

**SUPERANNUATION FUND COMMITTEE**

**Friday, 6th September, 2019**

**10.00 am**

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







## AGENDA

### SUPERANNUATION FUND COMMITTEE

**Friday, 6th September, 2019 at 10.00 am** Ask for: **Theresa Grayell**  
**Medway Room, Sessions House, County** Telephone: **03000 416172**  
**Hall, Maidstone**

#### Membership

Conservative (8):	Mr C Simkins (Chairman), Mr P V Barrington-King, Mr P J Homewood, Mr J P McInroy and Mr J Wright	Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mr P C Cooper,
Liberal Democrat (1)	Mr D S Daley	
District Council (3)	Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green	
Medway Council (1)	Cllr Mrs J Iles	
Kent Active Retirement Fellowship (2)	Mrs M Wiggins and Mr D Coupland	
UNISON (1)	Mr J Parsons	
Staff Representative (1)	Vacancy	

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#### **UNRESTRICTED ITEMS**

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

- 1 Substitutes
- 2 Declarations of interest by Members in items on the agenda for this meeting.
- 3 Minutes of the meeting held on 21 June 2019 (Pages 5 - 8)
- 4 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.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

### **EXEMPT ITEMS**

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

- 5 Schroder
- 6 Woodford Update (Pages 9 - 18)
- 7 Investment Strategy (Pages 19 - 82)
- 8 ACCESS Update (Pages 83 - 86)

### **UNRESTRICTED ITEMS**

*(meeting open to the public)*

- 9 Fund Position Statement (Pages 87 - 96)
- 10 Superannuation Fund Report & Accounts and External Audit (Pages 97 - 184)
- 11 2019 -20 Pension Fund Business Plan (Pages 185 - 194)
- 12 Fund Employer Matters (Pages 195 - 200)
- 13 Date of next meeting

The next meeting of the committee will be held on 15 November 2019 at 10.00am

Benjamin Watts  
General Counsel  
03000 416814

**Thursday, 29 August 2019**

*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 their items.*

**KENT COUNTY COUNCIL****SUPERANNUATION FUND COMMITTEE**

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room - Sessions House on Friday, 21 June 2019.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P V Barrington-King, Mr P Bartlett, Cllr J Burden, Cllr P Clokie, OBE, Mr D S Daley, Cllr N Eden-Green, Mr P J Homewood, Mr P W A Lake (Substitute for Mr J P McInroy), Mr J Parsons, Mrs S Prendergast (Substitute for Mr P C Cooper), Cllr H Tejan (Substitute for Cllr Mrs J Iles), Mrs M Wiggins and Mr J Wright.

ALSO PRESENT: Mr P J Oakford, Mrs M E Crabtree, Mr R H Bird, Mr D L Brazier and Mr P B Carter, CBE

IN ATTENDANCE: Mrs B Cheatle (Pensions Manager), Mrs A Mings (Treasury and Investments Manager), Mr D Shipton (Head of Finance - Planning, Policy & Strategy - and Acting Section 151 Officer), Mr N Vickers (Business Partner (Pension Fund)) and Miss T A Grayell (Democratic Services Officer).

**UNRESTRICTED ITEMS****133. Substitutes**

*(Item 1)*

Apologies for absence had been received from Mr P C Cooper, Cllr Mrs Josie Iles and Mr J McInroy.

Mrs S Prendergast was present as a substitute for Mr Cooper, Cllr H Tejan for Cllr Mrs Iles and Mr P W A Lake for Mr McInroy.

**134. Declarations of interest by Members in items on the agenda for this meeting.**

*(Item 2)*

There were no declarations of interest.

**135. Minutes of the meeting held on 31 May 2019**

*(Item 3)*

It was RESOLVED that the minutes of the meeting held on 31 May 2019 are correctly recorded and they be signed by the Chairman. There were no matters arising.

**136. Motion to exclude the press and public**

*(Item 4)*

It was 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**

(Open access to minutes)

### **137. DTZ**

*(Item 5)*

*Jennifer Linacre, Director, and Peter O’Gorman, Fund Director, from DTZ were present for this item at the request of the committee.*

1. The Chairman welcomed Ms Linacre and Mr O’Gorman to the meeting and invited them to report on the performance of the Kent pension fund’s investments managed by DTZ.
2. Ms Linacre and Mr O’Gorman presented the company’s fund property portfolio, which included the range of their property investments, examples of the types of property and the forecast returns for each, how they managed their investment strategy and how the Kent fund portfolio had performed in comparison to other portfolios. They then answered questions of detail from the committee, including the spread of investment through the property sector, fee arrangements and gearing and the due diligence which related to these, the likely effect of Britain leaving the EU upon the domestic property market and how this was being researched, and future plans to review and refresh the portfolio.
3. It was RESOLVED that the information set out in the portfolio document, and given in response to comments and questions, be noted, with thanks.

### **138. Woodford**

*(Item 6)*

*Neil Woodford and Ross Lamacraft, Client Relationship Manager, from Woodford Investment Management Ltd, were present for this item at the request of the committee.*

1. The Chairman welcomed Mr Woodford and Mr Lamacraft to the meeting and thanked them for attending.
2. Mr Woodford updated the committee on the performance of the equity income fund in the weeks since trading in the fund had been suspended on 3 June and his strategy to address the recent underperformance of the fund. He responded to comments and questions of detail from the committee, including how the committee would be kept up to date prior to trading recommencing after the suspension.
3. It was RESOLVED that the information given in response to comments and questions be noted, with thanks.

## **SUMMARY OF EXEMPT MINUTE 139**

(where access to that minute remains restricted)

### **139. Investment Strategy**

*(Item 7)*

1. Having heard presentations from fund managers and asked questions of detail, the committee discussed what it had been told and how it should proceed, including how to manage information to the media.

2. The committee then RESOLVED a series of decisions relating to the Fund's investment strategy.

#### **140. ACCESS Pooling Update**

*(Item 8)*

1. Mrs Mings (Treasury and Investments Manager) introduced the update report and it was noted that Mr Bartlett had attended the 11 June ACCESS joint committee meeting in place of the Chairman. In response to a question, Mrs Mings advised that the Minister for Housing, Communities and Local Government was planning to run a formal consultation on the Local Government Pension Scheme Statutory Guidance on Asset Pooling, though the timescale had yet to be published.

2. It was RESOLVED that the information set out in the report be noted, with thanks.

### **UNRESTRICTED ITEMS** *(meeting open to the public)*

#### **141. Fund Position Statement**

*(Item 9)*

It was RESOLVED that the information set out in the report be noted, with thanks.

#### **142. Pensions Administration**

*(Item 10)*

1. Mrs Cheatle (Pensions Manager) introduced the six-monthly report and highlighted key areas of activity and challenges in the current workload.

2. Mrs Cheatle received the Board's thanks and congratulations for her team for dealing with an increase in workload and for work undertaken to bring data records up to date in time for the valuation of the fund by Barnet Waddingham.

3. It was RESOLVED that the information set out in the report be noted, and Mrs Cheatle and the pensions team be thanked and congratulated for the work they continued to undertake.

#### **143. Fund Employer Matters**

*(Item 11)*

1. Mrs Mings introduced the report, which set out information on employer-related matters and an application from an organisation to become an admitted body within the Superannuation Fund. It also advised on officer delegations, consultations and actuary issues.

2. The Hadlow College Education Administration Order was considered and it was noted that officers would monitor the progress of the administration and report to the committee on any further developments.

3. It was RESOLVED that the Superannuation Fund Committee agree:

- a) to the admission to the Kent County Council Superannuation Fund of Alliance in Partnership Ltd;
- b) an updated agreement can be entered with YBC Cleaning Services Ltd;
- c) the proposed officer delegations;
- d) that the Chairman may sign the minutes relating to recommendations (a) to (c) at the end of today's meeting; and
- e) that once legal agreements have been prepared for the admission matters the Kent County Council seal can be affixed to the legal documents.

and note the update on Consultations and Actuary Issues.

**144. Date of next meeting**

*(Item 12)*

It was noted that the next meeting of the committee would be held on Friday 6 September 2019, commencing at 10.00 am.



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

Agenda Item 6

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Agenda Item 7

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By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 6 September 2019

Subject: **FUND POSITION STATEMENT**

Classification: Unrestricted

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

## **FOR DECISION**

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### **INTRODUCTION**

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

### **INVESTMENT RETURN QUARTER TO 30 JUNE**

2. The Fund returned 3.79% in the Quarter compared with a benchmark return of 3.06% increasing in value by £221m.
3. All major Equity markets saw increases with Global Equities outperforming UK Equities assisted by the depreciation of sterling.
4. Schroders UK Equities and Global Equities, Baillie Gifford Global and Sarasin all outperformed. M&G continued to underperform and Woodford fell in value linked to the redemption restriction.
5. The strong performance of equity markets continued in July although this was reversed in August.

### **LONGER TERM INVESTMENT RETURNS**

6. The one year performance is 4.67% against a benchmark of 4.71%. The 3 year numbers however show strong outperformance of 10.53% per annum against a benchmark of 9.23%.

### **ASSET ALLOCATION**

7. The Committee is formally required to consider asset allocation at each meeting. No changes are proposed.

## **RECOMMENDATION**

8. Members are asked to agree the report.

**Nick Vickers**  
**Business Partner (Pension Fund)**  
**Tel: 07920 428575**  
**E-mail: [nick.vickers@kent.gov.uk](mailto:nick.vickers@kent.gov.uk)**

# FUND POSITION STATEMENT

## Summary of Fund Asset Allocation and Performance

### Superannuation Fund Committee

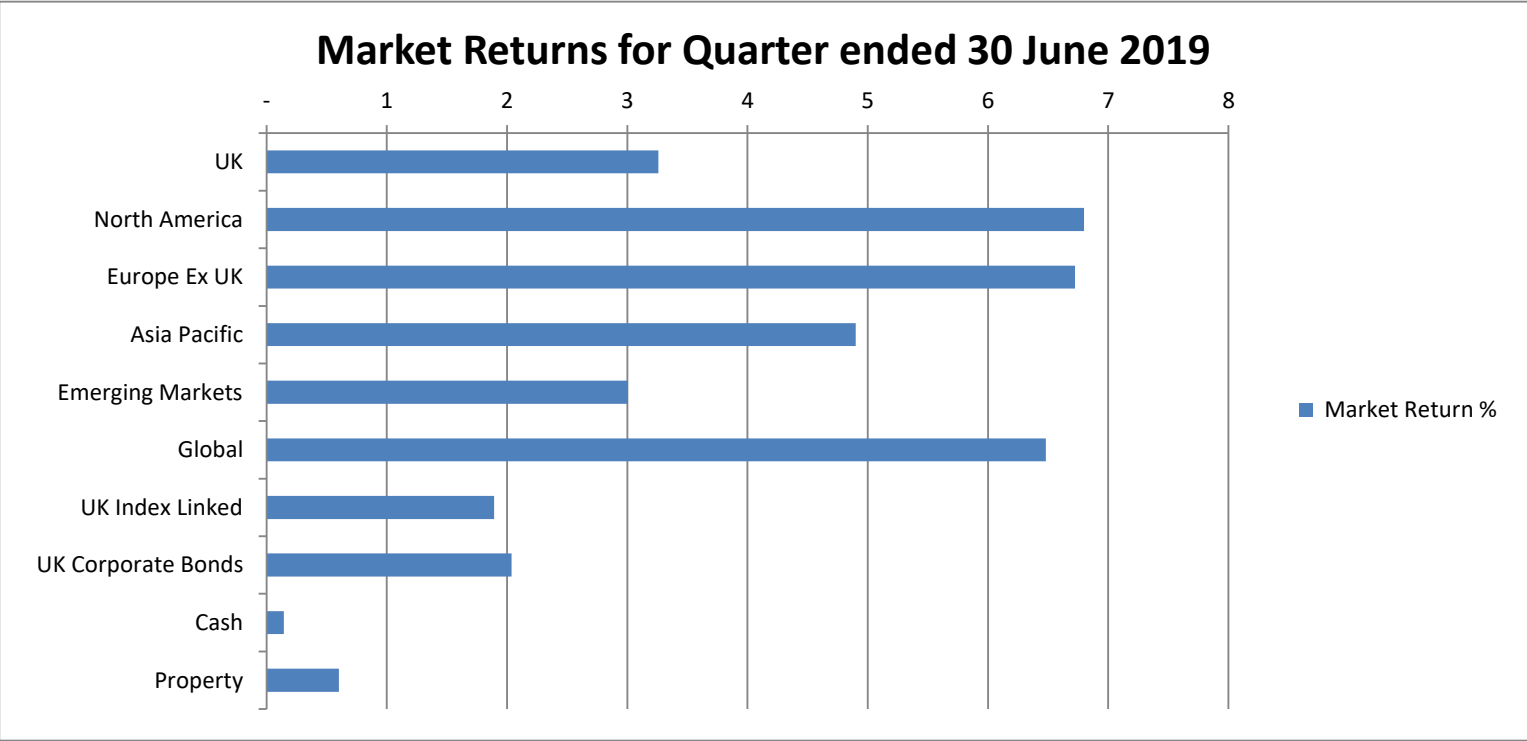
**By: Chairman Superannuation Fund Committee**  
Acting Corporate Director of Finance



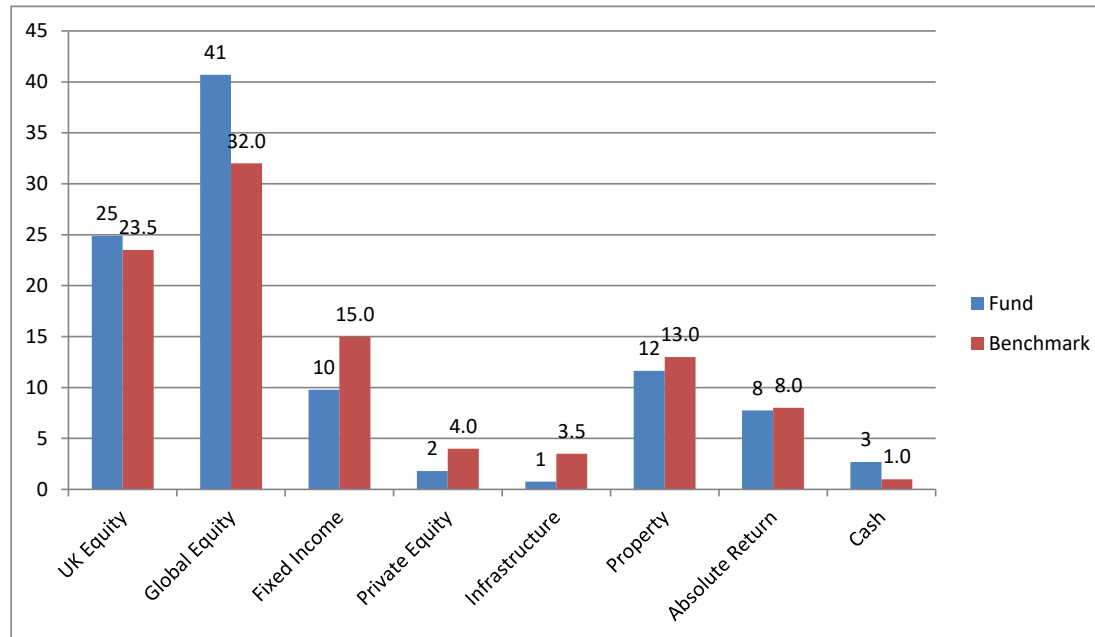
Kent County Council  
Superannuation Fund Q1 2019-20

Nick Vickers - Business Partner (Pension Fund)

# Market Returns for Quarter ended 30 June 2019

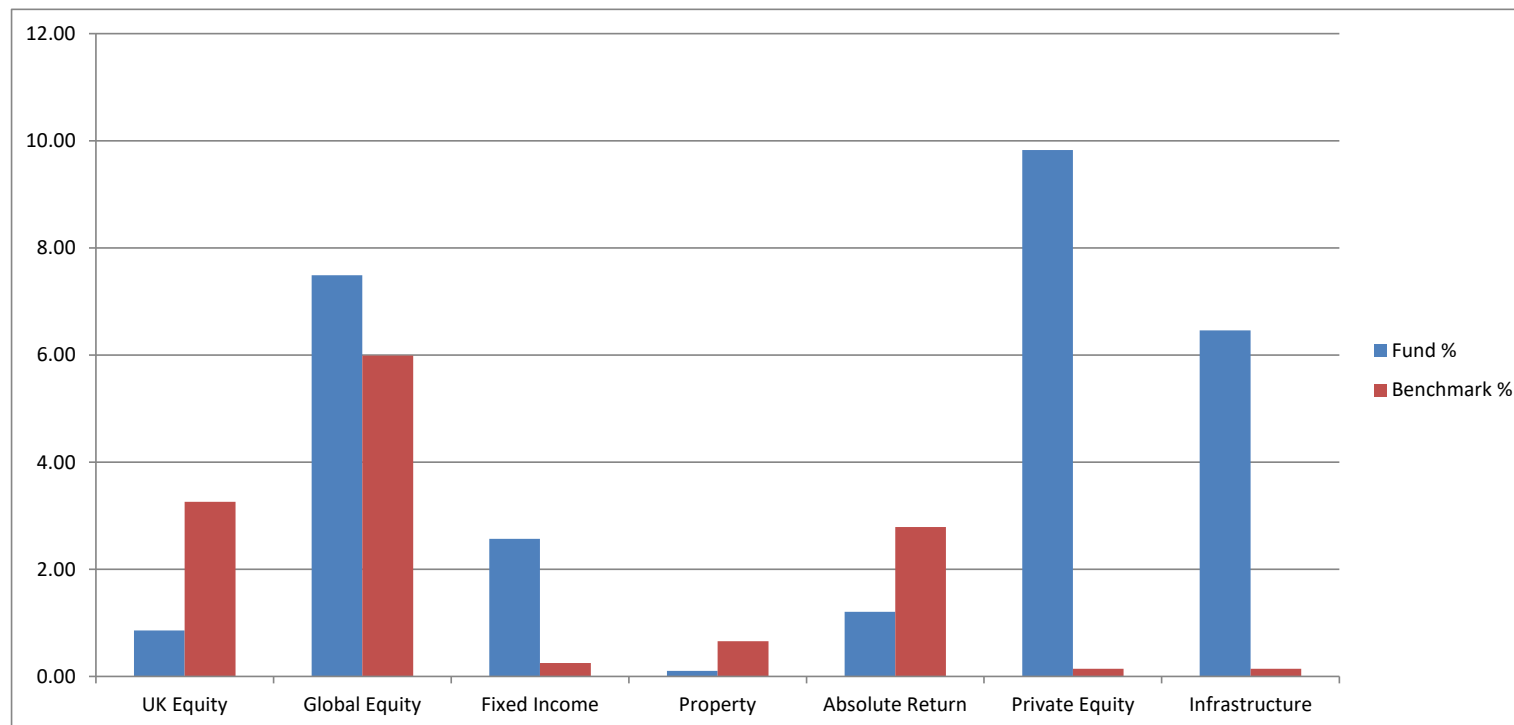


## Fund Asset Allocation vs Benchmark as at 30 June 2019



Asset Class	Fund		Benchmark
	£m	%	%
UK Equity	1,600	24.9	23.5
Global Equity	2,618	40.7	32
Fixed Income	629	9.8	15
Private Equity	117	1.8	4
Infrastructure	49	0.8	3.5
Property	748	11.6	13
Absolute Return	498	7.7	8
Cash	173	2.7	1
<b>Total</b>	<b>6,432</b>	<b>100</b>	<b>100</b>

## Fund Asset Class Performance for Quarter ending 30 June 2019



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Asset Class	Fund %	Benchmark %	Outperformance %
UK Equity	0.86	3.26	-2.40
Global Equity	7.49	5.99	1.50
Fixed Income	2.57	0.25	2.32
Property	0.10	0.66	-0.55
Absolute Return	1.20	2.79	-1.58
Private Equity	9.82	0.14	9.68
Infrastructure	6.46	0.14	6.32

## Market Value Summary by Fund Manager as at 30 June 2019

Fund Mandate	Asset Class	Market Value as at 31 March 2019 (£m)	Market Value as at 30 June 2019 (£m)	Change in Market Value (£m)	% of Total Fund 30 June 2019
Baillie Gifford *	Global Equity	1,302	1,317	15	20.5%
Schroders	UK Equity	958	993	35	15.4%
DTZ	Direct Property	487	484	-3	7.5%
Pyrford	Absolute Return	424	429	5	6.7%
Goldman Sachs	Fixed Interest	385	395	10	6.1%
M&G	Global Equity	358	368	10	5.7%
UBS UK	UK Equity	336	349	13	5.4%
UBS Global	Global Equity	303	323	20	5.0%
Schroders GAV	Global Equity	292	315	23	4.9%
Woodford	UK Equity	260	224	-36	3.5%
Sarasin	Global Equity	254	270	16	4.2%
Schroders	Fixed Interest	241	247	7	3.8%
Fidelity	Pooled Property	131	131	0	2.0%
Internally managed cash *	Cash	68	151	83	2.4%
Harbourvest	Private Equity	77	85	8	1.3%
Ruffer	Absolute Return	68	69	1	1.1%
Kames	Pooled Property	52	50	-2	0.8%
DTZ Pooled Funds	Pooled Property	50	50	0	0.8%
Impax	Global Equity	48	52	4	0.8%
Partners	Infrastructure	47	49	2	0.8%
YFM	Private Equity	29	34	5	0.5%
M&G Property	Pooled Property	26	32	6	0.5%
UBS Emerging Markets	Global Equity	15	16	1	0.2%
<b>Total Kent Fund</b>		<b>6,211</b>	<b>6,432</b>	<b>221</b>	<b>100.0%</b>

\* £100m withdrawn from Baillie Gifford during the quarter and being held internally in cash

## Performance Returns as at 30 June 2019

	Quarter		1 Year		3 Year (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
<b>Total Fund</b>	3.79	3.06	4.67	4.71	10.53	9.23
<b>Uk Equity</b>						
Schroders UK Equity	3.66	3.14	0.98	0.82	9.52	8.98
UBS	3.30	3.26	0.60	0.57	--	--
Woodford	-13.80	3.26	-21.01	0.57	-7.18	9.00
<b>Global Equity</b>						
Baillie Gifford	9.17	5.62	9.39	9.14	19.48	19.16
Sarasin	6.12	6.08	9.76	9.69	14.61	13.47
Schroders GAV	7.78	6.08	7.55	9.69	11.54	13.47
UBS Emerging Markets	3.59	3.76	7.77	8.31	--	--
UBS World Ex UK Equity	6.68	6.71	10.89	10.91	--	--
Impax	8.09	6.08	11.20	9.69	12.77	13.47
M&G	2.70	6.08	--	--	--	--
<b>Fixed Interest</b>						
Goldman Sachs	2.54	0.86	7.33	3.50	5.49	3.50
Schroders Fixed Interest	2.60	0.25	2.23	1.03	2.23	0.72
<b>Property</b>						
DTZ	0.07	0.66	5.19	3.98	9.64	6.53
Fidelity	0.17	0.60	4.48	3.44	7.11	6.36
Kames	0.88	0.60	5.95	3.44	7.75	6.36
M&G Property	0.58	0.60	3.63	3.44	3.78	6.36
<b>Private Equity</b>						
Harbourvest	12.05	0.14	23.13	0.56	19.43	0.33
YFM	4.73	0.14	39.04	0.56	22.36	0.33
<b>Infrastructure</b>						
Partners	6.46	0.14	13.31	0.56	12.56	0.33
<b>Absolute Return</b>						
Pyrford	1.13	2.79	2.69	7.88	2.34	8.33
Ruffer	1.64	2.79	--	--	--	--



## Fund Manager Benchmarks and Performance Targets

Asset Class / Manager	Performance Benchmark	Performance Target
<b>UK Equities:</b>		
Schroders UK Equity	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
UBS UK Equity	FTSE All Share	Match
<b>Global Equities:</b>		
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 GAV	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
UBS Global Equity	FTSE (Dev) World ex UK	Match
UBS Emerging Market Equities	FTSE Emerging Markets	Match
<b>Fixed Income:</b>		
Schroders Fixed Interest	3 months Sterling Libor	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
<b>Property:</b>		
DTZ	IPD Pension Fund Index	≥ 3 year rolling average of benchmark returns
Fidelity	IPD UK PF Property Fund Index	
Kames	IPD UK PF Property Fund Index	
M&G Property	IPD UK PF Property Fund Index	
<b>Alternatives: (Cash / Other Assets)</b>		
Private Equity – YFM	GBP 7 Day LIBID	
Private Equity – HarbourVest	GBP 7 Day LIBID	
Infrastructure – Partners Group	GBP 7 Day LIBID	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Absolute Return – Ruffer	Retail Price Index (RPI)	
Internally managed cash – KCC Treasury and Investments team	GBP 7 Day LIBID	

## Fund Structure as at 30 June 2019

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £993 m	Baillie Gifford +1.5% £1,317 m	Goldman Sachs +6.0% Abs. £395 m	DTZ Property £534 m	Internally managed Cash £151 m
UBS 0.0% £349 m	M&G +3.0% £368 m	Schroders +4.0% £247 m	Fidelity Property £131 m	Partners Infrastructure £49 m
Woodford £224 m	Schroders +3.0% - +4% £315 m		Kames Property £50 m	YFM Private Equity £34 m
	UBS +0.0% £339 m		M&G Property £32 m	HarbourVest Private Equity £85 m
	Impax +2.0% £52 m			Pyrford Abs. Return RPI + 5% £429 m
	Sarasin +2.5% £270 m			Ruffer Abs. Return RPI £69 m
Total Fund    £6.4 bn				

By: Chairman Superannuation Fund Committee  
Acting Corporate Director of Finance

To: Superannuation Fund Committee – 6 September 2019

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

Classification: Unrestricted

Summary: To present the Report and Accounts of the Superannuation Fund for 2018/19 and the External Audit Findings Report.

## **FOR DECISION**

### **INTRODUCTION**

1. Guidance issued by CIPFA in 2019 for Local Government Pension Scheme Funds on Preparing the Annual Report requires the Annual Report to be approved by the Chair of the Superannuation Fund Committee.
2. A copy of the Superannuation Fund Report and Accounts for the year ended 31 March 2019 is attached at appendix 1.
3. The Fund's Accounts were approved by Governance and Audit Committee on 24 July.
4. The audit of the accounts was completed and an unqualified audit opinion issued to Kent County Council on 25 July.
5. The key findings and other matters arising from the statutory audit of the Fund are included in the external auditor's Audit Findings Report at appendix 2.
6. In addition, regulations require the Fund to prepare, review and update the following statements on a regular basis:
  - A Governance Compliance Statement
  - Investment Strategy Statement (ISS)
  - Funding Strategy Statement (FSS)
  - Communications Policy Statement
7. The Investment Strategy Statement has been updated to reflect changes in the strategic asset allocation agreed by the Committee in 2018 and is attached at appendix 3.
8. The latest Governance Compliance Statement is attached in appendix 4.
9. There have been no changes to the Funding Strategy Statement and the Communications Policy.

## RECOMMENDATIONS

4. Members are asked to:
  - (1) Approve the Superannuation Fund Annual Report
  - (2) Approve the updated Investment Strategy Statement
  - (3) Approve the updated Governance Compliance Statement
  - (4) Note the content of the 2018/19 Superannuation Fund Accounts
  - (5) Confirm that the Report and Accounts can be published to the Kent Pension Fund website
  - (6) Note the external auditor's Audit Findings Report, and
  - (7) Note the position with regard to Governance and Audit Committee.

Alison Mings  
Treasury and Investments Manager  
[Alison.mings@kent.gov.uk](mailto:Alison.mings@kent.gov.uk)

# Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2019



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#### If you have any comments on the annual report,

- please call 03000 416 431
- email [investments.team@kent.gov.uk](mailto:investments.team@kent.gov.uk), or
- write to: Kent Pension Fund, Treasury and Investments,  
Kent County Council, Room 3.17, Sessions House, County  
Hall, Maidstone, Kent ME14 1XQ

## Chairman's foreword

As the Fund Chairman it is my pleasure to introduce the Kent Pension Fund annual report.

2018-19 was a busy and successful year for the Fund as it grew in value to £6.2bn, having achieved an investment return of 7.1%, and individual and employer membership increased.

We continue to work hard to ensure the Fund is best positioned to deliver the returns needed in the future and it is pleasing to report that this has been a good year for the Fund's investments and while investment performance varied across strategies and managers our long established global equity, UK equity and direct property managers performed particularly well.

In June 2018 following a review of the strategic asset allocation for the Fund, the Committee decided to increase the allocation to alternative and absolute return asset classes and reduce its allocation to UK equities. During the year the Fund invested £70m in a Ruffer absolute return fund and made additional commitments to private equity and infrastructure funds. At every meeting of the Superannuation Fund Committee we review the performance of the Fund's investment managers and asset allocation.

The ACCESS pool is now well established and the Kent Fund has £3.1bn invested in the pool, 54% of assets available for pooling. Work is continuing to set up further investment sub-funds as well as finalise governance and administrative arrangements for the pool. The Kent Fund is represented on the pool by Members and Officers. Kent Democratic Services also provides secretarial support to the Joint Committee.

**The ACCESS annual report is overleaf.**

Individual membership of the Fund increased during the year and at 31 March 2019 there were 51,345 contributing members, a decrease of some 1,400 from 31 March 2018 and in total there are now 137,416 members in the Fund. The number of employers in the Fund also increased, to 434, mainly as a result of staff transferring to new employers as services have been outsourced and schools converting to academy status.

The growth in membership has resulted in an increased workload for the KCC staff who provide the administrative and accounting support to the Fund and I am grateful to them for all their hard work in maintaining high levels of service to members.

I would also like to thank the members of the Superannuation Committee and Pensions Board for their hard work and commitment during 2018-19. 2019-20 looks like being another challenging period for the Fund in terms of its investment strategy and further investment in the ACCESS pool, while managing the needs of an increasing membership. As Chairman I am really looking forward to working with Members and Officers over the next 12 months.

**Charlie Simkins**  
Chairman



# ACCESS Annual Report

As Chairman of the ACCESS Joint Committee I am pleased to be introducing the first Annual Report for the ACCESS Pool. The Pool has made excellent progress during the year with just under £20 billion of assets pooled. £8.176 billion is invested directly in the Pool through Link Fund Solutions and the passive investments of £11.431 billion are invested on a pool governance basis.

I am grateful for the dedication and support from my fellow Chairmen on the Joint Committee, the officers from the ACCESS authorities and the staff of the Support Unit whose hard work and collaborative spirit has made such progress possible.

The pace of development for the Pool will continue during 2019-20, with further sub-fund launches planned throughout the year.

## Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Government's pooling agenda across the LGPS.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating within a clear set of objectives and principles that drives the decision making process.

Collectively as at 31 March 2019, the pool has assets of £46 billion serving 3,000 employers with over 1 million members including 290,000 pensioners.

## Governance

The ACCESS Pool is not a legal entity in itself but is governed by an Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Officer Working Group and the ACCESS Support Unit (ASU).

The Officer Working Group are officers representing the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers of the ACCESS Pension Funds.

The Section 151 Officers of each authority provide advice to the Joint Committee and in response to decisions made by the Joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

## The Operator

Link Fund Solutions Ltd has been appointed to provide a pooled operator service. Link is responsible for establishing and operating an authorised contractual scheme (ACS) along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies, and the appointment of the investment managers to those sub-funds.

## Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool and has regularly submitted progress reports to Government. These are all published on the Pool's website ([www.accesspool.org](http://www.accesspool.org)).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the first milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021.



## Pooled Assets

As at 31 March 2019 ACCESS has pooled the following assets:

Pooled Investments	£ billion
Passive investments	11.431
UK Equity Funds	2.323
Global Equity Funds	5.853
<b>Total Pooled Investments</b>	<b>19.607</b>

The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an ACS.

## Key milestones achieved in 2018/19

- Establishment of the ACCESS Support Unit and recruitment of a contract manager and support officer to provide day to day support for the Pool. The unit was further strengthened by the appointment of technical leads from existing officers to lead and progress specific areas of work.
- Development of a Governance Manual to reflect decision making principles, communications strategy, policies and procedures.
- Approval and launch of the first two tranches of sub-funds.
- Establishment and implementation of the stock lending programme.
- Providing updates of progress to Government and responding to consultations.

## Objectives for 2019/20

Following the launch of a number of sub-funds, progress will continue apace with significant rationalisation of the existing range of mandates. The Operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the Funds and facilitate a significant move of the assets to be pooled.

Whilst establishing and developing the ACCESS Pool, the initial focus has been on pooling the most liquid assets, mainly equities and fixed income bonds. The next step is to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds' current and future requirements.

## Financial Management

### Pool Set-Up Costs

The set-up costs incurred by the pool includes professional and legal advice received in relation to establishing the pool and procuring the operator, and advice and support in the development of good governance. A breakdown of the total costs from inception are as below. The costs are split equally amongst the 11 Funds.

	2015-16 £'000	2016-17 £'000	2017-18 £'000
Strategic & Technical Advice	38	295	281
Legal	1	95	313
Project Management	20	379	189
ACCESS Support Unit			3
Other	1	108	101
<b>Total Set Up Costs</b>	<b>60</b>	<b>877</b>	<b>887</b>

### Fee Savings

The ACCESS pool has sought out fee savings based on economies of scale with investment mandates that have been set up as sub-funds by Link and by consolidating its passive investments with one investment manager.

The management fee savings received by the pool are as below:

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000	Total
Set Up Costs	60	877	887	-	<b>1,824</b>
Ongoing Operational Costs	-	-	149	<b>1,248</b>	<b>1,397</b>
Transaction Costs	-	-	-	<b>674</b>	<b>674</b>
<b>Total Costs</b>	<b>60</b>	<b>877</b>	<b>1,036</b>	<b>1,922</b>	<b>3,895</b>
Fee Savings	-	-	681	<b>6,378</b>	<b>7,059</b>
<b>Net Savings Realised/(Costs)</b>	<b>(60)</b>	<b>(877)</b>	<b>(355)</b>	<b>4,456</b>	<b>3,164</b>

### Expected v Actual Costs and Savings

The table below compares the actual costs and savings for 2017-18 and 2018-19 to the Business case submission to MHCLG:

	2017-18		2017-18	
	Actual In Year	Budget In Year	Actual Cumulative to date	Budget Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	887	800	<b>1,824</b>	<b>1,400</b>
Ongoing Operational Costs	149	–	<b>149</b>	–
Transition Costs	–	–	–	–
<b>Total Costs</b>	<b>1,036</b>	<b>800</b>	<b>1,973</b>	<b>1,400</b>
Pool Fee Savings	(681)	(950)	<b>(681)</b>	<b>(950)</b>
<b>Net Savings Realised/(Costs)</b>	<b>(355)</b>	<b>(150)</b>	<b>(1,292)</b>	<b>(450)</b>

	2018-19		2018-19	
	Actual In Year	Budget In Year	Actual Cumulative to date	Budget Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	–	–	<b>1,824</b>	<b>1,400</b>
Ongoing Operational Costs	1,248	1,266	<b>1,397</b>	<b>1,266</b>
Transition Costs	674	2,499	<b>674</b>	<b>2,499</b>
<b>Total Costs</b>	<b>1,922</b>	<b>3,765</b>	<b>3,895</b>	<b>5,165</b>
Pool Fee Savings	6,378	3,800	<b>7,059</b>	<b>4,750</b>
<b>Net Savings Realised/(Costs)</b>	<b>4,456</b>	<b>35</b>	<b>3,164</b>	<b>(415)</b>

The original budget for setting up the ACCESS Pool was £1 million which was 0.3 bps based on the value of the Funds, £33 billion as at 31 March 2015. The Fund value has risen in the intervening years and 0.3 bps on the current value is £1.4 million. The additional expense has been incurred in securing technical and legal advice in setting up the Pool and procuring the Operator.

Ongoing operational costs were included in the submission at 1.5 bps of pooled assets excluding the passive investments. These are the costs for running the ACCESS Pool and include the costs of the support unit and professional and legal advice.

Significant additional savings have also been achieved through negotiating a reduction in investment management fees in pooled aligned investments. These savings have not been included in the table overleaf.

The ACCESS Pool has worked hard to minimise the costs of transition for pooled holdings. Transition costs for the passive investment mandate were met by the appointed investment manager.

### Environmental, Social and Governance

The Pension Funds in ACCESS believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole.

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.

#### Andrew Reid

Cllr Andrew Reid – Chairman, ACCESS Joint Committee

## Governance arrangements

### The Superannuation Fund Committee

The Superannuation Fund Committee exercises all of the powers and duties of the 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 2018-19 is detailed below. There were 5 full Committee meetings during the year.

### Committee members



**Charlie Simkins**  
Chairman  
Kent County Council



**Nick Chard**  
Vice Chairman  
Kent County Council



**Dan Daley**  
Kent County Council



**Paul Barrington-King**  
Kent County Council



**Peter Homewood**  
Kent County Council



**James McInroy**  
Kent County Council



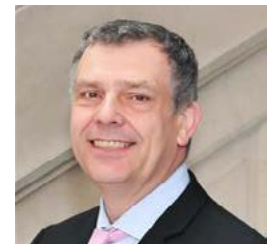
**John Burden**  
Gravesham Borough Council



**Nick Eden-Green**  
Canterbury City Council



**Paul Clokie**  
Ashford Borough Council



**Paul Bartlet**  
Kent County Council



**Paul Cooper**  
Kent County Council



**John Wright**  
Kent County Council



**Les Wicks**  
Medway Council

**Kent Active Retirement Fellowship Representatives**  
Mary Wiggins  
David Coupland

**Union Representative**  
Joe Parsons

### 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 2018-19 is detailed below; there were 2 full Board meetings during the year.

### Board members

<b>Margaret Crabtree</b> , Chairperson	Kent County Council
<b>Rosalind Binks</b>	Kent County Council
<b>David Monk</b>	Shepway District Council
<b>Alison Kilpatrick</b>	Kent and Medway Fire and Rescue Service
<b>Joe Parsons</b> , Vice Chairperson	Unison Representative
<b>John Peden</b>	Staff Representative
<b>David Coupland</b>	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 their 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.

## Governance 2018-19

During the year the Superannuation Fund Committee met five times and the Pensions Board met twice. Attendance at the Committee and Board meetings was as below:

### Superannuation Fund Committee

Member	Meetings attended
Charlie Simkins	5/5
Nick Chard	3/5
Paul Barrington-King	4/5
Paul Bartlett	4/5
John Burden	5/5
Paul Clokie	5/5
Paul Cooper	5/5
David Coupland	4/5
Dan Daley	5/5
Nick Eden-Green	4/5
Peter Homewood	3/5
James McInroy	5/5
Joe Parsons	4/5
Les Wicks	2/5
Mary Wiggins	2/5
John Wright	5/5

### Pensions Board

Member	Meetings attended
Margaret Crabtree	1/2
Joe Parsons	2/2
Rosalind Binks	2/2
David Coupland	2/2
Alison Kilpatrick	1/2
David Monk	2/2
John Peden	2/2
Unison Rep – VACANCY	

### Committee activity

Items considered by the Committee at its meetings in 2018/19 were as follows:

- Review of the Fund's investment strategy
- Quarterly updates on the Fund's asset allocation and performance
- Review of the Fund's fixed income investments
- Review of the Fund's Property investment strategy
- Review of the Fund's Private Equity and Infrastructure strategy
- Update on the Fund's Currency Balances
- Update on Investment Management Costs
- ACCESS pooling updates
- Updates on Employer matters and admission applications
- Update from the Fund's Actuary
- Pension administration updates
- The 2017/18 Report and Accounts and External Audit Report
- Review of the Fund's Risk Register
- The Fund's response to the Consultation on LGPS statutory Guidance on Asset Pooling

### Board activity

At its meetings in June and October 2018 the Pension Board considered the following:

- ACCESS pooling updates
- Updates on Employer matters
- Pension administration updates
- The 2017/18 Report and Accounts and External Audit Report
- Internal Audit reports

### Training received in 2018/19

As an administering authority of the Local Government Pension Scheme, Kent County Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to act in line with their responsibilities.

### Committee training

During the year, training sessions were organised specifically for the Committee members in order to gain an understanding of asset classes being considered as part of its review of its investment strategy. These included:

- Private Equity
- Infrastructure
- Multi Asset Credit
- Absolute Return

The Committee also had an opportunity to gain an understanding of existing investment mandates from investment managers at the following Committee meetings:

Committee meeting	Topic	Provider
June 2018	Global Equities UK Property	Baillie Gifford DTZ
September 2018	UK Equities	Schroders
November 2018	Global Equities UK Equities	Sarasin Woodford
February 2019	Fixed income absolute return	GSAM
March 2019	Global Equities Fixed Income	M&G Schroders

### Individual training

Individual Committee and Board members as well as staff attended a range of training events in 2018-19 provided by the Pension Fund's investment managers and other external organisations, as follows:

- Trustee Training
- Treasury Management
- LGPS Governance Training Fundamentals
- MiFID II research rules
- Effective Risk Management
- Asset Management Tax
- Annual Fund Manager Client Workshops
- Anti-Money Laundering Refresher
- PLSA LGPS conference
- CIPFA accounting and audit workshop
- LGPS actuary conference

## Fund managers






**Kent County Council**  
Treasury Management Team



Further details of the fund manager mandates can be found in the Investment Strategy Statement (ISS).

### Other organisations providing services to the Kent Fund

Service	Organisation
Custodian	Northern Trust Company
Bankers	National Westminster Bank
Fund Actuary	Barnett Waddingham
Additional Voluntary Contributions (AVC) Providers	Equitable Life Assurance Prudential Assurance Company Standard Life Assurance
Investment Consultants	Mercers
Auditors	Grant Thornton
Legal Advisors	Invicta Law
Performance Measurers	Northern Trust Company CEM Benchmarking PIRC Limited
Scheme Administrators	Kent County Council
Administration software provider	Aquila Heywood

The Kent Pension Fund maintains the following statutory statements and policies; these are reviewed and updated regularly:

- Funding Strategy Statement.
- Investment Strategy Statement.
- Governance Compliance Statement.
- Communications Policy Statement.

These documents can be found on the Pension Fund's website <http://www.kentpensionfund.co.uk/local-government/fund-information/policies>

## 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 has identified the main risks as:

- Fund investment return below that assumed by the actuary.
- Risks associated with the investment in the ACCESS ACS sub-funds.

Arrangements have been agreed for the management of these risks in order to mitigate their impact on the Fund.

### 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.

### Operational risks

Kent County Council's Internal Audit Section conducts regular audits on the management of risk in the Pension Fund.

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

### Investment risk management

Further details of the Fund's policy on investment risk management are disclosed in the Fund's Investment Strategy Statement (ISS). The Superannuation Fund Committee formally considers investment risk at four of its five planned meetings during the year.

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

## Financial Performance

### Financial Summary

A brief summary over the last 5 years is shown below:

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
<b>Value of Fund at start of year</b>	4,137,259	4,539,037	4,597,540	5,565,175	<b>5,828,846</b>
Revenue account for year					
– Contributions and transfers in	222,177	224,366	238,851	243,299	<b>247,758</b>
– Investment and other income net of expenditure	74,113	90,449	84,792	93,503	<b>84,971</b>
– Benefits and transfers out	(277,358)	(216,314)	(222,949)	(232,373)	<b>(248,538)</b>
Net Revenue	18,932	98,501	100,694	104,429	<b>84,191</b>
Increase (Decrease) in market value of investments in year	382,846	(39,998)	866,941	159,242	<b>305,132</b>
<b>Increase (decrease) in Fund during year</b>	<b>401,778</b>	<b>58,503</b>	<b>967,635</b>	<b>263,671</b>	<b>389,323</b>
<b>Value of Fund at end of year</b>	<b>4,539,037</b>	<b>4,597,540</b>	<b>5,565,175</b>	<b>5,828,846</b>	<b>6,218,169</b>

### Fund Trends

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

	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Net Assets at 31 March (£'000)</b>	4,539,037	4,597,540	5,565,175	5,828,846	<b>6,218,169</b>
<b>No of Contributors</b>	48,668	49,816	50,834	52,775	<b>51,345</b>
<b>Contributions (£'000)</b>	217,714	220,961	228,285	232,037	<b>238,331</b>
<b>Number of Pensioners</b>	35,917	37,260	38,648	39,813	<b>41,739</b>
<b>Benefits Paid (£'000)</b>	207,356	210,281	214,895	220,876	<b>235,953</b>

The Fund has increased in value by £2bn (50%) from 1 April 2014 to 31 March 2019. The main contributor to the growth has been an appreciation in the asset values owned by the Fund (40%).

The number of contributors in the Fund has been increasing but in 2018-19 we saw the first decrease. Over the years while the overall number of contributors has increased by 5.5%, the amount of contributions, have grown by 9% mainly due to increase in salary levels of employees.

Number of pensioners has continued to grow and were 16% higher at 31 March 2019 compared to 31 March 2015. Pension payments have increased by 14% during the same period.

Investment income net of expenditure has fluctuated with distributions from private equity managers, whilst fees for fund management has increased in line with asset values.

### Management Expenses

The following table compares actual Administration, Governance and Oversight costs against the budget for 2018-19.

	Actual £'000	Budget £'000
Pensions Administration	2,583	2,436
Fund Administration	527	403
<b>Administration expenses</b>	<b>3,110</b>	<b>2,839</b>
Actuarial Fees	253	271
Actuarial fees directly recovered from employers	(298)	(247)
Investments and Accounting	313	333
ACCESS pooling costs	137	105
Investment Consultants	44	32
Subscriptions	5	5
Performance Measurement Fees	27	17
Audit fee	24	24
<b>Governance and Oversight Expenses</b>	<b>504</b>	<b>540</b>

The costs of administration of the scheme were higher than budgeted due to additional spend with regards to the introduction of i-Connect, for the monthly submission of data from employers, and work carried out on GMP reconciliation.

Governance and admin costs were lower than budget mainly due to lower actuary costs and better recovery of the same.



## Employers

At 31 March 2019 there were 434 Employers in the Fund. During the year the Fund 16 organisations joined the Fund as either scheduled bodies or admitted bodies following the transfer of staff from existing fund employers and as schools converted to academy trusts. Academy trusts also consolidated and other employers exited the Fund as their last active members left or retired. During the year 13 employers either ceased to be members of the Fund or merged with other employers.

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 contributing members) and ceased (i.e. with no active members but with some outstanding liabilities).

### Number of employers

	Active	Ceased	Total
Scheduled Body	238	64	302
Admitted Body	75	57	132
<b>Total</b>	<b>313</b>	<b>121</b>	<b>434</b>

### Amounts due from Employers

During 2018-19 we collected 99%, (98% in 2017-18) of total contribution income from Employers by the due date of the 19th of the month following. The option to levy interest on overdue contributions was not exercised. At 31 March 2019 contributions in respect of the March salaries totaling £16.7m (31 March 2018 £16.6m) due by 19 April had not been received.

### Member Age Profile

The following table shows that at 31 March 2019 the age profile of the contributing membership was:

Age	Members
Under 20	547
20 – 25	3,531
26 – 30	3,890
31 – 35	4,427
36 – 40	5,528
41 – 45	6,393
46 – 50	8,194
51 – 55	8,255
56 – 60	6,410
61 – 65	3,452
66 – 70	567
Over 70	151

### Five-year analysis of pension overpayments, recoveries and write-offs

#### Overpayments

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

Year	No.	Value (£)	Action
2015	2	17,692	Recovered
	1	2,906	No response therefore put forward for write off
	1	2,040	No response – written-off
2017	1	572	No next of kin so written-off
	1	537	No response – written-off
<b>Total</b>	<b>6</b>	<b>23,747</b>	

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 (£)
2014-15	10	2,975
2015-16	15	3,947
2016-17	36	8,135
2017-18	39	53,946 *
<b>2018-19</b>	<b>18</b>	<b>27,717 *</b>

\*£71,502 of these amounts refer to historic overpayments that occurred and all possibilities of recovery have been exhausted.

## Investments

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

At its regular meetings during 2018-19 the Committee reviewed the Fund's actual asset allocation compared to the benchmark, and where the variance was in excess of the tolerance level of +/- 2%, agreed any action to be taken.

The Fund's strategic asset allocation at 31 March 2018 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 & Infrastructure	2	GBP 7 Day LIBID
Absolute Return	5	RPI +5%
Cash	1	GBP 7 Day LIBID
<b>Total</b>	<b>100</b>	

Following a Strategic Asset Allocation review undertaken by Mercer, the Committee at its September 2018 meeting agreed to revise the asset allocation to reduce its exposure to UK equities and increase the allocation to alternative asset classes as below:

Asset Class	Allocation %	Index
UK Equities	23.5	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 & Infrastructure	7.5	GBP 7 Day LIBID
Absolute Return	8	RPI +5%
Cash	1	GBP 7 Day LIBID
<b>Total</b>	<b>100</b>	

### Asset Pooling

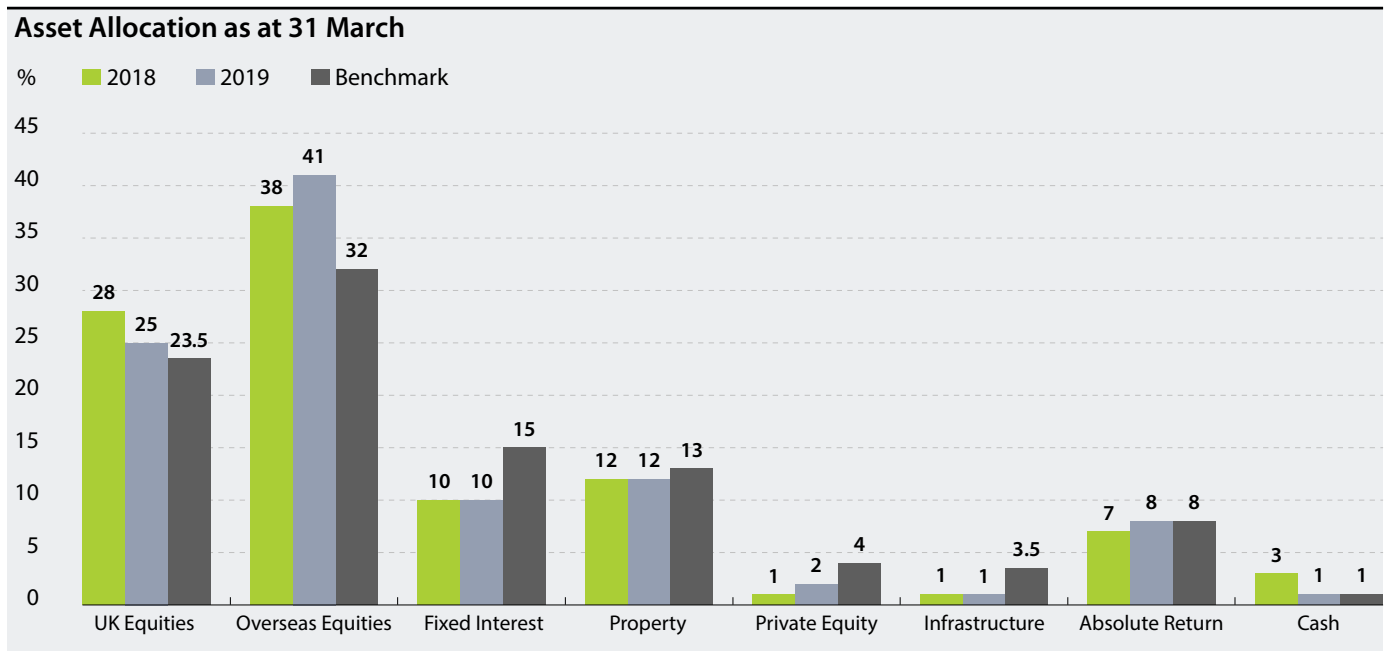
The Kent Pension Fund has made a commitment to pool its assets other than its direct property holdings into the ACCESS Pool. (Please see section on ACCESS for further information about the Pool).

As at 31 March 2019 it had investments of £2.6 billion in three ACCESS sub-funds. Its investments in life funds were valued at £0.7 billion. These assets are held in jointly procured life fund policies, which cannot be held within an authorised contractual scheme which is the overarching legal structure of the ACCESS pool.

The Kent Pension Fund has saved £2.4 million on fees through pooling initiatives.

### Portfolio Distribution

The graph shows the Fund's actual portfolio distribution between the main asset-classes as at 31 March 2018 and 31 March 2019 vs the benchmark.

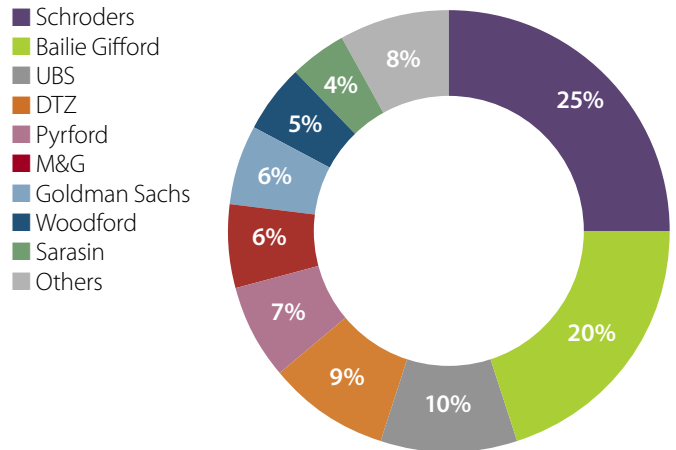


## Value of funds under management by Fund Manager

The following graph shows the Assets Under Management (AUM) and the proportion of the Fund under management by fund manager as at 31 March 2019:

Fund Managers	AUM (£m)
Schroders	1,491
Baillie Gifford	1,302
UBS	654
DTZ	544
Pyrford	424
M&G	390
Goldman Sachs	385
Woodford	260
Sarasin	254
Others	502
<b>Total</b>	<b>6,205</b>

**AUM by Fund Manager as a proportion of the Fund**



### Investment performance 2018-19

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

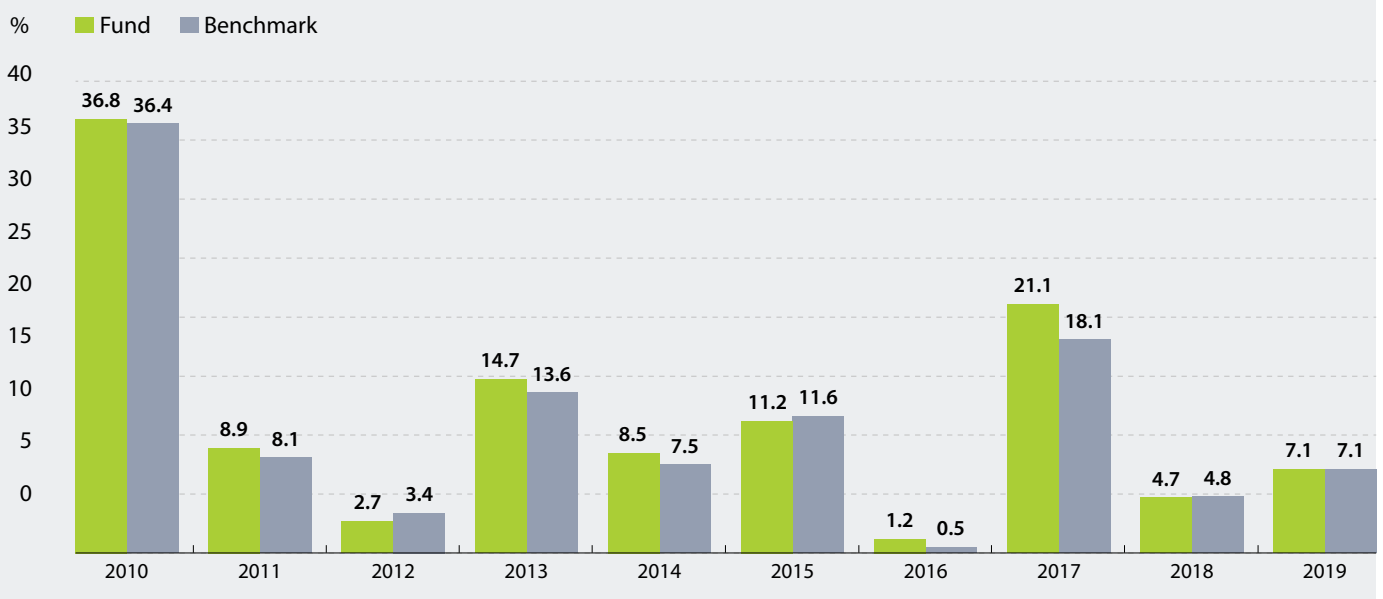
Managers are required to provide valuation information to Northern Trust which assesses the rate of return achieved and provides performance reports that are for consideration by the Committee.

### Total Fund Performance

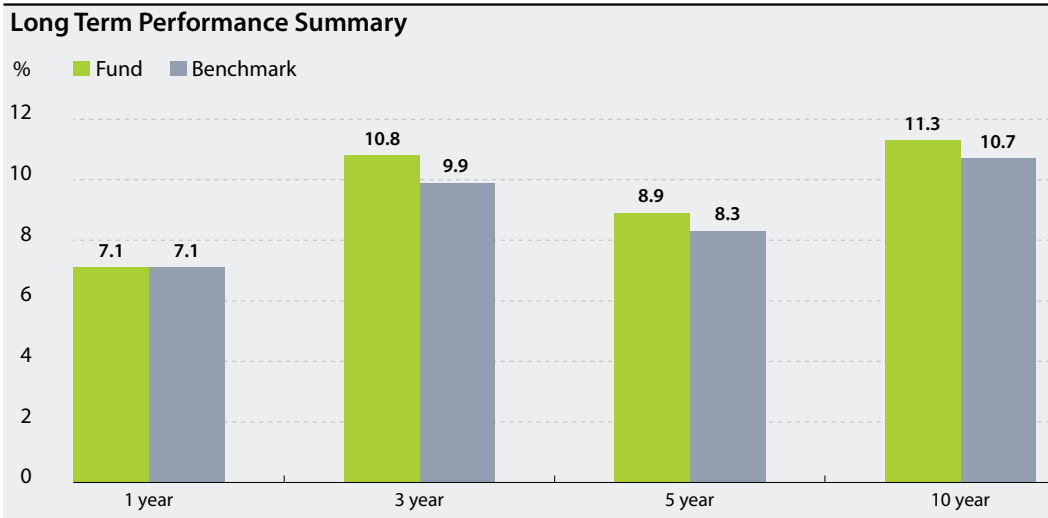
The graph below shows the relative performance of the Kent Fund investments over the last 10 years. The overall return on the Fund investments for 2018-19 was 7.1% compared to the customised strategic benchmark of 7.1%.

For comparison the PIRC Local Authority Universe average fund return for 2018-19 was 6.6%.

### Annual Investment Returns

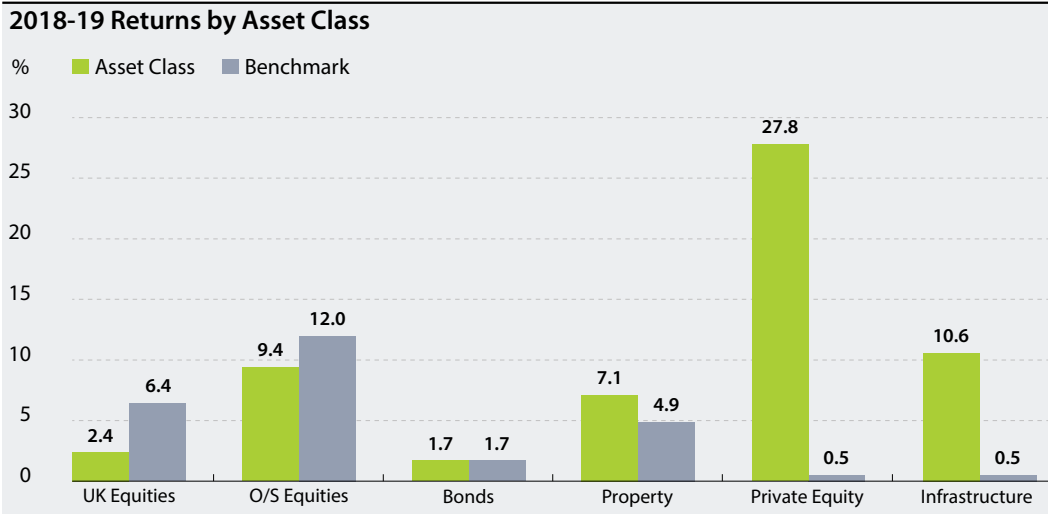


The graph below shows the long term performance of the Fund's investments compared against its Strategic benchmark.



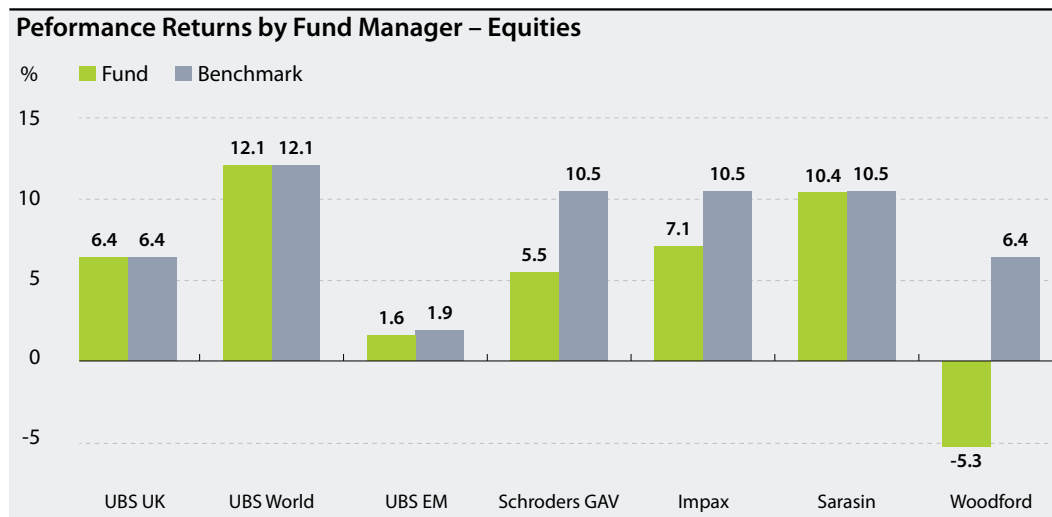
### Returns by Asset Class

The analysis set out below shows the returns by asset class for 2018-19:

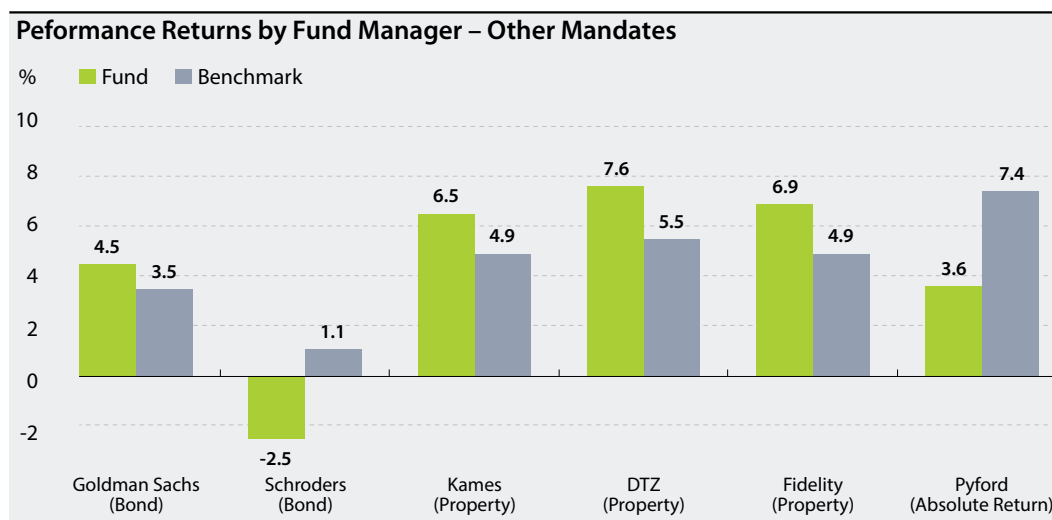


### Performance by Fund Manager

The following graphs show the performance of the Equity and other Mandates compared to their benchmarks for the year ended 31 March 2019.



The following mandates were transitioned into ACCESS pool during the year and therefore a full year performance is not available: Baillie Gifford; Schroders UK Equity; M&G Global Equity.



Ruffer was appointed as an absolute return manager. However, a full year history is not available.

### Environmental Social and Governance Investments Policy

Details of the Fund's responsible investment policies and environmental, social and governance issues are included in the Investment Strategy Statement (ISS).

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

### Voting by Equity Fund Managers 2018/19

	Number of Resolutions		
	For	Against	Abstain
Baillie Gifford	1,644	93	32
Schroders	922	19	1
Sarasin	521	175	67

The Fund is a member of The Pensions and Lifetime Savings Association (PLSA) and The Institutional Investors Group on Climate Change (IIGCC), and has signed up to the UN Principles for Responsible Investments (UNPRI).

## Administration

Responsibility for the administration of the Kent Pension Fund is undertaken by the Pensions Section, Kent County Council. The Pensions Section uses Altair, an Aquila Heywood system, to provide all aspects of pensions administration, including pensioner payroll.

There are 50 full time equivalent members of staff involved in the administration of the scheme, split into two main teams, supported by technical, systems and management staff:

- member services teams responsible for administering all casework and handling all member queries;
- an Employer and Communications team responsible for all employer work, including training and employer support, maintaining the Pension Fund website and for all bulk communications sent to current and former members of the scheme.

The Pension Section administration performance is measured against key performance indicators each month, and is used to improve processes. The key service standards for 4 of the key processes are shown below:

### 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	2,591	96%
Calculation and payment of dependants' benefit	15 days from receipt of paperwork	529	97%
Provision of estimates	20 days from receipt of paperwork	3,681	72%
Correspondence	Full reply within 15 working days	5,789	99%

Other projects that were undertaken by the Pensions Section during the year included:

- reconciliation of Guaranteed Minimum Pension information held with that held by HMRC
- the initial pilot programme and subsequent start of the roll out of i-Connect, a process for receiving data from employers on a monthly basis
- a review of the quality of the data held by the Pensions Section, a measurement taken against both Core and Specific data, and a data improvement plan devised.

The profile of the new retirees during the year was as below:

Type of retirement	From Active membership	From Deferred membership	Total Retirements
Redundancy	198	–	198
Ill Health	48	10	58
Early	271	1,203	1,474
Normal	11	203	214
Late	209	53	262
Flexible	15	–	15
<b>Total</b>	<b>752</b>	<b>1,469</b>	<b>2,221</b>

## CIPFA Benchmark Survey

The Kent administration section seeks to demonstrate value for money through its participation annually in the CIPFA Benchmark survey which compares the cost of administration with 32 other local authority administering bodies across the UK. The table below are in respect of the year ending 31 March 2018 which is the most recent survey to be conducted.

	<b>Kent £</b>	<b>All Scheme Average £</b>
Total cost of administration per scheme member	17.18	21.16
Staff costs per Scheme Member (excl. Payroll)	9.21	9.26
Communication costs per member	0.62	0.75

It is pleasing to note that survey results place Kent 10th of 32 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.

## Communications

The Pension Section communicates with members and employers in a variety of ways: newsletters are sent to pensioners, pension forums are used to communicate with employers, and current and former Scheme members have access to the KCC Pensions Section to make written, e-mail or telephone enquiries. Scheme members receive an annual benefit illustration and each pensioner and deferred pensioner is advised annually of the indexation increase to their pension.

The Kent Active Retirement Fellowship (KARF) has been established as a facility of which pensioners can become members and participate in a wide variety of activities. KARF has established groups throughout the County and welcomes new members.

## Internal Dispute Procedure

The Kent Pension 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.

**2017/18 Disputes considered: 12**

**2015/16 Appeals upheld: 1**

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# Actuary's Statement as at 31 March 2019

## Introduction

The last full triennial valuation of the Kent County Council Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2017.

## Asset value and funding level

The results for the Fund at 31 March 2016 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2016 for valuation purposes was £4,556m.
- The Fund had a funding level of 89% i.e. the assets were 89% 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 £547m.

## Contribution rates

The contribution 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 (the primary rate);
- 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 (the secondary rate).

Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund. The secondary contribution is as required under Regulation 62(7).

The primary rate of contribution at a whole Fund level was 14.9% of payroll p.a.

Details of each employer's primary and secondary contribution rates are contained in the Rates and Adjustment Certificate in the triennial valuation report dated 31 March 2017.



The assumptions used to value the liabilities at 31 March 2016 are summarised below:

Assumption	31 March 2016
Discount rate	5.4% p.a.
Pension increases (CPI)	2.4% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% p.a. thereafter
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Mortality	The post retirement mortality assumptions adopted are as follows: <ul style="list-style-type: none"> <li>• For members, the S2PA series with a multiplier of 95%, making allowance for CMI 2015 projected improvements and a long-term rate of improvement of 1.5% p.a.</li> <li>• For dependants, 115% of the S2PMA tables for male dependants and 110% of the S2DFA tables for female dependants, making allowance for CMI 2015 projected improvements and a long-term rate of improvement of 1.5% p.a.</li> </ul>
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.

Further details of these assumptions can be found in the relevant actuarial valuation report.

#### Updated position since the 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model.

Overall, we estimate that the funding position should be improved when compared on a consistent basis to 31 March 2016 but the final position will depend on the assumptions adopted as part of the 2019 valuation process.

The 31 March 2019 actuarial valuation is currently underway and we will be reviewing assumptions and methodologies. There is currently uncertainty surrounding the benefit structure of the LGPS and the cost cap management process which was meant to bring in any revised benefit changes from 1 April 2019 has been paused. Therefore it is difficult to say with any certainty what the funding position will be as at 31 March 2019. The 2019 valuation process will result in any revised contribution rates required to be paid by the employers from 1 April 2020.

**Roisin McGuire FFA**  
Associate, Barnett Waddingham LLP

# 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;
- to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the statement of accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 24 July 2019 on behalf of Kent County Council.

**Councillor David Brazier**  
**Chairman of the Governance and Audit Committee**  
**24 July 2019**

## **Corporate Director of Finance's Responsibilities**

The Corporate Director of Finance 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 2019.

In preparing this Statement of Accounts the Corporate Director of Finance 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 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 2019.

## **Certificate of the Corporate Director of Finance**

**Cath Head**  
**Corporate Director of Finance/ Head of Finance (Operations)**  
**24 July 2019**

## Fund Account for the year ended 31 March

	Notes	2018-19 £'000	2017-18 £'000
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	7	<b>238,331</b>	232,037
Transfers in from other pension funds	8	<b>9,427</b>	11,262
		<b>247,758</b>	243,299
Benefits	9	<b>(235,953)</b>	(220,876)
Payments to and on account of leavers	10	<b>(12,585)</b>	(11,497)
		<b>(248,538)</b>	(232,373)
<b>Net withdrawals from dealings with Members</b>			
		<b>(780)</b>	10,926
Management Expenses	11	<b>(27,184)</b>	(23,285)
<b>Net withdrawals including fund management expenses</b>			
		<b>(27,964)</b>	(12,359)
<b>Returns on Investments</b>			
Investment Income	13	<b>117,258</b>	121,717
Taxes on Income		<b>(5,103)</b>	(4,929)
Profits and losses on disposal of investments and changes in the market value of investments	15a	<b>305,132</b>	159,242
<b>Net Return on Investments</b>			
		<b>417,287</b>	276,030
<b>Net increase in the Net Assets available for benefits during the year</b>			
		<b>389,323</b>	263,671

## Net Assets Statement as at 31 March

	Notes	2018-19 £'000	2017-18 £'000
Investment Assets		<b>6,211,004</b>	5,807,787
Investment Liabilities		<b>(5,906)</b>	(16,857)
<b>Net Investment Assets</b>			
	15	<b>6,205,098</b>	5,790,930
Current Assets	21	<b>31,537</b>	56,409
Current Liabilities	22	<b>(18,466)</b>	(18,493)
<b>Net Assets available to fund benefits at the period end</b>			
		<b>6,218,169</b>	5,828,846

# Notes to the Pension Fund Accounts

## 1. Description of the Fund

### General

The Kent County Council Superannuation Fund (Kent Pension Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Kent County Council (KCC) for the purpose of providing pensions and other benefits for the pensionable employees of KCC, Medway Council, the district and borough councils in Kent and a number of other employers 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.

The Scheme is governed by the Public Service 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 Amendments) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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.

There are 313 employers actively participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
Kent County Council	21,435	23,142	21,696	20,865	22,676	22,357
Other Employers	29,910	29,633	20,043	18,948	21,656	20,019
Total	51,345	52,775	41,739	39,813	44,332	42,376

### Funding

Benefits are funded by contributions and investment earnings. The 2016 triennial valuation certified a common contribution rate of 21% of pensionable pay to be paid by each employer participating in the Kent Pension Fund for 2018-19. 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 Statement to the Rates and Adjustment Certificate in the triennial valuation report.

### Benefits

Pension benefits under the LGPS are based on the following:

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

There is a range of other benefits provided under the Scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website: [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

## 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2018-19 financial year and its position at 31 March 2019.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 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 (IAS)19 basis is disclosed at note 20 of these accounts.

## 3. 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.

#### 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 receipts basis and are included in 'transfers in'. Bulk transfers are accounted for in accordance with the terms of the transfer agreement.

#### c) Investment income

Dividends, interest, and stock lending income on securities 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 which 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 providing the payment has been approved.

#### 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 UK income 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.

## Notes to the Pension Fund Accounts continued

### f) Management 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 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. Fees incurred include fees directly paid to fund managers as well as fees deducted from the funds by pooled fund managers which is grossed up to increase the income from these investments.

### Net Assets Statement

#### g) Financial assets

Financial assets 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 at fair value in accordance with the requirements of the Code and IFRS 13 and IFRS 9. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

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

#### h) Freehold and Leasehold Properties

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 2018. 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 2019.

#### i) 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. Under the European Market Infrastructure Regulations the Fund's forward currency contracts are required to be covered by margin cash. These amounts are included in cash or cash equivalents held by the Fund and reflected in a corresponding margin cash liability under investment liabilities.

**j) 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 change in market value of assets.

**k) Cash and cash equivalents**

Cash comprises cash at bank 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.

**l) Financial Liabilities**

The Fund recognises financial liabilities relating to investments 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. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

**m) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary 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 2019 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016. 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).

**n) Contingent Assets and Liabilities**

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.

**o) Pooling Expenses**

The Fund is part of ACCESS, a group of 11 LGPS Administering Authorities who, as part of a Government initiative, have agreed to pool their investments to achieve cost and scale benefits. Pooling costs included in the Fund's accounts reflect the Fund's proportion of the cost of setting up the governance arrangements of the Pool.

**p) Additional Voluntary Contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in note 23.

**4. Critical judgements in applying accounting policy****Pension fund liability**

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

## Notes to the Pension Fund Accounts continued

### 5. Assumptions made about future and other major sources of estimation uncertainty

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits (Note 20)	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 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £173m. A 0.1% increase in assumed earning inflation would increase the value of liabilities by approx. £17m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £333m.
Private Equity (Note 17)	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 £150m. There is a risk that this investment may be under-or-over stated in the accounts. Potential change in valuation due to change in these factors is estimated in Note 17.
Freehold and Leasehold Property and Pooled Property Funds (Note 17)	Valuation techniques are used to determine the fair values of directly held property and pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property of £49m on a fair value of £487m.

### 6. Events after the Balance Sheet date

As at 3rd June 2019, dealing in the units of the Woodford Equity Income Fund has been suspended by the Fund's Authorised Corporate Director(ACD). Although the Superannuation Fund Committee has decided to redeem the value of its holdings in the Woodford Fund, it will not be able to do so until the suspension is lifted. The duration of the suspension is not fixed, and will be reviewed periodically by the ACD. As per the FCA rules the ACD is required to review the situation every 28 days and to inform the FCA and the investors of any developments. There is no time limit for how long the suspension can be in place however we are liaising with the ACD and the Fund Manager to receive further updates as and when they can be shared. When the suspension is lifted it is the intention of the committee to redeem the investment in the Woodford fund. The final valuation achieved from the redemption will be dependent on the valuation of the underlying holdings of the Woodford Fund on the final date of dealing. It is not possible to predict the final valuation on an uncertain future date and therefore Kent County Council do not believe it to be appropriate to provide for a gain or a loss on the investment at this stage.



## 7. Contributions Receivable

	2018-19 £'000	2017-18 £'000
<b>By Category</b>		
Employees' contributions	53,904	52,872
Employers' contributions		
– normal contributions	127,999	123,336
– deficit recovery contributions	51,965	50,546
– augmentation contributions	4,463	5,283
Total Employers' contributions	184,427	179,165
<b>Total contributions receivable</b>	<b>238,331</b>	<b>232,037</b>
<b>By type of employer</b>		
Kent County Council	89,394	92,591
Scheduled Bodies	135,013	126,629
Admitted Bodies	13,924	12,817
<b>Total</b>	<b>238,331</b>	<b>232,037</b>

## 8. Transfers in from other pension funds

	2018-19 £'000	2017-18 £'000
Individual	9,427	11,262
Group	0	0
<b>Total</b>	<b>9,427</b>	<b>11,262</b>

## 9. Benefits Payable

	2018-19 £'000	2017-18 £'000
<b>By Category</b>		
Pensions	192,254	184,721
Retirement Commutation and lump sum benefits	38,006	32,003
Death benefits	5,693	4,152
<b>Total</b>	<b>235,953</b>	<b>220,876</b>
<b>By type of employer</b>		
Kent County Council	107,867	103,583
Scheduled Bodies	113,639	104,529
Admitted Bodies	14,447	12,764
<b>Total</b>	<b>235,953</b>	<b>220,876</b>

## 10. Payments to and on account of leavers

	2018-19 £'000	2017-18 £'000
Group transfers	0	0
Individual transfers	10,695	10,269
Payments for members joining state scheme	199	73
Refunds of contributions	1,691	1,155
<b>Total</b>	<b>12,585</b>	<b>11,497</b>

## Notes to the Pension Fund Accounts continued

### 11. Management Expenses

	Notes	2018-19 £'000	2017-18 £'000
Administration costs		3,110	2,667
Governance and oversight costs		343	369
Investment management expenses	12	23,570	20,140
Audit fees		24	31
Pooling expenses		137	78
<b>Total</b>		<b>27,184</b>	<b>23,285</b>

### 12. Investment Management Expenses

	2018-19 £'000	2017-18 £'000
Investment managers' fees	20,220	18,573
Transaction costs	3,260	1,491
Custody fees	90	76
<b>Total</b>	<b>23,570</b>	<b>20,140</b>

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

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.

### 13. Investment Income

	Notes	2018-19		2017-2018	
		£'000	%	£'000	%
Bonds		17,007	14.5	15,235	12.5
Equities		52,526	44.8	61,986	50.9
Pooled Investments		14,099	12.0	11,878	9.7
Private Equity / Infrastructure		7,978	6.8	7,444	6.1
Property	14	18,114	15.4	17,107	14.1
Pooled Property Investments		5,482	4.7	6,273	5.2
Cash and cash equivalents		1,010	0.9	630	0.5
Stock Lending		1,042	0.9	1,164	1.0
<b>Total</b>		<b>117,258</b>	<b>100.0</b>	<b>121,717</b>	<b>100.0</b>

## 14. Property Income and Expenditure

	2018-19 £'000	2017-18 £'000
Rental Income from Investment Properties	22,326	21,419
Direct Operating Expenses	(4,212)	(4,312)
<b>Net operating income from Property</b>	<b>18,114</b>	<b>17,107</b>

## 15. Investments

	Market Value as at 31 March 2019 £'000	Market Value as at 31 March 2018 £'000
<b>Investment Assets</b>		
Bonds	363,728	353,090
Equities	249,994	2,224,616
Pooled Investments	4,601,708	2,195,389
Private Equity/Infrastructure	150,015	128,895
Property	487,193	484,241
Pooled Property Investments	257,690	247,201
Derivative contracts		
– Forward Currency contracts	3,122	5,593
Investment Cash and cash equivalents	80,526	148,514
Investment Income due	17,028	17,995
Amounts receivable for sales	0	2,253
<b>Total Investment Assets</b>	<b>6,211,004</b>	<b>5,807,787</b>
<b>Investment Liabilities</b>		
Amounts payable for purchases	(1,373)	(8,864)
Margin cash liability	(4,533)	(7,993)
<b>Total Investment Liabilities</b>	<b>(5,906)</b>	<b>(16,857)</b>
<b>Net Investment Assets</b>	<b>6,205,098</b>	<b>5,790,930</b>

## Notes to the Pension Fund Accounts continued

## 15a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 2018 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value as at 31 March 2019 £'000
Bonds	353,090	96,498	(110,813)	24,953	<b>363,728</b>
Equities	2,224,616	406,586	(2,447,741)	66,533	<b>249,994</b>
Pooled Investments	2,195,389	2,573,875	(364,067)	196,511	<b>4,601,708</b>
Private Equity/Infrastructure	128,895	30,710	(25,899)	16,309	<b>150,015</b>
Property	484,241	31,700	(43,749)	15,001	<b>487,193</b>
Pooled Property Investments	247,201	2,011	(2,706)	11,184	<b>257,690</b>
	5,633,432	3,141,380	(2,994,975)	330,491	<b>6,110,328</b>
Derivative contracts					
– Forward Currency contracts	5,593	5,262,823	(5,239,422)	(25,872)	<b>3,122</b>
	5,639,025	8,404,203	(8,234,397)	304,619	<b>6,113,450</b>
Other Investment balances					
– Investment Cash and cash equivalents	148,514			513	<b>80,526</b>
– Amounts receivable for sales	2,253				<b>0</b>
– Amounts payable for purchases	(8,864)				<b>(1,373)</b>
– Margin cash liability	(7,993)				<b>(4,533)</b>
– Investment Income due	17,995				<b>17,028</b>
<b>Net Investment Assets</b>	5,790,930			305,132	<b>6,205,098</b>

	Market Value as at 31 March 17 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value as at 31 March 2018 £'000
Bonds	339,752	96,357	(51,109)	(31,910)	<b>353,090</b>
Equities	2,192,637	462,950	(569,918)	138,947	<b>2,224,616</b>
Pooled Investments	2,030,342	822,973	(615,671)	(42,255)	<b>2,195,389</b>
Private Equity/Infrastructure	137,717	13,891	(33,963)	11,250	<b>128,895</b>
Property	468,827	0	(19,728)	35,142	<b>484,241</b>
Pooled Property Investments	230,129	14,236	(16,157)	18,993	<b>247,201</b>
	5,399,404	1,410,407	(1,306,546)	130,167	<b>5,633,432</b>
Derivative contracts					
– Forward Currency contracts	5,399,404	1,410,407	(1,306,546)	29,913	<b>5,593</b>
	5,402,309	8,950,914	(8,874,278)	160,080	<b>5,639,025</b>
Other Investment balances					
– Investment Cash and cash equivalents	121,323			(838)	<b>148,514</b>
– Amounts receivable for sales	14,103				<b>2,253</b>
– Amounts payable for purchases	(12,905)				<b>(8,864)</b>
– Margin cash liability	0				<b>(7,993)</b>
– Investment Income due	16,948				<b>17,995</b>
<b>Net Investment Assets</b>	5,541,778			159,242	<b>5,790,930</b>

## 15b. Analysis of Investments

	Market Value as at 31 March 2019 £'000	Market Value as at 31 March 2018 £'000
<b>Bonds</b>		
<b>UK</b>		
Corporate Quoted	34,873	24,213
<b>Overseas</b>		
Public Sector Quoted	39,948	42,724
Corporate Quoted	288,907	286,153
	<b>363,728</b>	353,090
<b>Equities</b>		
<b>UK</b>		
Quoted	33,301	95,184
<b>Overseas</b>		
Quoted	216,693	1,267,432
	<b>249,994</b>	2,224,616
<b>Pooled Funds</b>		
<b>UK</b>		
Fixed Income Unit Trusts	240,897	246,993
Unit Trusts	1,553,260	617,014
<b>Overseas</b>		
Unit Trusts	2,807,551	1,331,382
	<b>4,601,708</b>	2,195,389
Property	487,193	484,241
Property Unit Trusts	257,690	247,201
Private Equity Funds/Infrastructure	150,015	128,895
	<b>894,898</b>	860,337
Derivatives	3,122	5,593
Cash and cash equivalents	80,526	148,514
Investment income due	17,028	17,995
Amounts receivable for sales	0	2,253
	<b>100,676</b>	174,355
<b>Total Investment Assets</b>	<b>6,211,004</b>	5,807,787
<b>Investment Liabilities</b>		
Amounts payable for purchases	(1,373)	(8,864)
Margin cash liability	(4,533)	(7,993)
<b>Total Investment Liabilities</b>	<b>(5,906)</b>	(16,857)
<b>Net Investment Assets</b>	<b>6,205,098</b>	5,790,930

## Notes to the Pension Fund Accounts continued

## 15c. 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 hedges the overseas exposure of the portfolio.

Settlement	Currency bought	Local value 000's	Currency sold	Local value 000's	Asset value £'000	Liability value £'000
Up to one month	EUR	1,609	GBP	1,380	6	
Up to one month	USD	779	GBP	595	3	
Up to one month	USD	3,940	GBP	3,003	19	
Up to one month	USD	6,511	GBP	4,913	82	
Up to one month	USD	587	GBP	453		(3)
Up to one month	USD	494	GBP	374	4	
Up to one month	GBP	3,004	USD	3,940		(19)
Up to one month	GBP	55	USD	71	0	
Up to one month	GBP	595	USD	779		(3)
Up to one month	GBP	751	CHF	963	9	
Up to one month	GBP	6,212	USD	8,228		(99)
Up to one month	GBP	5,476	USD	7,257		(91)
Up to one month	GBP	1,104	USD	1,471		(24)
Up to one month	GBP	2,742	USD	3,535	30	
Up to one month	GBP	2,918	USD	3,777	21	
Up to one month	GBP	3,865	USD	5,056		(14)
Up to one month	GBP	942	USD	1,234		(4)
Up to one month	GBP	934	USD	1,228		(8)
Up to one month	GBP	973	USD	1,286		(14)
Up to one month	GBP	2,940	USD	3,800	25	
Up to one month	GBP	122,963	USD	158,662	1,263	
Up to one month	GBP	122,859	USD	158,662	1,158	
Up to one month	GBP	2,155	EUR	2,511		(10)
Up to one month	GBP	2,074	EUR	2,409		(3)
Up to one month	GBP	36,969	EUR	41,946	794	
					3,414	(292)
<b>Net forward currency contracts at 31 March 2019</b>						<b>3,122</b>
Prior year comparative						
Open forward currency contracts at 31 March 2018					6,227	(634)
<b>Net forward currency contracts at 31 March 2018</b>						<b>5,593</b>

## 15d. Property Holdings

	Year ending 31 March 2019 £'000	Year ending 31 March 2018 £'000
<b>Opening Balance</b>	<b>484,241</b>	468,827
Additions	31,700	0
Disposals	(43,750)	(19,728)
Net increase in market value	15,002	35,142
<b>Closing Balance</b>	<b>487,193</b>	484,241

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 any contractual obligation to purchase, construct or develop these properties.

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

	Year ending 31 March 2019 £'000	Year ending 31 March 2018 £'000
Within one year	19,769	19,928
Between one and five years	47,985	58,943
Later than five years	39,740	65,086
<b>Total</b>	<b>107,494</b>	<b>143,957</b>

The above disclosures have been reduced by a credit loss allowance of 0.35% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property letting agents. The income has also been reduced to take into account of the possibility of the tenant availing of break clauses in the contract to terminate the tenancy.

## 15e. Investments analysed by Fund Manager

	Market Value as at 31 March 2019		Market Value as at 31 March 2018	
	£'000	%	£'000	%
<b>Investments managed by Link for the ACCESS Pool</b>				
Baillie Gifford	1,299,300	20.9	0	0.0
Schroders	957,557	15.4	0	0.0
M&G	357,903	5.8	0	0.0
<b>Investments managed outside the ACCESS Pool</b>				
Baillie Gifford	2,763	0.0	1,169,875	20.1
DTZ	543,548	8.8	539,450	9.3
Fidelity	129,377	2.1	121,047	2.1
Goldman Sachs	384,637	6.2	368,217	6.4
HarbourVest	73,316	1.2	67,867	1.1
Impax	47,716	0.8	44,550	0.8
Kames	52,368	0.8	52,615	0.9
Kent County Council Investment Team	55,040	0.9	86,799	1.5
M&G	31,604	0.5	338,730	5.9
Partners Group	48,211	0.8	38,173	0.7
BMO (Pyrford)	424,373	6.8	409,629	7.1
Ruffer	67,970	1.1	0	0.0
Sarasin	253,960	4.1	230,105	4.0
Schroders	532,993	8.6	1,423,802	24.6
UBS	654,320	10.5	602,911	10.4
YFM	28,488	0.5	22,855	0.4
Woodford	259,654	4.2	274,305	4.7
<b>Total</b>	<b>6,205,098</b>	<b>100</b>	<b>5,790,930</b>	<b>100</b>

All the external fund managers above are registered in the United Kingdom. During the year assets managed by the following managers were transferred to the ACCESS pool:

- Baillie Gifford
- Schroders (UK Equity)
- M&G (Global Dividend Fund)

## Notes to the Pension Fund Accounts continued

## 15f. Single investments exceeding 5% of net assets available for benefits

Investments	31 March 2019	
	£'000	% of net assets
LF ACCESS Global Equity Core Fund	1,299,300	20.9
LF ACCESS UK Equity Fund	957,557	15.4
UBS Life UK Equity Tracker Fund	336,049	5.4
LF ACCESS Global Dividend Fund	357,903	5.8
BMO Investments Ireland (Plc) Global Total Return Fund	424,373	6.8

Investments	31 March 2018	
	£'000	% of net assets
UBS Life UK Equity Tracker Fund	315,980	5.4
M&G Global Dividend Fund	315,095	5.4
BMO Investments Ireland (Plc) Global Total Return Fund	409,629	7.0

## 15g. Stock Lending

The Custodians undertake a programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns and Treasury Bonds. The programme lends directly held global equities and bonds to approved borrowers against a collateral of Government and Supranational fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table below.

Loan Type	31 March 2019		31 March 2018		Collateral Type
	Market Value £'000	Collateral Value £'000	Market Value £'000	Collateral Value £'000	
Equities	11,877	12,444	214,815	226,963	Treasury Notes and other Government debt
Bonds	11,653	12,210	18,042	19,062	Treasury Notes and other Government debt
<b>Total</b>	<b>23,530</b>	<b>24,654</b>	<b>232,857</b>	<b>246,025</b>	

During the year a large part of the Fund's directly held assets included in the custodian's securities lending programme were transferred to the Link pooled funds. This reduced the amount available for loan as at 31 March 2019.



## 16. Financial Instruments

### 16a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. The implementation of IFRS9 has not resulted in changes to the classification of financial assets/liabilities.

	31 March 2019			31 March 2018		
	Designated at fair value through profit and loss £'000	Assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit and loss £'000	Assets at amortised cost £'000	Financial liabilities at amortised cost £'000
<b>Financial Assets</b>						
Bonds	363,728			353,090		
Equities	249,994			2,224,616		
Pooled Investments	4,601,708			2,195,389		
Property Pooled Investments	257,690			247,201		
Private Equity/Infrastructure	150,015			128,895		
Derivative contracts	3,122			5,593		
Cash & Cash equivalents		86,099			176,232	
Other Investment Balances		17,028			20,248	
Debtors/ Receivables		25,964			28,692	
	<b>5,626,257</b>	<b>129,091</b>	<b>0</b>	5,154,784	225,172	0
<b>Financial Liabilities</b>						
Other Investment balances			(5,906)			(16,857)
Creditors			(18,466)			(18,493)
	<b>0</b>	<b>0</b>	<b>(24,372)</b>	0	0	(35,350)
<b>Total</b>	<b>5,626,257</b>	<b>129,091</b>	<b>(24,372)</b>	5,154,784	225,172	(35,350)

### 16b. Net Gains and Losses on Financial Instruments

	31 March 2019 £'000	31 March 2018 £'000
Fair value through profit and loss	289,618	124,938
Assets at amortised cost	513	(838)
<b>Total</b>	<b>290,131</b>	124,100

## Notes to the Pension Fund Accounts continued

### 17. Valuation of assets and liabilities carried at Fair Value

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Equities	1	Bid Market price on last day of accounting period	Not required	Not required
Quoted Bonds	1	Market value on last day of accounting period	Not required	Not required
Quoted Pooled Investments	1	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Unquoted Pooled Investments	2	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Private Equity and Infrastructure Funds	3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investment/assets/companies/EBITDA multiples	Estimation techniques used in valuations, changes in market conditions, industry specific conditions
Property	2	Independent valuation by Colliers using RICS valuation standards	Market values of similar properties, existing lease terms estimated rental growth, estimated vacancies	Not required
Forward exchange contracts	2	Market forward exchange rates on the last day of accounting period	Wide range of deals executed in the currency markets, exchange rate risk	Not required

#### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above, are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value as at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	30.1%	101,804	132,447	71,161
Infrastructure	17.2%	48,211	56,503	39,919

## 17a. Valuation of assets and liabilities carried at Fair Value

### Level 1

Assets and Liabilities 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

Assets and Liabilities 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 Derivatives, Direct Property Investments, Property Unit Trusts and Property Unit Trusts and investments in Link pooled funds for ACCESS.

### Level 3

Assets and Liabilities 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, who provide a detailed breakdown of the valuations of underlying assets as well as a reconciliation of movements in fair values. 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 assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
<b>Values at 31 March 2019</b>				
<b>Assets</b>				
Financial assets at fair value through profit and loss	2,600,671	2,875,571	150,015	5,626,257
Non- Financial assets at fair value through profit and loss		487,193		487,193
Financial liabilities at fair value through profit and loss	0	0	0	0
<b>Net Investment Assets</b>	<b>2,600,671</b>	<b>3,362,764</b>	<b>150,015</b>	<b>6,113,450</b>

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
<b>Values at 31 March 2018</b>				
<b>Assets</b>				
Financial assets at fair value through profit and loss	4,773,095	252,794	128,895	5,154,784
Non- Financial assets at fair value through profit and loss	0	484,241	0	484,241
Financial liabilities at fair value through profit and loss	0	0	0	0
<b>Net Investment Assets</b>	<b>4,773,095</b>	<b>737,035</b>	<b>128,895</b>	<b>5,639,025</b>

## Notes to the Pension Fund Accounts continued

### 17b. Reconciliation of Fair Value Measurements within Level 3

	£'000
Market Value 1 April 2018	128,895
Transfers into level 3	0
Transfers out of level 3	0
Purchases during the year	30,710
Sales during the year	(25,899)
Unrealised gains/ losses	16,309
Realised gains/losses	0
<b>Market Value 31 March 2019</b>	<b>150,015</b>

### 18. Nature and extent of Risks Arising From Financial Instruments

#### Risk and risk management

The Fund's primary long-term risk is that the value of its assets will fall short that 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.

#### 18a. 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.

#### 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 security 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. The possible loss 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 and their activity 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 2018-19 reporting period.

	Potential Market Movements (+/-)
UK Equities	17.3
Overseas Equities	17.8
Global Pooled Equities inc UK	17.8
Bonds	5.5
Property	10.8
Infrastructure	17.2
Private Equity	30.1

The potential price changes disclosed above are based on predicted volatilities calculated by our fund managers. 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 would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	<b>86,099</b>	<b>0.00</b>	<b>86,099</b>	<b>86,099</b>
<b>Investment portfolio assets:</b>				
UK Equities	33,301	17.30	39,062	27,540
Overseas Equities	216,693	17.80	255,264	178,122
Global Pooled Equities inc UK	4,360,811	17.80	5,137,035	3,584,587
Bonds incl Bond Funds	604,625	5.50	637,879	571,371
Property Pooled Funds	257,690	10.80	285,521	229,859
Private Equity	101,804	30.10	132,447	71,161
Infrastructure Funds	48,211	17.20	56,503	39,919
Net derivative assets	3,122	0.00	3,122	3,122
Investment income due	17,028	0.00	17,028	17,028
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(1,373)	0.00	(1,373)	(1,373)
Margin Cash Liability	(4,533)	0.00	(4,533)	(4,533)
<b>Total</b>	<b>5,723,478</b>		<b>6,644,055</b>	<b>4,802,901</b>

Asset Type	Value as at 31 March 2018 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	176,232	0.00	176,232	176,232
<b>Investment portfolio assets:</b>				
UK Equities	957,184	17.30	1,122,777	791,591
Overseas Equities	1,267,432	17.80	1,493,035	1,041,829
Global Pooled Equities inc UK	1,948,396	17.80	2,295,210	1,601,582
Bonds incl Bond Funds	600,083	5.50	633,088	567,078
Property Pooled Funds	247,201	10.80	273,899	220,503
Private Equity	90,722	30.10	118,029	63,415
Infrastructure Funds	38,173	17.20	44,739	31,607
Net derivative assets	5,593	0.00	5,593	5,593
Investment income due	17,995	0.00	17,995	17,995
Amounts receivable for sales	2,253	0.00	2,253	2,253
Amounts payable for purchases	(8,864)	0.00	(8,864)	(8,864)
Margin Cash Liability	(7,993)	0.00	(7,993)	(7,993)
<b>Total</b>	<b>5,334,407</b>		<b>6,165,993</b>	<b>4,502,821</b>

## Notes to the Pension Fund Accounts continued

## 18a. Market risk continued

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposures to interest rate movements as at 31 March 2019 and 31 March 2018 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2019 £'000	31 March 2018 £'000
Cash and cash equivalents	80,526	149,724
Cash Balances	5,573	26,508
Bonds		
– Directly held securities	363,728	353,090
– Pooled Funds	240,897	246,992
<b>Total</b>	<b>690,724</b>	<b>776,314</b>

## 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 one percent 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 one percent 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 +/- one percent change in interest rates:

Asset Type	Carrying amount as at 31 march 2019 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	-1% £'000
Cash and cash equivalents	80,526	0	0
Cash Balances	5,573	0	0
Bonds			
– Directly held securities	363,728	(3,637)	3,637
– Pooled Funds	240,897	(2,409)	2,409
<b>Total change in assets available</b>	<b>690,724</b>	<b>(6,046)</b>	<b>6,046</b>

Asset Type	Carrying amount as at 31 march 2018 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	-1% £'000
Cash and cash equivalents	149,724	0	0
Cash Balances	26,508	0	0
Bonds			
– Directly held securities	353,090	(3,351)	3,351
– Pooled Funds	246,992	(2,470)	2,470
<b>Total change in assets available</b>	<b>776,314</b>	<b>(5,821)</b>	<b>5,821</b>

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 100 bps 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 GBP, 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 (£329m) of the assets managed by Goldman Sachs Asset Management held in non GBP 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 2019 and 2018:

Currency exposure – asset type	Asset value 31 March 2019 £'000	Asset value 31 March 2018 £'000
Overseas Equities	216,693	1,267,432
Overseas Pooled Funds	2,807,551	1,331,382
Overseas Bonds	6,577	42,724
Overseas Private Equity, Infrastructure and Property funds	122,156	107,041
Non GBP Cash	15,287	38,240
<b>Total overseas assets</b>	<b>3,168,264</b>	<b>2,786,819</b>

## 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 2018-19 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 2019 £'000	Change to net assets available to pay benefits +8.4% £'000	Change to net assets available to pay benefits -8.4% £'000
Overseas Equities	216,693	234,895	198,491
Overseas Pooled Funds	2,807,551	3,043,385	2,571,717
Overseas Bonds	6,577	7,129	6,025
Overseas Private Equity, Infrastructure and Property funds	122,156	132,417	111,895
Non GBP Cash	15,287	16,571	14,003
<b>Total change in assets available</b>	<b>3,168,264</b>	<b>3,434,398</b>	<b>2,902,130</b>

Currency exposure – asset type	Asset value as at 31 March 2018 £'000	Change to net assets available to pay benefits +8.4% £'000	Change to net assets available to pay benefits -8.4% £'000
Overseas Equities	1,267,432	1,373,896	1,160,968
Overseas Pooled Funds	1,331,382	1,443,218	1,219,546
Overseas Bonds	42,724	46,313	39,135
Overseas Private Equity, Infrastructure and Property funds	107,041	116,032	98,050
Non GBP Cash	38,240	41,452	35,028
<b>Total change in assets available</b>	<b>2,786,819</b>	<b>3,020,912</b>	<b>2,552,726</b>

## Notes to the Pension Fund Accounts continued

### 18b. 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. Derivative contracts are also covered by margins which provide collateral against risk of default by the counterparties.

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

	Rating	Balance as at 31 March 2019 £'000	Balance as at 31 March 2018 £'000
<b>Money Market Funds</b>			
Northern Trust Sterling Fund	AAAm	7,442	40,386
SSGA Liquidity Fund	AAAm	19	6,497
Blackrock USD Government Liquidity Fund	AAAm	6,222	6,519
Aberdeen Sterling Liquidity Fund	AAAm	3,750	39
Goldman Sachs Liquid Reserve Government Fund	AAAm	12,014	15,085
Aviva Investors Sterling Liquidity Fund	AAAm	14,996	8,184
Deutsche Managed Sterling Fund	AAAm	15,004	8,210
HSBC Global Liquidity Fund	AAAm	33	85
LGIM Liquidity Fund	AAAm	14,992	7,447
Insight Sterling Liquidity Fund	AAAm	16	7,414
		<b>74,488</b>	<b>99,866</b>
<b>Cash Plus Funds</b>			
Royal London Cash Plus Fund	AAAf	0	14,996
Payden Sterling Reserve Fund	AAAf	0	14,941
Aberdeen Ultra Short Duration Sterling Fund	AAAf	0	10,017
		<b>0</b>	<b>39,954</b>
<b>Bank Deposit Accounts</b>			
HSBC BIBCA	AA-	0	2,435
NatWest SIBA	BBB+	8	12
		<b>8</b>	<b>2,447</b>
<b>Bank Current Accounts</b>			
NatWest Current Account	BBB+	53	91
NatWest Current Account – Euro	BBB+	4,146	26,416
NatWest Current Account – USD	BBB+	732	1
Northern Trust – Current Accounts	AA-	3,939	5,695
Barclays – DTZ client monies account	A*+	2,733	1,762
		<b>11,603</b>	<b>33,965</b>
<b>Total</b>		<b>86,099</b>	<b>176,232</b>



## 18c. 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 Fund has adequate cash resources to meet its commitments. The Council has immediate access to the Fund's money market fund and current account 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 2019 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 2013 (as amended), the Fund is required to obtain an actuary's 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 2016.

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 2016 valuation a maximum deficit recovery period of 17 years (2013- 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.

In the 2016 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £4,556m and the liabilities were £5,103m. The assets therefore, represented 89% (2013 – 83%) 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 increased from 20% to 20.9% of pensionable salaries in 2017-18 and to 21% in 2018-19 and 2019-20. The funding level as a percentage has increased (due to good investment returns and employer contributions) although this has been partly offset by the changes in the financial assumptions used to calculate the liabilities.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit funding 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 remaining working lifetime, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities and the market value of assets.

### The 2016 actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate	
Rate of return on investments (discount rate)	5.4% p.a.	
Rate of general pay increases:	Long term	3.9% p.a.
	Short term	CPI for period 31 March 2016 to 31 March 2020
Rate of increases to pensions payment (in excess of guaranteed minimum pension):	2.4% p.a.	

## Notes to the Pension Fund Accounts continued

### 20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, every year the fund's actuary undertakes a valuation of the Fund's liabilities on an IAS 19 basis, 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.

	31 March 2019 £m	31 March 2018 £m
<b>Actuarial present value of promised retirement benefits</b>		
Present value of promised retirement benefits	<b>(9,300.5)</b>	(9,029.1)
Fair value of scheme assets at bid value	<b>6,218.2</b>	5,828.8
Net liability	<b>(3,082.3)</b>	(3,200.3)

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 66.9% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above being calculated on an IAS 19 basis and differs from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

<b>Assumptions used:</b>	% p.a.
Salary increase rate	3.9%
Inflation/Pensions increase rate	2.4%
Discount rate	2.4%

In December 2018 the Court of Appeal passed the McCloud judgement, which relates to age discrimination in relation to judges and firefighters pensions. Although the case only relates directly to these two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes. Whilst there is uncertainty of how this judgement may affect LGPS members' past or future service benefits CIPFA has suggested that local authorities should consider the materiality of the impact. Our actuaries have used GAD's analysis to calculate the likely additional costs and have based it on all members who were active at 31 March 2012 until their retirement. This exercise has estimated the additional costs to be £70.5m (0.7% of the Fund's liabilities).

### 21. Current Assets

	31 March 2019 £'000	31 March 2018 £'000
<b>Debtors</b>		
– Contributions due – Employees	<b>4,055</b>	4,040
– Contributions due – Employers	<b>12,690</b>	12,592
– Sundry debtors	<b>9,219</b>	12,060
Total External Debtors	<b>25,964</b>	28,692
Cash	<b>5,573</b>	27,717
<b>Total</b>	<b>31,537</b>	56,409

Sundry Debtors includes a sum of £2.7m for rents and charges due from tenants of properties owned by the Pension Fund. Based on historic experience and information of similar properties, it can be expected that dues of £0.9m may not be fully received.

### 22. Current Liabilities

	31 March 2019 £'000	31 March 2018 £'000
<b>Creditors</b>		
– Benefits Payable	<b>10,472</b>	11,320
– Sundry Creditors	<b>3,311</b>	4,079
Total External Creditors	<b>13,783</b>	15,399
Owing to Kent County Council	<b>4,683</b>	3,094
<b>Total</b>	<b>18,466</b>	18,493

### 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	
	2018-2019 £'000	2017-2018 £'000	2018-2019 £'000	2017-2018 £'000	2018-2019 £'000	2017-2018 £'000
Value at 1 April	8,480	7,951	2,087	2,373	534	614
Value at 31 March	8,636	8,480	2,017	2,087	424	534
Contributions paid	1,633	1,641	110	124	1	1

### 24. Related Party Transactions

The Kent 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.

	Balance as at 31 March 2019 £'000	Balance as at 31 March 2018 £'000
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed: A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website	71,127	71,592
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	3,409	3,022
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	(4,683)	(3,094)

### Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2018-19 was the Director of Finance

Total remuneration payable to key management personnel is set out below:

	31 March 2019 £'000	31 March 2018 £'000
Salary	97	141
Allowances	4	8
Other	5	5
Employer's pension contributions	20	32
<b>Total</b>	<b>126</b>	<b>186</b>

### 25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2019 totalled £352.5m (31 March 2018: £89.3m)

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

### 26. Contingent Assets

41 admitted body employers in the Kent Pension 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 Fund and payment will only be triggered in the event of employer default.

## Post Pool Reporting

The Pension Fund transitioned three mandates into the ACCESS pool during the year.

The Fund's assets pooled and non-pooled are as under:

<b>Pooled (ACCESS)</b>		
<b>Fund Manager</b>	<b>Asset Class</b>	<b>£'000</b>
Baillie Gifford	Global Equities	1,299,300
Schroders	UK Equities	957,557
M&G	Global Equities	357,903
<b>Total Pooled</b>		<b>2,614,760</b>
<b>Pooled Governance</b>		
<b>Fund Manager</b>	<b>Asset Class</b>	<b>£'000</b>
UBS	UK Equities	336,049
UBS	Global Equities	318,271
<b>Total Pooled Governance</b>		<b>654,320</b>
<b>Non-Pooled</b>		
<b>Fund Manager</b>	<b>Asset Class</b>	<b>£'000</b>
Baillie Gifford	Global Equities	2,763
Schroders	Fixed Income	240,898
Schroders	Global Equities	292,095
DTZ	Property	543,548
Goldman Sachs	Fixed Interest	384,637
Woodford	UK Equities	259,654
BMO (Pyrford)	Absolute Return	424,373
Sarasin	Global Equities	253,960
Fidelity	Pooled Property	129,377
Ruffer	Absolute Return	67,970
Kames	Pooled Property	52,368
Impax	Global Equities	47,716
Partners Group	Infrastructure	48,211
Harbourvest	Private Equity	73,316
M&G	Pooled Property	31,604
YFM	Private Equity	28,488
Kent County Council Investment Team	Cash	55,040
<b>Total Non-Pooled</b>		<b>2,936,018</b>
<b>Grand Total</b>		<b>6,205,098</b>

For 2018-19, the ongoing costs of the investments broken down between pooled and non-pooled assets are detailed below:

	<b>2018-2019</b>	<b>Cumulative</b>
	<b>£'000</b>	<b>£'000</b>
<b>Pool Set up Costs</b>		
Strategic & Technical Advice	<b>0</b>	56
Legal	<b>0</b>	37
Project Management	<b>0</b>	53
ACCESS Support Unit	<b>0</b>	0
Other	<b>0</b>	19
<b>Total</b>	<b>0</b>	<b>166</b>
<b>Transition costs</b>	<b>363</b>	<b>363</b>

Pooling has enabled the funds to obtain fees and cost savings. In the past few years, pooling has enabled individual funds to negotiate lower fees as well as to do joint procurements such as for the UBS passive mandates. From 2018-19, bulk of the savings are anticipated to be achieved through pooling in ACCESS funds.

The fund's costs and net fee savings since inception of the pooling project are as follows:

	2015–2016 £'000	2016–2017 £'000	2017–2018 £'000	2018–2019 £'000	Cumulative £'000
Set up costs	6	80	80	–	166
Pooling ongoing costs				<b>137</b>	137
Transition costs	–	–		<b>363</b>	363
Less fee savings/(costs)	(26)	242	776	<b>1,436</b>	2,428
Net savings/(costs)	(32)	162	696	<b>936</b>	1,763

The investment managers are paid ad valorem fees on the assets under their management. As a result, the fees in absolute terms goes up as the investments appreciate in value. From 2015, the Funds investment management fees went up by £5m. Of this the increase attributable to the increase in Fund value was £75m. However, with fees negotiations and pooling the Fund achieved a cumulative saving of £2.5m during this period.

For 2018-19, the ongoing costs of the investments broken down between pooled and non-pooled assets are detailed below. These costs have been compiled from information provided by the fund managers who have signed up to the LGA cost transparency code.

	Asset Pool			Non Asset Pool			Total Fund
	Direct £'000	Indirect £'000	Total £'000	Direct £'000	Indirect £'000	Total £'000	Total £'000
FM Fees		895	895	10,015	9,680	19,695	20,590
Asset Pool shared costs		137	137				137
Transaction costs		Not available		3,182	3,810	6,991	6,991
Custody		Not available		90		90	90
Other		Not available			1,355	1,355	1,355
Total			1,032	13,287	14,845	28,131	29,163

The fund's performance broken down into pooled and non-pooled assets is as below:

Asset Category	Opening Value		Closing Value		1 Yr Performance %	Benchmark %
	£'000	% of total fund	£'000	% of total fund		
<b>ACCESS Pooled Investments</b>						
UK Equity	–	–	958,000	15.4		
Global Equity	–	–	1,657,000	26.7		
<b>Total Pooled Assets</b>	<b>–</b>	<b>–</b>	<b>2,615,000</b>	<b>42.2</b>		
<b>Under Pooled Governance</b>						
UK Passive Equity	318,000	5.5	336,000	5.4	6.4	6.4
Global Passive Equity	285,000	4.9	318,000	5.1	11.5	12.0
<b>Total Under Pooled Governance</b>	<b>603,000</b>	<b>10.4</b>	<b>654,000</b>	<b>10.5</b>		
<b>Assets Outside of the ACCESS Pool</b>						
UK Actively managed Equity	1,174,000	20.2	260,000	4.2	(5.3)	6.4
Global Actively managed Equity	2,037,000	35.0	594,000	9.6	8.9	12.0
Property	733,000	12.6	757,000	12.2	7.1	4.9
Infrastructure	37,000	0.6	48,000	0.8	10.6	0.5
Private Equity	87,000	1.5	102,000	1.6	27.7	0.5
Cash	116,000	2.0	68,000	1.1	0.7	0.5
Absolute Return	410,000	7.1	492,000	7.9	3.1	7.4
Fixed Income	615,000	10.6	615,000	9.9	1.7	1.7
<b>Total Non-Pooled Assets</b>	<b>5,209,000</b>	<b>89.6</b>	<b>2,936,000</b>	<b>47.3</b>		
<b>Grand Total</b>	<b>5,812,000</b>	<b>100.0</b>	<b>6,205,000</b>	<b>100.0</b>		

1 year performance is not available for pooled investments as they were pooled only for part of the year.

# Independent Auditor's report

## **Independent auditor's report to the members of Kent County Council on the consistency of the pension fund financial statements included in the Pension Fund Annual Report.**

### **Opinion**

The pension fund financial statements of Kent Pension Fund (the 'pension fund') administered by Kent County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

### **Pension Fund Annual Report – Pension fund financial statements**

The Pension Fund Annual Report and the pension 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 pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

### **The audited financial statements and our Report thereon**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 25 July 2019.

### **Head of Finance Operations (Acting Deputy s151) responsibilities for the pension fund financial statements in the Pension Fund Annual Report**

Under the Local Government Pension Scheme Regulations 2013 the Head of Finance Operations (Acting Deputy s151) of the Authority is responsible for the preparation of the pension 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 Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

### **Auditor's responsibility**

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

### **Use of our report**

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 audit work has been undertaken so that we might state to the Authority's 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.

### **Paul Dossett**

Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
21 August 2019



# Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2019







# The Audit Findings for Kent County Council Superannuation Fund

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Year ended 31 March 2019

24 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council Superannuation Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

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## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:

- give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed on site during June and July. Our findings are summarised on page 4. We have identified no adjustments to the financial statements. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix B or material changes to the financial statements, subject to the following outstanding matters;

- receipt of management representation letter – see appendix C;
- Receipt of third party confirmations for 1 investment
- review of the Annual Report received on 15 July and
- review of the final set of financial statements.

Our anticipated audit report opinion will be unmodified.

## Acknowledgements

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.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 24 April 2019

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 July 2019, as detailed in Appendix B.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Kent County Council Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	58,000,000	This has been calculated based upon 1% of your prior year net assets
Performance materiality	43,500,000	This has been calculated as 75% of headline materiality, based upon our assessment of the likelihood of a material misstatement in the financial statements
Trivial matters	2,900,000	This has been calculated based upon 5% of headline materiality.

# Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p><b>Auditor commentary</b> This risk was rebutted in our Audit Plan and there have been no changes to this assessment</p>
2	<p><b>Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore consider management over-ride of controls, in particular journals, management estimates and transactions outside the normal course of business as a significant risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b> We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
<p><b>3</b></p>	<p><b>Valuation, classification and ownership of Investments</b></p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.</p> <p>Investments held by the Pension Fund are often complex and require judgment. Level 3 investments by their very nature require a particularly high degree of judgement, but there is risk to reach an appropriate valuation at year end for all the investments. With the Pension Fund having moved a portion of its investments into the new ACCESS pool, this creates additional risk.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>gained an understanding of the Fund's process for valuing investments and evaluated the design of the associated controls</li> <li>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</li> <li>consideration of the competence, expertise and objectivity of any management experts used</li> <li>reviewed the qualifications of the Fund Managers to value investments at year end and gained an understanding of how the valuation of these investments has been reached</li> <li>for a sample of Level 3 investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We also reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period</li> </ul> <p>Our audit work has not identified any issues in respect of this risk.</p>

# Significant findings - Going concern

## Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

## Going concern commentary

### Management's assessment process

- Management's Assessment of the Going Concern of the Pension Fund is largely supported by the Triennial Valuations provided by the Fund's independent Actuary, Barnett Waddingham. The most recent Triennial Valuation took place as at the 31 March 2016, and has provided Contribution Rates for the period to 31 March 2020.
- Also the Fund monitors future demands in respect of its Cash balances, such as to pay a large bulk transfer.
- However the Fund can easily liquidate resource from its investments to ensure it is able to make these payments as they fall due.

### Auditor commentary

- The main support to the Fund's assessment that it remains a Going Concern is the assurance provided by the Fund's independent Actuary, Barnett Waddingham. On a triennial basis they are required to value to net asset/liability position of the Fund. On the back of this, they will then set a contribution rate that will enable the Fund to return to a fully funded position by a certain date in the future.
- The most recent Triennial Valuation for the Fund was undertaken as at 31 March 2016, and details of this can be seen within the Accounts and Annual Report. The results of this Valuation confirmed that the Fund was 89% funded, which compared to 83% as at 31 March 2013. This shows that the Fund is in a relatively strong position, and contribution rates have been set for the next 17 years to return the Fund back to 100% funding.
- This position is monitored by the Actuary in the intervening years as well, so that rates can be potentially altered in year if needed, although this hasn't occurred since the 2016 Valuation. Other items such as bulk transfers can impact on the Cash position of the Fund, although these are always reviewed by the Actuary to ensure sufficient cash flow is available to fund the transfer if needed. No bulk transfers occurred in 2018-19.

## Concluding comments

### Auditor commentary

- Based on the audit work performed, we are satisfied that no additional disclosures relating to going concern are required within the Accounts.



# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
<p><b>1</b> Significant events or transactions that occurred during the year :</p> <ul style="list-style-type: none"> <li>- <i>Woodford Investments</i></li> </ul>	<ul style="list-style-type: none"> <li>On 3 June 2019, dealing in the Woodford equity fund, in which the Pension Fund has a holding, was suspended to provide for adequate liquidity in the fund.</li> <li>This means that the Pension Fund is not able to access the funds, and will not be able to do so until the suspension is lifted.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>We discussed the suspension with Pension Fund management and reviewed their consideration of the potential impact.</li> <li>Appropriate additional disclosure has been included in the financial statements with regards the suspension.</li> </ul>
<p><b>2</b> Significant events or transactions that occurred after the year end:</p> <ul style="list-style-type: none"> <li>- <i>McCloud judgement</i></li> </ul>	<ul style="list-style-type: none"> <li>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</li> <li>In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges and fire fighters' schemes as part of the reforms amounted to unlawful discrimination.</li> <li>As a result of the ruling, and confirmation that it is not possible to appeal it, the actuary was requested to produce an impact assessment based on the current information relating to the fund and provided centrally by GAD.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>We discussed the potential impact with Pension Fund management and reviewed the IAS26 impact assessment produced by Barnett Waddingham.</li> <li>This identified a material impact on the pension liability and would increase the total liabilities at 31 March 2019 would by 0.7% of liabilities (which equates to £70,512,000).</li> <li>This has resulted in amendment to the disclosure included in the financial statements.</li> </ul>



# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment
<p><b>Level 3 investments</b></p> <p>The Pension Fund has investments in those categorised as level 3 for valuation purposes. In total these are valued on the balance sheet as at 31 March 2019 at £150,015k. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management obtains valuations from external fund managers. The value of the investment has increased by £21.1m in 2018/19, mainly due to the an increase in the value of the underlying investments.</p>	<p>We have assessed the management expert's appointed by the Pension Fund for their competency, capability and objectivity. We have reviewed the basis on which the investment valuation is calculated and found it is appropriate.</p>	
<p><b>Level 2 investment</b></p> <p>The Pension Fund has investments in those categorised as level 2 for valuation purposes. In total these are valued on the balance sheet as at 31 March 2019 at £3,362,764,000. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management obtains valuations from external fund managers, and the custodian. The value of the investment has increased by £2.625m in 2018/19, mainly due to the transfer of investments into the ACCESS funds which meant investments previously held in funds classified as Level 1 are now included in Level 2.</p>	<p>We have assessed the management expert's appointed by the Pension Fund for their competency, capability and objectivity. We have reviewed the basis on which the investment valuation is calculated and found it is appropriate.</p>	

**Assessment**

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

## 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	<p><b>Matters in relation to fraud</b></p> <ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We 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.</li> </ul>
2	<p><b>Matters in relation to related parties</b></p> <ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<p><b>Matters in relation to laws and regulations</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>
4	<p><b>Written representations</b></p> <ul style="list-style-type: none"> <li>A letter of representation has been requested from the Pension Fund, which is appended.</li> <li>Specific representations have been requested from management in respect of:                             <ul style="list-style-type: none"> <li>Woodford Investments suspension</li> <li>McCloud judgement</li> </ul> </li> </ul>
5	<p><b>Confirmation requests from third parties</b></p> <ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to fund managers, the custodian and banks. This permission was granted and the requests were sent. To date the majority of these requests were returned with positive confirmation, however 1 request is currently outstanding.</li> </ul>

## Other communication requirements

Issue	Commentary
⑥	<p><b>Disclosures</b></p> <ul style="list-style-type: none"><li>• Our review found no material omissions in the financial statements</li><li>• Additional disclosures were added relating to the McCloud judgment and the suspension of dealing in the Woodford Investments holding. This is detailed on page 11.</li></ul>
⑦	<p><b>Audit evidence and explanations/significant difficulties</b></p> <ul style="list-style-type: none"><li>• All information and explanations requested from management was provided.</li></ul>
⑧	<p><b>Matters on which we report by exception</b></p> <ul style="list-style-type: none"><li>• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.</li><li>• Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1<sup>st</sup> December 2019. We received the draft report on 15 July and this is currently under review. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</li></ul>

# 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

### Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to date.

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### Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	23,537	23,537
Additional fees in relation to additional work required for the following issues in 2018-19:		
- McCloud judgement		To be determined
- Provision of enhanced IAS 19 reports to local authority admitted bodies of the Superannuation Fund		To be determined
<b>Total audit fees (excluding VAT)</b>	<b>£23,537</b>	<b>£TBD</b>

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

No adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit with the exception of the adjustment to the pension liability as described on page 8.

## Misclassification 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.

Disclosure	Detail
Various	A couple of other minor presentational and disclosure amendments have been processed by the Fund to enhance the presentation of the final set of Accounts

# Audit opinion

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

## Independent auditor's report to the members of Kent County Council on the superannuation fund financial statements of Kent County Council Superannuation Fund

### Opinion

We have audited the financial statements of the Kent County Council Superannuation Fund (the 'pension fund') administered by Kent County Council (the 'Authority') for the year ended 31 March 2019 which comprise the **Fund Account, the Net Assets Statement** and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical

Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance Operations (Acting Deputy s151)'s use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Head of Finance Operations (Acting Deputy s151) has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

### Other information

The Head of Finance Operations (Acting Deputy s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the

# Audit opinion

work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

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### Other matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Head of Finance Operations (Acting Deputy s151) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities **set out on page(s) x to x**, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance Operations (Acting Deputy s151). The Head of Finance Operations (Acting Deputy s151) is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance Operations (Acting Deputy s151) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Head of Finance Operations (Acting Deputy s151) is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Kent County Council Governance and Audit committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Audit opinion

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 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 audit work has been undertaken so that we might state to the Authority's 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.

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Paul Dossset, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
London

Date



# Management Letter of Representation

[\*\*Prepare on client letterhead\*\*]

Our ref: KPF2018-19  
Your ref:

Grant Thornton UK LLP  
Grant Thornton UK LLP  
110 Bishopsgate  
LONDON  
EC2N 4AY

**Rx July 2019**

Dear Sirs

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## Kent County Council Superannuation Fund Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Kent County Council Superannuation Fund ("the Fund") for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

- iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

- vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

- vii. Except as disclosed in the financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the Fund has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

# Management Letter of Representation

- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. The financial statements have been amended for all material misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.
- xiv. In respect to the McCloud judgement, we have obtained an impact assessment from our actuary and have included the impact as an additional disclosure in the financial statements.
- xv. In respect of the suspension of dealing in the Woodford equity fund, we have assessed the risk to the pension fund and the potential for impairment or risk to redemption. We believe that there is no impact on the value of the investment at 31 March 2019. We believe we have included sufficient disclosure in the financial statement.

## Information Provided

- xvi. We have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of your audit; and

- c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- xxiv. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- xxv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

# Management Letter of Representation

- i. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Approval**

The approval of this letter of representation was minuted by Kent County Council's Governance and Audit Committee at its meeting on 24 July 2019.

Yours faithfully

Name.....

Page 1 of 9

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of Kent County Council as administering authority of the Kent County Council Superannuation Fund



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# Kent County Council Superannuation Fund Investment Strategy Statement 2019



# Investment Strategy Statement 2019

## Introduction

1. Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of their investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
2. Kent County Council is responsible for administering the Kent County Council Superannuation Fund under the Local Government Pension Scheme (LGPS) Regulations. The Council has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested and to take proper advice in the execution of this function. It has delegated these responsibilities to the Superannuation Fund Committee.
3. The Committee has prepared the Investment Strategy Statement (ISS) in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.
4. In September 2016 the Department for Communities and Local Government (DCLG) published Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS). This replaces the previous requirement for a Statement of Investment Principles.

The ISS required by Regulation 7 must include:

- A requirement to invest money in a wide range of investments;
  - The authority's assessment of the suitability of particular investments and types of investments;
  - The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - The authority's policy on the exercise of rights (including voting rights) attaching to investments.
5. As set out in the Regulations the ISS will be reviewed at least every three years.

## Investment Strategy

6. The Kent Fund's primary objective is to ensure that over the long term it will have sufficient assets to meet pension liabilities as they fall due.
7. In order to achieve this objective the investment strategy seeks to:
  - Maximise returns for a given level of risk;
  - Ensure liquidity requirements are met at all times;
  - Achieve and maintain a 100% funding level;
  - Maintain stable employer contribution rates.

# Investment Strategy Statement 2019

8. The Fund has had a customised asset allocation for a number of years and has regularly reviewed this in light of valuation results, changes in liabilities and investment cycles.
9. In 2018 the Superannuation Fund Committee approved a revised asset allocation for the Pension Fund based on a review of its investments strategy that it carried out with the assistance of its investment advisor, Mercer. The Fund's investments are allocated across a range of asset classes with the largest allocation being to equities which also accounts for the majority of the investment risk taken by the Fund.
10. The Fund's current strategic asset allocation is shown in the table below:

**Table 1: Asset allocation**

Asset class	Allocation %
UK Equities	23.5
Overseas Equities	32.0
Fixed Income	15.0
Property	13.0
Private Equity	4.0
Infrastructure	3.5
Absolute Return	8.0
Cash	1.0
<b>Total</b>	<b>100.0</b>

11. The Fund has an 84% allocation to growth assets (equities, property, absolute return and infrastructure) in order to meet the long-term funding assumptions set out in the 2016 actuarial valuation and a 16% allocation to defensive assets (bonds and cash) to help manage overall levels of funding volatility.
12. Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocations to asset classes other than equities and bonds allow the Fund to gain exposure to other forms of risk premium and can reduce the overall volatility of portfolios. These assets are expected to generate returns broadly similar to equities over the long term and so allocations to these can maintain the expected return and assist in the management of volatility.

## Investment management arrangements

13. All investment management activities are carried out externally and there is no internal management other than of cash flow. The Fund has a policy of appointing specialist managers who are expert in managing specific investment strategies which should help the Fund deliver over different investment cycles.
14. The current manager structure and the rationale for this is set out in the table overleaf:

# Investment Strategy Statement 2019

**Table 2: Investment Manager Structure**

Asset Class/Manager	Performance target	Style
<b>UK Equities</b>		
Schroders	Customised UK equity + 1.5%	High concentration
Woodford	FTSE All Share	Unconstrained
UBS	FTSE All Share	Tracking
<b>Global Equities</b>		
Baillie Gifford	Customised regional equity + 1.5%	Fixed weight regional equity
Sarasin	MSCI AC World + 2.5%	Thematic
M&G	MSCI AC World + 3%	Dividend growth
Schroders	MSCI AC World + 3-4%	Quantitative value
Impax	MSCI AC World + 2%	Environmental themed
UBS	FTSE World Ex UK	Tracking
UBS	FTSE Emerging Markets	Tracking
<b>Fixed Income</b>		
Schroders	3 months Sterling Libor + 4%	Total return
Goldman Sachs	+3.5-6%	Target return long term hold
<b>Property</b>		
DTZ	IPD Customised Pension Fund Index	Direct UK property
Fidelity	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund open ended
Kames	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund close ended
M&G	IPD UK PF All Balanced Property Fund Index	UK residential property fund
<b>Absolute Return</b>		
Pyrford	RPI + 5%	Low risk equities/fixed income/cash
Ruffer	RPI	Low risk equities/fixed income/cash
<b>Alternatives</b>		
Private Equity - YFM	GBP 7 Day LIBID	Small value direct UK
Private Equity - HarbourVest	GBP 7 Day LBID	Global fund of funds
Infrastructure - Partners Group	GBP 7 Day LBID	Global fund of funds



# Investment Strategy Statement 2019

## Risk Measurement and Management

15. At four of the Committee's five planned meetings during the year it reviews the actual investment allocation relative to the agreed asset allocation benchmark as well as individual manager performance and related risks. The Committee has to make its assessment in the context of how it will achieve the required investment return of 5.4% per annum assumed by the Fund actuary.
16. The Committee engages Mercer to assist it with its review and receives reports from Officers based on their discussions with investment managers and examination of relevant information.
17. The Fund maintains a full Risk Register which is reported annually to the Committee. This covers the full range of risks faced not just investment risks.
18. The principal investment risks faced are:

**Table 3: Investment Risks**

Risk	Mitigation
Equity allocation risk	The Fund holds equities in order to achieve higher investment returns however in line with its review of the Fund's asset allocation it is now reducing its exposure to traditional equities to reduce the impact of a material fall in equity markets. The Fund invests in managers with a variety of investment styles.
Asset class concentration risk	The Fund is reducing its allocation to UK equities to reduce concentration risk. It is also seeking to diversify its bond allocation.
Active manager risk	The Committee believes that good active managers will add value to the Fund and it aims to establish long term relationships with managers. Managers of the larger mandates annually attend Committee meetings and others have regular meetings with officers.
Inflation risk	Current inflation remains low. The fund invests in equities and property and is increasing its investment in infrastructure to achieve inflation protection.

# Investment Strategy Statement 2019

Risk	Mitigation
Exchange rate risk	The Fund is a long-term investor and can withstand short term currency fluctuations. The Fund monitors its overseas investments' currency exposure but has not made arrangements to hedge this risk.
Alternative asset classes risk	The Fund is increasing its investments in non-property alternative investments following its review of the strategic asset allocation in 2018. It is monitoring the illiquidity risk arising.
Liquidity risk	The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Custody risk	The Fund must maintain its beneficial ownership of Fund assets when held in custody or trading and it does this through its global custodian. Counterparty risk is mitigated through a robust selection and legal contracting process. Custody risk is reducing as the Fund moves its investments into pooled funds.
Transition risk	The risk of incurring additional costs in relation to the transitioning of assets between external managers is managed through the use of professional advisers and experienced in house staff.
Stock lending risk	The Fund has agreed a stock lending policy for its segregated mandates as well as for its investments in the ACCESS pool. This is a limited programme of stock lending and risk is mitigated by lending to approved counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.
Regulatory risk	Regulatory risk is predominantly transferred to the externally appointed investment managers who have to meet regulatory requirements. The Fund only manages cash internally and complies with CIPFA and MHCLG requirements in relation to that.

# Investment Strategy Statement 2019

Risk	Mitigation
Investment advice risk	The Fund has engaged Mercer as its investment consultant. The Committee regularly considers the effectiveness of the advice given.
Unmatched liability risk	The Fund is diversifying its investment in fixed income strategies which should more closely match the characteristics of the Fund's liabilities.

## Asset Pooling

19. The Fund is part of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool. This is a group of like-minded funds valued at £44bn who came together to meet the Government criteria for pooling set out in November 2015. The ACCESS funds emphasise retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.
20. In 2018 Link Fund Solutions contracted with the 11 ACCESS authorities to provide a pooled operator service. Link is responsible for operating an Authorised Contractual Scheme (ACS) along with the creation of investment sub-funds to meet the needs of the ACCESS funds.
21. The Kent Fund has made a commitment to pool its investments other than its direct property holdings but will rigorously apply the value for money test before moving assets into the pool.
22. During 2018-19 the Kent Pension Fund invested in 3 sub-funds managed by Baillie Gifford, Schroder and M&G. As at 31 March 2019 the total pooled was £2.6bn, being 42% of the total assets of the Fund. Further sub funds are being launched for equity and fixed income asset classes. The ACCESS pool is also making progress in establishing the appropriate structures for pooling alternative asset classes.
23. In February 2018 the Kent Fund also invested in pooled life funds managed by UBS. As at 31 March 2019 the value of this investment was £654m, 11% of the Fund's investments.

## Corporate Governance

24. The Committee has a fiduciary responsibility to scheme members and employers to maximise the investment returns it can achieve for a given level of risk. It therefore does not seek to impose ethically based screens which restrict investment managers from investing in certain companies.
25. The Committee is also committed to promoting good corporate governance in the firms which it invests in. It is expected that investment managers will have their own policies on voting on shareholder issues and on environmental, social and governance issues. 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

# Investment Strategy Statement 2019

Meetings. Engagement with companies is taken very seriously and this is regularly discussed with investment managers. The investment managers report to the Committee quarterly on corporate governance issues including voting.

## Advice

26. The Committee takes advice and information from:

- The Council's Section 151 Officer and their staff;
- Barnett Waddingham, the Fund's actuary;
- Mercer, the Fund's investment consultant;
- Investment managers;
- Discussions with other LGPS funds;
- Attendance at seminars and conferences, and
- Financial press and media.

August 2019

### Kent County Council Pension Section

#### Fund benefits and contributions

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# Kent County Council Superannuation Fund Governance Compliance Statement 2019



# Governance Compliance Statement 2019

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	<p><b>Structure</b></p> <p>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.</p> <p>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.</p> <p>c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>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.</p>	<p>The Superannuation Fund Committee exercises all of the powers and duties of Kent County Council as the administering authority for the Kent Pension Fund.</p> <p>The matters the Committee is responsible for include:</p> <ul style="list-style-type: none"> <li>• setting investment strategy</li> <li>• appointing professional fund managers</li> <li>• carrying out regular reviews</li> <li>• monitoring of investments</li> <li>• monitoring the administration of the pension scheme</li> <li>• determining pension fund policy in regard to employer admission arrangements.</li> </ul> <p>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.</p>

# Governance Compliance Statement 2019

	Description of principle	Kent Pension Fund's position
2	<p><b>Committee Membership and Representation</b></p> <p>a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</p> <p>These include:</p> <ul style="list-style-type: none"> <li>(i) Employing authorities (including non-scheme employers, e.g. admitted bodies);</li> <li>(ii) Scheme members (including deferred and pensioner scheme members);</li> <li>(iii) Independent professional observers;</li> <li>(iv) Expert advisers (on an ad hoc basis).</li> </ul> <p>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.</p>	<p>Committee members serve for a 4 year term.</p> <p>The Committee consists of 17 members; 13 employer representatives and 4 member representatives.</p> <p>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.</p> <p>Of the 4 member representatives Unison and KCC staff have 1 representative each and the Kent Active Retirement Fellowship has 2 representatives.</p> <p>The Fund's investment advisors, Mercers, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy.</p> <p>All members of the Committee are treated equally in terms of access to papers and meetings, as well as training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>
3	<p><b>Selection and role of lay members</b></p> <p>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.</p> <p>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.</p>	<p>On appointment all Committee members are made fully aware of the status, role and function they are to perform.</p> <p>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.</p> <p>At the start of each meeting Committee members are invited to declare any related financial or pecuniary interest in any matters on the agenda.</p>

# Governance Compliance Statement 2019

	Description of principle	Kent Pension Fund's position
4	<p><b>Voting</b></p> <p>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.</p>	<p>All 13 employer representative members have full voting rights in the committee. Non voting members are able to engage in and contribute to decision making.</p> <p>The voting rights of Superannuation Fund Committee members are regularly reviewed, the most recent review being October 2017.</p>
5	<p><b>Training / Facility time / expenses</b></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>All additional costs of attending training courses are reimbursed from the Fund.</p>



# Governance Compliance Statement 2019

	Description of principle	Kent Pension Fund's position
6	<p><b>Meetings - Frequency</b></p> <p>(a) that an administering authority's main committee or committees meet at least quarterly.</p> <p>(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.</p> <p>(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.</p>	<p>The Superannuation Committee usually meets 5 times year.</p> <p>The Pensions Forum meets twice a year for all employers focussing on administration issues.</p>
7	<p><b>Access</b></p> <p>(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.</p>	<p>All Committee members have access to committee papers, documents and advice that fails to be considered at meetings of the Committee.</p> <p>Meeting papers are also available on the KCC and Kent Pension Fund websites.</p>
8	<p><b>Scope</b></p> <p>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>	<p>The Committee monitors the administration of the pension scheme and determines pension fund policy in regard to employer admission arrangements.</p>
9	<p><b>Publicity</b></p> <p>(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.</p>	<p>Details of all Committee meetings are available on the Kent County Council website including all unrestricted committee papers.</p>

# Governance Compliance Statement 2019

	Description of principle	Kent Pension Fund's position
10	<p><b>Local Pension Board</b></p> <p>A local pension board (the 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.</p> <p>The Board is composed of 8 members; 4 employer representatives and 4 member representatives. Board members serve for a 4 year term.</p> <p>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.</p> <p>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.</p> <p>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.</p>	

## Kent County Council Pension Section

### Fund benefits and contributions

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By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 6 September 2019

Subject: **2019-20 Pension Fund Business Plan**

Classification: Unrestricted

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Summary: To advise the Committee of the 2019-20 business plan, related budget and risk register

## **FOR INFORMATION**

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### **INTRODUCTION**

1. The purpose of this report is to advise the Committee of the 2019-20 business plan for the Fund produced by the KCC finance team and the expenditure identified as being necessary to implement the plan during 2019-20.
2. Members are also asked to agree the Fund risk register.

### **2019-20 BUSINESS PLAN**

3. Details of the Fund's 2019-20 business plan are attached at appendix 1. The key activities during 2019-20 are expected to be:
  - the implementation of the Fund's revised strategic asset allocation;
  - participation in ACCESS and planning for the further pooling of the Fund's investments;
  - the Fund's triennial valuation; and
  - roll out of employer and member self-service.

### **2019-20 BUDGET**

4. Officers have estimated that the expenditure required to implement the business plan during 2019-20 totals £4.4m (2018-19 £3.6m), as per the table below. Most of these costs relate to the administration of the Scheme and providing a service to some 140,000 members.
5. While governance and oversight expenditure in 2019-20 is expected to be broadly in line with the level of spend in 2018-19 administration costs are expected to be higher by some £760k reflecting the following planned activity as previously reported to the Committee.
  - recruitment to the vacancies on the Pensions admin team,
  - clearing the backlog of unprocessed leaver cases
  - rolling out i-Connect to more employers

- implementation of member self service

## PENSION FUND MANAGEMENT COSTS 2019-20

	2019-20 budget £	2018-19 actual £
Pensions Administration	3,345,000	2,582,769
Pension Payroll Services	221,542	221,542
Payment services	17,000	16,600
Financial Services	67,000	67,000
<b>Administration Expenses</b>	<b>3,650,542</b>	<b>2,887,910</b>
Actuarial Fee including cost of valuation	300,000	252,695
Legal Fees	125,000	202,985
Direct recovery of actuary, legal fees and admin costs	-250,000	-298,239
Subscriptions	46,000	45,013
ACCESS pooling costs	110,000	137,157
Investment Accounting and Oversight costs	285,700	272,861
Performance Measurement Fees	30,000	27,175
Investment Consultancy	50,000	43,500
Other professional advice	20,000	18,934
<b>Governance and Oversight Expenses</b>	<b>716,700</b>	<b>702,082</b>
Audit fee	24,000	23,537
<b>Total</b>	<b>4,391,242</b>	<b>3,613,529</b>

6. KCC provides the fund administration, investment accounting, fund oversight and related services. It contracts with Cantium Business Solutions for payroll and payment services. Invicta Law, Barnett Waddingham and Mercer are the main providers of legal, actuarial and consultancy services. Grant Thornton is the Fund's auditor.
7. The Committee will receive half yearly updates on actual activity and costs compared to the plan.

## RISK REGISTER

8. A copy of the Fund's risk register is attached at appendix 2
9. 32 risks have been identified, 6 amber and 26 green risks. There are no risks with a red score. The amber risks are:
  - a) Concentration of knowledge in a small number of officers and risk of departure of key staff or non-availability due to sickness or other issues;
  - b) Risk of increased funding deficit;
  - c) Failure of fund managers to achieve target investment returns;
  - d) Failure of manager or custodian;

- e) Risks associated with the establishment of the ACCESS pool;
- f) Complex and multiple membership arrangements.

### **RECOMMENDATION**

10. The Committee is recommended to

- a) Note the 2019-20 Business Plan and the related budget.
- b) Agree the Fund risk register.

**Alison Mings**

Treasury and Investments Manager

[Alison.mings@kent.gov.uk](mailto:Alison.mings@kent.gov.uk)

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## Kent Pension Fund Business Plan 2019-20

Action No.	Description	Accountable Officer(s)	Start Date Month / year	End Date Month / year
<b>1.</b>	<b>Investment Strategy</b>			
1.1	Implement the revised asset allocation agreed by Superannuation Fund Committee on 9 February 2018.	Nick Vickers / Alison Mings	April 2019	March 2020
1.2	Manage the transition of investments including to the ACCESS pooled funds	Alison Mings / Sangeeta Surana	April 2019	March 2020
1.3	Report to the Superannuation Fund Committee on new investment options.	Nick Vickers / Alison Mings	April 2019	March 2020
1.4	Monitoring the performance of investment managers and funds.	Nick Vickers / Sangeeta Surana	April 2019	March 2020
1.5	Support the Superannuation Fund Committee and the Pension Board members to effectively undertake their roles and ensure that appropriate training is available.	Nick Vickers / Alison Mings	April 2019	March 2020
1.6	Develop enhanced RI / ESG policy / reporting	Sangeeta Surana / Katherine Gray	April 2019	March 2020
<b>2.</b>	<b>ACCESS Pool</b>			
2.1	Support the Chairman in his role on the Joint Committee.	Alison Mings	April 2019	March 2020
2.2	Membership of the Officer working group (OWG) Participate in working groups to set up ACCESS ACS sub-funds and other CIVs as required for illiquid assets	Alison Mings / Sangeeta Surana	April 2019	March 2020
2.3	Support the role of host authority and ASU - business planning - budget - ASU technical lead	Alison Mings / Sangeeta Surana	April 2019	March 2020
2.4	Ensure the Superannuation Fund Committee is kept fully informed on ACCESS issues.	Alison Mings	April 2019	March 2020

## Appendix 1

<b>3.</b>	<b>Other</b>			
3.1	Prepare the Fund's 2019 accounts and report including compliance with cost transparency requirements and with revised reporting guidelines	Sangeeta Surana / Katherine Gray	April 2019	July 2019
3.2	Implement changes proposed in recent MHCLG consultations including Fair Deal	Alison Mings	April 2019	March 2020

<b>4.</b>	<b>Administration</b>			
4.1	Complete the March 2019 LGPS triennial valuation and communicate revised employer contribution rates	Barnett Waddingham Alison Mings / Steve Tagg / Barbara Cheatle	April 2019	March 2020
4.2	Roll out i-Connect employer self service	Barbara Cheatle	April 2019	March 2020
4.3	Preparation of annual benefit illustrations for despatch to members by the statutory deadline	Barbara Cheatle	April 2019	September 2019
4.4	Reduce the backlog of unprocessed leaver cases	Barbara Cheatle	April 2019	March 2020
4.5	Follow up GMP reconciliation exercise	Barbara Cheatle	April 2019	March 2020
4.6	Develop plan for introducing member Self Service	Barbara Cheatle	April 2019	March 2020



## KENT PENSION FUND RISK REGISTER AUGUST 2019

Ref	Risk	Mitigation	Residual			Risk Owner
			Impact	Likelihood	Risk Score	
<b>Governance Risks</b>						
G1	The Administering Authority fails to have appropriate governance arrangements, including the requirement for a Pension Board, resulting in: <ul style="list-style-type: none"> <li>• Non-compliance with legislation and/or best practice.</li> <li>• Inability to determine policy, make effective decisions and/or deliver service</li> <li>• Risk to reputation</li> </ul>	The Kent County Council Superannuation Fund Committee discharges the duties of the Council as Administering Authority of the Pension Fund. <ul style="list-style-type: none"> <li>• KCC has produced a Governance Policy and Compliance Statement, as required by regulation 31 of the LGPS Regulations 2008</li> <li>• The Governance Policy and Compliance Statement is reviewed and updated regularly to ensure that the policy remains appropriate</li> <li>• The Statement is published on the Kent Pension Fund website</li> <li>• The Kent County Council Governance and Audit Committee approves the annual statement of accounts of the Kent Pension Fund, considers whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council.</li> <li>• A Pension Board has been established as required by the Public Service Pension Act 2013.</li> <li>• Support and training are being provided to ensure that the Board is equipped to undertake its role.</li> </ul>	4	1	4	Z Cooke
G2	Failure to comply with regulations and guidance from the National Scheme Advisory Board, the Pensions Regulator and Pensions Ombudsman	Updates on guidance and regulations received directly from the regulators, CIPFA and other professional publications. Member and officer awareness and training through attendance at workshops organised by PLSA, CIPFA, actuaries, fund managers and consultants.	4	1	4	Z Cooke
G3	Failure to comply with GDPR	KCC policies and protocols. GDPR training now compulsory for all KCC staff .	3	1	3	C Head / B Cheatle
G4	Concentration of knowledge in a small number of officers and risk of departure of key staff or non-availability due to sickness or other issues	Knowledge of all tasks is shared by at least two staff members and can in addition be covered by senior staff. Ongoing training of staff. Training requirements reviewed annually with staff and a formal training record is maintained. Senior finance management manage the succession plans. Officers complete the Pensions Regulator Toolkit for Public Service Schemes	3	2	6	Z Cooke / D Shipton / C Head
G5	Risk of non compliance with new CMA directive - Lack of appropriate and adequate independent consultancy advice	Ensure appropriate advice is obtained from approved consultants to support committee decisions and reviews of investment mandates	3	1	3	Z Cooke / N Vickers / D Shipton
G6	Failure to achieve competitive prices for Investment Management and other services	Participation in the ACCESS Pool to reduce fee rates. Requirement for Fund managers to sign up to transparency code Use of LGPS frameworks to procure financial services	2	2	4	N Vickers / D Shipton / C Head / A Mings
G7	Excessive payments to suppliers	Budgetary control and management by budget holders with support from KCC Revenue Finance.	2	1	2	A Mings / S Surana

Ref	Risk	Mitigation	Residual			Risk Owner
			Impact	Likelihood	Risk Score	
		All payments made using KCC iProc system, ensure robust invoice checking and approval process.				
G8	Conflicts of Interest	KCC procedures for declarations of conflicts of interest by members at Committee and Board meetings as well as by staff on ORACLE	2	1	2	Democratic Services / Z Cooke / D Shipton / C Head
G9	Business continuity and disaster recovery	Externally hosted business continuity arrangements with Heywood. Cover for key staff in Cantium Business Solutions KCC Business Continuity Plan for staff and systems	2	1	2	B Cheatle / A Mings
<b>Employer Risks</b>						
E1	Financial failure of a non public sector employer	Monitoring of employers, bond / guarantees, credit risk management information Awareness of daily news which could affect the Fund employers Pro-active management of exit liability as per Reg 64 (4) Agree shorter deficit recovery periods. Cash deficit contributions	1	2	2	A Mings / S Tagg
E2	Increased number and complexity of employers including due to outsourcing of services. Fragmented payroll providers	Monitor closed admission agreements, staff movement to different terms and conditions and contract end dates Recognising Academies at Trust level Clear process and communication for onboarding new and exiting employers Enhancing information on Fund website for current and prospective employers System and process changes to improve timeliness, frequency and efficiency of automatic information transfer from employers through the pension fund website.  Monitor staffing resources and systems Increased resource at Invicta Law Ltd	3	1	3	A Mings / S Tagg
E3	Non collection of pension contributions due to error or fraud and failure to follow regulatory guidelines	Regular monitoring and recovery action, KPIs Escalation process agreed and documented Regular reporting to the Superannuation Fund Committee and Pensions Board Periodic internal and annual external audit review	2	1	2	A Mings / S Tagg
E4	Failure to complete 2019 actuarial valuation exercise accurately and on time	Preparation and liaison with actuary and employers . Develop comprehensive action plan and monitor progress	2	1	2	A Mings / S Tagg / B Cheatle
<b>Funding Risks</b>						
F1	Risk of increased funding deficit caused by the following events:	Regular review of Investment Strategy	2	3	6	N Vickers / A Mings

Ref	Risk	Mitigation	Residual			Risk Owner
			Impact	Likelihood	Risk Score	
	Reducing contributions as the result of the increased maturity of the Fund due to an aging membership and as local authorities outsource services to organisations who agree closed arrangements.  Increased liabilities due to the increased longevity of pensioners High inflation and / or low gilt interest rates adversely affecting employer liability	Cash flow monitoring. Employers are paying cash sums re falling payrolls  Appropriate actuarial assumptions. Actuary reviews contributions as part of the triennial valuation and annual interim reviews. Maintain balanced Asset Allocation including Inflation protection investments. Long term investment horizon ensures that the short term fluctuations in interest rates and inflation do not affect the long term viability of the Fund				
F2	Increased fragmentation of employers increases risk of different employer maturity profiles.	Balanced Investment strategy. Actuary undertakes valuation at employer level and sets appropriate contribution rates	1	2	2	N Vickers / A Mings
F3	Insufficient cash-flow to fund pension payments	Cash flow forecasting and monitoring Cash generation by Investment in income distributing funds and property assets Maintaining some investment in liquid assets.	2	2	4	N Vickers / A Mings / S Surana
<b>Investment Risks</b>						
I1	Fund managers' non-compliance with LGPS 2016 Regulations and Fund ISS / FSS	IMAs, Fund Manager reports, monthly management reporting, Committee reviews, officer reviews	2	1	2	A Mings / S Surana
I2	Failure of fund managers to achieve target investment returns	Diversified investment strategy with annual review. Advice from Consultants Monitoring of investment managers. Tactical asset allocation	3	2	6	N Vickers / S Surana
I3	Failure of in-house treasury management practices leading to fraud, corruption or error. Risk of financial loss and damage to reputation	Pension Fund has its own agreed list of approved counterparties. KCC's Treasury Management Practices which also cover the management of the Pension Fund's cash are reviewed and updated regularly. Sufficient members in the Treasury team to cover absence and leave - a central calendar is maintained to ensure cover in place. Appropriate separation of duties exists.	3	1	3	D Shipton / A Mings
I4	Investments too complex	Diversified Investment strategy. Attendance at Industry and Fund Manager training forums Advice from Consultants	2	2	4	N Vickers
I5	Failure to adjust investment strategy to meet funding requirements	Review of Investment strategy and rebalancing to agreed asset allocation Monitoring of funding levels. Advice from Consultants	2	2	4	N Vickers
I6	Failure of manager or custodian	Quarterly performance monitoring	3	2	6	N Vickers / A Mings / S

Ref	Risk	Mitigation	Residual			Risk Owner
			Impact	Likelihood	Risk Score	
		Contract management, media reports Internal Control reports; diversification of manager mandates; diversification of custody via pooled funds Advice from Consultants				Surana
I7	Risks associated with the establishment of the ACCESS pool: delay in set up, operational issues with provider, cost creep	Operator appointed, Project Group established, representation of Chair and officers, project managed by consultants and use of professional services and advice, separate risk register, IAA, Operator Agreement	2	2	4	A Mings / S Surana
I8	Risks associated with the investment in the ACCESS ACS sub-funds : slippage of time table, lower fee savings than expected, high transition costs, disagreement within pool regarding sub fund / manager selection	Transition Management, pooling negotiations and due diligence, advice from consultants, representation on OWG and OBSG	3	2	6	A Mings / S Surana
I9	Completeness and accuracy of investment and accounting records including income	Reconciliation of KCC accounting systems with fund managers' reports and custodian records. Annual external audit review, and periodic internal audit review	2	1	2	A Mings / S Surana
I10	Insurance risk on property portfolio	Ensure adequate cover in place at all times, valuations	2	1	2	S Surana
<b>Administration Risks</b>						
A1	Fraudulent pension payments	Atmos monitoring process of deceased pensioners. Internal controls on checking and authorisation of payments. Regular internal & external audits of operation of controls.	2	1	2	B Cheattle
A2	Member data incomplete or inaccurate	Regular communication with employers. Intervention with problem employers. Better sharing of queries on year-end returns. Implement system for data submission by employers on monthly basis, roll out of i-Connect	2	2	4	B Cheattle
A3	Administration process failures	Engagement with employers, employer manuals in place, electronic interface, year end data cleansing, officer checking, regular review of data quality, staff training	3	1	3	B Cheattle
A4	Security and integrity of member data	Access controls, authorisations, reconciliations, GDPR training and procedures	3	1	3	B Cheattle
A5	Recruitment and retention of pension admin staff	Career progression and development opportunities to be highlighted	2	2	4	B Cheattle
A6	Complex and multiple membership arrangements resulting in extra workload and errors in benefit/ liability calculations and payments	Staff training, communication with employers, additional staff including contract workers to clear backlog	3	2	6	B Cheattle

By: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 6 September 2019

Subject: **Fund Employer Matters**

Classification: Unrestricted

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Summary: To report on employer related matters.

## **FOR DECISION**

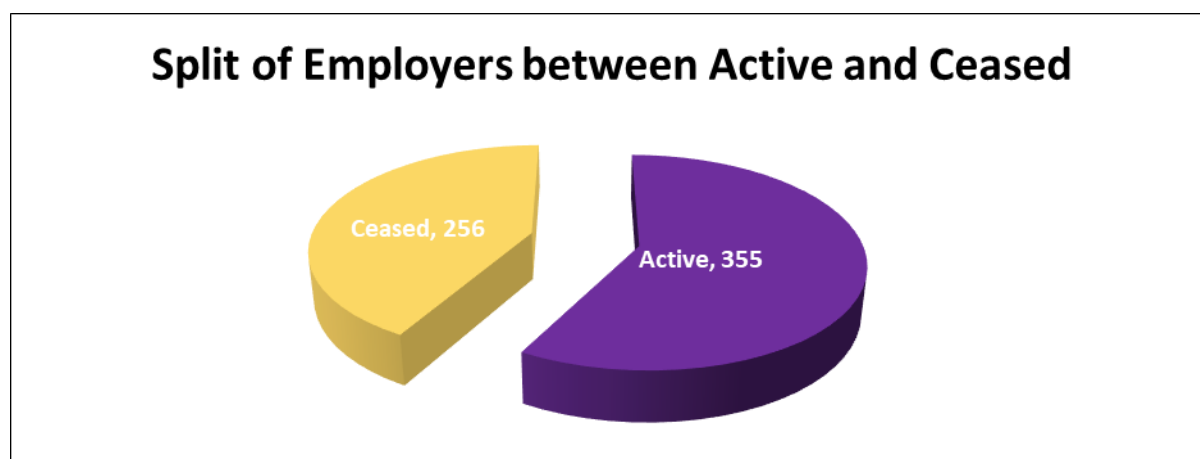
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### **INTRODUCTION.**

1. This report sets out information on employer related matters, an update on Colleges and the McCloud case.

### **EMPLOYERS IN THE FUND AT 30 JUNE 2019**

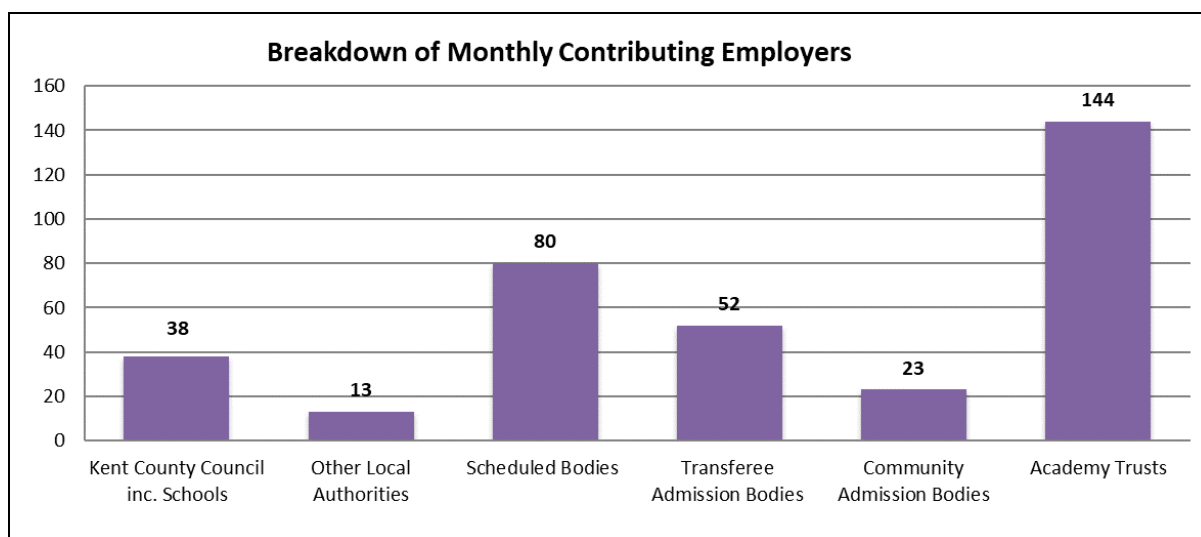
2. There were a total of 611 employers in the Kent Pension Fund.



3. The number of active employers regularly paying contributions increased in the 3 months April to June 2019 to 355 as a result of 8 employers joining the Fund while 1 ceased to have active members in the LGPS. The ceased employers no longer have active contributing members in the LGPS and the Fund has an existing or future liability to pay any pensions.
4. The following table lists employers who either joined or ceased to have active members in the Fund during the first 3 months of 2019-20. This includes backdated admission agreements.

New Employers	Effective date
<b>Academy Trusts</b>	
Deal Education Alliance for Learning Trust (DEALT)	1 April 2019
<b>Admitted Bodies</b>	
Compass Contract Services (UK) Ltd T/A Chartwells (re KCSP Primary Schools)	1 January 2019
Compass Contract Services (UK) Ltd T/A Chartwells (re KCSP Secondary Schools)	1 January 2019
Deep Beat Entertainment (re Strood Sports Centre)	1 February 2019
PT Commercial Ltd T/A Ecocleen	1 April 2019
<b>Ceased/Merged to Trust Employers</b>	
<b>Admitted Bodies</b>	
Invicta Telecare T/A Centra Pulse	31 May 2019

5. The following chart shows the Employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the County's and schools' relationships with several payroll providers.

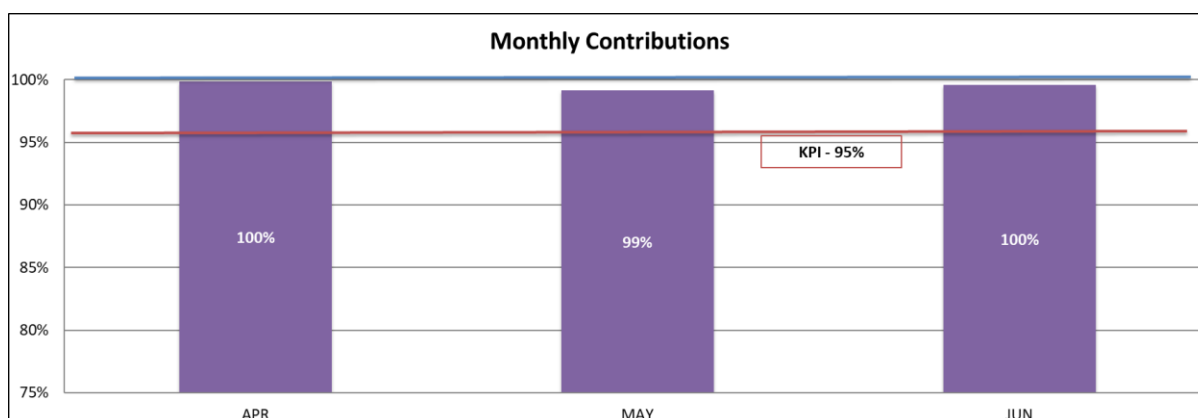


## **CONTRIBUTIONS FROM EMPLOYERS**

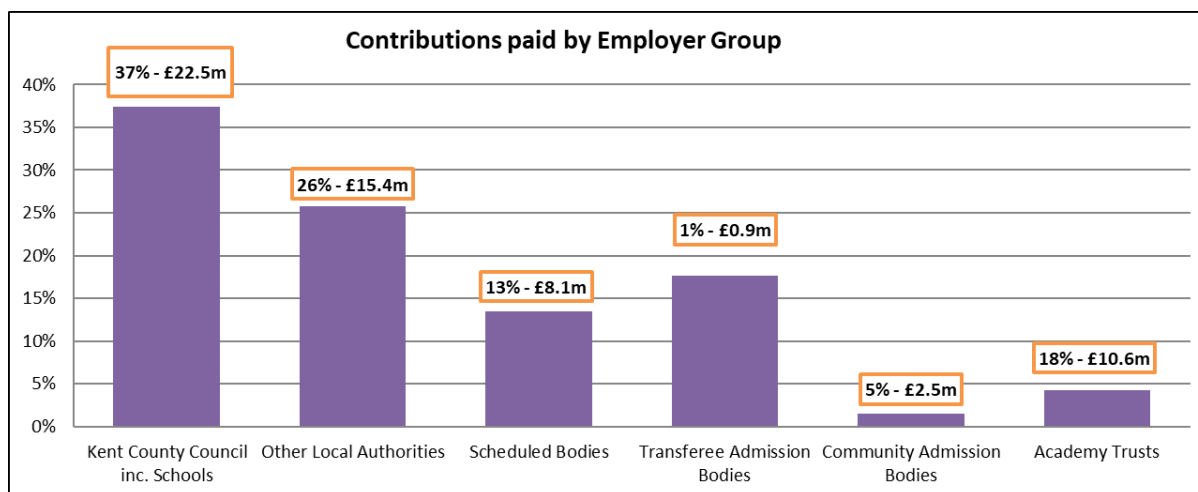
6. In the period April to June 2019-20 the Fund received £60m from employers in respect of their monthly contributions (employer and employee) as follows:

	Received Early	Cash on 19th	Received Late	Total
	£	£	£	£
April	10,401,124	9,584,819	34,810	20,020,753
May	11,943,102	7,676,488	171,801	19,791,390
June	12,709,535	7,419,715	86,889	20,216,139
<b>Total</b>	<b>35,053,761</b>	<b>24,681,022</b>	<b>293,499</b>	<b>60,028,282</b>

7. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. The KPI was exceeded in all 3 months and the average for this quarter for contributions received was 99%.



8. The following chart shows the proportion paid by KCC and other employers of contributions received.



## **HADLOW COLLEGE**

9. At their meeting on 21 June 2019 the Committee was advised that Hadlow College had gone into educational administration.

10. An indicative cessation report as of 30 June 2019 has been received from the Fund's actuary, Barnett Waddingham, and this sets out a number of different scenarios depending on the result of the administration. The administrators BDO who are considering alternative outcomes for the future of the college and its staff are discussing these scenarios with the actuary. The Committee will be updated further when the final position is known.

### **WEST KENT AND ASHFORD COLLEGE**

11. The West Kent and Ashford College is a scheduled body in the Kent Pension Fund and its staff both past and present are members of the LGPS.
12. On 6 August 2019 the Secretary of State for Education made an application at the High Court of Justice for an Education Administration Order pursuant to the Technical and Further Education Act 2017 in respect of the Corporation of West Kent and Ashford College Brook Street Tonbridge TN9 2PW. This is a formal insolvency process. Partners at BDO LLP have been appointed as education administrators of the College with effect from 16 August 2019.
13. BDO LLP have written to the Kent Pension Fund, as they are required to inform all creditors of the College, that the Education Administration Order has been made.
14. BDO have also confirmed that the purpose of the Education Administration Order is to protect education provision for learners as the College is facing financial difficulties. They plan to implement a solution to ensure a sustainable future for the College and its learners and this aligns with the law governing the Education Administration Order process.
15. In order to safeguard the Kent Pension Fund's interests officers will work closely with BDO to resolve the financial position of the West Kent and Ashford College LGPS fund and it is proposed that authority for making any decisions on this matter is delegated to the Corporate Director of Finance.
16. An indicative cessation report as of 30 June 2019 has been received from the Fund's actuary, Barnett Waddingham, and this sets out a number of different scenarios depending on the result of the administration. BDO are considering alternative outcomes for the future of the college and its staff and are discussing these scenarios with the actuary. The Committee will be updated further when the final position is known.

### **THE McCLOUD JUDGEMENT**

17. At their meeting on 21 June 2019 the Committee was advised of the McCloud judgement and the subsequent pause in the Scheme Advisory Board and HM Treasury cost control mechanisms.
18. Whilst we await the remedy of the McCloud judgement the actuary has advised that employers are likely to be impacted by changes in relation to a final salary



underpin which was applied to active members who were aged 55 or above (within 10 years of retirement) at 31 March 2012.

19. The actuary is including an allowance for McCloud in the employers' IAS19/FRS102 reports based on analysis undertaken by the Government's Actuary department and the individual assumptions and membership profile of the employer.
20. Employers are being charged extra for their reports as a result of the additional work being undertaken by the actuary.

### **RECOMMENDATION**

21. Members are asked to resolve to agree:
  - a) The proposed officer delegation.
22. Members are asked to note:
  - a) The employer update;
  - b) The update on Hadlow College;
  - c) The position of West Kent and Ashford College; and
  - d) The update on McCloud.

**Steven Tagg**  
**Treasury and Investments**  
**03000 416747**

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