

## KENT COUNTY COUNCIL

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### PENSION BOARD

MINUTES of a meeting of the Pension Board held in the Wantsum Room, Sessions House, County Hall, Maidstone on Wednesday, 26 February 2020.

PRESENT: Mrs M E Crabtree (Chairman), Mr J Parsons (Vice-Chairman), Mrs R Binks, Mr D Coupland, Ms A Kilpatrick and Ms L Shah

ALSO PRESENT: Mr C Simkins

IN ATTENDANCE: Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Mrs B Cheatle (Pensions Manager), Mr S Tagg (Senior Accountant - Pension Fund) and Miss T A Grayell (Democratic Services Officer)

### UNRESTRICTED ITEMS

#### **14. Apologies and Substitutes**

*(Item 1)*

There were no apologies for absence and no substitutes.

The Chairman welcomed Charlie Simkins, Chairman of the Superannuation Fund Committee, who was present to update the Board on the work of the Committee, as agreed at the Board's previous meeting.

#### **15. Declarations of Interest by Board members on items on the agenda for this meeting**

*(Item 2)*

The Chairman, Mrs M Crabtree, declared a disclosable pecuniary interest as part of her pension fund was invested with Woodford and said she would leave the meeting room before discussion of the Woodford update item.

#### **16. Minutes of the meeting held on 11 November 2019**

*(Item 3)*

It was RESOLVED that the minutes of the meeting held on 11 November 2019 are correctly recorded and that they be signed by the Chairman. There were no matters arising.

#### **17. Dates of future meetings**

*(Item 4)*

The Board NOTED that the following dates had been reserved for its meetings in 2020 and the first part of 2021:

Friday 12 June 2020 – *this subsequently became a briefing session*

Thursday 27 August 2020 – *subsequently cancelled*

Friday 23 October 2020 – *subsequently moved to Thursday 15 October*  
Tuesday 26 January 2021  
Tuesday 2 March 2021  
Friday 11 June 2021,

All meetings would commence at 10.00 am.

The Chairman advised the Board that these dates had been set to precede meetings of the Superannuation Fund Committee, and that she would attend future meetings of the Committee to report on the work of the Board.

In a reciprocal arrangement, Charlie Simkins would attend future meetings of the Board to update on the work of the Committee.

**18. Update from Barnett Waddingham on the actuarial valuation and other actuarial matters, including the McCloud judgement**  
*(Item 5)*

*Graeme Muir, Partner, and Roisin McGuire, Associate, from Barnett Waddingham were present for this and the following item at the invitation of the Board.*

1. The Chairman thanked Mr Muir and Ms McGuire for attending and Mrs Mings explained that they had been invited to advise the Board of the actuarial valuation results and other actuarial issues.

2. Mr Muir presented a series of slides (*tabled*) which set out the purpose of the valuation, its key outcomes, the assumptions made, the prudent discount rate, which this time included an extra 0.2% to allow for the McCloud judgement in 2018 and other uncertainties, and the background to the McCloud judgement. He highlighted changes to the rules which had been made since the previous valuation: in 2016, the Government had introduced a section 13 valuation stage, which followed funds' valuations and checked that contributions had been set at an appropriate level. Mr Muir then responded to comments and questions from the Board, including the following:-

- a) asked about the average recovery period, Mr Muir advised that the average period for large authorities was 9 – 10 years, for Kent it was 8 years and for smaller authorities it was between 8 and 12 years. It was best to keep contributions at a stable level; if they were reduced, they might need to be increased again at a later stage, requiring funding to be found from elsewhere in an authority's budget;
- b) asked to comment on a number of recent consultations, including changes to the valuation cycle, exit credits and deemed employers; Mr Muir commented that larger local authorities would manage a 4-year valuation cycle better than smaller employers, who would need a more frequent valuation to check that they were on track. Mr Muir also commented that court cases were currently testing the idea of returning a surplus when an employer were to leave the scheme. Responsibility for the pension liability of a deemed employer would remain with the letting authority rather than be transferred to the new contractor. Mrs Mings commented that, currently, the admission process was the same, irrespective of the size of the employer, so costs and time could be

saved if the new employer were to be given deemed employer status. Mr Tagg advised that the pension arrangements for the company's employees would need to be set out in the commercial contract; and

c) concern was expressed about the options open to academies which, unlike local authority schools, could be declared bankrupt. Mr Muir advised that, in respect of those schools in Multi-Academy Trusts (MATs), the MAT would take over liability for staff pensions. Otherwise pensions would be guaranteed by the Department for Education employer covenant. Mr Tagg added that the number of academies in the Kent Fund had grown from 6 in 2010 to 200 in 2019. They all paid the same employer contribution rate and all had to declare their pension accounting liability annually, as at 31 August.

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

## **19. Fund Employer Matters**

*(Item 6)*

1. Mrs Mings introduced the report which set out information on employers in the Fund. Officers monitored the receipt of contributions from employers and assured the Board that, in the few instances in which an employer had paid late, the issues had been dealt with without referring the matter to the Pensions Regulator.

2. Mr Tagg then advised the Board on progress relating to Hadlow and West Kent and Ashford Colleges, on which Ms McGuire had also been advising the Council. Of the options available for the Hadlow College Mottingham campus staff, Ms McGuire had recommended that the more straightforward in terms of actuarial issues would be for the Mottingham campus staff to join the Kent Pension Fund. Ms McGuire advised the Board that the assets and liabilities of Hadlow College would not change, with each of its three campuses taking a share of the deferred and pensioner liabilities. Mrs Mings added that the remainder of Hadlow college staff would transfer to other colleges in the Fund.

3. Asked about the status of other colleges in the fund, Mr Tagg advised that, with the exception of two colleges who were admitted bodies, they had scheduled body status, so all existing staff would be automatically enrolled in the Local Government Pension Fund (LGPS). A recent government consultation proposed that new staff would have the option not to join the LGPS, and the outcome of the consultation was currently awaited.

4. It was RESOLVED that the information in the report and given in response to comments and questions be noted, with thanks.

The Chairman thanked Mr Muir and Ms McGuire for their attendance.

## **20. Pensions Administration**

*(Item 7)*

1. Mrs Cheatle introduced the report and highlighted the following:

- The number of enquiries from scheme members had reduced, partly due to the new format of pensions illustrations to include a 'notes' section and partly to more scheme members being encouraged to use the online calculation facility.
- The number of scheme members with deferred benefits had increased.
- The number of benefits calculations completed tended to fall below target at the end of the financial year as workloads hit a 'bottleneck', when 50% of staff were diverted to other work. The rollout of i-Connect would help by generating data monthly rather than annually. As part of a four-year rollout, 60 employers had so far adopted i-Connect and, as the rollout continued, the performance was expected to improve.
- The redesign of the Pensions team included entry-level posts now being at KR5 rather than KR4 and included Apprentice posts. Appointments to upper levels would be made first, with lower Apprentice appointments following later. Response to advertised KR5 posts had been good, and it was hoped that five good candidates could be found.
- Help was still needed to continue clearing the backlog of unprocessed cases, which had been a challenge since 2014. The two companies engaged had cleared 7,000 cases and the data submitted to the Actuary, Barnett Waddingham, at the time of the valuation had been as full as possible. It was estimated that it would take a further 18 months - 2 years to clear the backlog completely.

2. Mrs Cheatle then responded to comments and questions from the Board, including the following:-

- a) asked about the age profile of applicants for the KR5 posts, Mrs Cheatle explained that this had been broad. Some were retired people seeking an administrative job. She hoped that the next 6-monthly update would be able to report full staffing;
- b) asked whether the responses recorded in the key performance indicators included 'holding' replies or full responses to queries, Mrs Cheatle advised that they were full responses;
- c) asked about the performance of the companies engaged to clear the backlog, Mrs Cheatle advised that one had performed well and one not so well. Future contracts would build in a penalty clause for performance below a set target; and
- d) asked about the average number of scheme members who requested deferral of their pension each year, Mrs Cheatle advised that, once the current backlog of cases had been cleared, 'usual' patterns would be easier to identify.

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

## **21. Training on the governance and administration requirements of the LGPS** *(Item 8)*

1. Mrs Mings introduced the report and advised that members, having agreed the training strategy, were now being asked to complete a questionnaire in confidence by the end of March 2020 so a training programme could be formulated to cover any training needs identified. All Board members were also asked to complete, by June, the TPR online toolkit, which was included in the strategy. This consisted of 7 modules, each taking approximately 30 minutes to complete. Board members who had previously completed the toolkit said how helpful it was, that it had not been onerous to complete and had been most helpful in refreshing their knowledge of pensions governance. It was noted that the toolkit included a glossary of terms and definitions.

2. Mr Simkins commented that, although the training was mandatory for the Pension Board, it could be helpful for Superannuation Fund Committee members to also complete it. The Chairman added that it would be useful to review skills regularly, perhaps annually. Mrs Mings pointed out that the toolkit covered basic training and there would be opportunities for further training in the future. Training offered by Barnet Waddingham had been attended by some Board members and had been found most useful.

3. The questionnaire would be emailed to all Board members after the meeting. After receipt of their responses, those members who had not yet completed the toolkit would be sent a link to the online version and Mr Tagg would look into the possibility of supplying the slides from the online toolkit as hard copies. Mr Tagg would be available if Board members required help with completing the questionnaire and the toolkit.

4. It was RESOLVED that:-

- a) the training questionnaire be sent electronically to all Board members, for completion by 31 March 2020; and
- b) the training toolkit be sent electronically to all Board members, to be completed by June 2020 and, if possible, as a hard copy to any who request it, and members liaise with Mr Tagg about completing it.

## **22. ACCESS Pooling Update** *(Item 9)*

1. Mrs Mings introduced the report and reminded the Board of the history and context of the ACCESS pooling arrangements. She advised the Board that:-

- Kevin McDonald and two other full-time staff had been appointed to run the ACCESS Support Unit, including the management of the LINK contract. The unit was being hosted by Essex County Council and was based in Chelmsford.
- Kent funds were currently invested in four ACS sub-funds, with another sub-fund planned to be added in summer 2020.

- Approximately 30% of the Kent Fund was currently in the pool. Kent needed to consider carefully how it wished to pool the outstanding investments.
- The ACCESS joint committee had considered a request for a representative from unions to join the committee but had resolved at its December meeting to keep the membership just to the current 11 chairmen of the member funds.

2. Mr Simkins, Chairman of the Superannuation Fund Committee, represented Kent on the ACCESS joint committee. He advised the Board that the joint committee provided a good forum for dialogue and sought to demonstrate to the Government that ACCESS was a good model of the pooling structure. The existence of pooling arrangements across the country had raised public awareness nationally of pensions issues. The benefits of pooling were that its members were charged lower fees and were able to share administrative costs.

3. Mrs Mings and Mr Simkins responded to comments and questions from the Board, including the following:-

- a) asked what other benefits there were to Kent in being part of ACCESS, Mrs Mings explained that Kent had the option of being able to consider opportunities for investment presented within the pool and compare them to other opportunities. Concern was expressed that any shared or grouping arrangement could lead to differences of opinion and compromised options;
- b) Mr Simkins advised that the County Council had chosen not to place its directly-owned property, which made up approximately 13% of its portfolio, into the pool. Mrs Mings added that the Government had agreed that the County Council could keep this separate; and
- c) asked if the Government had set a target for the level of investment included in pooling, Mr Simkins advised that the Government encouraged member authorities to pool as much as possible but had not specified any target figure. As a large fund, Kent County Council had approximately 30% of its funds pooled, more than many other local authority. Pools were obliged to report to the Government the extent of funds pooled.

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

## **23. Pension Fund Business Plan**

*(Item 10)*

1. Mrs Mings introduced the report and advised the Board that the plan and indicative budget was an updated version of what had previously been presented to it. She responded to comments and questions from the Board, including the following:-

- a) asked if the ongoing cost of engaging companies to tackle the backlog of pensions cases had been included in the budget, Mrs Cheatle advised that this was not currently included. Mrs Mings and Mrs Cheatle advised that they would clarify what the additional administration costs would be and

how these were to be covered in the budget and advise the Board at a future meeting; and

b) asked about the forecast figure for 2020/21 for the actuarial fee, Mrs Mings advised that the cost would be less next year as the cost of the valuation had arisen mostly within the 2019/20 financial year.

2. It was RESOLVED that the updated Business Plan and the related budget for 2019-20 and 2020-21 be noted, with thanks.

#### **24. Motion to exclude the press and public for exempt business**

It was RESOLVED that, under Section 100A of the Local Government Act 1972, the 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 25 and 26. Summary of minute 27, where access to that minute remains restricted)

#### **25. Pension Fund Risk Register**

*(Item 11)*

1. Mrs Mings introduced the report and advised that the register had been updated since it was last presented to the Board. Mr Simkins added that the Committee was reviewing the equity protection options open to it and was taking advice from Mercer Ltd on the options available. An equity protection working group had recently been established to consider the way forward, including costs and benefits, and select a provider of the equity options programme. He hoped to be able to report more progress to the Board's next meeting.

2. Asked about the risk of loss of assets and reputation associated with any delay in implementing the actions arising from the internal audit review, Mrs Mings said that work on much of the action plan had started and would be progressed during the coming months. Mr Simkins added that a deadline of June 2020 had been set for all actions to be completed.

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

#### **26. Internal Audit action plan**

*(Item 13)*

1. Mrs Mings gave a verbal update on behalf of the Corporate Director of Finance, Ms Z Cooke. Sixteen action points had been identified and the action plan agreed with the General Counsel, Ben Watts.

2. The action plan had a series of sections covering governance, terms of reference, fund policies, resources and structure, members' skills and knowledge and training. It would also take account the Good Governance review published by the Scheme Advisory Board. The work of addressing the action plan would be supported

by Catrina Arbuckle from Mercer Ltd, the fund's investment advisors. Ms Arbuckle would attend every meeting of the Superannuation Fund Committee.

3. The relationship between the Committee and the Pension Board was already good and links between the two would be further strengthened by the reciprocal arrangement for the Chairman of each to attend the other's meetings, which had been agreed at the most recent meetings of the Board and the Committee. The role of the Board would be as 'critical friend' to the Committee.

4. It was RESOLVED that the information given in the update be noted, with thanks, and an updated report on the implementation of the action plan be made to every meeting of the Board.

## **27. Woodford investment update**

*(Item 12)*

*The Chairman, Mrs M Crabtree, left the meeting room before discussion of this item as she had previously declared a disclosable pecuniary interest.*

*The Vice-Chairman, Mr J Parsons, presided over this item.*

1. Mrs Mings advised the Board that £138.935m had been refunded to the Pension Fund on 30 January 2020 and had been used to invest in a multi-asset credit fund, as planned. The Woodford Equity Income Fund had been renamed the LF Equity Income Fund and was now being managed by BlackRock and PJT Partners. Officers had received further information from Link Asset Services which would be shared with the Board at its next meeting.

2. Mr Simkins advised that the £138.935m represented 75% of the current value of Kent's investment. BlackRock had liquidated all the quoted investment and had distributed funds accordingly. PJT were managing the illiquid stock.

3. Mrs Mings and Mr Simkins responded to comments and questions of detail from the Board, including the following:-

- a) asked what proportion Kent's investment represented of the total Woodford fund, Mr Simkins advised that Kent's investment was approximately 7% of the total, so its exposure had been relatively small, compared to other investors;
- b) asked how statements to the press would deal with the issue of reputational damage to the County Council, Mr Simkins advised that the series of press statements released by the Council in recent months had always highlighted that the investment in the Woodford fund represented only a small percentage of the total Fund investments, that the Fund's overall performance had been good and that pension payments to scheme members would not be affected, but the press had ignored these positive messages in favour of sensationalist headlines. Mrs Mings added that statements on the County Council's website were being kept up-to-date and that the positive messages outlined above would be sent to pensioners. Mrs Cheatle and Mr Coupland confirmed that the 'Open Lines' magazine would be used to inform pensioners. Mr Tagg commented that up-to-date Fund information could also be included with benefits statements for active and deferred scheme members.



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