SUPERANNUATION FUND COMMITTEE

Friday, 30th August, 2013

10.00 am

Darent Room, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 30th August, 2013 at 10.00 am
Darent Room, Sessions House, County Hall, Maidstone

Ask for: **Denise Fitch**
Telephone: **01622 694269**

UNRESTRICTED ITEMS

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

A. COMMITTEE BUSINESS

A1 Substitutes

A2 Election of Vice-Chairman

A3 Declarations of Interests by Members in items on the Agenda for this meeting.

A4 Minutes - 28 June 2013 (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

C1 Schroder Investment Management - to follow

C2 Fund Structure (Pages 5 - 8)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

Peter Sass
Head of Democratic Services
(01622) 694002

Wednesday, 21 August 2013

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Pendragon Room, Invicta House, County Hall, Maidstone on Friday, 28 June 2013.

PRESENT: Mr J E Scholes (Chairman), Cllr P Clokie, Mr A D Crowther, Mr D S Daley, Cllr N Eden Green, Mr B E MacDowall, Mr T A Maddison, Mr R A Marsh, Mr R J Parry, Mr S Richards, Mrs M Wiggins and Cllr L Wicks.

ALSO PRESENT: Miss S J Carey and Mr J D Simmonds

IN ATTENDANCE: Mr A Wood (Corporate Director of Finance and Procurement), Ms A Mings (Treasury & Investments Manager), Ms S Surana (Senior Accountant - Investments), Mr N Vickers (Head of Financial Services) and Ms D Fitch (Democratic Services Manager (Council)).

UNRESTRICTED ITEMS

3. Minutes of the meetings held on 22 March 2013 and 23 May 2013
(Item A3)

RESOLVED that the minutes of the meetings held on 22 March and 23 May 2013 relating to the unrestricted items on the agenda are correctly recorded and that they be signed as a correct record by the Chairman.

4. EXEMPT ITEMS

RESOLVED 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.

5. Exempt Minute - 22 March 2013
(Item C1)

RESOLVED that the minute relating to the restricted item - Fund Structure- from the meeting held on 22 March 2013 is correctly recorded and that it be signed as a correct record by the Chairman.

6. GMO
(Item C2)

(1) The Chairman welcomed Mr Hene and Mr Garvey from GMO to the meeting and invited them to give a presentation to the Committee on the value-oriented global

equity portfolio which they have managed on behalf of the Kent County Council Superannuation Fund since 2006.

(2) Mr Hene and Mr Garvey answered questions from Members of the Committee.

(3) RESOLVED that the presentation, papers circulated and the response to questions asked by the Committee be noted.

7. DTZ Investment management
(Item C3)

(1) The Chairman welcomed Mr O'Gorman and Ms Linacre from DTZ to the meeting and invited them to present their quarterly portfolio report for quarter 1 2013. Mr O'Gorman and Ms Linacre answered questions from Committee members.

(2) Mr Vickers undertook to email to the members of the Committee the original book value of the assets that DTZ managed on behalf of the Kent County Council Superannuation Fund.

(3) RESOLVED that the presentation and the response to the questions from the Committee be noted.

8. Fund Asset Allocation
(Item C4)

(1) Mr Vickers introduced a report which set out options for managing Cash if the funds held in equities were reduced.

(2) The Committee discussed the overweight position in equities as at 31 March 2013 which had arisen as the result of the strong returns from equity markets.

(3) RESOLVED that:

(a) a £50m deposit limit with HSBC be agreed

(b) the use of Treasury Bills be agreed

(c) the Head of Financial Services arrange for the Absolute Return Manager referred to in the report a meet with as many Members of the Committee as possible and

(d) authority be delegated to the Corporate Director of Finance & Procurement in consultation with Members of the Committee to implement changes

9. Property Update
(Item C5)

(1) Mr Vickers introduced a report which followed on from DTZ's investment strategy report to the Committee earlier in the meeting and set out a range of options for the Committee's consideration. Advice was given to the Committee by Mr Elliott from Hymans Robertson.

(2) RESOLVED that the position on DTZ be noted and arrangements be made for the Committee to meet with two property managers recommended by Hymans Robertson.

10. Global Equity Tender
(Item C6)

(1) Mr Vickers presented a report which updated the Committee on the tender process being managed by Hymans Robertson for a Global Equality Manager as agreed at 16 November 2012 meeting of the Committee.

(2) RESOLVED that the tender process be noted and responsibility be delegated to the Corporate Director of Finance & Procurement to appoint the Global Equity Manager following interviews by Members.

UNRESTRICTED ITEMS (COMMITTEE IN OPEN SESSION)

The Committee considered the following items in open session.

11. Fund Position Statement
(Item D1)

(1) Mr Vickers introduced a report which provided a summary of the Fund's asset allocation and investment performance to 31 March 2013 and answered questions from Members of the Committee.

(2) RESOLVED that the Fund Position Statement be noted.

12. Admissions to the Fund
(Item D2)

(1) Mr Vickers introduced a report which set out information on a number of admission matters and the recovery of actuary fees from academies.

(2) A Member suggested that consideration should be given as to whether it was possible to charge a fee for the administrative costs to process admissions to the Fund.

RESOLVED that the Committee:

(1) Agree to the admission to the Kent County Council Pension Fund of Tonbridge and Malling Leisure Trust, and

(2) Agree that the admission agreements made by Agincare relating to Robert Bean Lodge and Nelson Court, provide for guarantees from Medway Council, and

(3) Agree to the admission to the Kent County Council Pension Fund of Pie Factory Music Group, and

(4) Agree to the admission to the Kent County Council Pension Fund of the successful bidder for the Shepway District Council grounds maintenance contract, and

(5) Agree to the admission to the Kent County Council Pension Fund of Amey OW Ltd, and

(6) Agree that pending receipt of the actuary's confirmation of the level of the bond and employer's contribution rate, agreement to the admission to the Kent County Council Pension Fund of Westgate Community Trust (Canterbury) Limited is delegated Director of Finance and Procurement in consultation with the Chairman of the Committee, and

(7) Note the withdrawal of MCCH Ltd as a participating employer in the Pension Fund, and

(8) Note the withdrawal of Roffa Limited as a participating employer in the Pension Fund, and

(9) Agree that an admission agreement can be entered into with Capita Managed IT Solutions Ltd Limited, and

.

(10) Agree to recover the August 2013 FRS17 charges from academies, and

(11) Agree that once legal agreements have been prepared for the matters (1) to (5) and (7) to (9) above, the Kent County Council seal can be affixed to the legal documents.

(12) Agree that a report be submitted to a future meeting of the Committee on arrangements for charging for the administration of admissions to the Fund.

(Councillor Eden-Green declared an interest as a member of the Westgate *Community Trust and took no part in the discussion or voting on this decision)*

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

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of the Local Government Act 1972.

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 30 August 2013
Subject:	**SUPERANNUATION FUND REPORT & ACCOUNTS AND EXTERNAL AUDIT**
Classification:	Unrestricted

Summary: To present the Report & Accounts of the Superannuation Fund for 2012-13 and the External Audit Findings Report.

FOR INFORMATION

INTRODUCTION

1. A draft version of the Superannuation Fund Report & Accounts for the year ended 31 March 2013 is attached.

2. The external auditor's Audit Findings Report is attached and this wholly relates to the accounts. The audit of the accounts is complete and an audit opinion was issued on 24 July.

3. The Fund's Accounts were approved by Governance & Audit Committee on 24 July.

RECOMMENDATIONS

4. Members are asked to:

    (1) Approve the content of the Annual Report including
    - The Statement of Investment Principles
    - Governance Compliance Statement
    - Communications Policy

    (2) Note the content of the Accounts for 2012-13

    (3) Confirm that the Report and Accounts can be published

    (4) Note the external auditor's Audit Findings Report, and

    (5) The position with regard to Governance & Audit Committee.

Alison Mings
Treasury & Investments Manager
Ext 6294

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Kent County Council Superannuation Fund

Report & Accounts 2013

Contents

Chairman's Introduction

The Kent Fund as with most Local Government Pension Funds has remained predominately invested in equities and the last year saw the benefits of this. As equity markets performed strongly particularly in the latter part of the year the Fund made very significant cash gains. Across the year the Fund increased in value by £502m.

At year end the Fund was overweight in equities with an allocation of 70.4% against a target weight of 64%. This reflected the strong performance of major equity markets in 2012/13 with Global Equities returning +17.1% and UK Equities +16.8%.

The total return on the Fund was +14.7% and this compares with the benchmark return of 13.6% and the Local Authority Average return of 13.8%, putting the 1 year performance in the 29th percentile. Over 3 and 5 year periods investment performance was in the top one-third of local authority funds.

This strong performance is particularly welcome given the Fund's triennial actuarial valuation at 31 March 2013. This is always a critical event for employers and investment returns across the three year period are well ahead of those assumed by the actuary. We also expect some limited cost savings from the new Local Government Pension Scheme which will be introduced on 1 April 2014. However, low gilt yields which the actuary uses to value liabilities will be a negative factor and we are also aware that all local authorities are seeing significant reductions in their active workforce thus increasing the burden of the pension liabilities. We will work hard to communicate with employers through the valuation process.

The Committee is also aware that whilst the rise in markets has been highly beneficial there will be volatility in markets moving forward. The Fund is well diversified and we are ever vigilant to protect the gains the Fund has made.

James E. Scholes

James Scholes
Chairman - Superannuation Fund Committee

Management and Financial Performance Report

Scheme management and advisors

Kent County Council Officers

Andy Wood, Corporate Director of Finance and Procurement	email: andy.wood@kent.gov.uk
Nick Vickers, Head of Financial Services	email: nick.vickers@kent.gov.uk
Alison Mings, Treasury and Investments Manager	email: alison.mings@kent.gov.uk
Pat Luscombe, Pensions Manager	Email: pat.luscombe@kent.gov.uk

Investment Managers

Baillie Gifford & Co	Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN
Goldman Sachs Asset Management Limited	Christchurch Court, 10-15 Newgate Street, London EC1A 7HD
GMO	1 Angel Court, Throgmorton, London EC2R 7HJ
HarbourVest Partners	HarbourVest Partners (U.K.) Limited 8th Floor, Berkeley Square House Berkeley Square, London W1J 6DB
Henderson Fund Management / Equity Partners	201 Bishopsgate, London EC2M 3AE
Impax Asset Management	Mezzanine Floor, Pegasus House 37-43 Sackville Street, London W15 3EH
Invesco Asset Management Limited	43-45 Portman Square, London W1H 6LY
Partners Group	Partners Group Management II S.à r.l. 55, Avenue de la Gare L-1611 Luxembourg
Schroder Investment Management Limited	31 Gresham Street, London EC2V 7QA
State Street Global Advisers Limited	20 Churchill Place, London E14 5HJ
YFM Equity Partners	St. Martins House 210-212 Chapeltown Road, Leeds, LS7 4HZ
DTZ Investment Management Limited	125 Old Broad Street, London, EC2N 2BQ
Pyrford International	79 Grosvenor Street, London W1K 3JU

Other Organisations providing services to the Kent Fund

Custodian	
JP Morgan Chase	Investor Services, J P Morgan Bank Street, Canary Wharf London E14 5JP
Banker	
National Westminster Bank	NatWest Corporate Banking, 2nd floor, County Gate 2, Maidstone ME14 1ST
Actuary	
Barnett Waddingham LLP	163 West George Street Glasgow G2 2JJ
Investment Consultant	
Hymans Robertson LLP	One London Wall, London EC2Y 5EA
Auditors	
Grant Thornton LLP (with effect from October 2012)	Grant Thornton House, Melton Street Euston Square, London NW1 2EP
Performance Measurers	
The WM Company	Investment Analytics, 525 Ferry Road Edinburgh EH5 2AW
Investment Property Databank Limited	1 St John's Lane London EC1M 4BL
AVC Providers	
Equitable Life Assurance	PO Box 177, Walton Street, Aylesbury, Bucks,HP21 7YH
Prudential Assurance Company	Laurence Pountney Hill, London, EC4R 0HH
Standard Life Assurance	Standard Life House, 30 Lothian Road, Edinburgh, EH2 2 DH
Legal Advisors	
Kent County Council Legal Services	Sessions House County Hall Maidstone ME14 1XQ

Risk Management

Kent County Council as the Administering Authority for the Kent County Council Superannuation Fund has delegated responsibility for the management of risk to the Superannuation Fund Committee. Details of the arrangements for the management of the Fund's administrative, management and investment risk are included in its Fund Strategy Statement (FSS) and Statement of Investment Principles (SIP) The FSS is reviewed annually and the SIP is updated as necessary to reflect changes in activity and market conditions. Further details of the Fund's policy on investment risk management are disclosed in note 18 to the Financial Statements.

Kent County Council's internal audit team provide assurance on the management of risk and during 2012-13 undertook 2 reviews of investment income and employer contributions.

Third party risk such as late payment of contributions is managed through monitoring the timeliness of receipts from employers.

Assurance over third party operations is provided by investment managers who are required to provide annual AAF 01/06 reports and SSAE16 reports.

Financial Performance

During 2012-13 the Fund increased in value by £502m (15.2%) as the result of a net return on investments of £482.5m (14.7%) and net additions from dealings with members of £19.5m.

Net cash inflows from members fell during the year mainly due to an increase in the benefits paid to Pensioners. Management costs of the fund, including investment management expenses, were higher than forecast at £14.866m. Administrative costs were lower than forecast due to more actuarial fees being charged directly to employers and savings on audit fees following the transfer of the audit work from the Audit Commission to Grant Thornton. Investment expenses were higher than forecast as most managers' fees are based on funds under management, and markets rose steeply during the year.

Five Year Summary of the Fund's performance

Fund Account (excl investment gains / losses)

	2008-09	2009-10	2010-11	2011-12	2012-13
	£000's	£000's	£000's	£000's	£000's
Contributions	218,955	224,380	229,688	214,037	213,713
Investment and other income	81,807	80,901	74,057	85,499	79,125
Sub Total	**300,762**	**305,281**	**303,745**	**299,536**	**292,838**
Benefits and Other Payments	(164,558)	(184,966)	(190,604)	(210,428)	(214,920)
Total	**136,204**	**120,315**	**113,141**	**89,108**	**77,918**

Net Assets

	31 March 2009	31 March 2010	31 March 2011	31 March 2012	31 March 2013
	£000's	£000's	£000's	£000's	£000's
Net Assets	2,075,687	2,885,463	3,202,442	3,310,588	3,812,698
Investments at Valuation	1,895,169	2,745,201	3,084,739	3,169,326	3,670,696

Amounts due to the fund from employers

During 2012-13 £161.5m, 95% of total contributions were received by the due date of the 19th of the month following. The option to levy interest on overdue contributions was not exercised.

Five year analysis of pension overpayments, recoveries and write offs

Overpayments

The overpayments identified over the last 5 years as the result of the Fund's participation in the National Fraud Initiative are:

Year	No	Value	Action
		£	
2009	1	5,000	Being recovered in instalments of £100 a month
		11,655	Written off
Total	**1**	**16,655**	
2011	1	1,973	Written off
	1	3,690	Recovered
	1	10,631	Being recovered at £50 a month
	3	2,816	Write off pending
	2	25,460	Referred to solicitors
Total	**8**	**44,570**	
2013	2	2,847	The recovery of these amounts is currently being undertaken
Total	**2**	**2,847**	

Note: the number of cases has decreased as a mortality screening service is now used on a monthly basis to identify registered deaths.

Pension overpayments write offs

Details of the write offs made in the last 5 years:

Year	No of cases	Value
		£
2009-10	57	25,103
2011-12	53	24,684
2012-13	60	18,979

Administrative management performance

The Pension administration section is subject to performance monitoring, both internally and externally. The performance outcomes are shown in the table below.

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt of paperwork	2,056	99%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	305	99%
Provision of estimates	20 days from receipt of paperwork	2,672	99%
Correspondence	Full reply within 15 working days	1,152	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 62 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 2012.

	Kent Pension Scheme	All Scheme Average
	£	£
Total cost of administration per scheme member	19.57	21.54
Payroll costs per pensioner (including staff)	1.65	3.04
Staff costs per Scheme Member (ex Payroll)	9.61	9.58
IT Costs per member	1.94	2.52
Communication costs per member	2.07	0.81
Actuarial costs per member	2.15	1.48
Accommodation costs per member	1.21	0.83

The results place Kent 29th of 62 authorities in terms of the cost of administration per member of the scheme.

Member Age Profile

As at 31 March 2013, contributing membership is made up of the following age bands:-

Under 20	348
20 – 25	2,150
26 – 30	2,661
31 – 35	3,294
36 – 40	4,526
41 – 45	6,861
46 – 50	7,911
51 – 55	6,934
56 – 60	5,221
61 – 65	2,237
66 – 70	376
Over 70	35

Five year analysis of the Fund's membership

Type of Members	31 March 2009	31 March 2010	31 March 2011	31 March 2012	31 March 2013
Contributors	43,385	44,509	43,408	41,423	42,554
Pensioners	27,898	29,107	30,549	32,258	33,731
Deferred Pensioners	26,607	30,691	32,618	35,430	37,835

List of Employing Bodies

	Contributions received 2012-13	
	Employer	Employee
	£	£
Local Authorities and District Councils		
Kent County Council	60,375,878	18,302,899
Medway Council	14,322,033	4,672,582
Ashford Borough Council	2,609,595	618,600
Canterbury City Council	3,086,802	670,149
Dartford Borough Council	2,173,416	440,417
Dover District Council	2,602,472	459,591
Gravesham Borough Council	2,740,360	700,597
Maidstone Borough Council	2,551,125	646,408
Sevenoaks District Council	2,621,687	577,602
Shepway District Council	2,230,084	500,248
Swale Borough Council	2,100,072	477,116
Thanet District Council	3,141,519	631,218
Tonbridge & Malling Borough Council	1,158,979	544,380
Tunbridge Wells Borough Council	2,103,048	568,568
Scheduled Bodies		
Allington Primary School	43,178	11,136
All Souls CE Primary School	24,331	6,750
Angley School	46,407	13,334
Archbishops CE School	97,276	27,616
Astor College of the Arts	25,272	7,330
Aycliffe CEP	23,549	6,481
Aylesford School	90,351	25,713
Barton Junior School	4,617	1,280
Bredgar School	8,944	2,483
Charles Dickens High School	185,896	53,182
Chaucer Technology School	126,881	37,340
Crockenhill Primary	15,667	4,699
Dartford Grammar School for Girls	124,510	36,264
Ditton CE Junior School	15,623	4,198
Dover Grammar School for Girls	84,136	24,311
Downsview Infants School	45,710	12,446
East Borough Primary School	80,827	23,400
Five Acre Wood School	200,030	56,425
Gateway Community Primary School	23,616	6,475
Greatstone County Primary School	59,242	16,343
Herne Bay Junior School	58,522	16,465
Hextable School	95,008	28,001
High Firs Primary School	21,383	5,876
Holy Family RC Primary	9,395	2,510
Holy Trinity CE Primary School (Gravesend)	91,574	25,842
Holy Trinity CE Primary School (Dartford)	59,658	16,313
Horton Kirby County Primary School	35,392	9,722
Hugh Christie School	76,965	22,331
Judd School Tonbridge	103,787	30,832
Lady Boswells CE Primary School	16,049	4,343

Laleham Gap School	203,487	54,474
Larkfield Brookfield County Junior	18,985	4,125
Meopham Secondary School	60,392	17,516
Northfleet Technical College	144,753	42,263
Northfleet School for Girls	163,398	47,708
Our Lady of Hartley RC Primary	17,215	4,702
Parkway Primary	44,234	12,219
Pent Valley Secondary School	215,231	61,504
Riverview Infants School	43,181	11,623
Riverview Junior School	49,521	13,711
Robert Napier School	80,976	24,700
Roseacre Junior School	35,876	10,051
Sandling CP	48,577	13,234
Shatter Locks Infants	7,101	1,958
Simon Langton Grammar School for Boys	117,976	35,415
Snodland CE Primary School	51,847	16,690
St Anselm's RC Comprehensive	132,369	37,812
St Bartholomew RC Primary School	26,348	7,594
St Botolphs CE Primary School	29,884	8,317
St Edmund of Canterbury Comprehensive	86,438	25,188
St Francis RC Primary	6,439	
St George's CE School (Broadstairs)	139,881	39,428
St Gregory's Catholic Comprehensive	179,043	51,285
St John's RC Comprehensive Gravesend	137,899	41,251
St John's CEP School Tunbridge Wells	95,666	26,474
St Joseph RC Primary School	26,760	7,369
St Mary's CEP	59,463	21,157
St Peter's Aylesford	21,981	6,113
St Simon Stock School	102,062	29,236
Staplehurst School	45,380	12,370
Stella Maris RC Primary School	43,722	10,425
Thamesview School	131,637	38,531
The Howard	139,219	43,413
The Skinners Company School	72,363	22,188
Tunbridge Wells Girls Grammar School	82,911	24,847
Valence Special School	347,117	99,737
White Cliffs Primary	5,437	1,517
Whitehill Primary	64,849	15,953
Wrotham School	97,636	24,349
Ash Parish Council	2,997	1,254
Borough Green Parish Council	5,031	1,308
Broadstairs & St Peters Town Council	9,100	
Chesterfield Parish Council	4,544	1,268
Cranbrook Parish Council	8,845	2,616
Darenth Parish Council	8,961	1,667
Deal Town Council	15,179	6,980
Ditton Parish Council	24,135	9,157
Dover Town Council	37,415	13,093
Downswood Parish Council	1,620	569
Eastry Parish Council	1,246	583
East Kent Arms Length Management	601,490	222,673
East Kent Services Thanet	750,529	373,964
Edenbridge Town Council	38,747	12,495
Eynsford Parish Council	1,140	741
Farningham Parish Council	1,589	568

Faversham Town Council	9,415	2,739
Folkestone Town Council	28,197	9,791
Great Mongeham Parish Council	382	180
Hartley Parish Council	6,665	2,222
Hawkinge Parish Council	4,888	2,138
Hawkhurst Parish Council	5,273	1,656
Herne & Broomfield Parish Council	6,219	1,937
Horton Kirby and South Darenth Parish Council	6,101	1,322
Hythe Town Council	16,184	4,713
Kent & Essex Sea Fisheries Committee	8,204	
Kent and Medway Fire and Rescue Authority	1,514,944	516,804
Kent Police Authority	5,716,668	2,467,035
Kent Probation	2,290,751	655,916
Kent Top Temps	69,444	34,693
Kent Valuation Tribunal	42,000	
Kings Hill Parish Council	13,327	5,452
Leigh Parish Council	1,985	683
Littlebourne Parish Council	1,828	837
Longfield & New Barn Parish Council	1,656	776
Margate Charter Trustees	3,008	1,344
Medway (Lower) IDB	54,336	10,833
Medway (Upper) IDB	42,026	8,893
Minster-on-Sea Parish Council	4,889	2,409
Otford Parish Council	2,795	1,143
Otham Parish Council	738	259
Pembury Parish Council	11,985	5,174
Ramsgate Town Council	15,397	4,774
River Stour IDB	25,418	9,095
Romney Marsh Level IDB	30,825	10,064
Sandwich Town Council	22,592	6,742
Seal Parish Council	2,518	880
Sevenoaks Town Council	19,862	4,355
Snodland Town Council	7,679	2,299
Southborough Town Council	45,836	8,762
Staplehurst Parish Council	2,104	751
Stone Parish Council	26,986	8,112
Sturry Parish Council	753	255
Swanley Town Council	98,455	28,060
Swanscombe & Greenhithe Town Council	45,079	8,793
Temple Ewell Parish Council	1,655	524
Tenterden Town Council	23,033	5,884
Thanet Joint Computer Committee	15,000	
The Police and Crime Commissioner for Kent	2,808,266	1,201,523
West Kingsdown Parish Council	2,035	1,225
Westerham Parish Council	7,917	10,501
Woodnesborough Parish Council	398	188
Further Education Colleges		
K College	1,038,264	425,772
Canterbury College	835,432	332,349
East Kent College (Formally Thanet College)	392,396	157,740
Hadlow College	350,895	142,467
Hilderstone College	33,843	13,103
Mid Kent College	825,604	332,860

North West Kent College	753,547	268,014
Admitted Bodies		
Active Life Limited	144,365	47,096
Amicus Horizon	259,472	19,831
APCOA (M.B.C and Swale B.C)	23,035	6,657
Ashford Leisure Trust Limited	48,561	21,382
Avante Partnership	176,515	25,853
Avenues Trust	4,255	1,168
Avenues Trust Community Support Services	81,801	7,803
Brenwards	3,000	
Caldercott Community	190,174	67,548
Canterbury Archaeological Trust	17,509	2,264
Children & Families Ltd	4,677	2,277
Christchurch College, Canterbury	2,667,116	991,961
Compass Group UK & Ireland Limited	5,416	1,476
Connexions Partnership Kent & Medway	33,759	11,143
Connexions Partnership Kent & Medway (Tab)	21,255	7,762
Enterprise (AOL) Limited	133,579	47,420
Epic Trust	45,349	16,208
Fusion Lifestyle	49,026	21,539
Gravesham Community Leisure	94,405	44,193
Hope (Kent) Limited	19,763	8,418
Hyde Housing	201,000	
Invicta Telecare Limited	94,977	34,863
Kent College, Canterbury	4,313	1,438
Kent College Pembury	3000	
Kent University	52,399	2,534
Kier Facilities Management	29,971	8,201
Knotley Hall School	2000	
Maidstone Housing Trust / Golding Homes	377,485	203,838
MCCH Society Limited	12,550	3,638
Medway Housing Society (MHS)	630,657	158,322
Mitie Cleaning & Support Services	1,688	431
Mitie PFI Limited	30,563	10,776
Mytime Active	8,233	3,392
Northgate Managed Services –St Georges School	1,205	378
Northgate Managed Services – St Johns School	1,445	578
Northgate Managed Services –Thamesview School	1,083	378
Northgate Managed Services Limited	16,146	6,542
Norwest Holst Limited	23,974	8,075
NSL	28,525	9,861
Orchard Theatre Dartford Limited	38,055	11,580
Principal Catering Consultants	363	158
Principal Catering Solution Ltd (Our Lady of Hartley School)	680	219
Project Salus	57,807	33,653
Quadron Services Limited	25,565	8,169
Reliance Secure Task Management	17,619	6,895
Remade South East Limited	29,953	8,280
Rochester Bridge Trust	64,556	12,445
Roffa Limited	3,688	1,122
Russet Homes	434,474	83,316
Sevenoaks Leisure Ltd	176,404	65,495

Sevenoaks School	378,620	119,827
Shaw Healthcare (FM Services) Ltd	2,080	568
Sodexo Catering	8,876	2,730
Steria	53,483	19,728
Superclean	882	258
Thanet Community Housing/Orbit South Housing Association	116,780	30,129
Thanet Leisure Force	86,523	23,940
Total Catering	557	168
Tourism South East	5,478	1,967
Town & Country Group	292,573	91,781
Veolia	35,697	10,580
West Kent Housing Association	1,246,560	288,487
West Kent Water	7,000	
Academies		
All Faiths Academy	77,965	21,227
Amherst School Academy	51,998	13,588
Astor College & Academy	138,690	36,722
Barton Court Grammar School (Academy)	89,977	23,666
Barton Junior	22,825	5,852
Bennett Memorial Diocesan Academy	148,550	39,916
Bishop of Rochester Academy	231,297	65,827
Borden Grammar School (Academy)	97,613	26,054
Brockhill Park Performing Arts College (Academy)	158,863	42,469
Brompton Academy	266,811	78,791
Canterbury Academy	278,189	65,133
Castle Community College Academy	129,516	34,467
Chatham Grammar School For Boys (Academy)	133,877	29,999
Chatham Grammar School For Girls Academy	94,220	24,386
Chatham House Grammar School Academy	101,706	27,312
Chattenden Primary School Academy	20,952	5,876
Chiddingstone Primary School Academy	21,211	7,589
Christchurch School Academy Folkestone	9,829	2,456
Clarendon House Grammar School Academy	75,244	19,695
Cliffwoods Primary School Academy	32,200	8,407
Cornwallis Academy	217,638	64,672
Cranbrook School (Academy)	254,585	66,362
Dame Janet Primary Academy	49,295	12,339
Dane Court Grammar School (Academy)	92,947	24,486
Dartford Grammar School for Boys Academy	118,887	33,039
Dover Christchurch Academy	182,986	34,471
Drapers Mills Primary School Academy	42,712	10,731
Duke of York’s Military Academy	246,610	77,866
Folkestone Academy	340,439	114,159
Folkestone School for Girls (Academy)	133,358	34,836
Fort Pitt Grammar Academy Trust	123,531	28,754
Fulston Manor School Academy	200,501	51,960
Graveney Primary School Academy	21,805	5,400
Gravesend Grammar School (Boys) Academy	152,418	38,317
Greenacre School	149,408	41,274
Grove Park Primary School	62,099	15,191
Hampton Primary	81,953	21,040
Hartsdown Technology College (Academy)	240,540	63,508

Harvey Grammar School Academy	90,201	24,048
Hayesbrook High School for Boys Academy	216,192	57,320
Herne Bay High School Academy	258,745	59,960
Hersden Village Primary School Academy	7,460	1,837
High Weald Academy	72,859	15,651
Highstead Grammar School Academy	56,673	14,879
Highworth Grammar School Academy	139,654	36,298
Hillview School for Girls (Academy)	191,162	50,892
Homewood School Academy	330,756	68,821
Invicta Grammar School Academy	130,135	34,536
John Wallis Academy	254,183	65,379
Joydens Infant School Academy	34,788	7,869
Joydens Junior School Academy	34,412	8,506
Kemnal Academy Trust : Pluckley Primary School	26,255	6,674
Kemnal Academy Trust: Smarden Primary School	10,411	2,619
Kemnal Academy Trust: Horizons Primary School	21,076	5,374
Kemnal Academy Trust :Orchards Academy	82,613	21,384
Kemnal Academies Trust :Rainham School for Girls	195,537	55,736
King Ethelbert School (Academy)	130,354	34,550
Knole Academy	150,721	39,508
Leigh Technology Academy	150,079	68,415
Longfield Academy	193,449	51,376
Luddenham School Academy	24,376	6,117
Lynsted and Norton Primary School Academy	22,260	5,399
Maplesden Noakes School Academy	148,224	38,431
Marlowe Academy	293,300	90,127
Marsh Academy	177,275	63,998
Mascalls School (Academy)	179,504	48,471
Mayfield Grammar School (Academy)	135,599	35,538
Meopham Community Academy	14,127	3,730
Meopham Primary Academy	48,041	12,133
Milstead and Frinsted CE Primary School Academy	10,459	2,544
Milestone Academy	291,416	75,271
Molehill Academy	63,473	15,697
New Line Learning Academy	118,173	30,631
Newlands Primary School Academy	57,984	14,553
Northdown Primary Academy	48,815	12,371
Norton Knatchbull	126,028	27,715
Oaktrees Community Academy	33,242	8,370
Oakwood Park Grammar School (Academy)	148,389	32,459
Phoneix Academy	26,774	7,288
Queen Elizabeth's Grammar School (Academy)	104,872	27,532
Rainham Mark Grammar School Academy	116,706	33,606
Regis Manor Community Primary School Academy	63,678	15,679
Rochester Grammar School for Girls Academy	108,293	31,259
Salmestone Primary School Academy	45,778	11,503
Sandwich High School Academy	163,934	42,189
Selling CE Primary Academy	30,510	7,580
Shatterlocks Infant Academy	36,865	9,182
Sheldwich CE Primary Academy	41,487	10,327
Sir Roger Manwood School Academy	107,391	25,333
Sittingbourne Community College Academy	237,359	61,990
Skinners Academy	109,328	27,049
Spires Academy	100,069	36,348
St Augustine Academy	117,410	28,058

St Eanswythe's CEP School Academy	6,530	1,617
St George's CE School (Gravesend)	148,754	31,646
St James The Great Academy	37,826	9,442
St John's CE Primary School Academy	37,152	8,969
St Laurence in Thanet CEJ School Academy	13,688	3,463
St Mary's CEP School Academy (Folkestone)	15,225	3,805
St Stephen's Junior School Academy	87,381	23,199
Strood Academy	232,541	59,054
Sturry CE Primary School Academy	27,037	6,709
Temple Grove Academy	17,003	4,242
The Abbey School Academy	184,201	47,455
The Isle of Sheppey Academy	391,410	93,496
The Robert Napier School Academy	132,733	37,755
The Tiger Primary School	3,370	1,014
Thomas Aveling School (Academy)	165,141	47,907
Tonbridge Grammar School for Girls Academy	140,156	38,536
Towers School and Sixth Form Centre	256,962	68,156
Tree Tops Academy	77,404	19,579
Valley Park Academy	180,009	48,035
Walderslade Girls School Academy	130,446	32,709
Warden House Primary School	21,671	5,340
Weald of Kent Grammar School Academy	129,527	22,410
Wentworth Primary School Academy	64,961	16,554
West Malling CEP School Academy	25,935	6,508
Westlands & Woodgrove Academy	254,620	65,644
Westlands Primary Academy	96,969	23,904
Whitecliffs Primary College Academy	37,389	9,597
Wilmington Primary School Academy	17,807	3,818
Williamson Academy Trust Elaine Primary School Academy	56,087	15,373
Williamson Academy Trust High Halstow Primary School Academy	19,745	5,493
Williamson Academy Trust Hundred Of Hoo School Academy	192,441	55,195
Williamson Academy Trust Sir Joseph Williamsons Mathematical School Academy	149,014	39,909
Williamson Academy Trust St James CEVA Primary School Academy	20,553	5,907
Wilmington Academy	133,366	35,561
Wilmington Girls Grammar School (Academy)	104,014	28,361
Wilmington Grammar School for Boys (Academy)	122,485	23,113
York Road Primary Academy	91,785	23,442

Investment Policy and Performance Report

Progress made against the Fund's investment strategy during the year is set out in the investment policy and performance report

Asset Allocation

In May 2012 the Superannuation Fund Committee agreed to change the strategic allocations to Private Equity, Infrastructure and Absolute Return asset classes, reducing the allocations to Equities.

At its regular meetings during 2012-13 the Committee reviewed the actual Fund Asset Allocation compared to the benchmark, and where the variance was in excess of the tolerance level of +/- 2 %, as per the Fund's Statement of Investment Principles (SIP), agreed any action to be taken.

The position as at the yearend compared to the strategic allocation is as follows:

Asset Class	Benchmark		Actual at 31 March 2013	
	%	%	%	%
Equities:				
UK	32.0		35.6	
Global	32.0	64.0	34.8	70.4
Fixed Income		15.0		13.6
Property		10.0		7.9
Absolute Return		5.0		4.1
Infrastructure		2.5		1.0
Private Equity		2.5		0.5
Cash		1.0		2.4
		100.0		**100.0**

Market Returns to 31 March 2013

During 2012-13 all equity markets other than European Equities ex UK and Pacific ex Japan markets, performed strongly. Returns in the major asset classes were:

Asset Class	1 year	3 year	5 year
	%	%	%
UK Equities	16.8	8.8	6.7
North American Equities	19.3	11.8	11.5
European Equities ex UK	18.0	4.0	2.9
Japan Equities	14.3	3.5	5.1
Pacific ex Japan equities	18.1	8.9	10.7
Other International Equities	17.6	8.5	8.7
UK Bonds	5.2	8.2	7.1
Overseas Bonds	4.5	4.0	9.0
UK Index Linked	10.2	11.5	8.6
UK Property	2.5	6.6	1.0
Cash/Alternatives	0.4	0.4	1.1

Source: WM Company

The relative performance of the Fund for 2012-13 was:

Period	Kent Fund	WM Local Authority Universe Average Return
	%	%
1 Year	14.7	13.8
3 Year	8.7	8.1
5 Year	7.1	6.5

Source: WM Company

This performance places the Fund in the 29th percentile over 1 year, 34th percentile over 3 years and 34th 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 appointments of Managers are made through European Union public service tender processes; in a small number of cases direct investments are made in funds.

The Superannuation Fund Committee met six times during 2012-13 and received detailed reports on the performance of each manager. 7 managers, being mainly responsible for the Fund's segregated and actively managed portfolios, attended the Committee meetings to explain their strategy and answer questions from members of the Committee. There was also regular contact between officers of KCC and the other fund managers in relation to their activities.

The External Manager Structure as at 31 March 2013 was:

Manager	% of Fund
Schroder Investment Management Limited	26.6
Baillie Gifford & Co	18.5
Invesco Asset Management Limited	12.7
State Street Global Advisors Limited	12.5
DTZ Investment Management Limited	7.9
Goldman Sachs Asset Management Limited	7.9
GMO	5.8
Pyrford	4.1
Partners Group	0.9
Impax Asset Management	0.7
HarbourVest Partners	0.4
Henderson Equity Partners	0.2
YFM Equity Partners	0.1

More details of the mandates are contained in the Statement of Investment Principles at page and committee papers available at **www.kentpensionfund.co.uk**

Performance Returns to 31 March 2013

Asset Class Manager	1 Year		3 Years (pa)		5 Years (pa)	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	14.7	13.6	8.7	8.3	7.1	6.8
UK Equities						
Schroder Investment Management	17.8	16.4	9.2	8.6	8.1	6.7
StateStreet Global Advisors	16.8	16.8	8.9	8.8		
Invesco Asset Management	20.1	16.8	13.6	8.8	9.5	6.7
Global Equities						
Baillie Gifford	19.8	17.3	11.0	7.3	10.8	7.4
GMO	15.0	17.7	7.1	8.4	6.6	8.2
Schroder Investment Management	16.7	17.7	7.4	8.4	8.4	8.2
StateStreet Global Advisors	17.5	17.5	8.3	8.4		
Impax	11.6	17.7				
Fixed Income						
Goldman Sachs Asset Management	10.1	8.9	8.8	8.1		
Schroder Investment Management	6.2	4.1	4.7	4.7	6.2	5.1
Property						
DTZ Investment Management	7.4	1.9	9.8	7.6	2.7	0.4
Private Equity						
HarbourVest	1.9	0.4				
YFM	9.4	0.4	20.5	0.4		
Infrastructure						
Partners Group	-0.7	0.4				
Henderson	-2.0	0.4				
Absolute Return						
Pyrford	6.7	8.3				

Source: WM Company
Note: DTZ figures are for calendar years and are measured against a Customised Investment Property Databank benchmark

Investment Performance Analysis

One Year
The Fund had a strong return in the year of +14.7% and exceeded the benchmark by +1.1%.

The three largest mandates; Schroder UK Equities, Invesco UK Equities and Baillie Gifford Global Equities all saw strong outperformance.

The two quantitative value orientated global equity mandates; GMO and Schroders marginally underperformed in a year which did not favour their investment styles.

Both Fixed Income mandates outperformed in the year.

DTZ, the Fund's property manager, continued to perform well.

Three Years
The Fund returned +8.7% per annum and was ahead of benchmark.

Invesco UK Equities and Baillie Gifford Global Equities produced very strong returns with Invesco outperforming by +4.8% per annum and Baillie Gifford by +4.7% per annum. These 2 mandates account for 30% of the total fund and have driven the 3 year performance.

Schroders UK Equities are also ahead of benchmark.

Over the 3 year period both the quantitative value orientated equity mandates are slightly behind benchmark.

The Goldman Sachs Fixed Income mandate is ahead of benchmark by 0.7% per annum and Schroders were at the benchmark.

DTZ have outperformed across 3, 5 and 10 year periods.

Responsible Investments Policy

Details of the Fund's responsible investment policies and environmental, social and governance issues are included in the Statement of Investment Principles (SIP) at…….

The Fund complies with the UK Stewardship Code through the outsourcing to its external investment managers responsibility for Governance engagement and voting activity. The Superannuation Fund Committee receives quarterly monitoring reports from the managers.

Voting by Equity Fund Managers 2012-13

	For	Against	Abstain
	No of companies		
Baillie Gifford	140	68	8
Schroders	47	3	2

The Fund is a member of The National Association of Pension Funds (NAPF) and The Institutional Investors Group on Climate Change (IIGCC).

Actions taken by the Fund to demonstrate compliance with the Myners principles are detailed in the SIP at…….

Investment Administration and Custody

Kent County Council (KCC) is responsible for the day to day operations and management of the Fund, implementing the decisions of the Superannuation Fund Committee. This includes the power to seek professional advice and devolve day to day handling of the Fund to professional fund managers and advisers within the scope of the regulations. KCC undertakes the monitoring and accounting for the investments of and income due to the Fund.

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 Administration Report

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 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 at **www.kentpensionfund.co.uk**

Communications

The Pension Section communicates with members and employers in a variety of ways. Newsletters are sent to pensioners. 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 by each employer to consider an appeal made by a scheme member.

2012/13 Disputes considered	2012/13 Appeals upheld
4	0

Actuarial Report on Funds

Introduction

The last full triennial valuation of the Kent County Council Pension Fund was carried out as at 31 March 2010 and the results were published in our report dated March 2011.

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 higher than assumed at the 2010 valuation and so the assets will be higher than projected. The liabilities as at 31 March 2013, based on updated market conditions, are however also expected to be slightly higher than assumed at the 2010 valuation.

Overall, we estimate that the current financial position of the Fund will be similar to the position as at the 2010 valuation in terms of funding level.

We will be reviewing the methods and assumptions to be used at the 2013 valuation including the determination of discount rates as well as the allowance for future mortality improvements. There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will also allow for the expected changes to the benefits that will come into force from that date.

Graeme D Muir FFA

Partner

14 June 2013

For and on behalf of Barnett Waddingham

Governance

The Superannuation Fund Committee

The Superannuation Fund Committee exercises all of the powers and duties of the Council in relation to its functions as Administering Authority. The Committee is responsible for setting investment strategy, appointing professional fund managers and carrying out regular reviews and monitoring of investments. It also monitors the administration of the Pension Scheme and determines Pension Fund policy in regard to employer admission arrangements.

The membership of the Committee during 2012/13 is detailed below. There were 6 meetings during the year.

	Voting rights	Total Attendances
Kent County Council Members		
James Scholes, Chairman	Full	6
Dan Daley, Vice Chairman	Full	5
Alan Marsh	Full	4
John Davies	Full	4
John London	Full	5
Michael Jarvis	Full	5
Michael Snelling, to August 2012	Full	3
Peter Homewood, from September 2012	Full	2
Richard Parry	Full	6
District Council Representatives		
John Burden, Gravesham Borough Council	Full	4
Nick Eden Green, Canterbury City Council	Full	6
Paul Clokie, Ashford Borough Council	Full	5
Medway Council Representative		
David Carr		5
Staff Representative		
Janet De Rochefort		6
Kent Active Retirement Fellowship		
Alice Dickenson		5
Mary Wiggins		3
Union Representative		
Stephen Richards		3

Compliance Statement

Regulation 31 of the LGPS (Administration) Regulations 2008 requires the administering authority to prepare a Governance Compliance Statement

Principle		Full Compliance
Structure	• the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council. • that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee • that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. • that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Yes See Statement of Investment Principles
Committee Membership and Representation	• that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - Employing authorities (including non-scheme employers, eg admitted bodies) - Scheme members (including deferred and pensioner scheme members) - Independent professional observers - Expert advisers (on an ad hoc basis) • that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Yes Yes
• During 2012/13 the Superannuation Fund Committee included 8 County Council members (9 with effect from May 2013), 3 representatives nominated by the 12 District Councils, a Medway Council representative, 1 Unison representative, 1 Kent County Council staff representative and 2 Kent Active Retirement Fellowship representatives. • The Fund's investment advisers, Hymans Robertson, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. It is not the Committee's policy to use independent advisers.		

Principle		Full Compliance
Selection and Role of Lay Members	• that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. • that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes Yes
Voting	• the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes
Training / Facility Time / Expenses	• that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision – making process. • that where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.	Yes
Note: All additional costs of attending training courses are reimbursed from the Fund.		
Meetings - Frequency	• that an administering authority's main committee or committees meet at least quarterly. • that an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits. • that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Yes
All employers are invited to attend a half-day conference which takes place annually. The Pensions Forum meets twice a year for all employers focussing on administration issues.		

Principle		Full Compliance
Access	• that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.	Yes
Scope	• that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes
The Committee includes pensions administration issues in its work The Committee has developed a scrutiny type approach to its review of investment managers.		
Publicity	• that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Yes
The Kent Pension Fund website is a comprehensive source of information. All unrestricted committee papers are published on the website.		

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 and Procurement.

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

These Accounts were approved by the Governance and Audit Committee at its meeting on 24 July 2013 on behalf of Kent County Council

Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Superannuation Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and is required to give a true and fair view of the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2013.

In preparing this statement of accounts, the Corporate Director of Finance and 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 and 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.

I confirm that these accounts give a true and fair view of the financial position of the Superannuation Fund at the reporting date and its income and expenditure for the year ended 31 March 2013.

Certificate of the Corporate Director of Finance and Procurement

Andy Wood
Corporate Director of Finance and Procurement

Audit Opinion

Independent Auditor's report to the Members of Kent County Council

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Paul Creasey

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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24 July 2013

Description of the Fund

General
In accordance with Government legislation, a Pension Fund has been established and is administered by Kent County Council for the purpose of providing pensions and other benefits for the pensionable employees of Kent County Council, Medway Council, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Pension Fund is a contributory defined benefit pension scheme and is contracted out of the State Second Pension.

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:
- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

The Fund is overseen by the Kent County Council Superannuation Fund Committee which is a committee of Kent County Council.

Membership
Membership of the LGPS is voluntary and employees are free to chose whether to join or remain in the scheme or to make personal arrangements outside the scheme. Employing Bodies include Scheduled Bodies which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and Admitted Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.
There are 370 employing bodies participating in the Fund and the profile of the members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012	31 March 2013	31 March 2012
Kent County Council	21,384	21,752	17,993	17,213	20,887	19,768
Other employers	21,170	19,671	15,738	15,045	16,948	15,662
Total	42,554	41,423	33,731	32,258	37,835	35,430

Funding
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are determined by the Fund's actuary based on triennial actuarial funding valuations at a level necessary to assure that the Fund is able to meet 100% of its existing and prospective liabilities. Any shortfall is being spread over a period of up to a maximum of 20 years. The last such valuation was at 31 March 2010.

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.

Benefits
Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Kent Pension Fund website: www.kentpensionfund.co.uk.

Benefits are index linked to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

LGPS 2014

A new Scheme (LGPS 2014) is being introduced with effect from 1st April 2014. It will apply to all service that builds up on and after 1st April 2014 and all pensions in payment or built up before April 2014 will be protected.

The table below shows the main provisions of the proposed new Scheme (LGPS 2014) for membership compared with those of the current scheme (LGPS 2008) .

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary
Accrual Rate	1/49th	1/60th
Revaluation Rate	Consumer Prices Index (CPI)	Based on Final Salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Employee Contribution Rates	See LGPS 2014 Employee Contribution Rate below	See LGPS 2008 Employee Contribution Rate below
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age	65
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	3 x Pensionable Pay
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age	Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65)
	Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age	Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65)
	Tier 3 - Temporary payment of pension for up to 3 years	Tier 3 - Temporary payment of pension for up to 3 years
Indexation of Pension in Payment	CPI	CPI (RPI for pre-2011 increases)
Vesting Period	2 years	3 months

Future Scheme Cost Management

If the costs of the LGPS change beyond certain limits still to be agreed, there will be negotiations between unions, employers and government about how to meet those cost changes.

Pension Protection on Transfer

LGPS members who are compulsorily transferred will be able to retain membership of the Scheme.

Future Contribution Rates

LGPS 2014 Rates payable 2014-15			LGPS 2008 Rates payable 2013-14		
From	**To**	**Gross Rate %**	**From**	**To**	**Gross Rate %**
Up to £13,500		5.5	Up to £13,700		5.5
£13,501	£21,000	5.8	£13,701	£16,100	5.8
£21,001	£34,000	6.5	£16,101	£20,800	5.9
£34,001	£43,000	6.8	£20,801	£34,700	6.5
£43,001	£60,000	8.5	£34,701	£46,500	6.8
£60,001	£85,000	9.9	£46,501	£87,100	7.2
£85,001	£100,000	10.5	More than £87,100		7.5
£100,001	£150,000	11.4			
More than £150,000		12.5			
Average		**6.5**	**Average**		**6.5**

Fund Account for the year ended 31 March

	Notes	2012-13 £000's	2011-12 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	213,713	214,037
Transfers In from other pension funds	6	8,840	11,561
		222,553	225,598
Benefits	7	(192,463)	(187,903)
Payments to and on account of leavers	8	(7,591)	(8,090)
Administrative and other expenses	9	(2,922)	(2,954)
		(202,976)	(198,947)
Net additions from dealings with Members		**19,577**	**26,651**
Returns on Investments			
Investment Income	10	72,971	76,835
Taxes on Income		(2,686)	(2,897)
Profits and losses on disposal of investments and changes in the market value of investments	13a	424,192	19,038
Investment Management Expenses	12	(11,944)	(11,481)
Net Return on Investments		**482,533**	**81,495**
Net increase in the Net Assets available for benefits during the year		**502,110**	**108,146**
Opening Net Assets of the Scheme at 1 April		**3,310,588**	**3,202,442**
Closing Net Assets of the Scheme at 31 March		**3,812,698**	**3,310,588**

Net Assets Statement as at 31 March

	Notes	31 March 2013 £000's	31 March 2012 £000's
Investment Assets		3,680,068	3,176,020
Cash Deposits		108,532	98,850
Total Investments		**3,788,600**	**3,274,870**
Investment Liabilities		(1,610)	(173)
Net Investments	13	**3,786,990**	**3,274,697**
Current Assets	21	38,402	45,890
Current Liabilities	22	(12,694)	(9,999)
Net Assets available to fund benefits at the period end		**3,812,698**	**3,310,588**

The financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in note 20 to the accounts.

Notes to the Accounts

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2012-13 financial year and its position at 31 March 2013.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard 19 basis is disclosed at note 20 of these accounts.

2. Summary of Significant Accounting Policies

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Dividends, interest, and stock lending income on securities and rental income on property have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. A large number of the Fund's investments are held in income accumulating funds that do not distribute income. The accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund has been accepted by the HM Revenue and Customs as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from tax on interest income and gains on selling transactions. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of non-recoverable tax, and any recoverable tax at the end of the year is included in accrued investment income.

By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

f) Investment management and administrative expenses

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration of the Fund are incurred by the Kent County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Notes to the Accounts

g) Financial assets
Financial assets other than debtors are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year-end are recorded as other investment assets or liabilities. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2013.
- Fixed interest securities are recorded at net market value based on their current yields.

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.

- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund.

- The industrial and commercial properties were valued at open market prices in accordance with the valuation principles laid down by the Royal Institution of Chartered Surveyors. The last valuation had been undertaken by Colliers International, as at 31 December 2012. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2013.

- Debtors / receivables are measured at amortised cost using the effective interest rate method, as required by IAS 39.

h) Derivatives
The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Currently the Fund only holds forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

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

j) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Cash held as demand deposits and all cash equivalents whether managed by Kent County Council or other fund managers are included in investments. All other cash is included in Current Assets.

k) Financial Liabilities
The Fund recognises financial liabilities other than creditors at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Creditors are measured at amortised cost using the effective interest rate method, as required by IAS 39.

l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.
As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

Notes to the Accounts

3. Judgements and Assumptions made in applying accounting policies

Item	Uncertainties	Effect if actual results differ from
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £0.63m. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approx £0.17m, and a one year increase in assumed life expectancy would increase the liability by approx £0.23m.
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out by the British Venture Capital Association.	The total private equity including infrastructure investments in the financial statements are £59m. There is a risk that this investment may be under-or-over stated in the accounts.

4. Events after the Balance Sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

Notes to the Accounts

5. Contributions Receivable

		2012-13 £000's	2011-12 £000's
Employers		168,282	167,318
Members		45,431	46,719
		213,713	**214,037**
Analysis by Employer	Kent County Council	85,295	91,056
	Scheduled Bodies	115,984	111,258
	Admitted Bodies	12,434	11,723
		213,713	**214,037**

6. Transfers In

	2012-13 £000's	2011-12 £000's
Individual	8,840	9,680
Group	0	1,881
	8,840	**11,561**

7. Benefits Payable

		2012-13 £000's	2011-12 £000's
Pensions		150,713	136,263
Retirement Commutation and lump sum benefits		38,553	47,728
Death benefits		3,197	3,912
		192,463	**187,903**
Analysis by Employer	Kent County Council	89,473	87,550
	Scheduled Bodies	94,606	92,176
	Admitted Bodies	8,384	8,177
		192,463	**187,903**

8. Payments to and on account of leavers

	2012-13 £000's	2011-12 £000's
Individual transfers	7,590	8,031
Refunds of contributions	1	59
	7,591	**8,090**

9. Administrative and other expenses

	2012-13 £000's	2011-12 £000's
Internal Administration	2,522	2,455
Actuarial Fees	169	240
Audit Fee	28	45
Legal and Other Professional Fees	150	157
Other miscellaneous expenses	53	57
	2,922	**2,954**

Notes to the Accounts

10. Summary of Income from Investments

	Notes	2012-13 £000's	%	2011-12 £000's	%
Fixed Interest Securities		2,135	3.0	685	0.9
Equities		35,411	48.5	37,161	48.4
Pooled Investments		15,343	21.0	15,350	20.0
Private Equity / Infrastructure		3,153	4.3	3,014	3.9
Property	11	12,366	16.9	11,345	14.8
Pooled Property Investments		3,934	5.4	3,959	5.1
Total Income From Investments		**72,342**	**99.1**	**71,514**	**93.1**
Cash Deposits		374	0.5	5,103	6.6
Other Sub-Underwriting Commission / other Stock Lending		255	0.4	218	0.3
Total		**72,971**	**100.0**	**76,835**	**100.0**

11. Property Income and Expenditure

	2012-13 £000's	2012-13 £000's	2011-12 £000's	2011-12 £000's
Rental Income from Investment Properties		12,366		11,345
Management Fees		(743)		(686)
Direct Operating Expenses on investment properties generating rental income				
- Miscellaneous property expenses	(854)		(819)	
- Insurance net of recovered	6		(126)	
- Disbursements paid	(641)		(630)	
- Other expenses recovered	849		711	
Net operating income from Property		(640)		(864)
		10,983		**9,795**

12. Investment Management Expenses

	2012-13 £000's	2011-12 £000's
Investment Managers	11,041	10,354
Custody fees	128	114
Actuarial (Investment Consultancy)	79	97
Performance Measurement	56	52
Direct Operating Expenses on investment properties generating rental income (note 11)	640	864
	11,944	**11,481**

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

Notes to the Accounts

13. Investments

Investment Assets	Market Value as at 31 March 13 £000's	Market Value as at 31 March 12 £000's
Fixed Interest Securities	280,104	34,990
Equities	1,264,169	1,057,570
Pooled Investments	1,764,778	1,720,756
Private Equity / Infrastructure	58,952	45,360
Property	222,027	222,576
Pooled Property Investments	78,000	88,074
Derivative contracts - Forward Currency contracts	2,666	0
Cash Deposits	108,532	98,850
Investment income due	8,505	6,654
Amounts receivable for sales	867	40
Total Investment Assets	**3,788,600**	**3,274,870**
Investment Liabilities		
Amounts payable for purchases	(1,610)	(173)
Total Investment Liabilities	**(1,610)**	**(173)**
Net Investment Assets	**3,786,990**	**3,274,697**

Notes to the Accounts

13a. Analysis of Change in Market Value of Investments and derivatives

	Market Value as at 31 March 12 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 13 £000's
Fixed Interest Securities	34,990	360,360	(127,074)	11,828	280,104
Equities	1,057,570	293,407	(256,143)	169,335	1,264,169
Pooled Investments	1,720,756	188,937	(389,109)	244,194	1,764,778
Private Equity / Infrastructure	45,360	13,602	0	(10)	58,952
Property	222,576	18,108	(24,250)	5,593	222,027
Pooled Property Investments	88,074	0	(7,360)	(2,714)	78,000
	3,169,326	**874,414**	**(803,936)**	**428,226**	**3,668,030**
Derivative contracts					
- Forward Currency contracts	0	752,599	(745,899)	(4,034)	2,666
	3,169,326	**1,627,013**	**(1,549,835)**	**424,192**	**3,670,696**
Other Investment balances					
- Cash Deposits	98,850				108,532
- Debtors - Outstanding Sales	40				867
- Creditors - Outstanding Purchases	(173)				(1,610)
- Investment Income due	6,654				8,505
Net Investment Assets	**3,274,697**			**424,192**	**3,786,990**

Notes to the Accounts

13a. Analysis of Change in Market Value of Investments and derivatives (contd.)

	Market Value as at 31 March 11 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 12 £000's
Fixed Interest Securities	34,731	26,172	(31,985)	6,072	34,990
Equities	1,062,652	220,942	(188,753)	(37,271)	1,057,570
Pooled Investments	1,680,490	89,478	(101,295)	52,083	1,720,756
Private Equity / Infrastructure	26,296	20,536	0	(1,472)	45,360
Property	190,955	31,268	0	353	222,576
Pooled Property Investments	89,615	108	(922)	(727)	88,074
	3,084,739	**388,504**	**(322,955)**	**19,038**	**3,169,326**
Derivative contracts					
-Forward Currency contracts	0				0
	3,084,739	**388,504**	**(322,955)**	**19,038**	**3,169,326**
Other Investment balances					
- Cash Deposits	72,972				98,850
- Debtors - Outstanding Sales	656				40
- Creditors - Outstanding Purchases	0				(173)
- Investment Income due	4,433				6,654
Net Investment Assets	**3,162,800**			**19,038**	**3,274,697**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £965,610 (2011-12 £880,221). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

Notes to the Accounts

14. Analysis of Investments (excluding Derivative Contracts)

	Market Value as at 31 March 2013 £000's	Market Value as at 31 March 2012 £000's
FIXED INTEREST SECURITIES		
UK		
Public Sector Quoted	0	34,990
Corporate Quoted	20,205	0
OVERSEAS		
Public Sector Quoted	50,524	0
Corporate Quoted	209,375	0
	280,104	**34,990**
EQUITIES		
UK		
Quoted	656,558	555,603
OVERSEAS		
Quoted	607,611	501,967
	1,264,169	**1,057,570**
POOLED FUNDS - Additional Analysis		
UK		
Fixed Income Unit Trusts	215,772	343,487
Unit Trusts	689,334	612,887
OVERSEAS		
Fixed Income Unit Trusts	0	76,790
Unit Trusts	859,672	687,592
	1,764,778	**1,720,756**
PROPERTY, PRIVATE EQUITY AND INFRASTRUCTURE		
Property		
UK	222,027	222,576
Property Unit Trusts		
UK	63,001	72,111
Overseas	14,999	15,963
Private Equity Funds		
UK	3,912	3,574
Overseas	14,465	5,334
Infrastructure		
UK	8,209	8,441
Overseas	32,366	28,011
	358,979	**356,010**
TOTAL	**3,668,030**	**3,169,326**

14a. Analysis of Investments - Derivative Contracts

Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

Notes to the Accounts

14a. Analysis of Investments - Derivative Contracts (contd)

Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager fully hedges the overseas, excluding emerging markets', exposure of the portfolio. This is approximately 75% of the portfolio managed by Goldman Sachs.

Settlement	Currency bought	Local value £000's	Currency sold	Local value £000's	Asset value £000's	Liability value £000's
Up to one month	GBP	1,664	USD	-2,521	3	
Up to one month	GBP	6,692	USD	-10,030	87	
Up to one month	GBP	2,333	USD	-3,481	41	
Up to one month	GBP	731	EUR	-836	23	
Up to one month	GBP	1,854	USD	-2,815		0
Up to one month	GBP	89	USD	-135	0	
One to six months	GBP	1,047	USD	-1,574	10	
One to six months	GBP	100,427	USD	-150,948	1,016	
One to six months	GBP	100,460	USD	-150,948	1,049	
One to six months	GBP	16,957	EUR	-19,562	413	
One to six months	GBP	1,646	CHF	-2,332	24	
					2,666	0
Net forward currency contracts at 31 March 2013						**2,666**
Prior year comparative						
Open forward currency contracts at 31 March 2012					0	0
Net forward currency contracts at 31 March 2012						**0**

14b. Property Holdings

	Year ending 31 March 13 £000s	Year ending 31 March 12 £000s
Opening Balance	222,576	190,955
Additions	18,108	31,268
Disposals	(24,250)	0
Net increase in market value	5,593	353
Closing balance	**222,027**	**222,576**

15. Investments analysed by Fund Manager

	Market value at 31 March £000's	%	Market value at 31 March £000's	%
Baillie Gifford	699,449	18.5	582,653	17.8
DTZ	300,027	7.9	310,651	9.5
GMO	220,778	5.8	192,010	5.9
Goldman Sachs	296,954	7.9	270,503	8.3
HarbourVest	14,465	0.4	5,334	0.2
Henderson	8,209	0.2	8,441	0.3
Impax	26,251	0.7	23,517	0.7
Invesco	479,239	12.7	398,911	12.2
Partners Group	32,366	0.9	28,011	0.8
Pyrford	153,450	4.1	80,354	2.4
Schroders	1,005,812	26.6	874,007	26.8
State Street Global Advisors	474,052	12.5	441,211	13.5
YFM	3,912	0.1	3,574	0.1
Kent County Council Investment team	64,262	1.7	49,000	1.5
	3,779,226	**100.0**	**3,268,176**	**100.0**

All the external fund managers above are registered in the United Kingdom. The Fund Manager totals exclude investment debtors and creditors.

Notes to the Accounts

15a. Single investments 5% or more by value of their asset class

Asset Class / Investments	31 March 2013 £000's	% (of asset class)
POOLED FUNDS		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	109,729	6
SISF Strategic Bond GBP Hedged	106,043	6
UK Unit Trusts		
Invesco Perpetual Income Fund	479,239	27
MPF UK Equity Index Sub-Fund	183,531	10
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	153,450	9
GMO Developed World Equity Investment (U.S.$)	216,701	12
MPF International Equity Index Sub-Fund	290,521	16
Schroder GAV Unit Trust	168,670	10
PROPERTY UNIT TRUSTS		
L & G Leisure	7,713	10
Henderson Shopping Centre	4,222	5
Falcon	6,760	9
Hercules	9,309	12
Quercus	5,204	7
Airport Fund	9,085	12
Lothbury	7,880	10
Welput	10,754	14
Aurora	14,999	19
PRIVATE EQUITY AND INFRASTRUCTURE FUNDS		
Private Equity		
UK		
Chandos Fund (YFM)	3,912	7
Overseas		
HIPEP VI- Cayman	7,393	13
HarbourVest Partners IX	7,072	12
Infrastructure		
UK		
Henderson Secondary PFI Fund I	5,432	10
Overseas		
Partners Group Global Infrastructure 2009	28,192	48
Partners Group Direct Infrastructure 2011	4,174	7

PROPERTY Location	Type of Property	31 March 2013 £000's	% (of asset class)
3-5 Charing Cross Road, London	Office	20,476	9
102 - 114 Wardour Street, London	Mixed Use	13,117	6
Drury House, London	Office	22,189	10
49/59 Battersea Park Road, London	Industrial	16,227	7
Hertsmere Industrial Estate, Borehamwood	Industrial	13,731	6
Kings Park, Manchester	Industrial	11,229	5

Properties purchased during the year		Date of purchase	Purchase Cost £000's
Vine Hill and Wren House	Office	03/10/2012	16,715
Millbrook Estate Plot 1904	Industrial	01/09/2012	439
Additions / Cost adjustments to existing properties			953

Notes to the Accounts

15a. Single investments 5% or more by value of their asset class (contd)

Properties sold during the year

	Date of sale	Sale Value £000's
14-15 Conduit Street, London	15/08/2012	24,250

16. Stock Lending

The Custodians undertake a conservative programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns and Treasury Bonds.
The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table

Loan Type	Market Value £000's	Fair Value of Collateral £000's	Collateral type
Equities	59,031	62,710	Sovereigns and Treasury Bonds
Corporate Bonds - Euro	770	797	Sovereigns and Treasury Bonds
	59,801	**63,507**	

17. Financial Instruments

17a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

	31 March 2013			31 March 2012		
	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's
Financial Assets						
Fixed Interest Securities	280,104			34,990		
Equities	1,264,169			1,057,570		
Pooled Investments	1,764,778			1,720,756		
Property Pooled Investments	78,000			88,074		
Private Equity/Infrastructure	58,952			45,360		
Derivative contracts	2,666			0		
Cash		109,214			104,307	
Other Investment Balances	9,372			6,694		
Debtors/ Receivables		37,720			40,433	
	3,458,041	**146,934**	**0**	**2,953,444**	**144,740**	**0**
Financial Liabilities						
Other Investment balances	(1,610)			(173)		
Creditors			(12,694)			(9,999)
	(1,610)	**0**	**(12,694)**	**(173)**	**0**	**(9,999)**
Total	**3,456,431**	**146,934**	**(12,694)**	**2,953,271**	**144,740**	**(9,999)**

Notes to the Accounts

17b. Net Gains and Losses on Financial Instruments

	31 March 2013	31 March 2012
Financial assets	**£000's**	**£000's**
Fair value through profit and loss	418,599	18,684
Loans and receivables	0	0
Financial assets measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	**418,599**	**18,684**

17c. Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 13		31 March 12	
	Carrying value £000's	Fair Value £000's	Carrying value £000's	Fair Value £000's
Financial assets				
Fair value through profit and loss	3,458,041	3,458,041	2,953,444	2,953,444
Loans and receivables	146,934	146,934	144,740	144,740
Total financial assets	**3,604,975**	**3,604,975**	**3,098,184**	**3,098,184**
Financial liabilities				
Fair value through profit and loss	(1,610)	(1,610)	(173)	(173)
Financial liabilities at amortised cost	(12,694)	(12,694)	(9,999)	(9,999)
Total financial liabilities	**(14,304)**	**(14,304)**	**(10,172)**	**(10,172)**

17d. Valuation of Financial Instruments carried at Fair Value

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted index linked securities and unit trusts.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value. These techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested.

Notes to the Accounts

17d. Valuation of Financial Instruments carried at Fair Value (contd)

The following tables provide an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2013	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial assets at fair value through profit and loss	3,321,089	78,000	58,952	3,458,041
Financial liabilities at fair value through profit and loss	(1,610)			(1,610)
Net financial assets at fair value through profit and loss	**3,319,479**	**78,000**	**58,952**	**3,456,431**

Values at 31 March 2012	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial assets at fair value through profit and loss	2,820,010	88,074	45,360	2,953,444
Financial liabilities at fair value through profit and loss	(173)			(173)
Net financial assets at fair value through profit and loss	**2,819,837**	**88,074**	**45,360**	**2,953,271**

Notes to the Accounts

18. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.
Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.
The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.
In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.
The Fund has a strategic allocation to Equities at around 64% and this is typical of local authority funds. It does mean that returns are highly correlated with equity markets.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.
The Fund is exposed to share and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.
The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2013-14 reporting period.

Asset Type	**Potential Market Movements (+/-)**
UK Equities	11.43%
Overseas Equities	12.25%
Global Pooled inc UK	12.41%
Bonds	3.26%
Alternatives	5.13%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.
Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Notes to the Accounts

18. Nature and extent of Risks Arising From Financial Instruments (contd)

Asset Type	Value as at 31 March 2013 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	108,532	0.00	108,532	108,532
Investment portfolio assets:				
UK Equities	656,558	11.43	731,603	581,513
Overseas Equities	607,611	12.25	682,044	533,179
Global Pooled inc UK	1,842,778	12.41	2,071,466	1,614,089
Bonds	280,104	3.26	289,235	270,972
Private Equity	18,377	5.13	19,320	17,434
Infrastructure Funds	40,575	5.13	42,657	38,494
Net derivative assets	2,666	0.00	2,666	2,666
Investment income due	8,505	0.00	8,505	8,505
Amounts receivable for sales	867	0.00	867	867
Amounts payable for purchases	(1,610)	0.00	(1,610)	(1,610)
Total	**3,564,963**		**3,955,285**	**3,174,641**

Asset Type	Value as at 31 March 2012 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	98,850	0.00	98,850	98,850
Investment portfolio assets:				
UK Equities	555,603	11.43	619,108	492,097
Overseas Equities	501,967	12.25	563,458	440,476
Global Pooled inc UK	1,808,830	12.41	2,033,306	1,584,354
Bonds / Index Linked securities	34,990	3.26	36,131	33,849
Private Equity	8,908	5.13	9,365	8,451
Infrastructure Funds	36,452	5.13	38,322	34,582
Net derivative assets	0	0.00	0	0
Investment income due	6,654	0.00	6,654	6,654
Amounts receivable for sales	40	0.00	40	40
Amounts payable for purchases	(173)	0.00	(173)	(173)
Total	**3,052,121**		**3,405,061**	**2,699,180**

Notes to the Accounts

18. Nature and extent of Risks Arising From Financial Instruments (contd)

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.
The Fund's direct exposures to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2013**	**31 March 2012**
	£000's	**£000's**
Cash and cash equivalents	108,532	98,850
Fixed Interest Securities		
- Directly held securities	280,104	34,990
- Pooled Funds	215,772	420,277
Total	**604,408**	**554,117**

Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	**Carrying amount as at 31 March 2013**	**Change in year in the net assets available to pay benefits**	
		+100bps	**-100bps**
	£000's	**£000's**	**£000's**
Cash and cash equivalents	108,532	1,085	(1,085)
Fixed Interest Securities			
- Directly held securities	280,104	2,801	(2,801)
- Pooled Funds	215,772	2,158	(2,158)
Total change in assets available	**604,408**	**6,044**	**(6,044)**

Asset Type	**Carrying amount as at 31 March 2012**	**Change in year in the net assets available to pay benefits**	
		+100bps	**-100bps**
	£000's	**£000's**	**£000's**
Cash and cash equivalents	98,850	989	(989)
Fixed Interest Securities			
- Directly held securities	34,990	350	(350)
- Pooled Funds	420,277	4,203	(4,203)
Total change in assets available	**554,117**	**5,542**	**(5,542)**

Notes to the Accounts

18. Nature and extent of Risks Arising From Financial Instruments (contd)

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than £UK, the functional currency of the Fund. Most of these assets are not hedged for currency risk . The Fund is exposed to currency risk on these financial instruments. However, a large part (£209m) of the assets managed by Goldman Sachs Asset Management held in non £UK currencies is hedged for currency risk through forward currency contracts. The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations.
The following table summarises the Fund's currency exposure, excluding the hedged investments, as at 31 March 2013 and as at the previous period end:

Currency exposure - asset type	**Asset value as at 31 March 13**	**Asset value as at 31 March 12**
	£000's	**£000's**
Overseas Equities	607,611	501,967
Overseas Pooled Funds	874,671	780,345
Overseas Bonds	50,524	0
Overseas Private Equity and Infrastructure	46,831	33,345
Non GBP Cash	47,374	38,873
Total overseas assets	**1,627,011**	**1,354,530**

Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2012-13 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant.
A relevant strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	**Asset value as at 31 March 2013**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000's	**%**	**£000's**	**£000's**
Overseas Equities	607,611	5.08	638,478	576,745
Overseas Pooled Funds	874,671	5.08	919,104	830,238
Overseas Bonds	50,524	5.08	53,091	47,958
Overseas Private Equity and Infrastructure	46,831	5.08	49,210	44,452
Non GBP Cash	47,374	5.08	49,781	44,968
Total	**1,627,011**		**1,709,664**	**1,544,361**

Currency exposure - asset type	**Asset value as at 31 March 2012**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000's	**%**	**£000's**	**£000's**
Overseas Equities	501,967	5.08	527,467	476,467
Overseas Pooled Funds	780,345	5.08	819,987	740,703
Overseas Bonds	0	5.08	0	0
Overseas Private Equity and Infrastructure	33,345	5.08	35,039	31,651
Non GBP Cash	38,873	5.08	40,848	36,898
Total	**1,354,530**		**1,423,341**	**1,285,719**

Notes to the Accounts

18. Nature and extent of Risks Arising From Financial Instruments (contd)

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.
In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.
Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum amount may be placed with any one financial institution. The Fund's cash was held with the following institutions:

Summary	Rating	Balances as at 31 March 2013	Balances as at 31 March 2012
		£000's	£000's
Funds managed under internal treasury arrangements			
Money Market Funds			
JP Morgan Sterling Liquidity Fund	AAA	0	17,088
JP Morgan US Dollar Liquidity Fund	AAA	0	20,230
Blackrock Sterling Government Liquidity Fund	AAA	63	3,100
Blackrock USD Fund	AAA	16,205	0
Goldman Sachs Sterling Government Fund	AAA	0	2,952
SWIP Global GBP Liquidity Fund	AAA	6,337	0
Insight Sterling Liquidity Fund	AAA	19,911	0
		42,516	**43,370**
Bank Deposit Accounts			
NatWest SIBA	A	19,835	3,809
		62,351	**47,179**
Bank Current Accounts			
NatWest Current Account	A	50	84
NatWest Current Account - Euro	A	29	2,767
Barclays - DTZ client monies account	A	603	2,606
		682	**5,457**
Total		**63,033**	**52,636**
Funds Managed by Fund Managers			
Money Market Funds			
JP Morgan Sterling Liquidity Fund	AAA	9,060	47,674
Goldman Sachs Sterling Liquid Reserve	AAA	14,010	0
Bank Current Accounts			
JPMorgan Chase- Current Account	A+	23,111	3,996
Total		**46,181**	**51,670**

Notes to the Accounts

18. Nature and extent of Risks Arising From Financial Instruments (contd)

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.
The Council has immediate access to its Pension Fund cash holdings.
Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.
All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Notes to the Accounts

19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2010. The next such valuation will take place as at 31 March 2013.

The key elements of the funding policy are:

• Ensure the long-term solvency of the Fund

• Ensure that sufficient funds are available to meet all benefits as they fall due for payment

• Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to taxpayers.

• Maximise the returns from investments within reasonable risk parameters.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The market value of the Fund's assets at the valuation date was £2,780m and the liabilities were £3,623m. The assets therefore, represent 77% (2007- 73%) of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions used were as follows:

Valuation of assets:-	assets have been valued at a 6 month smoothed market rate
Rate of return on investments	6.6% p.a.
Rate of general pay increases	5.0% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):-	3.0% p.a.

The actuarial valuation has been undertaken on the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer and the attained age valuation method for employers who were closed to new entrants.

These methods assess the costs of benefits accruing to existing members during the year following valuation and the remaining working lifetime respectively, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary undertakes a valuation of the Fund's liabilities on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuarial present value of promised retirement benefits as at 31 March 2013 was £6,044.4m (31 March 2012: £5,490.5m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 63% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above is calculated on an IAS19 basis and therefore differs from the results of the 2010 triennial funding valuation because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used:	**% p.a.**
Salary increase rate	4.8%
Pensions increase rate	2.6%
Discount rate	4.5%

Notes to the Accounts

21. Current Assets

	31 March 2013		31 March 2012	
	£000's	**£000's**	**£000's**	**£000's**
Debtors				
- Contributions due -Employees	3,611		3,530	
- Contributions due -Employers	26,976		26,141	
- Sundry Debtors	1,944	32,531	738	30,409
Amounts due from Kent County Council		5,189		10,024
Cash		682		5,457
		38,402		**45,890**

Analysis of debtors		
Central Government Bodies	0	262
Other Local Authorities	27,491	27,268
Other Entities and Individuals	5,040	2,879
	32,531	**30,409**

Notes to the Accounts

22. Current Liabilities

	31 March 2013		31 March 2012	
	£000's	£000's	£000's	£000's
Benefits payable		(3,688)		(4,291)
Sundry Creditors		(6,957)		(5,708)
Prepaid income		(1,881)		0
Owing to Kent County Council		(168)		0
Total		**(12,694)**		**(9,999)**
Analysis of creditors				
Central Government Bodies		(40)		0
Other Local Authorities		(3,301)		(2,976)
Public Corporations		0		(11)
Other Entities and Individuals		(9,353)		(7,012)
Total		**(12,694)**		**(9,999)**

23. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. The AVC provides secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The sum deducted from Kent County Council members and paid over to the AVC providers was: £580,538 (£811,233 in 2011-12). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£000's	£000's	£000's	£000's	£000's	£000's
Value at 1 April	5,028	4,390	2,035	2,058	975	1,136
Value at 31 March	5,335	5,028	2,045	2,035	936	975
Contributions paid	1,209	1,309	132	188	4	7

Notes to the Accounts

24. Related Party Transactions

The Kent Pension Fund is administered by Kent County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

	2012-13 £000's	2011-12 £000's
The council is the largest single employer of members of the Pension Fund and during the year contributed:	66,300	70,943
A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website at:www.kentpensionfund.co.uk		
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,673	2,612
Year end balance due (to) / from Kent County Council arising out of transactions between Kent County Council and Pension Fund	(168)	3,313

Key management personnel

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Kent County Council under information for officers' remuneration and members' allowances via the following link:
Kent County Council Statement of Accounts 2012-13

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2013 totalled £97m (31 March 2012: £109m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

26. Contingent Assets

34 admitted body employers in the Kent Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

Funding Strategy Statement

Introduction

This is the Funding Strategy Statement (FSS) of Kent County Council Superannuation Fund (the Fund) which is administered by Kent County Council (the administering authority).

The administering authority is required to prepare the FSS under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008.

Benefits payable under the Scheme are guaranteed by statute and the pensions promise to members is guaranteed. Members' contributions are fixed by statute to bands relating to salary ranging from 5.5% to 7.5%. Employers pay the balance of the cost of delivering the benefits to members.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that the appointed actuary completes an actuarial valuation every three years. For the Kent Fund the actuary is Barnett Waddingham.

Purpose of the FSS in policy terms

The purpose of the FSS is:

- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward.
- To support the regulatory framework to maintain as nearly as constant employer contribution rates as possible.
- To take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually but may be mutually conflicting. This statement seeks to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

Aims and Purpose of the Fund

The aims of the Fund are to:

- Ensure the long-term solvency of the Fund.
- Ensure that sufficient funds are available to meet all benefits as they fall due for payment.
- Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to taxpayers.
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income.
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

Responsibilities of Key Parties

The administering authority should:

- Operate the Pension Fund
- Collect employer and employee contributions.
- Pay from the Pension Fund the relevant entitlements as stipulated in LGPS Regulations
- Invest surplus monies in accordance with the LGPS regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- Manage the valuation process in consultation with the fund's actuary.
- Prepare and maintain the FSS and SIP.
- Monitor all aspects of the Fund's performance and funding and keep the FSS and SIP under regular review.
- Properly account for all monies received.
- Prepare the Fund accounts.
- Effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer

Each individual employer should:

- Deduct contributions from employees' pay correctly.
- Pay all contributions, including their own as determined by the actuary, promptly by the due date.
- Exercise discretion within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements particularly in respect of augmentation of scheme benefits and early retirement strain.
- Notify the administering authorities promptly of all changes or proposed changes to membership, which may affect future funding.

The Fund actuary should:

- Prepare valuations including the setting of employer contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

- Prepare advice and valuations on the termination of admission agreements.
- Provide advice to the administering authority on bonds or other forms of security against the financial effect on the fund of employer default.
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as required by the regulations.
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the fund.

The Fund's external auditor should:

- Undertake a full audit of the pension fund accounts.

Solvency Issues and Target Funding Levels

Employer contributions are normally made up of two elements:

- The estimated cost of future benefits being accrued referred to as the future service rate.
- An adjustment for the funding position of accrued benefits, the past service adjustment.

The Fund's actuary is required to report on the solvency of the whole Fund every three years. Solvency is defined as the ratio of the value of assets to the value placed on accrued benefits by the Fund actuary on an ongoing basis. This figure is known as the funding level and as at the 31 March 2007 the Kent Fund was 73% funded, this increased to 77% with the 31 March 2010 valuation.

The actuary sets the financial and demographic assumptions to be used at each valuation. The key financial assumptions at the 2010 valuation were:

	% pa Nominal	% pa Real
Investment Return		
Equities / absolute return	7.3	3.8
Gilts	4.5	1.0
Bonds & Property	5.6	2.1
Discount Rate	6.7	3.2
Risk adjusted Discount Rate	6.6	3.1
Pay increases	5.0	1.5
Price Inflation	3.5	-
Pension Increases	3.0	-0.5

Note. The pay increase assumption is zero for 2 years for those earning over £21,000.

In relation to demographic issues the actuary takes a view on:

- The incidence of future ill health retirements.
- Pensioner mortality.
- Membership profile between active members, deferred members and pensioners.

Actual pensioner mortality in the intervaluation period was higher than expected. The actuary has reviewed the mortality assumptions used to bring them closer to recent experience but also allow for improvements in mortality over the next 20 years.

For the 2010 valuation the contribution rates for employers were calculated assuming a 20 year deficit recovery period. Where these contribution rates would have given a large change compared to the previous rate, the employer is being moved gradually to the new rate at successive valuations.

All employers in the scheme have an individually calculated rate apart from connected employers, Colleges and Academies. Connected employers are those where we understand that the organisation controls all of the employers or has responsibility for all of the pension obligations. Examples include parents/subsidiaries or former Transferee Admission Bodies who have ceased to participate where the legacy liabilities have been passed back to the Letting Authority. The Colleges have had a pooled rate since they left local authority control in 1991.

The actuary has also set rates for Academies to be equal to the rate that their former Council would have paid during 2010-11. These along with all contribution rates, will be reviewed as part of the actuarial valuation as at 31 March 2013.

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

Links to Investment Strategy

The key decisions for the Superannuation Fund Committee in relation to investment strategy are:

- The proportion of assets to be invested in each asset class.
- The choice of investment managers appointed to manage the assets.

The Committee's decision on which asset classes to invest in is based upon sophisticated financial modelling undertaken by the Fund's investment consultant Hymans Robertson to help determine the most appropriate long term asset strategy in light of the Fund's long term objectives and the Committee's tolerance for risk. Risk in this context refers to the degree of future volatility in expected funding levels and contribution rates, and the trade off between these two parameters that is deemed most acceptable.

The current allocation of Scheme assets is:

Asset Class	%
UK Equities	32
Global Equities	32
Private Equity	2.5
Infrastructure	2.5
Commercial Property	10
Absolute Return	5
Total Growth	**84**
Fixed Income	15
Cash / Other	1
Total	**100**

Over the inter-valuation period the Fund has made major changes to asset allocation:

- £75m Private Equity fund of funds mandate.
- £75m Infrastructure fund of funds mandate.

  (both these funds still have to be fully funded).
- £50m pooled property funds.
- £150m Absolute Return Mandate
- Revised fixed income mandates incorporating more absolute return.
- Significant element of passive management of equities.

The Investment Strategy reflects a view that in the long term higher returns from equities and property justify the higher risk and volatility of returns.

The Committee's Statement of Investment Principles (SIP) sets out more detail on the management of the Fund.

The Identification of Risk and Counter Measures

The measures which the administering authority has in place to control key risks are summarised below and examined in detail in the Appendix:

- Financial
- Demographic
- Regulatory
- Governance
- Reputational
- Ethical

Monitoring and Review

A full review of the statement will take place not less than once every three years to coincide with the full actuarial valuation.

The administering authority will monitor progress of the funding strategy between full actuarial valuations.

The current version of this document is at **www.kentpensionfund.co.uk**

Appendix

Funding Strategy Risk Assessment

Financial risks	**Actions to control risks**
Fund assets fail to deliver returns in line with the anticipated returns.	• Prudent actuarial assumptions. • Diversified portfolio. • Monitor against targets.
Inappropriate long term investment strategy.	• Set fund specific benchmark informed by financial modelling. • Diversified manager structure.
Investment managers fail to achieve performance targets over the longer term.	• Ensure good understanding of what investment managers are trying to achieve and how. • Detailed monthly and quarterly monitoring of investment managers. • Keep manager appointments under constant review and make changes where appropriate.
Pay and Price inflation significantly more than expected.	• Actuarial valuation focuses on real returns. • Some investment in bonds to mitigate this risk. • Absolute return element in the Fund.
Effect of possible increase in employer contribution rate on service delivery and on the financial standing of admitted/schedule bodies.	• Mitigate impact through deficit spreading and phasing in of contribution rates.
Demographic risks	**Actions to control risks**
Pensioners live longer.	• Monitoring of mortality by employer. • Comparison by the actuary with experience elsewhere in the LGPS.
Deteriorating patterns of early retirement.	• Employers meet full financial costs of non-ill health retirements. • Employer ill health experience is monitored. • National changes to the scheme will lead to individuals working longer.

Appendix

Funding Strategy Risk Assessment (contd.)

Regulatory risks	**Actions to control risks**
Implementation of the LGPS 2014 reforms Adverse changes to other Legislation, tax rules, etc.	• Respond to consultation documents. • Keep employers informed. • Copies of all submissions are available on www.kentpensionfund.co.uk
Governance risks	**Actions to control risks**
Administering Authority unaware of structural changes in an employer's membership.	• Ensure good communication with employers. • Annual Pensions & Investments Conference. • Twice yearly Pensions Forum
Late notification / engagement on admission issues.	• Employers reminded of the need for early engagement.
An employer ceasing to exist with insufficient funding.	• Ensure adequate bonding or liabilities underwritten by relevant employer.
Reputational risks	**Actions to control risks**
Adverse publicity for administering authority.	• Maintain good communication with employers. • Produce high quality written material. • Better use of the website.
Ethical risks	**Actions to control risks**
Investment in companies with poor corporate governance.	• Clear guidance to investment managers and clear accountability by them for their actions.
Exposure to environmental / sustainability issues.	• Monitor good practice.

Statement of Investment Principles

Introduction

Under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009, administering authorities are required to prepare, maintain and publish a statement of investment principles (SIP).

Requirements of the Regulations

The regulations state:

An administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments.

The statement must cover the policy on:-

- the types of investment held
- the balance between different types of investment
- risk
- the expected returns on investments
- the realisation of investments
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments, and
- the exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
- stock lending.

Kent County Council (KCC) Policy

Fund Objectives

- The primary objective of the Fund is to provide for scheme members' pensions and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis

- The funding objective is that, in normal market conditions, the accrued benefits are fully covered by the actuarial value of the Fund and that an appropriate level of contributions is agreed by the administering authority to meet the costs of future benefits accruing. For employee members, benefits will be based on actual service completed but the actuary will take account of future salary increases.

- The assumptions used to assess the funding are those used for the actuarial valuation. The position will be reviewed at least at each statutory triennial valuation.

Investments

Investment Managers

The Committee will ensure that one or more investment managers are appointed who are authorised under the LGPS (Management and Investment of Funds) Regulations 2009 to manage the assets of the Fund. The Fund's investment managers are:

UK Equities:
- Schroder Investment Management Limited
- Invesco Asset Management Limited
- State Street Global Advisers Limited

Overseas Equities:
- Baillie Gifford & Co
- GMO
- Schroder Investment Management Limited
- State Street Global Advisors
- Impax Asset Management

Fixed Income:
- Schroder Investment Management Limited
- Goldman Sachs Asset Management Limited

Property:
- DTZ Investment Management Limited

Private Equity:
- YFM Equity Partners
- HarbourVest Partners

Infrastructure / PFI:
- Partners Group
- Henderson Equity Partners

Absolute / Total Return:
- Pyrford International

Each manager's remuneration is based on a percentage of funds under management in accordance with the rates quoted in their tender documents.

Performance Benchmark

The Committee, advised by Hymans Robertson, has set a scheme performance benchmark which is set out in Appendix 1. The Fund allows a normal variation of +/- 2% from the target allocation to each asset class. The Committee monitors deviations from its asset allocation benchmark at its regular meetings. If the ranges are breached as a result of relative performance of assets, the Committee may choose to delay bringing the weights back within guideline ranges.

Investment Objectives

The investment objectives for each mandate are set out in Appendix 2.

Choice of Investments

The managers have been given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio. All funds are managed on an active basis except for State Street.

For the UK property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases subject to final agreement by Committee. The mandate includes limited investment in indirect property funds. There is also a separate set of investments in indirect funds. The European investment is through the DTZ Aurora Fund.

Risk

The adoption of a performance benchmark (as described above) and the explicit monitoring of performance relative to the performance target, constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage funds in such a way as to enhance returns.

Realisation of Investments

The majority of assets held by the Fund are quoted on major stock markets and could be realised quickly if required. The property investments by their nature would take longer to realise but as they are in selected first class properties they should be realisable within a short period of time.

Cash

The Fund has a positive cashflow and each month there is a surplus of income over payments. The Committee has its own agreed Treasury Strategy.

The Cash balance is reported to the Committee on a quarterly basis. Determinations are then made as to whether to hold as a deliberate investment decision, hold to fund forthcoming investments or allocate to existing managers.

Monitoring of Investments

- The Superannuation Fund Committee meets five / six times a year. It receives detailed reports on the performance of the Fund as a whole and the performance of each manager. All managers attend the Committee meetings to explain their strategy and answer questions from members of the Committee. Those managers who are responsible for the Fund's segregated and actively managed portfolios equating in value to 5% or more of total fund assets, attend the Committee meetings at least once a year. All other managers attend the Committee meetings at least every 2 years. There is also regular contact between officers of KCC and all the fund managers in relation to their activities.

- Major reviews of investment strategy follow the actuarial valuation.

- All fund managers are on one month's notice and their contracts can be terminated at any time. Fund managers are appointed through open tendering processes in accordance with European Union purchasing legislation. The Fund will at times take decisions to invest directly in an investment product.

Investment Advice

Professional advice on investment matters is taken from the investment practice of Hymans Robertson Actuaries and Consultants. General guidance on benchmarking is provided by Hymans Robertson but the investment managers are responsible to the Committee for their investment decisions. Hymans Robertson are remunerated on an hourly rate basis.

Investment Principles

A comparative position statement against the CIPFA Investment Decision Making and Disclosure Guide is attached in Appendix 3.

Environmental, Social and Governance Considerations

The Fund's policy statement on Environmental, Social and Governance investing is at appendix 4.

Stock Lending

The Fund custodians, JP Morgan undertake a conservative programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns and Treasury Bonds.

Review of Statement of Investment Principles

The document will be reviewed regularly or as is made necessary by changes to the Scheme Regulations. The current version of this document is at **www.kentpensionfund.co.uk**

Statement of Investment Principles

APPENDIX 1

Aggregate Scheme Benchmark

Asset Class	Benchmark %	Index
UK Equities	32	FTSE All Share
Overseas Equities	32	MSCI World NDR
Fixed Income	15	BAML GBP BROAD MARKET
Property	10	IPD All Properties Index
Private Equity and Infrastructure	5	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
Total	**100**	

Statement of Investment Principles

APPENDIX 2

Investment Manager Mandates

Asset Class / Manager	Benchmark	Performance Target
UK Equities:		
Schroder Investment Management	Customised	+1.5%
Invesco Perpetual	FTSE All Share TR	Unconstrained
State Street Global Advisors	FTSE All Share TR	Passive
Global Equities:		
Baillie Gifford	Customised	+1.5%
GMO	MSCI World Index NDR	+3%
Schroder Investment Management	MSCI World Index NDR	+3-4%
Impax Asset Management	MSCI World Index NDR	+2%
State Street Global Advisors	FTSE World ex UK (Custom)	Passive
Fixed Income:		
Schroder Investment Management	50% ML Sterling Broad Market, 50% 3 months Libor	+1%
Goldman Sachs Asset Management	14% FTSE Gilts > 5 years, 56% iBoxx Sterling non gilt index, 30% Barclays Capital Global Aggregate Corporate index.	+0.75%
Property:		
DTZ Investment Management	IPD Pension Fund Index	
Cash / Other Assets (Alternatives):		
Private Equity – YFM Private Equity	GBP 7 Day LIBID	
Private Equity – HarbourVest Partners	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Infrastructure (Secondary PFI)- Henderson Fund Management	GBP 7 Day LIBID	
Absolute Return – Pyrford International	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

Statement of Investment Principles

APPENDIX 3

CIPFA Investment Decision Making and Disclosure in the Local Government Pension Scheme – A Guide to the Application of The Myners Principles.

Principle 1: Effective Decision Making

Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Issue		Compliance	Comments
(1)	Committee responsible for the Fund.	Full	
(2)	Roles of Officers fully set out.	Full	
(3)	Maintain and publish a statement of good practice principles for scheme governance and stewardship.	Yes	Complete (Appendix 4)
(4)	Appointments to committee reflect skills, experience and continuity.	Full	
(5)	Definition of roles	Full	Covered in Governance Compliance Statement
(6)	Skills and knowledge audits of members of the Committee. Annual training plan.	Yes	Reviewed annually
(7)	Regular review of structure and composition of committee.	Partial	Report March 2010 to Committee.

(8)	Consideration of establishing Sub-committees	Partial	Report March 2010 to Committee.
(9)	DoF responsible for a member training plan.	Partial	Not formalised.
(10)	Allowances to elected members published.	Full	
(11)	Employee representative allowed time to attend.	Full	
(12)	Clear and comprehensive papers.	Full	
(13)	DoF should prepare a medium term business plan.	No	Agreed May 2011

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Issue		**Compliance**	**Comments**
(1)	Liability structure reflected in overall investment objectives.	Yes	Hymans Robertson Compass modelling.
(2)	Advice from specialist independent advisers.	Yes	
(3)	Consideration of risk and return of different asset classes.	Yes	
(4)	Peer group benchmarks only used for comparative purposes.	Yes	
(5)	Committee should consider VFM in objectives and operations.	Partial	Very unclear what this means.
(6)	DoF and Committee should be aware of the impact of employer contribution rates on Council Tax.	Yes	

(7)	Given the profile of scheme employers committee should consider whether to set up sub-funds.	Yes	
(8)	Take advice on asset/liability study.	Yes	
(9)	Consider allocations to different asset classes.	Yes	
(10)	Advisers should be appointed through open competition.	No	This is kept under regular review.
(11)	Committee aware of transaction costs.	Partial	We do not formally report commission costs – not a strategic issue.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Issue		Compliance	Comments
(1)	Investment objectives should reflect liabilities and attitude to risk.	Yes	
(2)	Willingness to accept underperformance due to market conditions.	Yes	
(3)	SIP should include a risk assessment framework of new and potential investments.	No	Not a requirement of the SIP and more relevant to investment strategy.
(4)	Committee should consider if the scheme specific benchmark has determined an acceptable level of risk.	Yes	Covered in the Hymans Robertson Compass modelling.

(5)	A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation.	Yes	Undertaken by Barnett Waddingham.
(6)	As part of the valuation the impact of long term performance should be assessed.	Yes	
(7)	The Committee should use internal and external audit reports to assess the effectiveness of governance arrangements.	Yes	.
(8)	Investment strategy should take account of the ability of employers to pay.	Yes	The actuary sets the rates required for the long term solvency of the Fund.
(9)	Consideration of cashflows compared with liabilities.	Yes	
(10)	Annual report should include a risk assessment of the Fund's activities.	Yes	Refer to the Funding Strategy Statement / note 18 of the Financial Statements

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Issue		**Compliance**	**Comments**
(1)	With investment managers ensure the selected benchmark is appropriate.	Yes	Officers advised by Hymans Robertson.
(2)	Consider whether active or passive management is most appropriate.	Yes	

(3)	Divergence from the benchmark should be monitored.	Yes	
(4)	Quarterly monitoring but a 3-7 year timeframe for review.	Yes	
(5)	Returns analysed by independent agency.	Yes	WM undertakes this role.
(6)	Performance of the actuary should be assessed and periodically market tested.	Yes	
(7)	Consultant's performance should be assessed.	Partial	
(8)	A process of self-assessment by officers and members.	Partial	
(9)	In the business plan the performance of the committee should be assessed.	Partial	
(10)	Assessment of the committee should be included in the annual report.	Yes	Refer to the Governance Compliance Statement

Principle 5: Responsible Ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

Issue		Compliance	Comments
(1)	SIP and annual report should include policy on responsible ownership.	Partial	Yes in SIP
(2)	Policy on ESG investing.	Yes	
(3)	Investment managers' policies on intervening in a company should be explicit.	Partial	
(4)	Awareness of the Institutional Shareholders Statement of Principles.	Partial	Share with members of the committee.
(5)	Awareness of UN Principles of Responsible Investment.	Yes	
(6)	Consideration of "alliances" with other pension funds.	Yes	Member of the Institutional Investors Group on Climate Change.

Principle 6: Transparency and Reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to scheme members in the form they consider most appropriate.

Issue		Compliance	Comments
(1)	Produce a governance compliance statement.	Yes	
(2)	Produce a communication statement.	Yes	
(3)	Comprehensive view of stakeholders.	Yes	
(4)	Regularly review the annual report.	Yes	
(5)	Content of the governance compliance statement.	Yes	

Statement of Investment Principles

APPENDIX 4

Environmental, Social and Governance Investment Policy Statement

Introduction

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

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

Fiduciary Responsibility

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

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

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

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

Corporate Governance

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

Investment managers feed back voting decisions on a quarterly basis.

Shareholder Engagement

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

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

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

UN Principles of Responsible Investment

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

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

Climate Change

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

Shareholder Litigation

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

Communications Policy Statement

Introduction

This is the communications policy statement of the Superannuation Fund, which is administered by Kent County Council (KCC). The Fund must provide, maintain and publish a communications statement in accordance with Regulation 67 of the Local Government Pension Scheme (LGPS) Administration Regulations.

The Communications Policy must be revised and republished following any change in policy.

Purpose of the Communications Policy

The purpose of this communications policy is to publish a statement setting out the policy concerning the methods of communications with the stakeholders of the Kent County Council Superannuation Fund (the Fund).

The stakeholders are identified as:
- **Current members** - Members who are in employment and still contributing to the fund
- **Deferred benefit members** - Members who have stopped contributing and have a benefit held in the fund which is payable when they reach retirement age
- **Pensioner members** - Members who are in receipt of a pension from the fund
- **Prospective members** - Employees who are not contributing but could join the scheme
- **Employing authorities** - Employers that offer the scheme to their employees
- **Committee members** - Members of the Kent County Council Superannuation Fund Committee
- **Representatives of scheme members** - Bodies or persons that represent scheme members, such as trades unions

In accordance with LGPS regulations, the communications policy details the:
- provision of information and publicity about the pension scheme
- format, frequency and method of distributing information and publicity
- promotion of the Scheme to prospective members and their employers

Current members

Annual benefit illustrations
Once a year, in early autumn, an illustration in paper format is sent to home addresses. The illustration shows basic information held about the member such as working hours and pay used for pension purposes.

It gives an illustration of the pension benefits built up to the previous 31 March and benefits at retirement age, should the member remain in their job. It also includes the death grant lump sum, should the member die in service, and the nominees that the member wishes to receive this death grant.

Statement of pensionable membership
A statement of membership details, in paper format, is sent to the member's home address when notification is received that:

- a member has joined the scheme
- their working hours have changed
- previous pension rights have been transferred into the scheme
- their employer has changed.

Pension Saving Statement
Where a member has exceeded or is approaching the annual allowance limit, with regard to the growth in their pension benefits in a year ending with 31 March, then a letter is sent to their home address by the following 6 October.

Change to scheme regulations
Any major change in the scheme regulations is notified to the member in writing by letter to their home address.

Website
The website, www.kentpensionfund.co.uk, has a dedicated area for current members. It includes extensive pages of information about the scheme, guides, factsheets, forms and an up to date news page.

Helpline
A dedicated pensions helpline, 0844 875 3488, is available from 08:30 am to 17:00 pm Monday to Friday.

Mailbox
A central dedicated mailbox, pensions@kent.gov.uk, is provided. The mailbox is accessed by a number of pension staff, therefore any absences are covered and emails received are responded to every day.

Correspondence
Written letters received are replied to within 5 working days.

1:1 appointment
Members can request a 1:1 appointment with a pension administrator any time in office working hours.

Guides and Factsheets
Guides and factsheets, on a range of pension subjects, are available to download from the website. We (or the employer) will provide a hard copy should the member not have online access.

Pre-retirement courses
Monthly pre-retirement courses are provided at Oakwood House in Maidstone for members who are thinking of retiring in the following 18 months. The course includes an explanation of how the pension is calculated and how the annual pension can be

adjusted to provide a larger lump sum. Time is allowed for 1:1s at the end of the presentation. An independent financial adviser also gives a presentation including financial options. There is no charge for this course.

Presentations
Upon request from the employer, presentations are provided to groups of members about pension issues. These are delivered by the Pensions Manager, Deputy Pensions Manager or designated staff with specialist knowledge in the particular pension issue.

Deferred benefit members

Deferred Benefit Illustrations
Once a year, in early summer, an illustration is sent in paper format to home addresses. The illustration shows the deferred pension benefits held in the pension fund until retirement age. It also includes the death grant lump sum, should the member die before benefits are payable, and the nominees that the member wishes to receive this death grant.

Age 60 retirement option notification
A deferred benefit member has the option of taking their pension at age 60, although it may be reduced for being paid before normal retirement age. A written letter giving details of this option is sent to their home address as their 60th birthday approaches.

Change to scheme regulations
Any major change in the scheme regulations affecting deferred benefit members is notified to the member in writing by letter to their home address.

Website
The website, www.kentpensionfund.co.uk, has a dedicated area for deferred benefit members. It includes extensive pages of information about the scheme, guides, factsheets, forms and an up to date news page.

Helpline
A dedicated pensions helpline, 0844 875 3488, is available from 08:30 am to 17:00 pm Monday to Friday.

Mailbox
A central dedicated mailbox, pensions@kent.gov.uk, is provided. The mailbox is accessed by a number of pension staff, therefore any absences are covered and emails received are responded to every day.

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1:1 appointment
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Guides and Factsheets

Guides and factsheets, on a range of pension subjects, are available to download from the website. We will provide a hard copy should the member not have online access.

Pre-retirement courses

Monthly pre-retirement courses are provided at Oakwood House in Maidstone for members who are reaching retirement age and can draw their deferred benefit in the following 18 months. The course includes an explanation of how the pension is calculated and how the annual pension can be adjusted to provide a larger lump sum. Time is allowed for 1:1s at the end of the presentation. An independent financial adviser also gives a presentation including financial options. There is no charge for this course.

Pensioner members

Open Lines newsletter

The newsletter is sent twice a year, in spring and autumn, in paper format to the member's home address. It is produced by the KCC Pension Section in conjunction with Kent Active Retirement Fellowship (KARF). The newsletter includes articles about topical issues, KARF news and activities and provides a state benefits update by Tina Gilchrist with a dedicated helpline to contact.

The spring issue includes details about the annual pension increase and tax information for the new financial year. Copies of Open Lines are available on the website and so members may opt out of receiving this newsletter to their home; however, these members will receive a letter in the spring instead, detailing information regarding the annual pension increase.

Payslip

Payslips are issued in paper format to the member's home address once a year in April and at any other time during the year if pay differs by more than £1 or the member changes their bank details.

Pension payroll helpline

Dedicated pension payroll helplines are available Monday to Friday 09:00 am to 17:00 pm.
Surnames beginning A-F - (01622) 605396
Surnames beginning G-O - (01622) 605657
Surnames beginning P-Z - (01622) 605784

Change to scheme regulations

Any major change in the scheme regulations which may affect pensioner members is notified in writing by letter to their home address.

Website

The website, www.kentpensionfund.co.uk, has a dedicated area for pensioner members. It includes extensive pages of information about the scheme, guides, factsheets, forms and an up to date news page.

Helpline
A dedicated pensions helpline for queries other than about the pension in payment, 0844 875 3488, is open from 08:30 am to 17:00 pm Monday to Friday.

Mailbox
A central dedicated mailbox, pensions@kent.gov.uk, is provided. The mailbox is accessed by a number of pension staff, therefore any absences are covered and emails received are responded to every day.

Correspondence
Written letters received are replied to within 5 working days.

1:1 appointment
Members can request a 1:1 appointment with a pension administrator any time in office working hours.

Guides and Factsheets
Guides and factsheets on a range of pension subjects are available to download from the website. We will provide a hard copy should the member not have online access.

Kent Active Retirement Fellowship (KARF)
KARF was set up in 1997 by people in receipt of a pension from the Kent County Council Superannuation Fund (the Fund). KARF provide their members with the opportunity to meet with other retired people with similar interests. The local branches offer a variety of activities and events, including social, cultural, educational, leisure and fellowship.

The Fund is independent of the fellowship but the KCC Pension Section helps promote their activities by including information in the Open Lines newsletter, having a dedicated KARF area on the website and including a leaflet with the benefit letter to newly retired members.

Prospective members

Website
The website, www.kentpensionfund.co.uk, has a dedicated area for prospective members who are thinking of joining. It includes extensive pages of information about the scheme, guides, factsheets and forms and an up to date news page.

Helpline
A dedicated pensions helpline, 0844 875 3488, is available from 08:30 am to 17:00 pm Monday to Friday.

Mailbox
A central dedicated mailbox, pensions@kent.gov.uk, is provided. The mailbox is accessed by a number of pension staff, therefore any absences are covered and emails received are responded to every day.

Correspondence
Written letters received are replied to within 5 working days.

1:1 appointment
Members can request a 1:1 appointment with a pension administrator any time in office working hours.

Guides and Factsheets
Guides and factsheets on a range of pension subjects are available to download from the website. We (or the employer) will provide a hard copy should the member not have online access.

Employing authorities

Employer Liaison Team
A dedicated staff resource of Employer Liaison Officers (ELOs) is provided to employers. Each ELO has responsibility for a group of employers. They provide guidance, training and support by phone, email and visits in person.

Employers Pension Forum
The KCC Pension Section provides a forum for employers twice a year, in June and December, in Ashford. Presentations on topical issues are given and time for discussion is allocated. These are provided free of charge.

Specialist forums
As the need arises specialist forums are provided for employers, for example when there are major changes in the scheme or in overriding legislation. These are held at different venues throughout Kent and are provided free of charge.

Change to scheme regulations or policies
Any major changes in the scheme regulations or policies are notified to the employers in writing. In the event of significant changes to the scheme regulations additional specialist forums are also provided, as detailed above.

PENNE newsletter
The newsletter is sent to employers when news and changes have happened to require a summary notification.

Website
The website, www.kentpensionfund.co.uk, has a dedicated area for employers with an individual password so only they can access the area. It includes extensive pages of information and guidance about the scheme, template letters, forms and an up to date news page.

Visits
ELOs visit employers upon request or when the ELO believes they may need help and guidance.

Training
ELOs train employers on pension issues upon request or when the ELO believes they may need training. There is no charge for training.

Meetings
ELOs attend meetings with employers on request, including those with their HR and Payroll departments/providers.

Committee Members

The Kent County Council Superannuation Fund Committee meets 5/6 times a year.

Committee meeting agenda reports
Detailed reports on administration issues are prepared as required.

Administration report
An administration report is provided to the committee twice a year, giving details of benchmark statistics and the administration service to members and stakeholders.

Change to scheme regulations or policies
Any major change in the scheme regulations or policies is notified to the committee members as a formal committee paper.

CIPFA Benchmarking
The Chartered Institute of Public Finance and Accountancy (CIPFA) provides annual benchmarking surveys for groups of public organisations. The Fund takes part in this and their statistics are compared with those of other funds within the local government pensions industry. The results are provided as a formal paper to the Superannuation Fund Committee.

Consultations
Pension Funds are asked to participate in various government consultations on pension issues. Any such consultation responses are passed to committee.

Representatives of scheme members

Scheme information, guides and factsheets are available on the website www.kentpensionfund.co.uk

Individual pension information is provided to representatives on the written authorisation of the member.

Table of publications

The table below details the types of publications, the frequency in which they are provided and how they can be received.
A member can subscribe to the Open Lines page on the website and receive an email alert, with a link, when the latest issue is published

Publication	Frequency	Paper	Email	Website
Benefit Illustrations	Annual	✓	X	X
Statement of membership	As required	✓	X	X
Open Lines newsletter	Twice a year	✓	✓*	✓
Promotional Guide	Constant	✓	✓	✓
Scheme Guide	Constant	✓	✓	✓
Various information guides & factsheets	Constant	✓	✓	✓
Report & Accounts	Annual	✓	✓	✓
Valuation Report	Every 3 years	✓	✓	✓
Committee Meeting Minutes	5/6 times a year	X	X	✓

The Audit Findings for Kent Superannuation Fund

Year ended 31 March 2013

July 2013

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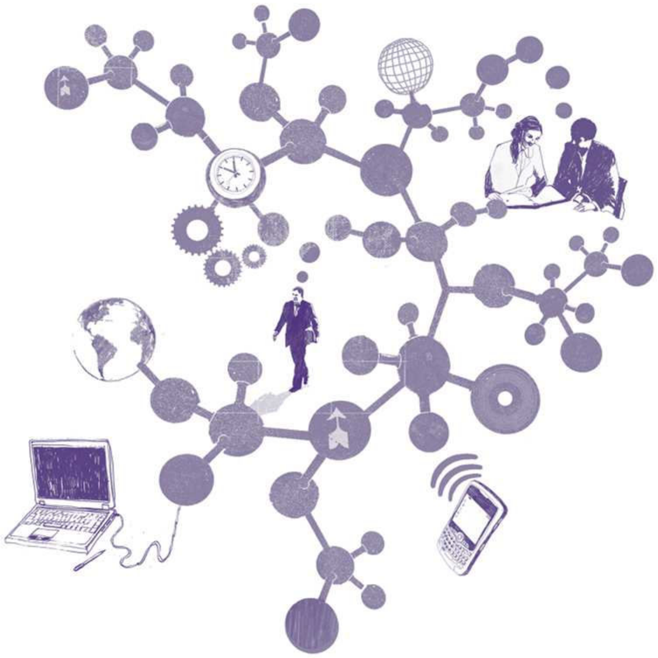

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the Kent Superannuation Fund ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

We received draft financial statements on 7 June and commenced the audit on site on 17 June, in accordance with the dates agreed with management.

We have not altered or changed our audit approach, which we communicated to you in our Audit Plan dated 11 March 2013.

Our audit is substantially complete, although we are finalising our procedures in the following areas:

- obtaining and reviewing the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments on audit which affect the Fund's reported financial position. The draft financial statements recorded net assets at 31 March 2013 of £3,813 million, and this remains the same in the audited financial statements. However ,we highlighted a number of adjustments to disclosures during the audit to enhance the presentation of the financial statements.

We anticipate providing an unqualified opinion on the Fund's financial statements after completion of our final audit procedures..

The key messages arising from our audit of the Fund's financial statements are:

- the financial statements provided for audit were complete and compiled in accordance with the CIPFA Code of Practice for Local Authority Accounting
- the Fund produced good working papers to support the financial statements and a timely response to audit queries
- no amendments were required to the prime financial statements on audit
- management agreed to amend the financial statements for all recommended disclosure changes.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2013

Section 2: Audit findings

Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to alter or change our Audit Plan as previously communicated to you on 11 April 2013.

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Contributions receivable	Scheme Contributions	Other	Recorded contributions not correct	No	None
Transfers in	Transfers in to the scheme	Remote		No	None
Pensions payable – lump sums and on retirement	Benefit payments	Other	Benefits improperly computed/claims liability understated	No	None
Payments to and on account of leavers	Benefit payments	Other	Transfers improperly computed/liability understated	No	None
Administrative expenses	Administrative expenses	N/A		No	None
Investment income	Investments	Other	Investment activity not valid – income not complete	No	None

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Profit and loss on disposal of investments and changes in value of investments	Investments	Other	Investment activity not valid- investments not valued at fair value	No	None
Taxes on income	Investments	N/A		No	None
Investment management expenses	Investments	Remote		No	None
Investments	Investments	Other	Investments not valid	No	None
Current assets	Scheme Contributions, investments and cash	N/A		No	None
Current liabilities	Benefit payments, investments	N/A		No	None

We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 11 April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular, we did not identify any issued from our review of journal controls and testing of journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	• We reconciled investments between information provided by the fund managers, the custodian and the Superannuation Fund's own records. • We selected a sample of the individual investments held by the Fund at the year end and tested the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments). • We confirmed the existence of investments directly with independent custodians and/or fund managers. • We tested a sample of sales and purchases during the year back to detailed information provided by the custodian and fund managers. • We reviewed the Fund's compliance with its Statement of Investment Principles.	Our audit work confirmed that the investment values, classifications and movements in the Net Assets Statement and supporting notes are not materially misstated. We identified one immaterial misclassification in the analysis of fixed interest securities in Note 14 (which also affected the currency exposure disclosures in Note 17)and one immaterial misclassification of investments in Note 17. Both the Fund and the audit team identified these issues and the financial statements have been amended to correct the misclassifications. During our review of the Fund's compliance with its Statement of Investment Principles, we noted two issues which the Fund needs to consider: • the Statement of Investment Principles states that all Fund managers should attend the Superannuation Fund Committee at least once a year. We identified one fund manager who did not attend the committee in 2012/13. • the Statement of Investment Principles includes agreed benchmark holdings for the different types of investments, with an allowable two per cent tolerance. The Principles specify that any variances from the specified tolerances should be formally considered and agreed by the Superannuation Fund Committee at their next meeting. We noted that the tolerances were exceeded at both 31 December 2012 and 31 March 2013 for several investment classes, but the March committee minutes do not clearly document the decisions made by the committee in this respect. We have asked the Fund to fully disclose these two issues in the 2012/13 Superannuation Fund Annual Report.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit Payments	Benefits improperly computed/claims liability understated	• We reviewed controls around benefit payments to ensure key controls over new starters, leavers, deferrals, changes of circumstances and new pensioners were operating effectively. • We selected a sample of individual transfers, pensions in payment (new and existing) and lump sum benefits and tested them by reference to the benefit calculations on the respective member file.	Our testing confirmed that key controls over benefit payments are operating as designed. Our audit work confirmed that benefits payments and payments on account of leavers are not materially misstated. We did not identify any issues or amendments to benefit payments in the financial statements as a result of our audit procedures.
Contributions	Recorded contributions not correct	• We reviewed controls used by the Fund to ensure it all expected contributions from member bodies. • We select a sample of contributions and confirmed that they had been correctly calculated. • We rationalised contributions received with reference to changes in contributor numbers and average pay.	Our testing confirmed that key controls over contributions are operating as designed. Our audit work confirmed that contributions receivable are not materially misstated. We did not identify any issues or amendments to contributions in the financial statements as a result of our audit procedures. In the financial statements the employee contributions receivable in 2012/13 decreased by 2.8%, whereas contributing member numbers increase by 2.7%. The reason for this mismatch was unclear from working papers provided. Further follow up work was carried out and this provided an explanation for these trends that helped confirm the validity of both figures. Contributions receivable has fallen in 2012/13, despite increases in the number of contributing members, because the average contribution rate per member has reduced.

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Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income to the Fund is accounted for on an accruals basis.	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements.	
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's accounting policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's accounting policies comply with the Code	
Judgements and estimates	• Key estimates and judgements include; – Actuarial present value of promised retirement benefits – investment valuation of private equity	• The policies adopted for accounting estimates are appropriate under the Fund's accounting framework • Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best available information. • The level of judgement required by the Fund is low . Estimates used are generally supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures .	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

We noted a couple of non trivial disclosure errors only in the notes to the financial statements during the audit. The table below provides details. No adjustments are required to the Fund revenue account or the net assets statement.

All the amendments identified during the audit have been discussed and agreed with management and included within the final financial statements. There are no unadjusted misstatements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	(2,261)	Note 14 - Fixed Interest – UK Corporate	The Fund misclassified the disclosure of classes of assets in Note 14 and related notes. There was no impact on the primary financial statements and the net effect is zero. Note 14 has been amended to correct the classification error
2	Disclosure	43,034	Note 14 - Fixed Interest – Overseas Sovereign	
3	Disclosure	(40,773)	Note 14 - Fixed Interest – Overseas Corporate	
4	Disclosure	43,034	Note 18 - Financial Instruments Currency Exposure	Note 18 has been amended to incorporate the correction to the value of overseas sovereign investments in note 14 (highlighted above).
5	Disclosure	£9,372	Notes 17a, c and d Financial Instruments	Other investment balances have been reclassified from loans and receivables to designated as fair value through profit and loss in notes 17a, 17c and 17d. The 2011/12 comparatives have also been reclassified for consistency (£6,694k and -£173k). In notes 17c and 17d the entries for loans and receivables and financial liabilities at amortised cost have been removed as these notes should only include financial instruments valued at fair value.
6	Disclosure	(1,610)	Notes 17a, c and d Financial Instruments	

During the audit we also identified a number of narrative presentation and disclosure issues in the financial statements and recommended additional disclosures to enhance the presentation of the financial statements. All amended disclosures have been agreed and applied by the Fund.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant weaknesses in internal controls for our work. However, if we had performed more extensive procedures on internal control, we might have identified some deficiencies to be reported.

The matters reported in this report are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any incidents of fraud. No issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We have not identified any significant incidences of non-compliance with relevant laws and regulations, but have recommended a couple of enhancements to improve documented compliance with the Fund's Statement of Investment Principles (see above).
3.	**Written representations**	• A standard letter of representation has been requested from the Fund and is included on the committee agenda.
4.	**Disclosures**	• Our review confirmed that the financial statements were prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting. During the audit we suggested a number of enhancements to disclosures in the financial statements, which the Fund has implemented.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed in the financial statements.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Fund audit	30,568	30,568
Total audit fees	**30,568**	**30,568**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Future developments

Future developments relevant to your Fund and the audit

Political	Environmental	Social	Technological

Developments relevant to the next financial year

1. Financial reporting	2. Legislation	3. Actuarial valuation at 31 March 2013	4. Other issues
No significant emerging issues effecting the Pension Fund expected for the year ending 31 March 2013.	The Pensions Act 2008 requires employers to automatically enrol eligible employees onto the Local Government Pension Scheme. Employees not wishing to participate must opt-out of membership following enrolment.	A full actuarial valuation of the Pension Fund is undertaken ever three years. The next full valuation will be undertaken as at 31 March 2013. This valuation will determine the funding position (the extent to which fund assets will meet accrued pension liabilities) and determine future employer contribution rates.	The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.

Developments relevant to future periods

1. Financial reporting	2. Legislation	3. Actuarial valuation	4. Other issues
CIPFA/LASAAC are currently considering developments to the 2014/15 Code in respect of IFRS 13 Fair Value Measurement which may impact on valuation and disclosures required in the financial statements. Whilst the Fund's financial statements are prepared under the Code, which is based on IAS 26, it also draws on the Pensions SORP in some areas. PRAG has formed a working party to update the Pensions SORP. An updated SORP is not expected until 2014.	Under the Local Government Pension Scheme (LGPS 2014) proposals, pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Changes to the pensions administration systems will be required. Funds need to be liaising with software suppliers now to ensure their administration systems can successfully process benefit payments under both the old and new schemes from 1 April 2014.	Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	PRAG has recently released a discussion paper on the valuation of insurance policies, and specifically the option to value buy-in policies at £nil if effective discharge of liabilities has occurred. The discussion paper recommended that such policies are always valued, not recorded at £nil, and this may come through in the revised SORP in due course.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Page 123

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Superannuation Fund Committee should consider if any amendments are required to the Fund's Statement of Investment Principles to ensure practice adopted is not inconsistent with the principles as stated. e.g. attendance of fund managers at committee meetings.	Medium	Agreed. The Committee's practice is to review its Statement of Investment Principles at least annually and it is next due to consider the SIP at its meeting on 30 August 2013.	30 August 2013, Treasury and Investments Manager
2	The Superannuation Fund Committee minutes should be enhanced to formally record the decisions reached by the committee on any reallocation of investments based on variances reported from agreed benchmarks.	Medium	Agreed. At every meeting the Committee receives a Fund Asset Allocation report from the Head of Financial Services. The minutes of future meetings will record the Committee's discussions and any decision made regarding the asset allocation.	Immediate, Head of Financial Services
3	As part of its year end closedown plan, the Fund should review the correlation between changes in member numbers and movements in contributions and benefits to provide assurance over the reasonableness of both sets of figures.	Low	Agreed.	Year end 31 March 2014. Treasury and Investments Manager / Pensions Manager

Appendix B: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Paul Creasey
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

1020 Eskdale Road
Winnersh
Wokingham
Berkshire
RG41 5TS

24 July 2013

grant-thornton.co.uk

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 30 August 2013
Subject:	**FUND STRUCTURE**
Classification:	Unrestricted.

Summary: To report on a number of issues relating to the structure and management of the Fund.

FOR INFORMATION

INTRODUCTION

1. This report will cover a range of issues relating to the management of the Fund. To promote transparency in the work of the Fund as much as possible is reported in an open report and only a number of commercially sensitive issues are included in the Exempt agenda annex to this report.

HYMANS ROBERTSON CAPITAL MARKETS SURVEY

2. Hymans Robertson's July report is attached in the Appendix.

PROPERTY

3. The Head of Financial Services attended the DTZ Quarterly Investment Committee on 14 August. The main issues were:

   (1) The Investor Property Databank (IPD) index return for the quarter to 30 June had a positive return for the first quarter since September 2011 with a capital return of +0.4%. The best return was for West End London at +2.2%.

   (2) DTZ have increased their forecast house returns on All Property to +6.7% per annum over the next 5 years.

   (3) The Fund continues to have a low void rate of 6.6% compared with the IPD average of 9.8% - the Fund figure will fall to 5.4% when the Brentford disposal is completed.

GLOBAL EQUITY MANAGER APPOINTMENT

6. Members will be interviewing four managers, Longview, M&G, Magellan and Sarasin on 10 September.

ABSOLUTE RETURN AND SECONDARY PROPERTY

7. A separate meeting is being arranged to interview PIMCO as an additional absolute return manager and Fidelity and Kames on Secondary property investments.

RECOMMENDATION

8. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Ext 4603

capital markets service

Quarterly update July 2013

Be careful what you wish for

Graeme Johnston

Investors have been confronting the consequences of the economic recovery that most have been hoping for. That emergency monetary measures would not be required once the emergency was over should perhaps have been no surprise. The Fed's intimation that QE may be coming to an end still proved very disruptive at the end of the second quarter.

Subsequent reassurance from the Fed helped global equity indices to recoup most of a 6% setback in short order, but government bond yields have been less easily assuaged. 10-year US and UK yields remain close to their highest levels since summer 2011. Central bankers have been consistent in their message that policy will be driven by economic conditions. In recent months there have been some encouraging signs for the global economy, but also reminders that the recovery remains fragile. The end of QE is by no means a done deal.

> "… there have been some encouraging signs for the global economy, but also reminders that the recovery remains fragile."

Government bonds (p3)

Real yields may have risen a little, but only to levels that would have marked all-time lows at any point before this year. Valuations are tolerable only for those who require the security and cast-iron guarantee against inflation that they offer. The cost of inflation protection is reasonable at shorter maturities (say out to 10 years or so), but becomes increasingly expensive at longer maturities.

Conventional yields, too, are higher than they were a few months ago, but still very low on a longer perspective. The implied increase of interest rates over the next 10 years still seems slow and we think yields, particularly at shorter maturities, have further to rise.

Equities (p5)

For investors more concerned about long-term income and income growth than short-term price fluctuations, equities still offer the prospect of good returns relative to risk-free assets. In absolute terms, valuations do not, in our view, have a sufficient cushion to absorb higher risk-free yields or a downturn in profits and we therefore think that further setbacks are likely.

Credit markets (p4)

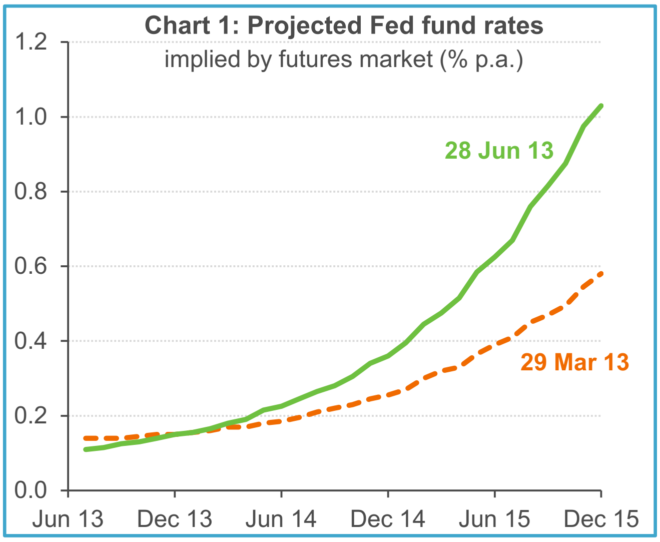
Sterling investment grade bonds are not extremely expensive relative to gilts, but we still think it would be optimistic to expect further sustained outperformance driven by reductions in yield margins. Where it suits for strategic purposes, investors may be content to collect the extra income over the long term.

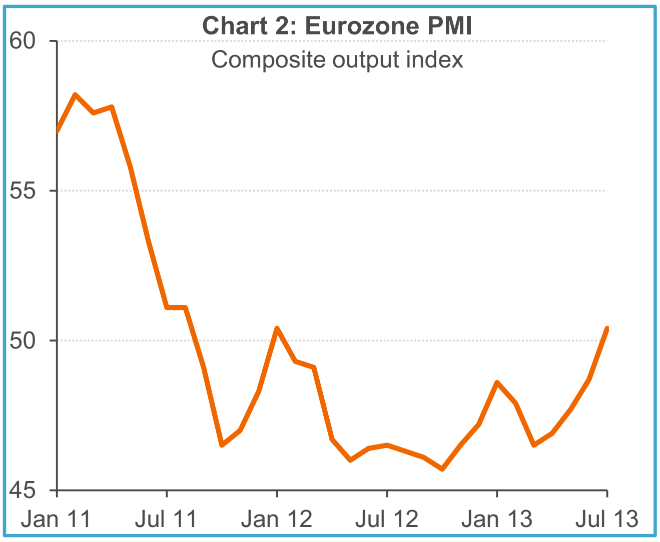
Absolute valuations in higher-yielding markets, such as emerging market debt and secured loans, are by no means cheap. These markets have attractions as a strategic diversification from equities rather than as tactical opportunities. Indicative yields in private debt markets continue to offer better value.

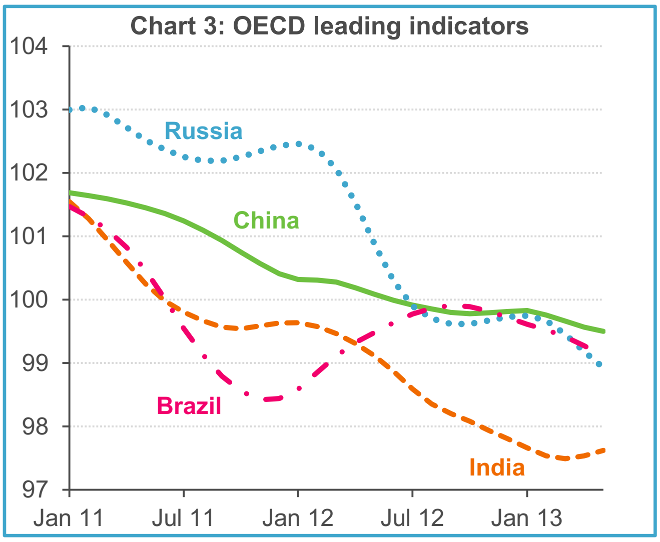
Property (p6)

Long-term investors more interested in the flow of income than the movement in capital values should be using the relatively poor performance since summer 2011 to top up exposure. But we would not want to be above target. As with equities, we do not think valuations are sufficiently cheap to cope with rising risk-free yields or to compensate for what remains a difficult fundamental outlook.

MARKET BACKGROUND







Much ado

If the end of QE is worth discussing, one of the big economic risks of last year – US fiscal tightening – clearly does not loom large. Soft GDP growth is forecast for Q2 13, but is seen by most commentators as a blip in a recovery, which nevertheless remains modest. Unemployment has hardly fallen this year and remains well above the 7% level at which many think the Fed might bring its QE programme to an end. Core inflation of 1.6% p.a. is no impediment to further monetary easing if required. The Fed should be believed when it insists it will be flexible about the pace of QE in both directions. It is easy to overlook the modest scale of any recent economic reassessment – the difference between official US interest rates of 0.5% p.a. or 1% p.a. in two-and-a half years' time (chart 1) is a rounding error. The path to significantly higher rates could easily bring more of the disruption that affected markets at the end of Q2.

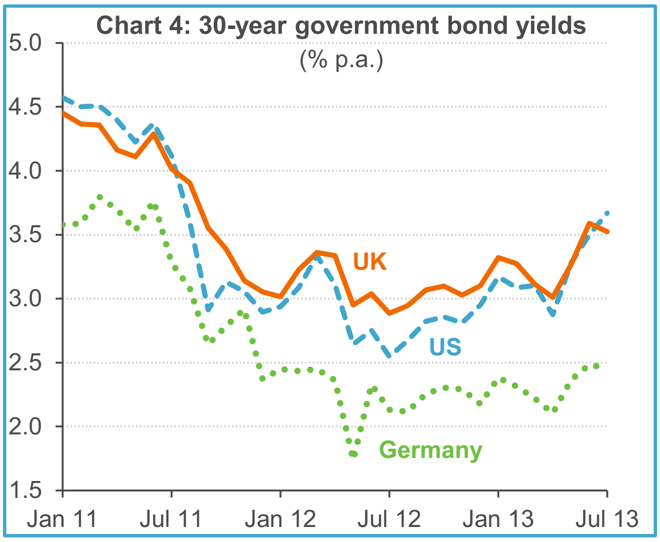
Stable (but still critical)

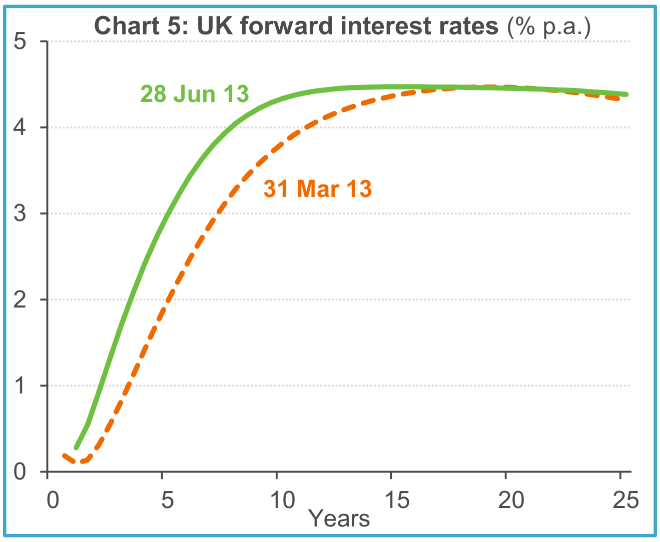
The picture in the other major developed economies has also been fairly bright in recent months. Japan appears to have retained economic momentum from the start of the year. The UK has seen a second successive quarter of economic growth. As expected, vested political interests extrapolated this enthusiastically, but even the Bank of England acknowledged the possibility of a strong second half to the year when leaving policy unchanged at its last meeting. Perhaps most surprisingly, there are signs that the Eurozone may have passed the worst. The PMI Composite Output index (based on survey evidence from manufacturing and service companies) has edged above the key 50 level for the first time in 18 months (chart 2). However, a political crisis in Portugal provided a reminder that the Eurozone economy still represents a very real risk.

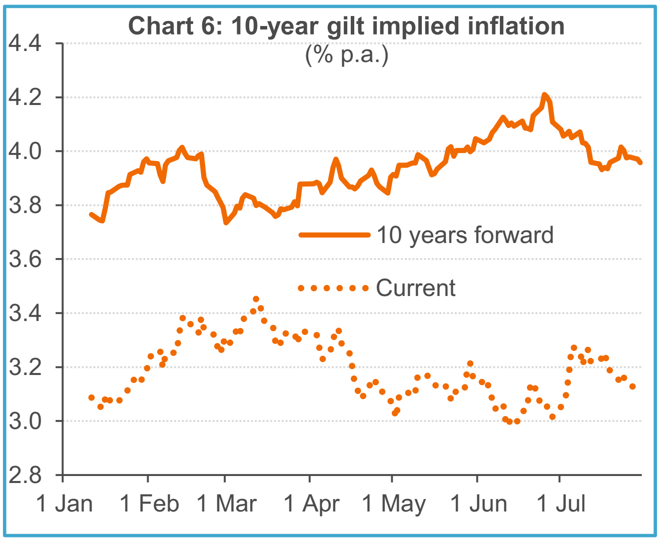
Growing pains

The news is less good in the major developing economies. Chart 3 shows OECD leading indicators (an often useful guide to the outlook for industrial production) for the BRIC countries. These have been drifting down and all now lie below the 100 level that, in broad terms, marks the division between above- and below-trend growth. These statistics cannot tell the whole story about any economy, but they do chime with more general concerns about the economic outlook. Weak commodity prices have a significant effect on Brazil and Russia; India is seen as needing to undertake some significant structural reforms; concerns are resurfacing about the disruptive impact of a shift to consumption-led growth in China. We have certainly been careful not to get carried away with enthusiasm about all things emerging, but investors should not let cyclical weakness completely obscure genuine secular strengths.

GOVERNMENT BONDS







Insurance evaluation

Fed comments on QE caused a dramatic rise in 30-year US Treasury Bond yields in May and June but, as chart 4 suggests, it was hardly out of line with the general upward drift of the last year. If the short-term reaction verged on the incontinent, it would be tendentious to claim it as the initial panic in the bursting of a bond bubble. The 12 month trend can be seen as a measured response to modest economic improvement. Smaller rises in equivalent UK and German yields partly reflect the global nature of bond markets but, here too, domestic economic conditions seem less gloomy than they did in the middle of last year. Yields are still low by historic standards and the investment case for bonds is far from compelling. But bonds are as cheap as they have been for some time and should not be overlooked as insurance against persistent economic risks.

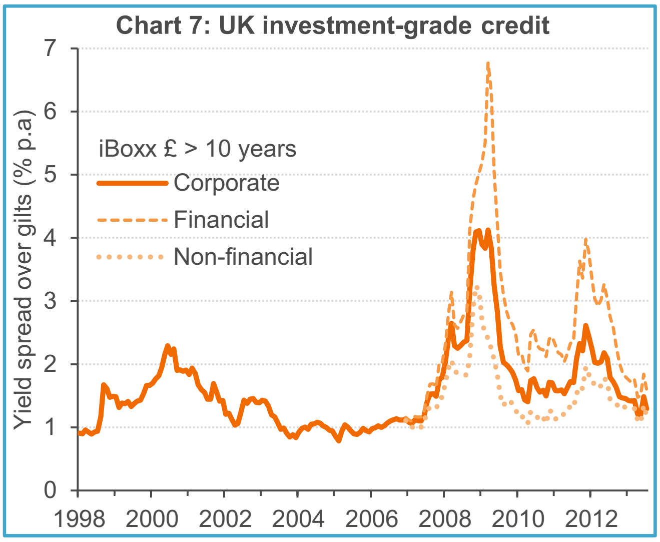
Slow progress

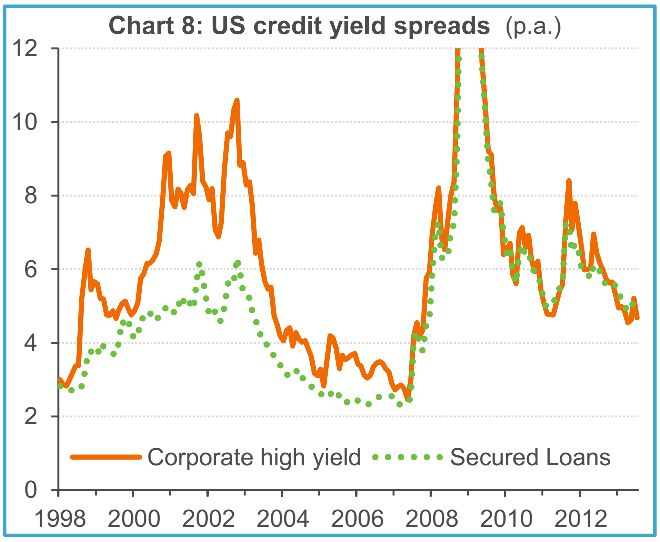
We have used forward interest rates in the past to illustrate the return to more normal conditions (in this context, interest rates of around 4.5% p.a.) implied by the gilt market. As has been the case for the last few years, the latest move in gilt yields reflected a change in the speed at which normality is restored rather than the eventual level of interest rates (chart 5). Forward starting rates are 4% p.a. or higher from about 8 years onwards, offering more reasonable hedging opportunities for those willing to implement on a piecemeal basis. For those who take a more straightforward approach, relative performance means that now is the best time in almost two years to sell equities to increase long-dated interest rate hedges. Even if gilt yields have further to rise – and 8 years still seems a long time for interest rates to normalise – pension schemes should be considering whether this is an opportunity to reduce risk.

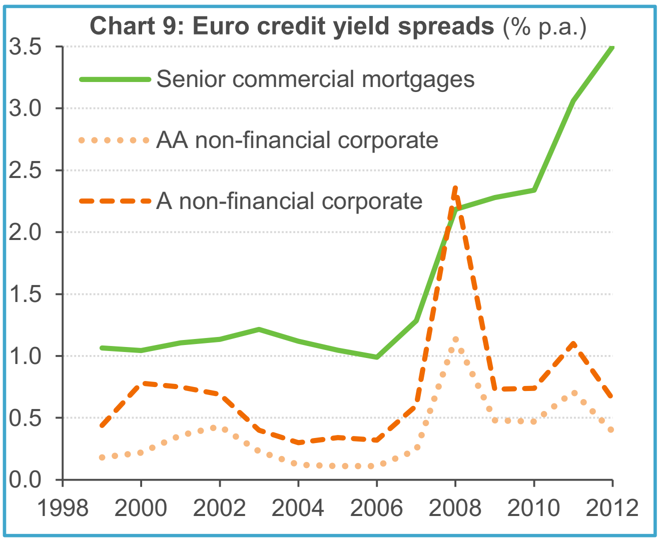
Limited opportunities

We highlighted an anomaly in the price of inflation hedging **last month** (*Selective immunisation*, p2). An overall rise in long-dated inflation swap prices concealed a fall in 10-year implied inflation and a steeper rise in implied inflation covering the period from year 10 onwards. A convincing economic explanation was hard to find. It is no great surprise, therefore that the divergence has been reversed a little since late June, as can be seen from chart 6, which shows two versions of 10-year implied inflation – starting now and starting in 10 years' time. The current cost of 10-year inflation protection is no better than average by the standards of recent years (albeit still more reasonably priced than forward starting protection). The opportunity to hedge inflation at levels close to 3% p.a. was short-lived, but it illustrates the importance of planning and monitoring for those looking to implement hedging strategies flexibly.

CREDIT







Most liquid

Credit markets wobbled in May and June as investors contemplated the possible end of QE in the US. They have rallied more recently along with other risk assets. As chart 7 suggests, on any long-term perspective, the impact on yield spreads in investment grade markets was modest. Spreads on corporate bonds are in the middle of their “normal” range (i.e. excluding the credit crunch) and the divergence between financial and non-financial issues that opened up during the credit crunch is now as low as it has been for almost 5 years. Where investment-grade credit is fulfilling a strategic role – boosting return in a low-risk portfolio or matching cash flows – then a neutral allocation looks about right. Other parts of the credit universe look more interesting from an investment perspective, although valuations in non-investment-grade markets are also as demanding as they have been for many years.

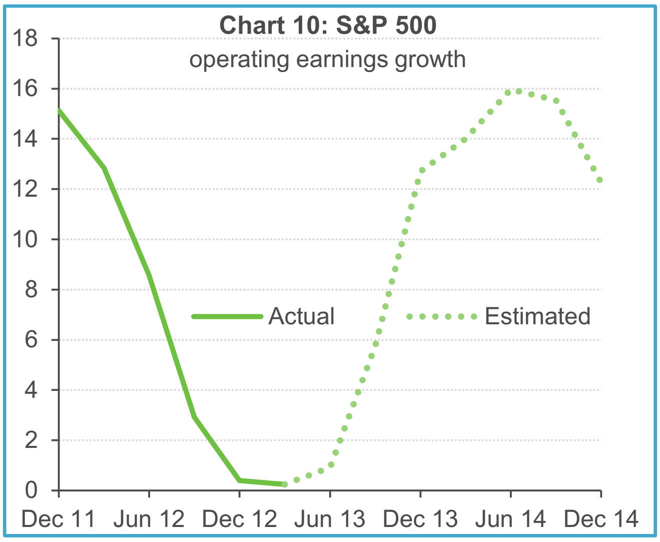
Less liquid

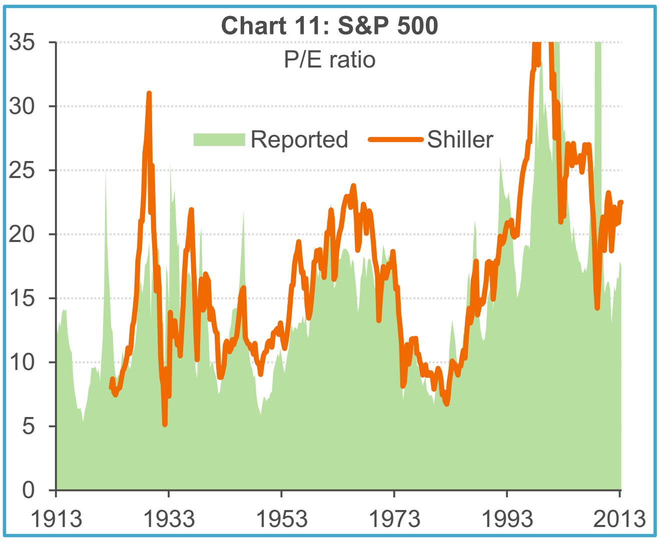
We believe the strategic argument for diversification into credit still holds good where investment is being made out of equity exposure. Chart 8 shows spreads in the most widely traded non-investment grade markets – US high yield bonds and secured loans. The convergence of yield spreads in the two markets is somewhat surprising, although there is a growing overlap of issuers in the market. But the earlier position – a lower yield spread on secured loans – is perhaps easier to rationalise. On average, the rate of defaults in the two markets is similar but recovery rates in the event of default have been significantly higher for secured loans. Of course, individual stock selection is important but, in a period when default experience has been benign, investors may be underpricing the security of loans and overpaying for the higher liquidity of bonds.

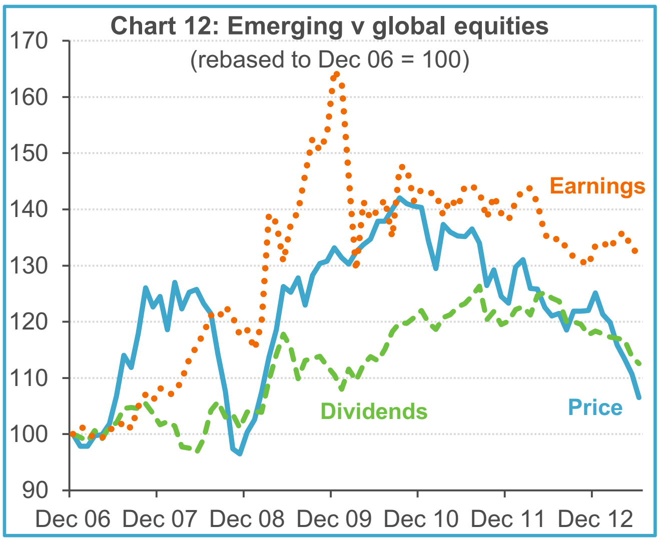
Illiquid

The persistence of illiquidity premiums is more obvious in private debt markets that were dominated by banks in the boom years of 2000s. Areas such as real estate debt, infrastructure debt and direct corporate lending are still struggling to attract capital from alternative sources. Chart 9 shows indicative yield spreads on euro-denominated commercial mortgages, which have tended to rise in the last few years even as spreads in public credit markets have narrowed sharply. The chart uses high quality corporate bonds as an appropriate comparison in recognition of the strength of the security of senior mortgages. Typically, property values would have to fall by over 30% before any loss would be incurred. Broad credit allocations will often be easier to manage with a tradable core, but private markets are certainly worth exploring for those who can tolerate the illiquidity.

EQUITIES







Bad news bulls

As usual, US earnings for the quarter just ended are beating expectations; as usual, expectations had fallen substantially in advance. Even the sceptical would have to note that this year's numbers mark an improvement on the subdued finish to 2012. The quarterly momentum has not yet translated into annual growth in the trailing twelve-month numbers shown in chart 10; we have to wonder whether it will ever be sufficient to achieve the heady level of growth forecast for next year. This is well in advance of any likely growth in sales and therefore requires profit margins to move beyond current near-record highs. While short-term momentum may be enough to underpin equities for the moment, it was perhaps significant that equities reacted negatively in June to the prospect of the economy being weaned off QE and recovered only when it was emphasised that emergency support would remain in place for some considerable time.

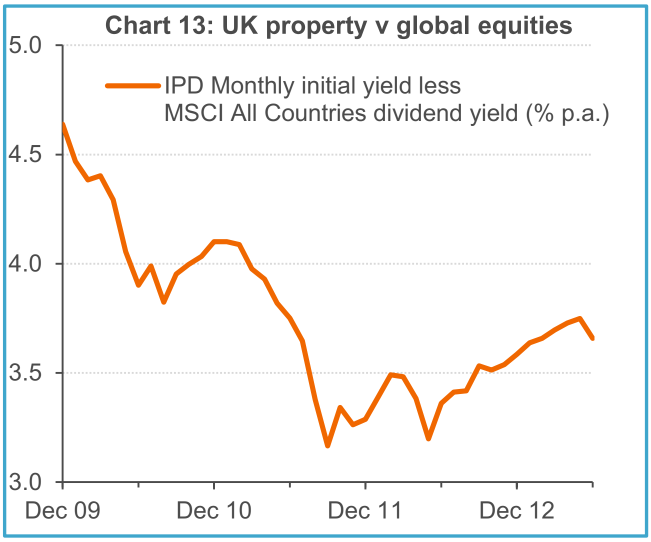
Valuation strains

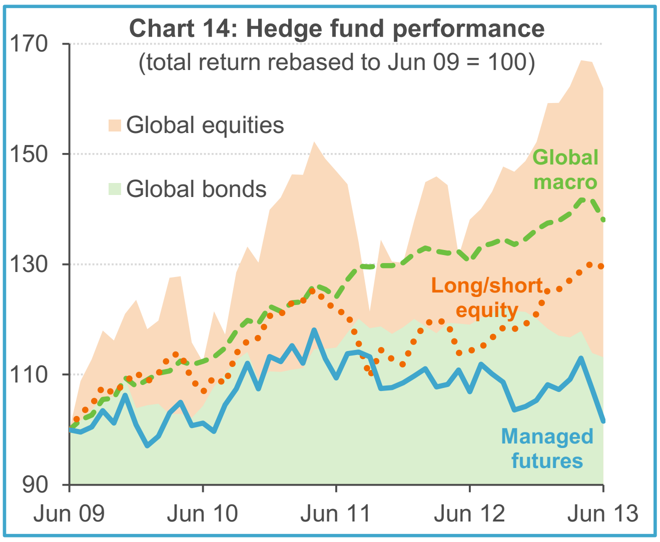
Short-term momentum in markets (in either direction) is reflected in revaluation, which is often a powerful influence on returns over periods of years. This is why we are cautious on US equities in particular. Just as revaluation has driven a 50% rally since Q4 2011 despite lacklustre earnings growth, a reversal could offset the effect of strengthening in earnings growth in the immediate future. Chart 11 shows the price earnings ratio on US equities over the last century. On the basis of reported earnings over the previous 12 months, valuation is towards the upper end of historic ranges; the Shiller ratio, which uses 'trend' earnings averaged over 10 years looks even more stretched. If stronger earnings means a stronger economy and, eventually, higher interest rates and higher bond yields, then it may be optimistic to expect much or even any positive contribution to returns from further revaluation.

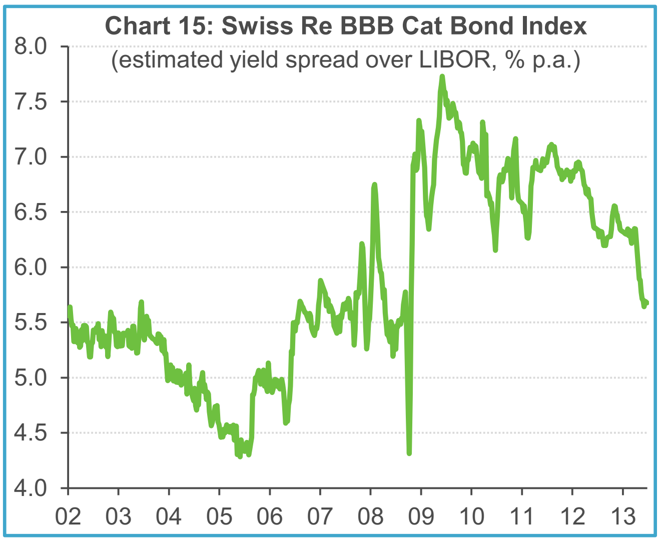
An emerging opportunity

Given its dominance, it is difficult to be negative on the US and positive on global equities in aggregate. However, valuations are not so stretched everywhere (even if the profits outlook may be duller). Chart 12 shows the relative performance of MSCI's emerging market (EM) index relative to its global index. The EM index has underperformed by around 25% from a peak in 2009. On various valuation bases, the emerging market index is relatively cheap. That conceals as much as it reveals; underlying the aggregates, there are expensive individual emerging markets and cheap individual developed markets. We prefer not to invest in emerging markets as a block. However, just as it was wrong to get too enthusiastic four years ago, now is not the time to run for cover. Where emerging markets have a fixed strategic allocation, clients should be topping up exposure.

OTHER INVESTMENTS







Capital preservation

The IPD UK Monthly capital value index edged higher in May and June for the first time since October 2011, providing some confirmation of anecdotal evidence of renewed institutional interest in UK commercial property, which has underperformed global equities by over 30% in four years. Valuation provides some support: the extra yield on property relative to equities has increased since late 2011 (chart 13), but not back to the levels of late 2009. Rents have fallen since then while equity dividends have boomed. Of course, the equity dividend boom will not last forever, but substantial strength in property rents still seems a distant prospect while void levels are so high. Taking advantage of underperformance to top up property exposure makes a great deal of sense – clients should be ready to take profits from above-target equity exposure. In absolute terms, however, property does not look particularly cheap.

Waiting for the fall

Hedge funds, as a group, lost their aura of invincibility in the ruins of Lehman Brothers and recent performance (chart 14) has threatened to undermine any remaining mystique. To an extent this is unfair – diversifying assets cannot be expected to hold their own in an equity bull market. We do wonder, however, whether equity long-short funds are much more than a high-cost and diluted version of the equity market. We have been more open to the merits of those sectors that continue to show lower correlation with equities. The recent picture is mixed: on the basis of the Credit Suisse indices shown, Global Macro has done well, but absolute returns from Managed Futures have been too low. This is affected by the constituent funds: comparable indices from other providers show better (though not good) performance from Managed Futures. In any case, the real test will come if and when equity markets falter in earnest.

Uneconomic investments

Insurance-linked securities (ILS) performed well from late 2012 through April 2013, but have fallen back over the last couple of months. Any similarity to the pattern of performance of other risk assets is coincidental – ILS still provide diversification at a fundamental level. Their earlier strength was a recovery from setbacks caused by Superstorm Sandy, not a reflection of growing economic optimism. Hurricanes in Oklahoma and floods in Europe are a more likely cause of recent weakness than tapering of QE. But a sound strategic case needs to be matched by a sensible implementation price. Investor demand has continued to push down ILS risk premiums (chart 15), but we still think that valuations remain reasonable, whether compared to other risk premiums or to their own history. Any plans to diversify into ILS need not be put on hold yet.

MARKET RETURNS (%)				Local currency		Sterling	
UK	**Q2 2013**	**H1 2013**	**OVERSEAS**	**Q2 2013**	**H1 2013**	**Q2 2013**	**H1 2013**
EQUITIES	-1.7	8.5	**EQUITIES**				
BONDS			North America	2.4	12.7	2.2	20.3
Conventional gilts	-3.8	-3.1	Europe ex UK	0.6	6.2	1.2	11.4
Index-linked gilts	-6.5	0.8	Japan	10.3	33.6	4.5	24.7
Credit	-2.9	-1.3	Developed Asia ex Japan	-4.0	0.3	-10.3	-0.6
PROPERTY	1.9	2.9	Emerging Markets	-3.8	-4.6	-7.5	-2.5
STERLING			**GOVERNMENT BONDS**	-1.7	-1.0	-3.0	1.0
v US dollar	-0.1	-6.7	**HEDGE FUNDS ****	0.1	3.7		
v Euro	-1.3	-5.4	**COMMODITIES ****	-8.4	-9.6		
v Japanese yen	5.5	7.2	*** Local currency = $*				

SOURCES

CHARTS

Babson Capital, Bank of England, Bloomberg, Credit Suisse, Datastream, Hymans Robertson, IPD, M&G , Standard & Poor's

TABLE

Datastream – indices as shown below

Equities	
UK	FTSE All-Share
Overseas (developed)	FTSE World
Emerging Markets	FTSE All-World
Bonds	
Conventional gilts	FTSE-A UK Gilts All Stocks
Index-linked gilts	FTSE-A UK Index Linked Gilts All Stocks
UK credit	iBoxx Non Gilts All Maturities
Government	JP Morgan Global
Property	IPD Monthly
Hedge Funds	Dow Jones Credit Suisse Hedge Fund
Commodities	S&P GSCI Light Energy

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 30 August 2013
Subject:	**FUND POSITION STATEMENT**
Classification:	Unrestricted.

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

FOR DECISION

INTRODUCTION

1. The Fund Position Statement is attached

2. The Fund continues to have an overweight position in Equities with a total allocation of 70.6% against a benchmark of 64% - an overweight of £253m. Members are asked to consider whether they wish to reduce this overweight position.

RECOMMENDATION

3. Members are asked to:

   (1) Note the Fund Position Statement.

   (2) Determine whether to reduce the Equity overweight position.

Nick Vickers
Head of Financial Services
Ext 4603

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Classification: Unrestricted
Item: D3 refers

Summary of Fund Asset Allocation and Performance

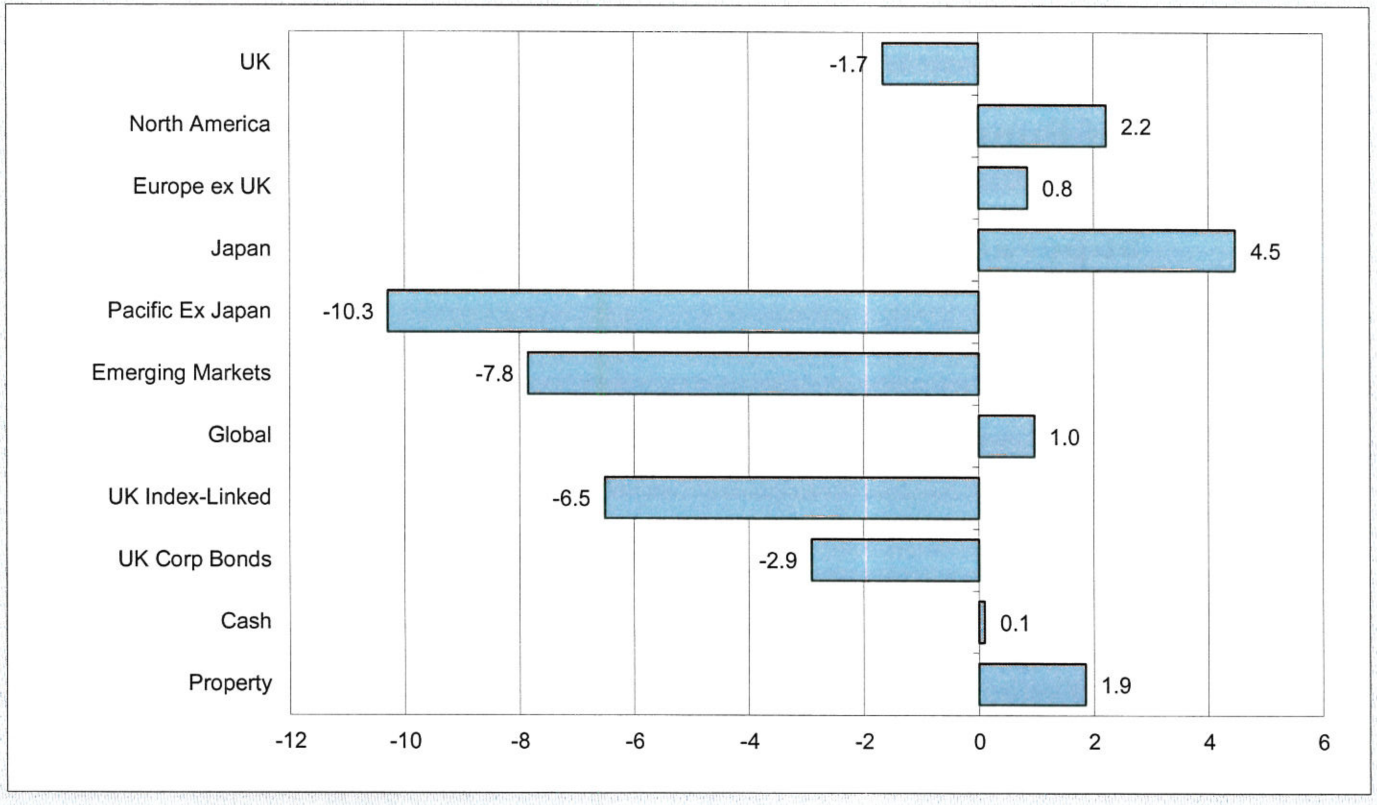
Superannuation Fund Committee

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

Kent County Council
Superannuation Fund 2013

Nick Vickers— Head of Financial Services

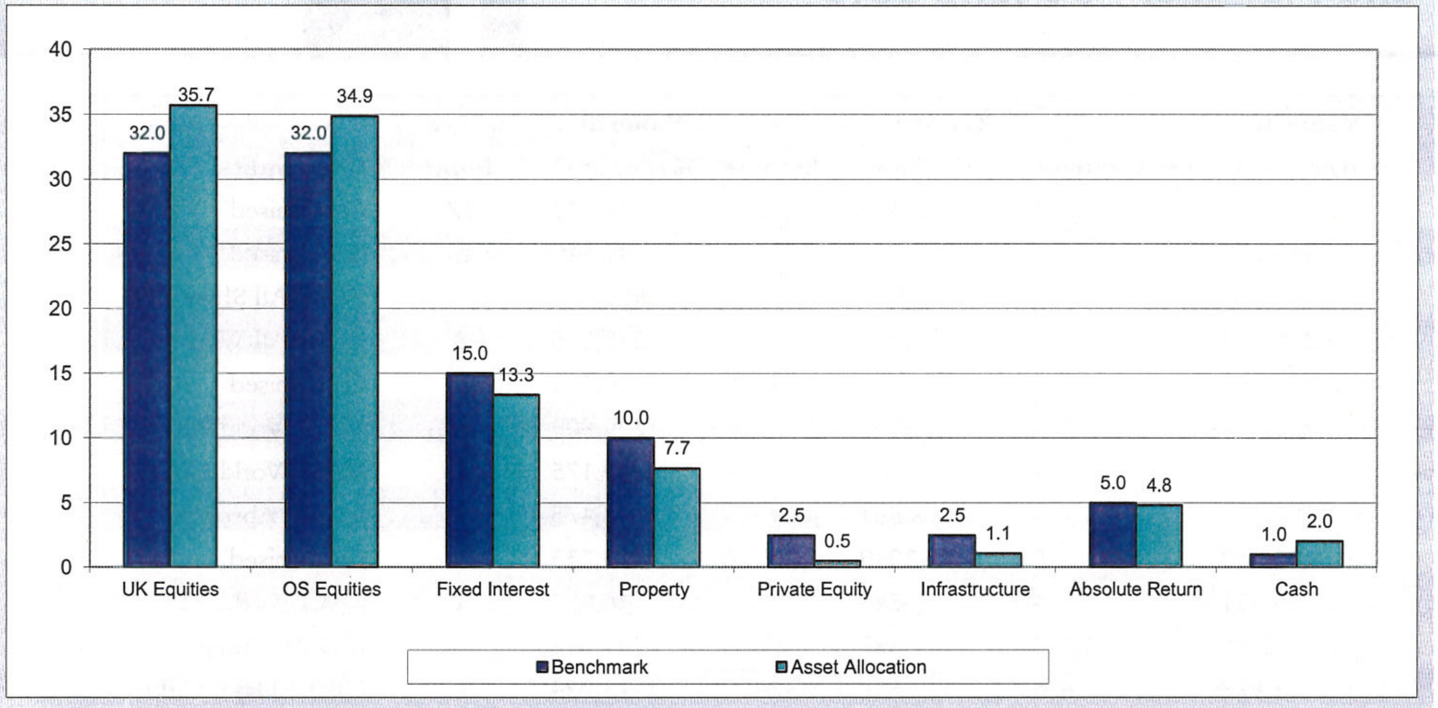
Market Returns - 3 Months to 30 June 2013



- Generally markets fell back in the quarter largely due to sentiment change due to indications that QE in the USA would taper down. Some markets did regain lost ground at the end of the quarter.
- This was most marked in equity markets in the Pacific ex Japan and Emerging Markets reflecting particular sensitivity to winding down QE and poor economic news in China, India and Brazil.
- Yields rose a little during the quarter but still stay at very low levels.

Asset Allocation vs Fund Benchmark - 30 June 2013

Classification: Unrestricted
Item: D3 refers



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,354	35.7	32.0
Overseas Equities	1,322	34.9	32.0
Fixed Interest	506	13.3	15.0
Property	291	7.7	10.0
Private Equity	19	0.5	2.5
Infrastructure	41	1.1	2.5
Absolute Return	183	4.8	5.0
Cash	77	2.0	1.0
Total Value	3,793	100	100.0

Asset Distribution Fund Manager - 30 June 2013

Classification: Unrestricted
Item: D3 refers

Values (GBP)'000	Mandate	Value at 31/03/2013	Transactions	Capital Gain / loss	Income	Value at 30/06/2013	% *Fund*	Benchmark
Schroders	UK Equity	623,444	7,003	-3,318	7,056	627,130	17	Customised
Invesco	UK Equity	479,239	-	12,210	-	491,449	13	Customised
State Street	UK Equity	183,843	-	-2,965	-	180,879	5	FTSE All Share
State Street	Global Equity	290,667	-	1,431	-	292,098	8	FTSE All World ex UK
Baillie Gifford	Global Equity	699,367	5,867	-4,463	5,627	700,770	18	Customised
GMO	Global Quantitative	220,778	-	6,031	-	226,809	6	MSCI World NDR
Schroders	Global Quantitative	168,671	-	504	-	169,175	4	MSCI World NDR
Goldman Sachs	Fixed Interest	301,337	-	-8,861	-	292,475	8	+3.5% Absolute
Schroders	Fixed Interest	215,782	0	-2049	0	213,733	6	Customised
Impax	Environmental	26,251	-	-245	-	26,007	1	MSCI World NDR
DTZ	Property UK	300,748	-10,790	1,887	3,905	291,846	8	IPD All Properties Index
Harbourvest	Private Equity	13,878	628	518	-	15,024	0	GBP 7 Day LIBID
YFM	Private Equity	3,720	-	192	-	3,912	0	GBP 7 Day LIBID
Partners	Infrastructure	30,871	1,026	905	-	32,802	1	GBP 7 Day LIBID
Henderson	Infrastructure	8,212	-	-3	-	8,209	0	GBP 7 Day LIBID
Pyrford	Absolute Return	153,450	30,236	-1,066	-	182,620	5	RPI + 5%
Internally Managed	Cash	62,379	-23,947	-	58	38,432	1	GBP 7 Day LIBID
Total Fund		3,782,637	10,023	708	16,645	3,793,369	100	Kent Combined Fund

Performance Returns - 30 June 2013

	Quarter		1 year		3 years (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%	%	%	%
Total Fund	0.5	-0.3	16.9	15.2	11.4	10.9
		-0.5*		13.7*		10.4*
UK Equity						
Schroders UK	0.6	-1.6	21.3	17.6	12.9	12.6
State Street	-1.6	-1.7	18.0	17.9	12.9	12.8
Invesco	2.5	-1.7	22.2	17.9	16.5	12.8
Overseas Equity						
Baillie Gifford	0.2	-0.2	23.6	22.3	14.5	11.6
GMO	2.7	0.8	21.6	22.6	12.4	13.2
Schroders GAV	0.3	0.8	22.6	22.6	11.2	13.2
State Street	0.5	0.5	22.5	22.6	12.8	13.0
Impax Environmental Fund	-0.9	0.8	21.6	22.6	4.7	13.2
Fixed Interest						
Goldman Sachs Fixed Interest	-2.9	0.9	5.2	7.9	7.2	7.8
Schroders Fixed Interest	-0.9	-1.6	3.1	0.6	4.0	3.5
Property						
DTZ Property	2.0	1.9	8.1	4.1	7.2	6.0
Private Equity						
Harbourvest	3.6	0.1	11.2	0.4		
YFM	5.2	0.1	12.1	0.4	24.7	0.4
Infrastructure						
Partners	2.9	0.1	4.9	0.4		
Henderson	0.0	0.1	-1.5	0.4	9.1	0.4
Absolute Return						
Pyrford	-0.5	1.6	5.5	8.3		

Data Source: The WM Company
- returns subject to rounding differences
* Strategic Benchmark

- The Fund significantly outperformed the benchmark in the quarter and the Fund has outperformed over the 1 and 3 year periods.
- The Fund ranked in the 5th percentile for the quarter, 20th 1 year, 20th 3 yrs and 24th 5 years.
- Schroder UK Equities, Invesco and Baillie Gifford all produced positive returns whilst their benchmarks were negative. Invesco contnued to perform very strongly.
- GMO delivered their most significant outperfromance for some time.
- Pyrford with their higher weight in Fixed Income had a negative quarter.

Fund Structure - 30 June 2013

Classification: Unrestricted
Item: D3 refers

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £627m	Baillie Gifford +1.5% £701m	Goldman Sachs +6.0% Abs. £292m	DTZ Property £292m	Kent Cash £38m
State Street +0.0% £181m	GMO +3.0% £227m	Schroders +2.0% £214m		Henderson Secondary PFI £8m
Invesco Unconstrained £491m	Schroders +3.0 - +4.0% £169m			Partners £33m
	State Street +0.0% £292m			YFM Private Equity £4m
	Impax £26m			HarbourVest £15m
				Pyrford RPI +5.0% £183m

Market Value £3.8bn
as at 30th June 2013

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 30 August 2013
Subject:	**RESPONSE TO CLG CONSULTATION ON SCHEME GOVERNANCE**
Classification:	Unrestricted.

Summary: To agree a response to the consultation document.

FOR DECISION

INTRODUCTION

1. The consultation document is attached as is a briefing note from Hymans Robertson.

RESPONSE

2. This consultation document is quite confusing as it seems to be a response to a problem which does not exist. Councils already have the ability to introduce a range of different representatives as the Kent Fund has done.

3. Under the LGPS Regulations the pension benefits of scheme members are protected by statute. In that context it makes little sense to have a Pensions Board with half the members drawn from employees. The financial risk of the scheme sits firmly with the employers and if a Board has to be set up it would be more appropriate for employers to have the majority of the membership.

4. The Superannuation Fund Committee already has a diverse membership and exercises a scrutiny role over the investment managers and the scheme officers. It is very hard to see what a Pensions Board would add to the scrutiny which already takes place.

5. A suggested response is attached.

RECOMMENDATION

6. Members are asked to agree the response.

Nick Vickers
Head of Financial Services
Ext 4603

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HYMANS ROBERTSON
The Spirit of Independence

briefing note

LGPS Governance

July 2013

Barry Mack
Partner & Head
of Governance

LGPS (England and Wales) Consultation on Governance

The Department of Communities and Local Government (CLG) published a discussion paper seeking views on the future governance arrangements of the LGPS. The deadline for responses to this consultation paper is 30 August 2013. Hymans Robertson will be formally responding and we want to help you in developing your thinking in advance of any response your organisation may also wish to make.

The purpose of our briefing note is to offer our initial thinking on the various questions posed in the CLG discussion paper, as well as highlight areas where we feel further thinking might be required.

What's covered in the CLG paper?

The paper explores five specific sections of the Public Service Pensions Act, ("the Act"), which impact on the new governance arrangements for the Scheme, giving a more detailed summary of what is required for each section in order to comply with the Act:

- Responsible Authority (i.e. Secretary of State);
- Scheme Manager (i.e. Local Administering Authority);
- Pension Board (i.e. new local scrutiny board to assist the Scheme Manager);
- Pension Board Information;
- Scheme Advisory Board (i.e. new national advisory board to the Secretary of State).

The paper invites responses, to 26 questions, on a wide range of issues across the five sections set out above. As might be expected the majority of the questions focus on the constitution of the pension boards and scheme advisory board.

Our initial thoughts

Timing

We appreciate the need to ensure that the changes to the contribution and benefit elements of the LGPS are given adequate resources to ensure a smooth implementation. For that reason alone we support the intention to introduce governance changes from a later date. In order that the changes can be introduced smoothly it is also important that any deadline imposed does not clash adversely with the cycle of local elections in 2014 and 2015.

The absence of any mandate on when the new national scheme advisory board and local pension boards have to be set up seems to be intended to give schemes some flexibility given the workloads for implementing public sector reform.

Impact on other primary legislation

From an LGPS perspective sufficient thought should be given to how the governance requirements of the Act interact with the statutory requirements of section101 of the Local Government Act 1972. This is particularly the case if it was decided to require a combined pension board/s.101 committee. In such a situation, changes to the Local Government Act 1972 may be required to enable the new LGPS governance arrangements to actually work. This approach in itself could have significant unintended consequences in terms of decision making, flexibility and accountability.

All in all, “good governance” would support the avoidance of any procrastination with implementation of local pension boards being no later than April 2015, when the Pensions Regulator commences its public sector pension duties.

Pensions Board

A number of key discussion points have been raised in relation to the creation of pension boards and the extent to which regulations should prescribe how they are set up, and what their responsibilities should be.

Separate or combined Pension Boards and s101 Committees

This is perhaps the key question posed by discussion paper. If no formal response is given to any other question in the consultation paper this is the one that CLG is most keen to hear views on. In our work with LGPS Funds, when looking at questions of governance, we fully appreciate both sides of the argument for and against separate or combined boards/s.101 committees. Another question that has been posed is whether it would be possible to have regional pension boards.

Be careful what you wish for

We appreciate the additional burden on administering authorities that would result from requiring Pension Boards to be separate from s101 committees. We can also see why, on the face of it, a combined solution might appear attractive to some; not least the concerns over sourcing enough suitably skilled individuals to sit on a separate Pension Board.

Certainly, within the private sector, this scrutiny role falls to the board of trustees, which is also responsible for decision making too. The private sector blueprint, however, is set against a very different legal structure where for example there is a clear separation of the pension scheme from the sponsoring employer. The policing structure in place gives the Pensions Regulator more powers than we currently expect them to have in relation to public service pension schemes. However, administration of the LGPS is a statutory function of individual administering authorities and so any considerations of future LGPS governance models that seek to achieve some degree of parity with the private sector model need to be considered with care. At an extreme, for example, any proposals that sought to move the current LGPS governance arrangements to a similar structure to that for private sector schemes could have far reaching consequences for administering authorities and their pension teams.

There is, therefore, much to consider before opting for combined boards/s101 committees, which we consider below.

- Combined boards/s101 committees would see a clash of two sets of primary legislation (the Local Government Act 1972 and the Act); the former being concerned with the mechanics of local authority decision making and the latter being focussed on the scrutiny of those mechanisms in relation to the management and administration of the LGPS. A combined solution would appear to require a change to overriding legislation to enable the two functions to operate within the one body.

- The Act requires employee and employer representation in equal numbers on a pension board. Under a combined solution this would require a review of the existing pension committee structure to ensure this requirement could be met. Given the current constitutional structure within which local authorities currently exist it may be more beneficial, therefore, to maintain the existing s101 committee in its current form and enable a more focussed pension board to be set up in order to carry out the scrutiny role.
- A combined solution would appear to pass decision making powers to the new employer and other employer representatives as well, although the administering authority would still retain overall responsibility for the outcome of any decisions taken.
- The existing requirement of any finance related committee of a local authority is to have a majority of elected members on it. In any combined solution this is clearly at odds with the requirement of the Act to have equal employee and employer representation on the pension board.
- Regional boards, while at first glance look appealing, also have their downside. The Act requires each Scheme Manager (i.e. administering authority) to put a Pension Board in place. Regional boards would appear to only work, therefore, where administering authority functions have also been regionalised (e.g. fund mergers), which we assume at this stage is not what administering authorities are looking to pursue.

Good governance is ultimately about accountability and understanding and managing risk. In the context of the existing constitution of local government, and in light of some of the potential barriers highlighted above, we see benefit in the separation of the two bodies, mirroring the scrutiny roles undertaken across most, if not all, other areas of local authority business.

Assuming CLG decide to require the setting up of a separate Pension Board further thought needs to be given to how the two separate bodies are run. For example, using an existing scrutiny committee e.g. audit committee has merits (vs. setting up a brand new one) not least as it will utilise people who are used to a scrutiny role but also have financial knowledge, which may be useful in working with pensions. Thought would be required around how membership of any existing structures could be expanded in order to bring in membership from employee and other employer representatives.

Whatever the final decision we do support the opinion expressed by CLG in paragraph 1.27 that there should be a consistency of basis across all LGPS Funds.

Conflicts of interest

Regulations will need to include provision to ensure that no person is appointed to the Pension Board either at outset, or from time to time, who has a conflict of interest other than by virtue of being a member of the scheme. Our experience of working with companies in the corporate sector suggests this will be difficult, if not impracticable, to regulate because conflicts abound in business all the time. For this reason, and accepting that specific wording of the Act may act as a barrier, we would prefer regulation which mandated establishment of a “conflicts policy” (like in the private sector). This would set out how conflicts will be managed when they are identified. This approach mitigates unnecessary exclusion of people with relevant skills and, without any specific policy or regulation, has resulted in few senior corporate officers (i.e. CEOs, FDs) on pension trustee boards.

Restrictions on Membership

Related to the above, the discussion paper cites concerns raised in early discussions with interested parties that administering authorities could move members from the s101 committee to the Pension Board and vice versa, were this governance structure decided upon. The question, from a good governance point of view is why would one prevent this? This approach can only strengthen the governance process; having the merit of bringing their relevant experience and knowledge across to the scrutiny role.

We do acknowledge, however, that in the short term this could result in a "void" as a consequence of an individual moving from a committee to a Pension Board (i.e. actions attributable to an individual needing to be completed or re-assigned before the individual can transfer across).

Role

A question is asked about what "other matters" if any should be included in regulations to add to the role of the Pension Board. We note that the Act is silent on investment and funding which needs to be included, ensuring the scrutiny role of Pension Boards is explicitly extended to cover the process associated with investment decision making of the Scheme Manager. The Board could also be given a specific role in promoting best practice beyond service standards, including the breadth of services that a fund offered to its members and also employers.

Scheme Advisory Board – remit, membership and funding

Given the express purpose of this body is to advise the Secretary of State, we can see no reason why its remit should be restricted in any way preventing it acting proactively within the scope of advising on public sector pension provision . In addition we also believe that the remit of the Scheme Advisory Board should extend to cover the overarching management and investment of funds within the scheme. This would be with a view to ensuring the investment rules of the scheme are sufficiently flexible to enable funds to make best use of investment opportunities, while still retaining suitable controls and limits where appropriate.

For the same reason, in terms of the Board's membership and its advisory role to the Secretary of State, this should be comprised of pension professionals from the actuarial, investment, accounting and legal professions who have public sector pension experience. Given that a shadow board is in place our preference would be for the Secretary of State to approve this board as the full Scheme Advisory board at such time as the governance requirements come into effect, rather than require a new board to be put in place.

Funding

On the funding of the Board, it has been made clear that this must be self-financing from the administering authorities, either on a voluntary subscription or mandatory levy basis. In our view, given the Board will represent the whole of the LGPS universe in England and Wales, and all funds will benefit from it, the only appropriate solution is a mandatory levy.

Conclusion

We acknowledge there are many examples of good and improving governance within the LGPS. We have, however, been strong supporters of the aims of the Public Service Pensions Act 2013 to further raise standards by introducing a more structured governance framework to the public service pension schemes, including the LGPS.

Overall we believe CLG are adopting a pragmatic approach to the setting up of local Pension Boards and the national Scheme Advisory Board. In terms of the pension board, given the statutory framework within which administering authorities and the LGPS exists we see merit in requiring these Boards to be separate from existing statutory s101 committees. This would ensure an appropriate level of separation between the two distinct roles and provide a suitable level of transparency at the same time. We appreciate there is still further work required in considering changes to the current statutory framework should there be support for a combined solution as well as the potential for conflicts of interest whatever solution is decided upon. We also recognise the additional burden setting up a separate Pension Board might have on local resources.

Beyond specifying that administering authorities are required to have separate pension boards from any statutory committee, we would support a light touch overall in terms of the regulatory framework for both the Pension Board and the Scheme Advisory Board, which would allow a suitable degree of flexibility in terms of how these structures operate.

We would hope the eventual solution will retain suitable flexibility in terms of how s.101 responsibilities are executed, to cater for local circumstances and performance.

We await, with interest, the outcome of this period of informal consultation and look forward to the eventual draft LGPS Regulations that will result.

In the meantime please contact me (barry.mack@hymans.co.uk or 0207 082 6141) or your usual Hymans Robertson contact if you would like to discuss any of the matters set out in this briefing note.

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Department for
Communities and
Local Government

Local Government Pension Scheme (England and Wales) new governance arrangements

Discussion paper

June 2013
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

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June 2013

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Contents

Introduction

1.1 The Public Service Pensions Act 2013[1] includes several key provisions relating to the administration and governance of the new public service pension schemes established under Section 1 of the Act. In the case of the Local Government Pension Scheme in England and Wales, these arrangements will apply to the new Scheme which comes into effect on 1 April 2014.

1.2 This paper explores five specific sections of the Act which impact on the governance arrangements in the new Scheme :-

- Responsible authority
- Scheme manager
- Pension board
- Pension board information, and
- Scheme advisory board

1.3 Each section includes background and a more detailed summary of what we are required to include in the new Scheme to comply with the Act. Where appropriate, the paper also invites comment on consequential issues. Responses to the questions posed throughout the paper will enable us to start work on preparing draft regulations on governance for consultation later in the year.

How to respond

1.4 You should respond to this discussion paper by **30 August 2013**.

1.5 You can respond by email to Philip.perry@communities.gsi.gov.uk

When responding please ensure you have the words "Scheme governance discussion paper" in the email subject line.

Alternately you can write to:

Scheme governance discussion paper
Department for Communities and Local Government
Zone 5/G6 Eland House
Bressenden Place
LONDON SW1E 5DU

1.6 When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

[1] http://www.legislation.gov.uk/ukpga/2013/25/contents/enacted

Timing

1.7 Although the Act requires the Secretary of State and scheme managers to establish a scheme advisory board and local pension boards respectively, there is nothing in the Act to say when these bodies are to become operational. This would appear to be a matter left for each individual scheme to consider and determine. We also know that the Pensions Regulator will not commence any of their formal duties or responsibilities under the Act until April 2015.

1.8 In overall terms, our clear priority is to ensure that we have a new Scheme in place so that pensions can continue to be accrued and paid from 1 April 2014 onwards. Between now and the end of the year, most, if not all, of our resources will need to be directed towards that aim, which leaves very little time to introduce new regulations on governance in time for the scheme advisory board and local pension boards to be operational with effect from 1 April 2014.

1.9 Our intention therefore, is to aim for the new governance regulations to be in place by April 2014, and for these to require the new national and local bodies to become operational later in the year. Between April 2014 and whenever the new scheme advisory board and local pension boards become operational, it is envisaged that existing governance arrangements under Section 101 of the Local Government Act 1972 will continue to apply.

Q1. What period, after new governance regulations are on the statute book, should be given for scheme managers/administering authorities to set up and implement local pension boards?

Q2. How long after new governance regulations are on the statute book should the national scheme advisory board become operational?

Part 1 - “Responsible authority”

1.10 Section 2 of the Act, when read in conjunction with Schedule 2, provides that scheme regulations for local government workers (defined in Schedule 1 as “persons employed in local government service and specified in scheme regulations”) may be made by the Secretary of State. Under the Act, the Secretary of State has the title of “responsible authority”.

Implementation

1.11 There is no requirement for us to establish the Secretary of State as the Scheme’s responsible authority in the new Scheme regulations. In that respect, Section 2 of the Act is self-standing. On first reading of the Act, it may appear that the Secretary of State’s regulation making power only covers local government workers. But the Act does provide for this to be extended by definition in the new Scheme regulations and the two consultation exercises on draft regulations commenced in December 2012 and March 2013 included such provision to ensure that regulations cover all members of the Scheme, including non-local government workers.

Part 2 -“Scheme manager”

1.12 Section 4 of the Act requires the new Scheme regulations to provide for a person (“the scheme manager”) to be responsible for managing or administering the Scheme. The term “person” is not to be taken literally. For example, in a centrally administered scheme, Section 4(1) of the Act would allow the Secretary of State to be both the “responsible authority” and “scheme manager”. But in the locally administered Scheme, the “scheme manager” for the purposes of Section 4 will be each of the individual Scheme administering authorities in England and Wales.

1.13 Under Section 4(1)(b), the “scheme manager” is also responsible for managing or administering any statutory pension scheme that is connected with the main Scheme but section 4(4) provides that this does not include injury or compensation schemes.

Q3. Please give details of any such “connected” scheme that you are aware of.

Implementation

1.14 In draft new Scheme regulations we are currently consulting on[2], Regulation 2(2) provides that the scheme manager responsible for the local administration of pensions and other benefits under the new Scheme regulations is to be referred to as the “administering authority”. We are satisfied that this is sufficient to comply with Section 4 of the Act.

1.15 Section 4(1)(b) of the Act extends the responsibilities of a scheme manager to include any statutory scheme connected with a main scheme. We are unaware of any such scheme that is connected to the Local Government Pension Scheme but invite consultees to tell us otherwise. As noted above, injury or compensation schemes are excluded by virtue of Section 4(4) of the Act.

Q4. Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of scheme managers?

[2] https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-government-pensions

Part 3 - “Pension board”

1.16 Section 5 of the Act requires the new Scheme regulations to provide for the establishment of a board with responsibility for assisting the scheme manager, or each scheme manager, in :-

a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected with it;

b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator, and

c) such other matters as the scheme regulations may specify.

1.17 In making these regulations, the Department, as the “responsible authority”, must have regard to the desirability of securing the effective and efficient governance and administration of the Scheme and any connected schemes.

1.18 Our regulations will also need to include provision requiring each scheme manager to be satisfied that a person to be appointed as a member of a pension board does not have a conflict of interest, either at the outset, or from time to time. Section 5(5) of the Act defines “conflict of interest” as any financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of being a member of the Scheme.

1.19 Scheme regulations will also need to require any person appointed to the pension board or proposed to be appointed, to provide information that can reasonably be requested by the scheme manager to determine whether or not a conflict of interest exists.

1.20 By virtue of Section 5(4)(c), the regulations will also need to ensure that each pension board includes employer representatives and member representatives in equal numbers. Under the Act “employer representatives” means persons appointed to the board for the purpose of representing employers for the Scheme and “member representatives” means persons appointed to the board for the purpose of representing members of the Scheme. In this respect, it is noted that the Act permits nominations for scheme member representatives to come from trades unions or from members who are not members of trades unions.

1.21 Under Section 5(7) of the Act, where the scheme manager is a committee of a local authority, Scheme regulations may provide for that committee also to be the board for the purposes of Section 5.

Implementation

1.22 It is clear that the new Scheme regulations will need to require each scheme manager/administering authority to establish their own pension board. To comply with Section 5 of the Act, the new Scheme regulations will need to include :-

- The role of each pension board to assist the scheme manager/administering authority in securing compliance with scheme regulations and other legislation; with Pension Regulator's codes of practice and with any other matters specified in Scheme regulations.

Q5. What "other matters", if any, should we include in Scheme regulations to add to the role of local pension boards?

- A requirement for scheme managers/administering authorities to check that no person appointed to the board has any conflict of interest as defined in the Act (see paragraph 1.18 above) and also to undertake regular checks;

Q6. Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?

- A provision requiring a member of the board or person proposed to be a board member to provide whatever information about conflict of interest that the scheme manager/administering authority reasonably requires.

Q7. Should Scheme regulations prescribe the type of information that may be "reasonably required"?

- A requirement that each pension board must include employer representatives and member representatives in equal numbers.

Q8. Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representatives?

1.23 In addition to the above requirements imposed on the new Scheme by the Act, there are many other issues that we will need to address in preparing draft regulations for consultation. These include :-

Can a statutory committee also be the local pension board?

1.24 Section 5(7) of the Act would allow the new Scheme regulations to permit a committee of a local authority to also be the local pension board. This option was deliberately left open in the Act to ensure that a proper discussion of the issues with all interested parties could be undertaken.

1.25 The argument for and against separate bodies is finely balanced. Those who support the committee and pension board being one and the same body argue that local government cannot afford to spend more time and money setting up new bodies, particularly when the function could easily be undertaken by existing pension or investment committees. Others argue that a statutory decision making committee is in no position to fulfil the clear scrutiny role set out in the Act. It cannot, in effect, scrutinise itself and be in a position to assure the scheme manager that it is complying with all relevant legislation and Pension Regulator's codes of practice.

1.26 A further consideration is that combining a statutory committee with a pension board would, by virtue of Section 5(4)(c) of the Act, require the combined body to have equal numbers of employer and scheme member representatives.

1.27 Although we are seeking your views on the status of local pension boards and statutory committees, the Department is clear that the final outcome must be applied consistently across the Scheme as a whole. We do not therefore contemplate giving individual scheme managers/administering authorities the same choice afforded to us by the Act. All pension boards will either be combined or separated from statutory committees.

1.28 If the new Scheme regulations were to require local pension boards to be separate from any statutory committee, we would certainly encourage scheme managers/administering authorities to use existing non-statutory bodies to take on or adapt to the role of the new pension boards, but bearing in mind that the requirement to have equal number of employer and scheme member representatives would still apply.

Q9. Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?

Level of prescription

1.29 Paragraph 1.22 above sets out the provisions of the Act that we must carry forward into the new Scheme. Apart from requiring equal numbers of employer and scheme member representatives and the restriction on conflicts of interest, the Act is silent on key issues including, for example, membership, constitution, frequency of meetings, the nomination process and training. In responding to Questions 10 and 11 below, it would be helpful if you could set out any particular views you might have on how the nomination process should operate.

1.30 As a general rule, the Department's preference would be to leave as much of the detailed workings of local pension boards as possible for determination at local level.

Q10. Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?

Q11. Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?

Restrictions on membership

1.31 In early discussions with interested parties, concerns were expressed that scheme managers/administering authorities may look for savings by moving any scheme member representative from their statutory committee to their pension board (if the committee and the board are not one and the same body).

Q12. Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory committee to the local pension board (if the committee and the board are not one and the same body)?

Annual report

1.32 Under Section 6(1) of the Act, Scheme regulations will need to require scheme managers/administering authorities to publish certain membership details of their local pension board. Given that the main function of the board will be to assure the scheme manager/administering authority that those to whom they have delegated the pensions function to are complying with legislation and codes of practice, there is a case for the new Scheme regulations to also require each board to publish an annual report summarising its work.

Q13. Should the new Scheme regulations include a requirement for each local pension board to publish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?

Training and qualifications

1.33 Paragraph 14 of Schedule 4 of the Act amends Section 90 of The Pensions Act 2004 and requires the Pensions Regulator to issue various codes of practice, including one on the requirements for knowledge and understanding of members appointed to pension boards of public service pension schemes. The Department, together with other interested parties, will be consulted on the content of this and other codes of practice and this ought to be sufficient to ensure that the specific circumstances of the Local Government Pension Scheme and the role of new local pension boards can be taken into account.

Q14. Apart from the training and qualification criteria that may be covered by the Pensions Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?

Part 4 – Pension board – information

Implementation

1.34 Scheme regulations will need to include provision for each scheme manager to publish information about the pension board and to keep that information up to date. This information includes who the members of the board are; representation on the board of members of the scheme and the matters falling within the board's responsibility.

Part 5 – "Scheme advisory board"

1.35 Section 7(1) of the Act will require Scheme regulations to provide for the establishment of a board with responsibility for providing advice to the Secretary of State, at the Secretary of State's request, on the desirability of changes to the Scheme.

1.36 For locally administered schemes like the Local Government Pension Scheme where there is more than one scheme manager, Scheme regulations may also provide for the board to provide advice (on request or otherwise) to the scheme managers or the scheme's pension boards, in relation to the effective and efficient administration and management of the Scheme or any pension fund of the Scheme.

1.37 Under Section 7(4), Scheme regulations will need to apply the same provisions relating to conflicts of interest to the scheme advisory board as described at paragraph 1.18 above, except that it will be for the Secretary of State to consider and act on actual cases.

Implementation

Scope/role

1.38 Section 7(1) of the Act defines the scope and role of the scheme advisory board in the widest possible terms (see paragraph 1.35 above). Replicating the wording of the Act in Scheme regulations would be advantageous in terms of allowing the work of the scheme advisory board to evolve without the need for regulatory amendments, but equally, there may be merit in clearly defining certain areas of work, for example, making recommendations to the Secretary of State on cost management proposals.

Q15. Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?

1.39 Section 7(1) of the Act provides that the scheme advisory board is responsible for providing advice to the Secretary of State, as the responsible authority, at the Secretary of State's request. This would suggest that the board can only advise when asked to do so on a case by case basis by the Secretary of State. We have taken advice from HM Treasury who take a more lenient view and suggest that it would be in order for Scheme regulations to set out the terms on which advice may be given.

Q16. Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and when deemed necessary?

Q17. Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?

Membership

1.40 As Section 7 of the Act makes no provision for membership of the scheme advisory board, it will be for Scheme regulations to make such provision. This could be achieved in a number of different ways, for example :-

- The Secretary of State could appoint a small membership panel whose remit would be to nominate and appoint initial members of the board, including the Chairperson;
- As above, but Scheme regulations could also prescribe the sectors from which members of the board are to be drawn;
- The membership profile of the shadow scheme advisory board could be carried forward.

Q18. What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?

Q19. Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?

Q20. Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this also apply to the Chair of the board?

Q21. Should Scheme regulations make provision for board members, including the Chair, to be removed in prescribed circumstances, for example, for failing to attend a minimum number of meetings per annum? If so, who should be responsible for removing members and in what circumstances (other than where a conflict of interest has arisen) should removal be sought?

Q22. Should Scheme regulations prescribe a minimum number of meetings in each year? If so, how many?

Q23. Should Scheme regulations prescribe the number of attendees for the board to be quorate? If so, how many or what percentage of the board's membership should be required to be in attendance?

Q24. Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?

Funding

1.41 If the scheme advisory board is to undertake its full range of duties effectively, the annual cost of administration is likely to be significant. It has been estimated that this may be in the region of an additional £3k per annum per fund, or £5k if project work is also to be included rather than as a separate cost to be levied. In early discussions with the shadow scheme advisory board it has been made clear that both it and the scheme advisory board must be self financing.

1.42 In terms of funding there would appear to be two clear alternatives. Funding the board could be achieved either by voluntary subscription or a mandatory levy from scheme managers/administering authorities. A clear risk associated with a voluntary subscription is that the board's agenda and workplans would be subject to an uncertain level of funding, dependent on whether or not individual fund authorities considered the work of the board to represent good value for money. However, a mandatory levy would give the board the financial certainty that it would need to be able to discharge its functions and could be justified on the grounds that it is advising the Secretary of State and assisting local pension boards on behalf of the Scheme as a whole. In either case, we envisage that the cost would be regarded as an administration cost and therefore rechargeable to the fund.

Q25. Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?

Constitution

1.43 The Act requires the setting up of the scheme advisory board but not the manner of its legal constitution. This would imply some form of body corporate to be set out in scheme regulations. Beyond setting out the corporate status of the board, scheme regulations would also need to spell out the personal liability protection for board members.

Q26. What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?

Conclusion

1.44 Significant steps have been taken in the past to improve Scheme governance and, in particular, to ensure the effective representation of Scheme beneficiaries. Ministers have consistently remarked on the importance of good Scheme governance and the Public Service pensions Act now provides us with the opportunity to build on this earlier success. We would strongly encourage you to consider this paper carefully and to respond to as many of the questions as you see fit. Your contribution will be of great assistance in helping us to prepare a set of draft regulations on Scheme governance for formal consultation later in the year.

List of questions

Q1. What period, after new governance regulations are on the statute book, should be given for scheme managers/administering authorities to set up and implement local pension boards?

Q2. How long after new governance regulations are on the statute book should the national scheme advisory board become operational?

Q3. Please give details of any such "connected" scheme that you are aware of.

Q4. Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of scheme managers?

Q5. What "other matters", if any, should we include in Scheme regulations to add to the role of local pension boards?

Q6. Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?

Q7. Should Scheme regulations prescribe the type of information that may be "reasonably required"?

Q8. Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representatives?

Q9. Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?

Q10. Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?

Q11. Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?

Q12. Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory committee to the local pension board (if the committee and the board are not one and the same body)?

Q13. Should the new Scheme regulations include a requirement for each local pension board to publish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?

Q14. Apart from the training and qualification criteria that may be covered by the Pensions Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?

Q15. Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?

Q16. Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and when deemed necessary?

Q17. Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?

Q18. What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?

Q19. Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?

Q20. Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this also apply to the Chair of the board?

Q21. Should Scheme regulations make provision for board members, including the Chair, to be removed in prescribed circumstances, for example, for failing to attend a minimum number of meetings per annum? If so, who should be responsible for removing members and in what circumstances (other than where a conflict of interest has arisen) should removal be sought?

Q22. Should Scheme regulations prescribe a minimum number of meetings in each year? If so, how many?

Q23. Should Scheme regulations prescribe the number of attendees for the board to be quorate? If so, how many or what percentage of the board's membership should be required to be in attendance?

Q24. Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?

Q25. Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?

Q26. What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?

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Kent County Council Superannuation Fund

Response to CLG Consultation on Scheme Governance

INTRODUCTION

The Kent Fund has long recognised the importance of good scheme governance. This is reflected in:

- The County Council delegates the responsibility to a full committee of the Council.

- Membership includes the Medway Council, District Councils, staff, trade unions and pensioners.

- A strong commitment to transparency and good communication with scheme employers and members.

In this context we see no case for setting up local pension boards.

Furthermore, whilst we could understand arguments for a more formal and comprehensive representation by scheme employers we do not for scheme employees. Scheme employee benefits are guaranteed in statute and all the financial risk falls on scheme employers. If a board is to be established we can understand some employee representation but not equal numbers with employers.

QUESTIONS

Q1. What period after new governance regulations are on the statute book, should be given for scheme managers/administering authorities to set up and implement local pension boards?

We do not support the establishment of local pension boards.

Q2. How long after new governance regulations are on the statute book should the national scheme advisory board become operational?

We do not support the establishment of the national scheme advisory board. This is a piece of unnecessary bureaucracy.

Q3. Please give details of any such "connected" scheme that you are aware of.

None

Q4. Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of scheme managers?

None

Q5. What “other matters”, if any, should we include in Scheme regulations to add to the role of local pension boards?

None

Q6. Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?

If a local pension board is established our undertaking is that it would be advisory with decision making powers residing with the committee set up under section 101 of the Local Government Act 1972.

We therefore do not understand what relevance so called conflicts of interest have.

Q7. Should Scheme regulations prescribe the type of information that may be “reasonably required”?

No comment.

Q8. Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representative’s?

Any local pension board should have a majority of employer representatives. There should also be employee, trade union and pensioner representatives.

Q9. Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?

If local pension boards are to be established they <u>must</u> be separate from the statutory committee. The Section 101 committee must remain the decision making body otherwise the role of the administering authority is totally undermined.

Q10. Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?

We believe that these other matters should be left for local decisions to be taken. The LGPS is a national scheme which is locally administered and the boards need to reflect this.

Q11. Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?

As above.

Q12. Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory committee to the local

pension board (if the committee and the board are not one and the same body)?

Again it is entirely appropriate for this to be stipulated in regulation and it should be a matter for local decision making.

Q13. Should the new Scheme regulations include a requirement for each local pension board to publish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?

The administering authority is already required to produce an annual report which is subject to external audit. Given the advisory role of the local pension board we could understand it scrutinising the annual report but not itself producing an annual report. Again the role seems to be confused with the role of the administering authority.

Q14. Apart from the training and qualification criteria that may be covered by the Pension Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?

Again such prescription would be inappropriate.

Q15. Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?

We do not support establishing such a board. If it is established it should be a high level consultative forum and as such it does not need to be specified in the regulations.

Q16. Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and when deemed necessary?

This question reinforces that the national board is a forum without any real role. If it is to be established then it must be allowed to raise issues with the Secretary of State.

Q17. Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?

No

Q18. What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?

We believe that membership should be a majority of administering authority representatives.

Q19. Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?

Q20. Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this also apply to the Chair of the board?

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Q24. Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?

These matters should be left to the board.

Q25. Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?

As an advisory group costs should be minimal. To be funded by CLG.

Q26. What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?

Again as an advisory group the issue of personal liability protection is irrelevant.

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 30 August 2013
Subject:	**CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME**
Classification:	Unrestricted.

Summary: To agree a response to the call for evidence.

FOR DECISION

INTRODUCTION

1. On 21 May Brandon Lewis the Local Government Minister announced a call for evidence on the future structure of the LGPS. The Department of Communities and Local Government and the Local Government Association document is attached in Appendix 1.

2. The announcement was unexpected and seems to reflect a number of different issues which have emerged in the last 12-18 months:

   - Agitation from the London Pension Fund Authority (LPFA) to merge funds in London. As well as the LPFA there are 32 London Borough funds and the Corporation of London. This has already produced very negative responses from some London Boroughs.

   - Briefing from trade unions which present scheme mergers as providing sufficient savings as to support the enhanced benefit structure.

   - Some misleading briefings on the investment management fees paid by local authority funds which have appeared in the national press.

   - Government desire to see more investment in infrastructure.

3. There is no doubt that the 89 administering authorities are diverse in size and in the way they go about their business but that is reflective of how local authorities themselves work. Nonetheless the call for evidence is a surprise.

CONSULTATION REPSONSE

4. The Kent Fund is one of the largest in local government – around 10th largest in assets and already covers a large geographical area with a population of 1.6m,

100,000 scheme members and 400 employers. Against the criteria set out in the consultation the Kent Fund performs well.

5. A draft response is attached in Appendix 2.

RECOMMENDATION

6. Members are asked to agree the response.

Nick Vickers
Head of Financial Services
Ext 4603

Department for Communities and Local Government

Local Government Association

Call for evidence on the future structure of the Local Government Pension Scheme

Background

In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011. Among its recommendations, the report made clear that the benefits of co-operative working between local government pension scheme funds and achieving administration efficiencies more generally should investigated further. The Local Government Pension Scheme currently costs local taxpayers £6billion a year in employer contributions.

Recommendation 23*: Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.*

Lord Hutton went on to comment about the need for change and improved scheme data. At paragraph 6.1 he said:

In its interim report, the Commission noted the debate around public service pensions is hampered by a lack of consensus on key facts and figures and a lack of readily available and relevant data. There are also inconsistent standards of governance across schemes. Consequently it is difficult for scheme members, taxpayers and commentators to be confident that schemes are being effectively and efficiently run. It also makes it more difficult to compare between and within schemes and to identify and apply best practice for managing and improving schemes.

On 16 May 2013, the LGA and DCLG held a roundtable event on the potential for increased co-operation within the Local Government Pension Scheme, including the possibility of structural change to the current 89 funds. 25 attendees represented administering authorities, employers, trade unions, the actuarial profession and academia.

The roundtable aimed to bring objectivity and transparency to the subject through open debate. There was a full discussion of the possible aims of reform and the potential benefits of structural change, together with the further work needed to provide robust evidence to support emerging options. The meeting focused on the issues to be addressed by reform rather than the detailed arguments for any of the potential ways forward that have been proposed.

The roundtable heard about the projects being undertaken to look at the options for structural reform of the Scheme in London and Wales and considered the range and relative priorities of the desired outcomes of reform, the data requirements for determining a start point and target and the next steps for delivering those outcomes.

On 22 May at the National Association of Pension Funds' local authority conference, the Local Government Minister Brandon Lewis said:

I am determined that we make progress and make it as quickly as reasonably possible. I can therefore announce this morning, that we will consult later in the year on a number of broad principles for change. This will be your opportunity to tell us what reforms could be made to both help improve your investment performance and reduce your fund management costs.

The consultation will not set out some pre-determined solution to what is undoubtedly a complex and contentious issue. I am neither ruling anything in nor ruling anything out at this stage. However, the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal.

I have talked a fair amount about the need for robust data to inform decisions. I am therefore working with the LGA and others to launch a call for evidence, which will both inform our consultation and help all involved formulate their views in response to the consultation.

You will be aware that work is well underway to establish a shadow national pensions board for the Scheme. I have met with the LGA and local government trades unions on several occasions to discuss the sort of work that I would like the board to undertake.

This document sets out the call for evidence from DCLG and the LGA, working with the Shadow Scheme Advisory Board, and explains how it will feed into the forthcoming consultation.

The call for evidence

At the roundtable, the following high level and secondary objectives for structural reform were proposed:

<u>High level objectives</u>

1. Dealing with deficits
2. Improving investment returns

<u>Secondary objectives</u>

1. To reduce investment fees
2. To improve the flexibility of investment strategies

3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

The roundtable also agreed that, although there is a wide range of data available on Local Government Pension Scheme funds, it is currently widely dispersed and would benefit from enhancement, collation and further analysis. It also considered how best to achieve a high level of accountability to local taxpayers, particularly if services are to be shared or funds merged.

In your response to this call for evidence, it would be helpful if you could have particular (although not exclusive) regard to the following questions and provide evidence in the form of annexes to support your answers.

Question 1 – How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties - including through the availability of transparent and comparable data on costs and income - while adapting to become more efficient and to promote stronger investment performance.

Question 2 – Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

Question 3 – What options for reform would best meet the high level objectives and why?

Question 4 – To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

Question 5 – What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

Timetable

Responses to this call for evidence should be submitted in electronic form to Victoria Edwards at: LGPSReform@communities.gsi.gov.uk

The closing date for submissions is 27 September 2013.

The submissions will then be analysed by DCLG and the LGA, working with the Shadow Scheme Advisory Board. You may be asked to provide further clarification and/or evidence to support your answers during that process.

The analysis of submissions will then inform a formal consultation on the options for change to be published by DCLG in the early autumn.

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Kent County Council Superannuation Fund

Call for evidence on the future structure of the Local Government Pension Scheme.

INTRODUCTION

The Fund welcomes the opportunity to respond to the consultation document. The Kent Fund is one of the largest in the country with assets of £4bn, 100,000 scheme members and 400 scheme employers. The Fund is governed by the Superannuation Fund Committee which is a main committee of the County Council. Membership of the Committee includes the unitary council, district councils, trade unions, staff and pensioners. The Committee is committed to doing its business in an open and transparent way and to promoting the highest standards of scheme governance.

Before addressing the specific questions set we would like to comment on the stated objectives:

High level objectives:

(1) Dealing with deficits – all funds are dealing with deficits which arise from past decisions such as the pension contribution holiday in the early 1990's; the impact of the abolition of Advance Corporation Tax in 1997; increased longevity and the increasing maturity of workforces. There is nothing in structural reform which will address this issue and there are strong arguments for letting those closest to the local authorities to continue to manage the issue.

(2) Improving investment returns – this will be addressed in more detail but we question what evidence there is that there is an issue now with investment returns. Almost all administering authorities 84 out of 90, but not the London Pension Fund Authority, subscribe to the WM Local Authority service. We have an abundance of data which shows very clearly that the size of the fund and investment performance is not closely correlated. The Kent Fund has performed in the top quartile of funds over 1, 3 and 5 years.

Secondary objectives

(1) To reduce investment fees – the appointment of investment managers is subject to EU procurement legislation. We are not convinced that larger mandates will lead to higher fees. The easiest way to reduce fees is to introduce more passive management of funds but passive management means no ability to outperform markets and funds need outperformance to reduce deficits more quickly.

(2) To improve flexibility of investment strategies – again this seems to make an assumption that there is a problem now. If this is a way of saying funds should adopt more exotic investment strategies then the Kent Fund is totally opposed. We have regularly updated our evolving investment strategy with support from

Hymans Robertson. Some funds who have opted for more exotic options have been seriously caught out by the strong recent performance of equities and will have cost their funds tens if not hundreds of millions of pounds.

(3) To provide for greater investment in infrastructure - for pension funds in deficit with deteriorating cashflows due to reductions in the local authority workforce infrastructure is at best a marginal asset class. Also as the Government's own National Infrastructure Plan states the main reason for limited pension fund investment in the sector is that infrastructure is a highly risky proposition and is not suitable for developmental pension funds.

(4) To improve the cost effectiveness of administration – again we have participated in the CIPFA Pensions Administration benchmarking for many years. We have below average costs and would be happy to see this data published by CLG.

(5) To provide access to higher quality staffing resources – given that very limited funds are managed internally by local authority funds this is a slightly strange objective. The Kent Fund takes advice from Hymans Robertson and invests with professional investment managers which local authorities could never compete with to recruit staff.

(6) To provide more in-house resource – the Kent Fund successfully manages £4bn with in-house resource of around 2 FTE. We buy in investment management, investment consultancy and actuarial services and think this is the most efficient and cost effective way of operating.

Where smaller funds decide that merger would be beneficial then they can decide to do that.

Now turning to specific questions:

Question 1 – How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – while adapting to becoming more efficient and to promote stronger investment performance.

As has been stated above there is already comparative data available but it is not used sufficiently well:

WM Local Authority Data – we receive quarterly and annual comparative performance data. The 2012/13 "league tables" were received a couple of weeks ago and some basic analysis for the last 2 years is attached in the Annex. It shows quite clearly no correlation between size of fund and investment returns. Smaller funds tend to have fewer managers and are more susceptible to variations in performance, out performance as well as under performance.

CIPFA Pensions Administration benchmarking – this was reported to the Committee in an open report in February. 62 authorities participated – our total cost / scheme member was below average in our peer group and all scheme average. Participation could be made mandatory.

Question 2 – are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

We do not believe that the high level objectives are correct. The whole document overlooks the main purpose of local authority funds which is to ensure that funds are available to meet current and future pension liabilities. There is also a separate consultation on governance arrangements and we believe that good governance is also a crucial issue.

Question 3 – What options for reform would best meet the high level objectives and why?

We do not believe that the case for reform has ever been made.

Deficits are already subject to long term plans and the key issue is that investment returns meet or exceed actuarial assumptions. That depends upon the performance of a varied mix of different asset classes.

The data produced by the WM Company shows how local authorities have performed as a group and individually. Local authorities have generally retained above average exposure to equities at 63% (down from 79% in 1994) and therefore local authority funds will tend to outperform in periods of strong equity returns.

Question 4 – To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

On secondary objectives we have the following comments:

- Cost-effective investment fees – we have clear evidence over an extended period that higher performing investment managers will charge higher fees. This is a cost effective option as the scope for significant out performance will hugely outweigh any additional fees paid.

- Diversified investment management strategies – as a £4bn fund we believe that we can achieve this but without overly complicated structures.

- Efficient and effective pensions administration – we will benchmark our service and monitor performance. This is regularly reported to senior management and members. If we felt that we could not maintain an efficient and cost effective service we would look to merge with other funds or externalise.

- Collaborative working – administering authorities do need to work together more closely and the Norfolk frameworks and the current administration system framework tender led by KCC are examples of this.

- Local accountability – we need to be accountable to scheme employers and scheme members for how the funds are managed and this needs to be transparent.

- Costs of change – there does not appear to have been any consideration of the costs of change. Major changes to investment mandates on funds totalling £200bn would be a major cost which would reduce investment returns.

Question 5 – What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed.

The Kent Fund was one of the first to have an independent external audit undertaken, before it was a statutory requirement. The Kent Fund's accounts have been prepared and have been subject to audit which confirmed their high standard. This information is now in the public domain and can be analysed for key issues such as cashflows, value of liabilities and maturity.

This could be done nationally by external auditors or actuarial firms on behalf of CLG.

The comparative investment data is already available via WM.

We fully support greater transparency and the publication of professionally prepared comparative information.

Overall we feel that funds should make their own decisions and be held accountable for their performance – and above we set out ways this could be achieved. Responsible long term fiduciary management and good governance are fundamental. Merger of funds may be an answer but that should be left to local decisions not central prescription.

James Scholes
Chairman Superannuation Fund Committee

John Simmonds
Deputy Leader &
Cabinet Member for Finance

Appendix 2

WM League Tables

	2012/13	2011/12
	Top Ten	**Top Ten**
Best	Orkney Islands	LB Hammersmith
	Isle of Wight	Staffordshire CC
	LB Bromley	Dorset CC
	Dorset CC	Powys Council
	Corporation of London	LB Redbridge
	LB Bexley	LB Wandsworth
	LB Wandsworth	Cumbria CC
	North Yorkshire CC	Northumberland CC
	LB Ealing	South Yorkshire
	Rhonda Council	Environment Active
	Bottom 10	**Bottom 10**
	Gwynedd Council	Shetlands
	LB Hackney	LB Kingston
	LB Barnet	Swansea
	Wiltshire CC	LB Barking
	LB Croydon	Teeside
	Bedfordshire CC	Gwyned CC
	Environment Agency Closed	Cambridgeshire CC
	Flintshire CC	Cornwall CC
	LB Barking	LB Brent
Worst	Greater Manchester Designated	Worcestershire CC

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

To: Superannuation Fund Committee – 30 August 2013

Subject: **ADMISSIONS TO THE FUND**

Classification: Unrestricted

Summary: To report on several applications to join the Pension Fund, a number of other admission matters and related issues.

FOR DECISION

INTRODUCTION.

1. This report sets out information on applications from organisations to become admitted bodies within the Pension Fund and advises of the need to make agreements for a change of name, the closure of two admission agreements to new members and two termination agreements. Committee's approval is sought to enter into these agreements with these organisations.

2. The Committee is also asked to note the position on Parish Councils, the update on the recovery of the Pension Fund's costs and to agree the process for the signing of the minutes relating to admission matters.

PRINCIPLE CATERING CONSULTANTS (re Ursuline College)

3. Ursuline College is awarding a three year contract for catering services, although the effective date is not yet known.

4. This involves the transfer of three employees from Ursuline College to Principle Catering Consultants. To ensure the continuity of pension arrangements for this employee, Principle Catering Consultants has made an application for admission to join the Pension Fund.

5. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £6,000 for the first year and set an employer's contribution rate of 14.7%.

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

ROCHESTER CARE HOME LIMITED

7. The Committee agreed at its meeting on 28 June 2013 to the admission applications made by Agincare relating to Robert Bean Lodge, on the basis of the guarantee from Medway Council.

8. It has since been established that Rochester Care Home Limited, a subsidiary of Agincare is the company taking over the running of Robert Bean Lodge from Medway Council from 1 September 2013.

9. Rochester Care Home Ltd is therefore now applying for admission to the fund to ensure the continuity of pension arrangements for the 37 employees transferring from Medway Council on 1 September 2013.

10. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £312,000 for the first year and set an employer's contribution rate of 20.3%.

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

12. Medway Council has agreed that it would not be desirable for Rochester Care Home Limited to finance a bond at this level and proposes to act as guarantor as provided for under Regulation 38 (3) (a) of the LGPS (Administration) Regulations 2008. Medway Council has also agreed to be responsible for any termination deficit should there be one. These arrangements would be included in the admission agreement and Barnett Waddingham supports this approach.

VICTORY CARE HOME LIMITED

13. The Committee agreed at its meeting on 28 June 2013 to the admission applications made by Agincare relating to Nelson Court, on the basis of the guarantee from Medway Council.

14. It has since been established that Victory Care Home Limited, a subsidiary of Agincare is the company taking over the running of Nelson Court from Medway Council from 1 September 2013.

15. Victory Care Home Limited is therefore now applying for admission to the fund to ensure the continuity of pension arrangements for the 32 employees transferring from Medway Council on 1 September 2013.

16. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £183,000 for the first year and set an employer's contribution rate of 20.1%.

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

18. Medway Council has agreed that it would not be desirable for Victory Care Home Limited to finance a bond at this level and proposes to act as guarantor as provided for under Regulation 38 (3) (a) of the LGPS (Administration) Regulations 2008. Medway Council has also agreed to be responsible for any termination deficit should there be one. These arrangements would be included in the admission agreement and Barnett Waddingham supports this approach.

THANET LEISURE FORCE

19. Thanet Leisure Force is a Community Admission Body within the Pension Fund following the transfer of staff to them on 15 November 1999 from Thanet District Council. On 1 April 2013 the company changed its name to Your Leisure Kent Ltd.

20. As the Local Government Pension Scheme Regulations have also been amended since the original admission agreement was made, it is proposed that a new admission agreement be entered into which reflects both the name change and the changes in Regulations.

GRAVESHAM COMMUNITY LEISURE

21. Gravesham Community Leisure are a community admission body who joined the pension scheme on the 10 April 2000 following a transfer of staff to them from the Relaxion plc. The staff involved were originally employees of Gravesham Borough Council.

22. Gravesham Community Leisure have given written notice to amend the terms of their admission agreement, so that no more of their employees can join the pension scheme. Existing members will be allowed to continue their LGPS membership.

23. As the Local Government Pension Scheme Regulations have also been amended since the original admission agreement was made, it is proposed that a new admission agreement be entered into which reflects both this change and the changes in Regulations. It is therefore necessary to enter into a revised legal agreement with them.

ACTIVE LIFE LIMITED

24. Active Life Limited are a community admission body who joined the pension scheme on the 26 March 2002 following a transfer of staff to them from Canterbury City Council.

25. Active Life Limited have given written notice to amend the terms of their admission agreement, so that no more of their employees can join the pension scheme. Existing members will be allowed to continue their LGPS membership.

26. As the Local Government Pension Scheme Regulations have also been amended since the original admission agreement was made, it is proposed that a new admission agreement be entered into which reflects both this change and the changes in Regulations. It is therefore necessary to enter into a revised legal agreement with them.

BRENWARDS LIMITED

27. Brenwards Limited is a transferee admission body who joined the pension fund on the 22 August 2005 July following the award of a contract by West Kent Housing Association.

28. As the last active LGPS member at Brenwards Limited has left the Local Government Pension Scheme it is necessary to commission a cessation report. This shows a termination payment of £8,000 is due from Brenwards Limited to the Pension Fund which has been paid.

THE AVENUES TRUST

29. The Avenues Trust are a Community Admission Body who joined the pension fund under their original name of Kelsey Care Limited on 18 October 1994.They changed their name to The Avenues Trust in 2001.

30. The Avenues Trust may give three months notice to terminate their admission agreement so it is closed to future accrual. The current

members would cease contributing and become entitled to deferred benefits or pensions.

31. Barnett Waddingham has prepared a provisional cessation report as at 31 March 2013 on both a Full Cessation basis and using the Closed Fund Approach.

32. The Full cessation basis shows a deficit of £513,000 which would be payable by The Avenues Trust to the Pension Fund. This approach makes assumptions about the future (such as life expectancy) and if taken, means whilst the Pension Fund would get this money now, it would have no further redress to The Avenues Trust in the future. The £513,000 may or may not be an adequate payment depending on what actually happens to the scheme members involved in the future.

33. On the Closed Fund approach, which is the approach the committee are being asked to consider, nothing is payable now as there is a surplus of £514,000. However, we do have redress to The Avenues Trust and any payments necessary would be set at future valuations based on actual experience at that time. This would be written into the termination agreement Barnett Waddingham supports the Closed Fund approach.

34. The Avenues Trust do not have a Parent Company so will put up a Bond as a form of guarantee which has been calculated for the first year as £473,000.

PARISH COUNCILS

35. Parish Councils can choose to offer their staff LGPS membership by making a written resolution to do so. In such circumstances Barnett Waddingham calculate the employer contribution which is then reviewed at each subsequent valuation in the usual way.

36. When the last active LGPS member of a Parish Council leaves employment, a cessation report is commissioned from Barnett Waddingham to show what if anything is due from the Council to the Pension Fund. Any such sum due is known as a termination deficit.

37. The legal advice obtained from Eversheds confirms we may ask for the termination deficit in a single one off payment or may enter into instalment plans under guidance from Barnett Waddingham.

RECOVERY OF THE FUND'S COSTS

38. At its meeting on 28 June the Committee asked for a report to be submitted to a future meeting on charges for the administration of admissions to the Fund. At the present time all of the Fund's costs other than the actuary's fees relating to academies, are recovered from

scheme employers via the employer contribution. Officers have considered options for the recovery of administrative costs direct from employers including consultation with other LGPS administering authorities, and plan to bring a proposal for a Fund charging policy to the Committee's November meeting.

SIGNING OF THE ADMISSION MINUTES

39. As the Committee may be aware the number of applications for admission to the Fund is increasing due to the reorganisation of the arrangements for the provision of services by scheme employers. The timetable for the completion of these arrangements may not necessarily fit with the pattern of the meetings of the Superannuation Fund Committee and it is intended that a proposal for the delegation of decisions on admissions be brought to the November meeting.

40. The Committee is now asked to agree that pending any decision on delegation of these matters, the minutes relating to certain admission matters be signed by the Chairman at the end of each meeting, as they are agreed by the Committee, to expedite the completion of admission matters.

41. The minutes of the decisions re the admissions of Rochester Care Home Ltd and Victory Care Home Ltd should be signed at the end of today's meeting to facilitate the admissions to complete on 1st September 2013.

RECOMMENDATION

42. Members are asked to:

    (1) Agree to the admission to the Kent County Council Pension Fund of Principle Catering Consultants, and

    (2) Agree that the admission agreement made by Rochester Care Home Limited relating to Robert Bean Lodge provides for a guarantee from Medway Council, and

    (3) Agree that the admission agreement made by Victory Care Home Limited relating to Nelson Court, provides for a guarantee from Medway Council, and

    (4) Agree that an admission agreement can be entered into with Your Leisure Kent Ltd, and

    (5) Agree that an amended legal agreement can be entered into with Gravesham Community Leisure, and

(6) Agree that an amended legal agreement can be entered into with Active Life Limited, and

(7) Note the withdrawal of Brenwards Limited as a participating employer in the Pension Fund, and

(8) Agree that a termination agreement can be entered into for The Avenues Trust based on the Closed Fund Approach, and

(9) Note the information on Parish Councils, and

(10) Note the position re the recovery of the Pension Fund's costs, and

(11) Note the issue regarding the signing of the minutes, and agree that the Chairman may sign the minutes of today's meeting re the admissions of Rochester Care Home Ltd and Victory Care Home Ltd at the end of today's meeting, and

(12) Agree that once legal agreements have been prepared for (1) to (8) above, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
Ext 4625

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