



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 12th September, 2008 at 10.00 am
Sessions House, County Hall, Maidstone

Ask for: **Mary Cooper**
Telephone **(01622) 694354**

UNRESTRICTED ITEMS

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

A. COMMITTEE BUSINESS

1. Substitutes
2. Declarations of Interests by Members in items on the Agenda for this meeting.
3. Minutes - 6 June 2008 (Pages 1 - 4)

B. MOTION TO EXCLUDE THE PRESS AND PUBLIC FOR EXEMPT ITEMS

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

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Minutes (Pages 5 - 6)
2. Schroder Investment Management
3. Fund Structure
4. Investment Strategy

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. External Audit Report
2. Statement of Accounts and Annual Report (Pages 7 - 42)
3. Fund Position Statement (Pages 43 - 50)
4. Environmental, Social and Governance Policy Statement (Pages 51 - 72)

5. Administering Body Policy on Abatement of Pension (Pages 73 - 76)

Peter Sass
Head of Democratic Services and Local Leadership
(01622) 694002

Thursday, 4 September 2008

Please note that any background documents referred to in the accompanying papers may be inspected by arrangement with the officer responsible for preparing the relevant report.

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held at Sessions House, Maidstone, Kent on Friday, 6 June 2008.

PRESENT: Mr J E Scholes (Chairman), Mr K Bamber, Mr J Burden, Mr P Clokie, Mr J A Davies, Mrs J De Rochefort, Mr M J Fittock, Mr J F London, Mr J I Muckle, Mr R J Parry (substitute for Mr R A Marsh), Mr R Packham, Mr J Simmonds and Mr P Turner (substitute for Mr S Richards).

IN ATTENDANCE: Director of Finance, Ms L McMullan; Head of Financial Services, Mr N Vickers and the Overview, Scrutiny and Localism Manager, Mr P D Wickenden.

ALSO IN ATTENDANCE: Mr G Henshilwood and Ms K Gray, Hymans Robertson.

UNRESTRICTED ITEMS

13. Membership

The Committee noted that Ms A Dickensen had replaced Mrs M Cox on the Committee as the Kent Active Retirement Forum representative.

Mr P Turner and Mrs M Cox

On behalf of the Committee the Chairman thanked both Mr Turner and Mrs Cox for their contribution to the Committee.

14. Declarations of Interest

There were none.

15. Minutes

RESOLVED that the Minutes of the meeting held on 7 March 2008 are correctly recorded and that they be signed by the Chairman.

16. Investment Strategy

(Item D1 – Report by Director of Finance)

RESOLVED that:-

- (a) the allocation to UK Property be increased to 12% by June 2010;
- (b) 1% be allocated to Global Property with an option report from officers;
- (c) 2% be allocated to Private Equity with an option report from officers;
- (d) 1% be allocated to Infrastructure and officers to identify investment opportunities;

- (e) Officers to further explore the options for allocating a percentage of the fund to sustainable investment;
- (f) a decision on investing in the Alliance Bernstein Distressed Asset Fund had been taken under Item C4 – Fund Structure;
- (g) the Target Asset allocation as set out below be agreed; and

	Allocation %	Change %
UK Equities	34.5	(-)
Global Equities	34.5	(-)
Fixed Income	10	(-5)
Alternative	20	(+9)
Cash	1	(-4)

- (h) the Director of Finance be authorised, in consultation with the Chairman, Vice Chairman and Liberal Democrat Spokesman, to procure a passive Manager for Equities.

17. External Audit

(Item D2)

The Head of Financial Services reported that this item had been withdrawn from the agenda.

18. Fund Position Statement

(Item D3 – Report by Director of Finance)

RESOLVED that the report be noted.

19. Connexions Partnership

(Item D4 – Report by Director of Finance)

RESOLVED that a Deed of Modification be entered into on behalf of Kent County Council subject to agreement of the Specified Date. *(the date at which the closure of the scheme to new employees is effective)*

20. Application for Admission to the Fund

(Item D5 – Report by Director of Finance)

RESOLVED that the admission of Northgate Managed Services Limited to the Pension Fund be agreed.

21. Pensions Administration

(Item D6 – Report by Director of Finance)

RESOLVED that:-

- (a) the report advising Members of achievements against Key Performance Indicators and other administrative issues be noted; and
- (b) the Head of Financial Services and the Pensions Manager be asked to prepare a report for the next meeting to reassure the Committee that the unit

had sufficient resources for the increase in workload arising from factors such as restructuring across the organisation, stress related illness etc.

EXEMPT ITEMS
(Open Access to Minutes)

22. Minutes – 7 March 2008

RESOLVED that the Minutes of the meeting held on 7 March 2008 are correctly recorded and that they be signed by the Chairman.

23. Alliance Bernstein

(Item C2)

(Jenny Segal, Client Director, Institutional Investments and Michael Palmer, Senior Portfolio Manager, Global Style Blend were in attendance for this item)

RESOLVED that the report be noted

24. DTZ Investment Management

(Item C3)

(Peter O’Gorman and Chris Saunders were in attendance for this item)

RESOLVED that the report be noted

SUMMARY OF EXEMPT ITEMS
(Where Access to Minutes Remains Restricted)

25. Fund Structure

(Item C4 – Report by Director of Finance)

The Committee agreed issues relating to Cash Holdings and other Asset Fund Investments.

08/c&g/supfund/060608/minutes (unrestricted)

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

Agenda Item C1

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By: Director of Finance
To: Superannuation Fund Committee – 12 September 2008
Subject: **SUPERANNUATION FUND REPORT AND ACCOUNTS**
Classification: Unrestricted

Summary: To present the draft Report and Accounts of the Superannuation Fund for 2007-08.

FOR DECISION

1. A draft version of the Superannuation Fund Report and Accounts for the year ended 31 March 2008 (before typesetting and design) is appended.
2. The Pension Fund accounts have been subject to a full annual audit by the external auditor, the Audit Commission. The external auditor will be reporting separately to the Committee on the outcomes of his audit.
3. Members are asked to note the contents of the Annual Report and Accounts for 2007-08 and confirm that they can be formally adopted and printed.

Jane Gibbons
Group Accountant (Investments & Treasury)
Ext 4625

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MEMBERS AND ADVISERS

Administering Authority	Kent County Council
Kent County Council Members as at 31 March 2008	Mr J E Scholes Chairman (Conservative) Mr D Daley Spokesperson (Liberal Democrat) Mr J Davies (Conservative) Mr M Fittock Vice Chairman (Labour) Mr J F London (Conservative) Mr R A Marsh (Conservative) Mr J I Muckle (Labour) Mr J Simmonds (Conservative)
Other Local Authority Representatives	Mr K Bamber (Conservative) (Medway Council) Mr J Burden (Labour) (Gravesham Borough Council) Mr P Clokie (Conservative) (Ashford Borough council) Mr R Packham (Liberal Democrat) (Ashford Borough Council)
Union Representative Staff Representative Kent Active Retirement Fellowship	Mr S Richards Ms J De Rochefort Mrs M Cox Mrs M Wiggins
Investment Managers and Advisers	Alliance Bernstein Baillie Gifford & Co GMO Goldman Sachs Asset Management Limited Invesco Perpetual Schroder Investment Management Limited Société Générale Asset Management Limited DTZ Investment Management Limited
Investment Consultant	Hymans Robertson LLP
Consulting Actuaries	Hymans Robertson LLP
Auditors	Audit Commission
Performance Measurers	The WM Company Investment Property Databank Limited
AVC Providers	Equitable Life Assurance Prudential Assurance Company Standard Life Assurance
County Officers	Mrs L McMullan, Director of Finance Mr N Vickers, Head of Financial Services Mr G Wild, Director of Law and Governance

Enquiries and more detailed information on the Fund benefits and contributions can be obtained by contacting Pat Luscombe (Pensions Manager) at 2nd Floor, Brenchley House, Week St, Maidstone, Kent (01622 694714).

Enquiries regarding the Fund's accounting and investment activities should be made to Nick Vickers (Head of Financial Services) at County Hall (01622 694603).

Sessions House
 County Hall
 Maidstone
 Kent ME14 1XQ

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CHAIRMAN'S INTRODUCTION

The most significant event for the Fund in the year was the completion and reporting of the actuarial valuation for 31 March 2007. The good investment returns achieved in the three year period were a major positive for the results but some individual employers experienced increases in contribution rates because of issues relating to their own workforce.

The new Local Government Pension Scheme came into effect on 1 April 2008 and we have worked hard with employers to smooth the transition.

Since mid-2007 the credit crunch has adversely impacted on financial markets and we are endeavouring to steer a path through these difficult times.

James Scholes
Chairman
Superannuation Fund Committee

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SUMMARY OF THE YEAR

This section of the report summarises the most significant issues which have arisen during the year which have impacted on the management and performance of the Fund.

Actuarial Valuation

The triennial valuation of the Funds as at 31 March 2007 took place during 2007. The strong, and for the Kent Fund above average, investment returns in the 2004-07 period resulted in an increase in the overall funding level from 63% to 73%.

The results for individual employers were very mixed, the largest employer in the Fund, Kent County Council, saw its employer contribution rate remain unchanged whilst some employers saw significant increases in their rate. For those employers experiencing higher rates this was due to local factors such as a declining workforce or above average salary increases.

The overall impact of improved life expectancy is a major cost burden which is faced by all employers in the Fund.

Credit Crunch

This term has been used to describe the liquidity crisis in world financial markets which started in mid 2007. Initially the problems related to the US sub-prime mortgage lending but this grew reflecting the inter-relationships between financial institutions. The Fund held no Northern Rock shares but the fact that such a company could effectively become insolvent illustrates how deep rooted the problems are.

In this climate world equity markets produced disappointing returns and the total Fund return for the year was -5.8%.

Investment manager performance was varied with some strong outperformance for individual managers but also poor performance from some who are being very closely monitored. In the third quarter of the year we withdrew from a derivatives based fund after it experienced a prolonged run of negative returns.

We remain positive in the long term about equity returns but expect this difficult period to extend well in to 2008.

Property

The UK Commercial Property market has experienced a period of strong returns, the index return to 31 December 2007 was 10.5% per annum for 20 years.

The market did enter a new period in mid 2007 and by March had fallen around 16% with a further decline expected in 2008.

The Kent Fund property mandate managed by DTZ Investment Management has also experienced strong returns prior to the dip in the market. Performance was so strong that the Kent Fund won the Investment Property Databank / Real Estate Gazette award of the best performing property fund (out of 42 funds) for the 3 years to 31 December 2007.

New LGPS

A new LGPS was introduced from 1 April 2008. The main features of the new scheme are:

- The accrual rate changes from 1/80 to 1/60 for each year of service, with no automatic lump sum.
- 7 tier employee contribution rate based on salary.
- Partner death benefits introduced.
- Death in service lump sum increased from twice to three times salary.
- New 3 tier ill health retirement.
- From 2010 the earliest age for release of benefits for current scheme members will be 55 other than for ill health.

We have worked closely with employers to help them understand the implications of the new scheme. Communication with scheme members has unfortunately had to be largely through correspondence.

The new scheme, the technicalities of the tax legislation on pensions now means that all pensions calculations are much more complex and time consuming resulting in a significant increase in workload on pensions administration.

Communication

In November 2007 we held the first of a half-day annual investment and pensions conference for scheme employers which we hope was found to be useful. A similar event will be held this year.

We hope to respond positively to any request from employers for awareness training for members, managers or scheme members.

Climate Change

As a responsible investor the Fund wants to engage more with investment managers and companies on sustainable investment. To support this the Fund has joined the Institutional Investors Group on Climate Change.

Lynda McMullan
Director of Finance

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INVESTMENT POLICY

Policy Framework

The Local Government Pension Scheme Regulations set out the range of assets in which the Fund may be invested. Policy decisions are taken by the Superannuation Fund Committee of Kent County Council, which is the administering authority for the Fund.

The Superannuation Fund Committee meets on a quarterly basis to set investment strategy, review the performance of the fund managers and make policy decisions. It is advised by the Director of Finance and independent external consultants (Hymans Robertson).

All funds, except for a day to day cash balance, are managed by external fund managers who are responsible for taking investment decisions within the overall asset allocation set by the Committee. The daily cash balance of the Fund is lent to the County Council and interest is earned on the balance, in accordance with the Regulations.

Fund Managers

The Fund Managers and the asset class under management as at 31 March, is set out below.

Alliance Bernstein	Global Equities
Baillie Gifford & Co	Global Equities
GMO	Global Equities
Goldman Sachs Asset Management	Fixed Interest
Invesco Perpetual	UK Equities
Schroder Investment Management	UK Equities, Global Equities, Fixed Interest
Société Générale Asset Management	UK Equities
DTZ Investment Management Ltd	Property – UK/Europe
Henderson	PFI
YFM	Private equity

Asset Allocation

The benchmark for the Kent Fund as at 31 March 2008 is as follows

	Benchmark
	%
UK Equities	34.5
Overseas Equities	34.5
Total Bonds	15
Property	10
European Property	1
Cash	5

The position compared with 31 March 2008 is shown below for the whole Fund:

31 March 2008			31 March 2007	
£m	%		£m	%
817	33	UK Equities	878	35
857	35	Overseas Equities	888	35
74	3	Gilts	85	3
275	11	UK Fixed Interest	239	9
36	2	Overseas Bonds	-18	-1
159	6	Cash/Other Assets	228	9
249	10	Property	256	10
<hr/> 2,467	100		<hr/> 2,556	100

INVESTMENT PERFORMANCE

The County Council uses The WM Company investment performance service which in conjunction with CIPFA and the Society of County Treasurers produces performance figures for local authority funds. The property portfolio is subject to an independent review of performance by the Investment Property Databank

The performance figures below are given against the customised Kent benchmark and the WM Local Authority Universe. This Universe is representative of the UK Local Authority peer group and consists of 88 funds for 2007/08.

2007-2008

The relative performance of the Kent Fund is shown in the table below for 2007-08

Kent Fund	Kent Benchmark	WM Local Authority Universe Average Return
%	%	%
-5.8	-3.9	-2.7

This performance was in the 91st percentile compared with the WM Local Authority Universe.

2006-2008 (3 Years)

The performance of the Kent Fund is shown in the table below for the last 3 years;

Kent Fund	Kent Benchmark	WM Local Authority Universe Average Return
%	%	%
8.5	8.7	9.2

This performance was in the 60th percentile compared with the WM Local Authority Universe.

1999-2008 (10 Years)

The performance of the Kent Fund is shown in the table below for the last 10 years:

Kent Fund	Kent Benchmark	WM Local Authority Universe Average Return
%	%	%
4.4	5.2	5.2

This performance was in the 80th percentile compared with the WM Local Authority Universe.

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SCHEME DETAILS

Kent County Council administers the Superannuation Fund on behalf of its own employees and the other employing bodies. From April 2008, new regulations have been introduced which govern the Local Government Pension Scheme (LGPS). These regulations are: the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pensions Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. The investments of the Fund are subject to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. The amount that the employee contributes has been amended from April 2008, these contributions range between 5.25 and 7.5 % of pay with the rate being determined by the level of the member's pay.

Benefits

The scheme is a defined benefit occupational pension scheme which provides a significant range of benefits to its members. Membership is open to all employees of qualifying employers who have a contract of employment of at least 3 months and are under the age of 75 and most are automatically admitted to membership of the scheme upon commencing employment.

Scheme benefits are based upon the individuals length of period of membership and 'final salary' which will generally be the final 12 months pensionable pay of the scheme member.

For membership built up after 31 March 2008 members will receive an annual pension based on 1/60th of their final year's pensionable pay and will have the option to take part of the pension as a tax free lump sum. For membership before 1 April 2008 they will receive an annual pension based on 1/80th of their final year's pensionable pay and an automatic tax free lump sum of 3 times the pension.

If a member has to leave work at any age due to permanent ill health the scheme provides a tiered ill health retirement package. If the member is unlikely to be capable of gainful employment within a reasonable time after they leave they will receive increased benefits payable immediately. A scheme member needs to have total membership of at least 3 months to qualify for ill health benefits.

Where a scheme member dies in service a lump sum is payable by way of a death grant equal to three years pay. Scheme members are able to make an 'expression of wish' concerning to whom the grant should be payable in the event of their death.

The scheme also makes provision in the event of death for the payment of pensions to surviving spouses, civil partners, eligible children and, subject to certain qualifying conditions, nominated co-habiting partners.

Increasing benefits

In addition to the scheme benefits members may, if they wish, pay extra to increase their retirement benefits. They can do this either by paying additional contributions to buy extra LGPS pension, by making payments to the scheme's Additional Voluntary Contributions (AVC) arrangements, or by making payments to a personal pension, stakeholder pension or Free-standing AVC scheme of their choice.

Full details of the scheme are provided in the scheme booklet which members may request from their employer

Communications

In accordance with the Local Government Pension Scheme (Administration) Regulations 2008, a Communications Policy has been published, which is available on the website www.kent.gov.uk. The Pension Section communicates with members and employers in a variety of ways. Newsletters are sent to both pensioners and existing scheme members. Pension forums are used to communicate with employers. Scheme members and pensioners have access to the Pensions Section to make written, e-mail or telephone enquiries. Scheme members receive an annual benefit illustration and each pensioner and deferred pensioner is advised annually of the indexation increase to their pension.

The Kent Active Retirement Fellowship (KARF) has been established as a facility in which pensioners can become members and participate in a wide variety of activities. KARF has established groups throughout the County and would welcome new members.

Pensions Section Performance 2007/08

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt of paperwork	1544	98%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	346	97%
Provision of estimates	20 days from receipt of paperwork	2121	96%
Correspondence	Full reply within 15 working days	1184	97%

Customer satisfaction questionnaire	Questionnaire sent with all retirement award letters	Number returned 67	% satisfied 97%
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Actuarial Statement

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of Kent County Council Pension Fund ("the Fund") was carried out as at 31 March 2007.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 31 March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments certificate dated 27 March 2008.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated 27 March 2008 and the assumptions contained therein.

Copies of these documents are available on request from Kent County Council, administering authority to the Fund.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

HYMANS ROBERTSON LLP

The key financial assumptions adopted for this valuation are as follows:

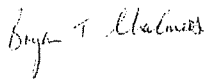
Financial Assumptions	March 2007	
	% p.a. Normal	% p.a. Real
Discount Rate	6.1%	2.8%
Pay Increases	4.7%	1.5%
Price Inflation / Pension Increases	3.2%	-

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £2,573 million, were sufficient to meet approximately 73% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years. Any rise in contribution rates from 31 March 2008 are being phased in over a period up to 6 years.

The next valuation of the Fund will be carried out as at 31 March 2010.

My opinion on the security of prospective rights is dependent upon any increased contribution requirements being met by the employers. This statement should be read in the context of the statutory nature of the scheme.



Bryan T Chalmers FFA

29 April 2008

For and on behalf of Hymans Robertson LLP

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's Superannuation Fund's statement of accounts which, in terms of the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice ('the Code'), is required to present fairly the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2008.

In preparing this statement of accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Director of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTOR OF FINANCE

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NET ASSET STATEMENT
For the year ended 31 March 2008

	Note	2007/08 £000	2006/07 £000
Investments	9		
Fixed Interest Securities			
- Public		111,139	
- Other		<u>111,325</u>	152,036
Equities			
- UK		580,613	
- Overseas		<u>572,448</u>	1,442,313
Pooled Investment Vehicles		1,153,061	
- UK		218,208	
- Overseas		<u>287,449</u>	
- Property		757,801	531,673
Property - Freehold		201,087	230,183
Global Tactical Asset Allocation		0	100,912
Cash Deposits		18,508	61,900
Other Investments		10,375	11,329
		<u>2,363,296</u>	<u>2,530,346</u>
Current Assets and Liabilities	10	125,802	43,294
Net Assets		<u>2,489,098</u>	<u>2,573,640</u>

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ACCOUNTING POLICIES

1. **Statement of Recommended Practice**

- The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice (revised November 2002). However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

2. **Investments**

- Quoted investments are stated at market value based on the middle market quotation on the relevant stock exchange ruling on 31 March 2008. Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investment. Unquoted investments are valued by the fund managers at the year end in accordance with generally accepted guidelines.
- The industrial and commercial properties were valued at open market prices as at 31 December 2007 and then indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2008.

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3. **Currency Transactions**

- Assets and liabilities in foreign currency are translated into sterling at exchange rates ruling at the year-end. Differences arising on the translation of investments are included in investment gains.
- All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date.

4. **Contributions, Benefits and Transfer Values**

- Normal contributions from County Council members, are accounted for in the payroll month to which they relate, contributions from members of other employers are accounted for on a received basis. All contributions are at rates as specified in the rates and adjustments certificate. Payment of pensions and pensions increases are accounted for on an accruals basis. Lump sum payments are accounted for on the date of retirement or on death.
- Transfer values into and out of the Fund, return of contributions and other intermittent transactions are not dealt with on an accruals basis but are included in the accounts when the transactions occur.

- The numbers of pensioners shown on page xx include persons in receipt of injury allowances, gratuity and compensation payments and other non-fund benefits.

5. **Investment Income**

- Dividends, rents and cash deposits have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Foreign income has been translated into sterling at the rate ruling at the date of the transaction.
- Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

6. **Expenditure**

- All expenses and benefits are accounted for on an accruals basis except that no account is taken of the long-term liabilities to pay benefits.
- The administrative costs relating to the payment of pensions, allowances and other benefits, maintaining employees records, arranging transfer values etc are borne by the Fund.
- Costs relating to investments are also borne by the Fund. Fees in respect of investment management, including custody, are calculated as a percentage of the value of the investments under management.

EMPLOYING BODIES

<u>Local Authority and District Councils</u>	
Ashford Borough Council	Medway Council
Canterbury City Council	Sevenoaks District Council
Dartford Borough Council	Shepway District Council
Dover District Council	Swale Borough Council
Gravesham Borough Council	Thanet District Council
Kent County Council	Tonbridge and Malling Borough Council
Maidstone Borough Council	Tunbridge Wells Borough Council
<u>Scheduled Bodies</u>	
Schools	
Allington Primary School	Meopham School
All Souls County Primary School	Minster College
Angley School	New Brompton College
Archbishops CE School	Newington Junior School
Aylesford School	Northfleet Technical College
Barton Court Grammar School	Oakwood Park Grammar School
Bennett Memorial School	Our Lady of Hartley RC Primary School
Borough Green Primary School	Park Farm County Primary School
Bradbourne School	Pent Valley Secondary School
Brockhill Park School	Queen Elizabeth's Grammar School
Canterbury Campus	Rainham Mark Grammar School
Charles Dickens High School	Robert Napier School
Chatham Grammar School for Girls	Rochester Grammar School for Girls
Chatham House Grammar School for Boys	Roseacre Junior School
Chaucer Technology School	Sandwich High School
Cheyne Middle School	Simon Langton Grammar School for Boys
Cranbrook School	Sir Roger Manwood School
Dane Court Grammar School	Skinner's School
Dartford Grammar School for Boys	Snodland County Primary School
Dartford Grammar School for Girls	St Anslem's RC Comprehensive School
Ditton Infant School	St Bartholomew County Primary School
Ditton CE Junior School	St Botolphs County Primary School
Dover Grammar School for Boys	St Edmund of Canterbury Comprehensive
Folkestone School for Girls	St Francis County Primary School
Fulston Manor School, Sittingbourne	St George's School, Broadstairs
Gravesend Grammar School for Boys	St George's School, Gravesend
Gravesend Grammar School for Girls	St Gregory's Catholic Comprehensive
Greatstone County Primary School	St John Fisher RC School
Halfway House County Primary School	St John RC Comprehensive
Harcourt County Primary School	St Joseph RC Primary School
Hayesbrook High School for Boys	St Simon Stock School
Herne Bay High School	Stella Maris RC Primary School
Herne Bay Junior School	Sutton at Hone County Primary School
Hillview School for Girls	Thamesview School
Holy Family RC Primary	Thomas Aveling School
Holy Trinity County Primary School, Dartford	Tonbridge Grammar School for Girls
Holy Trinity County Primary School, Gravesend	Tunbridge Wells High School
Homewood School, Tenterden	Westlands School
Horton Kirby County Primary School	Wilderness School
Howard School	Willesborough County Primary Junior School
Hugh Christie School	Wilmington County Primary School
Larkfield Brookfield Junior School	Wilmington Grammar School for Boys

Malling School	Wilmington Grammar School for Girls
Maplesden Noakes School, Maidstone	Wincheap County Primary School
Mascalls School	Wrotham School
Further Education Colleges	
Canterbury College	North West Kent College
Hadlow College	South Kent College
Hilderstone College	Thanet College
Mid Kent College	West Kent College
Other Scheduled Bodies	
Ash Parish Council	Kent Top Temps Limited
Birchington Parish Council	Kent Valuation Tribunal
Borough Green Parish Council	Leigh Parish Council
Broadstairs and St Peter's Town Council	Longfield and New Barn Parish Council
Chestfield Parish Council	Lower Medway Internal Drainage Board
Cranbrook Parish Council	Margate Charter Trustees
Darenth Parish Council	Minster on Sea Parish Council
Deal Town Council	Minster Parish Council
Ditton Parish Council	Otford Parish Council
Dover Town Council	Pembury Parish Council
East Malling and Larkfield Parish Council	Ramsgate Charter Trustees
Eastry Parish Council	River Stour Internal Drainage Board
Edenbridge Town Council	Romney Marsh Levels Internal Drainage Board
Eynsford Parish Council	Sandwich Town Council
Eythorne Parish Council	Seal Parish Council
Farningham Parish Council	Sevenoaks Town Council
Faversham Town Council	Snodland Town Council
Folkestone Town Council	Southborough Town Council
Great Mongeham Parish Council	Staplehurst Parish Council
Hartley Parish Council	Stone Parish Council
Hawkhurst Parish Council	Swanley Town Council
Hawkinge Parish Council	Swanscombe and Greenhithe Town Council
Herne & Broomfield Parish Council	Temple Ewell Parish Council
Horton Kirby and South Darenth Parish Council	Tenterden Town Council
Hythe Town Council	Upper Medway Internal Drainage Board
Kent and Essex Sea Fisheries Committee	Westerham Parish Council
Kent and Medway Towns Fire Authority	West Kingsdown Parish Council
Kent Police Authority	Woodnesborough Parish Council
Kent Probation	Yalding Parish Council
Academies	
Cornwallis Academy	Marlowe Academy
Folkestone Academy	Marsh Academy
Leigh Technology Academy	New Line Learning Academy
	Spires Academy
Admitted Bodies	
Associated Employers	
Active Life Limited	Maidstone Housing Trust
Ashford Leisure Trust Limited	Medway Community Living Services
The Avenues Trust	Medway Housing Society
Caldecott Community	Mote House, Maidstone
Canterbury and Rochester Diocesan Council	Museum of Kent Life Trust
Canterbury Archaeological Trust	Orbit South Housing Association
Christchurch College, Canterbury	Rochester Bridge Trust
Connexions Partnership Kent & Medway	Russet Homes
Folkestone and Dover Water Company	Sevenoaks Leisure Limited
Gravesham Community Leisure	Sevenoaks School

Hope (Kent) Limited	St Vincents School, Tankerton
Hyde Housing Association	Swale Housing Association
Invicta Telecare Limited	Thanet Archaeological Trust
Kent College, Canterbury	Thanet Leisure Force
Kent College, Pembury	Tourism South East
Kent Community Housing Trust	Town & Country Group
Kent Music School	University Of Kent
Kent Old People's Housing Society	West Kent Housing Association
Kent Valuation Tribunal	West Kent Water Company
Knotley Hall School	
Non – Associated Employers	
ABM Catering Limited	Mitie PFI Limited
APCOA Parking Limited	Mitie Cleaning & Support Services
Brenwards Limited	Norwest Holst
Compass Group UK & Ireland	Quadron Services Limited
Fusion Lifestyle	Shaw Healthcare (FM Services) Ltd

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THE FUND IN PROFILE - 5 YEAR SUMMARY

<i>Financial</i>	2003-04 £000	2004-05 £000	2005-06 £000	2006-07 £000	2007-08 £000
Contributions	138,523	149,495	178,236	189,989	200,932
Investment and other income	64,019	71,309	93,112	82,107	81,224
Sub Total	202,542	220,804	271,348	272,096	282,156
Benefits and other payments	(119,763)	(124,939)	(137,395)	(142,862)	(153,485)
TOTAL	82,779	95,865	133,953	129,234	128,671

	31 March 2004 £000	31 March 2005 £000	31 March 2006 £000	31 March 2007 £000	31 March 2008 £000
Net Assets	1,589,300	1,794,945	2,375,106	2,573,640	2,489,098
Investments at Valuation	1,538,386	1,745,083	2,332,146	2,457,117	2,334,409

<i>Membership</i>	31 March 2004	31 March 2005	31 March 2006	31 March 2007	31 March 2008
Contributors	37,665	38,733	39,399	40,586	42,513
Pensioners	23,981	24,429	24,840	25,737	26,658
Deferred Pensioners	15,714	16,960	21,905	24,746	26,569

<i>Performance Statistics</i> <i>5 year period</i>	Annualised rate of return		Average Annual
	Kent Fund Return %	Time Weighted Return %	Retail Price Index %
1999/0-2004	-0.4	0.3	2.5
2000/1-2005	-0.5	0.3	2.6
2001/2-2006	6.7	6.5	2.7
2002/3-2007	8.2	8.3	3.4
2003/4-2008	12.0	12.5	3.6

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Analysis of Equity Investments 31 March 2008

UK

Basic Materials	96,246,105.53	11.25%
Consumer Goods	39,513,857.27	4.62%
Consumer Services	61,859,985.04	7.23%
Financial	133,972,230.73	15.66%
Healthcare	45,941,849.98	5.37%
Industrials	34,685,420.48	4.05%
Oil & Gas	92,083,328.28	10.76%
Technology	9,027,341.31	1.05%
Telcommunication	48,924,703.37	5.72%
Unit Trusts/ Venture Caps	262,413,646.66	30.67%
Utilities	18,134,796.14	2.12%
PFI Finds and Private Equity	12,724,359.00	1.49%
Futures	215,450.51	0.03%
	<u>855,743,074.30</u>	<u>100.00%</u>

OVERSEAS

INDUSTRIALS	143,959,354.62	17.02%
CONSUMER GOODS	86,015,915.67	10.17%
FINANCIALS	122,613,183.82	14.50%
FUTURES	666,163.52	0.08%
INFORMATION TECHNOLOGY	40,223,321.18	4.76%
RESOURCES	83,019,042.64	9.82%
SERVICES	84,470,680.35	9.99%
UTILITIES	11,644,072.58	1.38%
POOLED VEHICLES	273,032,919.66	32.29%
	<u>845,644,654.04</u>	<u>100.00%</u>

Geographical Distribution 31 March 2008

UK	855,743,074.30	50.30%
EUROPE	172,358,304.59	10.13%
JAPAN	47,788,012.99	2.81%
NORTH AMERICA	233,654,033.29	13.73%
PACIFIC	38,870,670.87	2.28%
EMERGING	352,973,632.30	20.75%
	<u>1,701,387,728.34</u>	<u>100.00%</u>

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Market Values as at 31st March 2008

United Kingdom	£000	Japan	£000
Invesco Perpetual Income Fund	237,034	Mitsui & Co	4,421
Vodafone Group	36,353	Canon	3,613
Glaxosmithkline	29,749	Nissan Motor	3,107
Royal Dutch Shell	28,038	Japan Tobacco	2,699
BG Group	27,714	Rakuten	1,998
HSBC Holdings	25,302	Asahi Breweries	1,991
Anglo American	23,239	JFE Holdings	1,821
BP Amoco	21,810	Keyence	1,657
Unilever	20,493	Mitsui Sumitomo Insurance	1,644
Royal Bank of Scotland	16,194	Kyocera	1,557
Standard Chartered	15,626		
Prudential	13,472	Europe	
BAES Systems	13,416	Nestle	8,105
Barclays	12,884	Total	8,094
Centrica	12,592	Investor	5,810
BT Group	12,571	Svensk Handelsbank	5,494
Astrazeneca	11,196	Celesio	5,241
Johnson Matthey	10,716	Sanofi-Aventis	5,212
Legal & General	10,511	UBS	4,790
Soc Gen UK Smaller Cos Inc Fund	9,895	Heineken	4,539
Balfour Beatty	9,621	Credit Suisse	4,538
Pearson	8,899	Atlas Copco	4,073
British American Tobacco	8,668	Essilor	3,491
Smiths Group	8,504	Securitas	3,487
Rio Tinto	7,960	E.ON	3,200
Royal Sun Alliance	7,202	Geberit	3,099
Whitbread	7,027	Adidas-Salomon	3,017
ICAP	6,911	SAP	3,009
Henderson Secondary PFI Fund II	6,717	CRH	2,828
		Allied Irish Bank	2,798
		Deutsche Boerse	2,766
North America		Pacific/Other	
Pepsico	8,409	GMO Developed World Equity Fund	152,692
Schlumberger	8,338	Schroder GAV Unit Trust	112,574
Walgreen	7,862	GMO Emerging Markets Fund	7,767
Phillip Morris	7,812	Petrol Brasileiros	7,583
Praxair	6,978	Samsung	7,052
Microsoft	6,661	BHP Billiton	5,137
Conocophillips	6,070	Cia Vale Rio Doce	5,101
EOG Resources	5,823	Reliance Inds	4,803
Wal-mart Stores	5,598	America Movil	4,746
Well Point	5,330	BNC Itau	4,337

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Property Valuation as at 31 March 2008

Location	Market Value £	Type of Property
Unit A, Wyvern Link Road, Pride Park, Derby	2,073,220	Industrial
Unit 1/13 Boyatt Wood Industrial Estate, Parham Drive, Eastleigh	3,780,093	Industrial
Otterspool Way, Watford	4,016,349	Industrial
Units 1/10 Stuart Close, Penarth Road, Cardiff	4,193,558	Industrial
Units 6/13 Hawksworth Trading Estate, Bridgewater Close, Swindon	5,418,643	Industrial
Capital Interchange, Brentford	6,000,897	Industrial
Kings Park, Trafford Park, Manchester	7,774,574	Industrial
49/59 Battersea Park Road, London SW8	15,592,883	Industrial
Hertsmere Industrial Estate, Borehamwood	13,702,836	Industrial
42-50 Grey Street, Newcastle	5,188,703	Office
The Tramshed, Walcot Street, Bath	6,282,394	Office
1 Castle Terrace, Edinburgh	7,805,399	Office
36 Dover Street, London W1	15,247,640	Office
14-15 Conduit Street, London W1	17,630,084	Office
3-5 Charing Cross Road, London W1	17,434,574	Office
22 St Ann's Road, Harrow	1,337,447	Retail Store
24 St Ann's Road, Harrow	1,600,160	Retail Store
17-19 Cornhill & 1 Tavern St, Ipswich	4,394,468	Retail Store
21-23 Bridlesmith Gate, Nottingham	7,783,055	Retail Store
National House, 34/36 St Ann's Street and 42/46 Cross Street, Manchester	10,141,557	Retail Store
Queens Drive, Nottingham	5,212,359	Retail/Warehouse
Burton Road, Kendal, Cumbria	7,107,763	Retail/Warehouse
Barker Road, Maidstone, Kent	6,633,912	Retail/Warehouse
217a Bath Road, Slough	11,941,041	Retail/Warehouse
Wenvoe Retail Park, Culverhouse Cross, Cardiff	12,793,973	Retail/Warehouse
Henderson UK Shopping Centre Fund	5,993,542	Property Fund
Legal & General Leisure Fund	7,173,914	Property Fund
ING Central London Fund	4,459,006	Property Fund
Unite Student Accommodation Fund	7,175,544	Property Fund
Pradera/Aurora European Property Fund	30,831,626	Property Fund
Total Market Value	256,721,213	

During the year the following transactions were carried out within the property portfolio

Acquisitions

Disposals:

Merevale House, Parkshot, Richmond	3,675,000	Office
Midmoor House, Parkshot, Richmond	3,825,000	Office

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By: Director of Finance
To: Superannuation Fund Committee - 12 September 2008
Subject: **FUND POSITION STATEMENT**
Classification: Unrestricted

Summary: To provide a summary of the Fund asset allocation and performance.

FOR INFORMATION

INTRODUCTION

1. Attached is the Fund Position Statement for the April to June 2008 quarter.
2. Given the continued performance problems a more detailed commentary is provided below.

PERFORMANCE ANALYSIS

3. The Fund once again fell in value in the quarter and slightly underperformed the benchmark. The two largest managers of UK Equities, Schroders and Invesco, outperformed as did Baillie Gifford the largest manager of Overseas Equities.
4. Over the last year the Fund has returned -10.7% against a benchmark of -8.4%.
5. In the last year the main positives have been Baillie Gifford on Overseas Equities performing nearly 5% ahead of benchmark and Schroders UK Equities.
6. The main detractors from performance have been SG (considered elsewhere in the Committee papers), the 3 Global Equity managers appointed in March 2006 and underperformance on Fixed Income. These latter two issues will be considered in more detail.
7. At the time of the March 2006 selection process Value stocks had had a long period of outperformance and the two managers appointed had a strong Value emphasis - the Schroders Global Active Value is a highly Value focussed quantitative product and GMO's quantitative product is based 70% on Value and 30% on Momentum. The last 18 months has been very difficult for Value investors and for quantitative products. From 1 January 2007 to 31 July 2008 the MSCI Value Index fell -9%, MSCI Growth rose 1.4% and overall the MSCI index fell by -3.8% (source Alliance Bernstein). The Alliance Bernstein Blend product has a 50:50 weighting between Value and Growth, in the 12 months to 30 June 2008 Alliance Bernstein underperformed by -5.4% because the Growth sleeve of the product did not deliver the performance to outweigh the fall in Value.

8. The Fund needs a strong recovery in Value for these 3 Global Equity managers to perform well.
9. Looking at the last year the two Fixed Income mandates the benchmark return was +2.8% and Goldman Sachs returned +1.9% and Schroders +0.4% - so both underperformed. The current allocation to Fixed Income is 14.7% compared to 18% for the average Local Authority fund. The rationale for maintaining a significant allocation to Fixed Income is the diversification it provides from Equities. If we look at the long term 3 year benchmark return for the Goldman Sachs mandate it is +1.3% per annum (they delivered +0.9%) and it is questionable in a low interest rate environment just how much value Fixed Income can add to the Fund. The Leicestershire Fund has recently withdrawn from Fixed Income completely. Cash plus products may offer appropriate diversification but with higher return.
10. The Fund's investment performance needs to be looked at over longer periods but the triennial valuation is a good period for looking at performance. As we approach the half way point to the March 2010 valuation the Fund is well behind the +6.1% pa return assumed by the fund actuary (2007-08 return -5.8%) and is also performing poorly relative to other local authority funds.

RECOMMENDATION

11. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext: 4603

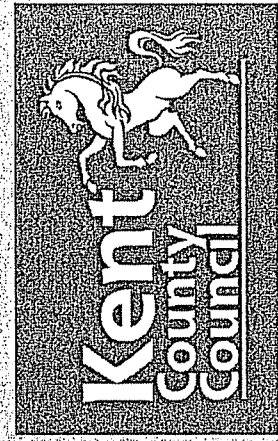
Katherine Gray
Senior Accountant (Investments & Treasury)
Ext: 4642

FUND POSITION STATEMENT

Classification: Unrestricted
Item: D3 refers

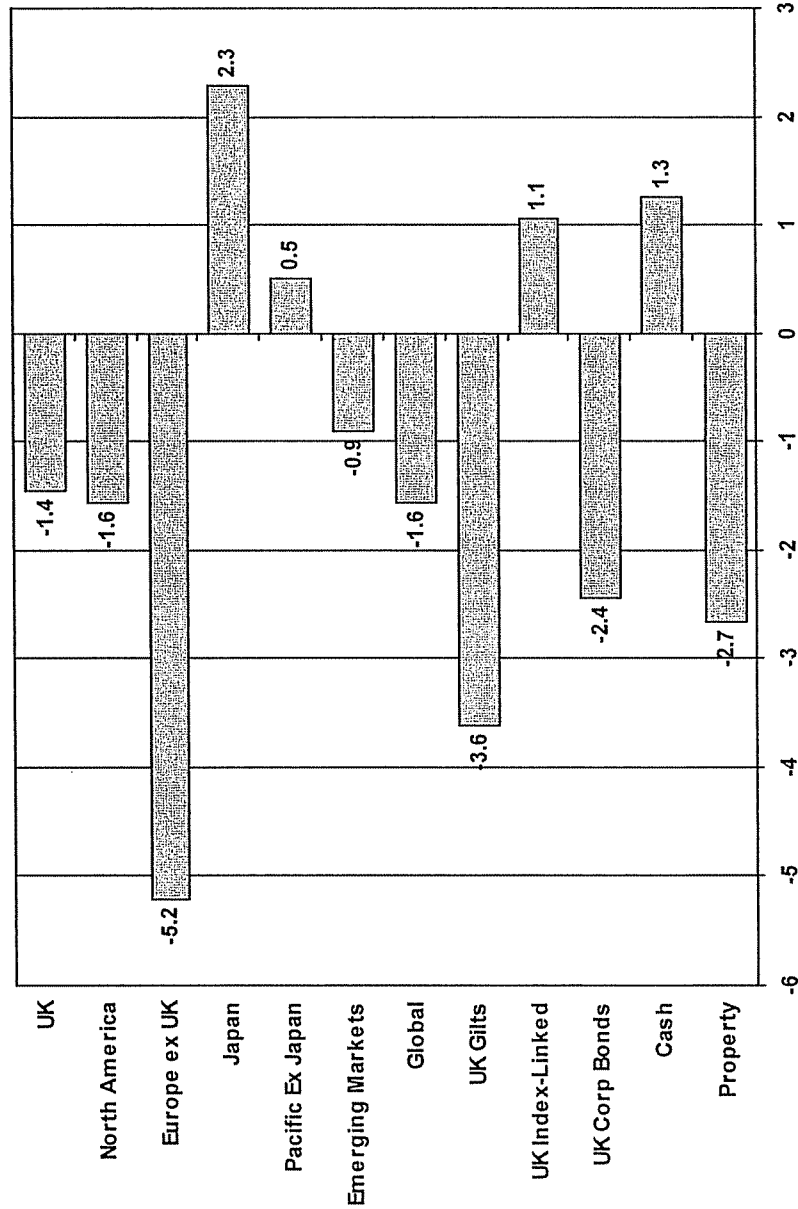
Summary of Fund Asset Allocation and Performance Superannuation Fund Committee 12 September 2008

By: Director of Finance



Kent County Council
Superannuation Fund 2008
Nick Vickers—Head of Financial Services

Market Returns-3 months to 30 June 2008

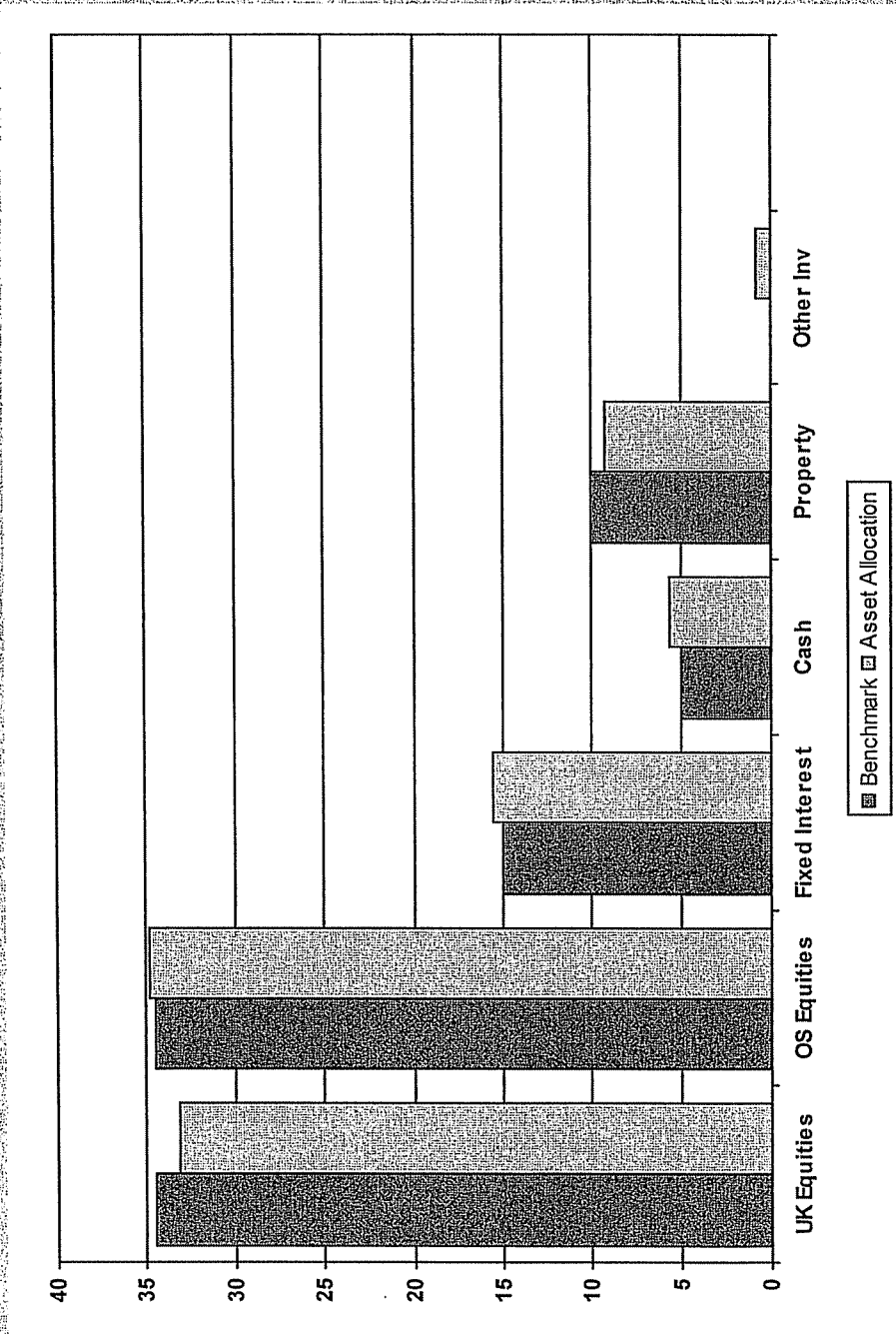


- There was mixed performance from equity markets, Japan was the best performer and Europe ex UK the worst
- UK Gilts and corporate bonds performed particularly badly
- Property returns on the IPD index continued to fall and the consensus view seems to be that further falls are certain.

Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D3 refers

Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equities	809	33.3	34.5
Overseas Equities	853	35.0	34.5
Fixed Interest	357	14.7	15
UK Property	218	9.0	10
European Property	24	1.0	1
Cash	153	6.3	5
Other Inv	17	0.7	-
Total Value	2,431	100.0	100



Asset Distribution Fund Manager

Classification: Unrestricted
Item: D3 refers

Values (GBP)'000	Mandate	Value at		Capital		Value at		Fund	Benchmark
		31/03/08	30/06/08	Transactions	Gain / loss	Income	30/06/08		
Schroders	UK Equity	399,093	395,955	6,416	-9,553	6,421	395,955	17	Customised
Invesco	UK Equity	237,034	234,259	0	2,775	0	234,259	10	Customised
Societe Generale	UK Equity	170,615	163,420	2,614	-9,809	1,684	163,420	7	Customised
Alliance Bernstein	Global Equity	258,683	253,319	3,081	8,445	2,998	253,319	11	MSCI World
Ballie Gifford	Global Equity	395,617	395,540	4,806	-4,882	4,314	395,540	16	Customised
GMO	Global Quantitative	160,477	157,501		2,976		157,501	7	MSCI World
Schroders	Global Quantitative	112,574	106,162		-6,412		106,162	5	MSCI World
Goldman Sachs	Fixed Interest	195,841	190,314	2,884	8,412	2,753	190,314	7	ML £ Broad Market
Schroders	Fixed Interest	154,025	145,652		-8,373		145,652	6	ML £ Broad Market
DTZ	Property UK	226,498	220,342	1,666	-7,823	3,021	220,342	10	IPD All Properties Index
DTZ	Property Europe	23,289	23,719	430	50	50	23,719	0	IPD All Properties Index
Internally Managed	Cash	131,885	144,222	12,338	0	1,651	144,222	4	LIBID 7 Day Rate
Black Rock (ML)	Transition	1,402	660		741		660		
Total Fund		2,467,032	2,431,066	34,235	-70,202	22,892	2,431,066	100	Kent Combined Fund

Performance Returns to 30 June 2008

Classification:
Unrestricted
Item: D3 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	1.9	-1.7	-10.7	-8.4	5.8	6.4
UK Equity						
Schroders UK	-0.8	-1.4	-11.1	-12.7	6.8	6.0
Societe Generale	-4.7	-1.4	-20.6	-12.7	3.4	7.2
Invesco	-1.2	-1.4	-13.7	-13.0	-	-
Overseas Equity						
Alliance Bernstein	-2.1	-1.6	-14.8	-9.4	-	-
Baillie Gifford	-0.1	-1.9	-2.5	-7.4	11.2	9.3
GMO	-1.9	-1.6	-10.7	-9.4	-	-
Schroders GAV	-5.7	-1.6	-17.4	-9.4	-	-
Fixed Interest						
Goldmans Fixed Interest	-2.9	-2.4	1.9	2.8	0.9	1.3
Schroders Fixed Interest	-5.4	-2.4	0.4	2.8	-	-
Property						
UK Property	-2.1	-2.7	-9.4	-14.9	9.6	5.2
European Property	0.2	-2.7	3.8	-14.9	-	-

- The fund decreased in value by £36m in the quarter.
- The Fund marginally underperformed the benchmark for the quarter posting negative returns of -1.9% compared to a benchmark return of -1.7%, placing us 63rd against the WMLA average
- The 1 year performance is -10.7% against the benchmark of -8.4% - placing us 89th against the WMLA average
- Our 3 year performance is 5.8% against a benchmark return of 6.4%. This places us 64th against the WMLA average
- European Property was the best performer this quarter showing the only positive return of 0.2%
- DTZ, Ballie Gifford, Schroders UK equities and Invesco all outperformed their benchmark this quarter. All other managers underperformed
- Among the worst performers were SocGen, Schroders Fixed Interest and Schroders GAV who all underperformed considerably this quarter posting negative returns at least 3% below their benchmark

Fund Structure

UK Equities

Schroders
+1.5%
£396m

Soc Gen
+2.0%
£163m

Invesco
Unconstrained
£234m

Global Equities

Baillie Gifford
+1.5%
£396m

Alliance
Bernstein
+3.0%
£253m

GMO
+3.0%
£158m

Schroders
+3.0 - +4.0%
£106m

Fixed Interest

Goldman Sachs
+0.75%
£190m

Schroders
+1.0%
£146m

Alternative

DTZ
UK Property
£220m

DTZ
Europe Property
Eur 35m (£25m)
£24m invested
as at 30.06.08

Kent Cash
£138m

Henderson
Secondary PFI
£10m
£9.5m invested

YFM Private
Equity £4m
£1.5m invested
as at 31.03.08

Market Value approx £2.431bn
as at 30 June 2008.

By: Director of Finance
To: Superannuation Fund Committee - 12 September 2008
Subject: **ENVIRONMENTAL, SOCIAL AND GOVERNANCE
INVESTMENT POLICY**
Classification: Unrestricted

Summary: To report on a range of ESG issues and to seek agreement to a draft ESG Investing Policy Statement.

FOR DECISION

INTRODUCTION

1. Environmental, Social and Governance (ESG) is the term used to refer to a broad range of issues which can impact on how businesses operate, and are also influences to be taken account of in Pension Fund investment strategy.
2. This report updates the Committee on a range of ESG issues and proposes ways in which we can develop our approach.

EXTERNAL FACTORS

3. It seems to be an appropriate time for us to update our position on ESG issues in light of a number of general factors including:
 - (1) The Merseyside Pension Fund has decided to ballot scheme members on whether to invest in armaments companies.
 - (2) For the last few years we have provided information to the Campaign Against Arms Trade (CAAT) which has been published as part of a national survey.
 - (3) There has been recent local press coverage of "investments in Zimbabwe", this actually refers to stocks we hold in companies which as part of their business activities undertake business in Zimbabwe such as Toyota.
 - (4) CAFOD an agency of the Catholic Church in England and Wales contacted us in May in connection with concerns about the mining sector.
 - (5) The Kent Green Party have been in touch with the Kent Public Health Director on investment in tobacco companies.

Officers responsible for the Fund receive on average less than 5 queries a year from scheme members on ethical issues.

4. In April 2008 the Kent Unison Branch passed the following motion:

Ethical Investment - The Arms Trade

This Branch notes the resolution passed at UNISON's national delegate conference in 2007 calling for an end to investment by local authority pension funds in the arms trade.

This Branch is aware that Kent County Council's Superannuation Fund Committee currently has a very weak policy regarding ethical investment, and particularly does not prohibit its Fund Managers from investment in companies that are known to produce and export weapons and / or instruments of torture.

The Branch notes that KCC's Superannuation Fund, along with those of scores of other local authorities, invests in BAE Systems, the UK's largest arms company, which supplies weaponry to countries including Saudi Arabia and Zimbabwe.

Investment by the Superannuation Fund in the arms trade means that our members' money is used to fund unscrupulous international arms dealers to the ultimate benefit of oppressive regimes.

Accordingly, this Branch will campaign at every opportunity for the Superannuation Fund Committee to:

Recognise the UN principles of ethical investment.

Monitor and report investments made in its name in manufacturers and traders in weapons and related products.

Withdraw from or prohibit the Fund's investment in any organisation which (upon investigation) is identified as carrying out such sales and production.

This Branch will also develop a detailed policy on socially responsible and ethical investment, and seek to apply this policy to the Superannuation Fund through its representation on the Fund Committee.

This is clearly something the Committee need to respond to.

FIDUCIARY RESPONSIBILITY

5. The Committee has a responsibility to obtain the best possible financial returns on the investments of the Fund at an acceptable level of risk.
6. The view of the Committee is that any screening of the investable universe of companies to reflect ethical concerns is contradictory with the over-riding fiduciary responsibility which we have. This fiduciary responsibility from case law is generally taken to be to the Taxpayer. Decisions taken on ethical grounds, whether that relates to arms, tobacco, "unacceptable regimes", are fraught with difficulties. This report will show how there are other ways of addressing many of the perceived drawbacks of these investments.

7. The cost of the Local Government Pension Scheme falls most heavily on the scheme employers with the employee cost averaging 6.3% and the employer over 20%. If we take decisions to exclude companies on ethical grounds and these companies outperform, as for example Mining companies have recently, the effect is to increase the cost of the scheme to employers, and for the local authority scheme employers put up Council Tax. Individual scheme members may have views on ethical investments but they do not personally meet the financial cost of the Fund underperforming - their pension is guaranteed. It is this which makes the Merseyside scheme member vote on armaments investments difficult to understand.
8. There is no clear cut evidence on whether "ethical" funds under or outperform the market. Much will depend upon what sectors do particularly well at a point in time and the periods used to make the judgement. A small number of local authority funds did introduce ethically managed funds in the late 1990s and these seem to have been quietly abandoned. What is clear is that introducing ethical overlays reduces the accountability of investment managers and will at times lead to underperformance.
9. In Appendix 1 the current wording used in our Statement Investment Principles is included. This highlights that if at any time the Committee felt that a discretionary fund manager was acting inappropriately we would intervene. This cannot be precisely defined but relates to issues such as illegal activities or a major fraud.
10. In Appendix 2 we show the latest stock positions on a range of issues e.g. arms, tobacco, environment, unacceptable regimes.

ESG ISSUES

11. Corporate Governance

- (1) The work undertaken in the early and mid-1990's by the Cadbury, Greenbury and Hampel reports hugely raised the profile of good corporate governance by companies. Since the mid-1990's the Kent Fund has had a policy of actively voting the shares that it owns in companies, initially on the basis of advice from PIRC, and then on the basis of the voting policies of individual managers. The investment managers report back what they have done on a quarterly basis, some of which is included in the quarterly reporting booklets and some separately.
- (2) In November 2006 the Fund contracted with Manifest a voting monitoring service at a cost of £7,500 per annum. Officers believe that this provides us with no more information than we get from the managers and use of the service should cease.

12. **Shareholder Engagement**

- (1) The approach that local authority pension funds take to shareholder engagement varies. At a recent presentation by the Lancashire Pension Fund they referred to direct engagement meetings with companies on overseas employment standards, company workforce practices e.g. lower pay and use of agency staff and direct engagement with BAE (a major employer in the county).
- (2) Investment managers argue that the only way they can look to influence the behaviour of a company is if they are an investor - this is what gives them legitimate interest in challenging the behaviour of a company. So in an area such as getting drinks companies to take action to deter binge drinking this is an area where investment managers would look to influence company management.
- (3) It is recommended that the Kent Fund continues to focus this shareholder engagement role on the investment manager. What is clear from the research undertaken for this report is that investment managers do take engagement very seriously. This in part reflects a direct financial interest through the companies invested in performing well and partly a response to their clients who went to see engagement and action where companies do not meet the highest standards. Of the managers of the Kent Fund, Schrodgers and Baillie Gifford seem to have particularly well developed approaches on ESG issues. A short policy statement on Schrodgers approach to Socially Responsible Investing is attached in Appendix 3.

13. **United Nations Principles for Responsible Investing**

- (1) The UN Principles for Responsible Investing were developed in 2006 and are set out in Appendix 4.
- (2) I recommend that as part of our ESG policy the Kent Fund should formally adopt these principles.

14. **Climate Change**

In 2007 the Committee agreed to join the Institutional Investors Group on Climate Change. This group's members consist mainly of investment managers and pension funds. IIGCC produce excellent briefing material on climate change related investment issues and continued membership is recommended.

15. **Sustainable Investment**

As part of our increased allocation to Alternatives we have discussed the issue of investing in sustainable sectors or companies. It is clear that this is an investment theme which our mainstream investment managers are following up and it also features in the responses from a number of the specialist Infrastructure managers. Through these routes we can explore with external investment managers how we can expand in this area.

16. Shareholder Litigation

- (1) Officers have met with Barrack, Rodos and Bacine (BR&B) a firm of US attorneys whose main business is class actions in the US. BR&B provide an information service and their main interest is in being appointed as attorney should the Kent Fund be the lead litigant. Euraplan who provide the Shareholder software used in the Investments Team has also developed a free of charge monitoring system on class actions.
- (2) I would also expect JP Morgan our custodian to be monitoring the impact of class actions on the Fund.
- (3) Further work will be undertaken in this area and will be reported back to the Committee.

ESG POLICY STATEMENT

17. A draft ESG policy statement is attached in Appendix 5. If the draft is acceptable to Members then it is proposed to consult on it with scheme employers and other interested parties.

UNISON MOTION

18. In terms of a specific response to the Unison motion I propose that the Committee formally responds agreeing to adopt the UN Principles, agreeing to continue to monitor and report on investments in the armaments industry and declining to stop investing in armaments companies, as this would be in breach of the Committee's fiduciary responsibility.

RECOMMENDATION

19. Members are asked to:
 - (1) Cease the use of the Manifest Voting Service.
 - (2) Formally adopt the UN Principles of Responsible Investing.
 - (3) Agree the draft ESG Policy Statement for consultation with scheme employers and other interested parties.
 - (4) Agree a formal response to Unison as set out in paragraph 18.

Nick Vickers
Head of Financial Services
Ext: 4603

Extract from the Statement of Investment Principles

Social, Environmental and Ethical Considerations

Ethical investment is normally taken to mean not investing in certain types of company on a pre-determined basis such as production of armaments, tobacco, alcohol, pharmaceuticals, etc. The Kent Fund places no specific restrictions on the companies which our investment managers can invest in due to:

- (1) Our fiduciary responsibility to achieve the best return we can on investments. Ultimately the cost of the pension fund comes back to local taxpayers through their Council Tax and we need to minimize the impact on Council Tax.
- (2) The difficulty of agreeing what is in and what is excluded. By not making exclusions we can more readily judge how well our investment managers are performing.
- (3) Investment managers highlight that it is much easier to influence company behaviour as an investor rather than by not holding the stocks.

Underpinning this, the Kent Fund will intervene with the investment manager, if we believe that they are making investments in stocks or companies which are not acceptable to the Fund.

Corporate Governance

- (1) The Committee believes that the adoption of good practice in Corporate Governance will improve the management of companies and through this add long term shareholder value.
- (2) Each of the managers has a written set of guidelines on its policy and process in respect of voting and the managers are expected to vote in-accordance with their own policies in respect of resolutions at annual and extraordinary general meeting of companies.
- (3) Voting actions are reported by each manager in their quarterly reports to the Committee and for UK companies is monitored independently through Manifest.
- (4) The Committee will continue to develop its policy on Corporate Governance in accordance with developing best practice and by working closely with the fund managers.

Environment and Climate Change

The Fund recognises as a responsible investor the importance of environmental and climate change issues in making investment decisions.

We believe that investment managers should take account of environmental and climate change issues in their investment decisions.

To enhance our understanding of these issues and to allow us to fully engage with our investment managers the Fund has joined the International Investors Group on Climate Change.

KCC Superannuation Fund investments in Armaments, Oppressive regimes and Tobacco companies

As at the end of June 2008

Fund Manager	Stock	Reason	Market Value
Alliance Bernstein	Baker Hughes	Burma	2,885,314
	Chevron	Burma	2,955,450
	BAE Systems	Arms	1,556,313
	Royal Dutch Shell	Zimbabwe	2,556,688
	China Petro Chem	Burma	590,038
	Mitsubishi	Burma	1,319,645
	Mitsui OSK Lines	Burma	1,732,129
	Sumitomo Mitsui Financial Group	Burma	1,690,359
	QBE	Burma	856,932
	Siemens	Burma	971,823
	Total Oil	Burma	1,720,000
	Toyota	Burma	613,843
	Phillip Morris	Tobacco	1,695,016
	Lockheed Martin	Arms	1,129,145
	Northrup Grumman	Arms	995,020
	United Technologies	Arms	895,252
	Rio Tinto	Environment	3,816,262
	Exxon Mobil	Equatorial Guinea	1,019,573
	Monsanto	Environment	1,590,009
Baillie Gifford	Imperial Tobacco	Tobacco	1,005,410
	CNOOC	Burma	2,235,067
	DBS	Burma	1,883,210

Keppel	Burma	957,729
Mitsui Sumitomo Insurance Group	Burma	1,681,096
Total	Burma	8,437,531
Standard Chartered	Zimbabwe	1,557,610
Japan Tobacco	Tobacco	2,297,575
Phillip Morris	Tobacco	5,086,076
Reed Elsevier	Arms	676,736
BHP Billiton	Oil for Food	2,608,480
Rio Tinto	Environment	1,080,720
Altria Group	Tobacco	2,116,534
		<u>31,623,774</u>

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Schroders

BP	Zimbabwe	16,198,182
Royal Dutch Shell	Zimbabwe	27,878,257
Anglo American	Arms	23,622,437
BAE Systems	Arms	8,186,250
Rolls Royce	Arms	4,584,487
BAT	Tobacco	7,971,576
Reed Elsevier	Arms	5,748,002
Standard Chartered	Zimbabwe	9,344,721
		<u>103,533,912</u>

GMO

Royal Dutch Shell	Zimbabwe	1,980,278
Total	Burma	2,941,535
BAT	Tobacco	499,256
Phillip Morris	Tobacco	915,910
BAE Systems	Arms	206,196
Schlumberger	Burma	320,347
Mitsubishi	Burma	315,340
Mitsui OSK Lines	Burma	240,560

Keppel	Burma	196,660
Chevron	Burma	1,052,131
		<u>8,668,213</u>
Societe Generale	Iraq Oilfields	11,575,506
BP	Burma	10,245,561
Royal Dutch Shell	Zimbabwe	4,319,879
Anglo American	Oil for Food	2,199,475
BHP Billiton	Environment	5,036,503
Rio Tinto	Arms	2,602,789
BAE Systems	Arms	1,490,887
Rolls Royce	Zimbabwe	1,935,019
Standard Chartered		<u>39,405,620</u>
Invesco	Tobacco	10,739,642
BAT	Tobacco	9,387,375
Imperial Tobacco	Tobacco	379,545
Filtrona	Tobacco	9,664,220
Reynolds American	Arms	5,038,975
Rolls Royce		<u>35,209,757</u>
		<u>249,030,087</u>

Total investment of £249,030,087 represents 15% of the funds investments in equities.

NB. This excludes Alcohol, Gambling and Pharmaceuticals companies

August 2008

Schroder

Pan European Socially Responsible Investment Policy

Schroders' approach to monitoring and taking action
on corporate social responsibility



Schroders

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Our approach to Socially Responsible Investment

This policy document outlines the approach taken by Schroders to socially responsible investment (SRI) in the Pan European Market.

Our philosophy

Schroders believes that companies have the ability to enhance their long-term performance through an understanding of the Environmental, Social and Governance (ESG) issues affecting their business. In an increasingly dynamic environment where legitimacy and credibility in the market place, as perceived by stakeholders¹, are important indicators of corporate performance, a thorough awareness of ESG issues enables companies to potentially mitigate risks and liabilities that could arise from these issues.

Stakeholders have a broad variety of vested interests and, increasingly, companies have to demonstrate accountability and a commitment to responsible behaviour to:

- **Shareholders:** to maximise the returns on their investment
- **Regulators, competitors and Government:** to operate fairly and legally within the market place
- **Consumers:** to provide goods and services that meet specified quality standards
- **Suppliers:** to respect and uphold supply chain agreements
- **Employees:** to provide a working environment which is conducive to optimal performance
- **Local communities:** to operate in accordance with their expectations
- **Charities and pressure groups:** to listen and be seen to be credible.

Corporate responsibility policies and corporate governance procedures establish a management framework across all corporate functions, from human resources to operations and supply chain management, finance, marketing and sales. Performance indicators, both financial and non-financial, can be used to provide information on corporate responsibility and corporate governance activities and their economic impact, providing consistent information over a period of time to fully understand their effects. Companies that can demonstrate a commitment to quality management in these areas can contribute to their own business success by enhancing their financial returns on investment in the long run and their long-term shareholder value.

We believe that our policy and processes comply with and support the implementation of the United Nations Principles for Responsible Investment, to which we are signatory.

¹ Stakeholders are defined as anyone who can be influenced by, or has influence on, a company's operations.

Integrating environmental, social and governance issues into investment processes

At Schroders we recognise that a broad range of both financial and ESG factors can affect the sustainability of a business and the creation of shareholder value. We look to identify and focus on issues that either are, or could become, material to corporate performance. On a routine basis our investment process researches ESG views held by company management and their related policies and performance management systems. Potential risks or opportunities that are identified are assessed and appropriately considered when constructing portfolios.

ESG Corporate Disclosure

In order for investors to research the ESG views held by company management, companies need to demonstrate and disclose how their operations take into account these issues and their relevance to the business, through their ESG policies and performance management systems. There is no common disclosure standard and levels of disclosure will vary between companies, especially between sectors, where ESG issues have different levels of importance.

At Schroders, we look for a company to make the following disclosure in its published reports; that:

- There is board level responsibility for ESG factors which significantly affect the business
- It assesses the significance of ESG related risks and opportunities and the extent to which these affect business performance and short and longer term shareholder value
- There are effective management systems in place to manage and mitigate ESG risks and develop ESG opportunities; and
- There are relevant key performance indicators to allow effective analysis of ESG performance.

Shareholder Activism

For Schrodgers, shareholder activism includes company engagement and voting on shareholder resolutions. We can also provide, for those clients that request it, an ethical investment service. We monitor and evaluate the performance of all these activities and regularly report back to our clients.

Engagement

We view engagement as a positive activity, an integral part of our role in managing, protecting and enhancing the value of our clients' investments that also improves communication between companies and investors. It is undertaken on a reasoned and pragmatic basis, recognising that not all companies conform to a single structure and their approach to issues will vary. We look to develop additional understanding or, where necessary, seek change that will either protect or enhance the value of our investments. We combine the perspectives of our research analysts, portfolio managers, corporate governance specialists and SRI analysts to form a balanced view of each company and the issues it faces.

Our SRI analysts engage in dialogue with companies to:

- Determine what they are doing to manage their ESG performance
- Encourage them to improve their performance on ESG issues, where these issues may represent a risk to shareholder value
- Provide guidance on developing policies and systems to manage these risks; and
- Where relevant, to set objectives for improvement.

We concentrate on each company's ability to create sustainable value and may question or challenge companies about governance issues that we perceive may affect the future value of those companies.

Voting

Shareholder resolutions of a social, environmental or ethical (SEE) nature can be tabled at a company's AGM as a form of stakeholder engagement. The use of shareholder resolutions as a tool will vary depending on the corporate governance laws of the country or region where the shares are listed. When a shareholder resolution on a SEE issue is tabled at a company's AGM, we will take into account company performance, best practice, whether the company has faced similar resolutions before and ultimately if the resolution is in the interests of shareholders before deciding how to vote. We seek to promote the adoption of suitable standards and to safeguard and enhance the long-term interests of our investments and clients.

Schrodgers also votes on other governance issues of a non SEE nature and our approach to voting on these issues is covered by our UK Corporate Governance and International Corporate Governance Policies.

Ethical investment

Schrodgers also provides ethical investment services, utilising specialist research to help develop investment universes that reflect our clients' values. Typically these would exclude companies based on certain moral criteria, for example tobacco or alcohol, however we are also able to develop more sophisticated screens for funds which can reflect the materiality of a company's exposure to certain issues.

Evaluating our Performance

We produce quarterly SRI reports that are available to our clients, which detail the companies we have met, the issues we have raised and what results, if any, were achieved. The reports also outline the SEE issues we have voted on, the research we have produced and other SRI activities that have been undertaken. We also produce an annual SRI review.

Conflicts of Interest

Schroders acknowledges that conflicts of interest may arise within the context of our work. Where these arise the matter is referred to the Global Head of Compliance, who then makes our final engagement decision, whether activism or voting, to ensure that they best serve the interests of our clients as a whole.

The Principles for Responsible Investment

1. We will incorporate ESG issues into investment analysis and decision making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this scheme
- Advocate ESG training for investment professionals

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG related engagement

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of / adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

4. We will promote acceptance and implementation of the principles within the investment industry.

Possible actions:

- Include Principles related requirement in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

5. We will work together to enhance our effectiveness in implementing the principles.

Possible actions:

- Support / participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

6. We will each report on our activities and progress towards implementing the principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and / or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and / or achievements relating to the Principles using a 'Comply or Explain' approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

KENT PENSION FUND

ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTMENT
POLICY STATEMENT

Introduction

The Superannuation Fund Committee is fully aware of its fiduciary responsibility to obtain the best possible financial return on the investments of the Pension Fund for acceptable levels of risk. This responsibility is to keep down as far as possible increases in the cost of the scheme to scheme employers and ultimately to dampen the cost of the scheme to Council Tax payers in Kent.

The Fund also seeks through good management of Environmental, Social and Governance (ESG) issues to help the financial performance and improve shareholder investment returns in the companies invested in.

Fiduciary Responsibility

As a consequence of our fiduciary responsibility to the taxpayer the Fund will not impose restrictions upon our external investment managers on specific stocks or countries which they can or cannot invest in.

The Fund is not positioned either to impose blanket restrictions or to adjudicate which stocks or countries the Fund should invest in and is aware that:

- Restrictions will reduce the accountability of the investment managers.
- It is very difficult to determine what activities should be prohibited. This is an issue of individual conscience.
- It is only possible for investment managers to influence company behaviour if they are a shareholder.

The Committee retains the right to intervene with an investment manager if they undertake investments which are not acceptable eg illegal activities, major fraud.



Corporate Governance

The Committee expects the investment managers to fully participate in voting at company Annual General Meetings and to promote adherence to the code of best practice and the new combined code.

Investment managers feedback voting decisions on a quarterly basis.

Shareholder Engagement

The Committee expects the investment managers to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of our investments.

Again the Committee expects feedback from the investment managers on the activities they undertake.

The Fund would engage directly with a company which we were invested in, in exceptional circumstances.

UN Principles of Responsible Investment

The Committee supports and endorses the UN Principles of Responsible Investment. The 6 principles are:

- We will incorporate ESG issues into investment analysis and decision making.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosures on ESG issues by entities we invest in.
- We will promote acceptance and implementation of the principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the principles.
- We will each report on our activities and progress towards implementing the principles.

Climate Change

As a member of the Institutional Investors Group on Climate Change we will monitor developments on climate change and use the research undertaken to monitor and challenge our investment managers.

Shareholder Litigation

The Fund will actively participate in class actions in the USA where it is of clear financial benefit to it.

If you have any comments on this policy statement please contact:

Nick Vickers
Head of Financial Services
✉ nick.vickers@kent.gov.uk
☎ **01622 694603**

By: Director of Finance

To: Superannuation Fund Committee - 12 September 2008

Subject: **ADMINISTERING BODY POLICY ON ABATEMENT OF PENSION**

Classification: Unrestricted

Summary: To review the policy on abatement of pension when an individual is re-employed in local government.

FOR DECISION

INTRODUCTION

1. Regulations A70(1), A71(4)(C) and T12 of the Local Government Pension Scheme (LGPS) require that each Administering Body (AB) has a policy in place regarding the abatement of a pension payable where a pensioner is re-employed by an LGPS employer. The policy in Kent was set by Committee in November 1999.
2. Our present policy requires a pension to be abated, in circumstances where a pensioner is re-employed in a local government position, where, the sum of the pension and re-employment income, exceeds the income from the pre retirement local government employment.
3. The only exceptions to cases described in 2 above are as follows:-
 - Casual contracts or contracts with no contractual hours
 - Where the retiree is over 60 years of age with an entitlement to draw the pension
 - Where the retiree has taken 'voluntary' retirement and the pension has been reduced to reflect the premature date of retirement.
4. All changes to the AB policy must be subject to consultation with scheme employers.

REASON FOR CHANGE

5. Since the original policy was established in June 1998 there has been a significant change to the way in which premature retirements are funded. Each employer within the Kent Pension Fund, is required to fund all pension costs arising from a decision to agree to the premature retirement (i.e. before a person has an entitlement to receive a pension on an unreduced basis) of a scheme member.
6. Employers are charged the full cost of the premature retirement in instalments. This includes, voluntary early retirements, redundancy and efficiency retirements.
7. Retirements for scheme members, where the member qualifies under the scheme rules to receive a pension on an unreduced basis, are exempt from abatement under

the current policy as described in 3 above. All ill health retirements are funded through the employer contribution rate set after each triennial valuation.

8. As part of the recent changes to the LGPS under the banner of the 'New Look LGPS' the concept of flexible retirement was introduced. This flexibility enables officers to retire from their existing posts, receive a pension in full or part, return to employment with the same LGPS employer, and rejoin the scheme, in respect of the new employment. This feature was introduced to taper the previous 'cliff edge' effect of full retirement and broadly fits the central government initiative to encourage employees to work longer and fully fund their own pensions in retirement, thus reducing reliance upon state benefits.
9. In 'flexible' retirement cases, there is no requirement for the pension to be abated despite the retiree having continued in local government employment provided they have reduced either hours or pay in the re-employment post.
10. Given therefore that all retirements, where a 'strain' would otherwise fall to the pension scheme, are now fully funded by the employing body, it would seem unreasonable to further reflect such costs by way of a reduction in the pension in payment.
11. Following the introduction of 'Flexible Retirement' our current policy would lead to there being 2 classes of pensioners who had taken up further local government employment, where a reduction was applied to one group and not the other.
12. There is no means within the LGPS of rebating to an employer strain costs they have paid if the individual comes back into local authority employment.

SCOPE OF POTENTIAL CHANGE

13. A consultation letter has been distributed to all scheme employers. At the time of writing, all support a change in policy to cease the practice of the abatement of pensions. An oral update on responses will be given at the meeting.
14. We presently apply a reduction in respect of 26 cases. Of these cases, 18 are cases where the employer has fully funded the strain costs deriving from the decision to agree premature retirement. We presently abate pensions to the extent of £97,000 per annum approx over the 26 cases. Whilst the pension scheme will therefore be paying a further £97,000 per annum in pensions this cost has largely been borne by the employer at the point of retirement. The 8 cases where an employer has not already met the strain costs relate to pensioners all over 60 years of age with most close to normal retirement age. The annual abatement of these pensions amounts to £12,275 per annum.
15. It is proposed that the current practice of abating pensions ceases and our policy is worded to this effect.
16. There are two potential options open to the AB if it is agreed to support a change to the existing policy:

- To cease abatement at a date, in the future, agreed by committee for all future retirements only.
 - To cease abatement for all new and existing cases with effect from a date agreed by committee.
17. If we were to cease abatement only in respect of future cases from an agreed date in the future, there is the risk that those pensioners where abatement continues to be applied will consider our treatment of them to be harsh when compared to new retirees in the same position but where no reduction is applied. Members are recommended to agree the cessation of abatement in all cases as shown above.
18. In order not to 'fetter' our discretion it is necessary to reserve the right to apply an abatement in 'exceptional' circumstances. An example could be that the scheme is made aware that a scheme member is permitted to retire prematurely and in collusion with the employer is immediately re-employed in exactly the same contractual post.

RECOMMENDATION

19. Members are requested to change the current AB policy with effect from 1 December 2008 and replace it with the following proposed wording:

"It is the policy of Kent County Council not to abate a pension in payment where the pensioner takes up a re-employment position with a Local Government employer. The council reserves the right to abate a pension in payment, in exceptional circumstances".

Patrick Luscombe
Pensions Manager
Ext: 4714

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