County Council Superannuation Fund (the Kent Fund). The strategy is intended to assist the Superannuation Fund Committee and Local Pension Board members as well as officers in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities.

2. The Kent Fund will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those responsible for financial administration and decision making.

3. The Kent Fund has delegated responsibility for the implementation of the Strategy to the Corporate Director of Finance.

4. The Kent Fund will demonstrate compliance with its training strategy on a yearly basis through an annual report to both the Superannuation Fund Committee and Local Pension Board.

Strategy Objectives

5. Kent County Council recognises the importance of its role as Administering Authority of the Kent County Council Superannuation Fund on behalf of its stakeholders including:

   - 144,960 current and former members of the Kent Fund, and their dependents

   - some 454 employers within the geographical county of Kent

   - the local taxpayers within Kent.

6. In relation to the governance of the Kent Fund the objectives relating to knowledge and skills are to:

   a) Ensure the Kent Fund is managed, and its services delivered by people who have the appropriate knowledge and expertise;

   b) Ensure the Kent Fund is effectively governed and administered; and

   c) Ensure decisions are robust, are well founded and comply with regulatory requirements or guidance from the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for the Department for Levelling Up and Communities (DLUHC)

7. To assist in achieving these objectives, the Kent Fund will aim to comply with the CIPFA Knowledge and Skills Frameworks, the knowledge and skills elements of the Public Service Pensions Act 2013, The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes, as well as any other LGPS specific guidance relating to the knowledge and skills of Superannuation Fund Committee members, Pension Board members and pension fund officers which may be issued from time to time.

8. The Training Strategy applies to all Members of the Superannuation Fund Committee who require an understanding of:

   a) Their responsibilities as delegated to them by The Kent County Council as an administering authority of an LGPS fund.

   b) The fundamental requirements relating to pension fund investments;

   c) The operation and administration of the Kent Fund;

   d) Controlling and monitoring the funding level; and

   e) Effective decisions in the management of the Kent Fund.

9. It also applies to Local Pension Board members who must be conversant with:

   a) The relevant LGPS Regulations and any other regulations governing the LGPS;

   b) Any document recording policy about the administration of the Kent Fund;

   c) And have knowledge and understanding of the law relating to pensions; and

   d) Such other matters as may be prescribed.

10. In addition it applies to KCC officers responsible for the management and administration of the LGPS and they will be expected to:

   a) receive appropriate training to fill any knowledge gaps identified; and

   b) seek to maintain their knowledge.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the Code of Practice")

11. CIPFA's Code of Practice, issued in 2013, embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge

and skills required. It recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;

- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);

- publicly report how these arrangements have been put into practice each year.

CIPFA Knowledge and Skills Framework – Superannuation Fund Committee

12. In January 2010 CIPFA launched technical guidance for Elected Representatives on s101 Pension Committees and non-executives in the public sector within a knowledge and skills framework. The framework covers six areas of knowledge identified as the core requirements:

    a) Pensions legislative and governance context;

    b) Pension accounting and auditing standards;

    c) Financial services procurement and relationship development;

    d) Investment performance and risk management;

    e) Financial markets and products knowledge; and

    f) Actuarial methods, standards, and practice.

13. Although the CIPFA Knowledge and Skills Framework complements the Code of Practice that should be adopted by administering authorities there is no legal requirement for knowledge and understanding for members of an s101 Pension Committee.

14. However the view of the Kent Fund is that members of the Superannuation Fund Committee should have no less a degree of knowledge and skills than those required in legislation by the Local Pension Board.

CIPFA Knowledge and Skills Framework – Local Pension Board

15. In August 2015 CIPFA extended the Knowledge and Skills Framework to specifically include members of Local Pension Boards, albeit there exists an overlap with the original Framework. The Framework identifies the following areas as being key to the understanding of local pension board members:

a) Pensions Legislation

b) Public Sector Pensions Governance

c) Pensions Administration

d) Pensions Accounting and Auditing Standards

e) Pensions Services Procurement and Relationship Management

f) Investment Performance and Risk Management

g) Financial markets and product knowledge

h) Actuarial methods, standards, and practices.

16. Given that the role of the Local Pension Board is to assist the Committee i.e. the Scheme Manager, Board members should have sufficient knowledge and understanding of the regulatory structure of the LGPS and the documentary recording of policies around the administration of the Kent Superannuation Fund to be able to challenge the failure of the Kent Fund to comply with regulations and policies.

17. Local Board members should commit sufficient time to their learning and development and the Kent Superannuation Fund will make appropriate training available to assist and support members in undertaking their roles.

Guidance from the Scheme Advisory Board

18. The Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's Code of Practice and in January 2015 published Guidance for administering authorities to support them in establishing their Local Pension Board. The Guidance includes a section designed to help Local Pension Board members to understand their knowledge and understanding obligations.

19. Knowledge and understanding must be considered in the light of the role of a Local Pension Board and the Kent Fund will make appropriate training available to assist and support members in undertaking their role.

The Pensions Regulator's E-learning toolkit

20. The Regulator has developed an online tool designed to help those running public service schemes to understand the governance and administration requirements in the CIPFA Code of Practice. The toolkit is designed specifically with Local Pension Board members in mind however the material covered is of equal relevance to members of the Superannuation Fund Committee.

21. The Superannuation Fund Committee is expected to complete the toolkit. and for the Local Pension Board members this is a mandatory requirement.

22. The toolkit is an easy to use resource and covers short modules. These are:

    a) Conflicts of Interests;

    b) Managing Risk and Internal Controls;

    c) Maintaining Accurate Member Data;

    d) Maintaining Member Contributions;

    e) Providing Information to Members and Others;

    f) Resolving Internal Disputes;

    g) Reporting Breaches of the Law.

The Pensions Regulator's 21st Century Trusteeship guidance

23. Members of both the Committee and the Board are encouraged to follow the guidance. This programme was launched to raise the standards of governance across all workplace pension schemes. The programme includes what arrangements need to be in place to support good decision making, as follows:

    a) Clear roles and responsibilities and clear strategic objectives

    b) A skilled, engaged, and diverse Committee and Board led by an effective chair

    c) Close relationships with employers, advisors and others involved in running the scheme

    d) Sound structures and processes focused on outcomes

    e) A robust risk management framework focused on key risks.

Markets in Financial Instruments Directive II (MIFID II)

24. The Kent Superannuation Fund needs to demonstrate a high level of skills and knowledge across the Committee and Board to enable the Kent Fund to opt-up and be recognised as a professional investor rather than a retail investor to continue to receive advice and access to investment products at a level commensurate with the types of investment required for the Kent Fund.

25. Failure to adequately demonstrate a high level of collective skills and knowledge across the Superannuation Fund Committee and Local Pension Board could result in the loss of professional investor status and therefore access to the appropriate investment opportunities.

Initial Induction and Training

26. On joining the Superannuation Fund Committee and Pension Board all new members receive an initial induction session and are encouraged to become familiar with the Kent Pension Fund website which provides access to

    - The latest Actuarial Valuation report
    - The latest Annual Report and Accounts,
    - Fund policies

27. New members will also be asked to complete an assessment of what learning they need and the status of their current knowledge.

28. They will be expected to complete the TPR toolkit within 6 months of joining the Pensions Board while new Committee members will also be expected to complete the toolkit within this timeframe.

Delivery of training

29. Consideration will be given to various training resources available in delivering training to the Superannuation Fund Committee and Local Pension Board members. These may include but are not restricted to:

    a) Internally developed training days;

    b) Training delivered by investment managers and the Kent Fund's consultants at Committee and board meetings;

    c) In-house and shared training events where it improves economy, efficiency and effectiveness;

    d) Self-improvement and familiarisation with regulations and documents;

    e) The Pension Regulator's e-learning programme;

    f) Attending courses, seminars and external events;

    g) Regular updates from officers and/or advisers;

h) Circulated reading material;

30. Training events will be advertised to members as and when they are notified to officers and members are expected to make officers aware of any events that are of interest.

Costs

31. All costs relating to this training strategy are met by the Kent Fund.

Monitoring and reporting

32. The Kent Fund will maintain a record of all training undertaken by Committee and Board members who will be asked to confirm this record every 6 months.

33. Compliance with the Kent Fund's training strategy will be reported on a yearly basis to both the Superannuation Fund Committee and Local Pension Board.

34. This information will also be included in the Kent County Council Superannuation Fund Annual Report and Accounts.

Effective date

35. This strategy was approved by the Superannuation Fund Committee on 15 November 2019, updated and the changes approved in March 2022.

Review

36. This strategy is expected to be appropriate for the long-term but it will be reviewed every 2 years, and if necessary, more frequently to ensure it remains accurate and relevant.

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DRAFT

From: Ben Watts, General Counsel

To: Selection and Member Services Committee, 29 March 2022

Subject: Superannuation Fund Committee: Proposed Change of Name

Status: Unrestricted

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1. Introduction

a) The Superannuation Fund Committee discharges the functions of the Council in relation to the control and investment of the Pension Fund. It does this in accordance with the Local Government Pension Scheme (LGPS) Regulations and associated legislation.

b) The 1995 LGPS regulations were the first to make reference to ‘pension funds’ rather than “superannuation funds”. The more recent 2016 LGPS Investment Regulations also make several references to “pension fund(s)”. The Kent Fund is known as the “pension” fund, however, the name of the Committee still refers to the outdated term in its title and in its terms of reference.

2. The Proposed Change

a) It is therefore proposed that the Superannuation Fund Committee be renamed the Pension Fund Committee and that the reference to the Superannuation Fund in the terms of reference be amended in like manner.

b) In doing so, Kent County Council would be in line with common practice in other local authorities.

c) These changes involve no alteration to the remit and powers of the Committee.

3. Recommendation

The Selection and Member Services Committee is asked to recommend to County Council:

i. That the name of the Superannuation Fund Committee be changed to Pension Fund Committee; and

ii. That the terms of reference of the Committee in the Constitution be amended to refer to the Pension Fund instead of the Superannuation Fund.

4. Background Documents

None.

5. Report Author and Relevant Director

Ben Watts, General Counsel

DRAFT
03000 416814
benjamin.watts@kent.gov.uk

Tristan Godfrey, Strategic Governance Manager
03000 411704
tristan.godfrey@kent.gov.uk

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