By: Chairman, Superannuation Fund Committee

To: County Council – 15 May 2014

Subject: Superannuation Fund Update

Classification: Unrestricted

Summary: To provide a summary of key issues relating to the Superannuation Fund.

Recommendation: The County Council are asked to note this report.

For Information

Introduction

1. The Superannuation Fund Committee is responsible for fulfilling KCC's legal responsibilities as the administering authority of the Kent Superannuation Fund.

2. The Fund is responsible for providing pension arrangements for 450 employers in the County including the Medway Council, the twelve District/Borough Councils, non-uniform Police and Fire staff and many other organisations. The Fund has 110,000 individual members. At 31 December 2013 the Fund value was its' highest ever at £4,087m.

Actuarial Valuation

3. Local authority pension funds are subject to a triennial valuation where the actuary, for the Kent Fund Barnett Waddingham, set employer contribution rates. All 89 local authority pension funds are in deficit. The funding level of the Kent Fund at 31 March 2013 was calculated to be 83% an increase of 6% over 2010. We believe this is above average for funds compared with at one time being one of the lowest funded funds in the country and the position relative to other South East County Councils is shown below.

	31 Mar 04 %	**31 Mar 07 %**	**31 Mar 10 %**	**31 Mar 13 %**
Kent	63	73	76	83
East Sussex	84	89	87	81
Essex	71	80	71	80
Hampshire	69	77	72	80
Surrey	68	79	72	72
West Sussex	76	88	86	86

4. Investment returns at 8.5% per annum were in excess of the local authority average and well ahead of the actuary's assumption. The main negative factor is the very low gilt yields which the actuary uses to value the liabilities – low gilt yields means a higher value for liabilities. Increases in gilt yields from their historical lows currently will further improve the funding position.

5. The largest employers in the Fund; KCC, Medway, Police and Fire all saw their employer contribution rates reduce – although not all, including KCC, have reduced the rate they pay. All but one of the District / Borough Councils saw their rates increase, this reflects the much higher proportion of pensioners to active members which they have and the impact of issues like outsourcing on the size of their payroll. Outsourcing reduces the payroll and number active members meaning that the pension deficit increases as a proportion of the total liability.

Investment Returns

6. All investments reflect cyclical patterns but it is pleasing that currently the Fund is in a very strong long term run of investment performance. As at 31 December the investment returns and our comparative position to other local authority funds were:

	% p.a.	**Percentile Ranking**
1 Year	18.6	10^{th}
3 Years	8.9	15^{th}
5 Years	11.7	24^{th}

7. Despite this strong performance the Committee has made some changes to the investment manager rosta in late 2013. The one underperforming global equity manager has been replaced by two new global equity managers and Invesco the highly successful UK equity manager has been terminated due to the departure of the investment manager for KCC.

8. A long standing area of strength for the Committee has been its Property assets which on the latest figures approach £470m. DTZ Investment Management manage a direct portfolio of assets worth £260m including some high performing assets as set out in the Appendix. The restaurant development in Greenwich which the Fund funded as a development is now worth £11.4m, an increase of 56% in the year. DTZ's 10 year return is 8.8% per annum. The Fund has just won the Investment Property Databank Property Investment Award for the highest 3 year annualised return to December 2013 for Segregated Pension Funds between £100m and £350m. Over the last 3 months £90m has been allocated to two Secondary Property funds, the timing of which we hope to be well judged.

9. Given the heavy overweight position in equities (just under £300m) the Fund has just withdrawn £150m which will be held as Cash in the short term.

Legislative Change

10. There is very considerable legislative change impacting on the Fund:

(1) New Local Government Pension Scheme – a new Career Average Related Earnings Scheme was introduced nationally from 1 April 2014 with regulations governing the new scheme being received only days before inception.

(2) Governance Regulations – from 1 April 2015 in-addition to the Superannuation Fund Committee, the Scheme Manager, we will be required to have a Pensions Board. The role is unclear as yet but 50% of the membership will have to be drawn from employees.

(3) Pensions Regulations – as of 1 April 2015 the remit of the Pensions Regulator will be extended to public pension schemes.

(4) Call for Evidence – in May 2013 Brandon Lewis MP launched a Call for Evidence on the possible amalgamation of local authority funds. The Kent response robustly stated our continued desire and ability to manage the Kent Fund. On 1 May 2014 the Government published proposals for consultation which does not include the amalgamation of funds. The Superannuation Fund Committee will fully respond to the consultation document.

Recommendation

11. Members are asked to note this report.

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Appendix 1

Restaurant Development – Greenwich

Retail Outlet Centre - Doncaster

Units Close-Up - Doncaster

Exterior - Durham