SUPERANNUATION FUND COMMITTEE

Friday, 29th August, 2014

10.00 am

Medway Room, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 29th August, 2014 at 10.00 am		Ask for:	**Denise Fitch**
Medway Room, Sessions House, County Hall, Maidstone		Telephone:	**01622 694269**

UNRESTRICTED ITEMS

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

A. COMMITTEE BUSINESS

A1 Substitutes

A2 Declarations of Interests by Members in items on the Agenda for this meeting.

A3 Minutes - 2 July 2014 (Pages 5 - 10)

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 Baillie Gifford

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, 20 August 2014

In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Item C1.

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 2 July 2014.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr J Burden, Cllr P Clokie, Mr A D Crowther, Mr D Coupland, Ms J De Rochefort, Cllr N Eden-Green, Mr B E MacDowall, Mr T A Maddison, Mr R A Marsh, Mr R J Parry, Mr C Simkins, Mrs M Wiggins and Cllr L Wicks.

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

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

UNRESTRICTED ITEMS

61. Minutes
(Item A3)

RESOLVED that the minutes of the meeting held on 21 March 2014 are correctly recorded and that they be signed as a correct record.

EXEMPT ITEMS

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

62. Motion to Exclude the Press and Public
(Item B1)

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.

63. Minutes
(Item C1)

RESOLVED that the exempt minutes of the meeting held on 21 March 2014 are correctly recorded and that they be signed by the Chairman as a correct record.

64. DTZ Investment management

(1) The Chairman welcomed Mr O'Gorman and Ms Linacre from DTZ to the meeting and invited them to present their annual report on the KCC Superannuation Fund UK Property Portfolio. Mr O'Gorman and Ms Linacre answered questions from Committee members.

(2) The Chairman informed the Committee that KCC's Superannuation Fund portfolio had won the Investment Property Databank (IPD) Investment Property Forum (IPF) UK Property Investment Award for the highest three year annualised return to December 2013 for Segregated Pension Funds between £100m and £350m. He thanked DTZ for the work they had carried out on behalf of the Fund which had led to this award.

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

65. Investment Strategy
(Item C2)

(1) Mr Vickers introduced a report on an approach to updating the investment strategy. Mr McKissack (Hymans Robertson), presented a paper on future investment strategy - current considerations including current asset allocation and asset class roles; rebalancing; strategic Flightpath and asset classes. Mr McKissack and Mr Vickers answered questions from the Committee.

(2) In recognition of the complexity of these issues it was agreed that a seminar would be arranged for the Committee. Members were invited to inform the Chairman or Mr Vickers of anything else that they would like included in the seminar.

(3) RESOLVED that the report and the proposed seminar be agreed.

66. Fund Structure
(Item C3)

(1) Mr Vickers introduced a report on a number of issues relating to the structure and management of the Fund which was discussed by the Committee.

(2) RESOLVED that

(a) the position on Pyrford and Impax be noted;
(b) £10m be invested in Chandos Fund 2 with the YFM VCT as co-investor; and
(c) the approach on the RBS claim be endorsed.

UNRESTRICTED ITEMS
(Committee open to the press and public)

67. Local Government Pension Scheme Consultation: Opportunities for collaboration; cost savings and efficiencies
(Item D1)

(1) Mr Vickers referred to the draft response to the Local Government Pension Scheme Consultation: "Opportunities for collaboration, cost savings and efficiencies" which had been circulated with the agenda. The Committee discussed the draft response.

(2) RESOLVED that the draft response to the consultation document be agreed.

68. Fund Position Statement
(Item D2)

(1) Mr Vickers introduced a report which provided a summary of the Fund asset allocation and performance. A copy the Fund Position Statement at 31 March 2014 was circulated with the agenda.

(2) RESOLVED that the report be noted.

69. Fund Structure
(Item D3)

(1) Mr Vickers introduced a report which reported on a number of issues relating to the structure and management of the Fund including the selling equities, DTZ and secondary property.

(2) RESOLVED that:

(a) the existing overweight position in equities be considered by the Committee after the seminar agreed in minute no 65 above.

(b) the position on the DTZ discretionary mandate be noted.

(c) the position on funding the two Secondary Property mandates be noted.

70. Facing the Challenge
(Item D4)

(1) Mr Wood introduced a report which set out the issues for the management of the Superannuation Fund from the County Council's "Facing the Challenge: Delivering Better Outcomes" programme.

(2) Mr Wood explained that over the next 3 – 4 years every service in KCC would go through a service review leading to a potential full market engagement process. In May 2014 the County Council agreed to proceed with a full market engagement process for Finance, HR and ICT on a joint basis. At this stage elements of pension's administration were included in the Finance scope. There is still a great deal of work to be done before the Council makes any decision and the Committee will be kept fully informed.

(3) Mr Wood updated the Committee on the KCC employer contribution rate and the approach to be taken in relation to the Future Service Rate for staff transferring from KCC. He confirmed that this approach takes full account of the financial liability the Council has to the Pension Fund and retains core budget to meet this liability.

(4) Mr Wood and Mr Vickers answered a number of questions and noted comments from members which included the following:

- Mr Wood confirmed that there was currently no formal in-house bid for pensions administration, the earliest that any changes would take place would be April 2015 and in the meantime there would be savings made in the current year.
- Mr Vickers stated that the Management of the Pension Fund had been identified as a strategic service and therefore would be remaining in house.
- In relation to the information in the report on KCC's Employer Contribution Rate, Mr Wood stated that no provider would take on the pension deficit and therefore he wanted to make sure that there was not a burden 5 years into a contract. He stated that there tended to be fewer employees in the pension scheme 3 to 4 years after they transferred.

(5) RESOLVED that the report be noted.

71. Treasury Management
(Item D5)

(1) Mr Vickers introduced a report on the Superannuation Fund's cash holdings which included the latest position on cash holdings on 4 June 2014.

(2) In response to a question from a Member, Mr Vickers confirmed that there was no conflict between the £6,002,780.25 in Black Rook ICS International Sterling Government Liquidity Core Dis and the £20m held in the DTZ investment in the Blackrock Property Fund.

(3) RESOLVED that the report be noted.

72. Pensions Administration Update
(Item D6)

(1) Ms Cheatle provided members with a comprehensive update of administration issues including changes to the LGPS from 1 April 2014, workload position, achievements against Key Performance Indicators (KPIs), automatic enrolment, the pensions administration system and tax changes from April 2014.

(2) Ms Cheatle answered a number of questions from members about the pensions administration system and the proposed solution to the issues that had been experienced with providing estimates for staff regarding retirement or redundancy. Mr Wood confirmed that 80% of estimates were produced within 20 working days with the remainder produced within 25 working days.

(3) Ms Cheatle explained the basis of the hosted service with Heywood and confirmed that the contract with Heywood's would end in December 2016 so there would be a need to go out to tender in due course.

(4) RESOLVED that the report be noted.

73. Admissions to the Fund
(Item D7)

(1) Mr Vickers introduced a report which set out information on applications from organisations to become admitted bodies within the Pension Fund. It also advised of three

contract extensions and two name changes. The Committee were advised that the minutes relating to the two new admission applications, the Total Facilities Management matters and the name change for MCCH Society Limited were to be signed at the end of today's meeting to facilitate completion on the desired dates.

(2) RESOLVED that the Committee:

a) agree to the admission to the Kent County Council Pension Fund of Mears Limited, and

b) agree to the admission to the Kent County Council Pension Fund of Rochester Care Home Kent Limited, and

c) note the amended Bond levels and employer contribution rates for KCC's Total Facilities Management contract relating to the admissions agreed by Committee on the 7 February 2014, and

d) note the name change for MCCH Society Limited, and

e) agree that an amended agreement can be entered into with Capita IT Managed Solutions Limited (re St George's CE Foundation School, Broadstairs), and

f) agree that an amended agreement can be entered into with Capita IT Managed Solutions Limited (re Thamesview School, Gravesend), and

g) agree that an amended agreement can be entered into with Project Salus, and

h) note the name change of MITIE Cleaning and Support Services Limited and,

i) agree that the Chairman my sign the minutes of today's meeting relating to a), b), c), d) above at the end of the meeting, and

j) agree that once legal agreements have been prepared for a) to h) above, the Kent County Council seal can be affixed to the legal documents.

74. Date of next meeting - 29 August 2014 at 10.00am
(Item D8)

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By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 29 August 2014
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 as at 30 June 2014. The Hymans Robertson Capital Markets Service Quarterly Update is attached in the Appendix.

QUARTER'S PERFORMANCE

2. At 30 June the Fund value was £4,203m. Overall the Fund returned +2.1% slightly behind the benchmark of +2.3%. The Fund's performance ranked in the 34th percentile on the WM Locality Authority Index.

3. The Fund's run of strong performance has largely been driven by Schroders UK Equities, Invesco UK Equities and Baillie Gifford Overseas Equities. With Invesco now no longer managing money and Baillie Gifford underperforming in the Quarter and 12 months, the long term drivers of performance are reduced in impact.

4. Neither M&G or Sarasin have delivered any outperformance to date. The Head of Financial Services has met with each manager and there are no underlying issues. Both managers will be at the Committee's November meeting.

5. DTZ remain an area of strength and clearly the UK property market is producing strong returns.

6. The Fund's overweight position in Equities has reduced due largely to the higher cash position and funding Fidelity and Kames . The equity allocation at 31 July was 66.9% against a benchmark of 64% and equity markets to date have better back in August. As at 30 June the equity overweight was £121m. Members are asked to consider whether they wish to change the overweight position.

PROBATION TRANSFER

7. It has now been confirmed that in January 2015 the Fund will need to pay £60m to the Greater Manchester Pension Fund when all Probation staff transfer to a single LGPS fund. Members had previously decided that the funding should be taken from the Schroders Fixed Income mandate.

WM UK LOCAL AUTHORITY ANNUAL REVIEW 2013/14

8. WM's annual report for 2013/14 are enclosed with these papers. Given that WM hold huge amounts of data, it is a valuable source of information and contradicts the CLG statements in their May 2014 report about a lack of transparency of LGPS funds.

9. The main points to highlight are:

   (1) **p5 Performance of Active Managers** – this shows the majority of active managers outperforming the index – with a significantly higher level for UK equity managers than Global equities.

   (2) **p7-8 Tobacco Stocks** – this supports our previous contention based on figures from Invesco. Over 20 years tobacco stocks have outperformed the market by almost 10% per annum. Tobacco stocks have underperformed the market in the last two years and we have seen managers reducing their holdings.

   (3) **p12 Equity Allocations** – the average weighting is 63%, the Kent Fund has a benchmark weight of 64% and the actual allocation has been closer to 70% and at 30 June was 66.9%.

   (4) **p21 UK v Overseas/Global Equity Allocations** – with the Fund being an equal allocation to UK and Overseas/Global equities the Fund's UK proportion is far higher than average.

   (5) **p23 Alternatives** – recent years have seen the investment consultancy industry promoting diversification through greater investment in non-property alternatives. The WM figures really do question the effectiveness of this:

   - Active currency mandates have 'almost disappeared' – the Committee rejected this approach three years ago.

   - Private equity, hedge funds and infrastructure have underperformed equities.

   - The results for pooled Multi-Asset managers (diversified growth/absolute return) are also disappointing.

   (6) **p24 Property** – the Fund is only slightly above average with an allocation of 10% compared with 8%. Whilst local authority funds as a whole have underperformed the IPD UK All Property Index the Kent Fund has outperformed its fund specific IPD benchmark by +2.2% per annum over 10 years. This reflects the strong performance of DTZ and the Committee's decisions on timing increases.

The findings overall reinforce that the Fund's overweight in equities have been beneficial in recent years, but on the basis of mean reversion the key question is how the Fund will deal with weaker equity performance.

RECOMMENDATION

10. Members are asked to:

    (1) Determine whether they wish to maintain the Equity allocation at the current level;

    (2) Confirm that the Probation transfer will be funded from the Schroders Fixed Income mandate and delegate agreeing this transfer to the Head of Financial Services; and

    (3) Note the WM Local Authority Annual Review.

Nick Vickers
Head of Financial Services
Ext: 4603

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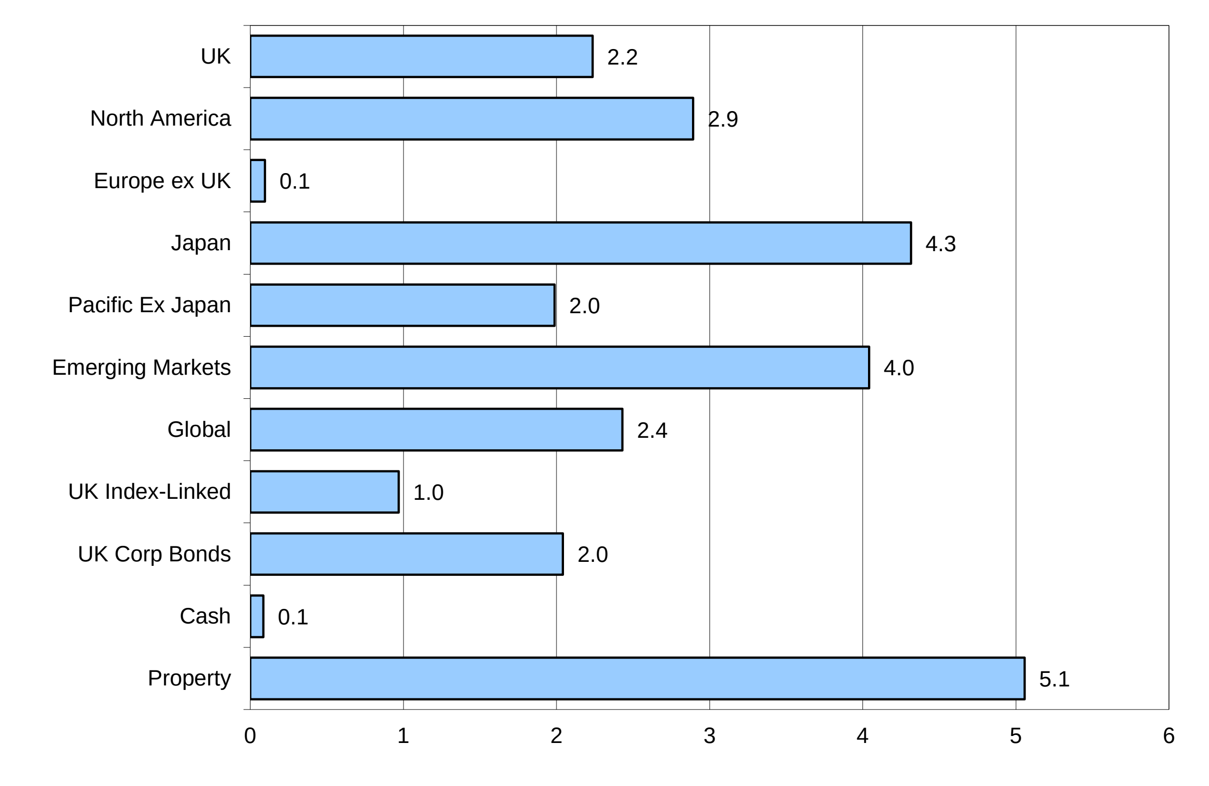
Market Returns - 3 Months to 30 June 2014

Classification: Unrestricted
Item: D1



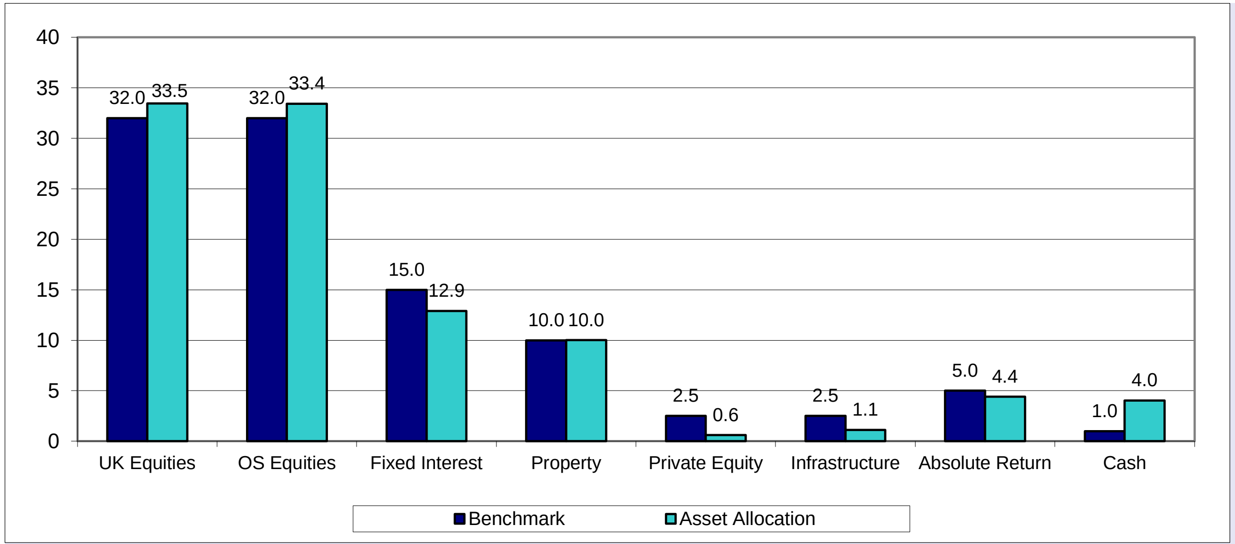
Returns across all asset classes were positive in the quarter.

Whilst overseas equity returns were positive in sterling terms performance was far stronger in local currencies eg N America +5.3%, Europe +3.4%, Japan +5.2% and Emerging markets +7.1%.

UK Property continued to perform strongly-the property return shown is WM's not the IPD Index the Fund uses.

Asset Allocation vs Fund Benchmark - 30 June 2014

Classification: Unrestricted
Item: D1



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,406	33.5	32.0
Overseas Equities	1,405	33.4	32.0
Fixed Interest	542	12.9	15.0
Property	421	10.0	10.0
Private Equity	25	0.6	2.5
Infrastructure	47	1.1	2.5
Absolute Return	186	4.4	5.0
Cash	170	4.0	1.0
Total Value	4,203	100	100.0

Asset Distribution Fund Manager - 30 June 2014

Classification: Unrestricted
Item: D1

Values (GBP)'000	Mandate	Value at 31/03/2014	Transactions	Capital Gain / loss	Income	Value at 30/06/2014	% *Fund*	Benchmark
Schroders	UK Equity	705,257	8,310	14,224	8,345	727,790	17	Customised
State Street	UK Equity	712,115	-109,621	13,002	-	615,496	15	FTSE All Share
State Street	Global Equity	173,448	-	4,242	-	177,690	4	FTSE All World ex UK
Baillie Gifford	Global Equity	749,078	6,843	3,093	5,552	759,014	18	Customised
M&G	Global Equity	200,749	-	4,672	-	205,421	5	MSCI AC World GDR
Sarasin	Global Equity	149,762	1,061	595	1,247	151,418	4	MSCI AC World NDR
Schroders	Global Quantitative	185,307	-	4,107	-	189,413	5	MSCI World NDR
Goldman Sachs	Fixed Interest	310,642	-	8,219	-	318,861	8	+3.5% Absolute
Schroders	Fixed Interest	220,617	0	2,624	0	223,241	5	Customised
Impax	Environmental	30,196	-	-272	-	29,924	1	MSCI World NDR
DTZ	Property	368,889	- 476	11,278	5,214	379,691	9	IPD All Properties Index
Fidelity	Property	25,733	4,479	1,376	-	31,588	1	IPD All Properties Index
Kames	Property	-	10,500	-602	-	9,898	0	IPD All Properties Index
Harbourvest	Private Equity	20,298	1,057	-30	-	21,325	1	GBP 7 Day LIBID
YFM	Private Equity	4,007	-	-243	-	3,764	0	GBP 7 Day LIBID
Partners	Infrastructure	35,898	2,098	-666	-	37,330	1	GBP 7 Day LIBID
Henderson	Infrastructure	10,026	-	-42	-	9,985	0	GBP 7 Day LIBID
Pyrford	Absolute Return	183,481	-	2,365	-	185,846	4	RPI + 5%
Internally Managed	Cash	26,413	98,450	-	81	124,863	3	GBP 7 Day LIBID
Total Fund		4,111,913	22,702	67,944	20,440	4,202,558	100	Kent Combined Fund

Performance Returns - 30 June 2014

Classification: Unrestricted
Item: D1

	Quarter		1 year		3 years (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%	%	%	%
Total Fund	2.1	2.3	10.3	10.3	8.7	8.4
		2.3*		10.1*		7.9*
UK Equity						
Schroders UK	3.2	2.2	16.1	12.9	9.9	8.8
State Street	2.3	2.2	13.2	13.1	9.1	8.9
Overseas Equity						
Baillie Gifford	1.2	2.1	8.3	9.8	9.4	7.7
Sarasin	1.2	2.4	n/a	n/a	n/a	n/a
Schroders GAV	2.2	2.2	12.0	10.0	7.9	9.5
State Street	2.4	2.4	9.7	9.7	9.0	9.0
Impax Environmental Fund	-0.9	2.2	15.1	10.0	5.0	9.5
M&G	2.3	2.6	n/a	n/a	n/a	n/a
Fixed Interest						
Goldman Sachs Fixed Interest	2.6	0.9	9.0	3.5	8.0	7.0
Schroders Fixed Interest	1.2	0.9	4.4	2.5	4.2	3.5
Property						
DTZ Property	4.5	5.1	18.1	17.6	9.9	8.6
Fidelity ***	5.3	5.1	n/a	n/a	n/a	n/a
Kames	**-5.7	5.1	n/a	n/a	n/a	n/a
Private Equity						
Harbourvest	-0.2	0.1	3.5	0.3	-2.0	0.4
YFM	-6.1	0.1	-3.3	0.3	12.2	0.4
Infrastructure						
Partners	-1.8	0.1	-6.6	0.3	-2.8	0.4
Henderson	-0.4	0.1	21.6	0.3	7.5	0.4
Absolute Return						
Pyrford	1.3	1.8	1.4	7.6	n/a	n/a

Data Source: The WM Company
- returns subject to rounding differences
* Strategic Benchmark
** Indicates not invested for the entire period
*** Fidelity return does not currently include the one off up front fee - data to be revised

Both the actual asset allocation benchmark and the strategic benchmark gave the same return of +2.3%.

But the Fund outperformed the WM Local Authority Average in the quater performing in the 34th percentile.

The Fund marginally underperformed the benchmark in the quarter.

The strongest performers relative to benchmark were Schroders UK equities and both Fixed Income mandates.

The strongest performance in Overseas equities came from the passive manager StateStreet suggesting this was a difficult quarter for active managers to beat the index.

Fund Structure - 30 June 2014

Classification: Unrestricted
Item: D1

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £728m	Baillie Gifford +1.5% £759m	Goldman Sachs +6.0% Abs. £319m	DTZ Property £380m	Kent Cash £125m
State Street +0.0% £615m	M&G +3.0% £205m	Schroders +2.0% £223m	Fidelity Property £32m	Henderson Secondary PFI £10m
	Schroders +3.0 - +4.0% £189m		Kames Property £10m	Partners £37m
	State Street +0.0% £178m			YFM Private Equity £4m
	Impax +2.0% £30m			HarbourVest £21m
	Sarasin +2.5% £151m			Pyrford RPI +5.0% £186m

Market Value £4.2bn
as at 30 June 2014

capital markets service

Quarterly update Q3 2014

Meanwhile, back in the real world …

Graeme Johnston

"A collapse in the values of risk assets is not inevitable.

Nevertheless … this is a time to be reducing investment risk.

Tactically, our bias would be to reduce credit risk in bond portfolios."

The last few months have been more interesting for students of geopolitics rather than followers of investment markets. Any risks from disruption in the Middle East or Eastern Europe or rising tension in the South China Sea have done little to dent the progress of markets.

To be fair, the broad picture from economic data still tends to confirm the consensus expectation that global growth will be faster this year than in 2013. Even where inflation and economic growth point to an end to emergency monetary accommodation, in the US and UK for example, subdued wage growth currently supports the desire of central banks to have a measured rise in interest rates. A collapse in the values of risk assets is not inevitable. Nevertheless, both the relative performance of the last two years and the further attenuation of risk premiums suggest this is a time to be reducing investment risk, buying bonds and other low-risk assets or holding a little more cash, as circumstances dictate.

Government bonds (p3)

If our bias is to de-risk, it has to be noted that gilts have got more expensive in recent months. There is now no part of the yield curve that appears consistent with sustained nominal growth at levels close to pre-crisis norms. Our preference remains to be short of duration.

The latest fall in long-dated gilt yields has happened while real yields on index-linked have barely moved. Long-dated inflation protection is consequently as cheap as it has been for 18 months. There is still a large gap between the prices of short- and long-dated protection and, here too, we still prefer to hedge at shorter maturities.

Credit markets (p4)

It is still the case that we would expect credit to play an increasingly important strategic role for pension funds. Tactically, our bias would be to reduce credit risk in bond portfolios. Diversification is as important for credit as it is elsewhere. Areas such as local currency emerging market debt (to stretch the definition of credit) and secured loans look more attractive than traditional investment-grade and high yield bond markets.

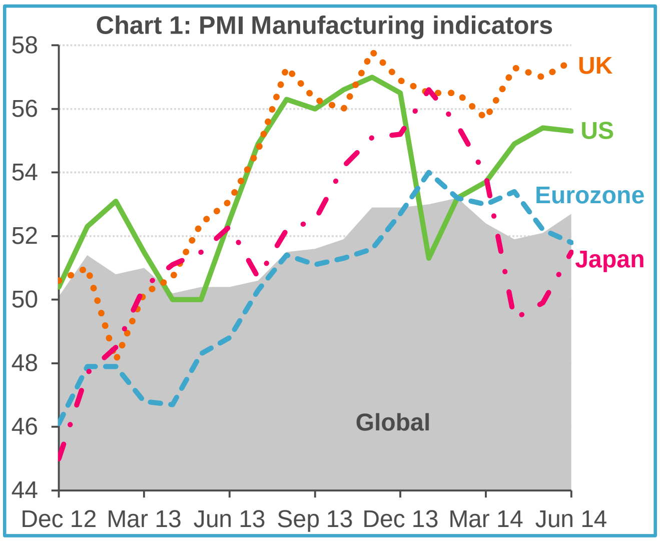
Equities (p5)

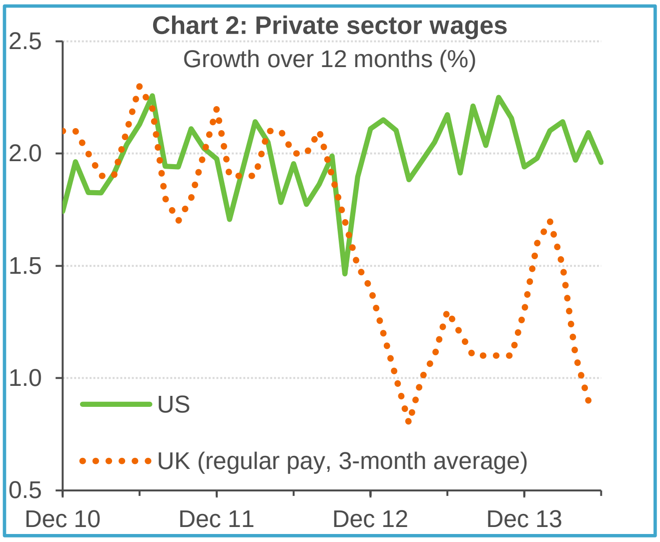
A high level of confidence is more often a precursor of a fall in confidence than a collapse in equities, but the associated market rallies tend to steal returns from the future. Recent pedestrian earnings performance at a global level does offer potential for some decent growth in the future, but the benefit could be offset by a reversal of the revaluation that has sustained markets in the rally of the last three years. The improving economic background that might drive the earnings growth will tend to mean a tougher valuation comparison against higher risk-free rates.

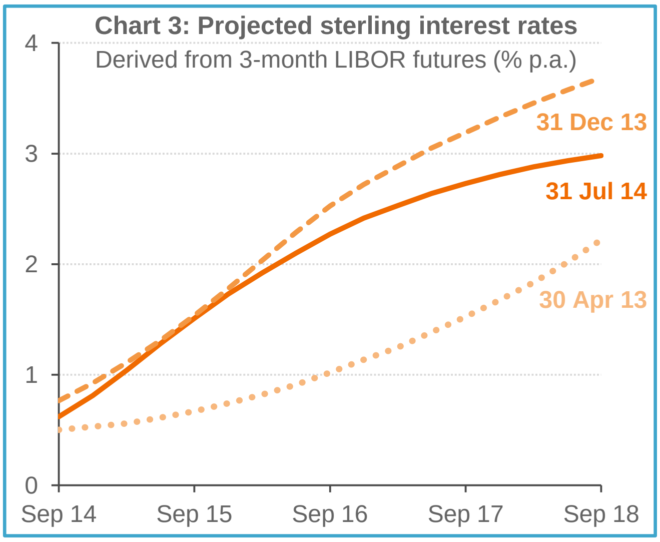
Property (p6)

Both in absolute terms and relative to equities, property looks no better than average value relative to history. In current market conditions, average is as good as you're likely to get anywhere; those with their money invested have no reason to sell. It is becoming more difficult to justify paying the costs to invest more and easier to justify taking profits where the long-term strategy is to reduce exposure.

MARKET BACKGROUND







The survey says …

PMI manufacturing indicators, derived from business surveys, can often provide a timely guide to developments in the broad economy. (As a reminder, readings over/under 50 are consistent with expansion/contraction.) The correspondence is not always precise, but recent trends provide a useful shorthand summary. So, chart 1 indicates:

- the persistent strength in the UK economy;
- a rebound in the US after a dip at the start of the year;
- strength and weakness in Japan around the rise in consumption tax; and
- renewed signs of slowdown in the Eurozone after its slow climb out of recession.

Whatever the particular divergences across and concerns about individual regions, the more consistent picture of a continuing modest global expansion provides some support for the current sanguine disposition of markets.

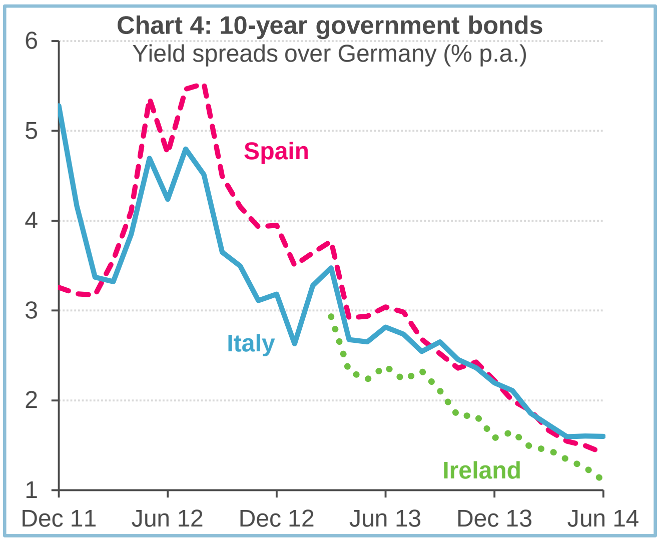
Wage restraint

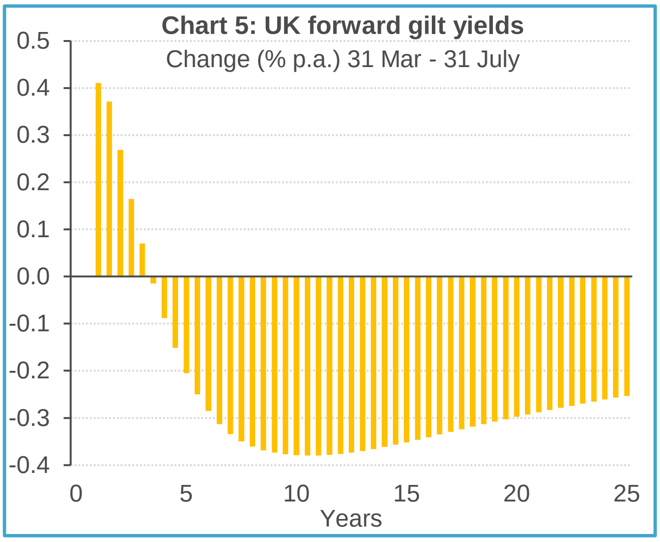
The US and UK economies are both growing at reasonable rates and have inflation close to the (formal or informal) 2% p.a. target. It is no surprise that the Bank of England and the US Federal Reserve are talking more freely about rises in interest rates. But both are keen to emphasise that they expect any rise to be gradual. Here, they can point to the restrained growth in wages (chart 2). A steady economic progression in the US has been matched by very stable wages growth. UK wage growth fell back towards recession lows as the economy stagnated, but has shown no sign yet of rebounding as the economy booms. Of course, the Bank and the Fed have recently misread the labour market – unemployment has fallen much more quickly than they forecast. Wages could surprise them, too. Any signs of upward pressure will be a significant determinant of whether the rise in interest rates can be as controlled as they wish.

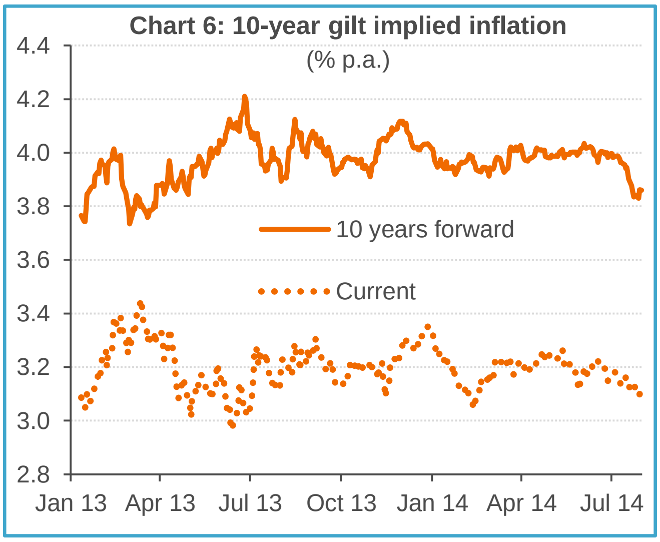
A little lower for a little longer

The behaviour of interest rate futures suggests that central bank rhetoric may be having some effect. For much of 2013, the path of interest rates implied by futures markets was becoming steeper (chart 3). This reflected improving economic growth in the UK and (on a more subdued level) the Eurozone and the prospect of an end to QE in the US. This trend went into reverse at the start of 2014 and that has continued in recent months. The initial rise is projected to be faster in the UK than in the US, perhaps an acknowledgment of the strength of recent growth. However, rates in both countries are now projected to be only 3% p.a. in four years' time. The situation in the Eurozone is more extreme. Projected rates had fallen back to April 2013 levels by March this year and are now even lower, reaching 1% p.a. only late in 2018.

GOVERNMENT BONDS







Euro enthusiasm

The implied outlook for interest rates in the Eurozone would suggest concerns that the current combination of minimal growth and negligible inflation could persist. This is the sort of environment more likely to stoke Eurozone tensions than douse them. Imbalances in the Eurozone payments system remain high, indicative of a continuing tendency for capital to flee from the periphery to Germany. It is therefore surprising that the yield spreads on peripheral government bonds relative to Germany continue to decline. Spreads are now as low as they have been for over three years. The ECB has taken further measures to ease policy, but doubts remain whether they can or want to do everything it takes to preserve the euro. If there are doubts that the ECB can succeed in their primary goal of keeping inflation around 2% p.a., the risk that they won't succeed in the broader task seems meanly rewarded in bond markets.

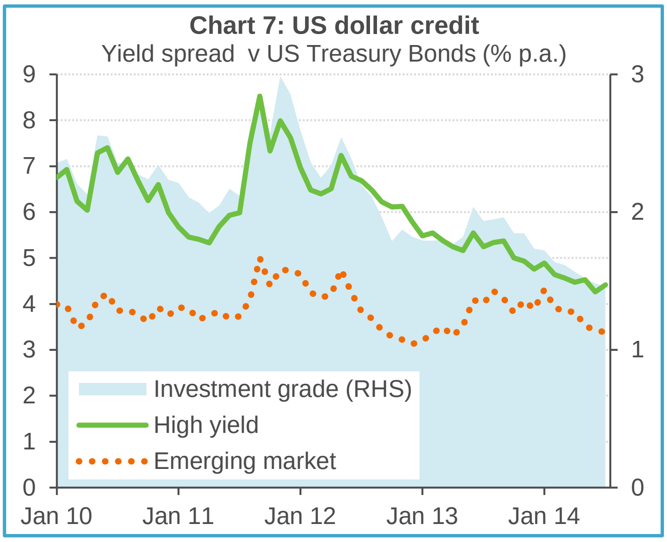
Shape shifting

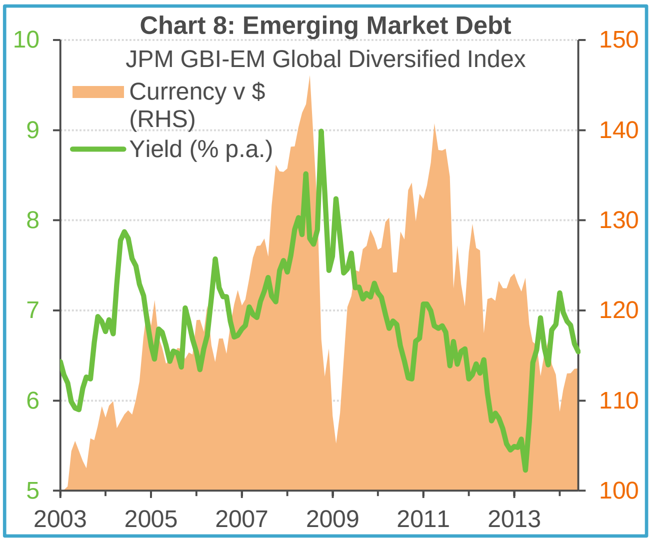
Long-dated gilt yields have fallen further since the end of the first quarter, although the overall reduction this year has been less than in equivalent US and German yields. As has been the case for some time now, the changing shape of the yield curve has been at least as interesting as the change in the overall level of yields. Chart 5 shows the change in forward gilt yields (the future levels of very short risk-free interest rates implied by gilt prices) between the end of March and the end of July. As was the case in Q1, the biggest reductions have been in the 5-15 year area. Forward yields are now below 4% p.a. at almost all maturities, significantly so at longer maturities. Based solely on relative performance, this is almost as good a time as any in the last five years to de-risk from equities and gilts. However, given the absolute level of yields, we are still inclined to seek interest rate protection at shorter maturities.

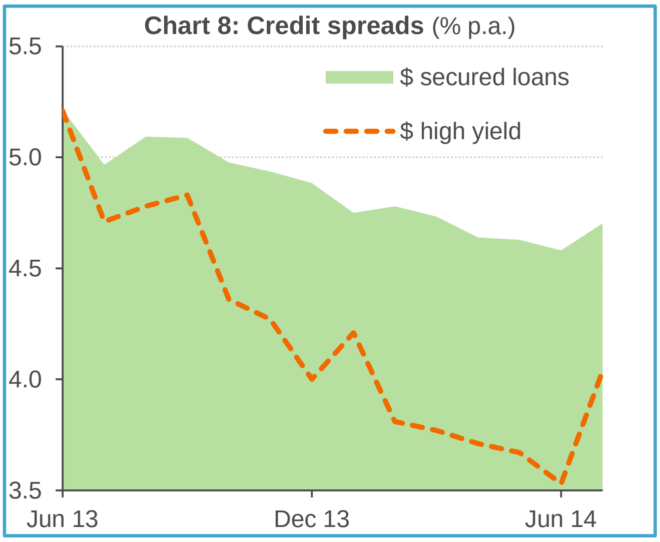
Inflation protection – the long and short

In the US, the latest downturn in long-dated government bond yields has been matched by a fall in real yields. In the UK, there has been a fairly even split between lower real yields and lower implied inflation. As a consequence, long-dated implied inflation has fallen close to 3.5% p.a., as low as it has been since markets were pricing in a change to RPI calculations in late 2012. Given discretion, our preference is still to hedge inflation at the lower prices available at shorter maturities (chart 6). Taking 10 years of inflation protection now will still be cheaper than taking 20 years, as long as the cost of 10 years' protection is below 3.8% p.a. in 2024. However, a premium of only 0.5% p.a. over the RPI equivalent of the 2% p.a. CPI target may well be of interest to those for whom reducing long-term inflation risk is a key priority.

OTHER BOND MARKETS







Reducing credit balance

Yield spreads on UK investment-grade corporate bonds have been relatively stable since late last year. As chart 7 suggests, this has been a little at odds with the trend in wider credit markets, where spreads have continued to decline. (There has been some comment about the tough time high yield bonds have had in recent weeks, but that barely registers on the chart.) Valuations are still well short of historic extremes, but as demanding as they have been since the early days of the credit crunch seven years ago. This reinforces our existing view. Strategically, we think credit has an increasingly important part to play for pension funds; tactically, we would look to reduce risk in credit portfolios. Another theme is highlighted by the modest divergences between emerging market and corporate credit. Credit markets will all tend to rise and fall together, but it is still well worth seeking as much diversification as possible.

Think local

Emerging market debt (EMD) is increasingly focused on local currency bonds. These are not, strictly speaking, credit markets – the borrowers are generally governments issuing in a currency they control. Nevertheless, for non-domestic investors, they share with credit markets the characteristic that they are generally held for the returns they offer rather than risk reduction. Local currency EMD has recovered a little from last year's weakness but, in contrast to most credit markets, yields on the main indices are still well above recent lows (chart 8). Local currency EMD also brings currency risk. We are sceptical that this is inevitably a good thing (and history is on our side), but the exposure can be acquired relatively cheaply by the standards of the last decade. The claims for the inclusion of local currency EMD in a return-seeking bond portfolio are as strong as they have been for some time.

Looking for security

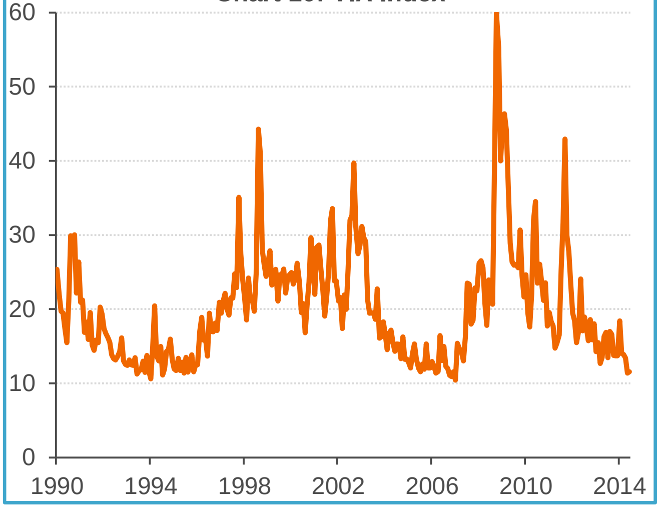
Some investors, such as those with a long time horizon or seeking to match cash flows, can exploit illiquidity premiums in private debt markets. Those without that flexibility can still consider the secured loans market, where the sacrifice of liquidity is less – some secondary trading does take place. Broadly speaking, the quality of borrowers is lower than in high yield bonds, but the covenant protections for lenders are greater. (That said, the overlap between issuers in the markets has been increasing in recent years.) As chart 8 shows, investors have been seeking liquidity rather than protection over the last year in particular; the divergence is even more marked in euro markets. Default levels have been low in recent years; protection against it is relatively cheap. Secured loans are another diversification well worth considering currently for credit portfolios.

EQUITIES

The height of confidence

The VIX index is derived from the prices of options in US equities and gives a guide to investors' expectations about market volatility. It is sometimes known as the Fear Index – the highest readings in chart 10 coincide with the Asian currency crisis, the collapse of Lehman Brothers and the height of the eurozone crisis. A low reading – it is currently very low – is sometimes seen as a sign of overconfidence. But it is perhaps safer to suggest that the VIX will rise from here – that is what futures markets imply – than that an equity downturn is inevitable. The last trough, in early 2007, was followed by market weakness and subsequent collapse, but equities were strong for several years after the one in the mid-90s. Then, rising earnings and revaluation provided support. We have reservations that investors can place too much reliance on either this time.

Chart 10: VIX Index



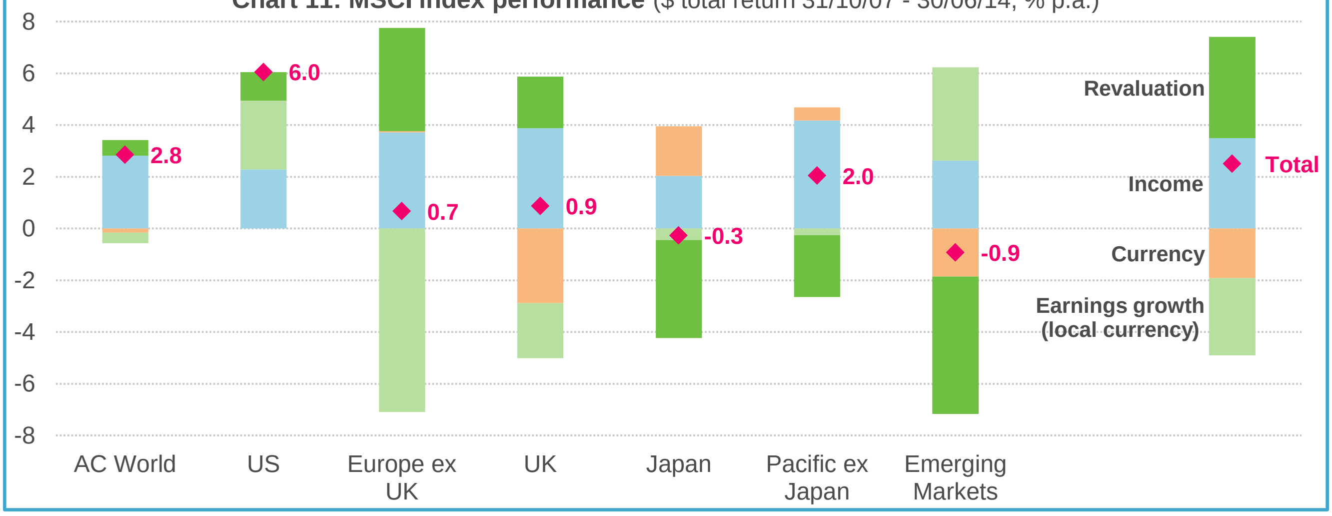
Scaling the peaks

Chart 11 analyses the total return (in $ terms) of regional equity markets since the end of October 2007, just as equity prices succumbed to the credit crunch and shortly before reported earnings peaked. At a global level (the left-hand bar), prices have stagnated – equities have returned income and nothing else. A modest boost from revaluation (a rise in PE ratio) has been offset by a combination of currency weakness relative to the dollar and a fall in underlying earnings. However, the split varies considerably across regions and provides some pointers to what might (or might not) drive returns in the future.

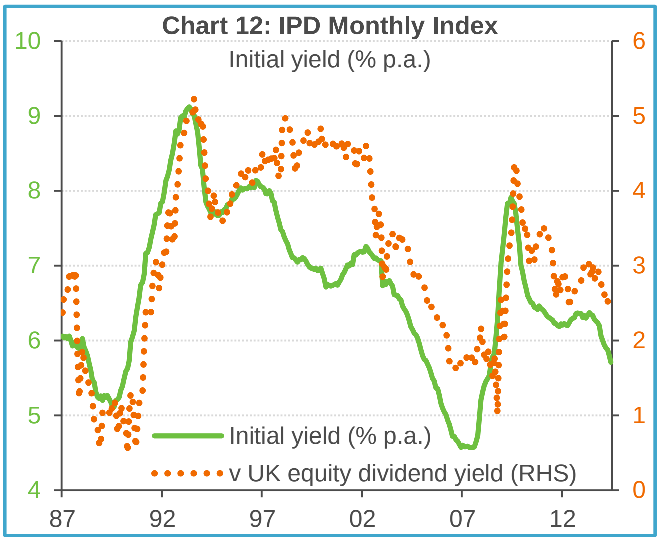
- US earnings have left pre-crisis highs well behind and, with profit margins at peak levels, the risk of an earnings downturn has risen. Valuations are far from historic extremes, but more demanding than at the market highs of 2007.
- A plunge in earnings in Europe certainly offers potential for future returns, but some of that has already been discounted by a revaluation that has been much greater than in the US. More fundamentally, the risk of a Japanese-style secular stagnation that would postpone any normalisation of earnings cannot be ignored.
- As in the US, emerging market earnings are well above pre-crisis peaks. However, they are in a different cyclical position – a rapid recovery has been followed by a few years of downward drift. Valuations look less extended than those in developed markets. In relative terms, the opportunity remains as attractive as it has been for a long time.

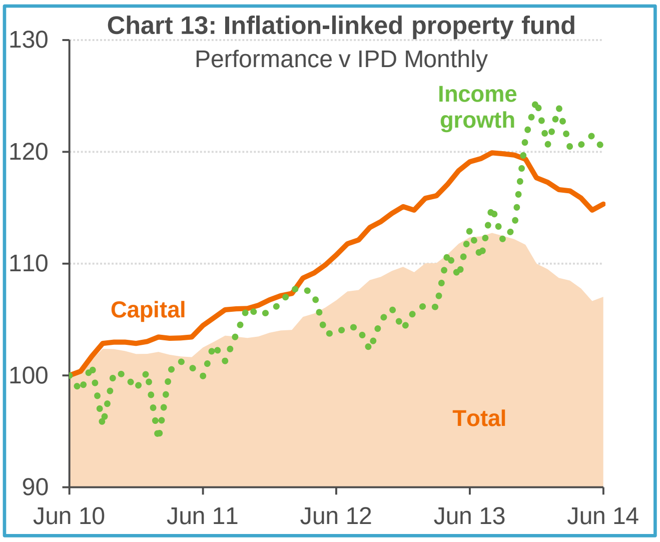
Of course, the analysis here is limited by the choice of start and end dates. To take an example, the devaluation of Japanese equities might more easily be rationalised as the final stage of a return to reality rather than a value opportunity. However, as the reverberations of the financial crisis fade, comparisons that ignore the massive distortions of recent years will become more and more relevant for long-term investors.

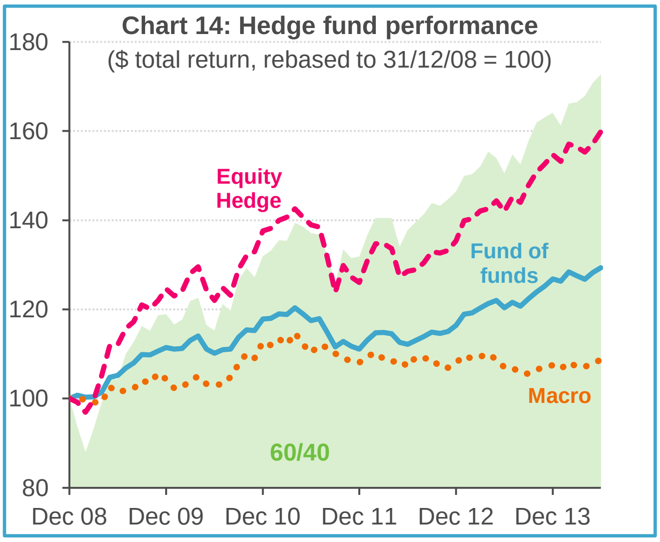
Chart 11: MSCI index performance ($ total return 31/10/07 - 30/06/14, % p.a.)



OTHER INVESTMENTS







Building momentum

The return on UK commercial property, as measured by the IPD Monthly Index was almost 17% in the year to June. The equivalent rent index was just over 1% higher. Rental yields have consequently fallen to their lowest levels for 8 years and are far from cheap relative to history (chart 12). Valuations relative to equities have become a little more stretched – property has outperformed both UK and overseas equities, but dividend growth has been no worse than rental growth. None of this suggests any urgent need to sell property, but it does reduce the attraction of making further investments. Acquiring property in a rapidly rising market usually means paying well above valuation prices, or waiting in a queue as valuation prices rise. Those looking to sell should not overlook the worth of dealing at good prices; holding on for something better carries the risk that liquidity might dry up.

A defensive option

Inflation-linked funds have been one of the most successful ways to invest in UK property in recent years. In principle, it is a defensive strategy: investors should be willing to sacrifice yield in return for greater income stability and guarantee of growth. It would therefore be no surprise if these funds lagged in a more general market rally. That has been the case for the fund illustrated in chart 13, where return has lagged the IPD Index by 10% in the last year. At the same time, income growth has been particularly strong in the inflation-linked fund. The yield on the fund is still below the index yield, but the gap is as narrow as it has been since 2008. Inevitably, there will be factors specific to this particular fund in recent performance, but this type of strategy (where we have expressed reservations in the past) may be worth revisiting where it can meet a strategic need.

A genuine alternative

In aggregate, hedge funds have had an unspectacular first half of 2014 and still struggle to reclaim their lustre of the years before the financial crisis. Chart 14 compares hedge fund returns with a passive traditional strategy – 60% global equities, 40% government bonds. Hedge fund strategies, even those highly correlated to equities, have failed to keep pace since 2008, with funds of funds signally failing to justify their cost structures. Hedge fund volatilty has been lower, but we think investment should be predicated on genuine diversification from equities rather than a modest reduction in risk. Ironically, that is easiest to find in strategies such as Macro, which have been among the poorest performers. Of course, any hedge fund investment is critcally dependent on the selection of skilled managers, but genuine diversification could be particularly valuable now that traditional risk premiums have become so compressed.

MARKET RETURNS 2014 (%)				Local currency		Sterling	
UK	August	Q2	**OVERSEAS**	August	Q2	August	Q2
EQUITIES	-2.1	2.2	**EQUITIES**				
BONDS			North America	0.0	5.3	0.5	2.9
Conventional gilts	1.6	1.1	Europe ex UK	-3.4	3.4	-2.6	0.0
Index-linked gilts	1.9	1.0	Japan	-4.8	5.2	-3.4	4.3
Credit	1.0	2.0	Developed Asia ex Japan	-3.0	2.3	-2.9	2.0
PROPERTY	n/a	5.1	Emerging Markets	-1.0	7.1	-0.9	5.0
STERLING			**GOVERNMENT BONDS**	0.5	1.8	1.3	-0.3
v US dollar	-0.5	2.6	**HEDGE FUNDS ***	n/a	1.9		
v Euro	-0.8	3.2	**COMMODITIES ***	-0.7	-0.8		
v Japanese yen	-1.5	0.9	** Local currency = $; Property and Hedge Funds to 30 June*				

SOURCES

CHARTS

Babson Capital, Bank of England, Bloomberg, Datastream, Hedge Fund Research, Hymans Robertson, IPD

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 of Finance and Procurement
To:	Superannuation Fund Committee – 29 August 2014
Subject:	**SUPERANNUATION FUND REPORT & ACCOUNTS AND EXTERNAL AUDIT**
Classification:	Unrestricted

Summary: To present the Report & Accounts of the Superannuation Fund for 2013-14 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 2014 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 Funding Strategy Statement
    - The Statement of Investment Principles
    - Governance Compliance Statement
    - Communications Policy

    (2) Note the content of the Accounts for 2013-14

    (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
2014

Contents

Chairman's Introduction

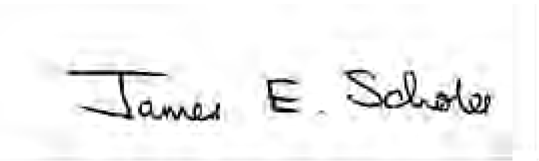
I am pleased to be able to report on a highly successful year for the Fund. With equity markets continuing to perform strongly and our investment managers also performing well the Fund increased in value by £324m or 8.5% in the year. Looking over a longer timescale the Fund has actually doubled in value over the last 5 years from its low point in March 2009.

Not only did the Fund perform strongly in absolute terms but it also performed strongly compared with the other 88 Local Authority Pension Funds. As a whole Local Authority funds returned 6.4% in the period and the Kent Fund was one of the best performing funds in the year. Our 3 and 5 year performance is around that of the top 25% of local authority funds.

This consistency in investment returns has been a major factor in the satisfactory outcomes from the 31 March 2013 actuarial valuation the results of which we received in November 2013. This is always a critical event for employers and at Fund level there was no requirement for employer contributions to increase. Where increases took place this was due to local factors in employers such as outsourcing of staff. This does reinforce that it is these local factors which have the main impact on employer contribution rates and as local authorities continue to reduce their headcount the pensions liability which has been built up remains to be paid but across a smaller active workforce.

The year also saw us do much to prepare for a new Local Government Pension Scheme which came into effect on 1 April 2014. It is regrettable that the regulations were received only days before the scheme went live which also meant that software changes could not be made in good time. This has impacted on the quality of the administration service and this is regrettable.

The Committee is well aware that whilst the rise in equity markets has been highly beneficial there will be volatility in markets moving forward. We have taken active steps to protect some of the financial gains made last year. The Fund is well diversified and the Committee will remain vigilant to protect the much improved financial position of the Fund.



James Scholes

Chairman - Superannuation Fund Committee

Management and Financial Performance Report

Scheme management and advisors

Kent County Council Officers

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Corporate Director of Finance & Procurement
Nick Vickers Nick.Vickers@kent.gov.uk
Head of Financial Services
Alison Mings Alison.Mings@kent.gov.uk
Treasury & Investments Manager
Barbara Cheatle Barbara.Cheatle@kent.gov.uk
Pensions Manager

Investment Managers	
Baillie Gifford & Co	Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
BMO Investments	79 Grosvenor Street, London W1K 3JU
DTZ Investment Management	125 Old Broad Street, London EC2N 2BQ
Fidelity Worldwide Investments	Fidelity Worldwide Investment 25 Cannon Street, London EC4M 5TA
Goldman Sachs Asset Management	Christchurch Court, 10-15 Newgate Street, London EC1A 7HD
HarbourVest Partners	8th Floor, Berkeley Square House Berkeley Square, London W1J 6DB
Henderson Global Investors	201 Bishopsgate, London EC2M 3AE
Impax Asset Management	Mezzanine Floor, Pegasus House 37-43 Sackville Street, London W15 3EH
Kames Capital	4th Floor, 77 Gracechurch Street, London EC3V 0AS
M&G Investments	Governors House, Laurence Pountney Hill, London EC4R 0HH
Partners Group	Heron Tower, 14th Floor 110 Bishopsgate London EC2N 4AY

Sarasin & Partners	Juxon House, 100 St Paul's Churchyard London EC4M 8BU
Schroder Investment Management	31 Gresham Street, London EC2V 7QA
State Street Global Advisers	20 Churchill Place, London E14 5HJ
YFM Equity Partners	St. Martins House, 210-212 Chapeltown Road, Leeds LS7 4HZ

Other Organisations providing services to the Kent Fund

Custodian	
JP Morgan Chase	Investor Services, 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	163 West George Street, Glasgow, G2 2JJ
Investment Consultant	
Hymans Robertson	One London Wall, London EC2Y 5EA
Auditors	
Grant Thornton	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	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. The Committee regularly reviews key risks with the last such review being in March 2014. The main risks then identified by the Committee were:

- the Administration system not implemented to timescale
- the inadequate implementation of the 2014 regulations
- the increased maturity of Fund as local authority payroll budgets reduce
- the investment returns below actuarial assumptions

Arrangements have been agreed for the management of these risks in order to mitigate their impact on the Fund and further details of the counter measures in place for financial, demographic, regulatory and employer risks are included in the Fund's Funding 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 conduct audits on the management of risk In the Pension Fund. During 2013-14 they provided the highest level of assurance that there are sound systems of control in place to ensure pension fund investment income is accurately accounted for, and to ensure that contributions for pensions are being correctly deducted and paid over to the Kent Pension Fund.

Third party risk such as that relating to employers in the Fund is managed through monitoring the timeliness of receipts of contributions as well as the annual review of guarantees / bonds provided by Admitted bodies.

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 2013-14 the Fund increased in value by £324.6m (8.5%) as the result of a net return on investments of £314.6m and net additions from dealings with members of £10m.

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 £18.7m. 2013-14 Investment management fees reflected the increased value of assets under management and additional spend on directly owned properties. Administrative and other expenses particularly included actuarial costs relating to the triennial valuation and IT costs associated with the upgrade of the Pensions Administration system.

Amounts due to the fund from employers
During 2013-14 £197.9m, 97% 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	3	1,973	Written off
	1	3,690	Recovered
	1	10,631	Being recovered at £50 a month
	1	2,816	Write off pending
	2	25,460	
Total	**8**	**44,570**	
2013	2	2,847	No response, therefore put forward for write off
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
2013-14	15	3,154

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	1,978	99%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	364	99%
Provision of estimates	20 days from receipt of paperwork	2,861	98%
Correspondence	Full reply within 15 working days	1,467	98%

CIPFA Benchmark Survey
The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey. The survey compares the cost of administration with 52 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 2013.

	Kent Pension Scheme £	All Scheme Average £
Total cost of administration per scheme member	18.31	21.42
Payroll costs per pensioner (including staff)	1.38	3.41
Staff costs per Scheme Member (excl. Payroll)	9.31	9.29
IT Costs per member	2.18	2.91
Communication costs per member	2.23	0.84
Actuarial costs per member	1.44	1.24
Accommodation costs per member	1.19	0.78

The results place Kent 19th of 52 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.

Member Age Profile

As at 31 March 2014, contributing membership is made up of the following age bands:-

Age	Members
Under 20	373
20 – 25	2,833
26 – 30	2,999
31 – 35	3,525
36 – 40	4,611
41 – 45	6,812
46 – 50	7,938
51 – 55	7,411
56 – 60	5,556
61 – 65	2,328
66 – 70	478
Over 70	53

Five year analysis of the Fund's membership

Type of Members	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
Contributors	44,509	43,408	41,423	42,554	44,917
Pensioners	29,107	30,549	32,258	33,731	34,841
Deferred Pensioners	30,691	32,618	35,430	37,835	39,777

Employing Bodies 2013-14

Employers	Employer Contributions £	Employee Contributions £
Local Authorities and District Councils		
Kent County Council	60,534,721	18,249,238
Medway Council	13,708,093	4,440,234
Ashford Borough Council	2,732,303	642,146
Canterbury City Council	3,170,167	668,441
Dartford Borough Council	2,137,627	434,138
Dover District Council	2,679,920	458,131
Gravesham Borough Council	2,850,457	715,456
Maidstone Borough Council	2,743,574	690,640
Sevenoaks District Council	2,698,140	578,702
Shepway District Council	2,290,401	510,844
Swale Borough Council	2,107,292	476,910
Thanet District Council	3,206,225	614,955
Tonbridge and Malling Borough Council	2,356,817	509,155
Tunbridge Wells Borough Council	2,096,926	539,847
Scheduled Bodies		
Bredgar School	12,188	3,335
Crockenhill Primary School	15,944	4,921
Downsview Infants School	48,749	13,322
East Borough Primary School	37,183	10,445
Gateway Community Primary School	21,500	5,907
Hextable School	49,793	14,394
High Firs Primary School	9,068	2,472
Judd School Tonbridge	120,321	35,412
Northfleet School for Girls	156,201	45,221
Parkway Primary School	39,803	11,008
Riverview Infant School Gravesend	45,457	12,210
Riverview Junior School Gravesend	54,827	15,167
Sandling CP School	52,583	14,302
St Peter's School Aylesford	23,405	6,551
Tunbridge Wells Girls Grammar School	87,909	26,013
Valence Special School	363,986	103,704
Whitehill Primary School	69,612	19,159
St John's CEP School	105,389	29,092
Staplehurst School	45,688	12,546
Five Acre Wood School	224,692	63,605
Laleham Gap School	224,086	63,491
All Souls County Primary School	30,776	8,546
Archbishops CE School	102,528	29,119

Aylesford School	88,933	25,408
Charles Dickens High School	197,208	56,420
Chaucer Technology School	58,253	17,042
Dartford Girls Grammar School for Girls	134,875	38,855
Ditton CE Junior School	20,830	5,599
Greatstone County Primary School	61,516	16,926
Herne Bay Junior School	67,257	18,703
Holy Family RC Primary	12,266	3,309
Holy Trinity County Primary School, Gravesend CE	92,419	26,161
Holy Trinity County Primary School, Dartford CE	71,551	19,640
Hugh Christie School	85,395	24,404
Northfleet Technical College (Boys)	154,588	43,974
Our Lady of Hartley RC Primary School	19,677	5,366
Pent Valley Secondary School	232,248	66,454
Roseacre Junior School	39,022	10,901
Simon Langton Grammar School for Boys	150,807	45,004
Snodland C.E.P. School	59,094	18,724
St Anselm’s RC Comprehensive School	154,172	43,968
St Bartholomew County Primary School RCP	25,951	7,487
St Botolph's C of E Primary School	36,446	9,004
St Edmund of Canterbury Comprehensive	83,345	19,045
St George’s School, Broadstairs	155,754	44,590
St Gregory's Catholic Comprehensive School	181,491	51,813
St John RC Comprehensive (Gravesend)	147,069	43,094
St Joseph RC Primary School	30,630	8,401
St Simon Stock Catholic School	80,837	23,040
Stella Maris RC Primary School	49,809	13,292
Thamesview School	144,157	41,656
Skinners School	62,704	19,172
Lady Boswells CE Primary School	30,272	8,287
Leybourne C of E Primary School	15,864	3,884
The Howard School	146,901	46,053
Kemsing Primary School	17,852	5,075
Raynehurst School	20,485	5,747
Godinton School	25,896	7,019
Commercial Services Kent LTD	1,706,515	592,043
East Kent Housing (Arm's Length Management Organisation)	598,919	251,101
East Kent Services (Thanet)	823,909	408,888
Folkestone Town Council	35,230	12,236
Kent and Essex Sea Fisheries Committee	91,495	23,316
Kent and Medway Fire and Rescue Authority	1,523,798	520,302
Kent Probation Committee	2,236,667	634,398
Kent Valuation Tribunal	42,000	0
Margate Charter Trustees	3,552	1,509
Medway Lower Internal Drainage Board	54,731	10,736
Medway Upper Internal Drainage Board	41,807	8,470
Ramsgate Town Council	16,552	5,060
River Stour Internal Drainage Board	25,763	9,219

Romney Marsh Level Internal Drainage Board	18,958	6,030
The Police and Crime Commissioner for Kent	8,585,313	3,607,553
Ash Parish Council	3,090	1,287
Broadstairs and St Peter's Town Council	9,100	0
Chestfield Parish Council	6,050	1,688
Cranbrook Parish Council	10,057	3,143
Darenth Parish Council	9,072	1,860
Deal Town Council	16,502	7,165
Ditton Parish Council	21,229	8,033
Dover Town Council	36,509	13,552
Eastry Parish Council	1,328	589
Edenbridge Town Council	36,242	11,672
Eynsford Parish Council	1,794	1,151
Farningham Parish Council	1,836	619
Faversham Town Council	8,048	2,304
Great Mongeham Parish Council	408	182
Hartley Parish Council	8,938	2,890
Hawkhurst Parish Council	5,465	1,708
Hawkinge Parish Council	5,236	2,210
Herne and Broomfield Parish Council	6,382	2,086
Higham Parish Council	2,645	851
Horton Kirby and South Darenth Parish Council	759	165
Hythe Town Council	16,346	4,760
Kings Hill Parish Council	15,282	6,187
Leigh Parish Council	1,672	575
Longfield and New Barn Parish Council	1,581	692
Minster on Sea Parish Council	5,240	2,545
Otford Parish Council	2,993	1,224
Pembury Parish Council	12,717	5,305
Sandwich Town Council	24,895	7,257
Seal Parish Council	3,310	1,118
Sevenoaks Town Council	18,964	4,185
Snodland Town Council	9,577	2,893
Southborough Town Council	52,115	9,896
Staplehurst Parish Council	1,920	660
Stone Parish Council	24,251	11,776
Swanley Town Council	109,090	30,704
Swanscombe and Greenhithe Town Council	45,847	8,929
Temple Ewell Parish Council	1,505	473
Tenterden Town Council	22,317	5,565
West Kingsdown Parish Council	2,479	1,401
Westerham Parish Council	10,414	6,869
Woodnesborough Parish Council	424	190

Further Education Colleges

Canterbury College	914,336	363,117
East Kent College (Formerly Thanet College	375,513	151,110
Hadlow College	396,804	159,883
Hilderstone College	34,021	13,379
K College	926,727	396,407
Mid Kent College	711,690	281,439
North West Kent College	707,446	284,268

Admitted Bodies

Active Life Limited	164,731	68,808
APCOA Parking UK Limited (2)	16,591	4,650
Ashford Leisure Trust Limited	55,097	29,231
Biffa Municipal Ltd (Mid Kent Waste)	26,233	7,463
Caldecott Community	182,344	64,599
Canterbury Archaeological Trust	18,472	2,388
Caterlink	1,089	467
Children & Families Limited	2,945	1,448
Canterbury Christ Church University College	2,912,691	1,079,576
Compass Group UK & Ireland Limited	5,456	1,486
Connexions Partnership Kent & Medway Limited	17,718	5,870
Connexions Partnership Kent & Medway (2)	17,832	6,512
Enterprise (AOL) Limited	108,851	38,839
Epic Trust	38,595	12,238
Fusion Lifestyle Limited	44,564	19,473
Gravesham Community Leisure	105,415	48,084
HOPE(Kent) Limited (Pathways to Independence)	19,646	8,374
Hyde Housing Association	87,000	0
Invicta Telecare Limited	77,910	28,429
Avenues Trust	77,243	7,219
Kent University	52,478	2,559
Kent College, Canterbury	4,350	1,450
Kent College, Pembury	3,000	0
Avante Partnership	165,386	24,212
Kier Facilities Management	21,182	5,817
Knotley Hall School	2,000	0
Maidstone Housing Trust (Golding Homes)	385,443	209,406
MCCH Society Limited	2,422	704
Medway Community Healthcare	86,361	28,555
MHS Homes	575,790	146,442
Medway Norse Limited	122,016	46,033
Mitie Cleaning & Support Services	1,137	314
Mitie PFI Limited	30,185	10,968
Mytime Active	8,533	3,537
Northgate Managed Services Limited (St Georges School)	4,819	1,526
Northgate Managed Services Limited (St John's School)	6,094	2,348

Northgate Managed Services Limited (Thamesview School)	4,408	1,526
Norwest Holst Limited	18,298	6,175
NSL	29,058	10,033
Orchard Theatre Dartford	37,428	12,864
Principal Catering Consultants (Meadow Fields)	3,372	1,243
Principal Catering Consultants Limited (Our Lady of Hartley School)	1,032	332
Project Salus	56,056	28,134
Quadron Services Limited	24,623	7,884
Reliance Secure Task Management	17,006	6,662
Remade South East	11,859	3,779
Rochester Bridge Trust	77,203	14,853
Rochester Care Home Limited (Robert Bean Lodge)	12,796	3,849
Russet Homes	352,630	67,160
South East England Tourist Board	51,533	1,987
Sevenoaks Leisure Limited	159,624	76,806
Sevenoaks School	354,980	112,662
Shaw Healthcare (FM Services) Ltd	2,113	577
Sodexo Catering	6,830	2,333
Steria	51,227	18,832
Strode Park Foundation for People with Disabilities	132,054	40,838
Superclean	898	263
Amicus Horizon	261,027	21,298
Thanet Community Housing Association Limited (Orbit South)	23,844	7,357
Thanet Joint Computer Committee	15,000	0
Thanet Leisure Force	88,753	25,100
Tonbridge & Malling Leisure Trust	72,491	37,547
Town & Country Group	277,036	85,626
Veolia	30,632	9,083
Victory Care Home Limited (Nelson Court)	6,378	1,970
West Kent Housing Association	1,502,139	347,770
West Kent Water Company	7,000	0

Academies

Ace Learning - Hamstreet (ACE)	20,587	4,950
All Faiths School Academy-TTA	97,309	26,508
All Hallows Academy - WAT	11,663	3,159
Allington Primary School Academy	61,895	14,935
Amherst School Academy	58,294	15,192
Astor College (Academy)-DFA	177,341	46,880
Aylesford Primary School Academy-VIT	7,802	1,914
Barton Court Grammar School (Academy)	90,256	23,795
Barton Junior School (Academy)-DFA	33,479	8,422
Bennett Memorial Diocesan School (Academy)	160,190	43,062
Bishop of Rochester Academy	182,626	52,105
The Ebbsfleet Academy-BLT	40,466	10,435
Borden Grammar School (Academy)	97,514	25,871

Brent Primary School Academy	13,734	3,351
Brockhill Park Performing Arts College (Academy)	164,249	43,561
Brompton Academy	260,288	76,658
Canterbury High and Canterbury Primary School Academy	308,009	80,341
Castle Community College (Academy)	176,607	46,394
Chatham and Claredon Grammar School Academy	111,028	29,555
Chatham Grammar School for Boys (Academy)-TTA	131,862	37,129
Chatham Grammar School for Girls (Academy)	114,924	29,611
Chatham House Grammar School (Academy)	44,005	11,753
Chattenden Primary School Academy-PAT	30,490	8,561
Chiddingstone Primary School (Academy)	21,978	5,493
Christchurch CEP School (Academy)-CDT (Folkestone)	98,625	24,993
Christchurch COE School (Academy) Ramsgate	16,011	4,208
Clarendon House Grammar School (Academy)	31,094	8,188
Cliffe Woods Primary Academy	30,159	7,766
Cliftonville Primary School Academy	37,463	9,340
Cornwallis Academy	231,769	68,449
Cranbrook School (Academy)	268,462	69,810
Dame Janet Primary Academy-KAT	160,800	40,262
Dane Court Grammar School (Academy)	91,851	24,201
Dartford Grammar School (Boys) Academy	137,967	37,543
Dover Christchurch Academy	152,914	41,100
Dover Road Community Primary School Academy-R2K	32,808	8,483
Drapers Mills Primary Academy-KAT	143,087	36,076
Elaine Primary School Academy-WAT	91,578	24,889
Folkestone Academy (Primary)	370,885	124,156
Folkestone School for Girls (Academy)	159,359	41,583
Fort Pitt Grammar School (Academy) Trust	126,183	38,432
Fulston Manor School (Academy)	225,578	58,594
Furley Park Primary School Academy-ACE	38,458	9,609
Gateway Primary School Academy	5,670	1,407
Graveney Primary School (Academy)	22,642	5,586
Gravesend Grammar School (Boys) (Academy)	176,331	44,269
Greenacre School (Academy)	156,080	43,045
Grove Park Primary School-JWA	82,522	20,136
Hampton Primary	95,877	24,524
Hartsdown Technology College (Academy)	253,623	66,530
Herne Bay High School (Academy)	267,091	69,402
Hersden Village Primary School (Academy)-SAT	13,379	3,258
High Halstow Primary School Academy-WAT	20,195	5,664
Highsted Grammar School (Academy)	55,080	14,343
Highworth Grammar School (Academy)	151,902	39,213
Hillview School for Girls (Academy)	193,943	51,286
Homewood School (Academy)	357,096	94,637
Horizons Primary School-(KAT	24,626	6,294
Hundred of Hoo School (Academy)-WAT	193,207	55,247
Invicta Grammar School (Academy)-VIT	144,118	37,977

Isle of Sheppey Academy-OCL	409,838	97,777
John Wallis Academy	290,852	74,129
Joydens Wood Infant School (Academy)	38,106	8,626
Joydens Wood Junior School (Academy)	36,301	8,907
Rainham School for Girls-KAT	213,391	60,750
KCSP Kent Catholic Schools Partnership	33,772	10,940
King Ethelbert School (Academy)	137,994	36,572
Kingfisher Primary Academy-GAT	34,008	9,599
Knole Academy	151,919	39,866
Leigh Technology Academy	191,171	87,664
Longfield Academy	158,282	41,643
Lordswood Primary School Academy-GAT	31,022	8,135
LTA - Hartley Primary School Academy	51,715	12,799
Luddenham Primary School (Academy)	31,978	7,990
Lynsted & Norton Primary School (Academy)	23,984	5,831
Marlowe Academy	269,150	83,722
Marsh Academy	176,195	62,600
Mascalls School (Academy)	197,151	52,254
Mayfield Grammar School (Academy)	127,312	33,362
MCP- Chantry Community Academy	66,878	16,532
Meopham Community Academy-MCP	48,632	12,242
Meopham School (Academy)–SWA	91,622	23,946
Milestone Academy–LAT	282,856	72,114
Milsted & Frinsted CE Primary Schools (Academy)	10,765	2,625
Molehill Copse Primary Academy-AET	76,628	18,963
New Line Learning Academy	141,322	40,942
Newlands Primary School (Academy)-KAT	104,729	26,056
Northdown Primary School (Academy)-KAT	90,641	22,859
Norton Knatchbull School (Academy)	127,588	35,852
Oaks Academy-AET	39,133	9,859
Oakwood Park Grammar School (Academy)	139,529	38,471
Oasis Academy Hextable-OCL	74,989	21,496
Orchards Academy-KAT	89,280	23,143
Petham Primary School Academy	11,531	2,808
Phoenix Academy-FPT	59,804	16,287
Pilgrims Way Primary School Academy	26,432	6,472
Pluckley C of E Primary School Academy-KAT	29,163	7,611
Queen Elizabeth's Grammar School (Academy)	117,508	31,646
R2K- Kemsley Primary School Academy	46,541	11,872
R2K- Milton Court Primary Academy	53,537	13,229
Rainham Mark Grammar School (Academy)	121,432	34,616
Regis Manor Community Primary School (Academy) -SWA	72,658	18,014
Rochester Grammar School (Academy)	106,857	31,135
Saint George's Church of England School (Academy)	160,291	38,273
Saint Laurence in Thanet CEJ Academy-CDT	42,679	10,711
Salmestone Primary and Nursery School (Academy)-KAT	87,696	21,933
Sandwich Technology School (Academy)	181,622	46,410

Saxon Way Primary Academy-GAT	57,759	16,737
Selling CE Primary (Academy)	42,605	10,578
Shatterlocks Infant School (Academy)-DFA	49,581	12,288
Sheldwich Primary School (Academy)	43,874	10,952
Sir Joseph Williamsons Maths School Academy-WAT	158,180	42,261
Sir Roger Manwood School (Academy)	108,231	28,411
Skinner Street Primary Academy-OCL	33,871	9,480
Skinners Academy	108,472	30,695
Smarden Primary School (Academy)-KAT	11,937	3,035
South Avenue Infant School Academy	11,288	2,804
South Avenue Junior School Academy	10,300	2,579
Spires Academy	84,491	30,374
St Augustine (Academy)–WAT	121,729	32,382
St Eanswythe’s CEP School(Academy)-CDT	41,345	10,274
St James CE Primary School Academy-WAT	50,508	14,069
St James The Great Academy-AET	34,759	8,670
St John's CE Primary School (Academy)	49,596	11,924
St Joseph's Catholic Primary School (Academy)-KCP	3,217	796
St Mary's CE Primary Academy Folkestone-CDT	91,225	22,879
St Simon Stock Catholic School Academy-KCP	30,650	7,972
St Stephen's Junior School (Academy)	99,118	26,774
Strood Academy	250,499	63,755
Sturry CE Primary School (Academy)-SAT	55,243	13,716
Temple Ewell CEP School Academy	3,859	953
Temple Grove Academy-TGS	68,464	17,214
The Abbey School (Academy)	202,511	51,944
The Duke of York's Royal Military School (Academy)	270,587	85,720
The Harvey Grammar School (Academy)	132,353	35,244
The Hayesbrook School (Academy)	210,703	56,347
The High Weald Academy-BLT	114,879	29,922
The Maplesden Noakes School (Academy)	153,341	39,460
The Robert Napier School Academy-FPT	235,134	65,944
The Sittingbourne Community College (Academy)-SWA	239,986	62,010
The Skinners School Academy	15,284	4,231
The Tiger Primary School	19,140	4,657
The Towers School (Academy)	261,330	69,346
The Wells Free School	7,525	1,894
The Westlands School (Academy)-SWA	270,091	69,650
Thomas Aveling School (Academy)	170,413	49,122
Tonbridge Grammar School (Academy)	129,280	35,238
Tree Tops Academy-AET	82,934	20,986
Trinity School	7,404	1,972
Tymberwood Academy	14,617	3,899
Valley Park School (Academy)-VIT	178,561	47,764
Walderslade Girls School Academy	140,576	39,294
Warden House Primary Academy	80,347	19,618

Wayfield Primary Academy-GAT	39,850	11,698
Weald of Kent Grammar School	123,038	33,145
Wentworth Primary School (Academy)	69,848	17,785
West Malling CEP School (Academy)	51,762	12,946
Westlands Primary School (Academy)-SWA	116,627	29,011
Whitecliffs Primary College for the Arts (Academy)-DFA	51,063	12,935
Wilmington Academy-LAT	116,859	31,215
Wilmington Girls Grammar School (Academy)	96,722	25,841
Wilmington Grammar School for Boys (Academy)	116,927	30,518
Wilmington Primary School (Academy)	15,023	3,603
Woodlands Primary School Academy	177,461	49,596
Wrotham School Academy	100,021	26,869
Wye School	7,251	1,894
York Road Junior Academy-LAT	100,072	25,216

Investment Policy and Performance Report

This report sets out details of the progress made against the Fund's investment strategy during the year.

Asset Allocation

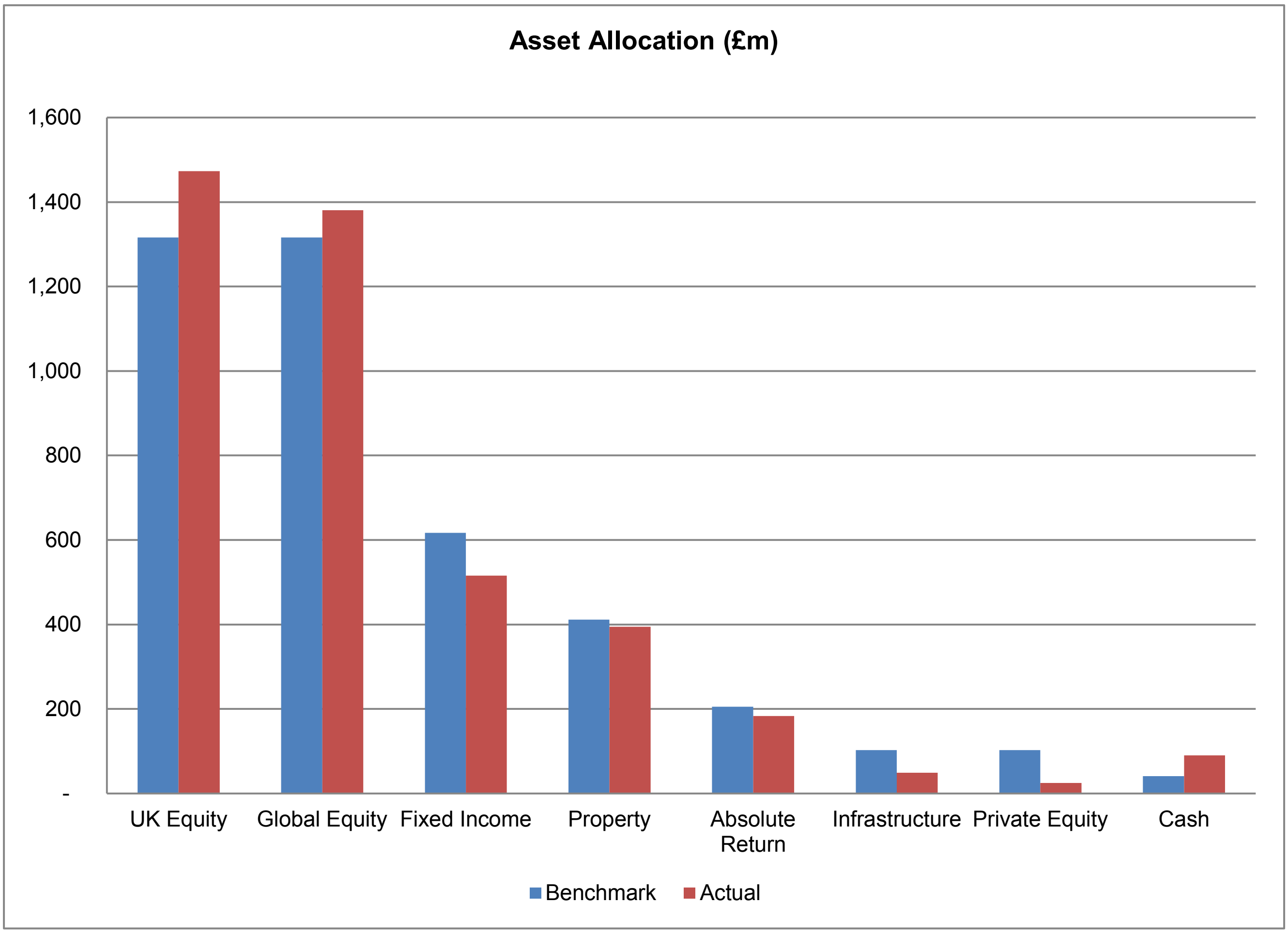
In May 2012 the Superannuation Fund Committee agreed to change the strategic allocations to Private Equity, Infrastructure and Absolute Return asset classes, reducing the allocations to Equities. During 2013-14 although the allocation between asset classes remained unchanged.

At its regular meetings during 2013-14 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 Committee decided to retain the overweight position in Equities and made additional investments where the fund was underweight in specific asset classes i.e. Property and Absolute Return. The flow of cash to the Private Equity and Infrastructure funds continued to be slow resulting in the Fund continuing to be significantly underweight in those asset classes.

The actual asset mix of the holdings compared to the strategic allocation was as follows:

Asset Class	Benchmark	Actual at 31 March		Change in 2013-14
		2014	2013	
	%	%	%	%
Equities:				
- UK	32.0	35.9	35.6	+0.3
- Global	32.0	33.5	34.8	-1.3
Total Equities	64.0	69.4	70.4	-1.0
Fixed Income	15.0	12.9	13.6	-0.7
Property	10.0	9.6	7.9	+1.7
Absolute Return	5.0	4.5	4.1	+0.4
Infrastructure	2.5	1.1	1.0	+0.1
Private Equity	2.5	0.6	0.5	+0.1
Cash	1.0	1.9	2.4	-0.5
	100.0	**100.0**	**100.0**	

Actual Asset Allocation vs Benchmark as at 31 March 2014

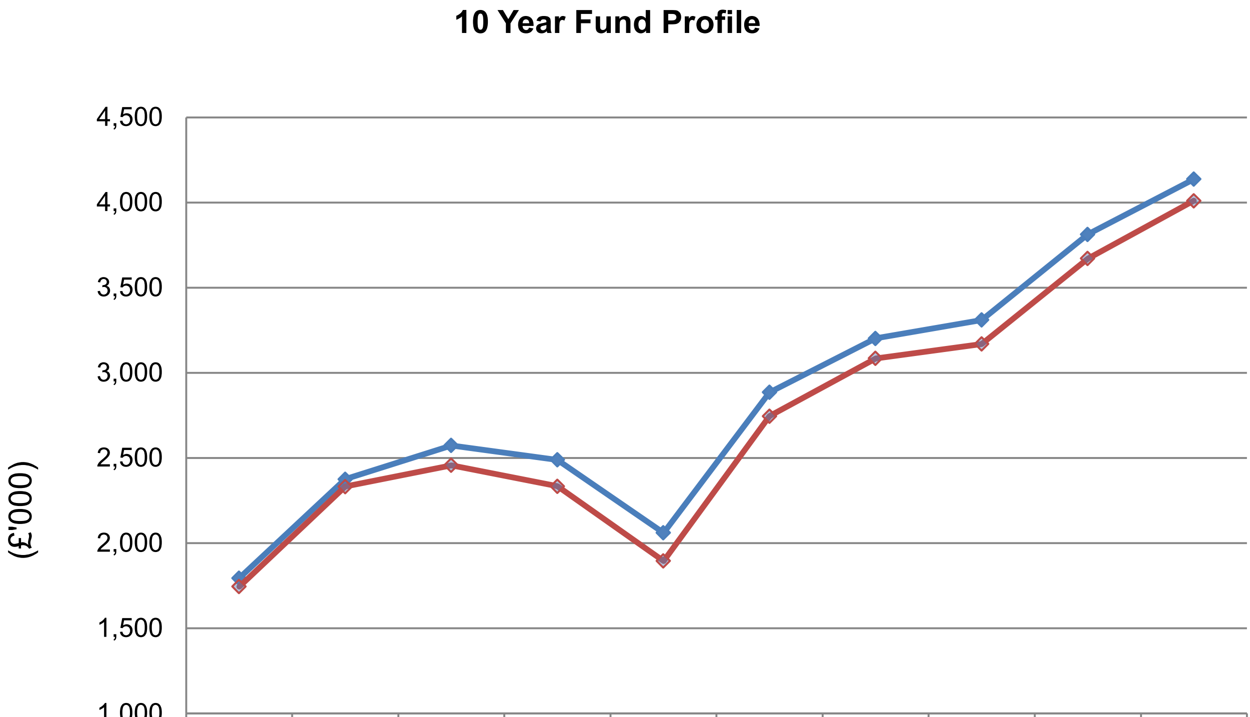


The relative performance of the Fund for 2013-14 was:

Period	Kent Fund %	WM Local Authority Universe Average Return %	Percentile Position
1 Year	8.5	6.4	12
3 Year	8.5	7.5	28
5 Year	13.7	12.7	29

Source: The WM Company. The percentile ranking expresses the Fund's performance relative to the other 88 local authority funds in percentage terms.

The Fund has doubled in value in the past five years as follows:



	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14
Net Assets	1,795	2,375	2,574	2,489	2,060	2,885	3,202	3,311	3,813	4,137
Investments	1,745	2,332	2,457	2,334	1,895	2,745	3,085	3,169	3,671	4,011

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. Direct investments are also made in pooled investment funds.

The Superannuation Fund Committee monitors the performance of the fund managers. The Committee met five times during 2013-14 and received detailed reports on the performance of each manager, and two times for extra-ordinary business. Six managers, being mainly responsible for the Fund's segregated or 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.

Following a review of the performance of the Fund's external managers and asset allocation the Committee decided to make some portfolio changes during the year including the following:

- Termination of GMO's global equity mandate (circa £240m) and investment of £200m in M&G Investments' Dividend Growth Fund.

- Termination of the Invesco UK equity mandate (circa £530m) and investment of the funds in the State Street global Advisors' (SSgA) UK equity tracker fund, topping up the existing investment.

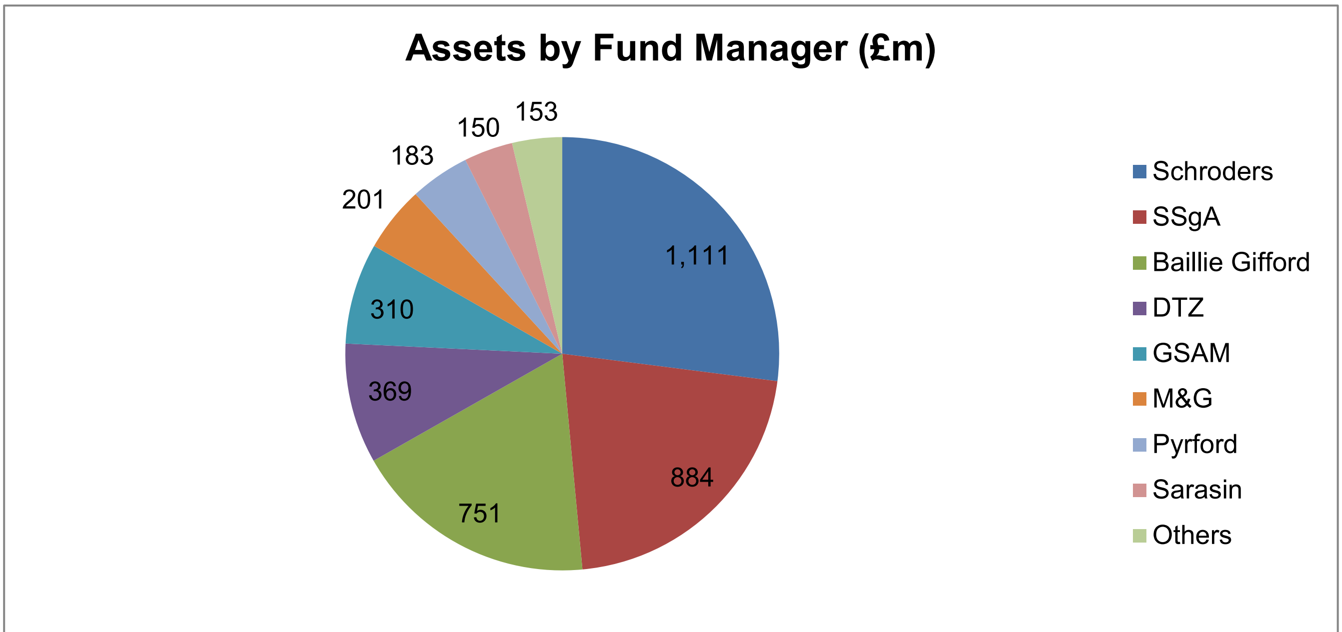
- Investments of £30m each in two Real Estate Funds managed by Fidelity Worldwide Investments and Kames Capital.

- Appointment of Sarasin and Partners as managers of a £150m segregated global thematic portfolio, funding it from the SSgA International equity tracker fund.

After the above fund manager changes the external manager structure as at 31 March 2014 was:

Manager	% of Fund
Schroder Investment Management	27.1
State Street Global Advisors (SSgA)	21.5
Baillie Gifford & Co	18.3
DTZ Investment Management	9.0
Goldman Sachs Asset Management (GSAM)	7.5
M&G Investments	4.9
BMO Investments (Pyrford)	4.5
Sarasin & Partners	3.6
Partners Group	0.9
Impax Asset Management	0.7
Fidelity Worldwide Investments	0.6
HarbourVest Partners	0.5
Henderson Global Investors	0.2
YFM Equity Partners	0.1
Kames Capital	Yet to be funded

As at 31 March 2014, the value of assets under management by fund manager was:



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

Performance Returns to 31 March 2014

The detailed fund manager and Fund investment returns are shown in the table below. The main issues to highlight are:

- The fund has outperformed its benchmark over the 1, 3 and 5 year periods
- All of the major investment managers who held active mandates throughout the 5 year period outperformed their benchmarks: Schroders UK Equities, Global Equities and Fixed Income; Baillie Gifford Global Equities; Goldman Sachs Fixed Income and DTZ Property. Invesco also outperformed their benchmark up to February 2014. These managers represented 62% of total fund assets at 31 March 2014.

Asset Class	1 Year		3 Years (pa)		5 Years (pa)	
Manager	Fund %	Bench-mark %	Fund %	Bench-mark %	Fund %	Bench-mark %
Total Fund	**8.5**	**7.1**	**8.5**	**7.6**	**13.7**	**12.9**
UK Equities						
Schroders	13.1	8.6	9.3	8.6	17.6	16.0
SSgA	9.0	8.8	8.9	8.8	16.4	16.3
Global Equities						
Baillie Gifford	7.2	7.3	9.3	7.2	17.6	14.3
M&G	n/a	n/a	n/a	n/a	n/a	n/a
Schroders	9.9	8.4	7.3	8.8	16.9	14.9
SSgA	7.6	7.6	8.2	8.2	n/a	n/a
Impax	15.0	8.4	4.0	8.8	n/a	n/a
Sarasin	n/a	n/a	n/a	n/a	n/a	n/a
Fixed Income						
GSAM	3.1	3.5	7.9	7.5	9.7	7.7
Schroders	2.2	0	4.0	3.6	5.9	4.6
Property						
DTZ	15.2	14	9	7.6	11.7	9.9
Fidelity	n/a	n/a	n/a	n/a	n/a	n/a
Kames	n/a	n/a	n/a	n/a	n/a	n/a

Private Equity						
HarbourVest	7.4	0.4	0	0.4	n/a	n/a
YFM	8.3	0.4	19.2	0.4	n/a	n/a
Infrastructure						
Partners	-2.1	0.4	-3.1	0.4	n/a	n/a
Henderson	22.1	0.4	7.5	0.4	n/a	n/a
Absolute Return						
Pyrford	-0.5	7.4	n/a	n/a	n/a	n/a

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

Environmental Social and Governance 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).

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 2013-14

	No of companies		
	For	Against	Abstain
Baillie Gifford	153	62	7
Schroders	51	5	7

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.

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's investments 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 2014 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.

With effect from 1 April 2014 members who are in the main section of the Scheme build up a pension of 1/49th of their pensionable pay. For membership built up between 1 April 2008 and 31 March 2014 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.

Prior to 31 March 2014 the amount that the employee contributed ranged from 5.5% to 7.5% with the rate being determined by the level of the member's pay. From April 2014, these contributions range between 5.5% and 12.5% of 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. Up to 31 March 2014 a scheme member needed to have total membership of at least 3 month to qualify for ill health benefits. Since 1 April 2014 this qualifying period has increased to 2 years.

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, 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, and current and former Scheme members have access to the KCC 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 of which pensioners can become members and participate in a wide variety of activities. KARF has established groups throughout the County and welcomes 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.

2013/14 Disputes considered	2013/14 Appeals upheld
3	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 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows:

1. The Fund as a whole had a funding level of 83% i.e. the assets were 83% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £784m which is lower than the deficit at the previous valuation in 2010.

2. To cover the cost of new benefits and to also pay off the deficit over a period of 20 years, a total contribution rate of 20.0% of pensionable salaries would be needed.

3. The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment (expressed either as a percentage of payroll or as a lump sum payment) required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

Assumption	31 March 2013	31 March 2014
Discount rate	6.0% p.a.	6.1% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	2.8% until 31 March 2015 then 4.6% p.a.
Mortality	The post retirement mortality tables adopted are the S1PA tables. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.	

Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so these asset values have been adjusted in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the smoothed assets used was £3,786m and this has increased over the year to an estimated £4,175m.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 87% which is an improvement on the position at 31 March 2013.

Changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have made a marginal improvement to the funding position. However, the assets have given a return of about 8% over the year which is higher than assumed at the 2013 valuation, and the funding level has seen a significant improvement as a result.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Roisin McGuire FFA

Actuary

3 July 2014

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 2013/14 is detailed below. There were 5 full meetings during the year.

	Voting rights	Total Attendances
Kent County Council Members		
James Scholes, Chairman	Full	5
Dan Daley, Vice Chairman	Full	5
John Davies	Full	3
Alan Marsh	Full	4
Richard Parry	Full	5
Charlie Simkins	Full	4
Tom Maddison	Full	4
Adrian Crowther	Full	2
Brian MacDowall	Full	5
District Council Representatives		
John Burden, Gravesham Borough Council	Full	1
Nick Eden-Green, Canterbury City Council	Full	5
Paul Clokie, Ashford Borough Council	Full	5
Medway Council Representative		
Les Wicks		5
Staff Representative		
Janet De Rochefort		4
Kent Active Retirement Fellowship		
Alice Dickenson, to February 2014		2
Mary Wiggins		4
David Coupland, from March 2014		0
Union Representative		
Stephen Richards		4

Compliance Statement

Regulation 31 of the LGPS (Administration) Regulations 2008 (Regulation 55 of The Local Government Pension Scheme Regulations 2013) requires the administering authority to prepare a Governance Compliance Statement.

<table>
<tr><th>Principle</th><th></th><th>Full Compliance</th></tr>
<tr><td>Structure</td><td>• 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.</td><td>Yes
See Statement of Investment Principles</td></tr>
<tr><td>Committee Membership and Representation</td><td>• 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, e.g. 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</td><td>Yes
Yes</td></tr>
<tr><td colspan="3">• During 2013-14 the Superannuation Fund Committee included 9 County Council members, 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.</td></tr>
</table>

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.	Yes
	• 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
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.	Yes
	• that where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.	

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.	Yes
	• 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.	

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
Details of all Committee meetings are available on the Kent County Council website including all unrestricted committee papers.		

Financial Statements

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 Local Government Pension Scheme (Miscellaneous Amendments) Regulations 2014

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 choose 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 412 employing bodies participating in the Fund and the profile of the members as at 31 March is as detailed below:

	Contributors		Pensioners		Deferred Pensioners	
	2014	2013	2014	2013	2014	2013
Kent County Council	21,033	21,384	18,342	17,993	21,225	20,887
Other employers	23,884	21,170	16,499	15,738	18,552	16,948
Total	**44,917**	**42,554**	**34,841**	**33,731**	**39,777**	**37,835**

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 2014. 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 valuation applicable to these accounts was at 31 March 2010. The last triennial valuation was at 31 March 2013 and the employer contribution rate then certified will be payable from 1 April 2014.

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	1/80 x final pensionable salary	1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3/80 x salary x final pensionable salary	No automatic lump sum
	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.	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, ill health 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

The LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 come into effect from 1 April 2014 and replace existing legislation. The LGPS 2013 Regulations set out details of the new 2014 Scheme which will apply to all membership that builds up on and after 1 April 2014. The LGPS (Transitional Provisions and Savings) Regulations 2014 serve the dual purpose of retaining the previous benefit structure for service up to 31 March 2014, and introducing new protections for members close to retirement to ensure that they are not disadvantaged by the benefit changes.

The table below shows the main provisions of the LGPS 2014 Scheme for membership compared with those of the LGPS 2008 Scheme.

	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.

Employee 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	**8.6**		**Average**	**6.5**

Statement of Responsibilities for the Statement of Accounts

Kent County Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of the Superannuation Fund's financial affairs and to ensure 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 the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the statement of accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 24 July 2014 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 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 (the Code), 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 2014.

- 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; and
- 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 2014.

Certificate of the Corporate Director of Finance and Procurement

Andy Wood, 24 July 2014

Fund Account for the year ended 31 March

	Notes	2013-14 £000's	2012-13 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	209,749	213,713
Transfers In from other pension funds	6	6,888	8,840
		216,637	**222,553**
Benefits	7	(195,374)	(192,463)
Payments to and on account of leavers	8	(8,121)	(7,591)
Administrative and other expenses	9	(3,168)	(2,922)
		(206,663)	**(202,976)**
Net additions from dealings with Members		**9,974**	**19,577**
Returns on Investments			
Investment Income	10	95,214	72,971
Taxes on Income		(3,629)	(2,686)
Profits and losses on disposal of investments and changes in the market value of investments	13a	238,566	424,192
Investment Management Expenses	12	(15,564)	(11,944)
Net Return on Investments		**314,587**	**482,533**
Net increase in the Net Assets available for benefits during the year		**324,561**	**502,110**

Net Assets Statement as at 31 March

	Notes	2014 £000's	2013 £000's
Investment Assets		4,027,898	3,680,068
Cash Deposits		85,470	108,532
Total Investments		**4,113,368**	**3,788,600**
Investment Liabilities		(694)	(1,610)
Net Investments	13	**4,112,674**	**3,786,990**
Current Assets	21	37,016	38,402
Current Liabilities	22	(12,431)	(12,694)
Net Assets available to fund benefits at the period end		**4,137,259**	**3,812,698**

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) is 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 2013-14 financial year and its position at 31 March 2014.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 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

Fund Account - revenue recognition

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.

Fund Account – expense items

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 received and from capital gains tax on proceeds of investments sold. 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, administrative, governance and oversight expenses
All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration, governance and oversight of the Fund are incurred by the 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.

Net Assets Statement

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 amounts receivable for sales and amounts payable for purchases. From the trade 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 the final day of the accounting period.

- Fixed interest securities are recorded at net market value based on their current yields.

- 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 Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2013. 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 2014.

- 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. At the reporting date the Fund only held 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 spot market exchange rates ruling at the year-end. All foreign currency transactions including income are translated into sterling at spot market exchange rates ruling at the transaction date. All realised currency exchange gains or losses are included in investment income.

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 every three years by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2014 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013. 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).

3. Judgements and Assumptions made in applying accounting policies

Item	Uncertainties	Effect if actual results differ from assumption
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 £0.54m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approx. £0.09m, and a one year adjustment to the mortality age rating assumptions would reduce the liability by approx. £0.22m.
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 £73m. 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 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

5. Contributions Receivable

		2013-14 £000's	2012-13 £000's
Employers		163,003	168,282
Members		46,746	45,431
		209,749	**213,713**
Analysis by Employer	Kent County Council	85,872	85,295
	Scheduled Bodies	112,015	115,984
	Admitted Bodies	11,862	12,434
		209,749	**213,713**

6. Transfers in from other pension funds

	2013-14 £000's	2012-13 £000's
Individual	6,888	8,840
Group	0	0
	6,888	**8,840**

7. Benefits Payable

		2013-14 £000's	2012-13 £000's
Pensions		159,925	150,713
Retirement Commutation and lump sum benefits		32,501	38,553
Death benefits		2,948	3,197
		195,374	**192,463**
Analysis by Employer	Kent County Council	91,938	89,473
	Scheduled Bodies	93,325	94,606
	Admitted Bodies	10,111	8,384
		195,374	**192,463**

8. Payments to and on account of leavers

	2013-14 £000's	2012-13 £000's
Individual transfers	8,089	7,590
Refunds of contributions	32	1
	8,121	**7,591**

9. Administrative, Governance and Oversight expenses

	2013-14 £000's	2012-13 £000's
Administration staff costs	1,673	1,695
Governance and oversight staff costs	253	487
ICT	422	227
Printing and postage costs	215	113
Actuarial Fees	230	169
Audit Fee	30	28
Legal and Other Professional Fees	137	150
Other miscellaneous expenses	208	53
	3,168	**2,922**

10. Summary of Income from Investments

	Notes	2013-14 £000's	%	2012-13 £000's	%
Fixed Interest Securities		13,707	14.4	2,135	3.0
Equities		47,089	49.4	35,411	48.5
Pooled Investments		13,676	14.4	15,343	21.0
Private Equity / Infrastructure		4,431	4.6	3,153	4.3
Property	11	14,997	15.8	12,366	16.9
Pooled Property Investments		3,845	4.0	3,934	5.4
Cash and cash equivalents		(2,752)	(2.8)	374	0.5
Stock Lending		221	0.2	255	0.4
Total		**95,214**	**100.0**	**72,971**	**100.0**

11. Property Income and Expenditure

	2013-14 £000's	2012-13 £000's
Rental Income from Investment Properties	14,997	12,366
Management Fees	(704)	(743)
Direct Operating Expenses	(2,390)	(640)
Net operating income from Property	**11,903**	**10,983**

12. Investment Expenses

	2013-14 £000's	2012-13 £000's
Investment Managers Fees	12,858	11,041
Custody Fees	149	128
Investment Consultancy Fees	108	79
Performance Measurement Fees	59	56
Property operating expenses	2,390	640
Total	**15,564**	**11,944**

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

13. Investments

	Market Value as at 31 March 14 £000's	Market Value as at 31 March 13 £000's
Investment Assets		
Fixed Interest Securities	291,458	280,104
Equities	1,518,121	1,264,169
Pooled Investments	1,734,423	1,764,778
Private Equity / Infrastructure	73,486	58,952
Property	282,117	222,027
Pooled Property Investments	111,803	78,000
Derivative contracts		
- Forward Currency contracts	0	2,666
Cash Equivalents	85,470	108,532
Investment income due	10,637	8,505
Amounts receivable for sales	5,853	867
Total Investment Assets	**4,113,368**	**3,788,600**
Investment Liabilities		
Amounts payable for purchases	0	(1,610)
Derivative contacts		
- Forward Currency contracts	(694)	0
Total Investment Liabilities	**(694)**	**(1,610)**
Net Investment Assets	**4,112,674**	**3,786,990**

13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 13 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 14 £000's
Fixed Interest Securities	280,104	62,772	(26,265)	(25,153)	291,458
Equities	1,264,169	925,359	(761,892)	90,485	1,518,121
Pooled Investments	1,764,778	1,181,315	(1,336,834)	125,164	1,734,423
Private Equity / Infrastructure	58,952	16,341	(1,830)	23	73,486
Property	222,027	46,119	(10,886)	24,857	282,117
Pooled Property Investments	78,000	52,006	(20,826)	2,623	111,803
	3,668,030	**2,283,912**	**(2,158,533)**	**217,999**	**4,011,408**
Derivative contracts					
- Forward Currency contracts	2,666	5,724,998	(5,748,925)	20,567	(694)
	3,670,696	**8,008,910**	**(7,907,458)**	**238,566**	**4,010,714**
Other Investment balances					
- Cash and cash equivalents	108,532				85,470
- Amounts receivable for sales	867				5,853
- Amounts payable for purchases	(1,610)				0
- Investment Income due	8,505				10,637
Net Investment Assets	**3,786,990**				**4,112,674**

13a. Reconciliation of movements in investments and derivatives cont'd

	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	18,106	(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 and cash equivalents	98,850				108,532
- Amounts receivable for sales	40				867
- Amounts payable for purchases	(173)				(1,610)
- Investment Income due	6,654				8,505
Net Investment Assets	**3,274,697**				**3,786,990**

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 £980,582 (2012-13, £965,610). 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 in not separately provided to the Pension Fund

14. Analysis of Investments (excluding cash and derivative contracts)

	Market Value As at 31 March 2014 £000's	Market Value As at 31 March 2013 £000's
Fixed Interest Securities		
UK		
Corporate Quoted	27,777	20,205
Overseas		
Public Sector Quoted	46,715	50,524
Corporate Quoted	216,966	209,375
	291,458	**280,104**
Equities		
UK		
Quoted	729,769	656,558
Overseas		
Quoted	788,352	607,611
	1,518,121	**1,264,169**
Pooled Funds		
UK		
Fixed Income Unit Trusts	220,607	215,772
Unit Trusts	740,666	689,334
Overseas		
Unit Trusts	773,150	859,672
	1,734,423	**1,764,778**
Property		
UK	282,117	222,027
Property Unit Trusts		
UK	101,918	63,001
Overseas	9,885	14,999
	393,920	**300,027**
Private Equity Funds		
UK	3,764	3,912
Overseas	21,197	14,465
Infrastructure		
UK	9,984	8,209
Overseas	38,541	32,366
	73,486	**58,952**
Total	**4,011,408**	**3,668,030**

14a. Analysis of 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.

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	Currency sold	Local Value	Asset value £000's	Liability value £000's
Up to one month	USD	662	GBP	(399)		(2)
Up to one month	USD	536	GBP	(325)		(3)
Up to one month	USD	2,506	GBP	(1,515)		(12)
Up to one month	GBP	47	USD	(78)	1	
One to six months	GBP	25,183	EUR	(30,585)		(103)
One to six months	GBP	1,583	CHF	(2,332)		0
One to six months	GBP	104,558	USD	(174,888)		(347)
One to six months	GBP	104,677	USD	(174,888)		(228)
					1	(695)
Net forward currency contracts at 31 March 2014						**(694)**
Prior year comparative						
Open forward currency contracts at 31 March 2013					2,666	**0**
Net forward currency contracts at 31 March 2013						**2,666**

14b. Property Holdings

	Year ending 31 March 2014 £000's	Year ending 31 March 2013 £000's
Opening Balance	**222,027**	**222,576**
Additions	46,119	18,108
Disposals	(10,886)	(24,250)
Net increase in market value	24,857	5,593
Closing balance	**282,117**	**222,027**

15. Investments analysed by Fund Manager

	Market value at 31 March 2014		Market Value at 31 March 2013	
	£000's	%	£000's	%
Baillie Gifford	751,405	18.4	699,449	18.5
DTZ	368,975	9.0	300,027	7.9
Fidelity	25,733	0.6	0	0.0
GMO	0	0.0	220,778	5.8
GSAM	310,429	7.5	296,954	7.9
HarbourVest	21,197	0.5	14,465	0.4
Henderson	9,984	0.2	8,209	0.2
Impax	30,196	0.7	26,251	0.7
Invesco	0	0.0	479,239	12.7
Partners Group	38,541	0.9	32,366	0.9
Pyrford	183,481	4.5	153,450	4.1
Sarasin	149,775	3.6	0	0.0
Schroders	1,110,966	27.1	1,005,812	26.6
SSgA	884,265	21.5	474,052	12.5
YFM	3,764	0.1	3,912	0.1
Kent County Council Investment Team	23,184	0.5	64,262	1.7
	4,112,674	**100.0**	**3,779,226**	**100.0**

All the external fund managers above are registered in the United Kingdom.

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

Asset Class / Investments	31 March 2014 £000's	% (of asset class)
Pooled Funds		
UK Fixed Income Unit Trusts		
Schroder Institutional Sterling Broadmarket 'X' Account	111,108	7
SISF Strategic Bond GBP Hedged	109,499	6
UK Unit Trusts		
MPF UK Equity Index Sub-Fund	710,903	42
Overseas Unit Trusts		
BMO Investments (Ireland PLC) (Pyrford) Global Total Return	183,481	11
M&G Global Dividend Fund	200,749	12
MPF International Equity Index Sub-Fund	173,361	10
Schroder GAV Unit Trust	185,363	11
Property Unit Trusts		
Blackrock	21,044	19
L & G Leisure	8,185	7
Fidelity	25,733	23
Hercules	9,544	9
IPIF	7,365	7
Airport Fund	10,403	9
Lothbury	8,498	8
Aurora	9,885	9
Private Equity and Infrastructure Funds		
Private Equity		
UK		
Chandos Fund (YFM)	3,764	5
Overseas		
HIPEP VI - Cayman	12,254	17
HarbourVest Partners IX	8,943	12

Asset Class / Investments	£000's	31 March 2014 % (of asset class)
Infrastructure		
UK		
Henderson Secondary PFI Fund I	6,206	8
Henderson Secondary PFI Fund II	3,958	5
Overseas		
Partners Group Global Infrastructure 2009	31,889	43
Partners Group Direct Infrastructure 2011	6,652	9

Property	Type of Property	£000's	31 March 2014 % (of asset class)
Location			
3-5 Charing Cross Road, London	Office	22,396	8
102 - 114 Wardour Street, London	Mixed Use	15,626	6
Drury House, London	Office	27,105	10
49/59 Battersea Park Road, London	Industrial	18,060	7
Hertsmere Industrial Estate, Borehamwood	Industrial	14,345	5
Walkergate, Durham	Mixed Use	14,856	5
Lakeside Village, Doncaster	Mixed Use	27,547	10

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 below.

Loan Type	Market Value £000's	Collateral Value £000's	Collateral Type
Equities	109,962	117,797	Sovereigns and Treasury Bonds and Notes
Bonds	10,463	11,089	Sovereigns and Treasury Bonds and Notes
	120,425	**128,886**	

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 2014			31 March 2013		
	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	291,458			280,104		
Equities	1,518,121			1,264,169		
Pooled Investments	1,734,423			1,764,778		
Property Pooled Investments	111,803			78,000		
Private Equity / Infrastructure	73,486			58,952		
Derivative contracts	0			2,666		
Debtors/ Receivables		32,649			37,720	
	3,745,781	**122,485**	**0**	**3,458,041**	**146,934**	**0**
Financial Liabilities						
Other Investment Balances	(694)			(1,610)		
Creditors			(12,431)			(12,694)
	(694)	**0**	**(12,431)**	**(1,610)**	**0**	**(12,694)**
Total	**3,745,087**	**122,485**	**(12,431)**	**3,456,431**	**146,934**	**(12,694)**

17b. Net Gains and Losses on Financial Instruments

	31 March 2014 £000's	31 March 2013 £000's
Financial Assets		
Fair value through profit and loss	213,709	418,599
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	**213,709**	**418,599**

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 14		31 March 13	
	Carrying value £000's	Fair Value £000's	Carrying value £000's	Fair Value £000's
Financial Assets				
Fair value through profit and loss	3,745,781	3,745,781	3,458,041	3,458,041
Loans and receivables	122,485	122,485	146,934	146,934
Total Financial Assets	**3,868,266**	**3,868,266**	**3,604,975**	**3,604,975**
Financial Liabilities				
Fair value through profit and loss	(694)	(694)	(1,610)	(1,610)
Financial liabilities at amortised cost	(12,431)	(12,431)	(12,694)	(12,694)
Total Financial Liabilities	**(13,125)**	**(13,125)**	**(14,304)**	**(14,304)**

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 fixed interest securities, quoted index linked securities and quoted 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. Investments include unquoted Unit Trusts and Property Unit Trusts.

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.

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 2014	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				
Financial assets at fair value through profit and loss	3,560,492	111,803	73,486	3,745,781
Financial liabilities at fair value through profit and loss	122,485	0	0	122,485
Total Financial Assets	**3,682,977**	**111,803**	**73,486**	**3,868,266**
Financial Liabilities				
Financial assets at fair value through profit and loss	(694)	0	0	(694)
Financial liabilities at amortised costs	(12,431)	0	0	(12,431)
Total Financial Liabilities	**(13,125)**	**0**	**0**	**(13,125)**
Net Financial Assets	**3,669,852**	**111,803**	**73,486**	**3,855,141**

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				
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	146,934	0	0	146,934
Total Financial Assets	**3,468,023**	**78,000**	**58,952**	**3,604,975**
Financial Liabilities				
Financial assets at fair value through profit and loss	(1,610)	0	0	(1,610)
Financial liabilities at amortised costs	(12,694)	0	0	(12,694)
Total Financial Liabilities	**(14,304)**	**0**	**0**	**(14,304)**
Net Financial Assets	**3,453,719**	**78,000**	**58,952**	**3,590,671**

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 diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund has a strategic allocation to Equities at 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.

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 2014-15 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	9.4%
Overseas Equities	11.5%
Global Pooled Including UK	10.5%
Bonds	4.5%
Alternatives	0.5%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of returns of our investments over a period of 3 years. The 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):

Asset Type	Value as at 31 March 2014 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	**85,470**	**0.0**	**85,470**	**85,470**
Investment portfolio assets:				
UK Equities	729,769	9.4	798,367	661,171
Overseas Equities	788,352	11.5	879,012	697,692
Global Pooled Including UK	1,846,226	10.5	2,040,079	1,652,372
Bonds	291,458	4.5	304,573	278,342
Private Equity	24,961	0.5	25,086	24,836
Infrastructure Funds	48,525	0.5	48,768	48,282
Net derivative assets	(694)	0.0	(694)	(694)
Investment income due	10,637	0.0	10,637	10,637
Amounts receivable for sales	5,853	0.0	5,853	5,853
Amounts payable for purchases	0	0.0	0	0
Total	**3,830,557**		**4,197,151**	**3,463,961**

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	9.4	731,603	581,513
Overseas Equities	607,611	11.5	682,044	533,179
Global Pooled Including UK	1,842,778	10.5	2,071,466	1,614,089
Bonds / Index Linked securities	280,104	4.5	289,235	270,972
Private Equity	18,377	0.5	19,320	17,434
Infrastructure Funds	40,575	0.5	42,657	38,494
Net derivative assets	2,666	0.0	2,666	2,666
Investment income due	8,505	0.0	8,505	8,505
Amounts receivable for sales	867	0.0	867	867
Amounts payable for purchases	(1,610)	0.00	(1,160)	(1,160)
Total	**3,564,963**		**3,955,285**	**3,174,641**

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 exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2014 £000's	31 March 2013 £000's
Cash and cash equivalents	85,470	108,532
Cash Balances	4,366	682
Fixed Interest Securities		
- Directly held securities	291,458	280,104
- Pooled Funds	220,607	215,772
Total	**601,901**	**605,090**

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 2014	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	85,470	855	(855)
Cash Balances	4,366	43	(43)
Fixed Interest Securities			
- Directly held securities	291,458	2,915	(2,915)
- Pooled Funds	220,607	2,206	(2,206)
Total change in assets available	**601,901**	**6,019**	**(6,019)**

Asset Type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
	£000's	+100bps £000's	-100bps £000's
Cash and cash equivalents	108,532	1,085	(1,085)
Cash Balances	682	7	(7)
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	**605,090**	**6,051**	**(6,051)**

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 (£233m) 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 2014 and as at the previous period end:

Currency exposure – Asset type	Asset value as at 31 March 14 £000's	Asset value as at 31 March 2013 £000's
Overseas Equities	788,352	607,611
Overseas Pooled Funds	783,035	874,671
Overseas Bonds	46,715	50,524
Overseas Private Equity and Infrastructure	59,738	46,831
Non GBP Cash	11,959	47,374
Total Overseas Assets	**1,689,799**	**1,627,011**

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 2014-15 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 2014 £000's	Change to net assets available to pay benefits +4.7% £000's	Change to net assets available to pay benefits -4.7% £000's
Overseas Equities	788,352	825,404	751,299
Overseas Pooled Funds	783,035	819,837	746,232
Overseas Bonds	47,715	48,911	44,519
Overseas Private Equity and Infrastructure	59,738	62,545	56,930
Non GBP Cash	11,959	12,521	11,397
Total change in Assets available	**1,689,799**	**1,769,218**	**1,610,377**

Currency exposure – Asset type	Asset value as at 31 March 2013 £000's	Change to net assets available to pay benefits +4.7% £000's	Change to net assets available to pay benefits -4.7% £000's
Overseas Equities	607,611	636,169	579,053
Overseas Pooled Funds	874,671	915,781	833,561
Overseas Bonds	50,524	52,899	48,149
Overseas Private Equity and Infrastructure	46,831	49,032	44,630
Non GBP Cash	47,374	49,601	45,147
Total change in Assets available	**1,627,011**	**1,703,482**	**1,550,540**

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 that may be placed with any one financial institution. The Fund's cash was held with the following institutions:

	Rating	Balances as at 31 March 2014 £000's	Balances as at 31 March 2013 £000's
Money Market Funds			
JP Morgan Sterling Liquidity Fund	AAAm	38,188	9,060
Blackrock Sterling Government Liquidity Fund	AAAm	0	63
Blackrock USD Fund	AAAm	0	16,205
Goldman Sachs Sterling Liquidity Reserve	AAAm	15,614	14,010
SWIP Global GBP Liquidity Fund	AAAm	933	6,337
Insight Sterling Liquidity Fund	AAAm	20,004	19,911
		74,739	**65,586**
Bank Deposit Accounts			
HSBC BIBCA	AA-	2,001	0
NatWest SIBA	A	112	19,835
		2,113	**19,835**

Bank Current Accounts			
NatWest Current Account	A	103	50
NatWest Current Account – Euro	A	3,310	29
NatWest Current Account - USD	A	2	0
JP Morgan Chase – Current Account	A+	8,618	23,111
Barclays – DTZ client monies account	A	950	603
		12,983	**23,793**
Total		**89,835**	**109,214**

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. 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 2014 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.

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 2013.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund and ensure that sufficient funds are available to meet all the benefits as they fall due for payment

- To ensure employer contribution rates are as stable as possible

- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return

- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so

At the 2013 valuation a maximum deficit recovery period of 20 years is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the future working life of current employees or the remaining contract period, whichever is the shorter.

The market value of the Fund's assets at the valuation date was £3,813m and the liabilities were £4,570m. The assets, therefore, represent 83% (2010 - 77%) of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rate for the average employer, including payments to target full funding has decreased from 20.8% to 20.0% of pensionable salaries. This is partly due to an anticipated reduction in the cost of future benefit accrual as well as the improvement in funding position. Where the implied rate was judged to be significantly higher than the current rate, if appropriate, rates will be increased gradually to come into line with the full recalculated rate within 3 years.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit method has been used where there is an expectation that new employees will be admitted to the Fund. The attained age method has been used for employers who do not allow 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 differences in the value of accrued liabilities and the market value of assets.

The main actuarial assumptions were as follows:

Valuation of assets	Assets have been valued at a 6 month smoothed market rate

	Expected	Actual
Rate of return on investments	6.6% p.a.	8.5% p.a.
Rate of general pay increases	3.5% p.a.	2.5% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pensions)	3.0% p.a.	3.5% p.a.

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 2014 was £6,323.3m (31 March 2013: £6,044.4m). The Fair Value of the Scheme assets at Bid Value being £4,137.26m, the Fund has a net liability of £2,186.04m as at 31 March 2014. 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 65% 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 2013 triennial funding valuation because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used	% p.a.
Salary increase rate	4.6%
Pensions increase rate	2.8%
Discount rate	4.5%

21. Current Assets

	31 March 2014 £000's	£000's	31 March 2013 £000's	£000's
Debtors				
Contributions due – Employees	3,560		3,611	
Contributions due – Employers	22,012		29,976	
Sundry Debtors	1,401		1,944	
Total External Debtors		**26,973**		**32,531**
Amounts due from Kent County Council		5,677		5,189
Cash		4,366		682
Total		**37,016**		**38,402**
Analysis of External Debtors				
Other Local Authorities		22,709		27,491
Other Entities and Individuals		4,264		5,040
Total		**26,973**		**32,531**

22. Current Liabilities

	31 March 2014 £000's	£000's	31 March 2013 £000's	£000's
Benefits Payable	5,250		3,688	
Sundry Creditors	4,417		6,957	
Prepaid income	0		1,881	
Total External Creditors		**9,667**		**12,526**
Owing to Kent County Council		2,764		2,771
Total		**12,431**		**12,694**
Analysis of External Creditors				
Central Government Bodies		179		40
Other Local Authorities		5,158		3,301
Other Entities and Individuals		4,330		9,185
Total		**9,667**		**8,042**

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 paid to the AVC provider directly by the employer and are invested separately from the Pension Fund, with Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. These amounts are included within the disclosure note figures below. Prior year figures for Prudential have been updated to reflect the final position.

	Prudential		Standard Life		Equitable Life	
	2013-14 £000's	2012-13 £000's	2013-14 £000's	2012-13 £000's	2013-14 £000's	2012-13 £000's
Value at 1 April	5,440	5,096	2,045	2,035	936	975
Value at 31 March	6,016	5,440	1,967	2,045	862	936
Contributions paid	1,162	1,215	137	132	3	4

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.

	2013-14 £000's	2012-13 £000's
The council is the largest single employer of members of the Pension Fund and during the year contributed:	65,061	66,300
A list of all contributing employers and amounts 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 Kent County Council Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,910	2,673
Year-end balance due (to) / from Kent County Council arising out of transactions between Kent County Council and Pension Fund	1,736	(168)

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 2013-14

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2014 totalled £112m (31 March 2013: £97m).

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

33 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.

Independent Auditor's report to the Members of Kent County Council on the Pension Fund Financial Statements

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

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's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Kent County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Kent County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts (24 July 2014) and the date of this statement.

Grant Thornton UK LLP

Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

Date:

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). It has been prepared in accordance with the Local Government Pension Scheme Regulations 2013 ("the Regulations").

It should be read in conjunction with the Fund's Statement of Investment Principles ("SIP").

Purpose of the Funding Strategy Statement

The purpose of the FSS is to explain the Fund's approach to meeting employers' pension liabilities and in particular:

- 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 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 FSS 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.

Purpose of the Fund

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Regulations;
- Receive contributions, transfer values and investment income;
- Accumulate and invest money received, and facilitate the management of this; and
- Meet the costs associated in administering the Fund.

Funding Objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible;
- Ensure effective and efficient management of each employer's liabilities; and
- Allow the return from investments to be maximised within reasonable risk parameters.

Key Parties

The key parties involved in the funding process and their responsibilities are as follows:

The Administering Authority

The Administering Authority for the Pension Fund is Kent County Council. The main responsibilities of the Administering Authority are to:

- Operate the Pension Fund;
- Collect and account for employer and employee contributions;
- Invest the Fund's assets ensuring sufficient cash is available to meet liabilities as and when they become due;
- Pay the benefits due to Scheme members;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the SIP after consultation with other interested parties;
- Prepare the Fund accounts.

Individual Employers

In addition to the Administering Authority, a number of scheduled and admitted bodies participate in the Fund.

The responsibilities of each individual employer that participates in the Fund, including the Administering Authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales;
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, particularly in respect of early retirement strains, in accordance with agreed policies and procedures.

Fund Actuary

- The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:
- Prepare the actuarial valuation, including the setting of employer contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations;
- Prepare the actuarial valuation, including the setting of employer contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations;
- 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.
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding Strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
- As stable an employer contribution rate as is practical.

The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements and investment income, and the employer contribution has to be adjusted to a level sufficient to maintain the pension scheme's solvency and to achieve a funding level of 100% over the longer term

The actuarial valuation involves a projection of future cash flows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

The last Actuarial Valuation was carried out as at 31 March 2013 with the assets of the Fund found to represent 83% of the accrued liabilities for the Fund.

Funding Method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new staff access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and

- The future service funding rate which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

For employers who do not, or do not appear to, allow new employees to join the Fund, the method used is known as the Attained Age Method which assesses the cost of future benefit accrual over all future years rather than just over the next year. This method generally produces a higher level of employer contribution than the Projected Unit Method but, for these closed employers, it should result in less revision in the future.

For closed limited-term employers such as some Transferee Admission Bodies, a modified version of the Projected Unit Method with a control period equal to the remaining term of the contract may be used and this usually gives results between the Projected Unit Method and the Attained Age Method.

The amounts that the employer then pays are a combination of the future service cost described above and any adjustments for the past service surplus or deficit. If there is a deficit, this adjustment will be specified as an additional contribution expressed as either a percentage of pay or as a cash amount to be paid in future.

Valuation Assumptions and Funding Model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date, using the Bank of England Inflation Curves, to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

The resultant figure used in the 2013 valuation is 3.5% per annum.

Future Pay Inflation

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions.

The assumption adopted in the 2013 Valuation is that pay increases will, on average over the longer term, exceed price inflation by 1.0% per annum. In addition, given the current economic climate, it was also assumed that pay increases would be in line with CPI for a period of 2 years.

Future Pension Increases

Pension increases are linked to changes in the level of the Consumer Price Index (or “CPI”). Inflation as measured by the CPI has historically been less then RPI due mainly to different calculation methods.

At the 2013 valuation the adjustment was 0.8% per annum to derive a CPI assumption of 2.7%

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission require it.

The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Deficit Recovery/Surplus Amortisation Periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

The deficit recovery period for each employer will depend upon the significance of the surplus or deficit relative to that employer's liabilities, the covenant of the individual employer and any limited period of participation in the Fund, and the implications in terms of stability of future levels of employers' contribution.

At the 2013 valuation, a maximum deficit recovery period of 20 years is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the future working life of current employees or the remaining contract period, whichever is the shorter.

Where an employer's contribution has to increase significantly then, if appropriate, the increase may be phased in over a period not exceeding 3 years.

Pooling of Individual Employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

Currently there are the following pools within the Fund:

- Kent County Council
- Medway Council
- Colleges
- Kent Academies
- Medway Academies
- Town and Country
- Canterbury Christchurch College
- Folkestone Town Council
- Invicta
- Russet Homes
- Romney Marsh Level Internal Drainage Board

There are also a number of connected employers within the Fund. Connected employers are those where we understand that the organisation controls all of the employers or has responsibility for all the pension obligations. Examples include parent/subsidiaries or former Transferee Admission Bodies who have ceased to participate where the legacy liabilities have been passed back to the Letting Authority. In these instances, the contribution rate has been determined as a pooled rate.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Cessation Valuations

On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an immediate exit payment. If it is not possible for all or part of the exit payment to be obtained from the ceasing employer, it may be possible for the exit payment to be paid over a period which the Administering Authority considers reasonable.

In assessing the deficit on cessation, the Fund Actuary may adopt a "minimum risk" discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation. For example, this is likely to apply in instances where there is no employer in the Fund taking responsibility for any residual liabilities of the ceasing employer. This is in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

Early Retirement Costs

The 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. The calculation of these costs is carried out with reference to a calculation method approved by the Fund Actuary.

Links with the Statement of Investment Principles (SIP)

The main link between the Funding Strategy Statement (FSS) and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return, which is expected to be achieved by the underlying investment strategy as set out in the SIP.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and Counter Measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring there are sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and employer risks.

Financial Risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

However, the Superannuation Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic Risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory Risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Employer Risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees;
- An employer ceasing to exist without having fully funded their pension liabilities; and
- New employers being created out of existing employers.

However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Monitoring and Review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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 Superannuation Fund 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
- State Street Global Advisers (SSgA)

Overseas Equities:
- Baillie Gifford & Co
- Sarasin & Partners
- Schroder Investment Management
- State Street Global Advisors (SSgA)
- M&G Investments
- Impax Asset Management

Fixed Income:
- Schroder Investment Management
- Goldman Sachs Asset Management (GSAM)

Property:
- DTZ Investment Management
- Fidelity Worldwide Investments
- Kames Capital

Private Equity:
- YFM Equity Partners
- HarbourVest Partners

Infrastructure / PFI:
- Partners Group
- Henderson Global Investors

Absolute / Total Return:
- BMO Investments (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 SSgA.

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 European investment is through the DTZ Aurora Fund.

Where investments are in pooled equity / bond funds, the fund managers have complete discretion over investments in accordance with the prospectus of the 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 to allocate to existing managers.

Monitoring of Investments

- The Superannuation Fund Committee usually meets five times a year. It receives detailed reports on the performance of the Fund as a whole and the performance of each manager. Managers attend the Committee meetings to explain their strategy and answer questions from members of the Committee.

- 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. 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's custodians, JP Morgan undertake a limited programme of stock lending to approved, UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and notes.

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

SIP - 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**	

SIP - Appendix 2

Investment Manager Mandates

Asset Class / Manager	Benchmark	Performance Target *
UK Equities:		
Schroders	Customised	+1.5%
Invesco	FTSE All Share TR	Unconstrained
SSgA	FTSE All Share TR	Passive
Global Equities:		
Baillie Gifford	Customised	+1.5%
Sarasin	MSCI All Countries World Index	+2.5-4%
M&G	MSCI All Countries World Index	+2.5-4%
Schroders	MSCI World Index NDR	+3-4%
Impax	MSCI World Index NDR	+2%
SSgA	FTSE World ex UK (Custom)	Passive
Fixed Income:		
Schroders	50% ML Composite Broad Market, 50% 3 months Sterling Libor	+2%
GSAM	Absolute Return	3.5-6%
Property:		
DTZ	IPD Pension Fund Index	
Fidelity	IPD UK PF All Balanced Property Fund Index	
Kames	IPD UK PF All Balanced Property Fund Index	
Alternatives: (Cash / Other Assets)		
Private Equity – YFM	GBP 7 Day LIBID	
Private Equity – HarbourVest	GBP 7 Day LIBID	
Infrastructure – Partners	GBP 7 Day LIBID	
Infrastructure - Henderson	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	+ 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

*Note: Where performance targets have been agreed to exceed the agreed benchmark, this applies to the average annualised return over the benchmark on a three year rolling basis.

SIP - Appendix 3

CIPFA Investment Decision Making and Disclosure in the Local Government Pension Scheme – 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
(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
(4)	Appointments to committee reflect skills, experience and continuity.	Full
(5)	Definition of roles	Full
(6)	Skills and knowledge audits of members of the Committee. Annual training plan.	Yes
(7)	Regular review of structure and composition of committee.	Yes
(8)	Consideration of establishing Sub-committees	Yes
(9)	DoF responsible for a member training plan.	Partial
(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.	Partial

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
(1)	Liability structure reflected in overall investment objectives.	Yes
(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
(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.	Partial
(11)	Committee aware of transaction costs.	Partial

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
(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
(4)	Committee should consider if the scheme specific benchmark has determined an acceptable level of risk.	Yes
(5)	A risk assessment of the valuation of liabilities and assets should be undertaken as part of the triennial valuation.	Yes
(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
(9)	Consideration of cashflows compared with liabilities.	Yes
(10)	Annual report should include a risk assessment of the Fund's activities.	Yes

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
(1)	With investment managers ensure the selected benchmark is appropriate.	Yes
(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
(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

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
(1)	SIP and annual report should include policy on responsible ownership.	Partial
(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
(5)	Awareness of UN Principles of Responsible Investment.	Yes
(6)	Consideration of "alliances" with other pension funds.	Yes

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
(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

SIP - 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 feedback voting decisions on a quarterly basis.

Shareholder Engagement

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

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

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

UN Principles of Responsible Investment

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

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

Climate Change

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

Shareholder Litigation

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

Communications Policy Statement

Introduction

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 the 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 8:30am to 5:00pm 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 8:30am to 5:00pm 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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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 9:00am to 5:00pm.
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 8:30am to 5:00pm 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 8:30am to 5:00pm 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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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.

Employers

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 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 the 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 times a year	X	X	✓

Kent County Council Pension Section	Kent County Council Treasury & Investments
Fund benefits and contributions	Fund accounting and investment
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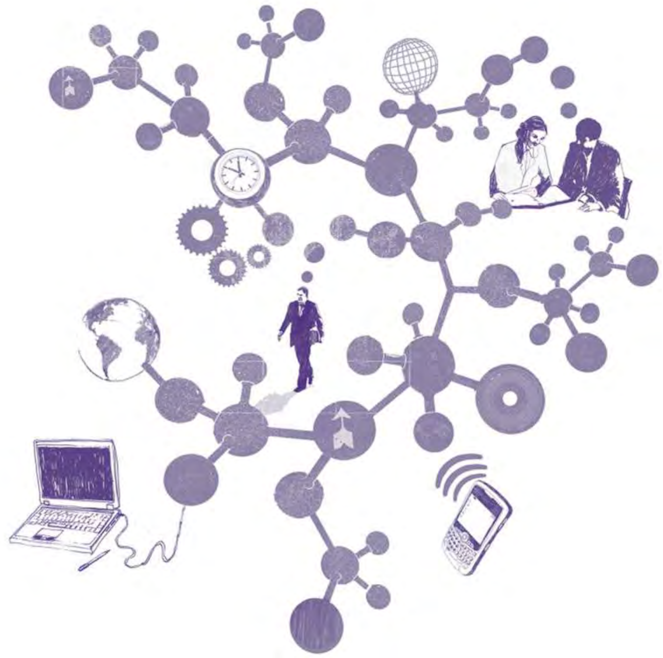
The Audit Findings Report for Kent Superannuation Fund

Year ended 31 March 2014

24 July 2014



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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 Kent Superannuation Fund's ('the Fund') financial statements for the year ended 31 March 2014. 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 whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

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

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

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

We have not identified any adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft and audited financial statements recorded net assets carried forward of £4,137,259k. We have agreed with officers, a small number of adjustments to improve the presentation of the financial statements.

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

- the financial statements provided to audit on 13 June 2014 were complete and prepared in accordance with the CIPFA's Code of Practice for Local Authority Accounting
- officers produced high quality working papers to support the financial statements and provided timely responses to audit queries
- officers agreed to amend the financial statements for all recommended accounting and disclosure changes we identified.

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 2014

Section 2: Audit findings

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. 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 30 April 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide an unqualified opinion as set out in Appendix A.

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.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption and did not consider this to be a significant risk for the Kent Superannuation Fund since: • The nature of the Superannuation Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Superannuation Fund, its fund managers and the custodian provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**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 the findings of our review of journal controls and testing of journal entries has not identified any significant issues. 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.

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Investments	• Investments not valid • Alternative investments not valid • Investment activity not valid • Fair value measurements not correct*	We have undertaken the following work in relation to this risk: • We have reconciled information provided by the fund managers, the custodian and the Superannuation Fund's own records. We confirmed the existence of investments directly with independent custodians and fund managers. • We tested purchases and sales during the year to detailed information provided by the fund managers. • 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 (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments).	Our audit work has not identified any significant issues in relation to the risk identified. We did identify one non-trivial missclassification of purchases and sales of investments. The net effect on the reported investment position was nil. The detail of this finding is set out on page 12.

* The risk for 'Fair value measurements not correct' consists of three individual risks based on the type of investment. These are;
- Fair value measurements of securities quoted using prices (unadjusted) in active markets for identical investments not correct
- Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct
- Fair value measurements priced using inputs not based on observable market data (using models or similar techniques) not correct

Audit findings against other risks (continued)

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Benefit Payments	• Benefits improperly computed/ liability understated	• We confirmed the existence of controls operated by the fund to ensure benefits are correctly calculated and that the appropriate payments are generated and recorded. • We tested the key controls identified. • We undertook substantive testing of benefit payments.	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions	• Recorded contributions not correct	• We confirmed the existence of controls operated by the fund to ensure that it identifies and receives all expected contributions from member bodies. • We tested the key controls identified. • We substantively tested contributions deductions .	Our audit work has not identified any significant issues in relation to the risk identified.
Member data	• Member data not correct	• We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the pensions administration system and the maintenance of member records. • We tested the key controls identified. • We reviewed the reconciliation of member numbers for each category by reference to starters, retirements, deferrals and other relevant changes and sought explanations for variances.	Our audit work has not identified any significant issues in relation to the risk identified.

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.	●
Judgements and estimates	• Key estimates and judgements include; – Investment valuation – Promised value of future retirement benefits	• 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 .	●
Other accounting policies	• We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	●

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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 that the fund had reclassified comparative figures for prior year expenditure within the draft fund account between 'administrative, governance and oversight expenses' and 'investment management expenses'. We have agreed with officers that the restatement was highly immaterial and therefore no restatement was required under accounting standards. Officers therefore reinstated the comparative figures used in the 2012/13 statement of accounts.

Our testing of purchases and sales of equity investments identified a number of purchase and sales transactions which had been double counted on the 'Shareholder' share management system. This was the result of recording of stock splits on that system. We have confirmed that the transactions had been recorded correctly in the general ledger. As the 'Shareholder' system was used to compile Note 13a, this has resulted in a reduction to purchases at cost of £28,652k and an reduction of sales proceeds to the same amount. The net position is therefore nil and does not affect the net assets position of the fund.

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

There are no unadjusted misstatements.

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. The matters reported here 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.

From the work we completed we did not identify any significant weaknesses in internal controls.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

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 previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
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 and confirm there were no fees for the provision of non audit services.

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 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 we are independent and are able to express an objective opinion on the financial statements.

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

Section 4: Future developments

Developments relevant to your Pension Fund and the audit

Political	Environmental	Social	Technological

Developments relevant to the next financial year

1. Financial reporting CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.	**2. Legislation** Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.	**3. Actuarial valuation** 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.	**4. Other issues** The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on their exposure to risks and their investment strategies.

Developments relevant to future periods

1. Financial reporting Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.	**2. Legislation** From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS. The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.	**3. Structural reform** DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds. The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.	**4. Other issues** 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.

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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: 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 2014 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 2013/14.

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's 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 pension fund 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

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.

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

Grant Thornton
Fleming Way
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24 July 2014

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By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 29 August 2014
Subject:	**LOCAL GOVERNMENT PENSION SCHEME-DRAFT REGULATIONS ON SCHEME GOVERNANCE**
Classification:	Unrestricted

Summary: To report the response to the draft consultation document

FOR INFORMATION

INTRODUCTION

1. On 23 June the Department for Communities and Local Government issued a consultation document on new scheme governance arrangements. These were emailed to members of the Committee, along with a draft response for the 15 August deadline.

2. The requirements that the consultation document seek to address are a consequence of the Public Services Pensions Act 2013. The legislation brings a much greater scrutiny of public sector pension scheme by the Pensions Regulator. The reasons for doing this have never been clear and the consequences are particularly unfortunate for the Local Government Pension Scheme. All the other public sector pension schemes are national schemes which are run nationally, the LGPS is of course locally administered so the CLG has to attempt to meld the Pensions Act requirements with the existing legislation relating to the LGPS, and that leads to the highly flawed proposal which we are asked to comment upon.

3. A Hymans Robertson briefing note giving their perspective on the proposals is attached in Appendix 1.

SECTION 101 COMMITTEE

4. This Committee is established under the Local Government Act 1972 and is referred to by CLG as the Section 101 Committee. There is no change at all under these regulations to the role of this Committee. So it is still responsible for the management of the Superannuation Fund Committee.

5. The Committee may wish to review its membership in light of establishing a Pension Board and this issue will be brought to a future meeting of the Committee.

NEW REQUIREMENTS

6. The new requirements are in summary:

(1) A Pension Board must be established by 1 April 2015.

(2) The role of the Pension Board is:

“to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by Regulation 106(1)(b) to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013”.

(3) The cost of the Pension Board is to be charged to the Fund.

(4) Members must include employer and member representatives in equal numbers, with a minimum membership of four.

(5) Councillor members can be appointed but must not exceed in total the employer and members.

(6) Requirements on relevant experience and needs for knowledge and understanding.

(7) The administering authority must be satisfied that no member of the board has a conflict of interest.

(8) A Scheme Advisory Board is also to be established which administering authorities have to pay for.

(9) Comments are also requested on the options for establishing the Pension Board, whether Annual General Meetings should be compulsory and whether the public sector equality duty should be an explicit part of their role.

7. When regulations are published the proposals for a Pension Board in Kent will be brought to the Committee.

PROPOSED RESPONSE

8. The proposed response is attached in the Appendix 2.

RECOMMENDATION

9. Members are asked to note the response.

Nick Vickers
Head of Financial Services
Ext 4603

briefing note

The Local Government Pension Scheme (Amendment) Regulations 2014 July 2014

Barry Mack
Partner & Head of Governance

Ian Colvin
Head of Benefit Consultancy

Draft regulations on scheme governance – consultation response

The consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme (LGPS – the scheme) which came into force on 1st April 2014. The consultation asks for comments on the draft regulations themselves and also on separate policy issues. We shall be responding to this consultation by the deadline of 15th August and our current thoughts are set out below.

Comments on the draft regulations

Local pension boards: establishment

Each administering authority is required to establish a local pension board by 1st April 2015 responsible for assisting it to secure compliance with these regulations (we believe this refers to all the regulations i.e. not just these draft governance regulations), any other legislation relating to the governance and administration of the scheme and requirements imposed by the Pensions Regulator in relation to the scheme. The local pension board is also to be responsible for assisting the administering authority to ensure the effective and efficient governance and administration of the scheme.

The draft regulations largely mirror the provisions of the Public Service Pensions Act 2013 (PSPA2013). This approach makes sense as it provides for a larger degree of flexibility in any accompanying statutory guidance, which is easier to amend than regulations.

> “we welcome the flexibility these regulations bring to administering authorities”

Combined or separate?

The regulations allow for the possibility of local authority administering authorities combining an existing pension committee established under the powers of s.101 of the Local Government Act 1972 (LGA1972) and the local pension board into a single body subject to approval by the secretary of state.

We feel that the obstacles inherent in trying to form a joint committee/board under two separate pieces of primary legislation may make the operation of a joint body impractical. In our view a Pension Board does serve a different role to that of a s.101 pension committee. The LGA1972 is designed with elected members in mind and as such, many of its provisions do not sit well with the constitution of a pension board.

We also feel that there are benefits in ensuring a clear separation between the two bodies since they appear to be conceived with different functions in mind. The s.101 pension committee will continue to exercise delegated powers on behalf of the administering authority and it will continue to receive advice and make decisions in line with those powers.

The pension board's role is to assist the administering authority in carrying out its functions and complying with legislation. It is not intended to be the primary decision making body nor second guess decisions made by the s.101 pension committee. Instead, its activities will be centred on ensuring that decisions have been made by the right people, after consideration of the appropriate factors and in accordance with policy and guidance.

We would, therefore, expect the Secretary of State to set a high bar for permitting joint bodies. Our preference would be rather than set a specific set of criteria that must be met in order to receive approval, the onus should instead be placed on authorities wishing to combine functions to demonstrate that their committee/board is fully compliant with both LGA1972 and PSPA2013 and meets the required standards of governance. Indeed, we would go as far to say that given most LGPS funds are material to the finances of their respective administering authority, councillors, answerable to their local electorate for council tax and services provided, will want to ensure that they retain the balance of power when it comes to decision making in relation to pension functions. This balance of power could be frustrated in a combined body if the requirement for equal employer and scheme member representation under PSPA2013 is to be met.

While the regulations mirror the PSPA2013 by allowing local authority administering authorities to set up a combined body, there is silence on what the position should be when the scheme manager is not a local authority. There are, of course, a small number of administering authorities where this is the case.

Does the absence of reference to non-local authorities mean that such bodies can merge their committees and boards or should the lack of a specific permission be read as meaning they cannot?

We would urge an amendment to make clear what the Department of Communities and Local Government's (DCLG's) position is on this point as the current wording is unsatisfactory. Our preference would be to bring such administering authorities onto an equal footing with the rest. Joint bodies should be permitted subject to approval by the Secretary of State, the criteria for which should be demonstration that there is no clash of legislation and that the required standards of governance could be met. We feel that these objectives might be more likely to be met by non-local authorities than by those whose committees must conform to LGA1972. This is simply for the practical reason that some of the difficulties caused by the prohibition of councillors as scheme member or employer representatives, potential issues around employees of the administering authority sitting on a s.101 committee and matters around such things as political representation are not an issue here.

Pension Board constitution

The regulations provide alternative versions of regulation 106(5), with respondents asked to choose between a version in which a pension board's constitution complies with LGA1972 and a version in which the administering authority has greater flexibility around voting rights, sub-committees, joint committees and the payment of expenses etc.

While there may appear to be benefits in adopting the LGA1972 provisions, given that they are already there and provide a ready-made framework, we do have concerns that this is not the best approach. For the reasons touched on previously we do not believe s.101 type rules are compatible with the different roles of pension boards. In particular, the membership of pension boards is required to be broader than that of s.101 pension committees. While it may be possible to amend the s.101 option to include a series of exemptions from some of the restrictions of LGA1972, the more straightforward approach is, in our view, to go with option two enabling administering authorities to prescribe their own procedures and requirements.

However, if this is the case, there do need to be some safeguards to ensure that administering authorities cannot frustrate the intention of the regulations. As a minimum, the regulations must ensure that employer and scheme representatives are given equal and full voting rights.

We agree that the expenses of the pension board should be viewed as the cost of good administration.

Local pension boards: membership

It is for the administering authority to determine the membership of the local pension board but it must have an equal number of employer and scheme member representatives with relevant experience and the capacity to represent, with a total of at least 4, and must together form the majority of the membership. A member of a local authority may not be appointed as an employer or scheme member representative.

We largely agree with this section of the regulations, however, we do have concerns over the prohibition on elected members being appointed as scheme member or employer representatives. While it is desirable to ensure a degree of separation between the existing pension committee and the new pension board, we believe this aim can best be achieved by other means. Given that in most cases councils will be the biggest employers in a fund there is a strong case for allowing elected members to represent employers on the pension board. We do think it appropriate, however, to draft the regulations in such a way as to prevent any member of the corresponding s.101 pension committee, elected member or otherwise, from also sitting on the pension board.

We are also aware that the requirement for “capacity and experience” is proving unpopular in some quarters. Capacity can be read as meaning someone having available time and resource to carry out their pension board functions or it can be taken as meaning they have knowledge and skills or the capability to acquire these. We would have thought both definitions are welcome when considering membership of a local pension board.

In the absence of a definition the term “experience” is potentially more problematic. Clearly some experience of pension schemes would be useful for a pension board member but if the expectation is set too high it will make it impossible to fulfil. This is especially so when one considers that many people in the LGPS world who have some experience might be excluded by virtue of being elected members. Whether through guidance or the regulations, we would like to see the definition of experience and capacity worded in such a way as to strike the balance between ensuring that people of suitable ability are appointed without setting so onerous a threshold such that administering authorities are unable to populate their boards.

We also note that as currently worded there is a requirement under regulations 107(2)(b)(i) and (ii) for employer representatives and member representatives to have relevant experience and capacity but that the requirement does not extend to any other members of the board. This may be a drafting error but we would like to see the requirements (whatever they ultimately turn out to be) extended to all members of the pension board.

Local pension boards: conflict of interest

This section provides that members of local pension boards must not have a conflict of interest, the administering authority must satisfy themselves of this and a member of the local pension board must provide information reasonably requested to enable this.

Clearly it is essential that members of pension boards do not have conflicts of interest and it is seen that this is the case. Local authorities have experience of managing potential conflicts in such a way that they do not become actual conflicts and we would see the management of potential conflicts on the pension board being handled similarly. Some individuals, such as the s.151 officer for an administering authority are likely to have long term, persistent conflicts that might not be manageable making their position on a pension board untenable.

We take the phrase “to be appointed” in a broad sense meaning that an administering authority can consider the conflict of interest positions of all potential candidates at the start of the appointment process.

Local pension boards: guidance

An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

In formulating such guidance, we understand that the DCLG will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator. We suggest such guidance will probably need to include the following:

- Minimum number of local pension board meetings per year
- Determining employer and scheme member constituencies for representation on the local pension board
- Local pension board reporting requirements
- Local pension board whistle-blowing mechanisms
- Complying with the Pension Regulator’s code of practice given that this was not written for LGPS funds specifically e.g. good governance around funding and investment and what it actually means for local pension boards.

Our understanding is that the regulations are drafted in such a way as to allow the gaps to be filled by various pieces of guidance. While this is a perfectly sensible approach, it is important that guidance is consistent and appropriate. We understand that the Scheme Advisory Board’s Governance and Standards sub-committee will play a role in devising guidance, elements of which will go on to become the statutory Secretary of State Guidance. Further guidance produced by the sub-committee will serve to interpret the Pension Regulator’s code of practice for LGPS funds.

There is an important role for the Scheme Advisory Board and sub-committee in tying together these various strands of guidance and ensuring a consistent and workable approach. It is important though that this remains guidance and does not reduce flexibility for an administering authority to seek to maximise the value of its local pension board through, for example, setting terms of reference wider than those covered in PSPA2013.

Scheme advisory board: establishment

The Local Government Scheme Advisory Board is established and will be responsible for advising the Secretary of State on the desirability of making changes to the scheme, providing advice to administering authorities and local pension boards in relation to effective and efficient administration and management of the scheme and its pension funds, and may determine its own procedures including voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

We welcome the fact that the regulations permit the Scheme Advisory Board to make recommendations to the Secretary of State on their own initiative rather than only upon request from the Secretary of State. It is right that the Board feels able to bring issues and recommendations to the DCLG as it sees fit, just as it is appropriate that the Secretary of State should consider all such recommendations and act upon them as he or she sees fit.

We broadly welcome the flexibility provided to the Board to establish its own procedures in respect of voting rights, sub-committees, joint committees and remuneration and expenses. However, the Board should not be able to use its power over voting rights to frustrate the desirability of equal representation between employer representatives and scheme member representatives (see below). One would also expect the Scheme Advisory Board to have the power to collate data from administering authorities needed to fulfil its duties.

Scheme Advisory Board: membership

The Chair of the Scheme Advisory Board is to be appointed by the Secretary of State, who can then appoint between a further 2 and 12 members with approval of the Secretary of State. This approval should take into account the desirability of there being equal representations of persons representing the interests of scheme employers and those of scheme members. The Chair may also appoint non-members to the sub-committees of the Board.

We note that the maximum number of 12 members of the Board is some way short of the current membership of the Shadow Advisory Board. While it may not be easy to initially pare the numbers we feel that a Board of around 12 members offers the right balance between representation and practical decision making.

Scheme Advisory Board: conflict of interest

Like local pension boards, members of the Scheme Advisory Board must not have a conflict of interest, the Secretary of State must satisfy themselves of this and a member of the Scheme Advisory Board must provide information reasonably requested to enable this.

Again, the phrase “to be appointed” can be taken to mean that anyone wanting to become a member of the Scheme Advisory Board should supply reasonably requested information in advance.

Scheme Advisory Board: funding

The Scheme Advisory Board will need to agree its budget with the Secretary of State and then determine each administering authority's share of this cost in proportion to the number of persons for which this administering authority is the appropriate administering authority.

We feel that a levy based on the total number of members i.e. actives, deferred and pensioners (including dependants in receipt of a pension) in each fund would be appropriate.

Comments on other connected policy issues

The consultation also asks for views on a number of policy areas.

Combined Section 101 committee and local pension board (Regulation 106(2)) and Establishment of local pension boards (Regulation 106(5))

Please see our response to the section Local pension boards: establishment.

Funding of the Scheme Advisory Board (Regulation 113)

Please see our response to the section Scheme Advisory Board: funding.

Joint pension boards

While we accept that the default position for pension boards is one local board per administering authority, we do not believe that joint pension boards serving more than one administering authority fund should be dismissed altogether. While it is clear that a single pension board serving a loose conglomeration of LGPS funds, who otherwise have little in common, may be less appropriate, there are cases where the joint approach may provide some advantages.

This is likely to be the case where LGPS funds already have a strong working relationship, perhaps through sharing their administration functions, and not just formal fund mergers. As local authorities continue to seek new ways of collaboration, these types of arrangements will become more common. Joint boards also provide an opportunity for a local pension board to have access to two or more different ways of working. There is something to be said for a local board getting a different view of things and being able to share best practice across administering authorities; indeed this might lead to the desirable feature of the levelling up of governance standards within the LGPS community. This might also make it easier for the Scheme Advisory Board to do its job where the alternative is dealing with 89 separate LGPS funds.

We would welcome an amendment to the regulations that permits administering authorities to share boards, but only if they first demonstrate to the Secretary of State's satisfaction the governance benefits of doing so. For example, if at least two employer and two scheme member representatives from each administering authority are on the joint pension board and the overall membership of that pension board is limited to say 17, this would prevent such a pension board from becoming unwieldy and allow it to be chaired by someone independent of the corresponding (up to 4) administering authorities.

We would add here that in our view the regulations already permit a single pension board in circumstances where a single administering authority has responsibility for a secondary closed, or sub-fund to the main fund (even where that secondary fund is served by a separate s.101 pension committee).

Annual general meetings, employer forums, etc.

We would be comfortable if the regulations specified a requirement for LGPS funds to hold an annual employer meeting or forum. We note that a number of LGPS funds already do this quite successfully with benefits to administration resulting from employer engagement.

We are less sure what is being suggested by considering the requirement for this to also be extended to "employees". Since not all scheme members are employees nor are all employees scheme members it is hard to see what the aim is. Some large funds do carry out annual scheme member meetings at which active, deferred and pensioner members participate but these are resource intensive activities and not appropriate for all funds.

We do consider scheme member engagement to be important but rather than a blanket requirement for an annual meeting we think it would be preferable to consider the wider piece around member communications. Perhaps the Scheme Advisory Board or appropriate sub-committee could consider the issue of engaging members through good communications.

Public Sector Equality Duty

We have no problem with this duty being extended to the Scheme Advisory Board.

Knowledge and Understanding

We consider the issue of capability and experience in our response to the section headed "Local pension boards: membership".

In terms of widening the requirement for Knowledge and Understanding to be extended to members of s.101 pension committees we would welcome such a move but it should be recognised that the knowledge and understanding requirement is different in nature for decision making than it is for oversight. For example, officers and advisers can ensure that decision makers are furnished with all appropriate information and advice prior to a decision being made whereas those conducting oversight would potentially require a deeper knowledge and understanding themselves.

Conclusion

We broadly welcome these regulations, and subject to some of the issues raised above, we welcome the flexibility these regulations bring to administering authorities when considering how they might get maximum value from the setting up of their local pension board.

If you have any questions on this response or any other connected matter, please contact your usual Hymans Robertson consultant or our Head of Governance at barry.mack@hymans.co.uk or our Head of Benefit Consultancy at ian.colvin@hymans.co.uk.

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APPENDIX 2

LOCAL GOVERNMENT PENSION SCHEME-DRAFT REGULATIONS ON SCHEME GOVERNANCE

KENT COUNCIL SUPERANNUATION FUND RESPONSE

This is the response of the Kent County Council Superannuation Fund Committee to the proposals.

The Committee understands the Government's wish to improve governance across public sector pension funds but whilst these proposals may have merits for part of the public sector we are puzzled to see how they will improve the governance of the LGPS.

The requirement for local boards to be established should not apply to the LGPS because it is a locally managed scheme with a publicly accountable administering authority responsible for its management.

It terms of specific comments:

The proposals that the Section 101 Committee and Board could be combined are unworkable given the stipulations on the membership i.e., a majority of scheme members and member representatives. KCC is still the administering authority and as such needs to have a majority of members on the decision making body.

If the requirement for a local Pension Board is enacted then it should be for the administering authority to determine how the Pension Board is set up. Including role, membership and frequency of meeting.

We do not agree that scheme member representatives to the level proposed is acceptable. Scheme members currently run none of the risks of the fund and their pensions are effectively guaranteed by statute. Even when employee cost sharing is implemented the financial burden will still be overwhelmingly borne by the employer. We currently have pensioner, staff and union representatives on the Superannuation Fund Committee. We agree they should be on the board but not in equal numbers to employer representatives.

We would also like to reinforce that member representation should include pension representation.

The consultation document distinguishes between employer representatives and councillor members and we would ask for clarification on this.

In local employers the normal position is that approved Council representatives on "outside bodies" are elected members not officers except in exceptional circumstances. So the existing District Council and unitary council representatives on the Committee are all elected councillors.

We would want employers to determine who should represent them-whether that's elected members or officers.

This is a very important piece of clarification.

The frequent reference to conflicts of interest is not understood. In a number of different documents there appear to be concerns over such conflicts without ever specifying what the conflicts are.

We feel that the Scheme Advisory Board is unnecessary and expensive piece of bureaucracy. There has been no effective consultation with us as a major scheme from the current shadow board.

We do not agree that the cost of this additional regulation should be met by the local Council tax payer.

Any direction on AGM’s is quite unnecessary. We run frequent pensions forums and find that suffices. We will supplement for key issues most regularly in relation to the actuarial valuation.

As the public sector equality duty applies to all public bodies we have no idea why it is necessary to consider making it part of the Pension Board’s scrutiny role?

14 August 2014

By:	Chairman Superannuation Fund Committee Corporate Director of Finance and Procurement
To:	Superannuation Fund Committee – 29 August 2014
Subject:	**BUSINESS PLANNING UPDATE**
Classification:	Unrestricted

Summary: To update on a number of operational issues

FOR INFORMATION

INTRODUCTION

1. This report is to update on the operational plans for Treasury & Investments and Pensions to highlight a number of issues.

OPERATIONAL PLANS

2. KCC changed its business planning arrangements for 2014/15 and put much greater emphasis on unit level operational plans. These for both units are attached in Appendix 1 and 2.

CUSTODY REVIEW

3. For Treasury & Investments the last year has been dominated by a number of complex investment manager transitions in late 2013 and then the preparation of the report and accounts. These activities have highlighted that a number of “back office” processes of the Fund have not changed for many years and do not in all cases now represent best practice. This is illustrated by the role of J.P. Morgan as fund custodians – the role J.P. Morgan play has changed little over the years but we are aware of funds where the custodian plays a much greater role in accounting and reporting.

4. Overall we feel that these processes need a thorough review and a project outline is attached in Appendix 3.

MEMBER TRAINING

5. Member training is very important and particularly so for new members of the Committee. Over the last year Members have taken advantage of a number of opportunities which Officers are aware of although this may not be an exhaustive list:

   - **Schroders Investment Conference September 2013** – Ms Carey, Mr Parry

   - **Schroder Trustee Training March & October 2014** – Mr Maddison, Mr MacDowell

   - **LGC Investment Conference February 2014** – Mr Davies

- **LGC Investment Summit September 2014** – Mr Scholes, Mr Davies

- **Harbourvest Private Equity Seminar** – Mr Cloke, Mr Marsh, Mr Parry, Mr MacDowell

- **IBC Investment Forum October 2014** – Mr Marsh, Mr Parry, Mr Richards

6. Members are encouraged to attend such events in future.

RECOMMENDATION

7. Members are asked to:

   (1) Note the operating plans;

   (2) Agree the Custody Services Review; and

   (3) Note the position on member training

NICK VICKERS
Head of Financial Services
Ext: 4603

2014-15 UNIT OPERATING PLAN
FOR Treasury and Investments

Please set out the annual deliverables for your Unit using the column headings and guidance notes below. Each Priority area should be consecutively numbered (Priority 1, Priority 2, etc) and each action/supporting action should have a unique number.

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 1 **Management of the Superannuation Fund**		**DESCRIPTION OF PRIORITY:** **Ensure that the administering authority role of the Superannuation Fund Committee is delivered.**	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
1.0	**Prepare the 2013-14 report and accounts in accordance with the CIPFA Code of Practice based on IFRS**	**Treasury and Investments Manager / Senior Accountant - investments**	**Unqualified opinion given by Grant Thornton with no risks identified in the AGR July 2014**
1.1	Implement investment arrangements per the decisions of the Superannuation Fund Committee	Treasury and Investments Manager / Senior Accountant - investments	Timely transfer of cash / investments at least cost and risk to the Pension Fund
1.2	Maintain accurate records of fund investments and all income due to the fund	Senior Accountant - investments	Internal Audit assessment – high assurance
1.3	Manage the procurement of custody and legal services using the LGPS procurement frameworks	Treasury and Investments Manager / Senior Accountant - investments	31 March 2015
2.0	**Implement the changes to the Governance and administration arrangements for the fund in accordance with the LGPS regulations 2013, and the Public Service**	**Head of Financial Services / Pension Manager / Treasury and Investments**	**31 March 2015**

	Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	**Manager**		
2.1	Establish the Pension Board	Head of Financial Services / Treasury and Investments Manager	31 March 2015	
2.2	Support the transformation of the Fund committee into the Scheme Manager	Head of Financial Services / Treasury and Investments Manager	31 March 2015	
2.3	Implement the Pension Regulator's proposed code of practice in respect of Employees' contributions - ensure employer and employee contributions are paid by 19th of each month	Treasury and Investments Manager / Senior Accountant - Pension Fund	31 March 2015 Internal Audit assessment – high assurance. Ongoing	
3.0	**Manage the admissions to the fund and risks related to employers in the fund**	**Treasury and Investments Manager / Senior Accountant - Pension Fund**	**Arrangements for admissions and other admitted body issues approved by the Superannuation Fund Committee**	
3.1	Manage employer risk - admission arrangements for new employers in the pension fund - arrangements re contract extensions, cessations and the renewal of bonds for admitted bodies	Senior Accountant - Pension Fund	Minimise fund risks and costs. Ongoing	
3.2	Implement the revised employer contribution arrangements in line with the results of the 2013 actuarial valuation	Senior Accountant - Pension Fund	Internal Audit assessment – high assurance.	

PRIORITY 2: **Treasury Management**		**DESCRIPTION OF PRIORITY:** **Management of the Council's cash flow, counterparty policies, borrowing and banking arrangements.**	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
4.0	**Implement the Treasury Strategy and within the risk parameters set by members maximize returns from available counterparties**	**Treasury and Investments Manager / Principal Accountant - Treasury**	**Compliance with KCC treasury management strategy**
4.1	Maintain effective Treasury Management control processes	Treasury and Investments Manager / Principal Accountant - Treasury	Compliance with CIPFA guidance. Internal Audit assessment – high assurance
4.2	Manage the Council's borrowing and refinancing of debt with support from the Council's Treasury Advisor	Treasury and Investments Manager / Principal Accountant - Treasury	
4.3	Provide a Treasury Management service to the Police and Crime Commissioner for Kent, the Kent Fire Authority and Kent Pension Fund	Treasury and Investments Manager / Principal Accountant - Treasury	
4.4	Manage the Council's relationships with its bankers	Treasury and Investments Manager / Principal Accountant - Treasury	

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PENSIONS ADMINISTRATION
Unit Operating Plan 2014-15

Issued: April 2014

2014-15 UNIT OPERATING PLAN
FOR PENSION SECTION

Please set out the annual deliverables for your Unit using the column headings and guidance notes below. Each Priority area should be consecutively numbered (Priority 1, Priority 2, etc) and each action/supporting action should have a unique number.

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 1: KCC's standards		**Description of Priority:** Compliance with KCC standards in terms of daily operation, communication and behaviours	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
1.0	Work in partnership with all departments of KCC, scheme employers, scheme members and Councillors	All pension staff	Create and maintain good/professional working relationship with all interested parties
1.1	Attendance at all relevant meetings and forums	All pension staff	Appropriate staff to attend all meetings/forums
1.2	Provision of data and communication	All pension staff	Maintain a comprehensive communications policy and respond to all requests for appropriate data
1.3	Ensure compliance with all KCC employment policies and codes of conduct	All pension staff	Staff to read and understand the requirements of the KCC employment codes of conduct

Please set out the annual deliverables for your Unit using the column headings and guidance notes below. Each Priority area should be consecutively numbered (Priority 1, Priority 2, etc) and each action/supporting action should have a unique number.

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 2: Administration of the Local Government, Police and Fire Pension Schemes		**Description of Priority:** Provide a comprehensive administration service, in respect of the LGPS, Police and Fire Pension Schemes, to all interested parties	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
2.0	The section works collaboratively with scheme employers to provide scheme members with a compliant and comprehensive administration service in accordance with all existing and future legislative regulations/requirements	All pension staff	

Please set out the annual deliverables for your Unit using the column headings and guidance notes below. Each Priority area should be consecutively numbered (Priority 1, Priority 2, etc) and each action/supporting action should have a unique number.

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 3: Communication		**Description of Priority:** To maintain a communications policy, which when fully implemented, ensures clear and comprehensive information to all clients and partners, is provided in a timely fashion.	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
3.0	Create and update the Communications policy of the Pension Section	Pension Manager	Plan agreed and published on website
3.1	Implement the communications policy as published	Pension Manager/Scheme Events & Member Communications Consultant/Employer Liaison Consultant	

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 4: Administration software system		**Description of Priority:** Select and implement new software system	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
4.0	**Move to new software system**		
4.1	Agree the selection of software provider and sign contract	HFS/PM	Contract agreed and signed
4.2	Agree project plan and implementation timetable	PM	Plan agreed and published
4.2	Identify key risks in implementation and plan to minimise and mitigate against these risks	PM	Risks identified, recorded and mitigation plans agreed
4.4	Select internal staff to deal with project implementation. Agree key tasks and deadlines	PM	Team selected and advised of key tasks and deadlines
4.5	Identify KCC (non pension) agents to be involved in implementation and agree plan to ensure collaborative process	PM	Agents identified and plan agreed to ensure collaborative actions
4.6	Plan meetings during implementation to review progress and ensure completion of transition by 1 January 2015	PM/Implementation Team and KCC partners software providers	System in place and working by 1 January 2015

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 5: New LGPS 2014		**Description of Priority:** Introduce the new LGPS 2014 scheme	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
5.0	**New LGPS 2014**		
5.1	Monitor and have working understanding of new scheme regulations	PM/Technical Consultants	
5.2	In conjunction with Pension Manager groups, partners, LGA and other interested bodies, agree impact of new regulations on scheme members, employers, Administration Authority	PM/Technical Consultants	
5.3	Communicate and train appropriate staff: • Employers • Scheme members • Pension Fund Committee • Pension Section staff	PM/Technical Consultants and Employer Liaison Team	
5.4	Change all documentation, pension website and processes as required by new scheme and elements of the Legacy Scheme for section, employers and scheme members	Technical Consultants/Employer Liaison Consultant/Scheme Events and Member Communication Consultants	
5.5	Implement the administration of the new scheme from 1 April 2014 as far as is possible under published and agreed regulations	PM/Technical Consultants/Team Managers	
5.6	Maintain and implement any necessary changes to encompass post April 2014 changes to regulations	PM/Technical Consultants/Team Managers	

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 6: Key Performance Indicators		**Description of Priority:** Meet, monitor and report achievements against KPI targets	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
6.0	**Key Performance Indicators**		
6.1	Maintain KPIs to agreed turnaround times	Team Managers	KPIs maintained within set deadlines and reported to Pension Fund Committee and Finance Dashboard as required
6.2	Report to Pension Manager monthly	Team Managers	

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PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 7: Budget Monitoring		**Description of Priority:** Monitor budget on a monthly basis and report to HFS	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
7.0	**Budget control**		
7.1	Monitor the section budget on a monthly basis and advise variances to Finance Director	PM	Meet monthly deadlines

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 8: Section structure and recruitment		**Description of Priority:** Create a structure for the section, to meet the demands of the next 5 years	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
8.0	**Section structure**		
8.1	Consider structural requirements of section to include: • Post 2014 scheme changes • System/technology changes • Employer data stream technology • Member self service	PM	Structure agreed with HFS and all new JDs agreed and evaluated by 31 March 2015
8.2	Set out resource requirements, layers of management, team sizes, communication/support requirements, training and all other elements of functional activity to fit KCC model	PM	
8.3	Agree with HFS	PM	
8.4	Prepare structure, any new JDs and proceed	PM	
8.5	Consider all vacancies/new posts in the revised section structure	PM	
8.6	Recruit to posts in 8.5 above as work demands	PM/Pension Consultants/Team Managers	

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 9: Automatic Enrolment		**Description of Priority:** Implement Automatic Entitlement	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
9.0	**Automatic Enrolment**		
9.1	Ascertain and record staging dates for all employers in the Kent Pension Fund	PM/Employer Liaison Team	Undertake to assist all employers to implement AE at their respective staging dates
9.2	Assist employers by facilitating employers actions to ensure compliance with legislation	PM/Employer Liaison Team	

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 10: Premises move		**Description of Priority:** Monitor and implement any plans to move premises under FTC	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
10.0	**Keep in view potential move to new premises**	PM	
10.1	Keep in view the plans to streamline Strategic HQ premises	PM	
10.2	In event of move for Pension Section consider the risks/challenges	PM	
10.3	Communicate risks and challenges to project team and agree plan to minimise risks	PM	
10.4	Implement an agreed plan to relocate the Pension Section, taking full account of risks identified	PM	

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 11: Facing the challenge		**Description of Priority:** Actively support the FTC initiative and communicate to staff	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
11.0	**Facing the Challenge**	PM	
11.1	Remain aware of any potential impact of FCT on Pension Section	PM	
11.2	Communicate changes to section staff as they are confirmed by senior management	PM	
11.3	Communicate and feedback to the FTC Project Team	PM	

PRIORITIES, ACTIONS, PROGRAMMES, PROJECTS			
PRIORITY 12: New Police and Fire Schemes		**Description of Priority:** Prepare for introduction of new Police and Fire schemes	
No.	Description	Accountable Officer(s) / Team(s)	Unit Performance Measures / Targets / Deadlines
12.0	**New Police and Fire Schemes 2015**		
12.1	Monitor and have working understanding of new scheme regulations	PM/Technical Consultants/TMs responsible for P&F	
12.2	Communicate and train appropriate staff: • Police and Fire Authorities • Scheme members • Pension Section staff	PM/Technical Consultants and Employer Liaison Consultant/TMs responsible for P&F	
12.3	Change all documentation, pension website and processes as required	Technical Consultants/Employer Liaison Consultant/Scheme Events and Member Communication Consultants/TMs responsible for P&F	

Custody Services Review 2014

Objective

The Investment Back-Office functions of the Kent County Council Superannuation Fund (the Fund) need to be organised in a manner so as to provide a robust and seamless flow of information with minimal duplication and /or need for manual intervention, for the production of timely and accurate management and accounting information.

In addition the quality and ease of access to data needs to be improved to assist in good decision making.

Background

The Treasury and Investments team 2014-15 business plan anticipated the procurement of custody services on behalf of the Fund using the LGPS procurement framework.

Service Providers

At the present time the Fund uses several third parties in respect of its custody, accounting and reporting services as follows:

- **JPMorgan** provides Global Custody services mainly comprising of securities contract settlements and custody, tax recovery, and voting arrangements on behalf of fund managers. JP Morgan was engaged as custodian back in 1999 and although the custody agreement has been reviewed at least twice since then, it is an open ended contract. As a matter of good commercial practice contracts should have a maximum term of 5 years. The LGPS custodian services framework was agreed in 2013 and KCC now has an opportunity to retender the contract at minimum cost.

- **KCC** Treasury and Investments undertakes the accounting for the whole Fund and specifically recordkeeping for pooled and alternative investments. The team uses the Shareholder system supported by Euraplan for recording all transactions, validating fund manager returns and providing information for upload to the Oracle accounting system. 1.5FTE's are actively involved in the KCC investments accounting function including providing an accounting service and preparation of the Fund's annual accounts.

- **Euraplan** support the Shareholder system. This has not been upgraded for a number of years and we believe there to be a more up to date version available. Euraplan also provide the independent valuation of securities, currencies and expected income.

- **The WM Company** prepares quarterly and annual performance measurement reports and League tables based on reports from all the fund managers.

Total costs for 2013-14 of the custody, accounting and reporting services provided by non KCC entities were £196,349. These do not include internal costs of the 1.5 FTE staff. A breakdown of this figure is at appendix 3.

The current arrangement has been in place for a long time while the size and complexity of the Fund has increased substantially in the last few years. Whilst the arrangement has the benefit of using inputs from several parties and thus maintains a high level of independent validation, it also involves a lot of duplication of information at several levels and hence is not the most efficient or the best use of time and resources.

The changes made to the Goldman Sachs' fixed interest segregated mandate in 2013 highlight the shortcomings of the Shareholder system as the system is not geared to record the type of transactions undertaken in that portfolio and hence involves a lot of manual intervention. Additionally, many of the Fund's recent investments have been in pooled funds eg SSgA equity funds, private equity funds and (further) investments in direct property which do not use the Fund's custody service. None of these funds require the full functionality of Shareholder, or have unique requirements not available in shareholder.

Reporting

Currently each month, on the 20th of the month following, the KCC Treasury and Investments team provide members with a brief overview of fund managers' performance for the month, and quarterly a Fund Position Statement is presented to the Committee that has been prepared by the WM Company.

Officers advised the Fund Committee at its meeting on 2 July of the need for further development of current practices primarily:

1. Improved investment management reporting to the Committee
2. Quarterly monitoring and reporting of funding levels in conjunction with Barnett Waddingham
3. Improved long term cash-flow forecasting

Fund values

As at 31 March 2014 the total value of assets under management was £4,113m of which 46.6% was invested in segregated portfolios with 4 fund managers – Schroders, Baillie Gifford, GSAM and Sarasin. The balance of the Fund was invested in pooled funds, private equity, direct property holdings and cash. A detailed breakdown of funds is at Appendix 2.

Workflow Analysis

To achieve the above objective it is important to break the current processes down to be able to identify and minimise areas of duplication and or manual intervention.

Segregated funds

1. **Custodian**
   a) The Custodian records all security activity and is the main repository of all transaction activity at source.
   b) The Custodian shares this information with the fund managers who validate it against their own records, and provide electronic transactional files to KCC for recording in the in-house Shareholder system.
2. **KCC Treasury and Investments – monthly process**
   a) The transactional files are uploaded to the Shareholder system but the vagaries of the securities, currencies and corporate actions involved often means that the records need

to be manipulated to achieve the correct result on Shareholder before the information can be used and summarised for accounting purposes.

b) Reports are run from Shareholder and reconciled with the information from Fund Managers' reports to ensure accuracy of data on the Shareholder system.

c) Shareholder reports are used to prepare journals for uploading on Oracle.

d) A holdings list is then generated from Shareholder and sent to Euraplan for independent pricing.

e) The pricing file is received from Euraplan and uploaded onto Shareholder.

f) A valuation is run on Shareholder to reconcile the holdings and the prices per Shareholder to the Fund Manager's reports.

3. KCC Treasury and Investments – quarterly process

The stock holdings per Shareholder are reconciled to the custodian's records.

Pooled funds and private equity

1. The Fund's Custodian does not provide custody services for the Pooled Funds and alternative investments such as Infrastructure and Private Equity funds as they have their own custodians / administrators
2. KCC maintains records for these investments but they do not lend themselves to recording on Shareholder in the same way as the segregated funds.

a. Independent prices are not readily available for these investments

b. Detailed Excel Spreadsheets are needed to record the Drawdowns and Distributions of Private equity and Infrastructure funds for Private Equity and Infrastructure investments

c. Memorandum records are maintained on Shareholder and updated on a quarterly basis.

Direct Property Holdings

1. DTZ the Fund's property investments manager maintains detailed records of rental activity for the properties.
2. These investments do not lend themselves to recording on Shareholder in the same way as the segregated funds.
    a. Independent prices only available annually from the property valuer. At other times estimated values are used.
    b. Detailed Excel Spreadsheets are used to record the property purchases and sales
    c. Memorandum records are maintained on Shareholder and updated on a quarterly basis.

Operational Cash

1. The Custodian does not handle the Fund's operational cash balances managed by KCC who use NatWest for banking services. The Investments in Money Market Funds are recorded using the SunGard portal. These and the HSBC FIBCA account are recorded using spreadsheets and Oracle and not recorded on Shareholder.

Performance measurement

1. The fund managers and KCC send quarterly information to The WM Company who calculate performance figures for their portfolios individually and for the Fund.
2. WM use the information for calculating returns at asset class level, as well as preparing LGPS league tables.
3. WM prepare performance reports that need to be validated by KCC against the fund managers' returns for accuracy and consistency.

Disadvantages of the current back office arrangements

As the custodian services, accounting and performance measurement / reporting services are provided by different organisations it necessitates separate flows of information to all or some of them and duplicates records. This is time consuming, requires several layers of validation and delays the production of accounting and management information.

Current services arrangements are not comprehensive

- The current custody arrangements with JPM do not cover the entire portfolio
- Shareholder does not cater to accounting for all asset classes and transactions and information needs to be maintained on alternative spread-sheets.

The source of custody and accounting information being fragmented, preparation of complete accounting and management information is complicated and time consuming.

Appendix 1 provides further details of current problems with the KCC managed Shareholder service and the custodian service provided by JP Morgan.

Options

1. KCC to continue to provide the accounting service and implement an upgraded Shareholder system. Look to transfer all non Shareholder based recordkeeping onto Shareholder and dispense with Excel spreadsheets. Using the LGPS Custody Framework either to continue to use the JPM custody service or engage a new custodian. Continue to use the performance measurement service provided by The WM Company.

   Advantages:
   - Professional services provided by providers specialising and expert in the specific activity
   - Independent validation of information by different parties
   - Reduced dependence on a single organisation for the provision of the majority of services
   - Less chance of systemic errors going un-noticed

   Disadvantages:
   - Fragmented workflow.
   - KCC to continue to manage separate accounting arrangements for direct property investments and KCC cash

2. Call off the LGPS Custody Framework for one provider of fund custody, accounting, pricing and performance measurement services and cease the use of Shareholder and WM other than for league tables.

   Advantages:
   - The Fund would have one provider of custody, accounting, pricing and performance reporting services.
   - The custodian would use the same data that it already holds for the segregated portfolio – reduced re-keying of data and risk of error.
   - Additionally, we would expect that as the custodian is already likely to be providing those services for a number of clients with the same fund managers and /or investments they could use their expertise to deal with queries / problems that arise more efficiently and economically than KCC can.

   Disadvantages:
   - Duplication of recordkeeping and performance measurement for the pooled funds and private equity investments which have their own custody / administration arrangements.
   - KCC to continue to manage separate accounting arrangements for direct property investments and KCC cash

On balance the advantages of having one provider of services far outweigh the disadvantages, given the nature and size of the fund and its direction of travel. Besides, the disadvantages can be countered by having a sound selection process for the provider of custodian services and robust processes to monitor their performance once the contract is set up.

Considerations

1. Potential for time saving for KCC staff so enabling them to undertake more value added activities.
2. Timeliness of services to be provided
3. Cost
4. Complexity of data migration and potential loss of historical data.

Conclusion

The increasing complexity of the Fund's investments, number of fund managers and value of the Fund's investments coupled with increasing regulatory requirements, is placing additional demands on the back office function. Also given increasing local authority budgetary pressures optimum use needs to be made of the KCC resource. We need to consider how it can be best used in supporting better governance and improving value added activities such as monitoring, evaluating and reporting on the Fund and fund manager performance.

The above options should be explored and evaluated so that by the end of the current financial year we would have decided upon and implemented changes in the back office functions to achieve the required efficiencies to free time for staff to support improved governance structures and processes for the Fund.

Sangeeta Surana and Alison Mings
Treasury and Investments
August 2014

Action Plan:

Refer to LGPS Framework Guidance at

LGPS Custodian Framework

	Action	Deadline
1.	Invite Euraplan to present potential improvements through Shareholder upgrades. Assess potential efficiency improvements from new functionalities.	30 September 2014
2.	Obtain Custodian Framework information from the LGPS Framework administrators to do background reading regarding the operation of the Framework. Information to be considered: Funds using the framework, services covered, cost parameters /estimates if available, mini competition procedure, monitoring information and feedback from users.	31 July 2014
3.	Decide whether Shareholder should be upgraded or not.	30 September 2014
4.	Start the process for using the Custodian Procurement Framework	15 October 2014
5.	Obtain SF committee approval to carry out a procurement process	14 November 2014
6.	Using the LGPS framework undertake a further competition as per guideline procedure	1 December 2014
7.	Appoint custodian	31 March 2015
8.	Undertake data migration if required.	April 2015 onwards

APPENDIX 1

Issues with current in house accounting arrangements/ Shareholder

1. Outdated version of Shareholder- limits certain functions now available in the newer versions/upgrades- new functionalities to be reviewed
2. Time consuming- Typically requires 2 -3 days of staff time per month for input and review of data, especially given the complexity of the GSAM portfolio as well as the alternatives.
3. Not suitable for accounting for property, Pvt Equity, Infrastructure and FOREX transactions- This requires maintaining parallel records outside shareholder and requires a substantial amount of time.
4. Euraplan pricing not always timely- Due to the delay in reconciliations and consequent delay in requesting prices, the price file does not include new securities that month and need to be manually requested an input
5. Where securities relate to different currencies from the underlying country, pricing often needs to be manually corrected and is time consuming.
6. Corporate Actions- poorly explained by Fund Managers in reporting and tricky to implement on shareholder.
7. Tax information- reconciliation with JPM/FM- could be easier by custodian as underlying data held by them. Need to explore if the accounting services provided by custodian would include Tax recs with FM's records.
8. Cash and securities position reconciliation with custodian- Shareholder does not deal with that aspect. Needs to be done manually. Need to explore if the accounting services provided by custodian would include Cash recs with FM's records.
9. Management of Period ends and data archiving- needs to be understood and implemented

Issues with JPM

In the past-

1. Account closures - Issues with Cash transfer transactions and conflicting information regarding fax numbers - lack of joint up service provision. Now addressed by giving us direct access to senior staff who can facilitate smooth delivery of services across teams within JPM.
2. Change in staff in Market opening section and hence conflicting advice provided.
3. Transition services- timing.

APPENDIX 2

	31 March 2014	
Asset Class / Investments	£000's	%
Schroder Institutional Stlg Broadmarket 'X' Acc	111,108	
SISF Strategic Bond GBP Hedged	109,499	
MPF UK Equity Index Sub-Fund	710,903	
Impax	30,196	
BMO Investments (Ireland PLC) Global Total Return-Pyrford	183,481	
M&G Global Dividend Fund	200,749	
MPF International Equity Index Sub-Fund	173,361	
Schroder GAV Unit Trust	185,363	
Fidelity Property Fund	25733	
DTZ property funds	86858	
Total pooled funds	**1,817,251**	**44.19**
Chandos Fund (YFM)	3,764	
HIPEP VI- Cayman	12,254	
HarbourVest Partners IX	8,943	
Henderson Secondary PFI Fund I and II	9,984	
Partners Group Global Infrastructure 2009	31,889	
Partners Group Direct Infrastructure 2011	6,652	
Total private equity / infrastructure	**73,486**	**1.79**
DTZ direct property	282,117	6.86
Total non-segregated funds	**2,172,854**	**52.83**
Schroders UK Equities	705,026	
Baillie Gifford Global Equities	751,405	
GSAM Fixed Income	310,429	
Sarasin Global Equities	149,775	
Total segregated funds	**1,916,635**	**46.60**
KCC cash	23,184	0.56
Total assets under management	**4,112,673**	**100.00**

APPENDIX 3

Back Office costs 2013-14

Cost	£
Custody	149,073.92
Shareholder service	4,760.31
Performance Measurement	42,514.75
Total	**196,348.98**

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 29 August 2014
Subject:	**APPLICATION FOR ADMISSION TO THE FUND**
Classification:	Unrestricted

Summary:

FOR DECISION To report on applications to join the Pension Fund and a number of admission matters.

INTRODUCTION

1. This report sets out information on applications from two organisations to become admitted bodies within the Pension Fund and advises of three terminations. The Committee's approval is sought to enter into these agreements.

2. The Committee are advised that the minutes relating to the new admission application from Compass Contract Services (UK) Limited are to be signed at the end of today's meeting to facilitate completion on the desired date.

TCS INDEPENDENT LIMITED (re Istead Rise Primary School)

3. KCC is awarding a three year contract for catering services effective from January 2014.

4. This involves the transfer of two employees from KCC to TCS Independent Limited.

5. To ensure the continuity of pension arrangements for these employees, TCS Independent Limited has made an application for admission to join the Pension Fund.

6. The admission application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £5,000 for the first year and set an employer's contribution rate of 14.5%.

7. The completed questionnaire and supporting documents provided by TCS Independent Limited has been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the application.

COMPASS CONTRACT SERVICES (UK) LIMITED

8. Fort Pitt Grammar School Academy Trust is awarding a five year contract for catering services.

9. This involves the transfer of 10 employees from Fort Pitt Academy Trust to Compass Contract Services (UK) Limited.

10. To ensure the continuity of pension arrangements for these employees, Compass Contract Services (UK) Limited has made an application for admission to join the Pension Fund.

11. The admission application has been made under Schedule 2 Part 3 regulation1(d)(i) of the Local Government Pension Scheme Regulations 2013, 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 £62,000 for the first three years and set an employer's contribution rate of 23.2% for a close agreement or 22.3% for an open agreement.

12. The completed questionnaire and supporting documents provided by Compass Contract Services (UK) Limited has been examined by Officers to ensure compliance with the Local Government Pension Scheme Regulations, and Legal Services have given a favourable opinion on the application.

CAPITA IT MANAGED SOLUTIONS LIMITED (regarding St John's School, Gravesend)

13. Capita Managed IT Solutions is a Transferee Admission Body in the Kent Fund following the transfer of staff from KCC.

14. This contract will expire on 31 August 2014 and Capita will become an exiting employer. We will then obtain an actuarial valuation which will show what, if anything, is payable to the Pension Fund.

15. It is proposed that we enter into a termination agreement with Capita.

PIE FACTORY MUSIC

16. Pie Factory Music is a transferee admission body who joined the Pension Fund on 1 February 2014 following the transfer of one member of staff from KCC.

17. As this member opted out of the LGPS on 1 February 2014 Pie Factory Music has become an exiting employer. The actuary has confirmed there is nothing owning to the Pension Fund and it is proposed that we enter into a termination agreement with the company.

AVENUES TRUST

18. The Avenues Trust is 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.

19. At their meeting on 30 August 2013, the Committee agreed that should Avenues Trust give notice to terminate their admission agreement, we may enter into a termination agreement with them on the basis of the Closed Fund approach. On 29 January 2014 Avenues Trust informed us that due to the prohibitive costs involved in obtaining a Bond of the required level, they would continue in the Pension Fund.

20. The Committee also asked for an annual update on the situation.

21. On 23 May 2014, following receipt of their annual FRS17 accounting report, Avenues Trust requested an updated cessation report based upon current market conditions assuming a termination date of 31 October 2014.

22. This report shows a significant improvement in the funding position, showing an estimated exit payment being due of £21,000.

23. Avenues Trust have now given notice to terminate their admission agreement as at 31 October 2014.

24. We will now obtain an actuarial valuation which will show what, if anything, is payable to the Pension Fund.

25. It is proposed that we enter into a termination agreement with Avenues Trust.

RECOMMENDATION

26. Members are asked to agree:

(1) to the admission to the Kent County Council Pension Fund of TCS Independent Limited (re: Istead Rise Primary School);

(2) to the admission to the Kent County Council Pension Fund of Compass Contract Services (UK) Limited;

(3) that a termination agreement may be entered into in respect of CAPITA IT Managed Limited (re: St John's School, Gravesend);

(4) that a termination agreement may be entered into in respect of Pie Factory Music;

(5) that a termination agreement may be entered into in respect of Avenues Trust;

(6) agree that the Chairman may sign the minutes of today's meeting relating to recommendation (2) above at the end of today's meeting, and

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

Steven Tagg
Treasury and Investments
Ext: 4625

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