SUPERANNUATION FUND COMMITTEE

Friday, 16th September, 2016

10.00 am

Medway Room, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 16th September, 2016 at 10.00 am	Ask for:	**Denise Fitch**	
Medway Room, Sessions House, County Hall, Maidstone	Telephone:	**03000 416090**	

Please note: that the unrestricted part of this meeting may be filmed by any member of the public or press present.

By entering into this room you are consenting to being filmed. If you do not wish to have your image captured please let the Clerk know immediately.

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 (Pages 5 - 8)

A4 Motion to exclude the Press and Public

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)

B. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

B1 Baillie Gifford (Pages 9 - 10)

B2 Fund Structure (Pages 11 - 12)

B3 LGPS Pooling (Pages 13 - 62)

UNRESTRICTED ITEMS

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

C1 Report and Accounts 2015/16 (Pages 63 - 202)

C2 Fund Position Statement (Pages 203 - 212)

C3 Actuarial Valuation Update (Pages 213 - 226)

C4 Employers Update (Pages 227 - 232)

C5 Date of next meeting

The next meeting of the Committee will be held on Friday 4 November 2016 at 10.00am

Peter Sass
Head of Democratic Services
03000 416647

Thursday, 8 September 2016

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 B1.

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 24 June 2016.

PRESENT: Mr J E Scholes (Chairman), Mr D S Daley (Vice-Chairman), Cllr J Burden, Cllr P Clokie, Mr D Coupland, Mr J A Davies, Mr T A Maddison, Mrs S Lysaght, Mr R A Marsh, Mr R J Parry, Mr C Simkins, Mrs Z Wiltshire, Mrs M Wiggins and Cllr L Wicks.

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

IN ATTENDANCE: 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 Finance and Procurement).

UNRESTRICTED ITEMS

169. Membership
(Item A2)

The Chairman welcomed Mrs Sophy Lysaght, the new UNISON representative on the Committee to the meeting.

170. Minutes
(Item A4)

RESOLVED that the minutes of the meeting held on 18 March 2016 are correctly recorded and that they be signed by the Chairman.

171. Motion to exclude the Press and Public
(Item A5)

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.

EXEMPT ITEMS

172. DTZ Investors
(Item B1)

(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 UK property portfolio which they managed on behalf the Kent County Council Superannuation Fund. They answered questions from Committee members on the Annual Report and also their report for the first quarter of 2016.

(2) The Chairman thanked Mr O'Gorman and Ms Linacre for the portfolio's consistent over performance and asked them that, if any opportunities for further investment in the portfolio arose, to raise this initially with Mr Vickers.

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

(Mr O'Gorman and Ms Linacre left the meeting.)

173. Schroders
(Item B2)

(1) The Chairman welcomed Mr Troiano and Ms Noffke to the meeting. He invited them to present their report and to focus on the UK equities mandate that they manage for Kent County Council Superannuation Fund. They responded to questions of detail from Members on the performance of the investments that they managed.

(2) RESOLVED that the presentation and the responses to the Committee's questions be noted.

(Mr Troiano and Ms Noffke left the meeting)

UNRESTRICTED ITEMS

(Meeting open to the public)

174. Fund Position Statement
(Item C1)

(1) Mr Vickers introduced a report which provided a summary of the Fund asset allocation and performance during the last quarter, 12 month returns and three year returns.

(2) In response to questions from members Mr Vickers expressed the view that the Committee did not need to consider any changes to asset allocation until the second half of 2017. He also explained how the allocations of funds to managers would operate under the new pooling arrangements.

(3) RESOLVED that the report be noted and that no change be made to asset allocation.

175. Fund Structure
(Item C2)

(1) Mr Vickers presented a report on a number of issues relating to the structure and management of the Fund including DTZ investors, WM performance service and a passive equities framework update.

(2) RESOLVED that the positions on DTZ Property and the WM performance management service be noted and that participation in the passive equities framework be endorsed.

176. LGPS Pooling
(Item C3)

(1) Mr Vickers introduced a report updating the Committee on progress on the pooling work and recommended a process for approving the ACCESS Pool submission.

(2) Mr Vickers confirmed that if the Kent Fund decided not to enter into pooling arrangements then the Secretary of State could impose a solution. Therefore, as previously agreed, work had been carried out to achieve the best pooling option for the Kent Fund.

(3) Mr Vickers answered questions on the fund managers currently used by other ACCESS authorities. Some of these fund managers, such as Ballie Gifford, were common to a number of ACCESS authorities including Kent. He also explained how the Committee would select new fund managers when it was part of ACCESS and how the list of fund managers for the ACCESS pool would be established.

(4) RESOLVED that;

(a) an annual subscription of £10,000 to the CEM benchmarking service be approved, and

(b) the finalising of the 15 July ACCESS Pooling submission and issues associated with the development of the Pool, be delegated to the Corporate Director of Finance & Procurement in consultation with members of the Committee.

177. Fund Employment Matters
(Item C4)

(1) Ms Mings and Mr Tagg introduced a report which set out information on Fund employers, applications to join the Fund and a number of other admission matters.

(2) In response to a question on exit liabilities and how many of these were covered by Bonds, Mr Vickers undertook to submit an exempt report to the Committee on which organisations provided a Bond and any alternative arrangements

(3) Ms Mings undertook to contact Mr Maddison regarding his question on protection under TUPE.

RESOLVED that the employer report be noted; and

(a) the admission to the Kent County Council Superannuation Fund of YBC Cleaning Services Limited be approved; and

(b) the admission to the Kent County Council Superannuation Fund of Compass Contract Services (UK) Limited trading as Chartwells be approved; and

(c) a termination agreement be entered into with Kent University; and

(d) a termination agreement be entered into with Principal Catering Consultants Limited (re Ursuline College); and

(e) Deeds of Modification may be used to effect name changes for Transferee Admission Bodies; and

(f) a Deed of Modification be entered into with Epic Trust to reflect their name change; and

(g) a termination agreement be entered into with Principal Catering Consultants Limited; and

(h) a termination agreement be entered into with Cater Link Limited; and

(i) new admission agreements be entered into with Principal Catering Consultants Limited and Cater Link Limited in relation to the KCC Schools Support Services contracts subject to approval by Legal Services; and

(j) the Chairman may sign the minutes for recommendations (b), (c), (g), (h) and (i) at the end of today's meeting; and

(k) once legal agreements have been prepared for (b) to (i) above the Kent County Council seal can be affixed to the legal documents

178. Date of next meeting
(Item C5)

It was noted that the next meeting of the Committee would be held on Friday 16 September 2016.

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

To: Superannuation Fund Committee – 16 September 2016

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

Classification: Unrestricted

Summary: To present the Report and Accounts of the Superannuation Fund for 2015/16 and the External Audit Findings Report.

FOR DECISION

INTRODUCTION

1. A draft copy of the Superannuation Fund Report and Accounts for the year ended 31 March 2016 is attached.

2. The external auditor's Audit Findings Report which wholly relates to the accounts is also attached. The audit of the accounts is complete and an audit opinion was issued on 21 July.

3. The Fund's Accounts were approved by Governance and Audit Committee on 21 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 Statement

(2) Note the content of the Accounts for 2015/16

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

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

(5) Note the position with regard to Governance and Audit Committee.

Alison Mings
Treasury and Investments Manager
03000 416488

Background documents – none

This page is intentionally left blank

Kent County Council Superannuation Fund Report and Accounts 2016

www.kentpensionfund.co.uk

Contents

Introduction and Overview

Chairman's foreword

The last year has seen a steady increase in the value of the Fund with an overall investment return of +1.2%, well above the benchmark figure of +0.5%. The 3 year return of +6.9% is ahead of both the benchmark and return used by the actuary in the 2013 actuarial valuation. The value of the Fund at 31 March 2016 was £4,598m, an increase in the year of £58.5m.

While in 2015-16 returns on UK and Global Equities were negative the Fund has again benefitted from very strong returns on its commercial property investments with the direct property portfolio returning +15.2%.

The very significant new issue for the Fund in the year was the emergence of the Government's proposals for the current 89 Local Authority funds to pool their investments into 5 or 6 large funds. The desire for change is driven by the Government's wish to see reductions in the cost of managing the LGPS.

The Kent Pension Fund has joined a collaboration of central, eastern and southern shires (ACCESS) alongside 10 other funds. The ACCESS pool has assets of some £33bn, 900,000 scheme members and 3,000 employers. Of the Committee's current responsibilities all that will change is that investments will be made jointly with the other funds. I have been meeting monthly with the other Chairmen and we are united as a group in having the interests of our pensioners, active members and employers as our overriding priority.

James Scholes
Chairman – Superannuation Fund Committee

Introduction and Overview

The Superannuation Fund Committee

The Superannuation Fund Committee exercises all of the powers and duties of Kent County Council (KCC) in relation to its functions as Administering Authority for the Fund. 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 2015-16 is detailed below. There were 5 full Committee meetings during the year.

Committee Members	
James Scholes, Chairman	Kent County Council
Dan Daley, Vice Chairman	Kent County Council
John Davies	Kent County Council
Alan Marsh	Kent County Council
Richard Parry	Kent County Council
Charlie Simkins	Kent County Council
Tom Maddison	Kent County Council
Adrian Crowther (until October 2015)	Kent County Council
Brian MacDowall (until 1 June 2015)	Kent County Council
Zita Wiltshire (from 1 June 2015)	Kent County Council
John Burden	Gravesham Borough Council
Nick Eden-Green	Canterbury City Council
Paul Clokie	Ashford Borough Council
Les Wicks	Medway Council
Mary Wiggins	Kent Active Retirement Fellowship
David Coupland	Kent Active Retirement Fellowship
Stephen Richards	Unison Representative
Vacancy	Kent County Council

Local Pensions Board

The Local Pensions Board for Kent was established in April 2015 in accordance with the relevant Government Legislation.

The membership of the Board during 2015-16 is detailed below. There were 2 full Board meetings during this year.

Board Members	
Susan Carey, Chairperson	Kent County Council
Derek Smyth	Kent County Council

Introduction and Overview

Board Members	
David Monk	Shepway District Council
Alison Kilpatrick	Kent and Medway Fire and Rescue Service
Joe Parsons, Vice Chairperson	Medway Council Representative
Sophy Lysaght	Trade Union Representative
John Peden	Staff Representative
David Coupland	Kent Active Retirement Fellowship Representative

Kent County Council Officers and Others

The day to day operations and management of the Fund and implementing the decisions of the Superannuation Fund Committee are delegated to the KCC Section 151 officer and his staff. 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.

Senior Officers	
Andy Wood	Corporate Director of Finance and Procurement
Nick Vickers	Head of Financial Services
Alison Mings	Treasury and Investments Manager
Barbara Cheatle	Pensions Manager

Fund Managers
Schroder Investment Management
Woodford Investment Management
Baillie Gifford & Co
Sarasin & Partners
State Street Global Advisors (SSgA)
M&G Investments
Impax Asset Management
Goldman Sachs Asset Management (GSAM)
DTZ Investment Management
Fidelity Worldwide Investments
Kames Capital
YFM Equity Partners
HarbourVest Partners
Partners Group Management II S.ar.l
Henderson Global Investors
BMO Investments (Pyrford)
Kent County Council (Internal Cash)

Introduction and Overview

Further details of the Fund Manager mandates can be found in the Statement of Investment Principles (SIP).

Other Organisations providing services to the Kent Fund

Service	Organisation
Custodian	JP Morgan Chase to 1 November 2015 Northern Trust Company from 2 November 2015
Banker	National Westminster Bank
Fund Actuary	Barnett Waddingham
AVC Providers	Equitable Life Assurance Prudential Assurance Company Standard Life Assurance
Investment Consultant	Hymans Robertson
Auditors	Grant Thornton
Legal Advisors	Kent County Council Legal Services
Performance Measurers	The WM Company Investment Property Databank
Administration software provider	Aquila Heywood

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.

Risk register
The Committee regularly reviews the Fund's key risks and the main risks identified at its last review in March 2016 are:

- Proposals for Pooling Investments;
- Fund investment return below that assumed by the actuary;
- Employer outsourcing – admission bodies;
- Admission agreement/scheduled bodies closed to new members;
- Pension admin team change of premises.

Arrangements have been agreed for the management of these risks in order to mitigate their impact on the Fund and a copy of the Fund's risk register is included in the SIP. The SIP is updated as necessary to reflect changes in activity and market conditions.

Financial, demographic, regulatory, and employer risks
Details of the counter measures in place for financial, demographic, regulatory, and employer risks are included in the Fund's Funding Strategy Statement (FSS). The FSS is reviewed annually.

Introduction and Overview

Operational risks
Kent County Council's Internal Audit Section conducts regular audits on the management of risk in the Pension Fund. During 2015-16 they undertook reviews of KCC Pensions Administration section and of KCC's arrangements for recording Employer and Employee contributions to the 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.

Investment risk management
Further details of the Fund's policy on investment risk management are disclosed in note 18 to the Financial Statements.

Assurance over third party operations is provided by investment managers who are required to provide annual AAF 01/06 reports and ISAE 3402 reports.

Fund Overview

Financial Performance
During 2015-16 the Fund increased in value by £58.5m (1.3%) as the result of a net return on investments of £50.5m, (1.1%), and net inflow in respect of dealings with members, taking account of transfers-out, of £8m. Group Transfers out include a payment of £0.993m to the London Pension Fund Authority in respect of the Valuation Tribunal Service group transfer effective from 1 July 2015.

Contributions from Employers and Members increased by £3.2m from 2014-15 reflecting the increase in contributing members. Benefits Payable also increased in 2015-16, by £2.9m partly due to the increase in pensioner members of 1,343 and increase in pensions payments of 1.2% based on CPI as at September 2014.

In 2015-16 management costs, including investment management expenses, were £17.8m, a small increase on 2014-15 (£16.5m). The 2015-16 Investment management fees reflected the increased value of assets under management and additional spend on directly owned properties. Administration and other costs were lower in 2015-16 mainly due to lower actuarial costs and lower staffing costs.

3 Year Cash Flow Forecast
The table below compares actual cashflows with those projected at the 2013 triennial valuation.

	2013-14	2014-15	2015-16
	£m	£m	£m
Projected at 31 March 2013			
Contributions net of pension payments	10	-8	-11
Investment Income net of expenses	76	84	89
Cash Flow	86	76	78
Actual			
Contributions net of pension payments	13	-55	8

Introduction and Overview

	2013-14	2014-15	2015-16
	£m	£m	£m
Investment Income net of expenses	73	74	90
Cash Flow	86	19	98

The Triennial Valuation forecast a fall in contributions net of payments over the 3 year period to 31 March 2016 however actual net income has increased. The higher income from Employers and Members was due to:

1. An additional 5,000 contributing Members partly as a result of the auto-enrolment of new members;
2. Employers' contribution rates were adjusted from 1 April 2014 to take account of revised rates per the 2013 triennial valuation;
3. Members' contributions were increased from 1 April 2014 in accordance with the 2013 LGPS Regulations.

The number of pensioners also increased but lower than forecast CPI resulted in lower actual pension payments. In 2014-15 there was a one off transfer payment of £63.7m to the Greater Manchester Pension Fund which resulted in negative cashflows from dealing with Members in that year. Investment income was mainly in line with forecast except in 2014-15 where some private equity distributions were attributed to return of capital.

Management Expenses
The following table compares actual Administration, Governance and Oversight costs against the budget for 2015-16

	Actual	Budget
	£000's	£000's
Pensions Administration	2,111	2,529
Fund Administration	302	245
Administration expenses	**2,413**	**2,775**
Actuarial Fees	283	331
Actuarial fees directly recovered from employers	-275	-302
Investments and Accounting	191	180
Tax consultants	31	28
Investment Consultants	21	63
Performance Measurement Fees	42	39
Audit fee	31	31
Governance and Oversight Expenses	**324**	**369**

Actual Administration expenses were overall lower than budgeted due to savings in staff costs. Governance and Oversight expenses were below budget reflecting actual demand for these services.

Introduction and Overview

Amounts due from Employers

During 2015-16 KCC continued to streamline the process for collecting contributions from employers resulting in £209m (99%) (98% in 2014-15) of total contribution income being received by the due date of the 19th of the month following. At 31 March 2016 amounts outstanding were £20m (31 March 2015 £24m). The option to levy interest on overdue contributions was not exercised.

Employers

During 2015-16 the number of Employers in the Fund increased to 570 mainly as a result of the conversion of schools to academies and the admission to the Fund of more commercial organisations due to the outsourcing of service provision by local authorities.

The following table shows a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (i.e. with active members) and ceased (i.e. with no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled Body	286	170	456
Admitted Body	66	48	114
Total	**352**	**218**	**570**

Fund Trends

A summary of the Fund's key trends is shown below:

	2011-12	2012-13	2013-14	2014-15	2015-16
Net Assets @ 31 March (£000's)	3,310,588	3,812,698	4,137,259	4,539,037	4,597,540
Number of Contributors	41,423	42,554	44,917	48,668	49,816
Contributions (£000's)	214,037	213,713	209,749	217,714	220,961
Number of Pensioners	32,258	33,731	34,841	35,917	37,260
Benefits Paid (£000's)	187,903	192,463	195,377	207,356	210,281

Financial Summary

	2011-12 £000's	2012-13 £000's	2013-14 £000's	2014-15 £000's	2015-16 £000's
Value of Fund at start of year	3,202,442	3,310,588	3,812,698	4,137,259	4,539,037
Revenue account for year					
- Contributions	214,037	213,713	209,749	217,714	220,961
- Investment (net) & other income	74,018	67,181	79,741	78,576	93,747
- Benefits and other expenses	-198,947	-202,976	-203,495	-277,358	-216,314
	89,108	77,918	85,995	18,932	98,394

Introduction and Overview

	2011-12 £000's	2012-13 £000's	2013-14 £000's	2014-15 £000's	2015-16 £000's
Increase (Decrease) in market value of investments in year	19,038	424,192	238,566	382,846	-39,891
Increase (Decrease) in Fund during year	108,146	502,110	324,561	401,778	58,503
Value of Fund at end of year	**3,310,588**	**3,812,698**	**4,137,259**	**4,539,037**	**4,597,540**

Fund Assets as at 31 March 2016

	UK £000's	Non-UK £000's	Global £000's	Total £000's
Equities	1,340,028	950,632	877,883	3,168,543
Bonds	248,802	290,970		539,772
Property (direct holdings)	438,105			438,105
Alternatives	231,758	10,778	106,467	349,003
Cash and cash equivalents	70,117			70,117
Other investment balances	4,407	7,209		11,616
Total	**2,333,217**	**1,259,589**	**984,350**	**4,577,156**

Investment income accrued during 2015-16, is analysed as follows:

	UK £000's	Non-UK £000's	Global £000's	Total £000's
Equities	32,555	20,940	7,776	61,271
Bonds	1,363	17,177		18,540
Property (direct holdings)	16,999			16,999
Alternatives	5,350	10,605		15,955
Cash and cash equivalents	572			572
Total	**56,839**	**48,722**	**7,776**	**113,337**

Pension Scheme Member profile

	Contributors		Pensioners		Deferred Pensioners	
	2016	2015	2016	2015	2016	2015
Kent County Council	22,363	22,706	19,716	19,135	22,792	22,581
Other Employers	27,453	25,962	17,544	16,782	19,684	18,953
Total	**49,816**	**48,668**	**37,260**	**35,917**	**42,476**	**41,534**

Introduction and Overview

Five year analysis of the Fund's membership

Type of Members	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Contributors	41,423	42,554	44,917	48,668	49,816
Pensioners	32,258	33,731	34,841	35,917	37,260
Deferred Pensioners	35,430	37,835	39,777	41,534	42,476

Member Age Profile

The following table shows that at 31 March 2016 the age profile of the contributing membership was:

Age	Members
Under 20	513
20 – 25	3,763
26 – 30	3,613
31 – 35	4,188
36 – 40	5,083
41 – 45	7,035
46 – 50	8,405
51 – 55	7,942
56 – 60	5,928
61 – 65	2,684
66 – 70	572
Over 70	90

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
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	Recovery not possible so amounts to be written off
Total	**8**	**44,570**	
2013	2	2,847	No response, therefore put forward for write off

Introduction and Overview

Year	No	Value £	Action
Total	**2**	**2,847**	
2015	1	9,589	Recovered
	3	13,050	Seeking Recovery
Total	**4**	**22,639**	

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 £
2012-13	60	18,979
2013-14	15	3,154
2014-15	10	2,975
2015-16	15	3,947

Investments

Investment Strategy Overview

This report sets out details of the progress made against the Fund's investment strategy during the year. In June 2015 the Committee decided to increase the allocation to Property from 10% to 13% by reducing the allocation to Private Equity and Infrastructure from 5% to 2%.

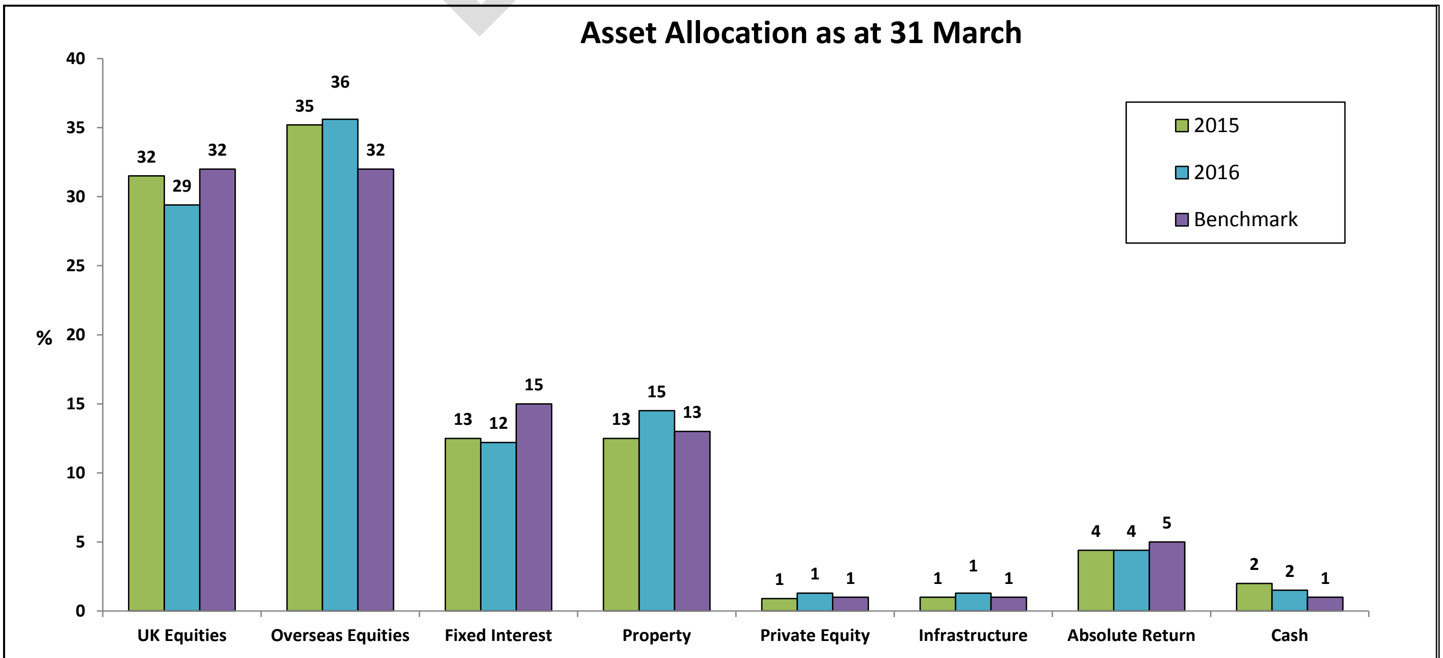
At its regular meetings during 2015-16 the Committee reviewed the actual fund asset allocation compared to the benchmark, and where the variance was in excess of the tolerance level of +/- 2%, as per the Fund's Statement of Investment Principles (SIP), agreed any action to be taken.

The Fund's strategic asset allocation at 31 March 2016 was as follows:

Asset Class	Allocation %	Index
UK Equities	32	FTSE All Share
Overseas Equities	32	MSCI World Index NDR
Fixed Income	15	BAML GBP Broad Market
Property	13	IPD All Properties Index
Private Equity and Infrastructure	2	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
Total	**100**	

Portfolio Distribution at 31 March

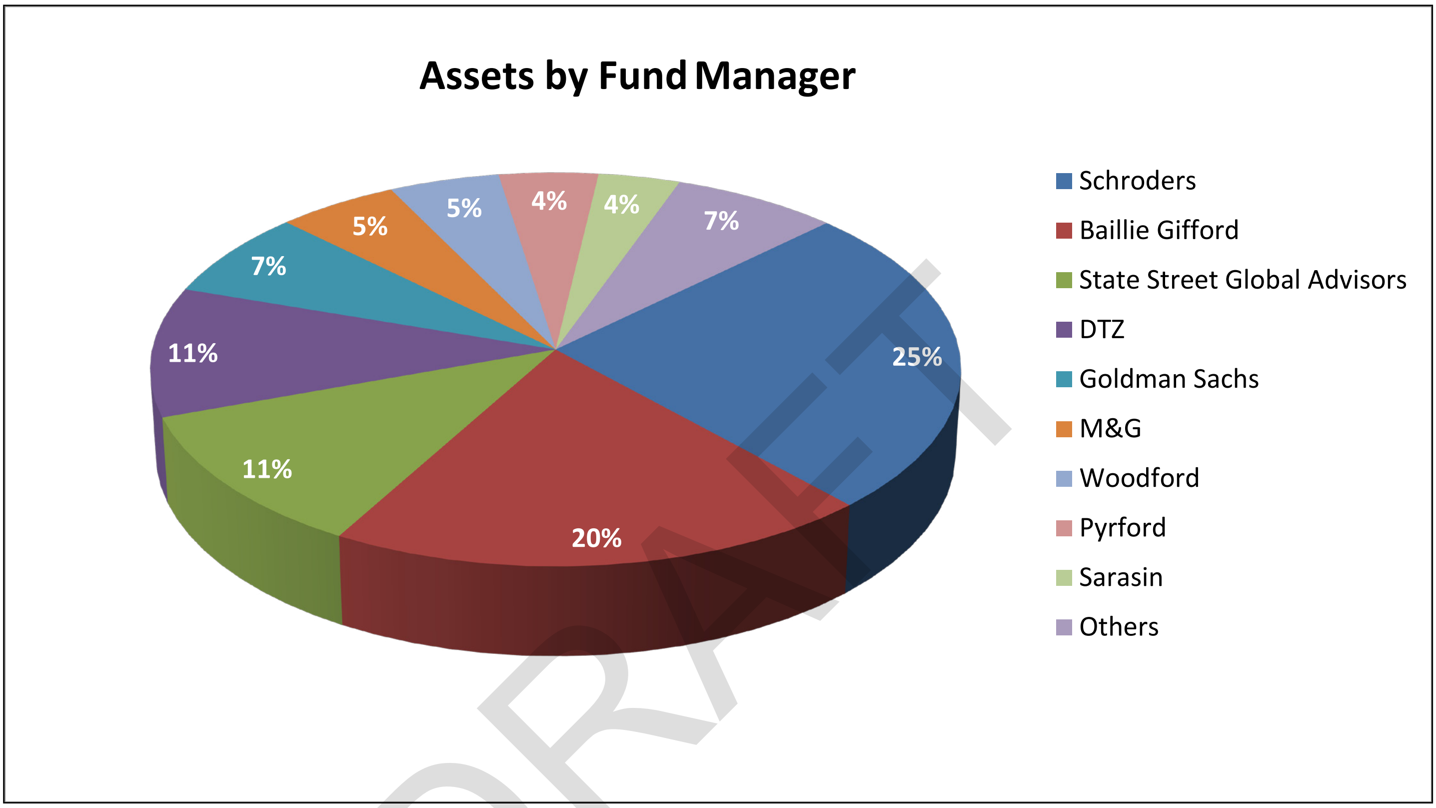
The graph below shows the Fund's actual portfolio distribution between the main asset classes as at 31 March 2015 and 31 March 2016 vs the benchmark.



Investments

Value of Funds under Management by Fund Manager

The following graph shows the proportion of the Fund under management by fund manager as at 31 March 2016 and the table lists the Fund's 10 largest equity holdings at that date.



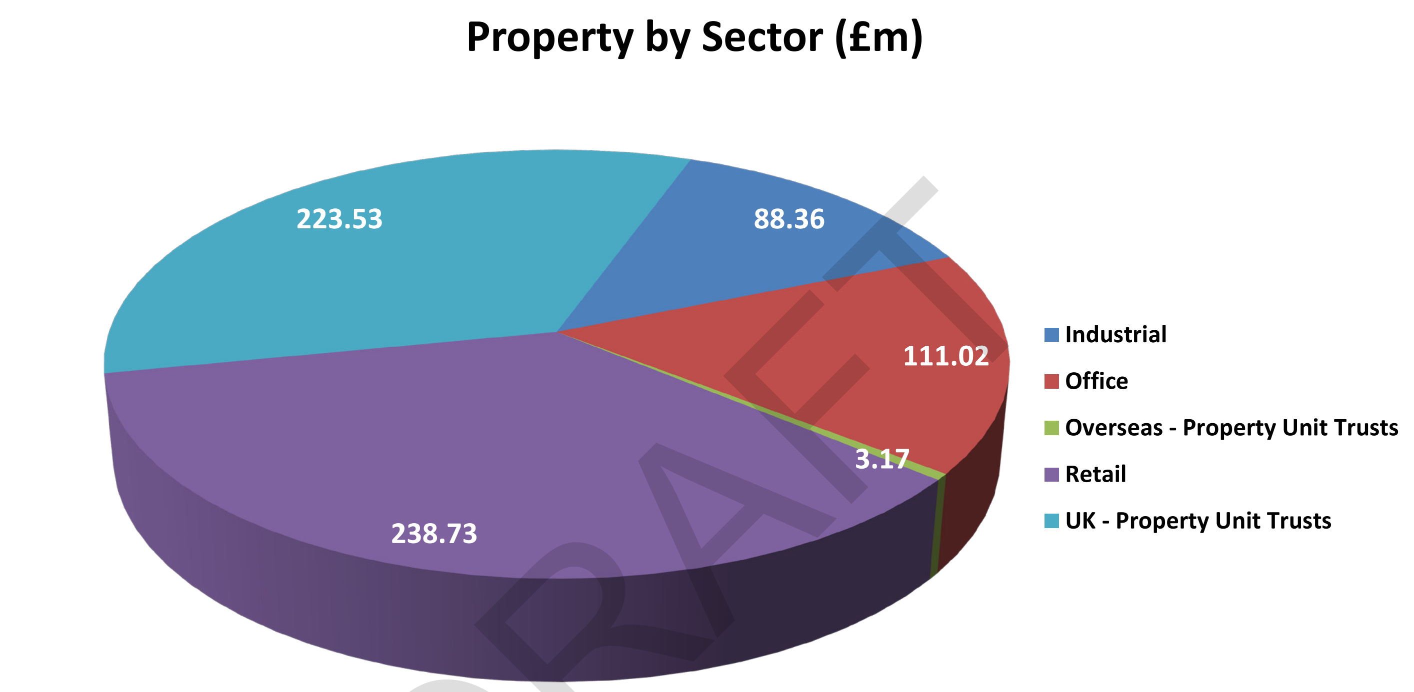
10 Largest Equity Holdings in the Fund as at 31 March 2016

	Market Value £m	% of The Fund's Net Assets
Royal Dutch Shell	50	1.1
Vodafone	37	0.8
Glaxo Smith Kline	32	0.7
Imperial Brands	32	0.7
Prudential	30	0.7
British American Tobacco	27	0.6
Amazon	25	0.5
Astra Zeneca	25	0.5
HSBC	25	0.5
Legal and General	22	0.5
Total	**305**	**6.6**

Investments

Property

The graph below provides detail of the type of property in which the Fund invests whilst the second table provides detail of the Fund's 5 largest direct properties held as at 31 March 2016.



Largest 5 properties held by the Kent Pension Fund

Property	Property Type	Market Valuation £m
Drury House, London	Office	39
Lakeside Village, Doncaster	Retail	32
Battersea Park, London	Industrial	30
151-161 Kensington High Street, London	Retail	26
3-5 Charing Cross Road, London	Retail	24

Investments

Investment performance 2015-16

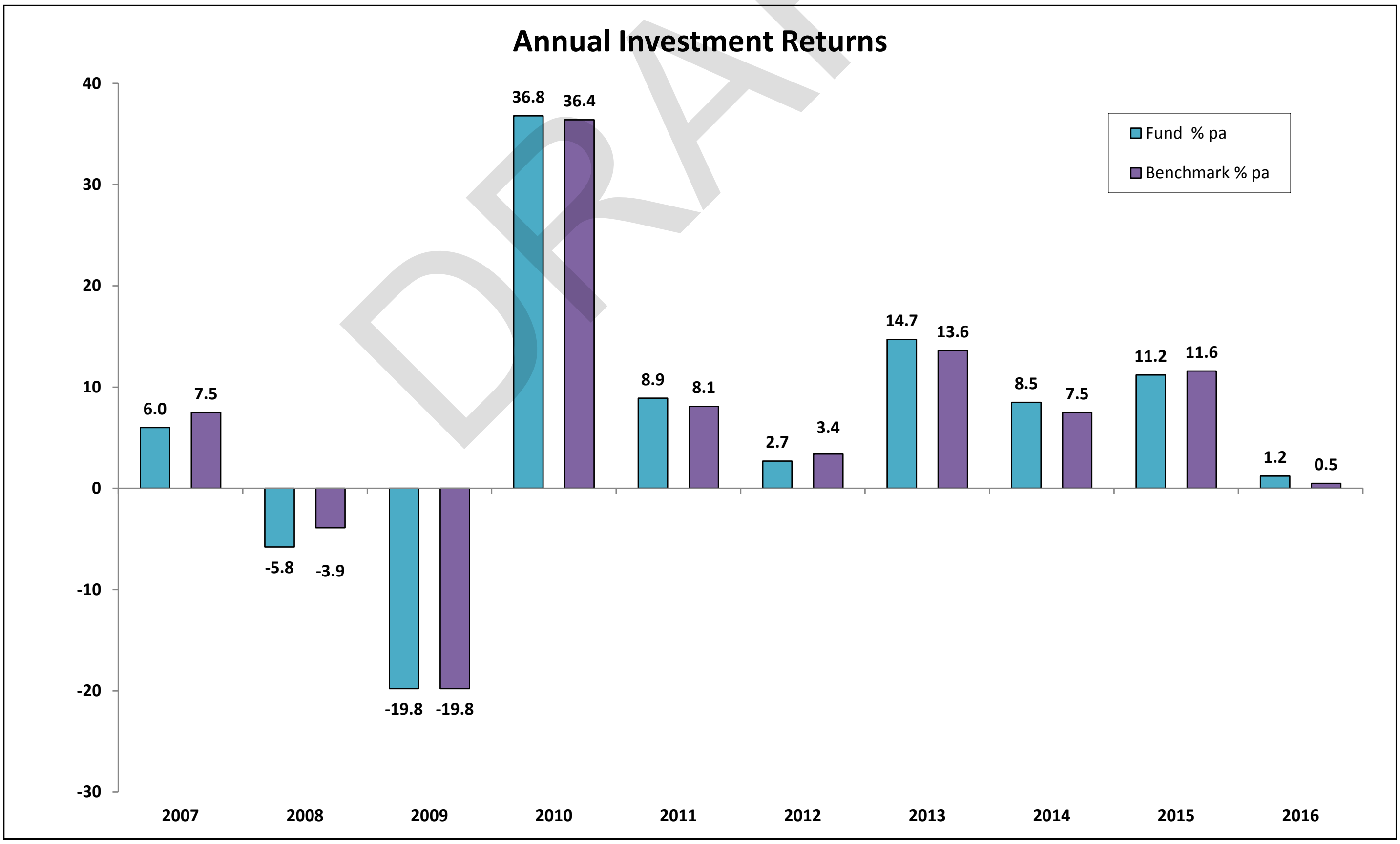
The investment performance of the fund managers is reported on a quarterly basis to the Superannuation Fund Committee. The fund managers submit reports and valuations for this purpose and managers of our large mandates meet at least annually with the Committee and/or its officers to make presentations and to answer questions.

Fund Managers are required to provide performance information to the WM Company which assesses the rate of return achieved and provides performance reports that are for consideration by the Committee.

Total Fund Performance

The graph below shows the relative performance of the Kent Fund over the last 10 years. The overall return on the Fund for 2015-16 was 1.2% compared to the customised Strategic benchmark of 0.5%.

For comparison the WM Local Authorities average fund return for 2015-16 was 0.2%.

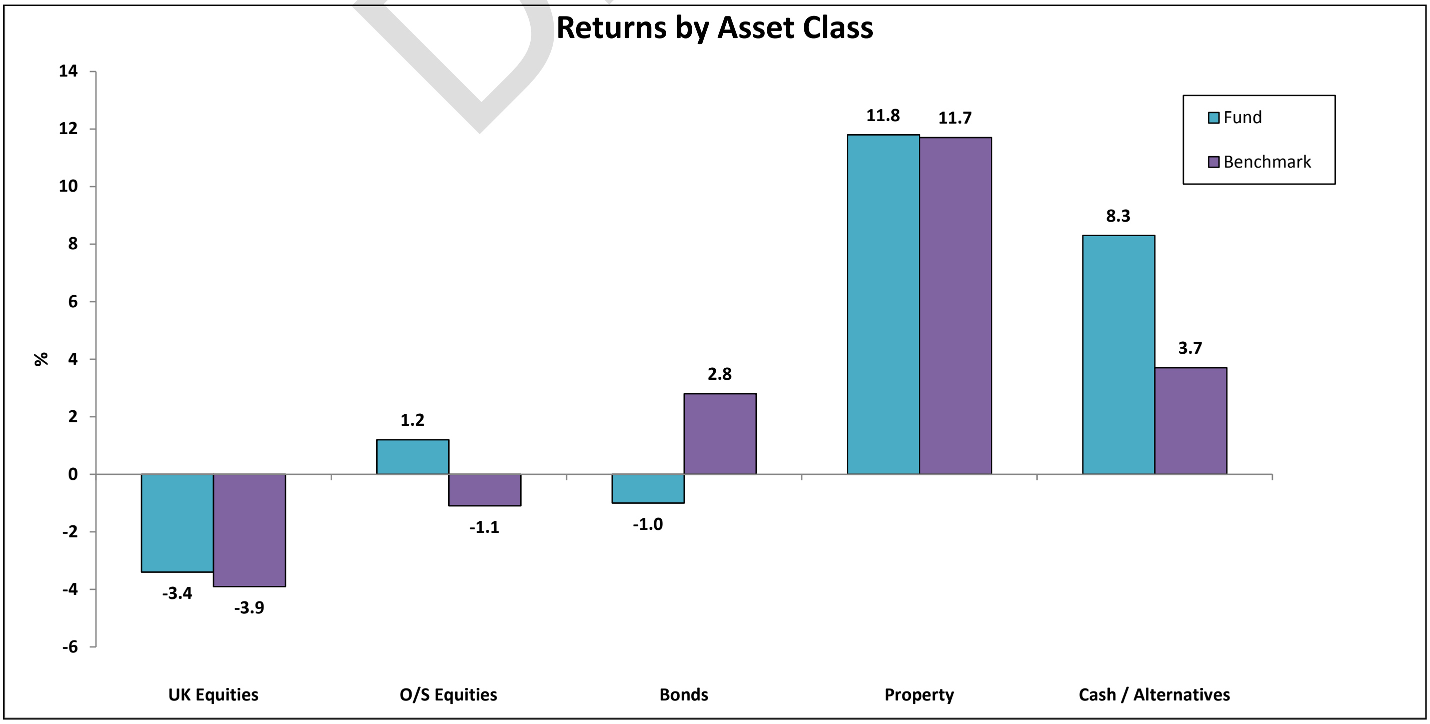


Investments

The graph below shows the long term performance of the Fund compared against the Fund's Strategic benchmark.

Returns by Asset Class for 2015-16

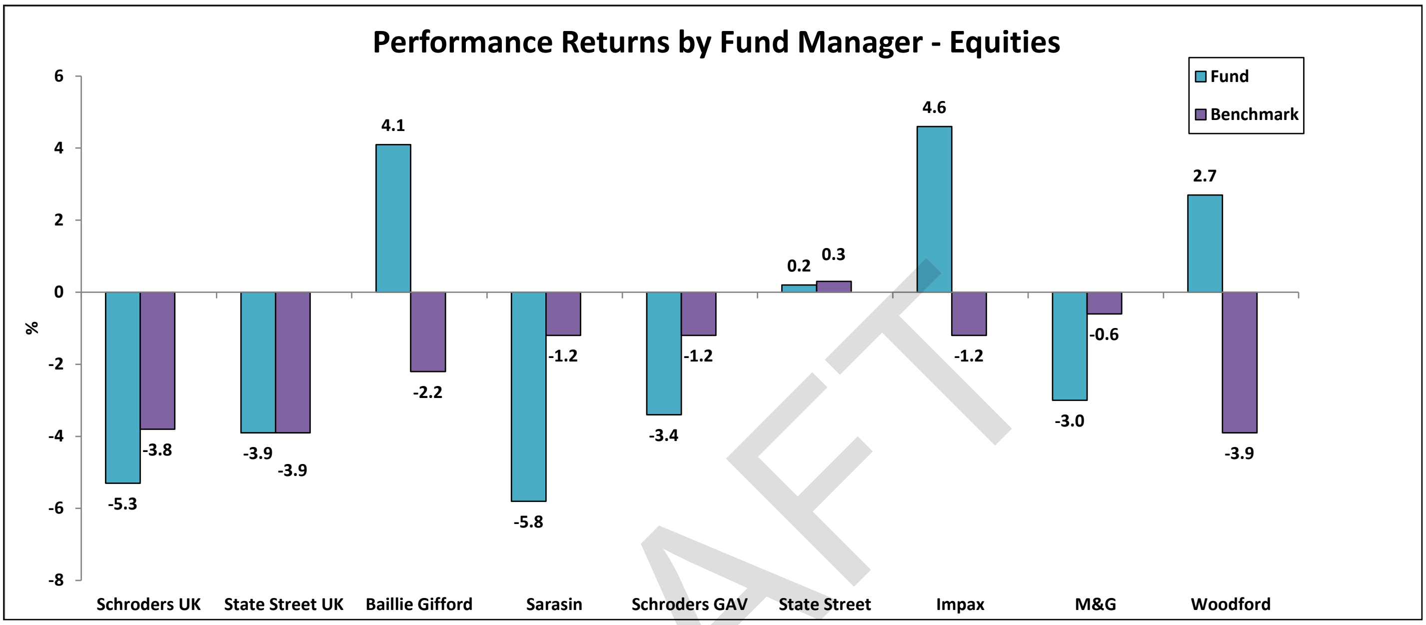
The analysis set out below shows the returns by asset class for 2015-16:

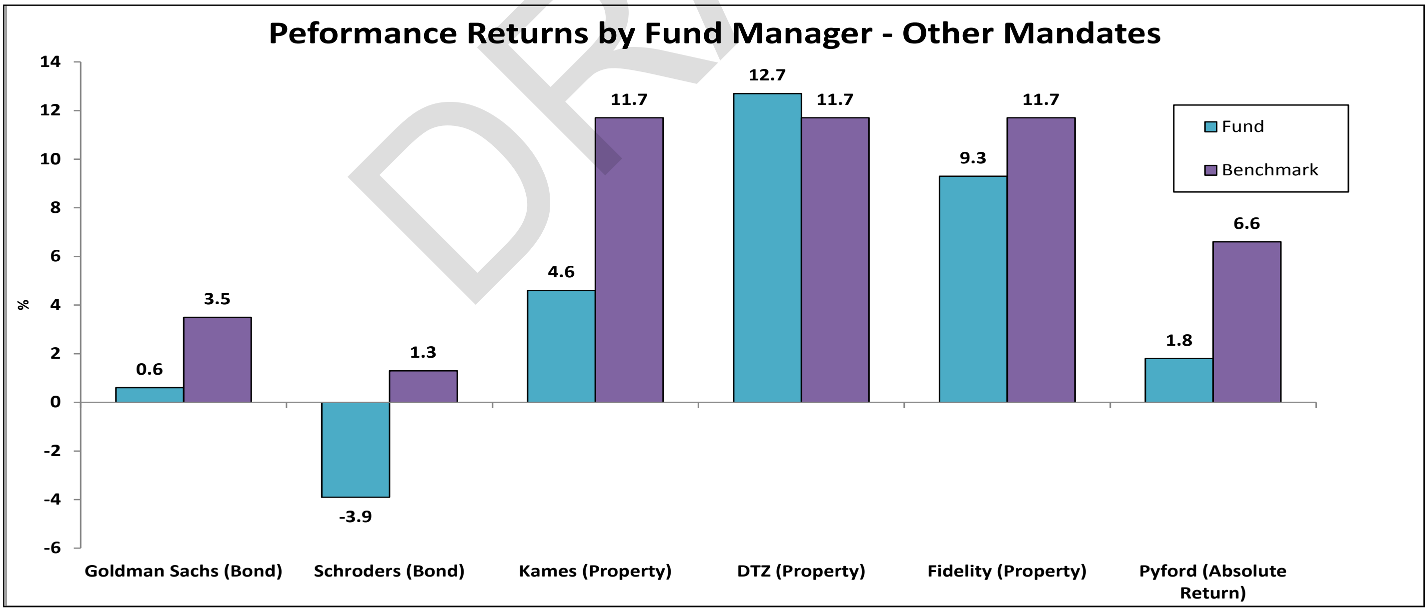


Investments

Performance by Fund Manager

The following graphs show the performance of the Equity and other Mandates compared to their benchmarks for the year ended 31 March 2016.





Investments

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.

Number of Resolutions

	For	Against	Abstain
Baillie Gifford	2,128	187	22
Schroders	859	13	2
Sarasin	679	164	102

The Fund is a member of The Pensions and Lifetime Savings Association (PLSA) and The Institutional Investors Group on Climate Change (IIGCC).

Administration

Key Service Standards for Scheme Members

The table below details the Fund's Key Service Standards and performance against these standards.

Type of case	Target time	Number processed	Processed within target
Calculation and payment of retirement award	20 days from receipt of paperwork	1,766	96%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	377	86%
Provision of estimates	20 days from receipt of paperwork	2,810	62%
Correspondence	Full reply within 15 working days	4,719	98%

CIPFA Benchmark Survey

The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey which compares the cost of administration with 45 other Local Authority Administering Bodies across the UK. The table overleaf is in respect of the year ending 31 March 2015, which is the most recent survey to be conducted.

	Kent £	All Scheme Average £
Total cost of administration per scheme member	14.97	19.17
Payroll costs per pensioner (including staff)	1.59	1.85
Staff costs per Scheme Member (excl. Payroll)	9.17	7.83
IT Costs per member	0.39	2.32
Communication costs per member	1.96	0.78
Actuarial costs per member	0.21	1.14
Accommodation costs per member	1.04	0.65

The results place Kent 8th of 45 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme. Kent Pension Fund's communication costs are higher than the Scheme average due to the importance afforded to communicating with all members of the Scheme, both current and previous, including the twice yearly pensioner's newsletter. Efforts are continuously made to reduce these costs wherever possible.

Administration

Scheme details

Kent Pension Fund, on behalf of Kent County Council, administers the Local Government Pension Scheme for County Council employees, and over 450 other employing bodies.

The Kent Pension Fund is part of the Local Government Pension Scheme (LGPS) for the purpose of providing pensions and other benefits for the pensionable employees of KCC, Medway Council, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. The Pension Fund is a reporting entity and KCC as the Administering Authority is required to include the Fund's accounts as a note in its Report and Accounts. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The LGPS is a contributory defined benefit pension scheme and was contracted out of the State Second Pension until 5 April 2016.

The Scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Fund is overseen by the Kent County Council Superannuation Fund Committee (the Scheme manager). The Local Pension Board which was established in 2015 assists the Scheme manager to ensure the effective and efficient governance and administration of the Scheme.

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. Employers in the Fund include Scheduled Bodies which are Local Authorities and similar entities whose staff are automatically entitled to be members of the Scheme; 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 entities or private contractors undertaking a local authority function following a specific business transfer to the private sector.

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are determined by the Fund's actuary based on triennial actuarial funding valuations at a level necessary to assure that the Fund is able to meet 100% of its existing and prospective liabilities. Any shortfall is being spread over a period of up to a maximum of 20 years. The last triennial valuation was at 31 March 2013 and the employer contribution rate then certified was payable from 1 April 2014.

Administration

The 2013 valuation certified a common contribution rate of 20% of pensionable pay to be paid by each employer body participating in the Kent Pension Fund. In addition to this, each employer 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 Rates and Adjustment Certificate in the triennial valuation report.

Benefits

Pension benefits under the LGPS are based on the following:

	Membership pre 1 April 2008	Membership from 1 April 2008 to 31 March 2014	Membership from 1 April 2014
Pension	1/80 x final pensionable salary	1/60 x final pensionable salary	1/49 (or 1/98 if opted for 50/50 section) x CARE pensionable pay
Lump Sum	Automatic lump sum of 3/80 x final pensionable pay. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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 months 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, cohabiting 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. There is a range of other benefits provided under the scheme including early retirement, ill health

Administration

pensions and death benefits. For more details, please refer to the Kent Pension Fund website.

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, email 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 Fund 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 Authority. An independent person is appointed by each employer to consider an appeal made by a scheme member.

2015-16 Disputes considered	2015-16 Appeals upheld
15	2

Administration

The following table lists contributing employers during 2015-16

Employers	Employer Contributions £	Employee Contributions £
Local Authorities		
Kent County Council	66,968,651	20,091,842
Ashford Borough Council	3,046,095	741,054
Canterbury City Council	3,691,826	802,756
Dartford Borough Council	2,562,403	450,695
Dover District Council	3,024,435	546,290
Gravesham Borough Council	3,081,760	798,621
Maidstone Borough Council	3,054,697	783,874
Medway Council	12,470,926	4,348,428
Sevenoaks District Council	2,908,545	661,359
Shepway District Council	2,745,185	603,629
Swale Borough Council	2,451,929	539,802
Thanet District Council	3,538,322	608,893
Tonbridge & Malling Borough Council	2,422,517	492,929
Tunbridge Wells Borough Council	2,231,770	571,830
Other Public Bodies		
The Chief Constable of Kent	6,589,534	3,648,836
Commercial Services Kent Limited	1,182,614	421,570
Kent & Essex Sea Fisheries Committee	86,302	24,511
Kent Combined Fire Authority	988,183	560,457
Kent Magistrates Courts Committee	1,881,000	-
The Police and Crime Commissioner for Kent	57,712	38,186
Parish Councils		
Ash Parish Council	4,412	1,273
Borough Green Parish Council	14,961	3,057
Broadstairs & St Peters Town Council	9,100	-
Chestfield Parish Council	5,921	1,747
Chiddingstone Parish Council	184	56
Cranbrook Parish Council	12,715	3,532
Darenth Parish Council	11,673	2,367
Deal Town Council	23,197	9,248
Ditton Parish Council	17,208	7,089
Dover Town Council	39,769	17,011
Downwood Parish Council	1,858	562

Administration

Employers	Employer Contributions £	Employee Contributions £
East Kent Housing	641,419	281,329
Eastry Parish Council	1,592	561
Ebbsfleet Development Corporation	38,609	28,861
Edenbridge Town Council	46,660	12,995
EK Services (Thanet)	871,086	434,718
Eynsford Parish Council	2,130	1,429
Eythorne Parish Council	297	118
Farningham Parish Council	2,773	653
Faversham Town Council	9,455	2,646
Folkestone Town Council	42,308	14,547
Great Mongeham Parish Council	567	200
Hartley Parish Council	8,443	2,602
Hawkinge Parish Council	7,224	2,801
Herne & Broomfield Parish Council	8,701	2,201
Higham Parish Council	2,880	927
Hythe Town Council	26,282	6,944
Kings Hill Parish Council	17,953	7,458
Leigh Parish Council	2,014	616
Longfield & New Barn Parish Council	793	321
Margate Charter Trustees	927	329
Medway (Lower) IDB	62,288	12,461
Medway (Upper) IDB	49,860	10,908
Minster-on-sea Parish Council	6,136	2,782
Otford Parish Council	2,071	580
Otham Parish Council	847	256
Pembury Parish Council	14,168	5,334
Ramsgate Charter Trustees	20,533	6,120
River Stour IDB	41,069	14,340
Romney Marsh Level IDB	24,889	8,111
Sandwich Town Council	25,424	6,854
Seal Parish Council	3,158	949
Sevenoaks Town Council	74,903	5,784
Snodland Town Council	10,162	3,057
Southborough Town Council	54,328	11,724
Staplehurst Parish Council	1,941	571
Stone Parish Council	32,618	9,999

Administration

Employers	Employer Contributions £	Employee Contributions £
Swanley Town Council	157,513	48,934
Swanscombe & Greenhithe Town Council	42,846	6,734
Temple Ewell Parish Council	1,806	480
Tenterden Town Council	24,133	6,717
West Kingsdown Parish Council	3,067	1,434
Westerham Parish Council	13,004	3,837
Woodnesborough Parish Council	544	192
Further Education Colleges		
Canterbury College	1,084,846	432,965
East Kent College	774,517	318,203
Hadlow College	602,402	257,053
Hilderstone College	39,541	14,531
Mid Kent College	925,585	370,999
North Kent College	656,570	269,322
West Kent & Ashford College	579,261	226,705
Voluntary and Charitable Entities, and Private Contractors		
Active Life Limited	170,768	72,586
Agilisys Limited	65,019	30,655
Amey Community Limited	143,885	41,494
Amicus Horizon	269,383	33,496
APCOA Parking UK Limited	3,506	1,252
Ashford Leisure Trust	65,382	27,723
Avante Partnership	73,209	10,502
Biffa Municipal Limited	43,379	13,556
Birkin Cleaning Services Limited	2,724	684
Caldecott Community	152,358	60,152
Canterbury Archaeological Trust	18,119	2,583
Canterbury Christ Church University College	3,443,010	1,317,636
Capita Managed IT Solutions Limited	7,035	1,544
Cater Link Limited	3,252	1,019
Compass Group UK & Ireland	1,694	450
Connexion Partnership Kent & Medway	1,100	421
Enterprise (AOL) Limited	117,033	37,919
Epic Trust	33,854	11,185

Administration

Employers	Employer Contributions £	Employee Contributions £
Fusion Lifestyle	29,797	13,532
Golding Homes	381,380	211,147
Gravesham Community Leisure	119,505	47,068
Hyde Housing Association	91,000	-
Invicta Telecare Limited	68,544	23,964
Kent College, Canterbury	7,434	1,602
Kent College, Pembury	3,000	-
Kent Music School	11,000	-
Kier Facilities Services Limited	55,457	14,627
Locate in Kent Limited	16,027	6,817
Mears Limited	4,492	1,564
Medway Community Healthcare CIC	66,142	21,799
Medway Norse Limited	160,828	59,227
MHS Homes	424,136	114,120
Mitie PFI Limited	30,352	11,492
Mitie Security Limited	12,533	3,718
Mytime Active	4,491	2,954
Norwest Holst Limited	12,058	4,756
NSL Limited	27,608	11,729
Orbit South	29,352	10,591
Orchard Theatre Dartford Limited	33,889	12,961
Pathways to Independence Limited	24,668	7,200
Principal Catering Consultants	7,965	2,744
Project Salus	48,213	27,893
Rochester Bridge Trust	78,251	19,714
Rochester Care Home Limited	24,677	6,627
Russet Homes	315,567	64,972
Sevenoaks Leisure Limited	206,809	89,420
Sevenoaks School	349,300	126,247
Shaw Healthcare (FM Services)	2,006	549
Skanska Construction UK Limited	52,075	15,099
Sodexo Catering	4,411	1,509
Steria Limited	38,180	16,095
Strode Park Foundation for People with Disabilities	93,994	28,189
Tascor Services Limited	32,111	6,559
TCS (Independent) Limited	3,412	1,122

Administration

Employers	Employer Contributions £	Employee Contributions £
Thanet Leisure Force	79,878	26,005
Tonbridge & Malling Leisure Trust	216,541	113,622
Tourism South East	54,449	2,027
Town & Country Group	255,488	79,215
University of Kent	52,467	2,636
Veolia Limited	33,764	8,735
Victory Care Home Limited	4,035	1,186
West Kent Housing Association	1,320,105	357,883
Westgate Community Trust	2,064	914
Academy Trusts		
Academies Enterprise Trust	31,017	8,651
ACE Learning Trust	139,898	39,563
Aletheia Anglican Academies Trust	228,895	68,736
Allington Primary School Trust	57,134	15,943
Amherst School Trust	60,390	18,901
Barton Court Grammar School Academy Trust	91,124	27,954
Borden Grammar School Trust	79,666	23,911
Bradfields Academy	219,164	64,584
Brockhill Park Performing Arts College Trust	148,759	45,448
Brompton Academy Trust	296,032	97,667
Brook Learning Trust	303,132	93,515
Castle Community Trust	235,336	72,828
Castle Trust	64,213	19,568
Chatham & Clarendon Grammar School Trust	183,095	56,050
Chatham Grammar School for Girls Trust	94,000	28,797
Chiddingstone Church of England School Trust	31,422	8,823
Chilton Academy Trust	61,781	19,127
Christ Church CE Junior School Ramsgate	50,400	14,346
Christ Church CEP Academy (Folkestone)	84,225	25,236
Cliffe Woods Primary School Trust	36,150	10,327
Coastal Academies Trust	591,473	182,033
Cranbrook School Trust	301,854	93,300
Cygnus Academies Trust	23,864	6,914
Dartford Grammar School Trust	191,191	58,286
Dover Christ Church Academy Trust	154,075	49,258

Administration

Employers	Employer Contributions £	Employee Contributions £
DYRMS - An Academy with Military Traditions Trust	347,408	115,158
Fort Pitt Thomas Aveling Academies	648,455	197,398
Fulston Manor Academies Trust	298,008	89,068
Future Schools Trust	496,442	152,316
Godinton Academy Trust	72,924	20,894
Graveney Primary School Trust	19,651	5,729
Gravesend Grammar School Academies Trust	256,996	77,383
Greenacre Academy Trust	310,297	88,855
Griffin Schools Trust	284,637	84,777
Grove Park Academies Trust	85,964	24,391
Hadlow Rural Community School Limited	11,516	3,293
Hampton Primary School Academy Trust	108,991	31,362
Herne Bay High School Trust	276,352	83,972
Highsted Academy Trust	61,684	18,376
Highworth Grammar School Trust	124,624	37,429
Hillview School for Girls Academy Trust	180,966	56,378
Homewood School & 6th Form Centre Trust	347,646	107,579
Inspire Special Free School Academy	58,997	17,532
Joydens Wood Infant School Trust	49,078	14,371
Joydens Wood Junior School Trust	39,017	11,034
Jubilee Primary School Trust	16,474	4,525
Kent Catholic Schools' Partnership	1,266,315	382,941
Knole Academy Trust	145,431	45,062
Leigh Academies Trust	1,607,036	496,515
Luddenham School Trust	34,025	9,876
Marlowe Academy	79,050	24,436
Mayfield Grammar School Trust	111,305	33,754
Medway Anglican School Trust	85,954	24,668
Medway University Technology College	12,721	3,938
Meopham Community Academies Trust	52,261	14,922
Oakwood Park Grammar School Trust	133,304	46,265
Oasis Community Learning	525,740	164,413
Pathway Academy Trust	47,663	13,500
Peninsula Gateway Academy Trust	39,785	11,553
Queen Elizabeth's Grammar School Trust Faversham	99,860	31,755
Rainham Mark Education Trust	161,192	47,354

Administration

Employers	Employer Contributions £	Employee Contributions £
REAch2 Academy Trust	299,129	86,579
Rochester Diocesan Multi-Academy Education Trust Limited	17,329	5,048
Sandwich Technology School Trust	166,073	50,297
Sheldwich Primary School Trust	42,495	12,083
Sir Roger Manwood's School Trust	104,244	30,489
Spires Academy Trust	109,361	28,956
St. Eanswythe's CE Primary School	39,829	11,349
St. James' Church of England Primary Academy	39,356	11,306
St. John's Church of England Primary School Maidstone Trust	61,698	17,295
St. Laurence-in-Thanet Church of England Junior Academy	52,220	14,841
St. Marys COE Primary Academy (Folkestone)	80,085	23,058
St. Stephen's Academy Trust	91,357	32,863
Strood Academy Trust	219,588	63,680
Swale Academies Trust	1,091,675	319,889
Temple Ewell Church of England Primary Academy	25,579	7,212
Temple Grove Academy Trust	45,303	13,077
The Abbey School Trust	183,600	53,217
The Academy of Woodlands Trust	190,663	55,906
The Argent Trust	99,214	28,274
The Brent Primary School Trust	84,937	24,054
The Canterbury Academy Trust	351,858	108,141
The Diocese of Canterbury Academies Trust	346,248	100,088
The Dover Federation for the Arts	336,368	101,748
The Folkestone Academy Trust	411,452	129,781
The Folkestone School for Girls Academy Trust	148,887	45,140
The Gateway Primary Academy Trust	27,408	7,705
The Harvey Academy Trust	101,961	31,062
The Howard Academy Trust	234,703	69,315
The John Wallis Church of England Academy, Ashford Trust	262,003	77,075
The Kemnal Academies Trust	1,089,203	319,563
The Lilac Sky School Trust	290,621	83,458
The Maplesden Noakes School Trust	133,016	40,549
The Marsh Academy Trust	225,898	74,214
The Norton Knatchbull School Academy Trust	136,010	46,480
The Primary First Trust	72,848	21,637
The Rivermead Inclusive Trust	34,862	11,190

Administration

Employers	Employer Contributions £	Employee Contributions £
The Skinners' Kent Academy Trust	152,716	50,557
The Skinners' School Academy Trust	84,621	27,726
The Stour Academy Trust	158,935	44,743
The Tenax Schools Trust	161,686	51,009
The Thinking Schools Trust	615,166	185,395
The Village Academy Trust	266,202	76,432
The Wells Free School Trust	18,721	5,215
The Westbrook Trust	109,684	31,421
The Williamson Trust	572,010	172,467
TIMU Academy Trust	121,146	34,513
Tonbridge Grammar School Trust	132,298	42,117
Towers School Academy Trust	198,929	59,098
Trinity School and College	53,689	16,146
United Learning Trust	29,877	9,065
Valley Invicta Academies Trust	388,739	119,675
Walderslade Girls' School Trust	134,491	39,369
Warden House Primary School Trust	81,155	23,415
Weald of Kent Grammar School Academy Trust	130,010	40,851
Wentworth Primary School Trust	73,613	21,276
West Malling CEP Academy Trust	49,046	13,632
Wilmington Grammar School for Boys Trust	116,389	34,622
Wilmington Grammar School for Girls Trust	90,248	28,491
Wilmington Primary School Academy	17,323	4,940
Woodard Academies Trust	133,206	40,905
Wrotham School Trust	82,087	24,578

Actuary's Report

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.

2013 Valuation Results

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

- the Fund 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;
- to cover the cost of new benefits, building up for current members of the Fund, and to also pay off the deficit over a period of 20 years, an average employer contribution rate of 20.0% of pensionable salaries is required;
- the contribution rate for each employer was set to be sufficient to meet 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 reflecting the employer's experience within the Fund. The contribution rate set allows for future pay increases and increases to pensions in payment when these fall due.

Contribution Rates

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

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Assumptions

The key assumptions used at whole Fund level to value the benefits at 31 March 2013 are summarised below:

Assumption	31 March 2013
Discount rate	6.0% p.a.
Pension increases	2.7% p.a.
Salary increases	2.7% p.a. until 31 March 2015 and 4.5% p.a. thereafter.
Mortality	S1PA tables with future improvements in line with the CMI 2012 Model with a long-term rate of improvement of 1.5% p.a.
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.

Actuary's Report

The 2016 triennial valuation is currently underway and the assumptions to be adopted as at 31 March 2016 will be decided upon as part of the valuation process.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date, therefore the smoothed asset values are also measured in a consistent manner.

At 31 March 2013, the smoothed value of the assets used was £3,786m and this has increased to an estimated £4,598m as at 31 March 2016.

Updated position since the 2013 Valuation

Over the period from March 2013 to March 2016, the assets have achieved an estimated return of approximately 22%, which is slightly higher than expected at the 2013 valuation and so will have improved the position. The value placed on the liabilities will have also increased due to the accrual of new benefits and will have also changed due to changes in the underlying discount rate and other assumptions.

We estimate that the position as at 31 March 2016 will be slightly better when compared on a consistent basis to 31 March 2013 but the final position will depend on the assumptions adopted as part of the 2016 valuation process.

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

Graeme Muir FFA
Partner, Barnett Waddingham LLP

Financial Statements

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 21 July 2016 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 2016.

In preparing this Statement of Accounts the Corporate Director of Finance and Procurement has:

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

The Corporate Director of Finance and Procurement has also:

- kept proper accounting records which were up to date; 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 2016.

Certificate of the Corporate Director of Finance and Procurement

Andy Wood,
Corporate Director of Finance and Procurement

Financial Statements

Fund Account for the year ended 31 March

	Notes	2015-16 £000's	2014-15 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	220,961	217,714
Transfers In from other pension funds	6	3,405	4,463
		224,366	**222,177**
Benefits	7	-210,281	-207,356
Payments to and on account of leavers	8	-6,033	-70,002
		-216,314	**-277,358**
Net additions from dealings with Members		**8,052**	**-55,181**
Management Expenses	9	**-17,835**	**-16,464**
Returns on Investments			
Investment Income	10	113,337	94,639
Taxes on Income		-5,160	-4,062
Profits and losses on disposal of investments and changes in the market value of investments	13a	-39,891	382,846
Net Return on Investments		**68,286**	**473,423**
Net increase in the Net Assets Available for benefits during the year		**58,503**	**401,778**

Financial Statements

Net Assets Statement as at 31 March

	Notes	2016 £000's	2015 £000's
Investment Assets		4,512,339	4,426,242
Investment Cash and Cash Equivalents		70,117	101,593
Investment Liabilities		-5,300	-9,503
Net Investment Assets	13	**4,577,156**	**4,518,332**
Current Assets	21	35,356	35,814
Current Liabilities	22	-14,972	-15,109
Net Assets available to fund benefits at the period end		**4,597,540**	**4,539,037**

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 Pension Fund Account

1. Basis of preparation
The Statement of Accounts summarises the Fund's transactions for the 2015-16 financial year and its position at 31 March 2016.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 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 Deficit funding contributions are accounted for on the due dates on which they are

payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipt basis and are included in 'transfers in'. 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. Property related income mainly comprises of rental income. This is recognised when it becomes due.

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. Tax is therefore only applicable to dividend income from equity investments. 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, and overheads 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 and cash 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 unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager;

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

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

- The 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 2015. 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 2016;

- Debtors/receivables being short duration receivables with no stated interest rate are measured at original invoice amount.

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 and cash equivalents managed by fund managers and cash equivalents managed by Kent County Council 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 2016 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).

m) Contingent Assets and Liabilities and Contractual Commitments

A contingent asset/liability arises where an event has taken place that gives the Fund a possible right/obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund. Contingent assets/liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an inflow/outflow of resources will be required or the amount of the right/obligation cannot be measured reliably. Contingent assets/liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

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 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 £0.65m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £0.010m, and a one year adjustment to the mortality age rating assumptions would reduce the liability by approx. £0.23m
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure investments on the financial statements are £115m. 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 2016, up to the date when these accounts were authorised, that require any adjustment to these accounts.

Financial Statements

5. Contributions Receivable

	2015-16 £000's	2014-15 £000's
By Category		
Employers	170,651	168,363
Members	50,310	49,351
	220,961	**217,714**
By Authority		
Kent County Council	90,676	89,453
Scheduled Bodies	116,874	115,489
Admitted Bodies	13,411	12,772
	220,961	**217,714**
By type		
Employees - normal contributions	50,310	49,351
Employers - normal contributions	106,877	104,414
Employers - deficit recovery contributions	58,326	58,390
Employers - augmentation contributions	5,448	5,559
	220,961	**217,714**

6. Transfers in from other pension funds

	2015-16 £000's	2014-15 £000's
Individual	3,405	4,463
Group	0	0
	3,405	**4,463**

7. Benefits Payable

	2015-16 £000's	2014-15 £000's
By Category		
Pensions	171,890	165,653
Retirement Commutation and lump sum benefits	34,383	37,811
Death benefits	4,008	3,892
	210,281	**207,356**
By Authority		
Kent County Council	100,596	99,564
Scheduled Bodies	99,045	96,233
Admitted Bodies	10,640	11,559
	210,281	**207,356**

Financial Statements

8. Payments to and on account of leavers

	2015-16 £000's	2014-15 £000's
Group transfers	993	64,392
Individual transfers	4,099	5,193
Payments for members joining state scheme	247	138
Refunds of contributions	694	279
	6,033	**70,002**

The Group Transfer refers to a payment of £0.993m made to the London Pension Fund Authority in respect of the Valuation Tribunal Service group transfer effective from 1 July 2015. Group transfers in 2014-15 included a transfer of £63.7m to the Greater Manchester Pension Fund (GMPF) in respect of the Probation Service effective from 1 June 2014.

9. Management Expenses

	Notes	2015-16 £000's	2014-15 £000's
Administration costs		2,413	2,607
Governance and oversight costs		324	384
Investment management expenses	12	15,098	13,473
		17,835	**16,464**

10. Summary of Income from Investments

		2015-16		2014-15	
	Notes	£000's	%	£000's	%
Fixed Interest Securities		14,074	12.4	14,359	15.2
Equities		53,053	46.9	46,726	49.4
Pooled Investments		12,684	11.2	12,567	13.3
Private Equity / Infrastructure		10,586	9.3	-2,240	-2.4
Property	11	16,999	15.0	16,249	17.2
Pooled Property Investments		5,369	4.7	5,941	6.3
Cash and cash equivalents		227	0.2	710	0.7
Stock Lending		345	0.3	327	0.3
Total		**113,337**	**100.0**	**94,639**	**100.0**

11. Property Income and Expenditure

	2015-16 £000's	2014-15 £000's
Rental Income from Investment Properties	21,692	19,622
Direct Operating Expenses	-4,693	-3,373
Net operating income from Property	**16,999**	**16,249**

Financial Statements

12. Investment Management Expenses

	2015-16 £000's	2014-15 £000's
Investment Managers' Fees	14,459	13,319
Transaction Costs	502	See Note
Custody fees	137	154
Total	**15,098**	**13,473**

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

In November 2015 with the change in the Fund's Custodians, there was a change in the accounting for transaction costs. Prior to that, the transaction costs were included in the value of Purchase/ Sales of investments and were not accounted for separately. Transaction costs for 2015-16 reflected above therefore do not include £489,495 (incurred prior to November 2015) that have been included in purchase and sale figures. The total transaction costs for the year amounted to £1m (2014-15: £1.3m).

13. Investments at Market Value

	31 March 16 £000's	31 March 15 £000's
Investment Assets		
Fixed Interest Securities	310,896	313,962
Equities	1,732,669	1,744,779
Pooled Investments	1,664,750	1,695,987
Private Equity/Infrastructure	114,699	96,958
Property	438,105	407,182
Pooled Property Investments	226,697	156,019
Derivative contracts		
- Forward Currency contracts	7,607	0
Investment Cash and cash equivalents	70,117	101,593
Investment Income due	12,702	11,355
Amounts receivable for sales	4,214	0
Total Investment Assets	**4,582,456**	**4,527,835**
Investment Liabilities		
Amounts payable for purchases	-5,300	-1,510
Derivative contracts		
- Forward Currency contracts	0	-7,993
Total Investment Liabilities	**-5,300**	**-9,503**
Net Investment Assets	**4,577,156**	**4,518,332**

Financial Statements

13a. Reconciliation of movements in investments and derivatives

	Market value as at 31 March 15 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 16 £000's
Fixed Interest Securities	313,962	36,555	-38,392	-1,229	310,896
Equities	1,744,779	386,150	-340,372	-57,888	1,732,669
Pooled Investments	1,695,987	156,700	-154,068	-33,869	1,664,750
Private Equity/ Infrastructure	96,958	20,456	-17,655	14,940	114,699
Property	407,182	21,291	-26,926	36,558	438,105
Pooled Property Investments	156,019	66,782	-7,792	11,688	226,697
	4,414,887	**687,934**	**-585,205**	**-29,800**	**4,487,816**
Derivative contracts					
- Forward Currency contracts	-7,993	6,446,800	-6,421,109	-10,091	7,607
	4,406,894	**7,134,734**	**-7,006,314**	**-39,891**	**4,495,423**
Other Investment balances					
- Investment Cash and cash equivalents	101,593				70,117
- Amounts receivable for sales	0				4,214
- Amounts payable for purchases	-1,510				-5,300
- Investment Income due	11,355				12,702
Net Investment Assets	**4,518,332**			**-39,891**	**4,577,156**

Financial Statements

	Market value as at 31 March 14 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 15 £000's
Fixed Interest Securities	291,458	28,172	-29,226	23,558	313,962
Equities	1,518,121	380,031	-318,474	165,101	1,744,779
Pooled Investments	1,734,423	221,788	-408,467	148,243	1,695,987
Private Equity/ Infrastructure	73,486	25,817	-12,629	10,284	96,958
Property	282,117	88,359	-7,648	44,354	407,182
Pooled Property Investments	111,803	69,751	-40,386	14,851	156,019
	4,011,408	**813,918**	**-816,830**	**406,391**	**4,414,887**
Derivative contracts					
- Forward Currency contracts	-694	6,116,731	-6,100,485	-23,545	-7,993
	4,010,714	**6,930,649**	**-6,917,315**	**382,846**	**4,406,894**
Other Investment balances					
- Investment Cash and cash equivalents					101,593
- Amounts receivable for sales					0
- Amounts payable for purchases					-1,510
- Investment Income due					11,355
Net Investment Assets	**4,112,674**			**382,846**	**4,518,332**

Until October 2015 Transaction costs were 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 in this financial year that are included in the purchases and sales amounted to £489,495 (2014-15: £1,331.6k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

Financial Statements

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

	31 March 16 £000's	31 March 15 £000's
FIXED INTEREST SECURITIES		
UK		
Corporate Quoted	19,926	25,500
Overseas		
Public Sector Quoted	39,923	47,418
Corporate Quoted	251,047	241,044
	310,896	**313,962**
EQUITIES		
UK		
Quoted	782,037	825,228
Overseas		
Quoted	950,632	919,551
	1,732,669	**1,744,779**
POOLED FUNDS		
UK		
Fixed Income Unit Trusts	228,876	237,773
Unit Trusts	557,991	593,127
Overseas		
Unit Trusts	877,883	865,087
	1,664,750	**1,695,987**
PROPERTY		
UK	438,105	407,182
Property Unit Trusts		
UK	223,526	151,285
Overseas	3,171	4,734
	664,802	**563,201**
PRIVATE EQUITY FUNDS		
UK	8,232	5,593
Overseas	53,921	37,651
INFRASTRUCTURE		
UK	0	5,543
Overseas	52,546	48,171
	114,699	**96,958**
TOTAL	**4,487,816**	**4,414,887**

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 000's	Currency sold	Local value 000's	Asset value £000's	Liability value £000's
Up to one month	GBP	1,673	USD	2,378	19	
Up to one month	GBP	18,515	EUR	23,778		-340
Up to one month	GBP	129,035	USD	179,822	3,926	
Up to one month	GBP	127,597	USD	177,640	4,006	
Up to one month	USD	217	GBP	154		-4
					7,951	-344
Net forward currency contracts at 31 March 2016						**7,607**
Prior year comparative						
Open forward currency contracts					192	-8,185
Net forward currency contracts at 31 March 2015						**-7,993**

14b. Property Holdings

	31 March 16 £000's	31 March 15 £000's
Opening Balance	407,182	282,116
Additions	21,291	88,360
Disposals	-26,926	-7,648
Net increase in market value	36,558	44,354
Closing Balance	**438,105**	**407,182**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under contractual obligation to purchase, construct or develop these properties.

Financial Statements

The future minimum lease payments receivable by the Fund are as follows:

	31 March 16 £000's	31 March 15 £000's
Within one year	22,210	20,132
Between one and five years	70,679	63,677
Later than five years	79,254	84,150
	172,143	**167,959**

15. Investments at Market Value analysed by Fund Manager

	31 March 2016		31 March 2015	
	£000's	%	£000's	%
Baillie Gifford	910,953	19.9	871,881	19.3
DTZ	486,979	10.6	459,706	10.2
Fidelity	106,854	2.3	64,352	1.4
Goldman Sachs	327,612	7.2	324,910	7.2
HarbourVest	53,921	1.2	37,651	0.8
Henderson	0	0.0	5,543	0.1
Impax	33,067	0.7	31,579	0.7
Kames	60,644	1.3	40,278	0.9
M&G	244,275	5.3	216,945	4.8
Partners Group	52,546	1.2	48,171	1.1
BMO (Pyrford)	199,931	4.4	196,588	4.4
Sarasin	164,354	3.6	173,843	3.8
Schroders	1,165,045	25.5	1,221,200	27.0
State Street Global Advisors	521,371	11.4	559,679	12.4
YFM	8,233	0.2	5,593	0.1
Kent County Council (KCC) Investment Team	19,248	0.4	44,331	1.0
Woodford	222,123	4.8	216,082	4.8
	4,577,156	**100**	**4,518,332**	**100**

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

Financial Statements

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

	31 March 2016	
	£000's	% of asset class
Pooled Funds		
UK		
UK Fixed Income Unit Trusts		
SISF Strategic Bond GBP Hedged	228,876	29.1
UK Equity Unit Trusts		
MPF UK Equity Index Sub-Fund	313,020	39.8
CF Woodford Equity Income Fund	222,123	28.2
Overseas		
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	199,931	22.8
M&G Global Dividend Fund	231,689	26.4
MPF International Equity Index Sub-Fund	208,351	23.7
Schroder GAV Unit Trust	204,844	23.3
Property Unit Trusts		
Fidelity	106,854	47.1
Kames	60,144	26.5
M&G Residential Property Fund	12,536	5.5
Private Equity Funds		
UK		
Chandos Fund (YFM)	4,325	7.0
YFM Equity Partners 2015	3,907	6.3
Overseas		
HIPEP VI- Cayman	25,101	40.4
HarbourVest Partners IX	28,820	46.4
Infrastructure funds		
Overseas		
Partners Group Global Infrastructure 2009	37,561	71.5
Partners Group Direct Infrastructure 2011	14,986	28.5

Financial Statements

Property	Property Type	£000's	% of asset class
3-5 Charing Cross Road, London	Office	24,488	5.6
Drury House, London	Office	39,149	8.9
49/59 Battersea Park Road, London	Industrial	30,161	6.9
Lakeside Village, Doncaster	Mixed Use	32,290	7.4
151-161 Kensington High Street, London	Retail	26,087	6.0
The Sanctuary, London	Office	22,837	5.2
Colingdale Retail Park, London	Retail	24,454	5.6
Suncourt House, London	Office	22,840	5.2

	31 March 2015	
	£000's	% of asset class
Pooled Funds		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	126,356	15.2
SISF Strategic Bond GBP Hedged	111,417	13.4
UK Unit Trusts		
MPF UK Equity Index Sub-Fund	352,052	42.4
CF Woodford Equity Income Fund	216,082	26.0
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	196,588	22.7
M&G Global Dividend Fund	216,945	25.1
MPF International Equity Index Sub-Fund	207,627	24.0
Schroder GAV Unit Trust	212,347	24.5
Property Unit Trusts		
L & G Leisure	9,158	5.9
Fidelity	64,352	41.2
Kames	39,663	25.4
Hercules	10,456	6.7
IPIF	9,172	5.9
Lothbury	9,584	6.1
Private Equity funds		
UK		
Chandos Fund (YFM)	3,589	8.3
Overseas		
HIPEP VI- Cayman	17,439	40.3
HarbourVest Partners IX	20,212	46.7

	31 March 2015 £000's	% of asset class
Infrastructure funds		
UK		
Henderson Secondary PFI Fund I	5,543	10.3
Overseas		
Partners Group Global Infrastructure 2009	36,680	68.3
Partners Group Direct Infrastructure 2011	11,491	21.4

Property	Property Type	£000's	% of asset class
3-5 Charing Cross Road, London	Office	23,483	5.8
Drury House, London	Office	34,885	8.6
49/59 Battersea Park Road, London	Industrial	23,989	5.9
Lakeside Village, Doncaster	Mixed Use	31,405	7.7
151-161 Kensington High Street, London	Retail	24,250	6.0
The Sanctuary, London	Office	22,740	5.6
Colingdale Retail Park, London	Retail	22,683	5.6

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.

31 March 2016			
Loan Type	**Market Value £000's**	**Collateral Value £000's**	**Collateral type**
Equities	69,555	74,333	Sovereigns, Treasury Bills, Bonds & Notes
Bonds	2,880	3,077	Sovereigns, Treasury Bills, Bonds & Notes
	72,435	**77,410**	

31 March 2015			
Loan Type	**Market Value £000's**	**Collateral Value £000's**	**Collateral type**
Equities	100,690	106,730	Sovereigns, Treasury Bills, Bonds & Notes
Bonds	10,824	11,523	Sovereigns, Treasury Bills, Bonds & Notes
	111,514	**118,253**	

Financial Statements

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 2016			31 March 2015		
	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	310,896			313,962		
Equities	1,732,669			1,744,779		
Pooled Investments	1,664,750			1,695,987		
Property Pooled Investments	226,697			156,019		
Private Equity/ Infrastructure	114,699			96,958		
Derivative contracts	7,607			0		
Cash & Cash equivalents		78,013			102,622	
Other Investment Balances	16,916			11,355		
Debtors/ Receivables		27,460			34,785	
	4,074,234	**105,473**	**0**	**4,019,060**	**137,407**	**0**
Financial Liabilities						
Derivative contracts	0			-7,993		
Other Investment balances	-5,300			-1,510		
Creditors			-14,972			-15,109
	-5,300	**0**	**-14,972**	**-9,503**	**0**	**-15,109**
Total	**4,068,934**	**105,473**	**-14,972**	**4,009,557**	**137,407**	**-15,109**

17b. Net Gains and Losses on Financial Instruments

	31 March 16 £000's	31 March 15 £000's
Financial assets		
Fair value through profit and loss	-76,449	338,492
Total	**-76,449**	**338,492**

17c. 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, and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. 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. Assurances over the valuation are gained from the independent audit of the accounts.

These valuations are prepared by the Fund Managers in accordance with generally accepted accounting principles and the requirements of the law where these companies are incorporated. Valuations are usually undertaken periodically by the Fund Managers, and cash flow adjustments are used to roll forward the valuations where the latest valuation information is not available at the time of reporting.

The following table provides 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.

Financial Statements

Values at 31 March 2016	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	3,732,838	226,697	114,699	4,074,234
Loans and Receivables		105,473		105,473
Total Financial Assets	**3,732,838**	**332,170**	**114,699**	**4,179,707**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-5,300			-5,300
Financial Liabilities at amortised costs		-14,972		-14,972
Total Financial Liabilities	**-5,300**	**-14,972**	**0**	**-20,272**

Values at 31 March 2015	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	3,766,083	156,019	96,958	4,019,060
Loans and Receivables		137,407		137,407
Total Financial Assets	**3,766,083**	**293,426**	**96,958**	**4,156,467**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-9,503	0	0	-9,503
Financial Liabilities at amortised costs		-15,109		-15,109
Total Financial Liabilities	**-9,503**	**-15,109**	**0**	**-24,612**

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. The Fund is exposed to security and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016-17 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	3.70%
Overseas Equities	7.00%
Global Pooled Equities incl UK	6.40%

Financial Statements

Asset Type	Potential Market Movements (+/-)
Bonds	3.60%
Property	14.60%
Alternatives	0.30%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of market 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 overleaf):

Asset type	Value as at 31 March 16 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	78,013	0.00	78,013	78,013
Investment portfolio assets:				
UK Equities	782,037	3.70	810,972	753,102
Overseas Equities	950,632	7.00	1,017,176	915,459
Global Pooled Equities incl UK	1,435,874	6.40	1,527,770	1,382,747
Bonds incl Fixed Income Funds	539,772	3.60	559,204	519,800
Property Pooled Funds	226,697	14.60	259,795	218,309
Private Equity	62,153	0.30	62,339	59,853
Infrastructure Funds	52,546	0.30	52,704	50,602
Net derivative assets	7,607	0.00	7,607	7,607
Investment income due	12,702	0.00	12,702	12,702
Amounts receivable for sales	4,214	0.00	4,214	4,214
Amounts payable for purchases	-5,300	0.00	-5,300	-5,300
Total	**4,146,947**		**4,387,196**	**3,997,108**

Asset type	Value as at 31 March 15 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	102,622	0.00	102,622	102,622
Investment portfolio assets:				
UK Equities	825,228	3.70	855,761	794,695
Overseas Equities	919,551	7.00	983,920	885,528
Global Pooled Equities incl UK	1,458,214	6.40	1,551,540	1,404,260
Bonds incl Fixed Income Funds	551,735	3.60	571,597	531,321
Property Pooled Funds	156,019	14.60	178,798	150,246

Financial Statements

Asset type	Value as at 31 March 15 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Private Equity	43,244	0.30	43,374	41,644
Infrastructure Funds	53,714	0.30	53,875	51,727
Net derivative assets	-7,993	0.00	-7,993	-7,993
Investment income due	11,355	0.00	11,355	11,355
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	-1,510	0.00	-1,510	-1,510
Total	**4,112,179**		**4,343,339**	**3,963,894**

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 2016 and 31 March 2015 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 16 £000's	31 March 15 £000's
Cash and cash equivalents	70,117	101,593
Cash Balances	7,896	1,029
Fixed Interest Securities		
- Directly held securities	310,896	313,962
- Pooled Funds	228,876	237,773
Total	**617,785**	**654,357**

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:

Financial Statements

Asset Type	Carrying amount as at 31 March 16	Change in year in the net assets available to pay benefits	
	£000's	+100bps £000's	-100bps £000's
Cash and cash equivalents	70,117	701	-701
Cash Balances	7,896	79	-79
Fixed Interest Securities			
- Directly held securities	310,896	-3,109	3,109
- Pooled Funds	228,876	-2,289	2,289
Total change in assets available	**617,785**	**-4,618**	**4,618**

Asset Type	Carrying amount as at 31 March 15	Change in year in the net assets available to pay benefits	
	£000's	+100bps £000's	-100bps £000's
Cash and cash equivalents	101,593	1,016	-1,016
Cash Balances	1,029	10	-10
Fixed Interest Securities			
- Directly held securities	313,962	-3,140	3,140
- Pooled Funds	237,773	-2,378	2,378
Total change in assets available	**654,357**	**-4,492**	**4,492**

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect interest income received on those balances.

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 (£251m) 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 2016 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 16 £000's	Asset value as at 31 March 15 £000's
Overseas Equities	950,632	919,551
Overseas Pooled Funds	877,883	865,087
Overseas Bonds	39,923	47,418
Overseas Private Equity, Infrastructure and Property fund	109,638	90,556
Non GBP Cash	8,302	18,731
Total overseas assets	**1,986,378**	**1,941,343**

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 2016-17 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against 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 16 £000's	Change to net assets available to pay benefits +5.8% £000's	Change to net assets available to pay benefits - 5.8% £000's
Overseas Equities	950,632	1,005,769	895,495
Overseas Pooled Funds	877,883	928,800	826,966
Overseas Bonds	39,923	42,239	37,607
Overseas Private Equity, Infrastructure and Property funds	109,638	115,997	103,279
Non GBP Cash	8,302	8,784	7,820
Total change in assets available	**1,986,378**	**2,101,589**	**1,871,167**

Financial Statements

Currency exposure - asset type	Asset value as at 31 March 15 £000's	Change to net assets available to pay benefits +5.8% £000's	Change to net assets available to pay benefits -5.8% £000's
Overseas Equities	919,551	972,885	866,217
Overseas Pooled Funds	865,087	915,262	814,912
Overseas Bonds	47,418	50,168	44,668
Overseas Private Equity, Infrastructure and Property funds	90,556	95,808	85,304
Non GBP Cash	18,731	19,817	17,645
Total change in assets available	**1,941,343**	**2,053,940**	**1,828,746**

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:

Money Market Funds	Rating	Balance as at 31 March 16 £000's	Balance as at 31 March 15 £000's
JP Morgan Sterling Liquidity Fund	**AAAm**	0	23,330
Northern Trust Sterling Fund	**AAAm**	44,059	0
SSGA Liquidity Fund	**AAAm**	228	0
Blackrock Sterling Government Liquidity Fund	**AAAm**	0	133
Aberdeen Sterling Liquidity Fund	**AAAm**	22	0
Goldman Sachs Liquid Reserve Government Fund	**AAAm**	5,015	15,101

Financial Statements

Money Market Funds	Rating	Balance as at 31 March 16 £000's	Balance as at 31 March 15 £000's
Aviva Investors Sterling Liquidity Fund	**AAAm**	6,921	14,346
Deutsche Managed Sterling Fund	**AAAm**	584	30
HSBC Global Liquidity Fund	**AAAm**	1,709	41
LGIM Liquidity Fund	**AAAm**	4,732	14,944
Insight Sterling Liquidity Fund	**AAAm**	2,613	4,753
		65,883	**72,678**
Bank Deposit Accounts			
HSBC BIBCA	**AA-**	2,430	10,021
NatWest SIBA	**BBB+**	8	0
		2,438	**10,021**
Bank Current Accounts			
Natwest Current Account	**BBB+**	50	44
Natwest Current Account - Euro	**BBB+**	3,883	95
Natwest Current Account - USD	**BBB+**	9	0
JP Morgan Chase - Current Account	**A+**	0	18,894
Northern Trust - Current Account	**AA-**	4,463	0
Barclays - DTZ client monies account	**A**	1,287	890
		9,692	**19,923**
Total		**78,013**	**102,622**

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 2016 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, represented 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.

Financial Statements

The main actuarial assumptions were as follows:

Assumptions	2013
Valuation of Assets:	Assets have been valued at a 6 month smoothed market rate
Rate of return on investments (discount rate)	6.0% p.a.
Rate of general pay increases	2.7% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension)	2.7% 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 IAS 19 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 2016 was £7,479.8m (31 March 2015: £7,676.6m). The Fair Value of the Scheme assets at Bid Value being £4,597.5m (31 March 2015: £4,539.0m) the Fund has a net liability of £2,882.3m as at 31 March 2016 (31 March 2015: £3,137.6m). 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 61.46% 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 IAS 19 basis and therefore differs from the results of the 2013 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

Assumptions:	2016
Salary increase rate	4.2% p.a.
Inflation/Pensions increase rate	2.4% p.a.
Discount rate	3.7% p.a.

Financial Statements

21. Current Assets

	31 March 2016 £000's		31 March 2015 £000's	
Debtors				
- Contributions due - Employees	2,860		4,003	
- Contributions due - Employers	17,092		20,415	
- Sundry debtors	5,257		4,998	
Total External Debtors		25,209		29,416
Amounts due from Kent County Council		2,251		5,369
Cash		7,896		1,029
Total		**35,356**		**35,814**
Analysis of External Debtors				
Other Local Authorities		19,462		24,994
Other Entities and individuals		5,747		4,422
Total		**25,209**		**29,416**

22. Current Liabilities

	31 March 2016 £000's		31 March 2015 £000's	
Creditors				
- Benefits Payable	7,789		6,345	
- Sundry Creditors	4,288		5,499	
Total External Creditors		12,077		11,844
Owing to Kent County Council		2,895		3,265
Total		14,972		15,109
Analysis of External Creditors				
Central Government Bodies		0		0
Other Local Authorities		7,431		5,700
Other Entities and individuals		4,646		6,144
Total		**12,077**		**11,844**

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 either Equitable Life Assurance Company, Prudential Assurance Company or Standard

Life Assurance Company. These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2015-16 £000's	2014-15 £000's	2015-16 £000's	2014-15 £000's	2015-16 £000's	2014-15 £000's
Value at 1 April	6,235	6,016	2,061	1,967	782	862
Value at 31 March	6,371	6,235	2,049	2,061	628	782
Contributions paid	1,237	1,245	175	153	2	3

24. Related Party Transactions

The Pension Fund is required to disclose material transactions with related parties, not disclosed elsewhere, in a note to the financial statements. During the year each member of the Kent County Council Superannuation Fund Committee is required to declare their interests at each meeting. None of the members of the Committee or senior officers undertook any material transactions with the Kent Pension Fund.

	2015-16 £000's	2014-15 £000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	66,968	66,014
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	2,706	2,889
Year end balance due from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-645	2,103

Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2015-16 were the Corporate Director of Finance and Procurement, the Head of Financial Services, the Treasury and Investments Manager and the Pensions Manager. Details of officers' remuneration and members' allowances can be found in the accounts of Kent County Council under notes 6 and 7.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2016 totalled £61.9m (31 March 2015: £107.3m).

Financial Statements

These commitments relate to outstanding call payments due on unquoted limited partnerships / 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

29 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.

Financial Statements

Independent Auditor's report to the members of Kent County Council on the consistency of the superannuation fund financial statements included in the superannuation fund annual report

The accompanying superannuation fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 21 July 2016. The superannuation fund annual report, and the superannuation fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the superannuation fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. 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.

Corporate Director of Finance and Procurement responsibilities for the superannuation fund financial statements in the superannuation fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Corporate Director of Finance and Procurement is responsible for the preparation of the superannuation fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the superannuation fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the superannuation fund financial statements in the superannuation fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the superannuation 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. The other information consists of the Introduction and Overview, Investments, Administration, the Actuary's Report, the Funding Strategy Statement, the Statement of Investment Principles, the Governance Compliance Statement and the Communications Policy Statement.

Financial Statements

Opinion

In our opinion, the superannuation fund financial statements in the superannuation fund annual report derived from the audited superannuation fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

6 September 2016

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.

Funding Strategy Statement

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;

Funding Strategy Statement

- 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:

1. A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
2. 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 than 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.

Funding Strategy Statement

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.

Funding Strategy Statement

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.

Funding Strategy Statement

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.

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.

Funding Strategy Statement

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 required.

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.

Funding Strategy Statement

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 Authority's 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 and ethical considerations are taken into account in the selection, retention and realisation of investments;
- the exercise of the rights (including voting rights) attaching to investments if they have any such policy ;
- 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 and 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 triennial valuation.

Statement of Investment Principles

Investments

Investment Managers

The Superannuation Fund Committee has appointed a number of active and passive investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Fund's investment managers are listed at Appendix 1.

Each manager's remuneration is based on a percentage of funds under management in accordance with the rates quoted in their respective Investment Management Agreements and / or Fund Prospectus. The performance of the Investment Managers is measured against agreed benchmarks that are appropriate for their investment strategies.

Strategic Asset Allocation

The Committee, advised by Hymans Robertson, has set a Fund asset allocation 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 at its regular meetings and if the ranges are breached as a result of relative performance of assets, they may choose to delay bringing the weights back within guideline ranges.

Within each asset class, the Committee makes further decisions on specific investment strategies or styles with the objective of exploiting opportunities and maximising returns within acceptable risk parameters.

Performance Benchmark

The Fund's performance is monitored against two performance benchmarks:

- Strategic Benchmark;
- Customised (Floating) Benchmark.

The Fund's Strategic Performance Benchmark is based on the approved strategic allocation of the Fund's assets and the common market indices for those asset classes. The strategic asset allocation and the indices used to calculate the strategic benchmark are shown in Appendix 2.

However at any given point in time the actual proportion of the Fund's assets is at slight variance with the strategic allocation, and in that situation it is appropriate to calculate a customised benchmark for the Fund based on its actual asset allocation and investment manager benchmarks. The investment manager benchmarks used to calculate the customised (floating) performance benchmark for the Fund are shown in Appendix 3.

The Fund's performance is monitored against both these benchmarks on a quarterly basis.

Investment Objectives

The investment objectives for each mandate are set out in Appendix 3.

Choice of Investments

The managers of segregated portfolios have been given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio, with restrictions on maximum investment

Statement of Investment Principles

in a particular security up to a specified percentage of the company size as well as the portfolio where applicable.

In the UK direct property portfolio no single property can account for more than 10% of the total portfolio. The property manager determines sales and purchases.

Where investments are in pooled equity, bond, property or private equity funds, the fund managers have complete discretion over investments in accordance with the fund's prospectus or associated management agreements. All pooled funds are managed on an active basis except for the SSgA managed funds which are passive trackers.

Risk
The adoption of a Strategic Asset Allocation (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 investments 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 will take longer to realise but as they are in selected first class properties they should be realisable within a short period of time. The Private Equity and Infrastructure investments are in long term closed ended funds which are held to the end of the life of the Funds and have limited liquidity in the interim period. Higher rates of return are, however, expected to compensate for the restricted liquidity of these investments. Currently 2.6% of the total Fund is invested in such assets.

Cash
The Fund has a positive cashflow reflecting an ongoing excess of receipts over payments. The Committee has its own agreed Treasury Management Strategy managed by Kent County Council.

The Cash balance is reported to the Committee on a quarterly basis. Determinations are then made as to whether to hold cash as an investment, hold to fund forthcoming new investments, or to allocate to existing managers. The cash is invested in approved Money Market Funds.

Monitoring of Investments
The Superannuation Fund Committee usually meets five times a year. It receives quarterly reports of the performance of the Fund's investments at Fund level as well as detailed reports on the performance of each manager / fund. Managers of the larger portfolios attend the Committee meetings to explain their strategy and answer questions from members of the Committee.

Major reviews of the Fund's investment strategy follow the triennial actuarial valuation.

All directly appointed 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. Investments in pooled funds, other than in some illiquid assets can be redeemed at short notice.

Statement of Investment Principles

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 is remunerated on the basis of work undertaken.

Investment Principles
The Authority's investment principles for investing Fund monies have been designed in accordance with and comply with the statutory guidance for Investment Decision Making and Disclosure in the Local Government Pension Scheme: Application of Myners Principles.

Stock Lending
The Committee has agreed to Stock Lending as an activity to enhance returns from the investments held directly by the Fund. This is usually done through the Fund's custodians. During the year the Fund changed its custodians from JPMorgan to Northern Trust Company. The Fund's current custodians, Northern Trust, undertake a limited programme of stock lending to approved, UK counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.

Responsible Ownership

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 in which it invests.

Fiduciary Responsibility
As a consequence of the Fund's fiduciary responsibility to the taxpayer it will not impose restrictions upon the 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 for example illegal activities, major fraud.

Statement of Investment Principles

UK Stewardship Code

The Committee expects the investment managers who hold shares on its behalf to fully comply with the Financial Reporting Council's (FRC) UK Stewardship Code and to fully participate in voting at company Annual General Meetings. Investment managers provide feedback information on voting decisions on a quarterly basis.

Environmental, Social and Governance issues

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 the Fund's investments. The Committee also expects feedback from the investment managers on the activities they undertake.

The Fund would engage directly with a company in which it is invested, in exceptional circumstances.

UN Principles of Responsible Investment

The Kent Fund supports and has signed up to the UN Principles of Responsible Investment. The 6 principles are:

1. we will incorporate ESG issues into investment analysis and decision making;
2. we will be active owners and incorporate ESG issues into our ownership policies and practices;
3. we will seek appropriate disclosures on ESG issues by entities we invest in.;
4. we will promote acceptance and implementation of the principles within the investment industry:
5. we will work together to enhance our effectiveness in implementing the principles;
6. 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 (IIGCC) 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 and UK where it is of clear financial benefit to it.

Statement of Investment Principles

Review of the Statement of Investment Principles

The document will be reviewed regularly or as is made necessary by changes to the LGPS Regulations. The current version of this document is at SIP.

List of appendices

Appendix 1	List of Investment Managers
Appendix 2	Strategic Asset Allocation and Benchmark
Appendix 3	Investment Manager Mandates
Appendix 4	Statement of Compliance with the Myners Principles
Appendix 5	Risk Register

Statement of Investment Principles

Appendix 1

Investment Managers

Fund Managers	Mandate
EQUITY	
Schroder Investment Management	UK Equities
State Street Global Advisers (SSgA)	UK Equities (Passive)
Woodford Investment Management	UK Equities
Baillie Gifford & Co	Global Equities
Sarasin & Partners	Global Equities
Schroder Investment Management	Global Equities (Quantitative)
State Street Global Advisors (SSgA)	Global Equities (Passive)
M&G Investments	Global Equities
Impax Asset Management	Global Equities (Environmental)
BONDS	
Schroder Investment Management	Fixed Interest
Goldman Sachs Asset Management (GSAM)	Fixed Interest
PROPERTY	
DTZ Investment Management	Direct and Indirect Property
Fidelity Worldwide Investments	Indirect Property
Kames Capital	Indirect Property
M&G Investment Management	Indirect Property
ALTERNATIVES	
YFM Equity Partners	Private Equity
HarbourVest Partners	Private Equity
Partners Group Management II S.ar.l	Infrastructure
Henderson Global Investors	Infrastructure
BMO Investments (Pyrford)	Absolute Return

Statement of Investment Principles

Appendix 2

Strategic Asset Allocation and Benchmark

Asset Class	Allocation %	Index
UK Equities	32	FTSE All Share
Overseas Equities	32	MSCI World Index NDR
Fixed Income	15	BAML GBP Broad Market
Property	13	IPD All Properties Index
Private Equity and Infrastructure	2	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
Total	**100**	

Statement of Investment Principles

Appendix 3

Investment Manager Mandates

Asset Class / Manager	Performance Benchmark	Performance Target
UK Equities:		
Schroders	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
SSgA	FTSE All Share	Match
Global Equities:		
Baillie Gifford	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G	MSCI AC World Index GDR	+3% pa
Schroders	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
SSgA	FTSE World ex UK	Match
Fixed Income:		
Schroders	3 months Sterling Libor	+4% pa over rolling 3 years
GSAM	None	+3.5% to 6% Absolute over rolling 3 years
Property:		
DTZ	IPD Pension Fund Index	Match or exceed 3 year rolling average of benchmark returns
Fidelity	IPD UK PF All Balanced Property Fund Index	
Kames	IPD UK PF All Balanced Property Fund Index	
M&G	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 Group	GBP 7 Day LIBID	
Infrastructure - Henderson	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

Statement of Investment Principles

Appendix 4

Statement of Compliance with the Myners Principles

	Description of Principle	Kent Pension Fund's position	Future actions
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.	The Superannuation Fund Committee is responsible for the approval and review of the investment strategy of the Kent Pension Fund. The day to day running of the Fund has been delegated to the section 151 Officer, The Corporate Director of Finance and Procurement, supported by other Fund officers. Appointments to the Committee reflect skills, experience and continuity. An ongoing programme of training is in place for members of the Committee. Fund officers hold relevant qualifications and maintain appropriate professional development (CPD). The Kent Pension Fund is a member of the CIPFA Pensions Network and other relevant bodies which provide training. Members and officers also attend training courses run by investment managers and the Fund's actuary. The structure and composition of the Superannuation Fund Committee is agreed at the time of the elections to the County Council and other local authorities. Allowances paid to elected members are published.	Ongoing Member and Fund officer training.

Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
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.	The Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) set out the Kent Pension Fund's primary funding objectives and investment strategies. The Fund recognises the impact of employer contribution rates on Council tax and the desirability of rates that are as stable as possible. The Fund manages employers' liabilities effectively taking account of the strength of their covenant. Specific investment objectives are in place for each mandate in the portfolio and these are regularly monitored by the Superannuation Fund Committee. These objectives take account of the risk and return of different asset classes. Investment advice to the Committee and Fund officers is commissioned from Hymans Robertson.	Continual monitoring, review, and communication of objectives.
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.	The Funding Strategy Statement (FSS) is reviewed at each triennial actuarial valuation taking account of the recommendations of the Fund actuary in relation to the liabilities of the Fund. The Fund agrees employer contribution rates that take account of the ability of employers to pay and the strength of	

Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
		covenant of participating employers. The admission of new employers to the Fund is not granted unless appropriate guarantees are put in place. The Statement of Investment Principles (SIP) is reviewed at least annually. It takes into account the Fund's attitude to investment risk. It also includes the Fund risk register which covers all the Fund's activities. Whilst it is accepted that investment underperformance due to certain market conditions can occur, the Committee measures the Fund's active managers against longer term benchmark outperformance targets. The Committee uses internal and external audit reports to assess the effectiveness of governance arrangements.	
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.	The Committee reviews the performance of its investment managers at its regular meetings and all the fund managers are held to account either through attendance at meetings with the Committee and / or with the Fund's officers and advisors. Performance data is provided by a specialist provider, independent of the fund managers.	

Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
		The Fund's contract with its actuary is market tested when appropriate. Committee member attendance at meetings and training undertaken is monitored.	
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.	The Institutional Shareholders' Committee Statement of Principles has been superseded by the Financial Reporting Council's (FRC) UK Stewardship Code and it is now the standard for the investment management industry. The Fund's Statement of Investment Principles describes its policy on responsible ownership and the expectation that its investment managers will adhere to the UK Stewardship Code. Quarterly reports received from Investment Managers and circulated to Committee members include details of voting records. The Fund's annual report also includes a summary of the managers' voting activity.	
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.	Agenda papers for all Committee and Pension Board meetings are available at: www.kent.gov.uk The Fund's website at www.kentpensionfund.co.uk includes the:	

Statement of Investment Principles

	Description of Principle	Kent Pension Fund's position	Future actions
	Provide regular communication to scheme members in the form they consider most appropriate.	• Funding Strategy Statement; • Statement of Investment Principles; • Governance Compliance Statement; and • Communications Policy. Employer forums are held twice yearly and include presentations from Fund officers and advisors as well as provide the opportunity for questions from the employer representatives. Individual scheme members receive newsletter updates throughout the year in addition to annual benefit statements.	

Appendix 5

Risk Register

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Increased scrutiny from the National Scheme Advisory Board, The Pensions Regulator (TPR) and Pensions Ombudsman.	1	1	**1**	Hold Pension Board meeting	1	1	**1**
Proposals for pooling of Investments	4	4	**16**	Responded to consultations, SFC now agreed to join the Access Pool, submission in on 19th February, work now in hand.	4	4	**16**
Failure to establish the new Pension Board in accordance with legislation	1	1	**1**	The Pensions Board had its first meeting on 30 July 2015 and the Chair Person has been appointed. Membership to be finalised after 6 Nov Committee meeting. Details of the Pension Board set up on Kent.gov website. Link on pension fund website. 2nd meeting scheduled for April 2016.	1	1	**1**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Compliance with TPR requirements	3	1	**3**	Officers monitoring compliance, response to surveys.	2	1	**2**
Administering Authority becoming separate entity from Local Authority	1	2	**2**	Respond to consultations	1	2	**2**
Compliance with data protection laws	3	1	**3**	KCC policies and protocols. Training is now compulsory for all KCC staff by 31 December 2015 which was completed.	2	1	**2**
Inadequate skills & knowledge of Committee and Board Members / officers	2	1	**2**	Emphasis on member and officer training & development. Attendance at conferences / training events run by Fund Managers, CIPFA, NAPF etc. KCC training available. TPR toolkit available.	2	1	**2**
Loss of experienced Members/staff	3	2	**6**	Local election in 2017 / Succession planning KCC policy re succession planning.	3	2	**6**
Potential changes to the provision of KCC Legal Services	2	2	**4**	Ongoing monitoring of KCC plans.	1	2	**2**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Inadequate KCC resource to support Pension Fund processes	3	1	**3**	Need to agree a Service Level Agreement (SLA) with the BSC and agree charges.	2	1	**2**
Failure to communicate with employers effectively	2	1	**2**	Employer Forums, meetings, regular communication Enhance Fund website, add guidance for employers to website.	1	1	**1**
Increased number of employers in the Fund	2	4	**8**	Appropriate staffing resources and systems, clear communication Recognising Academies at Trust level, liaising with actuary.	2	3	**6**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Employer outsourcing - admission bodies	3	4	**12**	Clear process and communication with employers pre contract decisions, Liaise with KCC Legal Services and actuary Regular employers report to SFC and Pensions Board SFC agreed delegation for admission decisions to Director of Finance and Procurement in exceptional circumstances Ensure guarantees provided or bonds put in place if required and maintained for the life of the contracts.	2	4	**8**
Admission agreements / scheduled body resolutions closed to new members	3	4	**12**	Plan for exiting employers as per Reg. 64 (4).	2	4	**8**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Financial failure of an employer	4	1	**4**	Monitoring of employers, bond / guarantees, credit risk management. Pro-active management of exit liability as per Reg 64 (4) Agree shorter recovery periods. Cash deficit contributions.	3	1	**3**
Academies Closing	3	2	**6**	Recognise the academy Trust as employer rather than the individual academy in a multi academy trust. D of E guarantee.	3	1	**3**
Failure to collect pension contributions in line with regulatory guidelines	4	1	**4**	Regular reporting to the Superannuation Fund Committee and Pensions Board. Escalation process agreed and documented, Regular monitoring and recovery action, KPI's, Annual internal and external audit review Project to be established to look into solution based on employers using selfservice.	3	1	**3**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Changes to Employers' payroll providers	2	4	**8**	Use of website, Communication with employers.	1	4	**4**
Implementation of actuarial valuation results - 2016 valuation	2	2	**4**	Project plan documented on SharePoint. August 2015 Briefing note received from actuary 2013/14 & 2014/15 cash flows already sent to actuary to reduce workload spike, Monitoring of monthly returns Held pre valuation meeting with actuary. Reviewing employers event spreadsheet with actuary.	2	1	**2**
Fund managers' compliance with LGPS 2009 regs (as amended) and Fund SIP / FSS	2	1	**2**	IMAs, Fund Manager reports, monthly management reporting, Committee reviews, officer reviews.	2	1	**2**
Lack of adequate internal controls at Fund Managers and Custodian	3	1	**3**	AAF/01/16 and SSAE16 reports for Fund Managers and Custodian.	3	1	**3**
Changes in membership maturity mean that different employers request different investment strategies	2	1	**2**	Balanced Investment strategy. Liaison with actuary.	2	1	**2**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Fund investment return below that assumed by the actuary	4	4	**16**	Diversified investment strategy with annual review. Advice from Hymans Robertson, Tactical asset allocation. Monitoring of investment managers.	3	4	**12**
Investment in complex instruments / vehicles	2	3	**6**	Diversified Investment strategy, Advice from Hymans Robertson. Attendance at Industry and Fund Manager training forums.	2	2	**4**
Pressure to reduce Investment fees	2	4	**8**	Participate in consultation to influence Policy and direction of travel. Consider pooling of investments with other funds to reduce fee rates.	1	4	**4**
Increased longevity	2	3	**6**	Investment stragey, Actuarial assumptions, increased employer contributions.	2	3	**6**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Failure of manager or custodian	3	1	**3**	Quarterly monitoring SSAE16 audit reports; diversification of manager mandates; diversification of custody via pooled funds Advice from Hymans Robertson.	2	1	**2**
Incomplete and inaccurate investment records including income	3	2	**6**	Reconciliation of KCC accounting systems with fund mangers' reports. Annual external audit review.	2	1	**2**
Insurance risk on property portfolio	2	2	**4**	Ensure adequate arrangements in place at all times.	2	1	**2**
Failure to complete the Transition of Custodian Services on the due date	3	1	**3**	Transition complete as agreed Regular internal review with custodian of progress against plan. Dialogue and consultation with Fund Managers.	2	1	**2**
Poor communication with members	2	1	**2**	Regular communication, ABI's.	2	1	**2**
Fraudulent payments	3	1	**3**	Atmos monitoring process Internal controls Regular internal & external audits.	2	1	**2**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Failure of employers to provide timely and accurate information such as whole time equivalent pay and Assumed Pensionable Pay	2	3	**6**	Regular communication. Intervention with problem employers	2	3	**6**
Inadequate implementation of the 2014 Regulations and compliance with new requirements by employers	4	2	**8**	Regular communication with employers and staff training	3	2	**6**
Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors	3	1	**3**	Engagement with employers, employer manuals in place, electronic interface, year end data cleansing, officer checking.	3	1	**3**
Security and integrity of member data	3	1	**3**	Access controls, authorisations, reconciliations.	3	1	**3**
System failure	3	1	**3**	Externally hosted business continuity arrangements with Heywood. Cover for key staff in Business Services Centre.	3	1	**3**
Manual calculations due to late/non receipt of new Regulations and errors within administration system	2	3	**6**	Staff training.	2	3	**6**
Failure or delay in paying pensioners	2	4	**8**	Externally hosted business continuity arrangements with Heywood.	2	4	**8**
Impact of tax changes on individuals- annual allowance/lifetime allowance	2	3	**6**	Briefing material.	2	3	**6**

Statement of Investment Principles

Risk	Impact	Likelihood	Risk Score	Mitigation	Residual Impact	Residual Likelihood	Residual Risk Score
Change of premises	2	5	**10**	Admin team moved to Invicta House temporarily, anticipated move to Cantium House in early 2016.	1	5	**5**
Ending of Contracting Out - GMP reconciliation	2	4	**8**	Awaiting central government guidance on any underpayment or overpayment of pensions.	2	4	**8**
TPR concerns re quality of data - common data	3	2	**6**	Contract to use tracing company to locate lost addresses, train employers so that correct timely data received.	2	2	**4**

Governance Compliance Statement

Regulation 55 of The Local Government Pension Scheme Regulations 2013 requires the administering authority to prepare a Governance Compliance Statement.

	Description of Principle	Kent Pension Fund's position
1	**Structure**	
	a) the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	The Superannuation Fund Committee exercises all of the powers and duties of Kent County Council as the administering authority for the Kent Pension Fund.
	b) 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.	The matters the Committee is responsible for include: • setting investment strategy • appointing professional fund managers • carrying out regular reviews • monitoring of investments • monitoring the administration of the pension scheme • determining pension fund policy in regard to employer admission arrangements.
	c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
	d) 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.	Membership of the Committee is drawn from the County Council as well as other scheme employers and member representatives. All representatives receive appropriate training and development.

Governance Compliance Statement

	Description of Principle	Kent Pension Fund's position
2	**Committee Membership and Representation** a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) Employing authorities (including non-scheme employers, e.g. admitted bodies); (ii) Scheme members (including deferred and pensioner scheme members); (iii) Independent professional observers; (iv) Expert advisers (on an ad hoc basis). b) 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.	Committee members serve for a 4 year term. The Committee consists of 17 members; 13 employer representatives and 4 member representatives. Of the employer representatives 9 are drawn from the County Council, 3 are nominated by the 12 district councils and Medway Council has 1 representative. Of the 4 member representatives Unison and KCC staff have 1 representative each and the Kent Active Retirement Fellowship has 2 representatives. The Fund's investment advisors, 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. All members of the Committee 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.
3	**Selection and Role of Lay Members** a) 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. b) 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.	On appointment all Committee members are made fully aware of the status, role and function they are to perform. All members of the Committee have signed an undertaking to comply with the Code of Member conduct set out in appendix 6 of the KCC constitution. At the start of each meeting Committee members are invited to declare any related financial or pecuniary interest in any matters on the agenda.

Governance Compliance Statement

	Description of Principle	Kent Pension Fund's position
4	**Voting** a) 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.	12 Committee members have full voting rights. Of these, 9 are drawn from the County Council and 3 are nominated by the 12 district councils. The Medway Council, Unison, KCC staff and 2 Kent Active Retirement Fellowship representatives are non – voting members of the Committee. The voting rights of Superannuation Fund Committee members are regularly reviewed, the most recent review being February 2016.
5	**Training / Facility Time / Expenses** a) 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. b) that where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.	Arrangements for training, facility time and expenses of Committee members are described in the Kent County Council constitution. This policy applies equally to all Committee members. All additional costs of attending training courses are reimbursed from the Fund.
6	**Meetings - Frequency** (a) that an administering authority's main committee or committees meet at least quarterly. (b) 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. (c) 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.	The Superannuation Committee usually meets 5 times year. The Pensions Forum meets twice a year for all employers focussing on administration issues.

Governance Compliance Statement

	Description of Principle	Kent Pension Fund's position
7	**Access** (a) 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.	All Committee members have access to committee papers, documents and advice that fails to be considered at meetings of the Committee. Meeting papers are also available on the KCC and Kent Pension Fund websites.
8	**Scope** (a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The Committee monitors the administration of the pension scheme and determines pension fund policy in regard to employer admission arrangements.
9	**Publicity** (a) 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.	Details of all Committee meetings are available on the Kent County Council website including all unrestricted committee papers.

Governance Compliance Statement

10	**Local Pension Board** A local pension board was established in 2015 in accordance with regulation 106 of the LGPS 2013 regulations. Its purpose is to assist Kent County Council as the Administering Authority for the Kent Fund to secure compliance with the 2013 regulations and to ensure the effective and efficient governance and administration of the Scheme. The Board is composed of 8 members; 4 employer representatives and 4 member representatives. Board members serve for a 4 year term. Of the employer representatives 2 are drawn from the County Council, 1 is nominated by the 12 district and Medway councils, and 1 is nominated by the other employers. Of the 4 member representatives there is 1 trade union representative, 1 KCC staff representative, 1 representative of Medway and district councils, and 1 representative of the Kent Active Retirement Fellowship. The Chair of the Board is a KCC elected member and the Vice Chair is elected by the Board. The Board meets twice a year with secretarial support provided by KCC Democratic services. Details of all Board meetings including all unrestricted meeting papers, are available on the Kent County Council website. All representatives receive appropriate training and development and all costs of attending meetings and additional costs of attending training courses are reimbursed from the Fund.

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:

- **Active members** - Members who are in employment and 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.

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.

All active, deferred and prospective members as well as pensioners have access to the following:

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 dedicated areas for all members. It includes extensive pages of information about the scheme, guides, factsheets and forms.

Helpline
A dedicated pensions helpline, 03000 413 488, is available from 9:00am 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.

Communications Policy Statement

Correspondence
Written letters received are replied to within 15 working days.

1:1 appointment
Members can request a 1:1 appointment with a pension administrator any time during 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.

Specific information is made available to each group of members as follows:

Active members

Annual benefit illustrations
Once a year, by 31 August, an illustration in paper format is sent to home addresses. The illustration shows basic information held about the member such as pay used for pension purposes. It gives an illustration of the pension benefits built up to the previous 31 March. 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.

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.

Pre-retirement courses
Pre-retirement courses are provided every 6 weeks 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. 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 or designated staff with specialist knowledge in the particular pension issue.

Deferred benefit members

Deferred Benefit Illustrations
Once a year, before 31 August, 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

Communications Policy Statement

death grant lump sum, should the member die before benefits are payable, and the nominees that the member wishes to receive this death grant.

Pre-retirement courses
Pre-retirement courses are provided every 6 weeks 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. 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. Members have the option to choose to receive Open Lines as a link by email rather than by post.

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 £3, the member changes their bank details or there is a tax code change.

Pension payroll helpline and mailbox
A dedicated pension payroll helpline, 03000 411 107 is available Monday to Friday 9:00am to 5:00pm. Pension payroll provide a mailbox: pensions.payroll@kent.gov.uk

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 Pension 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 information with the benefit letter to newly retired members.

Communications Policy Statement

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.

Bulletins
Bulletins are 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 and forms.

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.

Communications Policy Statement

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.

Publication	Frequency	Paper	Email	Website
Benefit Illustrations	Annual	✓	×	×
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	×	×	✓

Kent County Council
Pension Section

Fund benefits and contributions

Lower Ground Floor
Invicta House
County Square
Maidstone
Kent ME14 1XX

03000 413 488
pensions@kent.gov.uk

Kent County Council
Treasury and Investments

Fund accounting and employer governance

Room 2.53
Sessions House
County Hall
Maidstone
Kent ME14 1XQ

03000 416 431
investments.team@kent.gov.uk

Grant Thornton

The Audit Findings Report for Kent Superannuation Fund

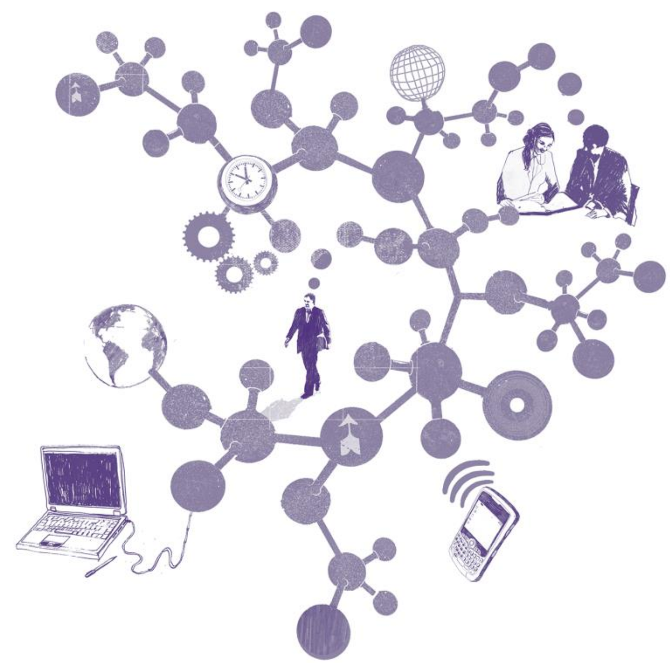
Year ended 31 March 2016

21 July 2016

Emily Hill
Engagement Lead
T 020 7728 3259
E emily.hill@uk.gt.com

Matt Dean
Engagement Manager
T 020 7728 3181
E matthew.dean@uk.gt.com

Keith Mungadzi
In-Charge Accountant
T 020 7728 2393
E keith.mungadzi@uk.gt.com



Private and Confidential

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

020 7383 5100
www.grant-thornton.co.uk

The Governance and Audit Committee
Kent County Council
County Hall
Maidstone
Kent
ME14 1XQ

21 July 2016

Dear Members of the Governance and Audit Committee

Audit Findings for Kent Superannuation Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of the Kent Superannuation Fund, the Governance and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Emily Hill

Engagement Lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of the Kent Superannuation Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Narrative Report and the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 27 April 2016.

Our audit is now complete.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Fund's reported net assets position in the draft financial statements. The draft financial statements for the year ended 31 March 2016 recorded net assets of £4,597,540k and the audited financial statements record the same outcome.

There were no significant issues arising from our work. The draft financial statements provided to audit were of a high quality and supported by good working papers. The finance team responded promptly and knowledgably to audit requests and queries. We have however recommended a small number of adjustments to improve disclosure and the presentation of the financial statements, further details of which can be seen within section two of this report.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Director of Finance and Treasury and Investment Manager.

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 2016

Section 2: Audit findings

Page 183

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £45,390k (being 1% of net assets from the prior year audited accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2,269k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Pension Fund and the related party.
Cash and cash equivalents	The balance of cash and cash equivalents is usually material, and as the majority of your transactions affect the balance it is therefore considered to be material by nature also.	Any errors identified by testing in excess of £500k will be considered as to whether they would affect the users understanding of the financial statements.

Page 184

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(UK&I)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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at Kent Superannuation Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Fund, fund managers and the custodian; and • the culture and ethical frameworks of local authorities, including Kent County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.	Provide summary of work performed, e.g. • review of entity-level controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	Our audit work has not identified any evidence of management over-ride 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.

Page 185

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Level 3 Investments – Valuation is incorrect** Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	• We carried out walkthrough tests of the controls identified in the cycle. • Tested a sample of private equity investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • Reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.	Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.

Page 186

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment purchases and sales	Investment activity not valid. (Occurrence) Investment valuation not correct. (Valuation gross)	**We have undertaken the following work in relation to this risk** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and sought explanations for variances.	Our audit work has not identified any significant issues in relation to the risk identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	**We have undertaken the following work in relation to this risk:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and sought explanations for variances • For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	**We have undertaken the following work in relation to this risk:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over occurrence, completeness and accuracy of contributions. • Undertook a monthly trend analysis over the contributions received during the year to gain assurance over the completeness of contributions included within the accounts. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**We have undertaken the following work in relation to this risk:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over completeness, accuracy and occurrence of benefit payments. • Undertook a monthly trend analysis over the pension payments made during the year to gain assurance over the completeness of benefits paid included within the accounts. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member Data	Member data not correct. (Rights and Obligations)	**We have undertaken the following work in relation to this risk:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample tested changes to member data for new member, leavers and new pensioners made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and 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	The financial statements include policies for recognition of the following: • Investment income • Contribution income • Transfers in to the scheme Revenue for the first two categories is recognised on an accruals basis, whilst for the third category it is recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.	Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities. Our testing has confirmed that these policies have been correctly and consistently applied.	● Green
Judgements and estimates	Key estimates and judgements include: • Valuation of private equity, property and infrastructure investments • Present value of future retirement benefits	Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● Green

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

Accounting policies, estimates and judgements continued

.

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies		We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.	● Green

Page 191

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

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 and have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Fund.
5.	**Confirmation requests from third parties**	• We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). All of these requests have been returned with positive confirmation
6.	**Disclosures**	• Our review found no material errors or omissions but we have requested management to make some minor amendments to further improve the clarity of the information included within the financial statements.
7.	**Matters on which we report by exception**	• We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have not identified any issues we wish to report.

Page 192

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Purchases and Sales, Investment Valuations – Levels 2 and 3, Contributions, Benefits Payable, and Member Data as set out on pages 11 to 13 within this report.

The controls were found to be operating effectively and we have no matters to report to the Governance and Audit Committee.

Adjusted and unadjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted or unadjusted misstatements identified as a result of our procedures.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	Several	Note 15a – Single investments 5% or more by value of their asset class, and Note 16 – Stock Lending	The draft financial statements did not include prior year comparatives for both of these notes, which have now been included within the final version of the accounts.
2	Disclosure	n/a	Note 17c – Valuation of Financial Instruments carried at Fair Value	This note did not provide sufficient information around how the Fund's Level 3 Investments are valued, which has been enhanced in the final version of the accounts.
	Disclosure	n/a	Description of the Fund; Note 2 – Accounting Policies; Note 4 – Events after the Balance Sheet Date Note 8 – Payments to and on account of leavers Note 18 – Nature and Extent of Risks	Various minor amendments have been made to enhance the clarity of the final version of the accounts.

Section 3: 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

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	30,568	30,568
Total audit fees (excluding VAT)	**30,568**	**30,568**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Page 197

Fees for other services

Service	Fees £
Audit related services	**Nil**
Non-audit services	**Nil**

Independence and ethics

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

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

Section 4: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing (ISA) (UK&I) 260, as well as other ISA(UK&I)s, 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Page 199

Our annual work programme is set in accordance with the Code of Audit Practice issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code of Audit Practice.

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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix A: Audit opinion

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

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

We have audited the pension fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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 pension 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 pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund 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 financial statements:
present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

21 July 2016

Appendix B: Proposed audit opinion on the annual report

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

Independent auditor's report to the members of Kent County Council on the consistency of the superannuation fund financial statements included in the superannuation fund annual report

The accompanying superannuation fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited superannuation fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the superannuation fund financial statements in the Statement of Accounts in our report dated 21 July 2016. The superannuation fund annual report, and the superannuation fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the superannuation fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. 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.

Corporate Director of Finance and Procurement responsibilities for the superannuation fund financial statements in the superannuation fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Corporate Director of Finance and Procurement is responsible for the preparation of the superannuation fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the superannuation fund financial statements in both the Authority Statement of Accounts and the superannuation fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the superannuation fund financial statements in the superannuation fund annual report are consistent with the superannuation fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the superannuation fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the superannuation fund financial statements. The other information consists of the Introduction and Overview, Investment Performance, Administration Performance, the Actuary's Report, the Funding Strategy Statement, the Statement of Investment Principles, the Governance Compliance Statement and the Communications Policy Statement

Opinion

In our opinion, the superannuation fund financial statements in the superannuation fund annual report derived from the audited superannuation fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Engagement Lead Name

Emily Hill

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

xx September 2016

Page 202

By:	Chairman Superannuation Fund Committee Corporate Director of Finance & Procurement
To:	Superannuation Fund Committee – 16 September 2016
Subject:	**FUND POSITION STATEMENT**
Classification:	Unrestricted

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

FOR INFORMATION

INTRODUCTION

1. The Fund Position Statement is attached in the Appendix 1.

QUARTER 1 APRIL TO 30 JUNE

2. The Fund returned +4.4% in the Quarter against a benchmark +4.9%. Equity market returns were strong and in sterling terms North American Equities returned +10.3%, Global Equities +8.6% and UK Equities +4.7%. Returns were also strong in conventional Fixed Income markets.

3. In asset allocation terms the overweight to Global Equities increased (36.6% against 32%) and the Equity weighting Global to UK is now 56% to 44%. This reflects the ongoing trend of Global Equities outperforming UK Equities when returns are expressed in sterling.

4. Of the equity mandates in stronger markets Sarasin, Schroders GAV performed best. Woodford have given back some of the very strong performance in 2015/16. The Head of Financial Services is meeting with Mr Woodford on 6 September and a verbal update will be given. In Fixed Income Goldman Sachs continued to perform more strongly than Schroders. It is also noteworthy that Pyrford had a good Quarter and 12 months.

PERFORMANCE SINCE 1 JULY

5. On 23 June the FTSE 100 stood at 6,338 and at the time of writing is 6,828 a rise of 8%. July saw Global Equities (in sterling) return 5% and UK Equities 4%.

6. Whilst it is too early to discern any significant trends Global Equity markets are proving very resilient and further Quantitative Easing in the UK should be supportive of growth assets – the particular case of UK Commercial Property will be considered in the Fund Structure report.

7. July performance by investment manager in Appendix 2 shows largely positive absolute and relative returns.

8. M&G have performed particularly strongly with a return of 25.3% against a benchmark of 19.7% in the year to 31 August. The additional investment of £20m on 7 December has returned 22.6%.

RECOMMENDATION

8. Members are asked to note this report.

Nick Vickers
Head of Financial Services
Tel: 03000 416797
E-mail: nick.vickers@kent.gov.uk

Background documents – None

FUND POSITION STATEMENT

Summary of Fund Asset Allocation and Performance

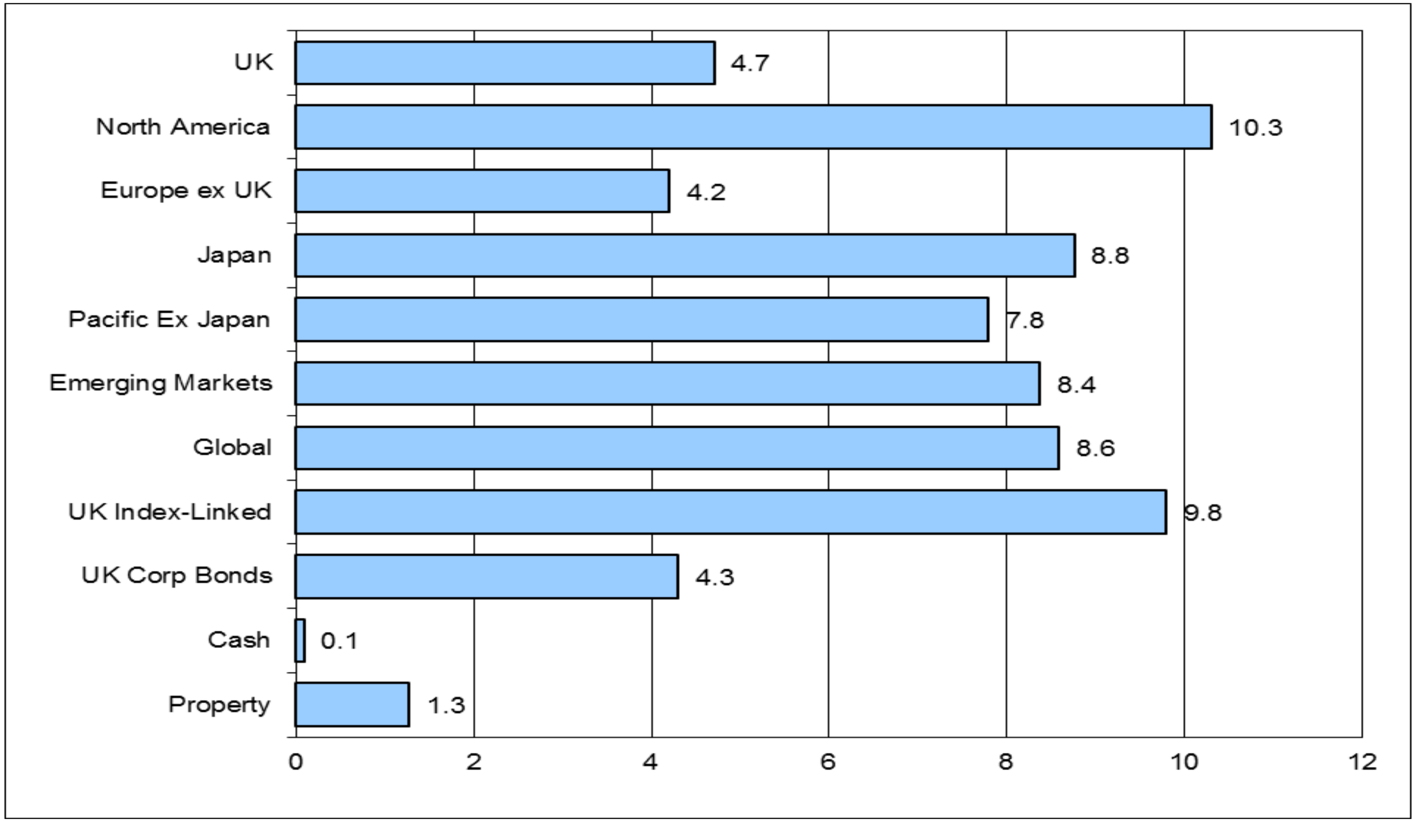
Superannuation Fund Committee

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

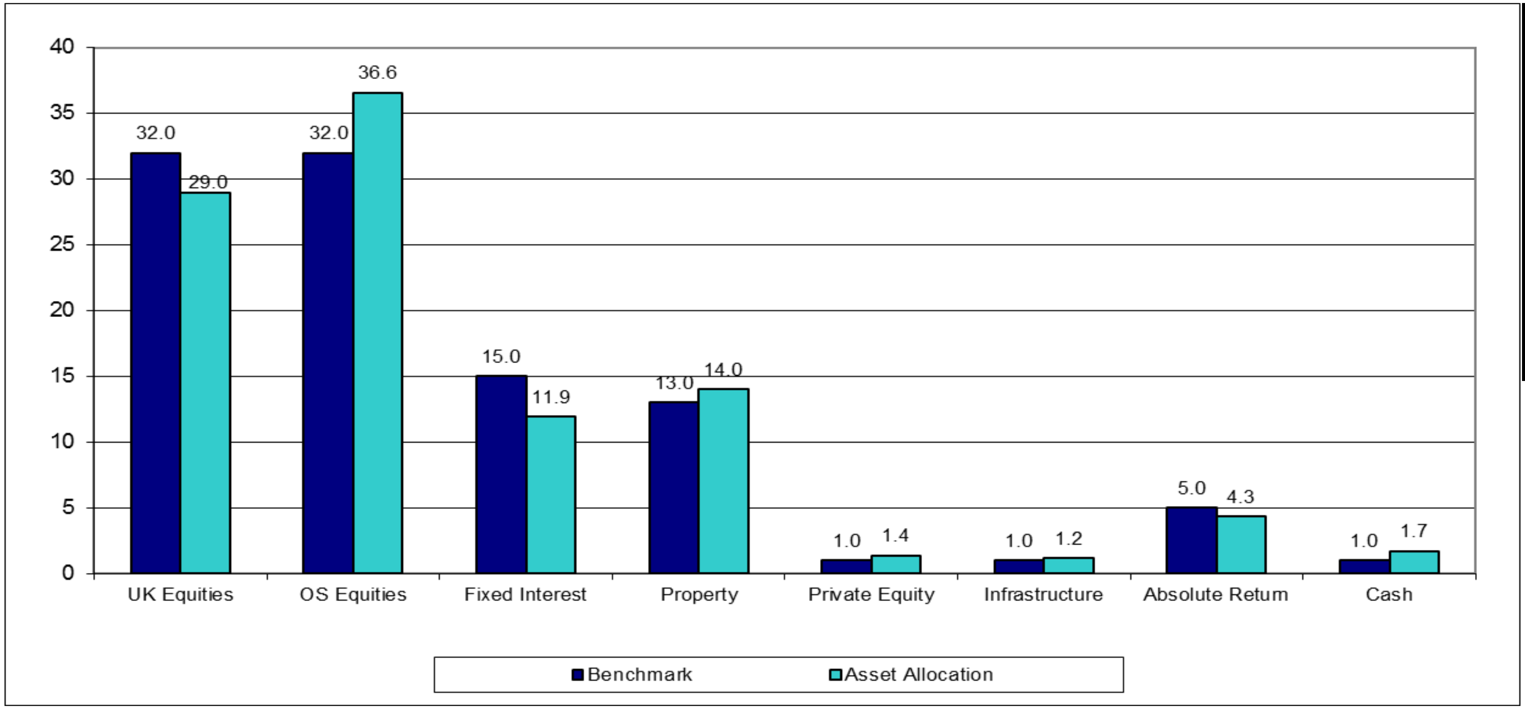
Kent County Council
Superannuation Fund Q2 2016

Nick Vickers—Head of Financial Services

Market Returns - 3 Months to 30 June 2016



Asset Allocation vs Fund Benchmark - 30 June 2016



	Kent Fund		Benchmark
Asset Class	£m	%	%
UK Equities	1,385	29.0	32.0
Overseas Equities	1,748	36.6	32.0
Fixed Interest	570	11.9	15.0
Property	670	14.0	13.0
Private Equity	65	1.4	1.0
Infrastructure	55	1.2	1.0
Absolute Return	207	4.3	5.0
Cash	82	1.7	1.0
Total Value	4,782	100	100.0

Asset Distribution Fund Manager - 30 June 2016

Values (GBP)'000	Mandate	Value at 31/03/2016	Transactions	Capital Gain / loss	Income	Value at 30/06/2016	% *Fund*	Benchmark
Schroders	UK Equity	731,581	14,242	10,217	13,838	756,040	16	Customised
State Street	UK Equity	313,299	-60,000	14,151	-31	267,450	6	FTSE All Share
Woodford	UK Equity	222,123	60,031	-2,397	-	279,757	6	FTSE All Share
State Street	Global Equity	208,455	-	18,408	-57	226,864	5	FTSE All World ex UK
Baillie Gifford	Global Equity	908,370	6,953	57,864	6,026	973,187	20	Customised
M&G	Global Equity	231,689	-	14,188	-	245,877	5	MSCI AC World GDR
Sarasin	Global Equity	164,031	1,091	13,290	1,107	178,411	4	MSCI AC World NDR
Schroders	Global Quantitative	206,051	-	18,486	-250	224,537	5	MSCI AC World NDR
Goldman Sachs	Fixed Interest	328,372	-	10,245	-326	338,617	7	+3.5% Absolute
Schroders	Fixed Interest	228,877	-	2,332	-127	231,209	5	Customised
Impax	Environmental	33,067	8	2,848	-	35,923	1	MSCI AC World NDR
DTZ	Property	486,591	-62	3,138	4,292	489,668	10	IPD All Properties Index
Fidelity	Property	106,854	-	1,749	-	108,603	2	IPD All Properties Index
Kames	Property	60,144	-	-415	-	59,729	1	IPD All Properties Index
M&G	Property	12,767	-	206	50	12,972	0	IPD All Properties Index
Harbourvest	Private Equity	52,813	616	4,286	-	57,715	1	GBP 7 Day LIBID
YFM	Private Equity	7,809	422	424	-	8,655	0	GBP 7 Day LIBID
Partners	Infrastructure	51,864	0	3,215	-	55,079	1	GBP 7 Day LIBID
Pyrford	Absolute Return	200,211	-	6,902	-	207,113	4	RPI + 5%
Internally Managed	Cash	27,132	-2,610	-	43	24,522	1	GBP 7 Day LIBID
Total Fund		4,582,100	20,692	179,136	24,566	4,781,929	100	Kent Combined Fund

Performance Returns - 30 June 2016

	Quarter		1 year		3 years (p.a.)	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	4.4	4.9	7.5	7.6	8.3	8.3
		5.4*		8.8*		8.7*
UK Equity						
Schroders UK	3.3	4.6	-1.5	2.2	6.3	5.7
State Street	4.8	4.7	2.3	2.2	5.9	5.8
Woodford	-0.4	4.7	2.4	2.2	n/a	n/a
Overseas Equity						
Baillie Gifford	7.0	7.3	15.8	10.3	11.3	9.3
Sarasin	8.8	8.6	7.7	13.3	n/a	n/a
Schroders GAV	8.9	8.6	10.9	13.3	9.5	11.2
State Street	8.8	8.8	15.3	15.4	11.7	11.8
Impax Environmental Fund	8.6	8.6	17.9	13.3	11.3	11.2
M&G	6.1	8.8	7.4	13.9	n/a	n/a
Fixed Interest						
Goldman Sachs Fixed Interest	3.0	0.9	4.8	3.5	4.7	3.5
Schroders Fixed Interest	1.0	0.1**	-1.1	1.1**	2.5	2.6**
Property						
DTZ Property	1.5	1.3	10.4	9.1	15.2	14.4
Fidelity	1.6	1.3	7.2	9.1	n/a	n/a
Kames	-0.7	1.3	1.8	9.1	n/a	n/a
M&G	2.0	1.3	n/a	n/a	n/a	n/a
Private Equity						
Harbourvest	8.1	0.1	27.4	0.3	18.7	0.3
YFM	5.3	0.1	20.0	0.3	-0.1	0.3
Infrastructure						
Partners	6.2	0.1	36.4	0.3	11.7	0.3
Absolute Return						
Pyrford	3.4	2.0	8.1	6.6	4.3	6.7

Data Source: SSGS - Performance Services
- returns subject to rounding differences
* Strategic Benchmark
# part period return
** Schroders benchmarks are not calculated by SS but provided by the manager
ALL portfolio returns are calculated on a NET of Investment Manager fees basis from 1/4/2014, prior to that returns will be a mix of NET & GROSS

Fund Structure - 30 June 2016

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £756m	Baillie Gifford +1.5% £973m	Goldman Sachs +6.0% Abs. £339m	DTZ Property £490m	Kent Cash £25m
State Street +0.0% £267m	M&G +3.0% £246m	Schroders +2.0% £231m	Fidelity Property £109m	Partners Infrastructure £55m
Woodford £280m	Schroders +3.0 - +4.0% £225m		Kames Property £60m	YFM Private Equity £9m
	State Street +0.0% £227m		M&G Property £13m	HarbourVest Private Equity £58m
	Impax +2.0% £36m			Pyrford RPI +5.0% £207m
	Sarasin +2.5% £178m			

Market Value £4.8bn
as at 30 June 2016

KENT COUNTY COUNCIL SUPERANNUATION FUND - JULY 2016 PERFORMANCE

		Market Value (£m)	Performance			
	Fund Manager	Jul-16	1 Month		3 Months	
			Actual	Benchmark	Actual	Benchmark
GLOBAL	Schroders GAV	238	6.04%	5.02%	14.64%	14.54%
	Impax Environmental	38	4.80%	5.00%	15.70%	14.50%
	State Street International	239	5.17%	5.18%	15.04%	15.06%
	Baillie Gifford	1,038	6.60%	5.30%	15.30%	12.90%
	M&G	259	5.50%	5.10%	10.70%	14.70%
	Sarasin	187	4.90%	5.00%	14.20%	14.50%
UK	Schroders UK Equity	782	3.38%	3.95%	5.97%	7.57%
	Woodford Investment	299	6.93%	4.01%	6.73%	7.68%
	State Street UK Equity	278	4.02%	4.01%	7.77%	7.68%
FIXED INCOME	Goldman Sachs Fixed Interest	345	1.72%	0.29%	3.42%	0.87%
	Schroders Fixed Interest	232	0.25%	0.04%	0.42%	0.13%
Ab Return	Pyrford	212	1.44%	0.52%	6.16%	2.00%

On Benchmark or Outperformed
Slightly Underperformed
Significantly Underperformed

This page is intentionally left blank

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

To: Superannuation Fund Committee – 16 September 2016

Subject: **ACTUARIAL VALUATION UPDATE**

Classification: Unrestricted

Summary: To update on the Government Actuary Department (GAD) review of the 2013 actuarial valuations and look forward to the 31 March 2016 valuation.

FOR INFORMATION

INTRODUCTION

1. This report is to update the Committee on key actuarial valuation issues.

SECTION 13 VALUATIONS

2. As part of the increased intervention in the LGPS there is a requirement for the Department for Communities and Local Government (DCLG) to commission a Section 13 valuation of each LGPS fund for 2016. GAD will review the valuation to ensure it is:

   - Compliant with the LGPS Regulations.
   - It is not inconsistent with other funds.
   - Will ensure long term solvency.
   - Will ensure long term cost efficiency.

   So effectively they will re-do all the valuations using their own actuarial assumptions.

3. It is very hard to see what benefits this will have – there are only four firms of actuaries in the market (Barnett Waddingham, Hymans Robertson, Mercer and AON) and they are all bound by the same regulations and professional standards. A briefing note from Barnett Waddingham is attached in Appendix 1.

4. GAD have undertaken a dry run using the 2013 valuations. They found that on their valuation basis the Kent Fund was 83% funded – the same as the Barnett Waddingham result. The whole exercise found only two funds, Berkshire and Somerset, where further engagement has been necessary.

5. The Barnett Waddingham briefing note identifies that all four firms of actuaries to vary their assumptions to reflect particular issues relevant to each Fund – for example mortality does vary a lot across the country and in Kent even between district council areas. So what this really tells us is highly dubious.

2016 VALUATION

6. The valuation process is now well under way, despite some very poor responses from employers, with one major local authority employer finally submitting data in an acceptable form two months late. In terms of outcomes the key dates are:

   - 3 November pm – presentation to Kent Finance Officers.
   - 4 November am – presentation to Superannuation Fund Committee.

   Other employer results will follow in December.

7. In terms of the likely outcome the positives are that the Fund exceeded the investment return assumption, pay awards have been lower than assumed and mortality may be slightly positive. Against that the discount rate used will lead to a higher value on liabilities. A further positive is that the larger local authority employers now predominantly pay the deficit contribution as a cash amount. Barnett Waddingham's briefing note is attached in Appendix 2.

8. The other key variable is the impact of local factors, large scale outsourcing and moves to shared services can have a very large impact on contribution rates as the East Kent District Councils experienced in the 2013 valuation.

9. The best outcome for the large local authority employers will be rates standing still, some may see small increases due to local factors.

RECOMMENDATIONS

10. Members are asked to note the report.

Nick Vickers
Head of Financial Services
Tel: 03000 416797
E-mail: nick.vickers@kent.gov.uk

Background documents – none

Section 13 valuations – unlucky for some?

As I'm sure you are aware, as part of the scheme reform changes, the Public Service Pensions Act 2013 means that DCLG are required to commission a "Section 13" valuation which will look at the 2016 valuation results for LGPS Funds and check whether, in their opinion, the various Funds have carried out their valuations in a way that:

- Is compliant with the LGPS Regulations
- Is not inconsistent with other Funds
- Will ensure solvency
- Will ensure long-term cost efficiency

"The long-term cost efficiency test is a test of how quickly the deficit is being paid off and is the one that is likely to be of most interest to Funds".

DCLG have commissioned GAD to do these valuations. DCLG or GAD would discuss the results with any Funds that are flagged by these tests and have a discussion with them to establish whether GAD have fully understood the position and are aware of any relevant factors before a final report is published. This final report may include remedial actions that DCLG feel are appropriate (e.g. an out-of-sync valuation to set the contribution rates in such a way that would pass the tests).

Funds shouldn't need to worry too much about compliance with the Regulations – unless Funds do something bizarre the compliance test is mainly aimed at us and our valuation report. Consistency is mainly aimed at the actuaries too and is based around the same old nonsense about why does every Fund not have identical approaches and assumptions. So we'll mainly be picking this one up to the extent it's down to different funding models but it is possible that Funds that use assumptions towards the edges of the range that we would recommend will need to explain their approach. The solvency principle is pretty sensible in that an LGPS Fund open to new members, that is made up of mainly tax-raising bodies, is meant to pass without any problems so attention is meant to be directed towards more mature Funds with employers with weaker covenants.

That leaves the long-term cost efficiency test which is a test of how quickly the deficit is being paid off and is the one that is likely to be of most interest to Funds.

Assumptions used

One of the intended advantages of this process is extra transparency but this particular objective isn't helped by the various tests being based on one of three sets of assumptions:

- The assumptions actually used at the last valuation
- The Scheme Advisory Board's ("SAB") assumptions (i.e. the ones that the standardised funding levels will be reported on)
- A new set of assumptions for this exercise which are GAD's "market consistent" set of assumptions

The long-term cost efficiency tests are mainly based on this last set of assumptions and, at 31 March 2013, they placed a lower value on the liabilities, or cost of pension benefits, than every Fund's assumptions or what they would have been on the Scheme Advisory Board's standard assumptions. This is perhaps not unexpected as the market consistent assumptions are supposed to be "best estimate" whereas funding assumptions should include some element of prudence. However best estimate is still subjective and so different actuaries will have different views as to what "best estimate" is. Surely no-one would seriously expect even 2 actuaries (never mind the number involved with the LGPS) to agree on something like this……

Dry run

GAD have carried out a dry run of the process using the 2013 valuation results in order to allow Funds to be aware of any areas that would have been highlighted and this allows this to be fed into the process for the 2016 valuation.

Their report can be found here on the Scheme Advisory Board website.

On long-term cost efficiency, there are seven tests and Funds can be green, amber or red on each of them.

Although there are seven tests, they are more or less measuring the same thing which is simply whether GAD believed the 2014/15 contributions were "enough". The tests are broadly whether their assessment of 2014/15 deficit contributions, if increased in line with assumed salary increases, would be enough to make each Fund fully funded in 20 years' time.

The four firms of actuaries have been liaising with GAD in relation to their "dry run" report and have assisted where necessary to clear up any misunderstandings or errors. GAD are looking to hold a number of regional seminars to discuss their approach to s13 valuations and have invited the four actuarial firms advising LGPS funds to participate. We of course said we are happy to participate.

Commentary

"Are employers paying "enough"?"

We have had a few issues with the approach GAD have adopted in carrying out the dry run and some concerns about the first proper s13 valuations as at 31 March 2016. That said we do recognise some of the difficulties that GAD face in carrying out this work – mainly due to the legislation in the first place.

One of our key initial concerns was the way they went about formulating a view on whether employers were "paying enough". In essence they determined the minimum level of deficit contributions that Funds should have been receiving during 2014/15 assuming a deficit recovery plan that had a constant level of employer contribution as a percentage of payroll over 20 years. This approach therefore does not reflect the fact that where employers face large increases in contributions, it is quite normal to phase this increase in over a period of 3 or sometimes 6 years. The regulatory environment that we have operated in for many years has been to adopt methods and assumptions that keep employers' contributions as stable as possible – something that is invariably included in Funding Strategy Statements – which we have to take into account when completing valuations.

Simplistically therefore if the GAD minimum level of deficit contribution was 5% of payroll for 20 years and a Fund was targeting 6% also over say 20 years (so paying in more over the same period), but was stepping up from an existing 3% to 4% in year 1, 5% in year 2 and 6% in year 3 onwards, then as 4% is less than 5%, this produced a red flag. Therefore despite the fact that employers in this Fund would be paying more overall towards deficit than the GAD minimum over the next 20 years, they would still be red flagged as "not paying enough". The two Funds mentioned in the report (who just happen to be ours) were "victims" of this approach.

Equally, some Funds had employers who paid 3 years' worth of deficit contributions up front in 2014/15 so it will have looked like they were paying way more than "enough" when they might not in fact be.

We did of course point this out to GAD who subsequently agreed to amend their approach at the 2016 valuation to look at the average contributions to be paid over the 3 year contribution period rather than just the first year. This could still be flawed if Funds have a stepping period of more than 3 years. We suggested they revisit the dry run and correct this flaw but they declined.

Another of the issues we had was their "asset shock" and "liability shock" tests – what would happen to contribution rates if assets suddenly reduced by x% or liabilities suddenly increased by x% (with everything else staying the same). On the face of it might appear a sensible test but it is overly simplistic – in the real world this just doesn't happen. It of course depends on how assets and liabilities are valued but some of the more sensible funding models will have assets and liabilities moving in the same direction at the same time.

"Consistency is mainly aimed at us actuaries and is based around the same old nonsense about why does every Fund not have identical approaches and assumptions?"

The slightly bizarre thing about these tests is that it is more likely to be the better funded Funds (worse still if slightly more mature) who are paying little or no deficit contributions that will be flagged.

Consistency was another issue that generated some debate. s13 of the Act says that (GAD) have to report as to whether for a particular Fund "the valuation has been carried out in a way which is not inconsistent with other valuations". GAD would appear to interpret this as requiring all Fund valuations to have been carried out on a consistent basis which they've then taken to mean a near-identical set of assumptions. We (and indeed the other actuarial firms) beg to differ. One thing the four firms do agree on – it can happen.....

We recognise that there could be a few areas where more consistency could be achieved but given that actuarial valuations model the future and nobody – not even GAD – know what the future holds then it would be rather unlikely that we all hold the same view of the future. In addition different Funds will have different investment strategies and attitudes to risk etc. so you would expect some variation.

We will be carrying out 22 of the 89 LGPS Fund valuations at 2016 and will, subject to discussions with clients, generally be adopting a consistent approach based on our smoothed "economic" model. However this will not mean that assumptions will be the same across all Funds – some will be but one of the key assumptions – the discount rate – will vary from Fund to fund depending on investment strategy and the amount of prudence each Fund wants to allow for. The other 67 Funds may well be adopting different models (if past experience is any guide to the future).

The key thing here is if s13 requires "consistent" approaches to valuations, then why did it say "not inconsistent"?

The reason is of course that a double negative does not necessarily make a positive!

2016 valuations

So putting to one side the issues with the dry run, how will s13 impact on the 2016 valuations?

Although it's the elephant in the room – s13 has effectively introduced something of the equivalent of a minimum funding requirement for the LGPS. If from the 2016 s13 valuations, GAD and DCLG believe there is a Fund where employers are "not paying enough" then they will want to discuss this with the Fund in question and their actuary and if they cannot be persuaded that the employers are in fact paying enough, then ultimately the Secretary of State can effectively "intervene" and impose levels of contributions on employers in the Fund.

"s13 has effectively introduced something of the equivalent of a minimum funding requirement for the LGPS".

Whilst this does sound like it could be a lot of fun, it of course is something that is probably best avoided. So how do we avoid all this potential excitement? Ideally, as part of the 2016 valuation calculations, we determine what would be required to avoid this – which of course would require us to know how GAD will carry out their s13 valuations and in particular what their assumptions will be.

The dry run report sets out the assumptions they adopted for the dry run. Unfortunately it doesn't really explain how they derived them, particularly for the all-important discount rate (in fact the discount rate in excess of inflation). Is their discount rate something more than gilts, something more than inflation, something sensible or something else? So we thought it might be an idea to ask them where the goal posts might be for 2016 but they declined. Understandably if they were to disclose them now then we really would have an LGPS minimum funding requirement and the inevitable "race to the bottom" with more than likely lower employer contributions being paid into the LGPS in aggregate than before. This was what happened with the private sector MFR, brought in after Maxwell fell off his boat – the heroic aim of ensuring employers were paying enough (at least on an individual basis) but in fact resulted in less overall.

So the 2016 actuarial challenge for us will be trying to guess what it might be. We do know what the SAB comparative basis will be – it will be a real discount rate of 3% more than CPI – the so called "SCAPE" rate used for the unfunded schemes. This rate of course was changed in the March 2016 budget to CPI + 2.8% but we understand that it will still be the 3% real rate that is adopted by the SAB.

Of course this is a fairly notional discount rate used, amongst other things, to allocate costs to employers within the unfunded schemes and of course we all know ONLY chosen to allow comparisons to be made between Funds – not to be used to set contributions……..

In the dry run GAD did in fact use this SAB basis to rank Funds in funding level order (and if you were unlucky enough to be in the bottom 10 you got an amber flag). At the dry run, the assumptions used by GAD for the rather more important "are employers paying enough" tests were less prudent than the SCAPE rate – will it be the same at 2016? Would GAD come out with a so called best estimate basis at 2016 that was more prudent than the SAB basis? (thus implying the SAB basis is imprudent?) Does seem a little unlikely but always prepare for the unexpected!

> *"Administering authorities are reminded that securing solvency and long term cost efficiency is a regulatory requirement whereas a constant as possible employer contribution rate remains only a desirable outcome".*

Summary

So the dry run report is now in the public domain. We were more than happy to help GAD try and get it right but we still have concerns about some of their methodology, albeit recognising they have a tough job on their hands.

Most of their tests are "cliff edged" in that we know that the 2 Funds that were red flagged were only just red flagged and had some recognition of contribution stepping been included they would have been okay. However, what about the Fund that maybe only just missed some red flags but is not in fact stepping up? Maybe you need to set the tests so that someone fails to make the whole exercise worthwhile....

Finally the latest guidance from CIPFA on how to prepare a Funding Strategy Statement says

"Administering authorities are reminded that securing solvency and long term cost efficiency is a regulatory requirement whereas a constant as possible employer contribution rate remains only a desirable outcome".

Interesting times ahead.......

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

publicsector@barnett-waddingham.couk

020 7776 2200

www.barnett-waddingham.co.uk

This page is intentionally left blank

Barnett Waddingham
a true partnership approach

Briefing note

2016 actuarial valuation - early indications

The 2016 actuarial valuation process is now well underway and we have met all Funds to discuss their own timetable to allow it to be completed by 31 March 2017, when the new contribution rates will come into effect. Although the primary purpose of the valuation is to set these new rates, it is also an opportune time to review the funding strategy more generally.

> After completion of the actuarial valuations, funds will be assessed in a "Section 13" report which will be carried out by the Government Actuary's Department on behalf of the Department for Communities and Local Government.

Once we receive full membership data we will start the full detailed calculations and the assumptions that we use for each Fund will not be finalised until at least then but we thought it would be helpful to give you our initial thoughts as to what the funding position might look like and, in particular, what the key financial and demographic assumptions may look like (namely discount rate, CPI inflation, salary increases and mortality) and where we propose to make any changes to our central 2013 approach.

As we use a smoothed funding model which we believe is appropriate for long-term planning such as setting contribution rates, we will use market information up to 30 June 2016 to set our standard assumptions so these will be updated. We will send a more detailed Fund-specific assumptions paper to each Fund after 30 June 2016 and the final assumptions will be agreed with the administering authority and will be consistent with the Fund's Funding Strategy Statement.

After completion of the actuarial valuations, funds will be assessed in a "Section 13" report which will be carried out by the Government Actuary's Department on behalf of the Department for Communities and Local Government. The purpose of this report is to identify any Funds that cause concerns in respect of solvency and long-term cost efficiency. This report is not expected to be published until late 2018 as it is based on the final certified contribution rates.

How has the valuation position changed?

The change in employers' contributions will mainly depend on the answers to four key questions:

- What were asset returns for the intervaluation period to 31 March 2016?
- How have the key financial and demographic assumptions changed over the intervaluation period and what discount rate, inflation and mortality assumption will be used as at 31 March 2016?
- What is the Fund's funding strategy for employers? In particular, what approach is taken to deficit recovery periods and how much flexibility do different employers get?
- How does the experience of the Fund compare to the 2013 assumptions adopted?

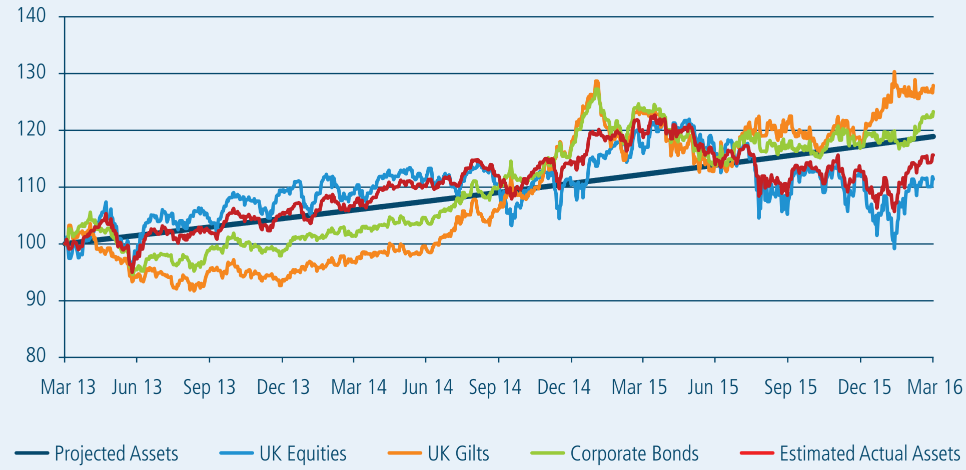
The third question varies by Fund, both in terms of each Fund's existing strategy and the potential updates that they make as part of the 2016 process. The fourth question can't be answered until we have member data so the remainder of this note considers the first two questions i.e. what have assets done and what might the main assumptions look like.

Barnett Waddingham
a true partnership approach

> If Fund returns have been lower than assumed as part of the 2013 valuation, this will lead to a worsening in the funding position, but whether this has increased the funding deficit depends mainly on the assumptions used to calculate the liabilities.

Asset returns

The following chart plots returns from the major asset classes since 31 March 2013 alongside the assumed return achieved by a sample LGPS Fund with assets invested 70% in equities, 15% in a mixture of bonds and property and 15% in gilts. In practice, Funds invest in a wider range of asset classes than this but this gives a broad indication of movements for a typical Fund.



As we see, there has been volatility in the returns over the intervaluation period and assets were performing ahead of where they were projected to be to around June 2015. However, based on the performance to 31 March 2016 and the allocation outlined above, it is unlikely that a typical LGPS Fund will have performed better than assumed at the 2013 valuation but this will vary considerably depending on each Fund's investment strategy.

If Fund returns have been lower than assumed as part of the 2013 valuation, this will lead to a worsening in the funding position, but whether this has increased the funding deficit depends mainly on the assumptions used to calculate the liabilities.

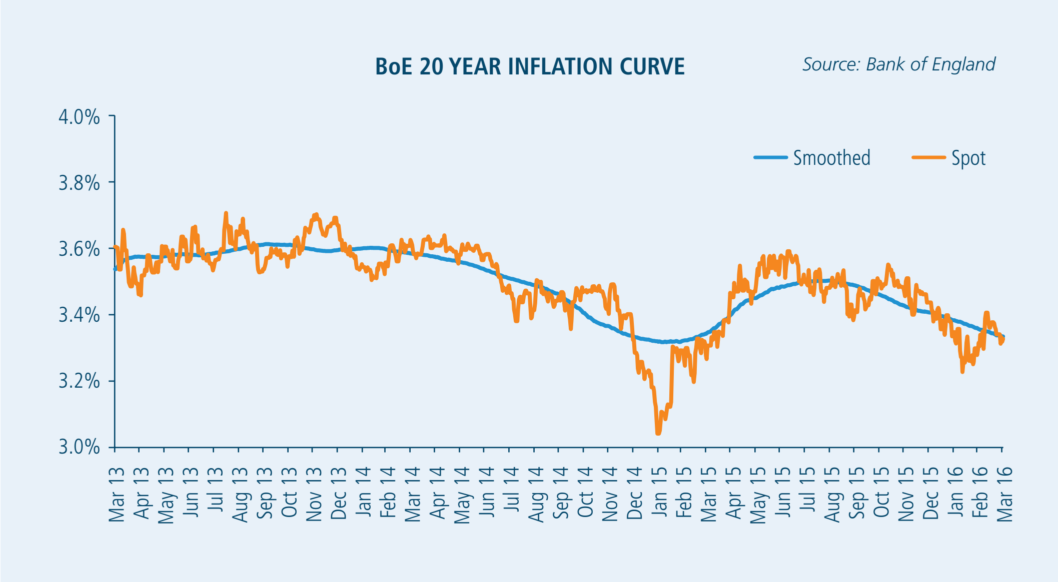
For consistency with the approach taken to value the liabilities, the asset values we use are then smoothed based on market conditions in a six month period straddling the valuation date.

Key assumptions

We do not propose any fundamental changes to the overall approach to setting contributions. In particular, we will continue to use a smoothed approach and the discount rate will be based on a weighted average of prudent estimates of long-term asset returns.

Price inflation (RPI)

Our starting assumption for inflation is the (smoothed) 20 year point on the Bank of England implied Retail Price Index inflation curve which is consistent with the typical duration of a Fund's liabilities.



> During the inter-valuation period, there have been further studies into the long-term difference between RPI and CPI and after consideration we are proposing to reduce our central assumption for CPI to 0.9% p.a. less than RPI.

As you can see from the graph, price inflation has fallen over the inter-valuation period which would cause a fall in the value of the liabilities.

Price inflation (CPI)

At the 2013 valuation, we assumed that Consumer Price Index (CPI) inflation would be 0.8% p.a. less than RPI inflation. During the inter-valuation period, there have been further studies into the long-term difference between RPI and CPI and after consideration we are proposing to reduce our central assumption for CPI to 0.9% p.a. less than RPI.

> At the last valuation, we assumed longterm pay increases would average CPI plus 1.8% and we are proposing to reduce our central assumption for long-term salary increases to CPI plus 1.5%.

Pay increases

As the LGPS is now a CARE scheme so that benefits earned after 1 April 2014 are revalued with inflation rather than a final salary scheme, the overall effect of the pay increase assumption is less significant than it was previously.

At the last valuation, we assumed long-term pay increases would average CPI plus 1.8% and we are proposing to reduce our central assumption for long-term salary increases to CPI plus 1.5%. The Scheme Advisory Board's salary increase assumption for the standardised assumptions is also CPI plus 1.5%.

For short-term salary increases, the Government has announced that average pay increases in the public sector will be restricted to 1% p.a. for the four years from 2016 i.e. through to 31 March 2020. We propose to use this as our central short-term assumption.

The effect of the short term salary increases and the reduction to the long term salary increase assumption will help to improve the funding position of each Fund.

Discount rate

To determine the value of accrued liabilities and future contribution requirements at any given point in time it is necessary to discount future payments to and from the Fund. There are a number of different approaches which can be adopted in deriving the discount rate to be used and the approach that is most appropriate will depend on the purpose of the valuation and the overall funding objectives.

> "We believe that the most appropriate starting point for a valuation that sets employer contribution rates is to consider the expected returns from each Fund's investment strategy."

We believe that the most appropriate starting point for a valuation that sets employer contribution rates is to consider the expected returns from each Fund's investment strategy. We do this by grouping the various asset classes, deriving an assumed return for each asset class (which may include an explicit prudence allowance) and then using the Fund's asset allocation to get an overall discount rate assumption.

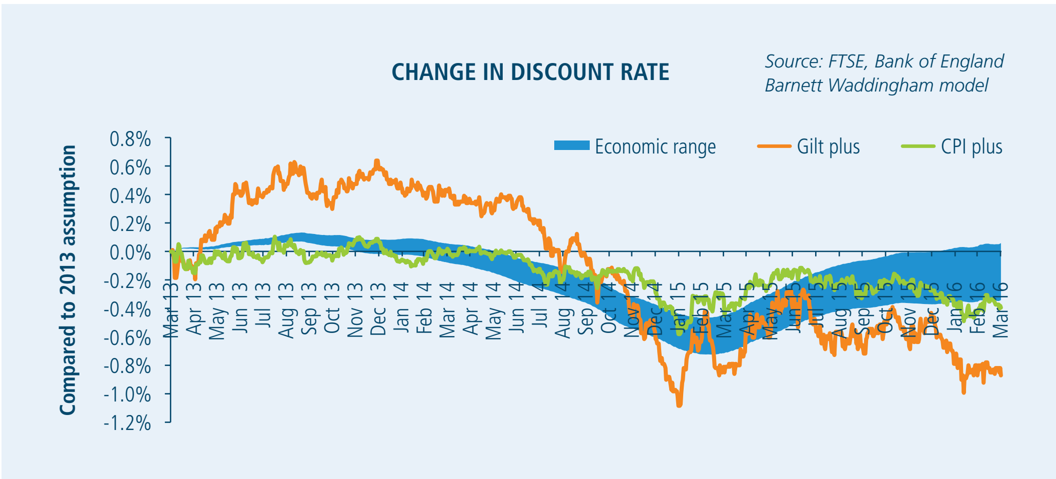
In doing this, we can consider the current asset allocation or an allocation that reflects the long-term strategy. It is usually our preference to reflect the long-term strategy, where known and so we will be engaging with Funds to understand if there have been any changes to this.

The resulting discount rate is then a prudent estimate of the future long-term asset returns. We have reviewed the underlying model and the level of prudence that we included in the 2013 valuation and we will be recommending that Funds use a more prudent assumption for future returns from growth assets such as equities.

We refer to our approach as the Economic model but there are other approaches used which can be considered when we set the discount rate assumption as follows:

- CPI + 3% is the standardised basis expected to be used for the Scheme Advisory Board KPIs and as part of the Section 13 valuations carried out by GAD. At the recent budget on 16 March 2016 changes were announced to what is known as the SCAPE discount rate reducing the rate from CPI + 3% to CPI + 2.8%. So, if also adopted for these purposes, then this will essentially increase the degree of difficulty in meeting these tests.
- Gilt plus is the approach taken by many private sector schemes and some other LGPS Fund actuaries which assumes that asset returns will exceed the return from gilts by a fixed margin.
- Economic is our approach as described above.

We have shown below the discount rate that each of these models gives, with a range shown for the Economic model as this will vary by Fund, depending on the investment strategy and the extent that the assumptions for return on the growth assets are reduced.



The Economic model therefore gives a more stable discount rate than setting the discount rate in relation to CPI and both are more stable than the gilts plus model.

The discount rate at 31 March 2016 under the Economic model is likely to be slightly lower to that used at 31 March 2013 in most cases i.e. increasing the value of the liabilities.

Barnett Waddingham
a true partnership approach

Post-retirement mortality

The key demographic assumption required for determining the pension liabilities is the mortality assumption.

There are two aspects to consider in determining appropriate post retirement mortality assumptions:

1. Choosing an appropriate mortality base table assumption applicable today taking into account characteristics of the Fund members

As part of the valuation we undertake an analysis of pensioner mortality over the intervaluation period for all Funds in order to calculate an appropriate percentage rating to make to the standard mortality tables.

Some Funds have chosen to do a more detailed analysis with our Longevity team in a more bespoke way and this information will be used to adjust the standard mortality tables to better reflect the future mortality experience of the Fund as well as choosing a suitable assumption on the rate of future mortality improvements. The Longevity team will create a Fund specific report in June detailing the appropriate assumptions to use for the 2016 actuarial valuation.

2. Making an appropriate allowance for mortality to improve in future.

At the 2013 valuation, to project mortality into the future we used the CMI projections as released in 2012, with a long-term improvement of 1.5% p.a. although some Funds used 1.25% p.a.

The latest version of the CMI model is the 2015 version which suggests a slowing in projected mortality improvement rates over recent years. We plan to incorporate this updated model and our central assumption will be to maintain the same long-term improvement rate as used previously. The updated model will result in a small reduction in the valuation of the liabilities.

What does this all mean when we bring it all together?

The first caveat is that no Fund is average and so any prediction of what might apply to an average Fund may not necessarily apply to every, or indeed any, Fund. Each Fund will be able to vary their assumptions as appropriate with advice from us as the Fund Actuary.

Based on the changes to the key assumptions as discussed in this report, we are expecting most Funds to see a relatively similar funding position to 2013 or a small fall in the funding level. This will be due to the fall in the discount rate assumption increasing the value of the liabilities, although this will have been offset by the change in the inflation, salary and mortality assumptions. The final results will depend on the experience of each Fund over the intervaluation period including asset performance, deficit contributions paid as well as any changes in the funding strategy and policies. In particular where employers have paid stepped contributions and any changes in employer covenants.

We will produce a more detailed Fund specific report after 30 June 2016 with full detail of the assumptions used last time and the proposed assumptions for 2016.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

publicsector@barnett-waddingham.co.uk
020 7776 2200
www.barnett-waddingham.co.uk

This page is intentionally left blank

By:	Chairman Superannuation Fund Committee Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 16 September 2016
Subject:	**FUND EMPLOYER MATTERS**
Classification:	Unrestricted

Summary: To report on Fund employers, applications to join the Superannuation Fund and other admission matters.

FOR DECISION

INTRODUCTION

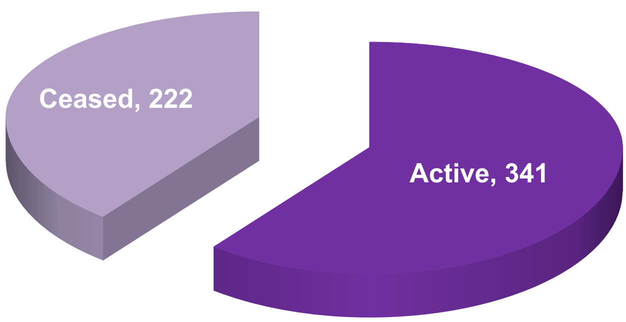
1. This report sets out information on employer related matters and applications from organisations to become admitted bodies within the Superannuation Fund. It also advises of a contract extension. The Committee's approval is sought to enter into these agreements.

2. The Committee is advised that the admission minutes relating to the new admission matters are to be signed at the end of today's meeting to facilitate completion on the desired dates.

EMPLOYERS IN THE FUND AT 30 JUNE 2016

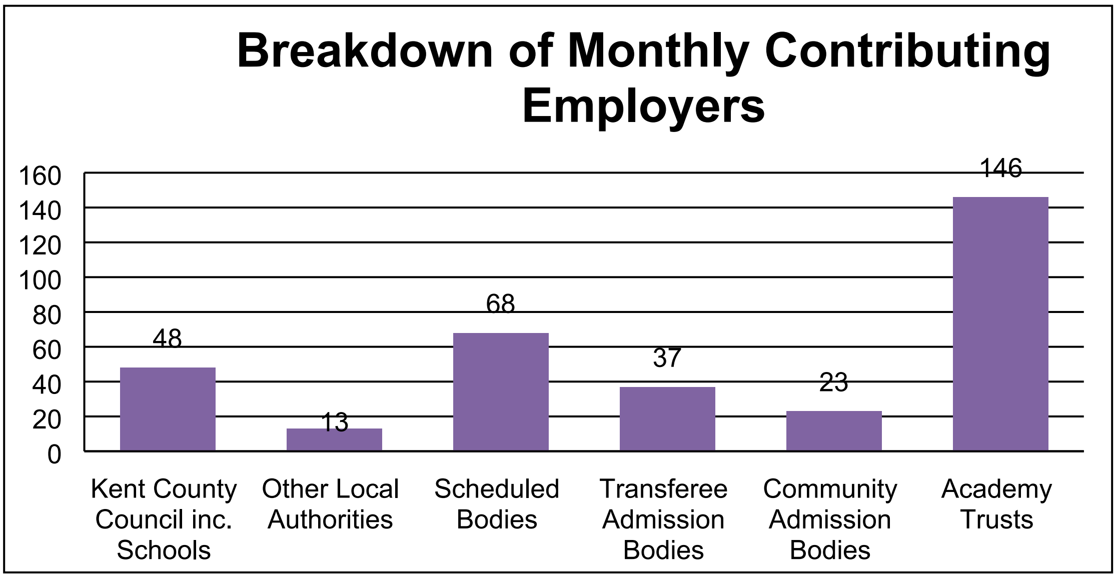
3. There are currently a total of 563 employers in the Kent Pension Fund.

Split of Employers between Active and Ceased



During the 3 months to the end of June 2016 the number of Active employers who are regularly paying contributions has reduced to 341 as the result of individual academies being recognised as multi academy trusts while 4 new scheduled bodies joined the Fund and a school changed its payroll provider. The 222 Ceased employers no longer have active contributing members in the LGPS but the Fund has an existing or future liability to pay pensions.

4. The following chart shows the Employers from whom the Fund receives monthly contributions, by Employer Group.



5. The following is a list of new Active / Ceased employers in the Kent Pension Fund

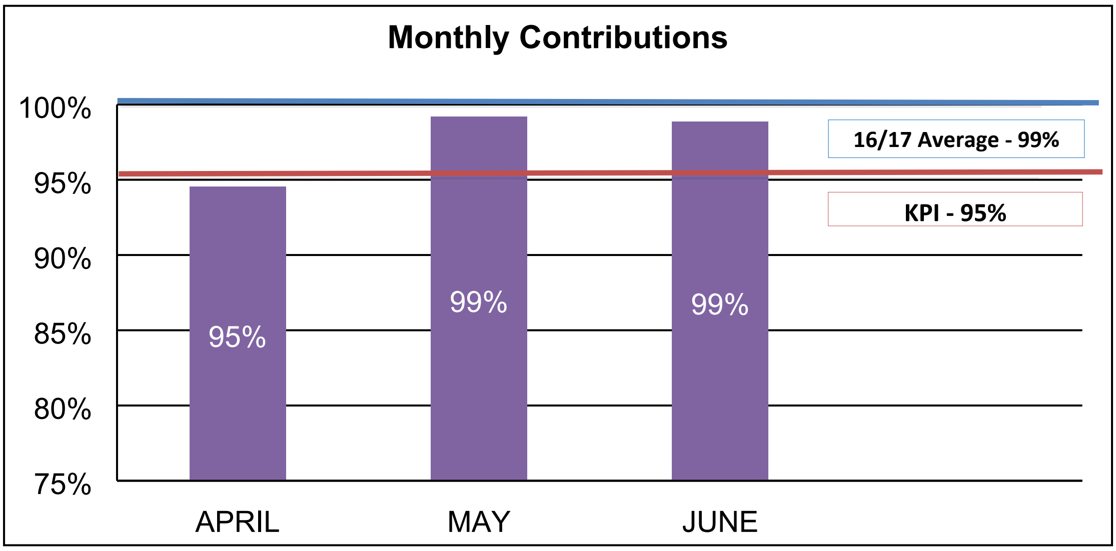
Active employer	**Effective date**
New Scheduled Bodies	
Westcourt Primary School	1 April
GEN2 Property Limited	1 May
Medway Commercial Group Limited	1 April
East Peckham Parish Council	1 April
Great Chart with Singleton Parish Council	1 May
New Academy Trusts	
The Williamson Trust	1 April
The Tenax Schools Trust	1 May
Ceased Employers	**Effective date**
Kent County Council Inc. Schools	
Dartford Girls Grammar School for Girls	31 May
Community Admission Bodies	
Kent University	31 May
Transfee Admission Bodies	
Principal Catering Consultants (Ursuline College)	31 May

CONTRIBUTIONS FROM EMPLOYERS QUARTER 1 2016/17

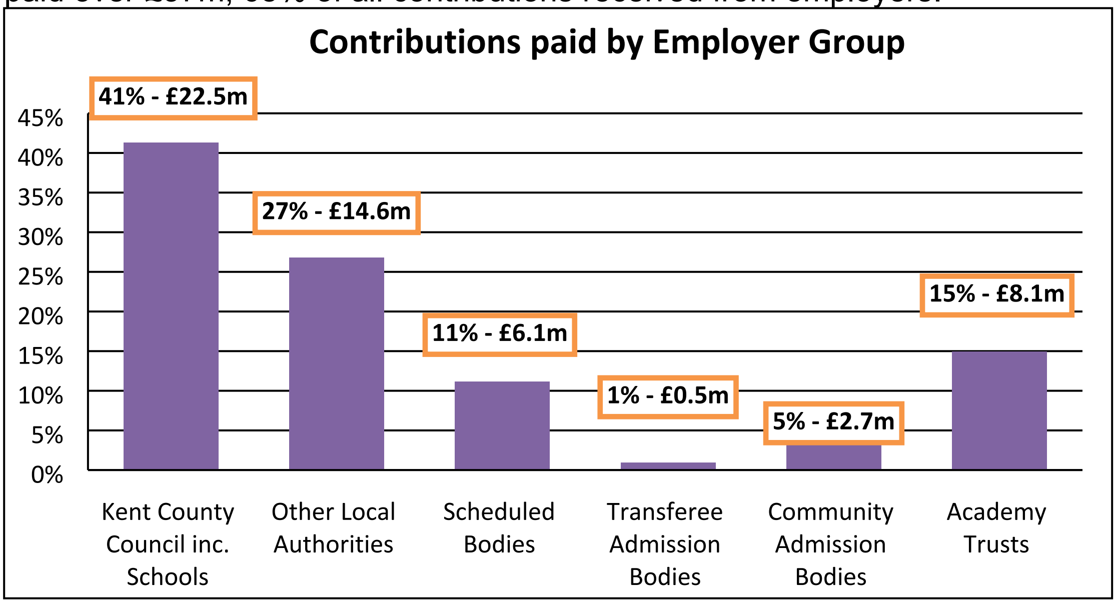
6. In quarter 1 2016/17 the Fund received £54.5m from Employers in respect of their monthly contributions (employer and employee) as follows:

	April (£)	May (£)	June (£)
Received Early	10,743,968	8,608,549	9,121,593
Cash on 19th	6,700,481	9,247,517	8,787,949
Received Late	1,004,409	144,508	204,506
Total	**18,448,857**	**18,000,573**	**18,114,048**

7. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. During quarter 1 2016-17 the KPI has been exceeded each month with an average 99% of all contributions being received on or before the due date.



8. The following table shows that KCC and other local authorities have paid over £37m, 68% of all contributions received from employers.



SOLO SERVICE GROUP LIMITED

9. St John's CEP School, Sevenoaks is awarding a 3 year contract with a possible 1 year extension for cleaning services effective from 1 November 2016. This involves the transfer of 4 employees from St John's School to Solo Service Group Limited.

10. To ensure the continuity of pension arrangements for these employees, Solo Service Group Limited has made an application for admission to join the Superannuation Fund.

11. The admission application has been made under Schedule 2 Part 3 1(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.

12. The Fund Actuary has assessed the level of bond at £8,000 for the first year, £22,000 for the second year and £24,000 for the third year and the employer's contribution rate has been set as 16.8% for an open agreement.

13. The completed questionnaire and supporting documents provided by Solo Service Group Limited have been examined by Officers to ensure compliance with the LGPS Regulations, and Legal Services have given a favourable opinion in principle subject to all the formalities being completed to their satisfaction.

CHURCHILL CONTRACT SERVICES LIMITED (RE BURNT OAK PRIMARY SCHOOL, GILLINGHAM)

14. Medway Council is awarding a 3 year contract with a possible 2 year extension for cleaning services effective from 1 January 2017. This involves the transfer of 5 employees from Burnt Oak Primary School to Churchill Contract Services Limited.

15. To ensure the continuity of pension arrangements for these employees, Churchill Contract Services Limited has made an application for admission to join the Superannuation Fund.

16. The admission application has been made under Schedule 2 Part 3 1(d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary will assess the level of bond and employer contribution rate.

17. The completed questionnaire and supporting documents provided by Churchill Contract Services Limited have been examined by Officers to ensure compliance with the LGPS Regulations, and Legal Services have given a favourable opinion on the application.

CHURCHILL CONTRACT SERVICES LIMITED (ST MICHAELS CATHOLIC PRIMARY SCHOOL, CHATHAM)

18. Medway Council is awarding a 3 year contract with a possible 2 year extension for cleaning services effective from 1 January 2017. This involves the transfer of 4 employees from St Michaels school to Churchill Contract Services Limited.

19. To ensure the continuity of pension arrangements for these employees, Churchill Contract Services Limited has made an application for admission to join the Superannuation Fund.

20. The admission application has been made under Schedule 2 Part 3 1(d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary will assess the bond and employer contribution rate.

21. The completed questionnaire and supporting documents provided by Churchill Contract Services Limited have been examined by Officers to ensure compliance with the LGPS Regulations, and Legal Services have given a favourable opinion on the application.

SCHOOLS CLEANING SERVICES

22. Pension Fund officers have been advised that under the terms of the KCC Total Facilities Management (TFM) contract with Kier Facilities Services Limited (KFSL), KCC schools and academy trusts intend to become partner organisations and contract with KFSL to receive a supply of similar services, in particular cleaning services.

23. It is further understood that KFSL will be providing the cleaning services to schools who choose to join the new framework arrangement either directly or via a sub-contractor, Kier Limited.

24. Officers are working closely with KCC colleagues and representatives of GEN^2 who are facilitating the implementation of the partner contract arrangements on behalf of KCC, in order to clarify the proposed arrangements and to confirm the various parties involved with regard to ensuring staff can continue their membership of the LGPS.

25. In order that KCC / GEN^2 can progress the letting of the contract to Kier Facilities Services Limited and to ensure continuing LGPS membership of the staff both Kier Limited and Kier Facilities Services Limited have applied for admission to the Superannuation Fund in respect of the supply of cleaning services to the schools under the new partner arrangements.

26. The admission applications haves been made under Schedule 2 Part 3 1(d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary will assess the level of bond and employer contribution rate.

27. The completed questionnaires and supporting documents provided by Kier Limited and Kier Facilities Services Limited will be examined by Officers to ensure compliance with the LGPS Regulations, and a satisfactory Legal Services opinion will be obtained before we proceed.

MYTIME ACTIVE

28. Mytime Active is a Transferee Admision Body which joined the Superannuation Fund on 1 January 2011 following the transfer of staff from Maidstone Borough Council.

29. As this contract has now been extended by 3 months to 31 December 2016, it is necessary to extend the original admission agreement by way of a deed of modification.

RECOMMENDATION

30. Members are asked to note the employer report and to agree:

a) to the admission to the Kent County Council Superannuation Fund of Solo Service Group Limited subject to approval by KCC Legal Services; and

b) to the admission to the Kent County Council Superannuation Fund of Churchill Contract Services Limited re Burnt Oak Primary School, Gillingham; and

c) to the admission to the Kent County Council Superannuation Fund of Churchill Contract Services Limited re St Michaels Catholic Primary School, Chatham; and

d) to the admission to the Kent County Council Superannuation Fund of Kier Limited and Kier Facilities Services Limited in relation to the KCC Schools Support Services contracts, subject to approval by Legal Services; and

e) that a deed of Modification may be entered into with Mytime Active; and

f) that the Chairman may sign the minutes relating to recommendations (a) to (d) at the end of today's meeting; and

g) that once legal agreements have been prepared for (a) to (e) above the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Treasury and Investments
03000 416747

Background documents -none