

SUPERANNUATION FUND COMMITTEE

Friday, 31st August, 2012

10.00 am

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



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 31st August, 2012 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 of the meeting held on 29 June 2012 (Pages 1 - 4)

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

That under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Minutes (Pages 5 - 6)
2. Schrodgers
3. Fund Structure (Pages 7 - 20)

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 (Pages 21 - 42)
2. Fund Position Statement (Pages 43 - 50)
3. Comparative Investment Returns (Pages 51 - 56)
4. Pensions Risk Register (Pages 57 - 62)
5. Application for Admissions to the Fund (Pages 63 - 66)

Peter Sass
Head of Democratic Services
(01622) 694002

Wednesday, 22 August 2012

- (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, 29 June 2012.

PRESENT: Mr J E Scholes (Chairman), Mr D C Carr, Mr P Clokie, Mr D S Daley, Mr J A Davies, Ms J De Rochefort, Mr N Eden Green, Mr M J Jarvis, Mr J F London, Mr R A Marsh, Mr R J Parry, Mr S Richards and Mr M V Snelling.

ALSO PRESENT: Miss S J Carey and Mr P Homewood.

IN ATTENDANCE: Mr N Vickers (Head of Financial Services), Ms A Mings (Treasury & Investments Manager), Ms S Surana (Senior Accountant - Investments), Mr S Tagg (Deputy Pensions Manager) and Mr P R Luscombe (Pensions Manager) and Mr G Rudd (Assistant Democratic Services Manager).

UNRESTRICTED ITEMS

A. COMMITTEE BUSINESS

25. Minutes
(Item A3)

RESOLVED that the minutes relating to unrestricted items of the meeting held on 18 May 2012 are correctly recorded and that they be signed by the Chairman.

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

26. Minutes
(Item C1)

RESOLVED that the minutes relating to exempt items of the meeting held on 18 May 2012 are correctly recorded and that they be signed by the Chairman.

27. Invesco Perpetual
(Item C2)

(1) Mr H Ferrand and Mr W Deer of Invesco Perpetual were in attendance for this item in order to give a presentation and answer questions from Committee members.

28. Fund Structure
(Item C3- Report by the Chairman of the Superannuation Fund Committee and the Corporate Director of Finance and Procurement)

The Committee agreed a number of issues relating to the Fund Structure.

29. Ethical Investments

The Committee confirmed its policy regarding Ethical Investments.

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

30. Fund Position Statement

(Item D1 - Report by the Chairman of the Superannuation Fund Committee and the Corporate Director of Finance and Procurement)

RESOLVED that:-

- (a) the Head of Financial Services be authorised to look at how other investment managers are performing; and
- (b) the report be noted.

31. Treasury Management

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

RESOLVED that:-

- (a) the report be noted; and
- (b) authority be delegated to the Corporate Director of Finance and procurement in Consultation with the Chairman and Vice Chairman to make any arrangements deemed to be necessary to protect the Fund's cash holdings.

32. Local Government Pension Scheme 2014

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

RESOLVED that the report be noted.

33. Pensions Administration

(Item D4 - Report by the Chairman of the Superannuation Fund Committee and the Corporate Director of Finance and Procurement. The Pension Manager Mr P Luscombe was in attendance for this item)

RESOLVED that;

- (a) the contents of the report be noted;:
- (b) agreement be given to Kent being the lead authority to the Pension Scheme administration software framework agreement and that the cost of the project be shared with the other founder members; and
- (c) agreement be given to the appointment of West Yorkshire Pension Fund to act as the appointed person in the resolution of disputes with the Kent Pension Fund.

34. Applications for Admissions to the Fund

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

RESOLVED that:-

- (a) the admission to the Kent County Council Pension Fund of Roffa Limited be agreed;
- (b) the admission to the Kent County Council Pension Fund of Innovate Services Limited be agreed;
- (c) the admission to the Kent County Council Pension Fund of the third bidder for the Oakwood House contract be agreed;
- (d) the withdrawal of Principal Catering Consultants Limited (re Upton Junior School) as a participating employer in the Pension Fund be noted; and
- (e) once legal agreements have been prepared for the matters referred to in (a) to (d) above, the Kent County Council seal can be affixed to the legal documents.

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By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 31 August 2012

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

Classification: Unrestricted.

Summary: To present the draft Report & Accounts of the
Superannuation Fund for 2011/12 and the external audit.

FOR INFORMATION

INTRODUCTION

1. A draft version of the Superannuation Fund report & accounts for the year ended 31 March 2012 (before typesetting and design) is attached.
2. The external auditor's Annual Governance Report is also 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 by Governance & Audit Committee on 26 July.

RECOMMENDATIONS

4. Members are asked to note:
 - (1) The content of the Annual Report and Accounts for 2011/12 and confirm that they can be published.
 - (2) The external auditor's Annual Governance Report.
 - (3) The position with regard to Governance & Audit Committee.

Alison Mings
Treasury & Investments Manager
Ext 6294

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Annual governance report

Kent Pension Fund
Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements.

I issued an unqualified audit opinion on the 2011/12 financial statements on 26 July 2012.

The financial statements submitted for audit on 11 June 2012 were of a good quality. The Council produced the accounts earlier than the statutory deadline of 30 June. A few amendments were required to the financial statements, all of which were agreed by management and adjusted in the approved financial statements.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/12.

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

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Council Members you have final responsibility for these statements.

Opinion on the financial statements

I issued an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts on 26 July 2012.

My audit seeks to ensure the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2011/12. The concept of materiality is defined at Appendix 2. For the 2011/12 accounts I have set materiality level at £16.5 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 2011/12 the triviality threshold is set at £165,000.

Where I identify errors above this triviality threshold, under auditing standards I must request management to amend the accounts. Where management chooses not to do so, and the Governance and Audit Committee agrees, I request a written representation from the Committee as to whether it believe the effects of the uncorrected misstatements are not material individually and in aggregate.

Uncorrected errors

My audit work did not identify any errors that have not been corrected by management in the 2011/12 financial statements.

Corrected errors

I identified a few errors in the financial statements, some of which were material, and impact on the primary statements and disclosure notes. In my opinion, the errors are not indicative of management bias nor indicate a particular weakness in your arrangements and do not require detailed consideration by the Committee. However, for completeness and information, I highlight the amendments in appendix 3 and table 1.

Significant and specific risks and my findings

I reported to you in my 2011/12 Audit Plan the significant and specific risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks. A significant risk is a risk that requires special audit consideration, on the grounds that it is highly likely that the risk will be realised, and will result in a material misstatement in the financial statements. A specific risk occurs where I identify an issue related to a particular item in the financial statements.

Table 1: Risks and findings

Risk	Finding
<p>SIGNIFICANT: Actuarial present value of retirement benefits</p> <p>The present value of retirement benefits is a material item in your financial statements. The complexities involved in the valuation means there is a risk the financial statements may be materially misstated.</p>	<p>I completed the following work to gain assurance over the risk.</p> <ul style="list-style-type: none"> ■ Reviewed the management arrangements for instructing your actuary and the controls over the completeness and accuracy of information provided to the actuary. ■ Evaluated the work of your actuary, Barnett Waddingham. ■ Used my own actuarial expert to assess the reasonableness of the actuarial assumptions used by Barnett Waddingham. ■ Reviewed the accounting entries to ensure they agreed to the IAS 26 valuation report.
<p>SIGNIFICANT: Actuarial valuation of pension liability</p> <p>The actuarial valuation of the pension fund liability is a material accounting estimate in the financial statements. The actuary uses many assumptions to calculate this complex valuation. In addition, the valuation reports in 2010/11 were materially inconsistent for a few admitted bodies and revised valuations were provided by the</p>	<p>I identified that because of changes in the value of the scheme following submission of the draft financial statements to the actuary the fair value of the scheme did not agree to the actuarial valuation report. The actuary has revised the IAS26 valuation based on the final figures and the financial statements now agree to the valuation by the expert.</p> <p>I confirmed the accuracy and completeness of the valuation of the pension liability to the actuary's report. I assessed the reasonableness of the actuary's work by using my own actuary expert.</p>

Risk	Finding
<p>actuary.</p> <p>Valuation of freehold property</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 31 March 2011 at £191 million.</p>	<p>I carried out audit procedures to place reliance on the work of your valuer as an expert. I also verified the accounting entries in the financial statements to the valuation report. I did not identify any issues that need to be brought to your attention.</p>
<p>Investment commitments</p> <p>The pension fund has committed money to four private equity investments. These are equity securities in operating companies that are not publicly traded on a stock exchange.</p>	<p>I reviewed the valuation of the investments and sample tested entries in the financial statements against the year end investment commitment reports and an independent source.</p> <p>I identified the following from my testing.</p> <ul style="list-style-type: none"> ■ The draft financial statements included estimated year end investment balances. Update valuations were received in early July for private equity and infrastructure and pooled property investments. As the differences were above my triviality level these have been amended in the financial statements: <ul style="list-style-type: none"> – Henderson £8,490,100 to £8,441,500; – Partners Group 2009 £22,587,121 to £24,120,282 and 2011 £4,086,695 to £3,890,288; – HarbourVest HIPEP VI £3,997,604 to £3,880,262 and IX £1,494,132 to £1,454,120; and – Aurora £16,079,551 to £15,963,259.
	<ul style="list-style-type: none"> ■ The disclosure in note 22 for the contractual commitments with the private equity investment bodies has been improved to give a fuller description of the investments and commitments in the currency they were made and the converted amount as £ sterling. <p>These issues have all been corrected in the revised statement of accounts presented to members.</p>

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

I did not identify any weaknesses in internal control during the audit that are relevant to preparing the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I highlight the following themes for your attention: accounting disclosures compared with best practice; accounting policies; and compliance with laws and regulations.

Table 2: Other matters

Issue	Finding
Code of Practice on Local Authority Accounting 2011/12 disclosure requirements	I reviewed the draft financial statements against the requirements of the Code disclosure checklist. I identified a few narrative issues where the Pension Fund disclosure did not meet expected best practice. The accounts have been amended for these. Some of the more significant changes are set out in the bullet points below.

Issue	Finding
<p>accounts.</p>	<p>The notes:</p> <ul style="list-style-type: none"> ■ incorrectly included freehold property totalling £222.575 million and all related accounting entries (note 15); ■ did not include cash invested by JP Morgan totalling £51.670 million within the credit risk disclosure table and included an incorrect reference to USD (note 16); ■ incorrectly reported the fair value through profit and loss of financial assets with different values for the carrying and fair values. These should be reported as the same figure at market value (note 16); and ■ prior year comparators for cash (£60.943 million) and overseas equity investments value on increase (£578.517 million) as at 31 March 2011 were misstated. The disclosures should be £73.659 million and £583.615 million respectively. <p>All required amendments have been made to the financial statements.</p>
<ul style="list-style-type: none"> ■ Related party transactions – note 23 (and note 36 of the Council's financial statements) 	<p>Related party transactions with the Kent Pension Fund were incorrectly disclosed in the Council's financial statements:</p> <ul style="list-style-type: none"> ■ cash held by the Council on behalf of the Pension Fund totals £3.313 million. This is cash that has been paid over to the Council but should be in the Pension Fund cash balance as at 31 March 2012. A recommendation has been made to account for the cash balance differently next year.
<ul style="list-style-type: none"> ■ current assets - note 18 	<p>The note should disclose the amounts owed by other public sector bodies and those external to general government. The note has been correctly amended to disclose the debt profile in this way.</p>
<p>Accounting policies</p> <p>Accounting policies set out the agreed practice to be followed in the preparation of accounts. It is important that actual practice follows the stated policies and that policies are disclosed for all key</p>	<p>I reviewed the summary accounting policies of the Pension Fund and identified the following issues:</p> <ul style="list-style-type: none"> ■ narrative that had previously been included in the financial statements for the foreign currency transactions policy (note 21) was incorrectly omitted in 2011/12 policy; and ■ the actual accounting treatment adopted in 2011/12 for cash and cash equivalents

Issue	Finding
<p>matters.</p> <p>- note 2</p> <p>Compliance with laws and regulations:</p> <p>Preparation of the accounts assumes that all material laws and regulations are followed.</p> <p>- Contributions receivable - note 5</p> <p>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.</p>	<p>(note 2j) was not in line with the policy.</p> <p>The accounting policies have been correctly revised.</p> <p>I reviewed the timing of contributions receivable by the pension fund and sample tested the contributions receivable to corroborate the accuracy and classification of these in the financial statements. Some 4.7% of contributions received in 2011/12 from admitted and scheduled bodies of the scheme breached regulation 42(2). This includes seven larger scheduled bodies. Officers monitor this monthly 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 during 2011/12 financial year.</p> <p>I also noted a classification error in the disclosure of contributions receivable. Two schools that transferred to foundation school status (and therefore should be a scheduled body) are still shown as KCC schools. Because of the analysis of KCC schools contributions it is not possible to identify the amount relating to the two schools. However, I can confirm that this could not be material as the schools would not pay more than £100,000 a month so the maximum error in 2011/12 (and the prior year) would be £2.4 million. This is an uncertainty in the classification of contributions receivable and does not impact on the total contributions receivable in 2011/12.</p>
Recommendations	
<p>R1 The pension fund bank reconciliation process should ensure that cash held on behalf of the fund by the Council should be transferred back to it on a regular basis, with the cash held as at 31 March being shown as cash in transit in the reconciliations and financial statements.</p> <p>R2 Officers should ensure that the requirements of IAS32 (Financial Instruments: Presentation) are met when producing the financial instruments notes for the Pension Fund.</p> <p>R3 Officers should continue improvements made in the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days.</p>	

Pension Fund Annual Report

The Pension Fund has not yet prepared its Annual Report. As a result I have not yet reviewed the financial statements contained within the Annual Report and am not able to report on them. The Pension Fund plans to produce its Annual Report by 10 August 2012 and I anticipate reporting on the financial statements included in the Annual Report by 30 September.

Fees

I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	49,170	49,170
Total	49,170	49,170

The Audit Commission has paid a rebate of £3,933 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £45,237.

Appendix 1 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Fund Account		Net Assets Statement	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Net Assets Statement and Investment notes 13 and 14	<p>Two changes have been made to the prior year comparators:</p> <ul style="list-style-type: none"> ■ The cash internally invested by the Pension Fund was previously treated as a cash balance. In 2011/12 officers decided to present the cash as part of the cash deposit investments (cash equivalents) and not as cash held by the pension fund. This required a restatement of the prior period figures for cash for these deposits: <ul style="list-style-type: none"> – 2010/11 investments cash deposits 12,061 – 2010/11 current assets cash 12,061 ■ Investment management fees were shown in 10/11 as the net position. Officers feel it is more transparent to show the gross fees: <ul style="list-style-type: none"> – 2010/11 investment management fees 3,562 – 2010/11 income from investments 3,562 				

Appendix 2 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under 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.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated 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 that contain basic principles and essential procedures with which auditors must 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 for local government bodies issued by the Audit Commission and approved by Parliament.

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 relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

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 may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

Appendix 3 – Action plan

Recommendations

Recommendation 1

The pension fund bank reconciliation process should ensure that cash held on behalf of the fund by the Council should be transferred back to it on a regular basis, with the cash held as at 31 March being shown as cash in transit in the reconciliations and financial statements.

Responsibility Treasury and Investments Manager

Priority High

Date 31 March 2013

Comments Arrangements to be made for the cash balance at 31 March 2012 to be transferred from KCC to the Pension Fund. The cash reconciliation to be completed monthly and the cash balance at 31 March 2013 to be transferred and accounted for as recommended.

Recommendation 2

Officers should ensure that the requirements of IAS32 (Financial Instruments: Presentation) are met when producing the financial instruments notes for the Pension Fund.

Responsibility Principal Accountant – Treasury / Senior Accountant - Investments

Priority Low

Date 31 March 2013

Comments Agreed

Recommendation 3

Officers should continue improvements made in the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days.

Responsibility	Treasury and Investments Manager / Principal Accountant - Pension Fund
Priority	Low
Date	31 March 2013
Comments	The receipts of Contributions continue to be monitored monthly and corrective action taken accordingly.

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- any director/member or officer in their individual capacity; or
- any third party.



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Augustly 2012

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By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 31 August 2012

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted.

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

FOR INFORMATION

INTRODUCTION

1. Attached is the Fund Position Statement report.

RECOMMENDATION

2. Members are asked to note this report:

Sangeeta Surana
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

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

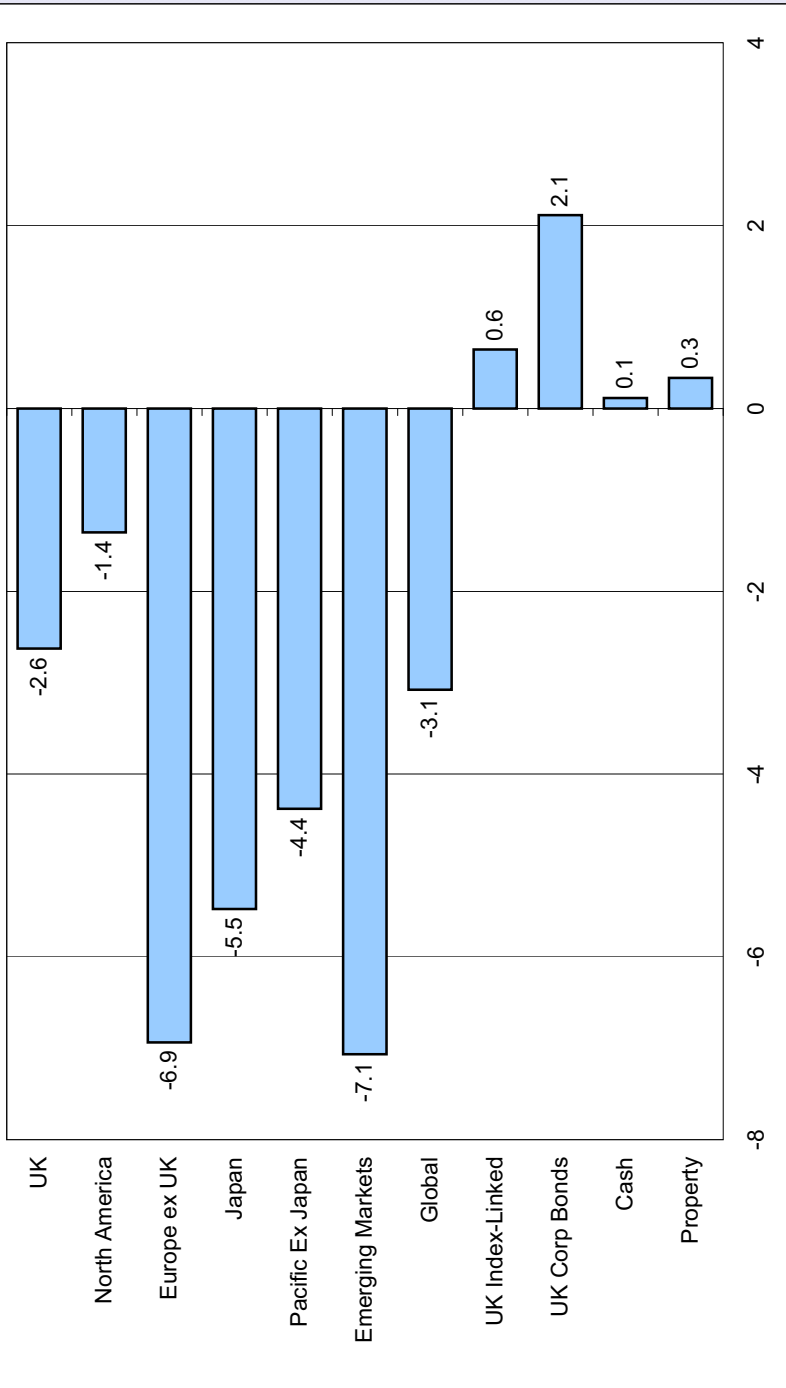


Kent County Council
Superannuation Fund 2012

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 30 June 2012

Classification: Unrestricted
Item: D2 refers



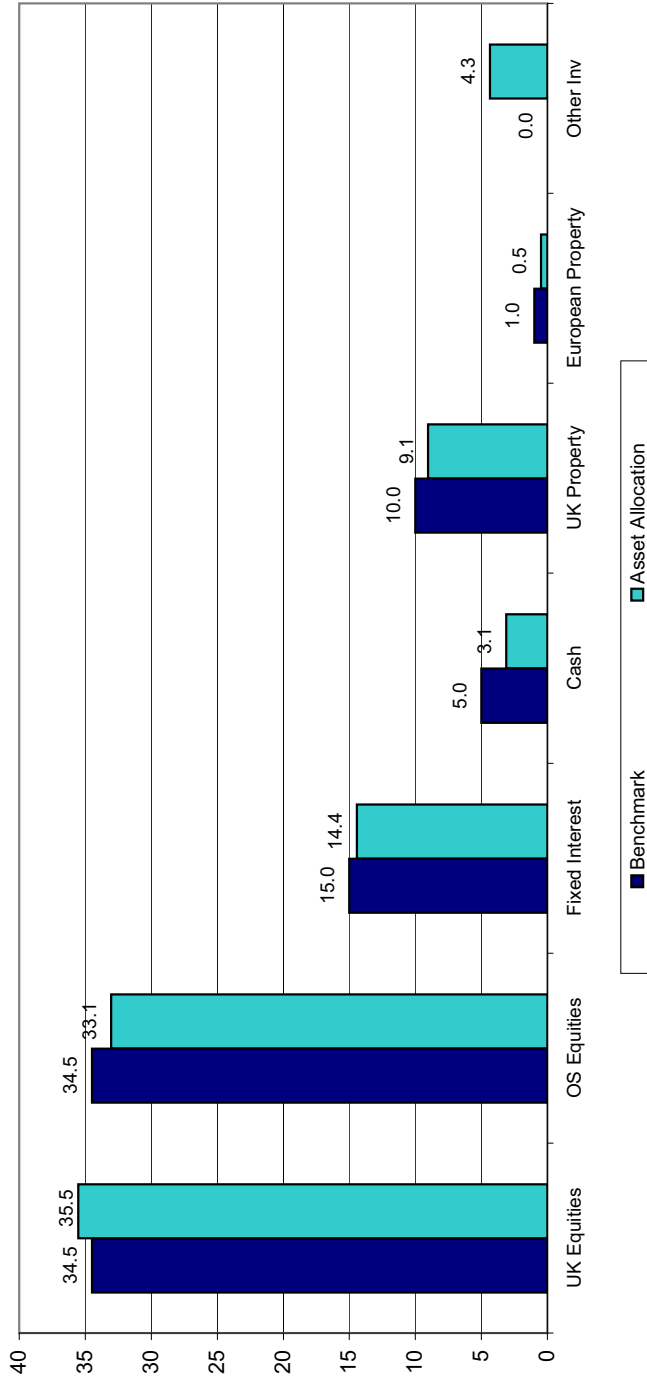
The second quarter of 2012 saw a return to risk aversion and in this cautious environment equities in all areas fell in unison. Latest developments in the Eurozone, moderation of growth in the US and signs of a slowdown in China renewed investors' worries and as a result equities across all markets saw a fall, although UK and the US equities held their values better than those in the other markets.

Risk-off and safe assets on the other hand did well and resulted in positive growth in Index Linked Securities and the UK Corporate Bonds in our portfolio.

Property continued to return modest growth.

Asset Allocation vs Fund Benchmark - 30 June 2012

Classification: Unrestricted
Item: D2 refers



Asset Class	Kent Fund		Benchmark	
	£m	%	£m	%
UK Equities	1,151	35.5	1,151	34.5
Overseas Equities	1,070	33.1	1,070	34.5
Fixed Interest	467	14.4	467	15.0
UK Property	293	9.1	293	10.0
European Property	15	0.5	15	1.0
Cash	101	3.1	101	5.0
Other Inv	141	4.3	141	-
Total Value	3,238	100	3,238	100

Asset Distribution Fund Manager - 30 June 2012

Classification: Unrestricted
Item: D2 refers

Values (GBP)'000	Mandate	Value at		Capital		Value at		Fund	Benchmark
		31/03/2012	Transactions	Gain / loss	Income	30/06/2012	%		
Schroders	UK Equity	529,247	5,874	(18,212)	5,910	516,910	16	Customised	
Invesco	UK Equity	398,911	-	3,316	-	402,227	12	Customised	
State Street	UK Equity	194,329	-	(5,100)	-	189,233	6	FTSE All Share	
State Street	Global Equity	247,399	-	(8,987)	-	238,411	7	FTSE All World ex UK	
Baillie Gifford	Global Equity	583,125	6,117	(22,250)	5,207	566,993	18	Customised	
GMO	Global Quantitative	192,010	-	(5,555)	-	186,455	6	MSCI World NDR	
Schroders	Global Quantitative	144,498	-	(6,488)	-	138,010	4	MSCI World NDR	
Goldman Sachs	Fixed Interest	273,518	168	4,320	138	278,006	9	Customised	
Schroders	Fixed Interest	203,234	778	3,215	778	207,228	6	ML £ Broad Market	
Impax	Environmental	23,517	-	(2,122)	-	21,396	1	MSCI World NDR	
DTZ	Property UK	297,143	881	(2,224)	4,156	295,800	9	IPD All Properties Index	
DTZ	Property Europe	16,036	-	(612)	105	15,424	0	IPD All Properties Index	
Harbourvest	Private Equity	4,632	878	(262)	-	5,248	0	GBP 7 Day LIBID	
YFM	Private Equity	3,061	432	81	-	3,574	0	GBP 7 Day LIBID	
Partners	Infrastructure	25,921	1,928	(658)	-	27,191	1	GBP 7 Day LIBID	
Henderson	Infrastructure	8,490	-	(49)	-	8,442	0	GBP 7 Day LIBID	
Internally Managed	Cash	47,148	(6,090)	0	71	41,058	1	GBP 7 Day LIBID	
Pyrford	Absolute Return	80,354	15,117	707	-	96,178	3	RPI	
Total Fund		3,272,574	26,089	(60,880)	16,365	3,237,782	100	Kent Combined Fund	

Performance Returns - 30 June 2012

Classification: Unrestricted
Item: D2 refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	-1.4	-1.7	-0.3	0.2	12.5	12.3
UK Equity						
Schroders UK	-2.3	-2.6	-5.8	-3.0	14.0	13.6
State Street	-2.6	-2.6	-2.9	-3.1	13.8	13.8
Invesco	0.8	-2.6	8.1	-3.1	15.0	13.8
Overseas Equity						
Baillie Gifford	-2.9	-4.3	-2.2	-6.9	16.4	11.2
GMO	-2.9	-3.3	-4.1	-2.7	11.8	12.9
Schroders GAV	-4.5	-3.3	-8.4	-2.7	12.5	12.9
State Street	-3.6	-3.6	-3.6	-3.6		
Impax Environmental Fund	-9.0	-3.3	-17.2	-2.7		
Fixed Interest						
Goldman Sachs Fixed Interest	1.6	1.8	10.0	9.8	10.4	8.8
Schroders Fixed Interest	2.0	1.8	4.9	7.5	6.9	6.3
Property						
UK Property	0.7	0.3	5.1	4.8	15.9	12.3
Overseas Property	-3.2	0.3	-13.8	4.8	-6.9	12.3
Private Equity						
Harbourvest	-5.0	0.1				
YFM	2.6	0.1				
Infrastructure						
Partners	-2.6	0.1	-6.6	0.5		
Henderson	-0.6	0.1	3.8	0.5		
Absolute Return						
Pyrford	0.6	0.4				
Data Source: The WM Company						
- returns subject to rounding differences						

Invesco was the best performer in the quarter and has good outperformance over the 1 and 3 year periods. Baillie Gifford also outperformed and are well ahead of the benchmark over 1 and 3 year periods. GMO are marginally ahead of benchmark for the quarter but behind for the 1 and 3 year periods. Schroders UK equity portfolio outperformed whereas the Global Equity mandate underperformed. However for the 1 year period Schroders has underperformed across both equity mandates, but returned around benchmark performance for the 3 year period. Impax continued to underperform. StateStreet being a tracker fund continues to return benchmark figures as expected.

In the fixed interest portfolios, this quarter Goldman Sachs underperformed and Schroders outperformed the benchmark by small margins. However whilst both have had positive returns over the 3 year period, Schroders failed to match the benchmark for the 1 year timeframe.

DTZ's UK property portfolio has consistently posted modest but above benchmark returns, although its European investment continues to significantly underperform the benchmark.

Returns on Infrastructure and Private Equity investments follow the J curve income cycle. Recent investments in Partners and Harbourvest are still in their early stages of the J curve and as expected have not shown positive returns over the 1 year period. However earlier investments in YFM and Henderson are showing better results as expected

New investment made in January in an absolute return fund with Pyrford has shown positive return in the first complete quarter

Fund Structure - 30 June 2012

Classification: Unrestricted
Item: D2 refers

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £517m	Baillie Gifford +1.5% £567m	Goldman Sachs +0.75% £278m	DTZ UK Property £296m	Kent Cash £41m
State Street +0.0% £189m	GMO +3.0% £186m	Schroders +1.0% £207m	DTZ Europe Property £15m	Henderson Secondary PFI £8m
Invesco Unconstrained £402m	Schroders +3.0 - +4.0% £138m			Partners £27m
	State Street +0.0% £238m			YFM Private Equity £4m
	Impax £21m			HarbourVest £5m
				Pyrford +5.0% £96m

Market Value £3.2bn
as at 30 June 2012

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 31 August 2012

Subject: **COMPARATIVE INVESTMENT RETURNS**

Classification: Unrestricted

Summary: To report on comparative investment returns.

FOR INFORMATION

INTRODUCTION

1. At the last meeting the additional information in the Fund Position Statement led to a request for more information on comparative investment returns of local authority funds.

WM UK LOCAL AUTHORITY ANNUAL REVIEW 2011/12

2. Members of the Committee have been provided with copies of the latest edition of this annual report prepared by the WM Company.
3. The main issues from the report are:
 - (1) Average equity holdings fell from 64% to 62% - so even our reduced benchmark weight of 64% is slightly above average.
 - (2) The average bond allocation rose from 17% to 18% - the Fund is at 14%.
 - (3) Equities returned 3% per annum on average over the last 5 years – a hugely disappointing return.
 - (4) The Fund has 3 of the top 10 managers of local authority funds by value – Baillie Gifford 4th with 5%, Schroders 5th with 4% and State Street 7th with 3%.
 - (5) On average 24% of funds by value are passively managed compared with 13% for the Fund.
 - (6) Almost 75% of funds underperformed their benchmark in 2011/12.
 - (7) The range of returns doubled over the past year with 90% of funds within a range of 8%.

- (8) Alternatives generally appear not to have performed well – private equity was at the upper end of results and hedge funds, commodities and active currency fairly “substantially worse”. Again the Fund’s choices in this area were good.
 - (9) Most funds still have a positive cashflow although many funds are now having to use investment income.
4. The overriding theme which will be reflected in the rest of this report is that funds who were overweight in equities and underweight in Fixed Income performed less well in 2011/12. For the Fund to have outperformed the Local Authority Average given our asset allocation says much for the returns generated by Invesco and Baillie Gifford – and the avoidance of any significant underperformance by a major manager.

LOCAL AUTHORITY INVESTMENT PERFORMANCE

5. In Appendix 1 the Top 10 and Bottom 10 Local Authority funds in 2011/12 are shown. I would highlight the following:
- (1) All the funds in the Top 10 except Staffordshire had an above average allocation to Fixed Income.
 - (2) None of the funds in the Top 10 in 2011/12 were in the Top 10 in 2010/11 – a better year for equity returns.
 - (3) In 2010/11 both Hammersmith & Fulham and Northumberland were in the Bottom 10. Of the Top 10 in 2011/12 only 2, Staffordshire and South Yorkshire, outperformed the Fund in 2010/11.
 - (4) The Bottom 10 Funds in 2011/12 all had high allocations to equities and manager underperformance. Accurate and up to date manager rosters are not publicly available. Of the Bottom 10 only Barking and Shetlands were also in the Bottom 10 in 2010/11.
6. Over the 2 year period the most comparative fund to have performed well is Staffordshire and in Appendix 2 their asset allocation and manager roster as at 31 March 2011 is shown. The main differences from the Fund are:
- (1) A far higher allocation to Overseas Equities than UK Equities – 63% Overseas.
 - (2) More active managers but generally with smaller mandates; at 31 March 2011 the Fund was valued at £2,617m and Standard Life had 10% of the fund (£262m) and 3 other active equity managers 7% each (£183m).
 - (3) The State Street passive equity exposure was all Global and was higher than the Kent Fund at 31% compared with 13%.

7. Staffordshire are also advised by Hymans Robertson.
8. Staffordshire has a Pensions Committee of 15 members and a Pensions Panel of 5 (all county members) with the Panel focussing exclusively on investment manager issues.

RECOMMENDATION

9. Members are asked to note the report.

Nick Vickers
Head of Financial Services

Tel: 01622 694603
Mobile: 07920 428575

Local Authority Investment Performance 2011/12

APPENDIX 1

Fund	Size	Total	UK	Overseas	Global	Total	Fixed Income	Alternatives	Property	
	£m	Return %	Equities %	Equities %	Equities %	Equities %	%	%	%	
Average	-	2.6	25.4	33.4	4.4	63.2	17.2	7.7	7.3	
Kent	2,885	2.7	35.8	22.9	11.0	69.7	11.7	3.7	9.5	
Top 10										
Hammersmith	557	8.2	26.8	27.5		54.3	24.2	19.9	0.0	
Staffs CC	2,395	7.8	27.1	26.5	20.3	73.9	12.9	6.8	7.3	
Dorset CC	1,412	6.6	27.0	26.2		53.2	19.7	8.3	7.0	
Powys CC	324	6.1	2.5	32.9	14.1	49.5	27.4	11.7	7.2	
Redbridge	397	5.4	25.3	28.7		54.0	35.3	1.1	6.0	
Wandsworth	769	5.4	34.6	20.4	13.3	68.3	23.9	0.0	1.2	
Cumbria CC	1,278	5.3	25.9	25.9		51.8	32.2	7.8	6.4	
Northumberland CC	719	5.2	27.6	28.4	11.6	67.6	26.9	0.0	5.5	
South Yorkshire	4,076	5.2	21.9	35.4		57.3	22.2	7.6	9.7	
Environment Active	1,595	5.1	17.0	41.8		58.8	27.9	7.6	3.2	

Fund	Size	Total	UK	Overseas	Global	Total	Fixed	Alternatives	Property
		Return	Equities	Equities	Equities	Equities	Income		
	£m	%	%	%	%	%	%	%	%

Bottom 10

Worcs CC	1,366	-1.0	39.5	51.7		91.2	6.8	0.0	0.0
Brent	454	-0.2	21.1	30.7		51.8	16.2	24.3	7.1
Cornwall CC	1,041	0.2	24.7	38.4		63.1	16.2	10.4	7.1
Cambs CC	1,486	0.5	33.8	20.9	17.2	71.9	13.8	5.7	8.6
Gwynedd CC	929	0.5	19.4	33.2	10.8	63.4	14.0	5.5	8.9
Teeside	2,372	0.5	38.1	39.7		77.8	9.5	2.9	5.4
Barking	566	0.5	26.5	34.0		60.5	26.7	1.4	8.8
Swansea	1,016	0.6	33.0	34.8		67.8	6.6	4.4	3.9
Kingston	385	0.7	2.9	32.9	43.9	79.7	14.8	0.0	4.6
Shetlands	227	0.9	39.4	40.5		79.9	8.4	0.0	7.5

Note:

Fund values at 31 March 2010

Staffordshire Pension Fund

Asset Allocation	%
UK Equities	26
Overseas Equities	45
UK Bonds	13
Property	7
Other	5
Cash	4
	100
Managers Equities	
State Street	Global passive
Aberdeen	Global active
Sarasin & Partners	Global active
JP Morgan	Global active
Standard Life	UK active
Longview	Global active
Russell	Emerging Markets active
Pictet	Emerging Markets active
Fixed Income	
Insight	UK Government and Index Linked Bonds
Legal & General	UK Index Linked
Property	
Colliers	Property
Alternatives	
Financial Risk Management	Hedge Funds
Goldman Sachs	Hedge Funds
Various	Private Equity

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 31 August 2012

Subject: **PENSIONS RISK REGISTER**

Classification: Unrestricted

Summary: To report the Pensions Risk Register.

FOR DECISION

INTRODUCTION

1. The Council has in place well established arrangements for monitoring and reporting on risks. The Fund has a Pensions Risk Register which is periodically updated.

UPDATE

2. The senior officers associated with the Fund updated all risks and undertook a ranking exercise.
3. The risks identified as High are:

Risk	Additional Controls
Changes to the LGPS	<ul style="list-style-type: none"> • Recent announcements on LGPS 2014 have reduced the risk in this area. • Regular reporting to Committee and employers. • Planning for the approach to scheme member communication needs to start.
Impact of the 2013 Valuation	<ul style="list-style-type: none"> • Actuary has already been to Committee and Kent Finance Officers. • Impact of LGPS 2014 helpful.
Investment manager under performance, complexity of the manager structure	<ul style="list-style-type: none"> • Already a major focus for the Committee. • Needs to be revisited when the new Committee comes together in June 2013.

Loss of key personnel	<ul style="list-style-type: none"> • Officer structures are evolving and being strengthened. • Member position to be revisited June 2013.
Council downsizing	<ul style="list-style-type: none"> • More detailed work on cashflows to be undertaken.
Employees opting out of the scheme	<ul style="list-style-type: none"> • Monitoring arrangements being implemented. • Probably reduced by the LGPS 2014 proposals.
Auto Enrolment	<ul style="list-style-type: none"> • KCC start date under review.

RECOMMENDATION

4. Members are asked to agree the Risk Register.

Nick Vickers
Head of Financial Services

Tel: 01622 694603
Mobile: 07920 428575

UPDATED PENSIONS RISK REGISTER (MARCH 2012)

Ref:	Risk	Controls	Rating
1.	Failure of governance arrangements	<ul style="list-style-type: none"> - Committee meetings - Liaison with Chairman, Vice Chairman - Advice of Legal & Democratic services 	Low
2.	Financial default by an employer	<ul style="list-style-type: none"> - Upgraded bonding arrangements - Review undertaken of Admitted Bodies. 	Low
3.	Changes to the LGPS <ul style="list-style-type: none"> - admin issues - investment implications - 2013 actuarial valuation 	<ul style="list-style-type: none"> - Understand the changes - Ongoing communication - Liaison with actuary. 	High
4.	Impact of 2013 actuarial valuation.	<ul style="list-style-type: none"> - Good communication - Test assumptions - Project manage all aspects. 	High
5.	Pension Fund Cash Management	<ul style="list-style-type: none"> - Bespoke treasury strategy - Regular reporting 	Low
6.	Investment Advice	<ul style="list-style-type: none"> - Explore collaborative procurement options. 	Low
7	Investment manager underperformance, complexity of manager structure.	<ul style="list-style-type: none"> - Extra committee meetings - More scrutiny by officers - Updates of investment strategy. 	High

8.	Loss of key personnel	<ul style="list-style-type: none"> - Planning succession issues (members & officers) - Ongoing training & development of members & officers. 	High
9.	Member control training	<ul style="list-style-type: none"> - Training plan - Ongoing monitoring & reporting. 	Low
10.	Employer data quality	<ul style="list-style-type: none"> - Work with employers in-particular KCC. - 	Medium
11.	Differential investment strategies.	<ul style="list-style-type: none"> - Understand maturity issues across employers. - 	Low
12.	Environmental, Social & Governance issues eg. tobacco	<ul style="list-style-type: none"> - More fully develop the ESG policy. - Use membership of Institutional Investors Group on Climate Change 	Low
13.	Size of some equity mandates.	<ul style="list-style-type: none"> - Closely monitor the manager. - Advice from consultant. 	Medium
14.	Council downsizing – Employers become more mature.	<ul style="list-style-type: none"> - Monitoring with actuary. 	High
15.	Class CPX procurement.	<ul style="list-style-type: none"> - Pensions Manager national lead role. - Procurement exercise. 	Medium
16.	Fraud – admin or investments	<ul style="list-style-type: none"> - Internal controls - Internal & External audit. 	Low
17.	Employees opting out of the scheme.	<ul style="list-style-type: none"> - Monitoring arrangement needs to be developed via CPX. 	High

18.	Auto enrolment	- Clear employer responsibility.	High
19.	Tax	- Advice and improve understanding of effect on investments. - Publicise changes in the annual allowance methodology.	Low
20.	Fund administration costs	- Improved monitoring & reporting.	Low
21.	Increase in admissions from private companies.	- Management of the admission process. - Liaison with Legal Services & the actuary.	Low
22.	Data Regulations December 2012.	- Monitor and publicise requirements.	Low

Pensions Risk Register

15	8,7,4,14	18,3
5,1	13,10	17
11,9,6,19, 16,12,20	22,21,2	

LIKELIHOOD

By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee – 31 August 2012

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

Classification: Unrestricted

Summary: To report on an application to join the Pension Fund, the execution of a bond for a scheduled body, the termination of an admission agreement and an update on academies.

FOR DECISION

INTRODUCTION

1. This report sets out information on an application from an organisation applying to become an admitted body within the Pension Fund and seeks committee approval to enter into an admission agreement with this organisation. It also explains the need to execute bond for a new scheduled body, advises of the termination of an admission agreement and provides an update on academies.

MID KENT JOINT WASTE

2. Maidstone Borough Council are awarding a second generation contract on behalf of Ashford Borough Council, Maidstone Borough Council and Swale Borough Council for waste collection and street cleaning from 1 April 2013.
3. This involves the transfer of 2 current employees of Maidstone Borough Council to the successful bidder. There are no current employees of Ashford Borough Council and Swale Borough Council being transferred to the successful bidder. This is because they were transferred to the current contractors, Biffa and Sita, when the contract was originally awarded in 1999. These staff will transfer onto the successful bidder.
4. To ensure the continuity of pension arrangements for these employees, one of the bidders has made an application for admission to join the Pension Fund. There are two other bidders who if successful, will provide a comparable pension scheme of their own.
5. The admission 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 £22,000 for the first year and set an employer's contribution rate of 21.2%.

6. The completed questionnaire and Memorandum and Articles of Association provided by the bidder have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

COMMERCIAL SERVICES

7. KCC have undertaken a review of Commercial Services and how it operates with a view to putting on a more commercial footing. The outcome is that a Local Authority Trading Company is being created (to be called Commercial Services Kent Limited). This has been approved by the Commercial Services Governance Board.
8. This involves the transfer of approximately 520 staff from KCC to Commercial Services Kent Limited although the date of transfer is not yet known.
9. As a company under the control of KCC, Commercial Services Kent Limited will pass a formal resolution to enter the scheme as a scheduled body, under Schedule 2 Part 2 5 of the Local Government Pension Scheme (Administration) Regulations 2008. As such an admission agreement is not required.
10. Whilst it is not necessary to enter into an admission agreement, the actuary has recommended that a Bond be put in place for £2,567,000 and set an employer contribution rate of 18.3%.

AVENUES TRUST COMMUNITY SUPPORT SERVICES

- 11 Avenues Trust Community Support Services is a transferee admission body who joined the Pension Fund on the 1 March 2010 following the award of a homecare services contract by Medway Council.
- 12 Avenues Trust Community Support Services have given three months notice to terminate their admission agreement. A cessation report has been requested from the actuary. This will show if any sum is due from Avenues Trust Community Support Services to the Pension Fund. If any payment is required, it will be made before the termination is completed.

ACADEMIES

13. When a school converts to an academy an initial report is obtained from Barnett Waddingham, the cost of which is currently £1655 plus VAT. At their meeting on 31 July 2011, the committee agreed this charge could be passed to the academies, rather than being met by the Pension Fund.

14. Each year academies also require a Financial Reporting Standards 17 (FRS17) report as at 31 August. The actuary charge for each report is calculated on a sliding scale which averages at £250 plus VAT for each academy who have had a report in previous years and £600 plus VAT for academies who have not. There are now approximately 90 academies that require a report for 2012 and this number is expected to rise in the future. The total actuary fee for this work is estimate at £40,000.
15. The Education Funding Agency has recently issued a briefing note to academies explaining they may claim a grant from them to cover the cost of obtaining their 2012 FRS17 report. It is unclear if this grant will be available in future years.

RECOMMENDATION

16. Members are asked to:
 - (1) Agree to the admission to the Kent County Council Pension Fund of the successful bidder from the Mid Kent Joint Waste matter, and
 - (2) Agree that a Bond may be entered into with Commercial Services Kent Limited, and
 - (3) Note the withdrawal of Avenues Trust Community Support Services, and
 - (4) Agree that the cost of obtaining the 2012 FRS17 reports should be recovered from academies, and
 - (5) Agree 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
Treasury and Investments
Ext. 4625

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