

SUPERANNUATION FUND COMMITTEE

Friday, 2nd September, 2011

10.00 am

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



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 2nd September, 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)
4. Dates of Meetings - 2012

The Committee is asked to note the following dates for its meetings in 2012

- 10 February 2012
- 2 March 2012
- 18 May 2012
- 29 June 2012
- 31 August 2012
- 16 November 2012

All meetings to commence at 10.00am

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. Schroder Investment Management
3. LGPS Reform Update Barnett Waddingham

4. Fund Structure (7 - 14)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Superannuation Fund Report & Accounts And External Audit (15 - 52)
2. Fund Position Statement (53 - 60)
3. Application For Admission To The Fund (61 - 62)

Peter Sass
Head of Democratic Services
(01622) 694002

Wednesday, 24 August 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

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 1 July 2011.

PRESENT: Mr J E Scholes (Chairman), Mr J Burden, Mr D C Carr, Mr P Clokie, Mr D S Daley, Mr J A Davies, Mrs J De Rochefort, Ms A Dickensen, Mr M J Jarvis, Mr J F London, Mr R A Marsh, Mr S Richards, Mr M V Snelling, Mr R Tolputt (Substitute for Mr R J Parry) Mrs M Wiggins.

IN ATTENDANCE: Mr A Wood (Acting Corporate Director of Finance and Procurement), 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

29. Membership

(Item)

Mr J E Scholes welcomed Mr D Carr as the new Medway Council representative on the Committee.

30. Declarations of Interests by Members in items on the Agenda for this meeting.

(Item A2)

Mr J E Scholes, Mr J Burden and Mr P Clokie declared interests as Borough Councillors in respect of the Kent & Medway Investments Fund referred to in Item D1.

Mr P Clokie also declared an interest as a Borough Councillor in respect of the item relating to Ashford's Future Company Limited referred to in Item D5.

31. Minutes

(Item A3)

RESOLVED that the Minutes of the meeting held on 20 May 2011 are correctly recorded and that they be signed by the Chairman.

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

32. Kent Investment Fund

(Item D1- report by the Cabinet Member for Regeneration and Enterprise and the Director of Economic Development. Mrs A Harrison and Mr N Smith were in attendance for this item)

(1) Members were asked to note the proposals set out in the report.

(2) Mr J A Davies moved and Mr R A Marsh seconded as an amendment to the original recommendation in item (1) above that in addition to noting the proposals, the Members resolved not to take this matter any further and that Mr J E Scholes as Chairman of the Committee should write to the Cabinet member expressing the Committee's views as to why the proposal should not be pursued.

(3) Mr J E Scholes put to the vote the motion set out in (2) above.

Carried

(4) Mr J E Scholes agreed that he would arrange for the letter to be e-mailed to the Members of the Committee before being sent to the Cabinet member.

(5) RESOLVED that;

- (a) the proposals set out in the report be noted but that the matter should not be taken any further:
- (b) the Chairman write to the Cabinet Member expressing the Committee's views as to why the proposal should not be pursued: and
- (c) Mr J E Scholes e-mail the letter to the Members of the Committee before Sending it to the Cabinet Member.

33. Fund Position Statement

(Item D2- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the report be noted.

34. Pensions Administration

(Item D3- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the contents of the report be noted and that endorsement be given to the continued involvement of the Kent Pension Section in the CLASS Group and its intent to seek a national procurement framework.

35. Cash Management

(Item D4 - report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the Pension Fund's cash balance and cash flow be noted.

36. Admission to the Fund

(Item D5- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

(1) The Members had been asked to note the information provided on academies.

(2) Mr J Davies moved and Mr R A Marsh seconded an amendment to the original recommendation in (1) above that, in addition to noting the proposals regarding academies, the schools should be re-charged the actuarial fee incurred when they convert to an academy.

(3) Mr J E Scholes put to the vote the motion set out in (2) above

Carried

(4) RESOLVED that:-

(a) the application for admission to the Kent County Council Pension Fund of Principal Catering Consultants Limited be agreed;

(b) the withdrawal of Ashford's Future Company Limited as a participating employer in the Pension Fund be noted;

(c) the information provided on academies be noted and that the schools be re-charged the actuarial fee incurred when they convert to an academy: and

(d) once legal agreements have been prepared for all of the above matters, the Kent County Council seal can be affixed to the legal documents.

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

37. Minutes

(Item C1)

RESOLVED that the exempt Minutes of the meeting held on 20 May 2011 are correctly recorded and that they be signed by the Chairman.

38. Invesco (930-1015)

(Item C2)

- (1) Mr H Ferrand and Mr W Deer of Invesco were in attendance for this item.
- (2) RESOLVED that the report be noted.

39. YFM Private Equity (1015-11)

(Item C3)

- (1) Mr P Canning and Mr M White of YFM were in attendance for this item.
- (2) RESOLVED that the report be noted.

40. Baring Asset Management (11-12)

(Item C4)

- (1) Mr P Stannion and Mr A Benton, of Barings were in attendance for this item.
- (2) RESOLVED that the report be noted.

41. Fund Structure

(Item C5- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

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

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

To: Superannuation Fund Committee – 2 September 2011

Subject: **SUPERANNUATION FUND REPORT & ACCOUNTS AND
EXTERNAL AUDIT**

Classification: Unrestricted

Summary: To present the draft Report & Accounts of the Superannuation Fund for 2010-11 and the External Audit.

FOR INFORMATION

INTRODUCTION

1. A draft version of the Superannuation Fund report & accounts for the year ended 31 March 2011 (before typesetting and design) is attached.
2. The external auditor's Annual Governance Report is attached and this wholly relates to the accounts. The audit of the accounts is complete and an audit opinion was issued on 26 July.
3. The Audit Commission require the Fund's accounts to be approved by Governance & Audit Committee. A report was submitted to Governance & Audit Committee on 30 June.

RECOMMENDATIONS

4. Members are asked to note:
 - (1) The content of the Annual Report and Accounts for 2010-11 and confirm that they can be published, and
 - (2) The external auditor's Annual Governance Report, and
 - (3) The position with regard to Governance & Audit Committee.

Alison Mings
Treasury & Investments Manager
Ext 6294

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Kent County Council Superannuation Fund

Draft Report & Accounts 2011



MEMBERS AND ADVISERS

County Council Members are appointed by the respective political parties.

The District Council representatives are appointed by the respective District Council, in connection with the Association of District Councillors.

Other representatives are nominated and appointed by the respective bodies.

The same appointees are responsible for the removal of their representatives.

Appointments and removals are noted at the Superannuation Fund Committee meetings.

Enquiries and more detailed information on the Fund benefits and contributions can be obtained from Pat Luscombe (Pensions Manager) at 2nd Floor, Brenchley House, Week Street, 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

Administering Authority as at 31 March 2011

Kent County Council

Kent County Council Members

Mr J E Scholes Chairman (Conservative)
Mr D S Daley Vice Chairman (Liberal Democrat)
Mr J A Davies (Conservative)
Mr M Jarvis (Conservative)
Mr J F London (Conservative)
Mr R A Marsh (Conservative)
Mr R J Parry (Conservative)
Mr M V Snelling (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

Mr S Richards

Staff Representative

Ms J De Rochefort

Kent Active Retirement Fellowship

Mrs A Dickens
Mrs M Wiggins

Investment Managers and Advisers

Baillie Gifford & Co
Goldman Sachs Asset Management Limited
GMO
Harbourvest Partners
Henderson Fund Management
Impax
Invesco Perpetual Partners Group
Schroder Investment Management Limited
State Street Global Advisers Limited
YFM Equity Partners
DTZ Investment Management Limited

Investment Consultant

Hymans Robertson LLP

Consulting Actuaries

Barnett Waddingham 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

Mr A Wood, Acting Corporate Director of Director of Finance and Procurement
Mr N Vickers, Head of Financial Services
Mr G Wild, Director of Governance and Law

Scheme Documentation

The Fund is required by the Department for Communities & Local Government to maintain certain formal documents, rather than reproduce them in this report they are on the www.kent.gov.uk website.

The key documents are:

- Statement of Investment Principles
- Funding Strategy Statement
- Environmental, Social and Governance Investment
- Policy Statement
- Governance Compliance Statement
- Communication Policy

Chairman's Introduction

The last year has been another highly positive one for the Fund. Overall the Fund increased in value by £316m and we received an encouraging actuarial valuation. The Fund is in good shape but there are still huge risks in financial markets and we will look to protect the gains that we have made and reduce risk by spreading our investments across a wider range of assets moving forward.

I would now like to address some of the major issues for the Fund in the year:

Actuarial Valuation

The outcomes of the valuation at Fund level were highly satisfactory with the funding level increasing by 4% to 77% and at Fund level the employer contribution rate reducing by 2% - the actual rates paid reflect changes at individual employer level. Of the 16 local authority employers 15 saw a reduction in the rate the actuary was prepared to certify. The decision to appoint Barnett Waddingham as actuary in 2009 has been confirmed as providing a technically robust approach which reflects the reality of employer's financial positions as much as possible.

Fund Managers

This was a strong year for fund performance with a total return of +9% outperforming the fund benchmark of +8.1%. The largest equity mandates in the Fund; Schroders UK equities and Baillie Gifford overseas equities performed particularly strongly.

The Fund removed Alliance Bernstein in August after a prolonged period of under performance in global equities. These monies were then placed in passive global equities funds managed by State Street.

In April 2010 £25m was invested with Impax Asset Management, a global equity manager which invests in companies that derive over 50% of their revenue from environmental themes.

Alternative Investments

The Fund needs to spread its investments into different types of assets to reduce the exposure that the Fund has to Equities. The Fund has deliberately sought to do this in a relatively low risk way through the following investments:

Private equity manager appointment – Harbourvest was appointed to manage a £75m private equity fund of funds mandate in May 2010 and by the end of March 2011 £60m had been committed.

Infrastructure manager appointment – Partners Group was appointed to manage a £75m infrastructure fund of funds mandate in November 2010 and this was fully committed by March 2011.

Reflecting our very deliberate approach to where we take risk in March 2011 we decided not to proceed with the appointment of a currency manager.

Treasury Management

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. The counterparties are Royal Bank of Scotland, NatWest Bank and the JP Morgan Sterling Liquidity Fund.

Lord Hutton's Review of Public Sector Pensions

All the public sector pension schemes are under review and the Government's response to Lord Hutton's review is due in the autumn. Inevitably there will be major changes to the Local Government Scheme in the next 2-3 years and the Fund will need to communicate well with scheme members and employers and be alert to what could be fundamental changes which may require a major revision of our investment strategy.

Whilst we support change the funded position of the LGPS does put us in a much stronger position than unfunded public sector schemes and this seems to have been ignored in Lord Hutton's review.

Development of the website

The website www.Kent.gov.uk/pensions website has been fully updated and we want it to become much more central in how we communicate with scheme members and employers.

James Scholes
Chairman - Superannuation Fund Committee

Investment Report

Asset Allocation

The strategic asset allocation of the Fund is:

	Benchmark		Actual at 31 March 2011	
	%	%	%	%
Equities:				
UK	34.5		37	
Global	34.5	69	37	74
Fixed Income		15		14
Property		11		9
Cash/Other Assets		5		3
		100		100

The asset allocation is based upon detailed financial modelling undertaken by Hymans Robertson which evaluates return scenarios against measures of Prudence, Affordability, Stability and Stewardship.

The actual allocation at 31 March 2011 reflects the strength of equity returns. The Superannuation Fund Committee meets 6 times a year and at each meeting considers whether any re-balancing is required.

Market Returns to 31 March 2011

All equity markets other than Japan performed strongly during the year. Returns in the major asset classes were:

	1 year	3 year	5 year
	%	%	%
UK Equities	+8.7	+5.4	+3.7
North American Equities	+9.6	+10.5	+5.0
European Equities ex UK	+7.5	+3.3	+5.0
Japan Equities	-4.0	+3.6	-3.3
Pacific ex Japan Equities	+14.6	+13.8	+13.0
Other International Equities	+8.2	+8.7	+5.2
UK Bonds	+5.1	+5.3	+4.8
UK Index Linked	+6.5	+5	+6.2
UK Property	+10.7	-1.4	-0.2
Cash	+0.4	+1.5	+3.0

The relative performance of the Fund for 2010-11 was:

	Kent Fund	WM Local Authority Universe
	%	%
1 Year	9.0	8.1
3 Year	6.2	5.7
5 Year	3.6	4.1

This placed the Fund in the 22nd percentile over 1 year, 31st percentile over 3 years and 60th percentile over 5 years compared with other Local Authority Funds

Investment Managers

All assets of the Fund other than cash are under external management. All manager appointments are made through European Union public service tender processes, in a small number of cases direct investments are made in funds.

The Manager Structure as at 31 March 2011 was:

UK Equities	Schroder Investment Management
	Invesco Perpetual
	State Street Global Advisors
Global Equities	Baillie Gifford & Co
	GMO
	Schroder Investment Management
	State Street Global Advisors
	Impax Asset Management
Fixed Income	Goldman Sachs Asset Management
	Schroder Investment Management
Property	DTZ Investment Management
Alternatives	Henderson Secondary PFI Funds
	Partners Group Global Infrastructure
	YFM Private Equity
	Harbourvest Private Equity

More details of the mandates are contained in the Statement of Investment Principles and committee papers available at www.kent.gov.uk/pensions

Performance to 31 March 2011

	1 Year		3 Year	
	Fund	Benchmark	Fund	Benchmark
	%	%	%	%
UK Equity				
Schroders	12.9	8.6	8.6	5.3
StateStreet	8.8	8.7		
Invesco	8.8	8.7	5.4	5.4
Overseas Equity				
Baillie Gifford	12.4	7.5	11.1	7.6
GMO	6.5	7.4	6.1	7.6
Impax	n/a	n/a	n/a	n/a
Schroders	10.2	7.4	10	7.6
StateStreet	7.8	8		
Fixed Interest				
Goldman Sachs	5.5	5.3	6.5	5.6
Schroders	4.1	3	7	4.8
Property				
DTZ UK	10.7	10.7	1.9	-1.4

Investment Manager Performance

Overall in the year the Fund returned +9% against a benchmark of +8.1%. The Fund spreads its assets across a wide range of different type of asset and also across managers who are taking different approaches to adding value. No individual manager or style of management will always be successful.

The main reason for the outperformance in the year was the strong performance of the 2 largest equity mandates, Schroders' management of UK equities and Baillie Gifford's management of overseas equities. These managers' 3 year track records are also very strong.

The Invesco UK equity mandate is much more defensively positioned than our other equity mandates and we expect strong outperformance in this financial year.

The Fund removed Alliance Bernstein as manager of global equities last August after a period of poor performance where the Fund was not confident of out performance moving forward. Alliance Bernstein have since seen a very large outflow of funds and this was a well timed decision.

The Fund has a significant element of passive equity exposure managed by State Street. This is in part a holding position until funds are actually invested in alternative areas such

as Private Equity and Infrastructure, but also reflects an industry approach of getting some of our equity exposure very cheaply through a passive manager.

Both our Fixed Income managers Goldman Sachs and Schroders added value compared with their benchmark.

Commercial Property returns were good in the year but the recovery is stalling and Commercial Property values still remain well down from their peak. The Fund is looking to add to its' property exposure but only in a well risk managed way.

The fund's major equity holdings are shown in Appendix 1 page..... and a complete list of properties owned is shown in Appendix 2 page.....

Custodian

The Fund uses an independent custodian, JP Morgan, to safeguard its segregated financial assets. The custodian is responsible for the safe-keeping of those assets, the settlement of transactions, income collection and other administrative actions in relation to assets.

Scheme Details

Kent County Council administers the Kent Pension Fund on behalf of its own employees and the other employing bodies. Scheme regulations are set by Central Government. From April 2008 major changes were made to the benefit structure by Central Government.

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 individual's 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.

The amount that the employee contributes has been amended from April 2008, these contributions range between 5.5% and 7.5 % of pay with the rate being determined by the level of the member's pay.

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 on the www.kent.gov.uk/pensions website.

Communications

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.

Internal Dispute Procedure

The Kent Pension Scheme has a formal Internal Dispute Procedure to consider a member dispute over a decision made either by a scheme employer or Kent County Council acting as the administering body. An independent person is appointed to consider an appeal made by a scheme member.

2010/11 Disputes considered	2009/10 Appeals upheld
5	0

As at 31 March 2011, scheme employers make up the membership as follows:

	Contributors	Pensioners	Deferred Pensioners
Kent County Council	21,956	15,509	16,559
Medway Council	5,134	2,203	3,482
Kent Police Authority	2,731	1,369	1,495
Kent Fire Authority	280	126	106
District Councils	4,737	7,515	4,805
Other Scheduled	6,658	2,584	4,473
Total Scheduled bodies	19,540	13,797	14,361
Admitted Bodies	1,912	1,243	1,698
Grand Total	43,408	30,549	32,618

Member Age Profile

As at 31 March 2011, contributing membership is made up of the following age bands:-

Under 20	172
20 – 25	2,112
26 – 30	2,793
31 – 35	3,394
36 – 40	5,043
41 – 45	7,316
46 – 50	7,891
51 – 55	6,727
56 – 60	5,194
61 – 65	2,468
66 – 70	267
Over 70	31

Pension Section Performance 2010/11

The Pension section is subject to performance monitoring, both internally and externally against other Local Authority Pension Funds (CIPFA Benchmarking). The performance outcomes are shown in the tables below.

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt of paperwork	2,076	99%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	315	99%
Provision of estimates	20 days from receipt of paperwork	2,861	98%
Correspondence	Full reply within 15 working days	1,705	99%

CIPFA Benchmark Survey

The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey. The survey compares the cost of administration with 63 other Local Authority Administering Bodies across the UK. The results contained in these accounts are in respect of the Kent Pension Section performance in the year ending 31 March 2010.

	Kent Pension Scheme	All Scheme Average
Total cost of administration per scheme member	£19.12	£22.72
Payroll costs per pensioner (including staff)	£1.43	£3.49
Staff costs per Scheme Member (ex Payroll)	£10.19	£10.05
IT Costs per member	£1.49	£2.14
Communication costs per member	£2.03	£0.92
Actuarial costs per member	£2.03	£1.11
Accommodation costs per member	£1.23	£0.75

The results above place Kent at 17th of 63 authorities in terms of the cost of administration per member of the scheme.

Report of the Consulting Actuaries

Introduction

As required by Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended, an actuarial valuation of the Fund was carried out as at 31 March 2010.

2010 Valuation

The 2010 valuation certified a common contribution rate of 20.8% of pensionable pay to be paid by each employing body participating in the Kent County Council Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Employer Contribution rates

Employers' contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The ongoing annual accrual of benefits for active members in respect of each employer that build up each year within the Fund, allowing for future pay increases and increases to pension in payment when these fall due
- Plus an amount to fund the difference between each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund.

Asset Value and Funding Level

The value of the Fund's assets as at 31 March 2010 for valuation purposes was £2,780m which represented 77% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The contribution rates were calculated using the Projected Unit Method.

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

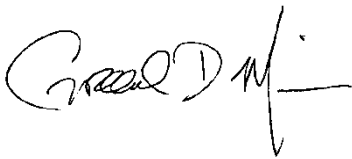
- | | |
|--|----------------|
| • Rate of return on investments | 6.6% per annum |
| • Rate of increases in pay | 5.0% per annum |
| • Rate of Increases to pensions in payment | 3.0% per annum |

Post Valuation Events – Changes in market conditions

Since March 2010, we estimate that investment returns are likely to have been slightly more than assumed at the 2010 valuation although expectations for future levels of inflation have increased.

Overall, we estimate that the current financial position of the Fund will not be materially different to the position as at the 2010 valuation

The next actuarial valuation is due as at 31 March 2013 and results will be reported during 2013/14.

A handwritten signature in black ink, appearing to read 'Graeme D Muir'.

Graeme D Muir FFA

Partner

23 August 2011

For and on behalf of Barnett Waddingham

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 Corporate Director of Finance & Procurement.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

Corporate Director of Finance & Procurement's Responsibilities

The Corporate Director of Finance & Procurement is responsible for the preparation of the Authority's Superannuation Fund's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (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 2011.

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

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

The Corporate Director of Finance & Procurement has also:

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

Acting Corporate Director of Finance & Procurement

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Annual governance report

Kent Superannuation Fund

August 2011



Contents

Key messages	3
Matters of interest	4
Financial statements	5
Appendix 1 – Amendments to the financial statements	13
Appendix 2 – Glossary	15
Appendix 3 – Action plan	17

Key messages

This report summarises the findings of my audit of the Kent Superannuation Fund 2010/11 financial statements.

Audit opinion and financial statements

I issued an unqualified audit opinion on the 2010/11 financial statements on 26 July 2011.

The financial statements submitted for audit on 10 June 2011 were of a good quality. The Council produced the accounts earlier than the statutory deadline. A number of amendments were required to the financial statements, including adjusting Standards. Management agreed to adjust the financial statements for the errors.

Unqualified audit opinion	Traffic light
	

Matters of interest



I confirm to you
My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified the following threat to independence:

- *One member of the audit team has immediate family employed at the County. I have concluded that this does not pose a risk to the auditor's independence and objectivity, but as a safeguard have set clear parameters over what work he can be involved in during this year's audit. I bring this to your attention in the interests of transparency. The threat has been reduced to an acceptably low level.*

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask the Superannuation Fund Committee to:

- take note of the matters raised in this report; and
- note officers' response to the action plan (Appendix 3).

Financial statements

Opinion on the financial statements

I issued an unqualified audit opinion on the 2010/11 Superannuation Fund financial statements on 26 July 2011.

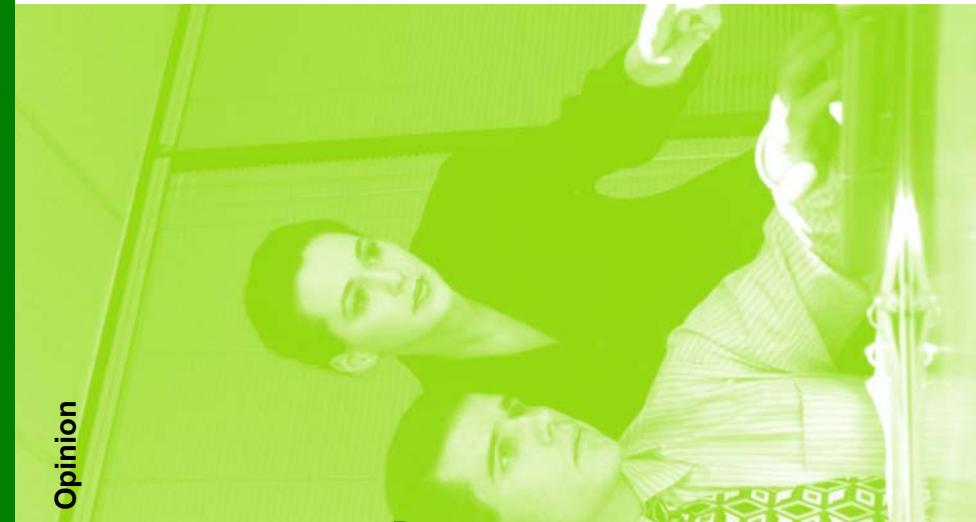
This report outlines the key findings of my work on the financial statements for the year ended 31 March 2011. I will present the information within this report to the Governance and Audit Committee on 14 September 2011 as part of the updated Annual Governance Report on the Council's financial statements.

Errors in the financial statements

My audit seeks to ensure that the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2010/11. The concept of materiality is defined at Appendix 4. For the 2010/11 accounts I have set materiality level at £16.0 million for the Superannuation Fund. Under International Standards on Auditing I also set a threshold below which I judge any errors to be 'trivial' and do not ask for the accounts to be amended. For 2010/11 the triviality threshold is set at £160,000.

Where I identify errors above this triviality threshold, under auditing standards I must request officers to amend the accounts. During the audit I identified a small number of errors in the financial statements. In agreement with the Governance and Audit Committee, officers agreed to adjust the financial statements for all errors identified within the Superannuation Fund accounts.

The misstatements identified in the accounts are set out in appendix 1 of this report.



Financial statements

The Superannuation Fund financial statements and annual governance statement of the Council are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. I reported these to the Committee as part of my audit plan on 20th May 2011.

Key audit risk and our findings

Key Audit Risk

Finding:

Page 40

1. Actuary's assumptions:

Barnett Waddingham carried out a full triennial valuation as at 1 April 2010. I am 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.

The actuary provided the assumptions for the roll forward of the triennial valuation. Audit testing completed under International Accounting Standard 19 (Employment Benefits) identified that the actuary estimated the growth in the Fund's asset base as 6.9 per cent whereas the actual growth is nearer 11 per cent as at 31 March 2011. This difference resulted in the County's share of the pension fund assets, estimated at approximately 46 per cent, being significantly different between the IAS 19 actuarial report (£1,450k) and the actual year end asset figure (£1,471k). The actuary produced a revised IAS 19 report to reflect the actual growth of 11 per cent and the accounts were amended to reflect the new figures. I recommend that a control needs to be implemented by management to check the reasonableness of the assumptions against the net assets statement.

Key Audit Risk

2. Icelandic bank deposits

The Council must write out the balance of the impairment as changes to accounting standards remove entries in the adjustment account. This is a sensitive issue for the readers of the accounts. I am expecting further guidance in a Local Authority Accounting Practice Bulletin before the financial statements audit.

3. Pension fund bank account:

As of 1 April 2011 the County Council and Superannuation Fund will have separate bank accounts. The Council transferred the cash held on behalf of the Superannuation Fund on 1 July 2010. There is a risk that the Council fails to correctly separate all income or expenditure.

Finding:

The Council has correctly charged the impairment of the Icelandic bank deposits to expenditure in accordance with the latest accounting advice from CIPFA.

The Council and Superannuation Fund have correctly separated the bank balances. However, my review of the year end cash balance held by the Superannuation Fund identified that it was incorrectly stated on two accounts:

- understated by £21,000 due to the exclusion of interest received on the call account as at 31 March 2011; and
- overstated by £13,082,000 due to the Icelandic deposits being included in the balance. These should be recognised as a debtor in 'other current assets'.

The accounts were amended to state the correct year end the cash balance position of £14,652,000.

4. International Financial Reporting Standards (IFRS):

The pension fund statements will have to reflect, for the first time, the requirements of the International Financial Reporting Standards.

There is a requirement to disclose the 'actuarial present value of promised retirement benefits' in the 2010/11 accounts. In advance of the accounts production, officers selected the option of disclosing this value in a note to the accounts. The accounts submitted for audit did not contain the note.

The IAS 26 report from the actuary states that this value is £4,523 million.

The accounts also omitted the following requirements:

- note on defined benefit schemes; and
- note explaining the move to IFRS, which is required even if there are no material changes to the accounts.

All the required disclosures were included in the final statement of accounts.

5. Valuation of freehold property:

The accounting for freehold property is a material accounting estimate. The portfolio is managed by DTZ and was valued by Colliers CRE at 31 March 2010 at £168 million.

Audit testing confirmed that the valuation of the freehold property is materially correct.

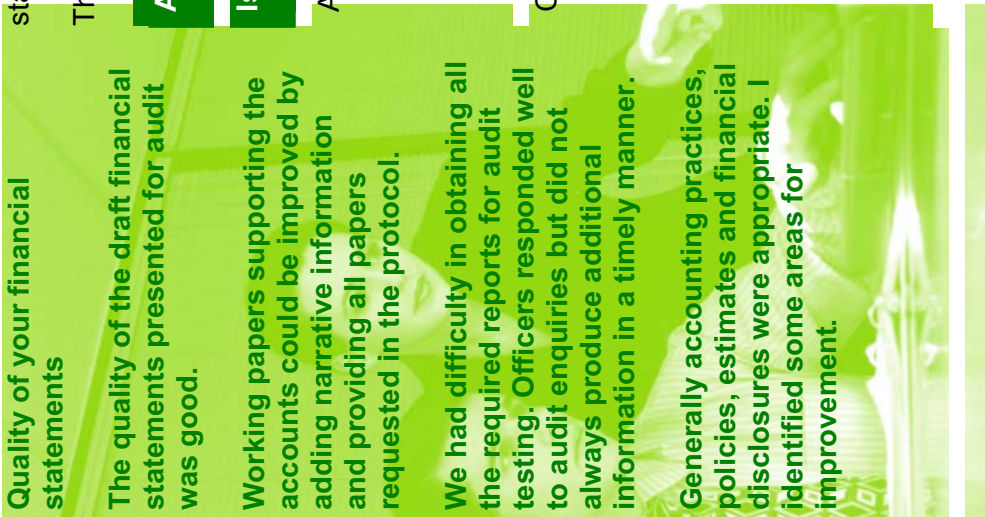
Recommendation

1. The Treasury and Investments Manager should carry out a reasonableness check of the actuary's IAS 19 reports before issuing to Kent County Council and other admitted and scheduled bodies for inclusion in their financial statements.

Financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.



Quality of your financial statements

The quality of the draft financial statements presented for audit was good.

Working papers supporting the accounts could be improved by adding narrative information and providing all papers requested in the protocol.

We had difficulty in obtaining all the required reports for audit testing. Officers responded well to audit enquiries but did not always produce additional information in a timely manner.

Generally accounting practices, policies, estimates and financial disclosures were appropriate. I identified some areas for improvement.

Accounting practices, policies, estimates and financial disclosures

Issue

Accounting policies

Findings and recommendations:

The accounting policies were prepared on the Pensions Statement of Recommended Practice. They should have been prepared based on the CIPFA Code of Practice for Local Authority Accounting. Some amendments were required to ensure compliance with the Code, for example, disclosures required under International Accounting Standard 26 (see page 10 for further detail).

Contributions receivable (note 1)

Audit testing on the timing of contributions receivable by the pension fund identified that payment from admitted and scheduled bodies of the scheme are in breach of regulation 42(2) of the Local Government Pension Scheme (Administration) Regulations 2008. This requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. Testing found that the regulation had been breached throughout the year by admitted and scheduled bodies. Officers monitor this on a monthly basis through a key performance indicator and contact relevant bodies to ensure they are aware payment is late. The timeliness of receiving contributions within 19 days improved by year end.

Financial instruments (note 17)

The CIPFA Code of Practice on Local Authority Accounting 2010/11 requires the Pension Fund Accounts to disclose a financial instruments note. Officers omitted the note from the draft financial statements. This was corrected in the final statement of accounts.

Disclosure amendments to notes

The draft financial statements were amended as follows:

- Three new notes were added disclosing the 'actuarial valuations as at 31 March 2010' which was previously disclosed in the introduction section of the accounts, the 'International Accounting Standards 26 disclosure' and 'Property' setting out the valuation of, and income from, investment properties;
- Note 5 was expanded to disclose the 'other investment management expenses'; and
- Note 8 'cash and cash equivalents' was reduced by £13,082,000 and 'other current assets' were increased by this amount.

Recommendation

2. Officers should continue improvements made at the end of the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days in the 2011/12 year.

Letter of representation

A letter of representation, covering the Council's financial statements including the Superannuation Fund accounts, was prepared by officers for the 2010/11 audit opinion. This was approved by the Chairman and Liberal Democrat member of the Governance and Audit Committee on 25 July 2011. It was signed by officers on the 26 July 2011.

Financial statements

International Standards on Auditing requires auditors to carry out a risk assessment of the general IT control environment. My review for 2010/11 has identified a specific weakness in the IT environment relating to the Superannuation Fund accounts as set out below. Officers acknowledge the weakness and have agreed to take action to correct it.

I also identified three other potential issues in relation to the Council's general IT environment that I have discussed with officers. I am satisfied that officers have put in place appropriate controls to mitigate the risk of these so am not required to report them to you.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Systems of internal control

International standards of auditing require auditors to report any significant weaknesses in systems of internal control that they identify through their work.

I did not identify any significant weaknesses in your systems of internal control. I did identify some areas for improvement.

Internal control issues and our findings

Description of weakness

The Axise pension system has a generic user ID with administrative privileges which is being used by the payroll team.

Potential effect:

There is a risk of potential misuse of the system by the payroll team as the user ID has full access to the pension system and the ID is being shared within the team.

Management action:

Officers have confirmed that the user ID is only used for the purposes for which it was intended. The pensions payroll group carry out 100% checking of all input and this is backed up by a system journal for each user automatically created each night. This is sufficient to mitigate the risk in 2010/11.

Recommendation

3. Stronger controls should be implemented in the Axise pension system to mitigate the risk of an administrative level user ID being used by multiple officers.

Appendix 1 - Amendments to the financial statements

I identified the following misstatements during my audit. Officers have corrected these in the final version of the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment		Fund Account		Net Assets Statement	
	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s

1) Investment valuations (Net Assets Statement and note 7):

The direct confirmation of year end investments from the investment managers identified that 3 of the balances were incorrectly disclosed in the financial statements as the Pension Fund valuations were taken as at 31 December 2010. This led to understatement of 2 valuations:

- Aurora £17,232,000; and
- YFM £2,039,000.

And overstatement of 1 valuation:

- HarbourVest £1,199,000.

The investment values have been amended to correct the £508k understatement of the net assets. The values as at 31 March 2011 are now:

- Aurora £17,741,000;
- HarbourVest £1,147,000; and
- YFM £2,091,000.

508

508

2) Benefits payable (note 3): The increases in the lump sums of £1,957,000 were incorrectly disclosed in the pension

The benefits payable note has been amended to state the correct figures. The total values as at 31

1,957

1,957

increases line of the note.

March are now:

- Pensions increase £39,376,000; and
- Lump sums (retirement) £37,379,000.

3) Future investment commitments

(note 12): The disclosure included two errors within the note:

- Total commitment with HarbourVest is overstated as one of the contracts for the reported £75m has not yet been signed; and
- Total amounts invested with Partners Group and HarbourVest were disclosed against the incorrect Fund.

Audit testing also identified that officers did not maintain records of the exchange rate used for the commitment or invested amounts so the exact disclosures could not be verified.

The disclosure note has been correctly amended to state the following:

- HarbourVest commitment £60m
- Invested amounts for HarbourVest are £1.6m and Partners Group £14.7m.

Recommendation

4. Officers should maintain records of the exchange rate used for commitments in foreign currencies on the date of investment.

Appendix 2 – Glossary



Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Appendix 2 – Glossary

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.



Appendix 3 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	The Treasury and Investments Manager should carry out a reasonableness check of the actuary's IAS 19 reports before issuing to Kent County Council and other admitted and scheduled bodies for inclusion in their financial statements.	3	Treasury and Investments Manager	Yes	We will carry out checks before the reports are issued.	Year end March 2012
10	Officers should continue improvements made at the end of the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days in the 2011/12 year.	1	Treasury and Investments Manager	Yes	The timing of the receipts is a key performance indicator and will continue to be monitored monthly. We have no legal remedy in respect of late payments but employers are being reminded of the deadlines and new monitoring arrangements are being established.	Implemented
12	Stronger controls should be implemented in the Axise pension system to mitigate the risk of an administrative level user ID being used by multiple officers.	1	Director of ICT	Yes	All PAYMA journals are now retained even when blank	Implemented
14	Officers should maintain records of the exchange rate used for commitments in foreign currencies on the date of investment.	1	Treasury and Investments Manager	Yes	A memorandum record is being maintained of the FX rate.	Implemented

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

To: Superannuation Fund Committee – 2 September 2011

Subject: **FUND POSITION STATEMENT**

Clarification: Unrestricted

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

FOR INFORMATION

INTRODUCTION

1. Attached is the Fund Position Statement report.

RECOMMENDATION

2. Members are asked to note this report.

Katherine Gray
Senior Accountant (Investments)
Ext: 4642

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D2 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

2 September 2011

By: **Chairman Superannuation Fund Committee**

Acting Corporate Director of Finance and Procurement

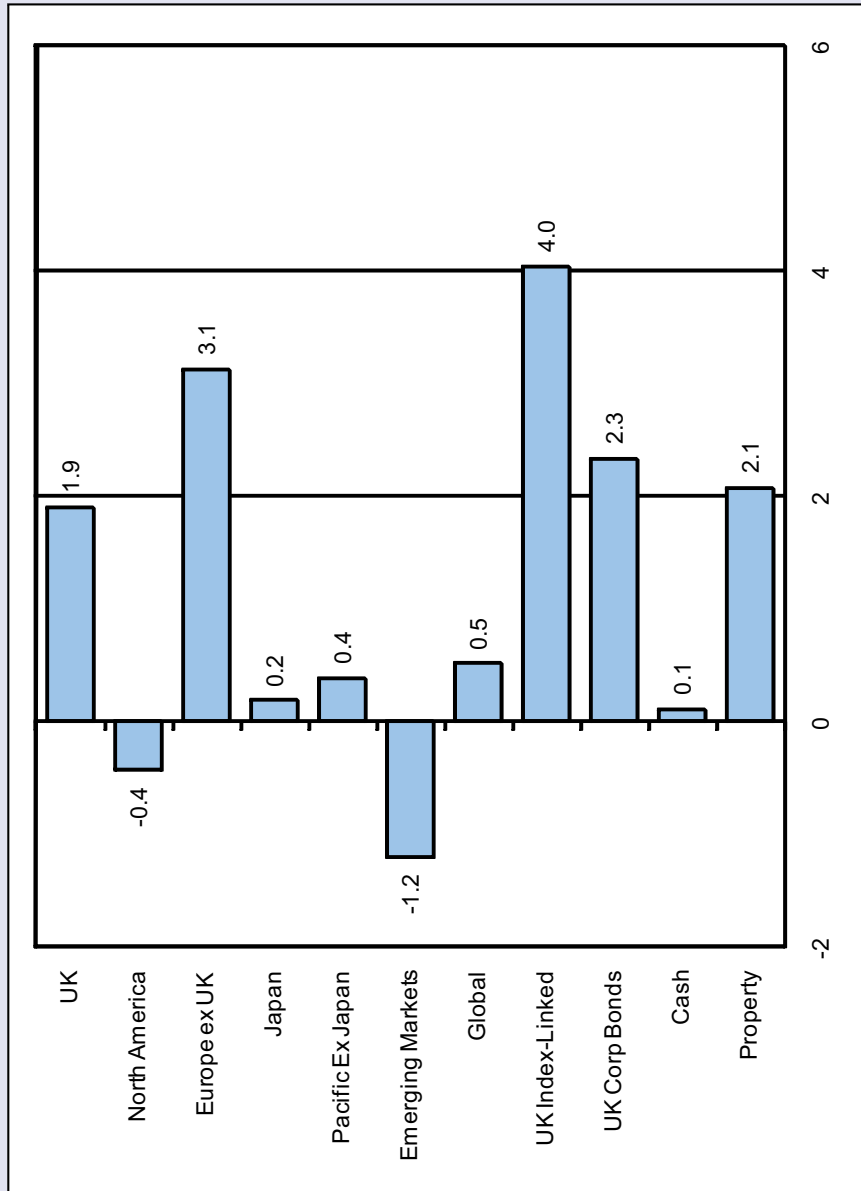


Kent County Council
Superannuation Fund 2011

Nick Vickers—Head of Financial Services

1

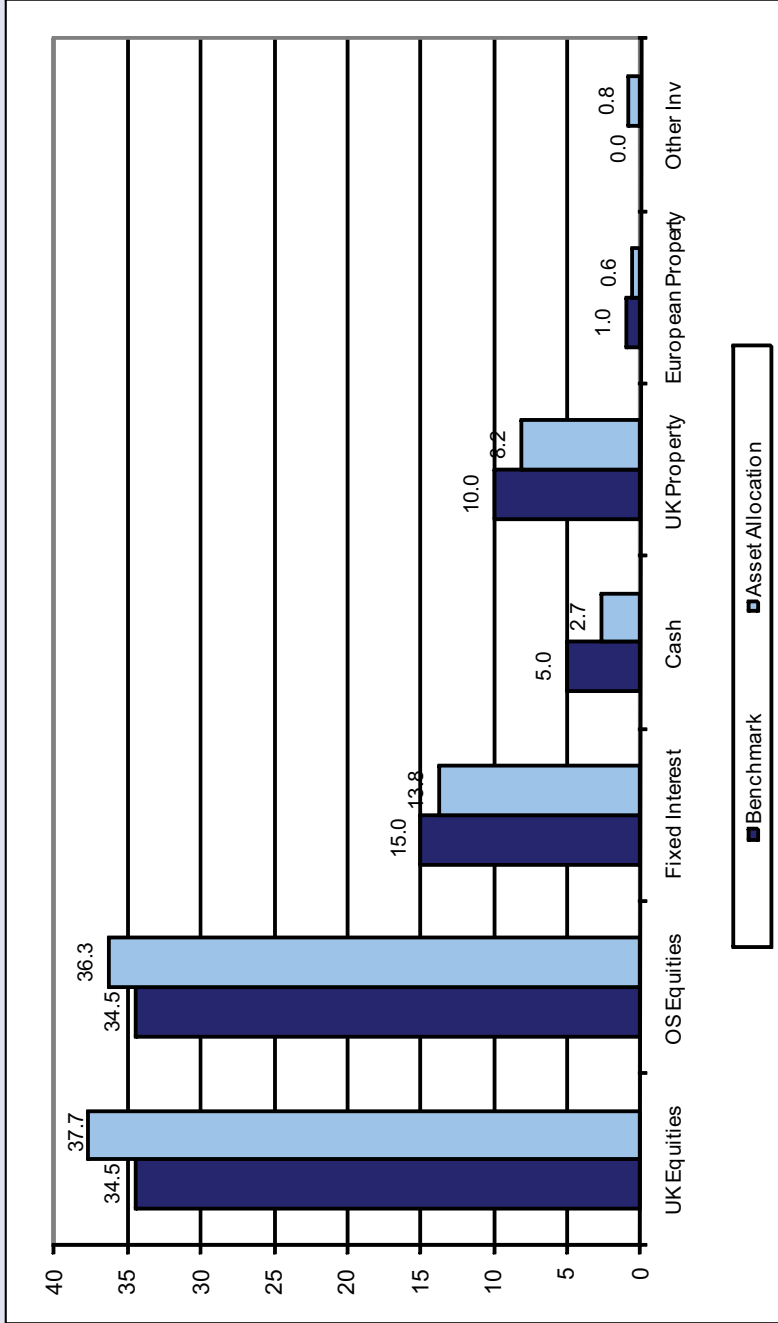
Market Returns -3 months to 30 June 2011



- Global Equities rallied in the last week of June in response to a successful vote on Greek austerity measures after a volatile quarter. However, world markets still only managed marginal gains over the quarter with Emerging markets and North America ending the quarter below where it started.
- Europe ex UK performed best in the equity markets led by strong performance in France and Germany
- UK Indexed Linked showed the best returns over the quarter.

Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: D2 refers



Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equities	1,209	37.7	34.5
Overseas Equities	1,164	36.3	34.5
Fixed Interest	441	13.8	15.0
UK Property	263	8.2	10.0
European Property	18	0.6	1.0
Cash	86	2.7	5.0
Other Inv	26	0.8	-
Total Value	3,207	100	100

Asset Distribution Fund Manager

Classification: Unrestricted
Item: D2 refers

Values (GBP)'000	Mandate	Value at		Capital		Value at		Fund	Benchmark
		31/03/2011	30/06/2011	Gain / loss	Income	30/06/2011	%		
Schroders	UK Equity	540,724	548,686	3,076	4,933	30/06/2011	17	17	Customised
Invesco	UK Equity	355,861	372,036	16,175	0	30/06/2011	12	12	Customised
State Street	UK Equity	245,009	244,660	4,651	0	30/06/2011	8	8	FTSE 100 All Share
State Street	Global Equity	292,691	293,409	718	0	30/06/2011	9	9	FTSE All World ex UK
Baillie Gifford	Global Equity	574,753	579,302	-725	5,181	30/06/2011	18	18	Customised
GMO	Global Quantitative	191,489	194,423	2,934	0	30/06/2011	6	6	MSCI World
Schroders	Global Quantitative	149,993	150,649	655	0	30/06/2011	5	5	MSCI World
Goldman Sachs	Fixed Interest	246,869	252,809	5,795	128	30/06/2011	8	8	ML £ Broad Market
Schroders	Fixed Interest	195,822	197,492	952	718	30/06/2011	6	6	ML £ Broad Market
Impax	Environmental	26,877	25,830	-1,047	0	30/06/2011	1	1	MSCI World
DTZ	Property UK	262,049	264,982	1,058	3,951	30/06/2011	8	8	IPD All Properties Index
DTZ	Property Europe	17,156	18,130	968	130	30/06/2011	1	1	IPD All Properties Index
Harbourvest	Private Equity	1,138	1,206	68	0	30/06/2011	0	0	
YFM	Private Equity	2,039	2,091	149	97	30/06/2011	0	0	
Partners	Infrastructure	15,067	14,660	-407	0	30/06/2011	0	0	
Henderson	Infrastructure	8,165	8,130	-35	0	30/06/2011	0	0	
Internally Managed	Cash	33,976	38,895	0	56	30/06/2011	1	1	LIIBID 7 Day Rate
Total Fund		3,159,679	3,207,391	34,986	15,193	30/06/2011	100	100	Kent Combined Fund

Performance Returns to 30 June 2011

Classification:
Unrestricted
Item: D2 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	1.6	1.4	18.5	17.9	7.4	6.8
UK Equity						
Schroders UK	1.5	1.9	25.8	25.1	9.4	6.5
State Street	1.9	1.9	25.6	25.6		
Invesco	4.5	1.9	19.6	25.6	7.4	6.6
Overseas Equity						
Baillie Gifford	0.8	0.9	24.1	22.0	11.4	8.6
GMO	1.5	0.3	21.8	21.6	7.3	8.3
Schroders GAV	0.4	0.3	22.3	21.6	12.4	8.3
State Street	0.2	0.3	21.6	22.0		
Impax Environmental Fund	-3.9	0.3				
Fixed Interest						
Goldman Sachs Fixed Interest	2.4	2.3	6.5	4.0	8.4	7.3
Schroders Fixed Interest	0.9	1.3	3.9	2.4	9.4	6.1
Property						
UK Property	1.9	2.1	9.8	9.1	3.3	0.2
Overseas Property	6.4	2.1	10.0	9.1	-8.3	0.2
Private Equity						
Harbourvest	6.0	0.1				
YFM	12.6	0.1	32.5	0.4		
Infrastructure						
Partners	-2.7	0.1				
Henderson	-0.4	0.1	27.0	0.4		

5

- The Fund increased in value over the quarter to over £3.2bn.
- The fund outperformed the benchmark over the quarter by 20 basis points. This put the fund in the 33rd percentile in the WM local authority rankings.
- The fund produced a return of 18.5% over the year, ranking us 30th in the WM Local Authority rankings. The fund is also ranked 30th over 3 years returning 7.4%.
- Most equity fund managers outperformed their benchmarks over the quarter. Invesco are the top performing equities manager over the quarter whose defensive strategy has performed well in recent months.
- Schroders UK, Baillie Gifford and Impax all underperformed relative to their benchmarks
- Over the longer term, Baillie Gifford, Schroders UK Equity and Schroders GAV have performed particularly well, outperforming their benchmarks by around 3% over 3 years
- Both Fixed Interest managers outperformed their benchmark over 1 year and 3 years although Schroders did underperform over the quarter.

Fund Structure

UK Equities

Schroders
+1.5%
£549m

State Street
+0.0%
£245m

Invesco
Unconstrained
£372m

Global Equities

Baillie Gifford
+1.5%
£579m

GMO
+3.0%
£194m

Schroders
+3.0 - +4.0%
£151m

State Street
+0.0%
£293m

Impax
£26m

Fixed Interest

Goldman Sachs
+0.75%
£253m

Schroders
+1.0%
£197m

Alternative

DTZ
UK Property
£265m

DTZ
Europe Property
£18m

Kent Cash
£39m

Henderson
Secondary PFI
£8m

YFM Private
Equity
£2m

Harbour Vest
£1m

Partners
£15m

Market Value £3.2bn
as at 30th June 2011

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

To: Superannuation Fund Committee – 2 September 2011

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

Classification: Unrestricted

Summary: To report on changes to the basis of admission for Kent Music School and Turner Contemporary Centre.

FOR DECISION

INTRODUCTION

1. Kent Music School, an existing employer in the Pension Fund, closed the pension scheme to both future and existing employees as at 16 April 2010.
2. At the August 2010 meeting the Committee was concerned over the potential liability of the Fund relating to Kent Music School.
3. At the November 2010 meeting the Committee was concerned at the projected deficit for Kent Music School, calculated at that time as £395,000. The Committee wished to consider the matter further before agreeing that a revised legal agreement can be entered into.
4. At the March 2011 meeting the Committee was advised discussions were ongoing and an updated cessation report was being prepared by Barnett Waddingham.
5. On 19 August 2011 Turner Contemporary Centre, an existing employer in the Pension Fund, gave three months notice to terminate their admission agreement.

KENT MUSIC SCHOOL

6. A revised cessation report has now been prepared by Barnett Waddingham, on an Accrual Cessation basis, where although Kent Music School will not have any active members in the Fund, it is still a going concern and the deficit can be recovered over a future period.
7. On this basis, the revised cessation report now shows the projected deficit has reduced to £4,000, due to the strong performance of the Fund and the way Barnett Waddingham looks at assets and liabilities.
8. Barnett Waddingham will undertake a valuation for Kent Music School every third year and certify what payments need to be made by them.

9. The next such valuation will be undertaken at 31 March 2013 with payments set for the 3 years from 1 April 2014. This process will continue every 3 years until the last of Kent Music School's deferred beneficiaries, pensioners and their dependants pass away, which could potentially be in many years time.
10. Due to the minimum level of revised deficit, Barnett Waddingham recommend the first payment from Kent Music School is not due until 1 April 2014, as assessed by them in the 2013 scheme valuation.
11. As there have been changes to the original Admission Agreement a new agreement will be drafted for agreement between the parties.

TURNER CONTEMPORARY CENTRE

12. Turner Contemporary Centre, a charitable trust which was set up by KCC to deliver a wide range of artistic and educational programmes in Margate and Thanet, joined the Pension Fund on 1 April 2010.
13. Their application was made under Regulation 5(2)(a)(i) of the Local Government Pension Scheme Regulations. There is no requirement under this regulation for a bond or indemnity, with any potential financial risk to the Pension Fund being covered by KCC acting as a guarantor.
14. A cessation report is being prepared by the Barnett Waddingham which will establish the financial implication for Turner Contemporary Centre. A new agreement will be drafted for agreement between the parties, subject to the terms of the cessation report.

RECOMMENDATION

15. Members are asked to:
 - (1) Agree that a revised legal agreement can be entered into in respect of Kent Music School, and
 - (2) Agree that a revised legal agreement can be entered into in respect of Turner Contemporary Centre, subject to the cessation report, and
 - (3) Agree that once legal agreements have been prepared for the above matter, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Investments and Treasury
Ext. 4625