Kent County Council Superannuation Fund

Call for evidence on the future structure of the Local Government Pension Scheme.

INTRODUCTION

The Fund welcomes the opportunity to respond to the consultation document. The Kent Fund is one of the largest in the country with assets of £4bn, 100,000 scheme members and 400 scheme employers. The Fund is governed by the Superannuation Fund Committee which is a main committee of the County Council. Membership of the Committee includes the unitary council, district councils, trade unions, staff and pensioners. The Committee is committed to doing its business in an open and transparent way and to promoting the highest standards of scheme governance.

Before addressing the specific questions set we would like to comment on the stated objectives:

High level objectives:

(1) Dealing with deficits – all funds are dealing with deficits which arise from past decisions such as the pension contribution holiday in the early 1990's; the impact of the abolition of Advance Corporation Tax in 1997; increased longevity and the increasing maturity of workforces. There is nothing in structural reform which will address this issue and there are strong arguments for letting those closest to the local authorities to continue to manage the issue.

(2) Improving investment returns – this will be addressed in more detail but we question what evidence there is that there is an issue now with investment returns. Almost all administering authorities 84 out of 90, but not the London Pension Fund Authority, subscribe to the WM Local Authority service. We have an abundance of data which shows very clearly that the size of the fund and investment performance is not closely correlated. The Kent Fund has performed in the top quartile of funds over 1, 3 and 5 years.

Secondary objectives

(1) To reduce investment fees – the appointment of investment managers is subject to EU procurement legislation. We are not convinced that larger mandates will lead to higher fees. The easiest way to reduce fees is to introduce more passive management of funds but passive management means no ability to outperform markets and funds need outperformance to reduce deficits more quickly.

(2) To improve flexibility of investment strategies – again this seems to make an assumption that there is a problem now. If this is a way of saying funds should adopt more exotic investment strategies then the Kent Fund is totally opposed. We have regularly updated our evolving investment strategy with support from

Hymans Robertson. Some funds who have opted for more exotic options have been seriously caught out by the strong recent performance of equities and will have cost their funds tens if not hundreds of millions of pounds.

(3) To provide for greater investment in infrastructure - for pension funds in deficit with deteriorating cashflows due to reductions in the local authority workforce infrastructure is at best a marginal asset class. Also as the Government's own National Infrastructure Plan states the main reason for limited pension fund investment in the sector is that infrastructure is a highly risky proposition and is not suitable for developmental pension funds.

(4) To improve the cost effectiveness of administration – again we have participated in the CIPFA Pensions Administration benchmarking for many years. We have below average costs and would be happy to see this data published by CLG.

(5) To provide access to higher quality staffing resources – given that very limited funds are managed internally by local authority funds this is a slightly strange objective. The Kent Fund takes advice from Hymans Robertson and invests with professional investment managers which local authorities could never compete with to recruit staff.

(6) To provide more in-house resource – the Kent Fund successfully manages £4bn with in-house resource of around 2 FTE. We buy in investment management, investment consultancy and actuarial services and think this is the most efficient and cost effective way of operating.

Where smaller funds decide that merger would be beneficial then they can decide to do that.

Now turning to specific questions:

Question 1 – How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – while adapting to becoming more efficient and to promote stronger investment performance.

As has been stated above there is already comparative data available but it is not used sufficiently well:

WM Local Authority Data – we receive quarterly and annual comparative performance data. The 2012/13 "league tables" were received a couple of weeks ago and some basic analysis for the last 2 years is attached in the Annex. It shows quite clearly no correlation between size of fund and investment returns. Smaller funds tend to have fewer managers and are more susceptible to variations in performance, out performance as well as under performance.

CIPFA Pensions Administration benchmarking – this was reported to the Committee in an open report in February. 62 authorities participated – our total cost / scheme member was below average in our peer group and all scheme average. Participation could be made mandatory.

Question 2 – are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

We do not believe that the high level objectives are correct. The whole document overlooks the main purpose of local authority funds which is to ensure that funds are available to meet current and future pension liabilities. There is also a separate consultation on governance arrangements and we believe that good governance is also a crucial issue.

Question 3 – What options for reform would best meet the high level objectives and why?

We do not believe that the case for reform has ever been made.

Deficits are already subject to long term plans and the key issue is that investment returns meet or exceed actuarial assumptions. That depends upon the performance of a varied mix of different asset classes.

The data produced by the WM Company shows how local authorities have performed as a group and individually. Local authorities have generally retained above average exposure to equities at 63% (down from 79% in 1994) and therefore local authority funds will tend to outperform in periods of strong equity returns.

Question 4 – To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

On secondary objectives we have the following comments:

- Cost-effective investment fees – we have clear evidence over an extended period that higher performing investment managers will charge higher fees. This is a cost effective option as the scope for significant out performance will hugely outweigh any additional fees paid.

- Diversified investment management strategies – as a £4bn fund we believe that we can achieve this but without overly complicated structures.

- Efficient and effective pensions administration – we will benchmark our service and monitor performance. This is regularly reported to senior management and members. If we felt that we could not maintain an efficient and cost effective service we would look to merge with other funds or externalise.

- Collaborative working – administering authorities do need to work together more closely and the Norfolk frameworks and the current administration system framework tender led by KCC are examples of this.

- Local accountability – we need to be accountable to scheme employers and scheme members for how the funds are managed and this needs to be transparent.

- Costs of change – there does not appear to have been any consideration of the costs of change. Major changes to investment mandates on funds totalling £200bn would be a major cost which would reduce investment returns.

Question 5 – What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed.

The Kent Fund was one of the first to have an independent external audit undertaken, before it was a statutory requirement. The Kent Fund's accounts have been prepared and have been subject to audit which confirmed their high standard. This information is now in the public domain and can be analysed for key issues such as cashflows, value of liabilities and maturity.

This could be done nationally by external auditors or actuarial firms on behalf of CLG.

The comparative investment data is already available via WM.

We fully support greater transparency and the publication of professionally prepared comparative information.

Overall we feel that funds should make their own decisions and be held accountable for their performance – and above we set out ways this could be achieved. Responsible long term fiduciary management and good governance are fundamental. Merger of funds may be an answer but that should be left to local decisions not central prescription.

James Scholes
Chairman Superannuation Fund Committee

John Simmonds
Deputy Leader &
Cabinet Member for Finance

Appendix 2

WM League Tables

	2012/13	2011/12
	Top Ten	**Top Ten**
Best	Orkney Islands	LB Hammersmith
	Isle of Wight	Staffordshire CC
	LB Bromley	Dorset CC
	Dorset CC	Powys Council
	Corporation of London	LB Redbridge
	LB Bexley	LB Wandsworth
	LB Wandsworth	Cumbria CC
	North Yorkshire CC	Northumberland CC
	LB Ealing	South Yorkshire
	Rhonda Council	Environment Active
	Bottom 10	**Bottom 10**
	Gwynedd Council	Shetlands
	LB Hackney	LB Kingston
	LB Barnet	Swansea
	Wiltshire CC	LB Barking
	LB Croydon	Teeside
	Bedfordshire CC	Gwyned CC
	Environment Agency Closed	Cambridgeshire CC
	Flintshire CC	Cornwall CC
	LB Barking	LB Brent
Worst	Greater Manchester Designated	Worcestershire CC