

**SUPERANNUATION FUND COMMITTEE**

**Friday, 20th May, 2011**

**10.00 am**

**Medway Room, Sessions House, County Hall,  
Maidstone**





## **AGENDA**

### **SUPERANNUATION FUND COMMITTEE**

**Friday, 20th May, 2011 at 10.00 am**      Ask for:      **Geoff Rudd**  
**Medway Room, Sessions House, County**      Telephone:      **01622 694358**  
**Hall, Maidstone**

#### **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 ( 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 ( 5 - 6)
2. DTZ Property Strategy
3. Hymans Robertson Investment Strategy ( 7 - 56)

#### **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 Plan ( 57 - 78)
2. Superannuation Fund Business Plan 2011-12 ( 79 - 90)
3. Application for Admission to the Fund ( 91 - 94)

Peter Sass  
Head of Democratic Services and Deputy Monitoring Officer (01622) 694002  
**Thursday, 12 May 2011**

- (i) *Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.*
- (ii) *In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Items C2 and C3.*

**KENT COUNTY COUNCIL**

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**SUPERANNUATION FUND COMMITTEE**

MINUTES of a meeting of the Superannuation Fund Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Friday, 4 March 2011.

PRESENT: Mr J E Scholes (Chairman), Mr P Clokie, Mr J A Davies, Ms A Dickensen, Mr M J Jarvis, Mr J F London, Mr R A Marsh, Mr R Packham, Mr R J Parry, Mr S Richards, Mr M V Snelling Mrs M Wiggins.

ALSO PRESENT: Miss S J Carey.

IN ATTENDANCE: Mr N Vickers (Head of Financial Services), Ms K Gray (Senior Accountant Investments), Ms A Mings (Treasury & Investments Manager) Mr G Rudd (Assistant Democratic Services Manager).

**UNRESTRICTED ITEMS**

**A. COMMITTEE BUSINESS**

**10. Declarations of Interests by Members in items on the Agenda for this meeting.**  
*(Item A2)*

Mr P Clokie, Mr J F London, Mr R J Parry and Mr M V Snelling declared non – pecuniary interests in specific Community Admission Bodies referred to in Item C4.

**11. Minutes**  
*(Item A3)*

RESOLVED that the Minutes of the meeting held on 11 February 2011 are correctly recorded subject to the clarification of the paragraph numbers and that they be signed by the Chairman.

**12. Fund Position Statement**

*(Item D1- report by the Chairman of the Superannuation Fund Committee and the Head of Financial Services)*

RESOLVED that:-

- (a) the report be noted;
- (b) Schrodgers be invited to the May 2011 meeting to explain how the Pension Fund's surplus cash could be utilised in a Diversified Fund; and
- (c) The position with regard to Fund Managers to be considered at the May 2011 meeting.

### **13. Treasure Management Update**

*(Item D2 - report by the Chairman of the Superannuation Fund Committee and the Head of Financial Services)*

RESOLVED that:-

- (a) the Pension Fund's cash balance and cashflow be noted;
- (b) Mr Vickers be asked to investigate appropriate secure government backed funds in which to deposit the cash
- (b) no more allocations be made for the time being from the internally managed cash balance to fund managers; and
- (c) Mr G Muir of Barnett Waddington be asked to provide a long term cashflow projection to show how long before assets have to be sold to fund payments of pensions.

### **14. Admissions to the Fund**

*(Item D3 - report by the Chairman of the Superannuation Fund Committee and the Head of Financial Services)*

RESOLVED that:-

- (a) the admission to the Kent County Council Pension Fund of Northgate Managed Services Ltd be agreed subject to final satisfactory negotiations with Northgate Managed Services Ltd and the Isle of Sheppey Academy; and
- (b) once legal agreements have been prepared for the matter referred to in (a) above, the Kent County Council seal can be affixed to the legal Documents.

### **15. Minutes**

*(Item C1)*

RESOLVED that the exempt Minutes of the meeting held on 11 February 2011 are correctly recorded subject to the clarification of the paragraph numbers and that they be signed by the Chairman.

### **16. GMO**

*(Item C2)*

- (1) Mr A Hene and Mr I Thompson of GMO were in attendance for this item.
- (2) RESOLVED that the report be noted.

## **17. Fund Structure**

*(Item C3 - report by the Chairman of the Superannuation Fund Committee and the Head of Financial Services)*

The Committee agreed a number of issues relating to the structure and management of the Fund.

## **18. Employer Financial Security**

*(Item C4 - report by the Chairman of the Superannuation Fund Committee and the Head of Financial Services)*

The Committee noted and agreed issues relating to Employer Financial Security.

## **19. Pension Reform Meeting - 29 March 2011**

(1) Mr G Rudd advised the Committee that he had been contacted by Public Service Events Co Ltd offering 5 free places for members to attend the Pension Reform meeting in London on the 29 March 2011.

(2) Following discussion on this matter the members decided that they did not wish to take up the offer from Public Service Events Co Ltd.

(3) RESOVED that the decision in (2) above be noted.

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By: Chairman Superannuation Fund Committee  
Acting Corporate Director of Finance & Procurement

To: Superannuation Fund Committee –20 May 2011

Subject: **EXTERNAL AUDIT PLAN**

Classification: Unrestricted

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Summary: To receive the external auditors plan for the Fund for 2010/11.

**FOR INFORMATION**

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**INTRODUCTION**

1. Under KCC's Constitution the Governance & Audit Committee is responsible for agreeing the Fund's accounts and the external auditors annual plan. The external auditor reported to Governance & Audit Committee on 16 March 2011 and the plan (attached in the Appendix) was agreed.
2. The plan is brought to this Committee for information and the external auditor has agreed that in future it will come to Superannuation Fund Committee before Governance & Audit Committee.

**RECOMMENDATION**

3. Members are asked to note the plan.

**Nick Vickers**  
**Head of Financial Services**  
**Ext 4603**

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# Audit opinion plan

**Kent Pension Fund**

**Audit 2010/11**

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**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**



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# Introduction

## **This plan sets out the audit work that I propose to undertake for the audit of the 2010/11 financial statements.**

**1** The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:

- current national risks relevant to your local circumstances; and
- your local risks.

**2** I will discuss and agree this plan and any reports arising from the audit, with the Superannuation Fund Committee. However, as the pension fund accounts remain part of the financial statements of Kent County Council as a whole, and overall responsibility lies with those charged with governance, the Governance and Audit Committee, they will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

### **Responsibilities**

**3** The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

**4** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**5** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

**6** Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

## Fee for the audit

### **The indicative fee for the audit is £50,000.**

7 The fee for the audit is £50,000, as indicated in my letter of 7 June 2010 and approved by the Governance and Audit Committee at the meeting of 30 June 2010.

8 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit; and
- Internal Audit undertakes appropriate work as agreed for the pension fund material systems and this is available for review by 30 April 2011.

9 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Acting Director of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

10 Further information on the basis for the fee is set out in Appendix 1.

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# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Kent Pension Fund as at 31 March 2011.

**12** I am also required to review the pension fund annual report as per the LGPS regulations 1997.

### **Materiality**

**13** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**14** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

## Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>International Financial Reporting Standards:</b></p> <p>The pension fund statements will have to reflect for the first time the requirements of International financial reporting standards.</p>	<p>I will consider the work the Authority has performed to date and will review the accounting treatment and revised accounting policies for the areas affected by IFRS, including restated 2009/10 balances.</p>
<p><b>Pension fund bank account:</b></p> <p>As of 1 April 2011 the pension fund has to have a separate bank account from the County Council to record all of its income and expenditure. The Council transferred the cash held on behalf of the Pension Fund on 1 July 2010. There is a risk that the Fund fails to recognise income or expenditure or double count transactions.</p>	<p>I will review the transfer process completed during the year as part of documenting the bank system. I will test the year end bank account reconciliation.</p>
<p><b>Actuary's assumptions:</b></p> <p>Barnett Waddingham is carrying out a full triennial valuation as at 1 April 2010. We are aware that different assumptions will be used from the previous actuarial valuation which may give rise to a material change to the Pension Fund's liabilities.</p>	<p>I will review and test the reasonableness of the assumptions made by the actuary in the triennial valuation. I will review the note in the financial statements and annual report to ensure the guidance is followed.</p>
<p><b>Valuation of freehold property:</b></p> <p>The accounting for freehold property is a material accounting estimate. The portfolio is managed by DTZ and was valued by Colliers CRE at</p>	<p>I will review the basis of the valuation and undertake audit procedures to confirm that they are reasonable.</p>

31 March 2010 at £168 million.

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# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**15** I can carry out my testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**16** Wherever possible, I complete some substantive testing earlier in the year before the financial statements are available for audit. I identified the following areas where substantive testing could be carried out early:

- Review of accounting policies.
- Bank reconciliation.
- Contributions.
- Investments – ownership.
- Year-end feeder system reconciliations.

However, following discussions with officers, I do not plan to carry out any early testing in 2010/11. The capacity of officers preparing the Pension Fund financial statements is stretched and it has been agreed that additional audit procedures during the closedown period would not be helpful to them.

**17** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Pensions investments

**18** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of experts in the following areas.

- Management's expert: Valuation of freehold property portfolio - Colliers CRE
- Audit Commission expert: Asset valuation of freehold property portfolio - Gerard Eve

There is no requirement to rely on the work of other auditors for the audit opinion.

## Key milestones and deadlines

**The Pension Fund is required to prepare the financial statements by 30 June 2011. I am statutorily required to complete the audit and issue the opinion by 30 September 2011. As in previous years, I am planning to issue the opinion by 31 July 2011.**

**19** The key stages in producing and auditing the financial statements are in Table 2.

**20** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**21** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	April 2011
Receipt of accounts	10 June 2011
Sending audit working papers to the auditor	13 June 2011
Start of detailed testing	13 June 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	30 June 2011
Issue opinion	By 31 July 2011



# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	<a href="mailto:d-wells@audit-commission.gov.uk">d-wells@audit-commission.gov.uk</a> 0844 798 6110	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Elizabeth Olive Audit Manager	<a href="mailto:e-olive@audit-commission.gov.uk">e-olive@audit-commission.gov.uk</a> 0844 798 1377	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

## Independence and objectivity

**22** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**23** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

## Meetings

**24** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

**25** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

**26** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**27** My team will discuss and agree reports with the right officers before issuing them to the Governance and Audit Committee and Superannuation Fund Panel.

Table 4: **Planned outputs**

Planned output	Indicative date to Governance and Audit Committee
Opinion audit plan	16 March 2011
Annual governance report	30 June 2011 (interim) September 2011 (final - if required)
Auditor's report giving an opinion on the financial statements	July 2011

# Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:

- my cumulative knowledge of the Pension Fund;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Pension Fund officers; and
- liaison with Internal Audit.

## Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
  - good quality working papers and records to support the financial statements by 13 June 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance and Audit Committee of Kent County Council. Issues will also be raised with members of the Superannuation Fund Panel. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence

could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings**

Council officers	Audit Commission staff	Timing	Purpose
Head of Financial Services	Audit Manager (AM) and Team Leader (TL)	March, June, September	General update plus: March - opinion audit plan and fee letter June - accounts progress and annual governance report
Treasury & Investments Manager	AM and TL	Quarterly	Update on audit issues
Finance closedown meetings	KCC TL	Monthly from November to May	Progress against closedown plan
Governance and Audit Committee	DA and AM, with TL as appropriate	16 March 2011 30 June 2011 14 September 2011 29 November 2011	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate
Superannuation Fund Committee	DA and AM, with TL as appropriate	4 March 2011 20 May 2011 1 July 2011 2 September 2011 18 November 2011	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

## Sustainability

**28** The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

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## Appendix 4 Glossary

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

### **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.



## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

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By: Chairman Superannuation Fund Committee  
Acting Corporate Director of Finance and Procurement

To: Superannuation Fund Committee –20 May 2011

Subject: **SUPERANNUATION FUND BUSINESS PLAN 2011-12**

Classification: Unrestricted

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Summary: To present the business plan.

**FOR DECISION**

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**INTRODUCTION**

1. At its meeting on 18 June 2010 the Committee for the first time received a Business Plan relating to the management of the Fund.
2. This report sets out a plan for 2011/12 including a review of the major achievements in 2010/11.

**RECOMMENDATION**

3. Members are asked to agree the business plan.

**Nick Vickers**  
**Head of Financial Services**  
**Ext 4603**

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# **SUPERANNUATION FUND**

## **BUSINESS PLAN 2011-12**



## **INTRODUCTION**

This is the first annual update of the 3 year business plan for the Superannuation Fund. The 3 year period 1 April 2010 to 31 March 2013 was chosen to coincide with the actuarial valuation period.

The plan will be reviewed by Committee annually at its May meeting.

## **GOVERNANCE**

The County Council, as administering authority for the Kent Pension Fund, has formally delegated responsibilities for the management of the Fund to the Superannuation Fund Committee. This is a main committee of the County Council. The Committee consists of:

- 8 County Councillors
- 3 District Councillors

(all with full voting rights)

- 1 Medway Council Councillor
- 2 Kent Active Retirement Fellowship representatives
- 1 Union representative
- 1 Staff representative

The Committee meets 6 times a year.

There is a half day Pensions and Investments Conference for scheme employers held in November.

## **OBJECTIVES**

The objectives of the Committee are:

- To provide for scheme members' pensions and lump sum benefits on their retirement and for dependants benefits.

- To achieve a 100% funding level, over the long term, with the accrued benefits fully covered by the actuarial valuation of the Fund.
- To fully comply with legal requirements for the management and governance of the Fund.
- To determine a suitable investment strategy in light of the Fund's liabilities and risk appetite.
- To appoint external investment managers and professional advisers.
- To monitor the performance of external investment managers.
- To provide an efficient and responsive pensions administration service.
- To communicate effectively with the Fund's participating employers and members.

#### **THE FUNDING LEVEL AND EMPLOYERS' CONTRIBUTION RATE**

The Committee seeks to achieve a 100% funding level and stable contribution rate by:

- Commissioning a full actuarial valuation of the Fund every 3 years as required by law to determine employers' contribution levels. The results of the 31 March 2010 actuarial valuation of the Fund were reported in late 2010.
- Commissioning an asset / liability modelling following valuations or as necessary to help determine the best asset allocation needed to meet the Fund's liabilities.
- Maintaining a Funding Strategy Statement.
- Where an actuarial valuation reveals a past service deficit, agreeing employers' contributions with the actuary to recover the deficit.

## **INVESTMENT OF THE FUND**

The Committee seeks a return on the Fund's investment which will enable a 100% funding level to be achieved over a period determined by the Fund actuary. At the 2010 valuation the actuary assumed an investment return of 6.1% per annum. The Committee aims to achieve this by:

- Using the results of asset / liability modelling to set a long term strategic asset allocation for the Fund.
- Appointing specialist investment managers to manage each asset class against specified benchmarks.
- Regularly reviewing managers performance against the performance benchmarks set.
- Monitoring variations for the strategic asset allocation and determining what action to take.
- Taking tactical asset allocation decisions where deemed appropriate.
- Commissioning specialist investment advice from Hymans Robertson.

## **ADVICE**

The Director of Finance is the lead officer for the Fund. Day to day management of the Fund is delegated to the Head of Financial Services supported by the Treasury and Investments Manager and the Pensions Manager.

The principal professional advisers to the Fund are:

- Barnett Waddingham as actuary
- Hymans Robertson as investment consultant

Legal advice is provided by KCC's in-house Legal Services Unit.

## **BEST PRACTICE**

The Committee will consider best practice as recommended by the Government, the Local Government Pensions Committee, the National Association of Pension Funds, the Chartered Institute of Public Finance and Accountancy and other organisations specialising in pensions investments.



## **REVIEW OF 2010-11**

The main achievements of the Fund in 2010-11 were:

- Management of the actuarial valuation process – data was provided to the actuary ahead of the deadline and information on employer contribution rates was provided to the major employers on time. Information to smaller employers was delayed. The outcomes of the valuation at Fund level were highly satisfactory with the funding level increasing by 4% to 77% and at the employer contribution rate reducing by 2%. Of the 16 local authority employers 15 saw a reduction in the rate the actuary was prepared to certify. The decision to appoint Barnet Waddingham as actuary in 2009 has been confirmed as providing a technically robust approach which reflects the reality of employers financial positions as much as possible.
- Fund governance – the Committee looked at its' governance arrangements and decided to move to a 6 meeting structure in 2011 and onwards.
- Established separate bank accounts – a separate bank account for the Superannuation Fund has been set up and cash is managed on a fully segregated basis using counterparties agreed by the Superannuation Fund Committee.
- Private equity manager appointment – Harbourvest were appointed to manage a £75m private equity fund of funds mandate in May 2010.
- Infrastructure manager appointment – Partners Group were appointed to manage a £75m infrastructure fund of funds mandate in November 2010.
- Currency manager appointment – in March 2011 members decided not to proceed with this appointment.
- Fund Accounts – produced on time in June 2010 with an unqualified audit opinion.
- Annual report and accounts – revised annual report meeting the new DCLG requirements produced on time in November 2010.
- Members training plan – plan agreed June 2010.
- Development of the website – the website [www.Kent.gov.uk/pensions](http://www.Kent.gov.uk/pensions) has been fully updated.

- Pensions administration – regular reports have been made to the Committee and performance against the Key Performance Indicators has been good.
- Fund performance – the WM comparative figures for the Fund for the financial year are not yet available and a full report will be provided to the Committee at its meeting on 1 July. The 2010 calendar year performance numbers were good. The main change in the year was the sacking of Alliance Bernstein in August 2010 – the funds were moved to passive management by State Street.
- Employer admissions – this has been a major area of activity taking up increasing amounts of internal staff time. A review of the financial position of smaller employers was reported to Committee in March 2011.

### **ACTION PLAN**

In Appendix I an Action Plan for 2011-12 is set out, Appendix 2 sets out longer term issues and Appendix 3 shows a plan of major events over the next 3 years.

### **FURTHER INFORMATION**

For further information please contact Nick Vickers, Head of Financial Services, [nick.vickers@kent.gov.uk](mailto:nick.vickers@kent.gov.uk) or 07920 428575.

2011-12 ACTION PLAN

Action	Issues	Timescale
Review of investment strategy, asset allocation and managers.	<ul style="list-style-type: none"> <li>- Undertake financial modeling based upon the new actuarial valuation.</li> <li>- Determine changes to asset allocation.</li> <li>- Implement changes to manager structure.</li> </ul>	<p>April 2011</p> <p>May 2011</p> <p>Ongoing</p>
New Local Government Pension Scheme	<ul style="list-style-type: none"> <li>- Implement changes as determined by Government following the Hutton Review.</li> </ul>	<p>Ongoing – depending on DCLG timescales.</p>
Treasury Management	<ul style="list-style-type: none"> <li>- Review other options and report to Committee.</li> </ul>	<p>September 2011</p>
Fund Accounts	<ul style="list-style-type: none"> <li>- Prepare full Fund accounts</li> </ul>	<p>June 2011</p>

<b>Action</b>	<b>Issues</b>	<b>Timescale</b>
Annual report and accounts	- Prepare annual report and accounts report.	November 2011
Business Plan	- Prepare a medium term business plan for the Fund	May 2011
Member Training	- Update the Member training plan	July 2011
Review and update of statutory Fund documents	- Statement of Investment Principles, Funding Strategy Statement, Governance Policy Statement, Communication Policy	Ongoing
Environmental Social and Governance Policy	- Review and update	March 2012
Pensions administration	- Monitor effectiveness through regular reporting to Committee, KPI's and CIPFA benchmarking.	Ongoing
Investment manager performance	- Monitor performance and report quarterly to Committee	Ongoing
Financial position of small employers	- Investigate potential liabilities to the Fund.	September 2011
Employer admissions	- Ensure admissions are undertaken in accordance with the LGPS regulations	Ongoing

**MEDIUM TERM ACTIONS**

<b>Action</b>	<b>Issues</b>
New LGPS	<ul style="list-style-type: none"> <li>- Engage in restructuring of the LGPS</li> <li>- Implement agreed actions</li> </ul>
Asset allocation	<ul style="list-style-type: none"> <li>- Review allocation to equities</li> <li>- Review allocation to Property and Alternatives</li> <li>- Develop options for tactical decision making</li> </ul>
Pensions Administration	<ul style="list-style-type: none"> <li>- Explore options for shared working with other Councils</li> </ul>

PLAN OF MAJOR EVENTS

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
<b>2011-12</b>		Committee		Committee		Committee		Committee + Pensions Investment Conference			Committee	Committee
<b>2012-13</b>		Committee		Committee		Committee		Committee + Pensions Investment Conference			Committee	Committee
<b>2013-14</b>		Committee		Committee		Committee		Committee + Pensions Investment Conference			Conference	Conference

By: Chairman Superannuation Fund Committee  
Acting Corporate Director Finance and Procurement

To: Superannuation Fund Committee –20 May 2011

Subject: **APPLICATION FOR ADMISSION TO THE FUND**

Classification: Unrestricted

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Summary: To report on applications to join the Pension Fund.

**FOR DECISION**

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**INTRODUCTION**

1. This report sets out information on applications from organisations to become admitted bodies within the Pension Fund and seeks committee approval to enter into an admission agreement with these organisations.

**MAIDSTONE BOROUGH COUNCIL AND SWALE BOROUGH COUNCIL  
PARKING SERVICES**

2. Maidstone Borough Council and Swale Borough Council are awarding a joint contract for the provision of their parking services, effective from 1 June 2011.
3. This involves the transfer of 11 employees to APCOA who are the preferred bidder. To ensure the continuity of pension arrangements for these employees, APCOA has made an application for admission to join the Pension Fund.
4. The application has been made under Regulation 6(2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £69,000 and set an employer's contribution rate of 20.3%.
5. The completed questionnaire and Memorandum and Articles of Association provided by APCOA have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

## **MILTON COURT SCHOOL DAY NURSERY**

6. Milton Court School are awarding a contract to Children and Families Limited for the provision of nursery child care, effective from 1 June 2011.
7. This involves the transfer of 4 employees from Milton Court School to Children and Families Limited. To ensure the continuity of pension arrangements for these employees, Children and Families Limited have made an application for admission to join the Pension Fund.
8. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £2,000 and set an employer's contribution rate of 12%.
9. The completed questionnaire and Memorandum and Articles of Association provided by Children and Families Limited have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

## **KCC HIGHWAY SERVICES**

10. KCC is awarding a contract for the provision of highway services, effective from 1 September 2011. This is a third generation transfer of 30 staff who were previously transferred from KCC to Ringway, the current provider, in 1999.
11. There are three new tenderers in contention for the contract who are seeking admission to the Pension Fund. The names of the tenderers are COLAS, Enterprise and May Gurney Ltd.
12. To ensure the continuity of pension arrangements for these employees, all three tenderers have made an application for admission to join the Pension Fund.
13. The application has been made under Regulation 6(2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £51,000 and set an employer's contribution rate of 17.9%.
14. The completed questionnaires and Memorandum and Articles of Association provided by the three companies have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.



## **RECOMMENDATION**

15. Members are asked to agree:

- (1) the admission to the Kent County Council Pension Fund of APCOA, and
- (2) the admission to the Kent County Council Pension Fund of Children and Families Limited, and
- (3) the admission to the Kent County Council Pension Fund of the successful contractor from the three companies tendering for the KCC highways contract, and
- (4) that once legal agreements have been prepared for the above matters, the Kent County Council seal can be affixed to the legal documents.

**Steven Tagg**  
**Deputy Pensions Manager**  
**Ext. 4625**

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