

**SUPERANNUATION FUND COMMITTEE**

**Tuesday, 23rd November, 2021**

**2.00 pm**

**Council Chamber, Sessions House, County Hall,  
Maidstone**







## AGENDA

### SUPERANNUATION FUND COMMITTEE

**Tuesday, 23rd November, 2021, 2.00 pm**      Ask for:      **Theresa Grayell**  
**Council Chamber, Sessions House,**      Telephone:      **03000 416172**  
**County Hall, Maidstone**

#### Membership

Conservative (8):	Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mrs P T Cole, Mr P Cole, Mr P C Cooper, Mr J P McInroy and Mr J Wright
Labour (1):	Ms M Dawkins
Liberal Democrat (1):	Mr D S Daley
Green and Independent (1):	Mr P Stepto
District Council (3)	Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green
Medway Council (1)	Cllr G Hackwell
Kent Active Retirement Fellowship (2)	Two vacancies
UNISON (1)	Mr J Parsons
Staff Representative (1)	Vacancy

#### **UNRESTRICTED ITEMS**

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

- 1 Membership - to report that David Coupland has left the committee
- 2 Apologies and Substitutes
- 3 Declarations of interest by Members in items on the agenda for this meeting.
- 4 Superannuation Fund Report and Accounts and External Audit (Pages 1 - 82)
- 5 Date of next meeting

The next regular meeting of the committee will be held on Wednesday 1 December 2021, commencing at 10.00 am at Sessions House, Maidstone.

**Motion to exclude the press and public for exempt business**

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 ITEM**

*(During this item the meeting is likely NOT to be open to the press and public)*

6 ESG Beliefs Survey results and next steps (Pages 83 - 108)

Benjamin Watts  
General Counsel  
03000 416814

**Monday, 15 November 2021**

*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.*

From: Chairman Superannuation Fund Committee  
Corporate Director of Finance

To: Superannuation Fund Committee – 23 November 2021

Subject: Superannuation Fund Report and Accounts and External Audit

Classification: Unrestricted

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**Summary:**

This report presents the Report and Accounts of the Superannuation Fund for 2019-20, the External Audit Findings Report and updated Fund policies.

**Recommendation:**

Members are recommended to agree to

- a) Note the content of the 2020-21 Superannuation Fund Draft Accounts and the Annual Report
- b) Note the external auditor's Draft Audit Findings Report
- c) Note the position with regards to Governance and Audit Committee
- d) Delegate to the Chair of the Superannuation Fund Committee and the Corporate Director of Finance the authorisation of the Annual Report on receipt of the audit certificate
- e) Confirm that once the report is authorised the Report and Accounts may be published to the Kent Pension Fund website
- f) Approve the updated Fund policies

**FOR DECISION**

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**1. Annual Report and Accounts**

- 1.1 Guidance issued by CIPFA in 2019 for Local Government Pension Scheme Funds on preparing the annual report requires the Fund Annual Report to be formally reviewed by the Committee and authorised by the Chair of the Superannuation Fund Committee and the Corporate Director of Finance.
- 1.2 A copy of the draft 2020-21 Superannuation Fund Report and Accounts is attached at appendix 1. These will be presented for approval to the Governance and Audit Committee on 30 November 2021.

- 1.3 The key findings and other matters arising from the statutory audit of the Fund are included in the external auditor's Draft Audit Findings Report at appendix 2 and will also be presented to the Kent County Council Governance and Audit Committee at its meeting on 30 November 2021.
- 1.4 The annual report and accounts have been shared with the Pension Board for noting at its meeting on 18 November. A verbal update of the Board's comments if any will be provided to the committee.

## **2. Audit update**

- 2.1 The auditors, Grant Thornton, have advised that the work on the Kent Pension Fund audit is substantially complete and is at the stage of final internal review. The audit report is planned to be signed on 30 November 2021 at the same time as the Kent County Council audit report. Unfortunately, as the audit reports for the Kent Pension Fund and Kent County Council are not yet signed, they are not able to present their audit certificate on the pension fund's Annual Report.
- 2.2 It is therefore proposed that the Annual Report be authorised by the Chairman and Corporate Director of Finance on receipt of the audit certificate.

## **3. Fund policies**

- 2.2 Regulations require the Fund to prepare, review and update the following statements on a regular basis:
- Governance Compliance Statement
  - Investment Strategy Statement (ISS) [investment-strategy-statement](#)
  - Funding Strategy Statement (FSS) [funding-strategy-statement](#)
  - Communications Policy Statement [communications-policy](#)
- 2.3 The Committee has already approved the updated Funding Strategy Statement and the Investment Strategy Statement in September 2021.
- 2.4 The Governance Compliance Statement is being updated to incorporate the recommendations made by the governance review undertaken by Barnett Waddingham and will be presented for approval to the Committee in their meeting in December.
- 2.5 There have been no changes to the Communications Policy.

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Alison Mings, Acting Business Partner – Kent Pension Fund

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**November 2021**

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# Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2021

DRAFT



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## Contents

### Introduction and overview

- 01 Chairman's foreword
- 02 ACCESS Annual Report
- 05 Governance arrangements
- 08 Fund managers
- 09 Risk Management
- 10 Financial Performance
- 12 Employers

### Investments

- 13 Investments
- 14 Value of funds under management by Fund Manager
- 17 Responsible Investment (RI) Policy

### Administration

- 18 Administration

### Actuary's report

- 20 Actuary's Statement as at 31 March 2020

### Financial statements

- 22 Statement of Responsibilities for the Statement of Accounts
- 23 Pension Fund Accounts
- 24 Notes to the Pension Fund Accounts
- 48 Post Pool Reporting

### Independent Auditor's report

- 50 Independent Auditor's report

#### 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 3.08, Sessions House, County  
Hall, Maidstone, Kent ME14 1XQ

## Chairman's foreword

As the Chairman of the Superannuation Fund Committee it is my pleasure to introduce the Kent Pension Fund annual report. However, the COVID-19 pandemic has dominated all our lives over the last year or so. We have faced a crisis unlike any we have known previously, and my thoughts are with everyone who has been impacted in anyway.

Our Fund now supports some 144,960 scheme members and I am particularly grateful to all the administration staff for all their efforts over the last year ensuring these members and the 310 employers in the Fund continue to receive an excellent level of service. I am also very appreciative of the work of those officers responsible for providing the finance support to the Fund.

The Committee is aware of the significant and increasing demands being made on all the staff involved with the work of the Fund so as well as supporting the recruitment of additional resources to the administration team we commissioned a review of the KCC finance staff resources required to provide the support to the Committee and Board as well as the accounting, investment and governance service. The review has been completed and we are now working through the recommendations for strengthening the finance support.

During the year we also commissioned a review of the governance of the Pension Fund taking into account the recommendations of the Internal Audit review completed in 2019 and we now look forward to receiving the report and implementing the recommended changes for enhancing the Fund's governance arrangements.

Against a background of prolonged lockdowns and economic uncertainty I am very pleased to be able to report that the Fund's investments have performed well since the beginning of April 2020 recovering all the losses suffered earlier in the year. Over the last 16 months or so we have been in regular contact with the Fund's investment managers with regard to their response to the impact of the pandemic and it is very encouraging to see that not only have they taken steps to protect the interests of the Fund they are also exploiting the new opportunities arising. The Fund's investments in the technology sector have particularly outperformed others. Our UK retail and leisure property holdings however have yet to fully recover their value as a result of the prolonged lockdown, the closure of high street shops and the switch to homeworking for many office staff. These investments continue to face the challenge of an uncertain period of recovery.

At 31 March 2021 the Fund's value reached a record high of £7.5bn, a gain over the 12 months of £1.8bn. It is also pleasing to note that the Fund has continued to grow in value reaching a new high of £7.8bn at the end of June 2021.

During 2020-21 the Committee continued with the implementation of the recommendations of the strategic asset allocation review undertaken in 2018 and in December 2020 established an equity downside protect programme for the Fund's global equities exposure. At each meeting the committee reviews the Fund's asset allocation and in September members agreed a rebalancing framework to support its review with assistance from our investment consultant. As a result we have invested monies in global fixed income funds while reducing our global equity holdings and added further to our investments in private equity and infrastructure funds. We have also done some rebalancing of our investments in the two absolute return funds

At the beginning of the year we consulted on a significantly revised Responsible Investment policy and I am pleased to be able to report that we continue to be a signatory to the UN Principles for Responsible Investment (PRI) while requiring our investment managers to sign up to both the PRI and the UK Stewardship Code. We also confirmed our membership of the Institutional Investors Group on Climate Change (IIGCC). We believe our continuing involvement with these organisations is key to our commitment to RI which is we believe important in seeking long term investment returns for our scheme members and their employers.

The RI working group met for the first time this year following the implementation of the new Responsible Investment policy. The group supports the Committee with the further development of the Fund's policy and makes recommendations to the Committee on its implementation. It also has the capacity to review important environmental, social and governance (ESG) issues and during the year the group considered items on stewardship and engagement.

The Kent Fund has continued to be an active participant in the ACCESS investment pool and during the year I represented the Fund on the ACCESS Joint Committee. I am also grateful to the Kent officers for their work on the implementation of the pooling plans and establishment of new structures for both listed and non-listed assets.

The Kent Fund now has [£3.7bn] invested in equity and absolute return funds in the ACCESS ACS, some 50% of our total assets available for pooling. This total includes our investment in the Schroders GAV fund which transferred in November 2020. Further funds are expected to transfer to the pool this year. The ACCESS annual report is overleaf.

While continuing to provide a high level of service to scheme members I am pleased to report that we have continued to clear the backlog of member queries with support from external parties and rolled out further access to the i-connect web portal enabling employers to upload their data directly to the pensions database. Currently some 68 employers are using the system with more being added each month, thereby achieving significant savings of effort.

We recognise the importance of maintaining relevant skills and knowledge and during the year members have attended both in-house training events as well as externally arranged conferences and seminars. We have also developed a training plan based on an assessment of members' needs and proposed training includes further in-house training sessions, external training events, use of online learning tools and background reading as appropriate.

Finally, I should like to express my thanks to Members of the Superannuation Committee and Pensions Board for their support for me as Chair of the Committee and for their hard work and commitment during the year which has involved attendance at virtual meetings. Particular thanks are also due to retiring Members for their years of service, notably Margaret Crabtree, retiring from her role of chair of the board.

As Chairman I am really looking forward to working with Members and Officers to meet the challenges of what is expected to be a busy next 12 months.

**Charlie Simkins**  
Chairman



# ACCESS Annual Report 2020-2021

**Cllr Mark Kemp-Gee,**  
Chairman, ACCESS Joint Committee

As Chairman of the ACCESS Joint Committee, I am pleased to introduce the latest Annual Report for our pool.

The backdrop to 2020/21 remained the COVID-19 pandemic, which continues to shape our world. The strength of the partnership between each of the eleven Authorities has been the foundation of how ACCESS has been able to adjust and respond to these challenging circumstances. The year saw further substantial progress in the pooling of active listed assets, with seven new sub-funds being launched by Link Fund Solutions, the Operator of the ACCESS Authorised Contractual Scheme (ACS). As at 31 March 2021 a total of £20.4bn on behalf of all eleven ACCESS Authorities was invested within 22 ACS sub-funds across global equity, UK equity, fixed income and diversified growth.

For passive assets, ACCESS Authorities jointly procured the services of UBS in 2017, and a total of £11.1bn was being managed at the end of year.

In January 2021, the Joint Committee agreed the approach ACCESS will take to implement pooled arrangements for alternative / non-listed assets. This will cover the four areas set out below:

- Private Equity
- Private Debt
- Infrastructure

- Property

Having undertaken framework procurements, the ACCESS Joint Committee also confirmed the appointment of two key advisers during the year. In November 2020 we welcomed Engine MHP as our Communications partner, and, in January 2021, Minerva were appointed to conduct a review of the pool's Responsible Investment guidelines and advise on future reporting requirements.

Finally, a review of the size and scope of the ACCESS Support Unit was undertaken resulting in the establishment of two additional FTE positions to further support both the development and ongoing work of the Pool.

Collectively as at 31 March 2021 the ACCESS Authorities have:

**£56 billion**  
total assets (of which 57% has been pooled)  
serving **3,400** employers  
with **1.1 million** members  
including **300,000** pensioners

## At a glance

- **1** Inter Authority Agreement (updated 2020)
- **1** Joint Committee
- **11** Authorities

- **5** FTE ASU\* staff
- **5** part time Technical Leads\*\*
- **Link:** ACS Operator
- **Alternatives** under consideration



- **£20bn** assets in **22** ACS actively managed sub funds
- **£11bn** assets with **1** jointly procured passive manager: UBS

- **£12.9m** costs
  - **£38.4m** gross savings
  - **£25.5m** net savings
- Cumulative: 2016 inception 31 March 2021

\*FTE = Full Time Equivalent  
ASU = ACCESS Support Unit

\*\*Technical Leads drawn from ACCESS Authorities

All figures as at 31 March 2021 unless stated

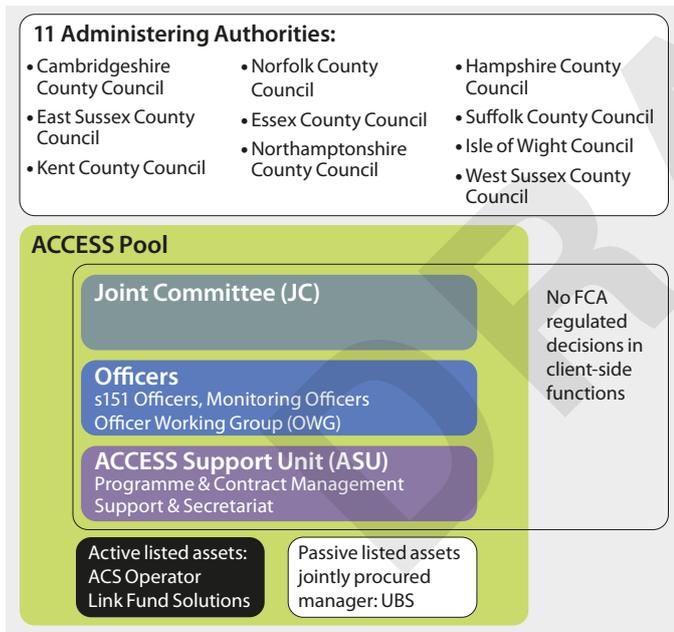
- **2nd** Investor Event: 17 December 2020 (virtual)
- **Operator** Link & **Depositary** Northern Trust gave presentations
- **60** delegates

**Background**

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of eleven 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 (West Northamptonshire from 1 April 2021); Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS. The first ACCESS Inter Authority Agreement was signed in late June 2017.

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.

**Governance**



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 Joint Committee (JC) has been appointed by the eleven Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool-aligned asset providers (for passive asset management), to the Administering Authorities. The Joint Committee also reviews ongoing performance.

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

The Joint Committee is further supported by the Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group consists of officers with specialist LGPS investment skills, identified by each of 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 and supplier relationship, administration and technical support services. 2020/21 saw the approval of two additional roles to increase support capacity of the ASU which is hosted by Essex County Council. Appointments were made to these positions in March 2021 and July 2021. These roles are also supplemented with additional technical support from Officers within the ACCESS Authorities.

**The Operator: Link Fund Solutions**

Appointed in 2018 Link Fund Solutions Ltd (Link) provide the pooled operator service, overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies

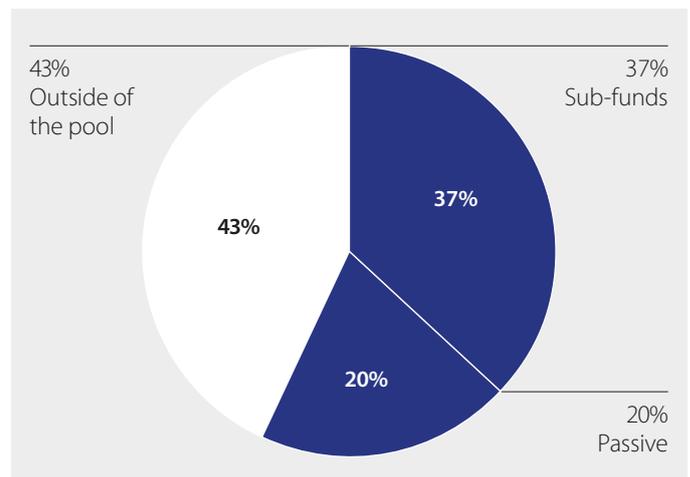
**Pool Aligned Assets: UBS**

Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

**Progress on Pooling**

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool. Included in the proposal was an indicative timeline of when assets will be pooled, and ACCESS has continued to make excellent progress against the principal milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021 exceeding the assets pooled by £4 billion and the savings by £8 million.

As at 31 March 2021, 57% of assets have been pooled:



## Pooled Assets

As at 31 March 2020 ACCESS has pooled the following assets:

Pooled Investments	£ billion
Passive investments	11.125
UK Equity Funds	2.159
Global Equity Funds	14.676
UK Fixed Income	2.085
Diversified Growth	1.465
<b>Total Pooled Investments</b>	<b>31.510</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 authorised contractual scheme.

### Key milestones achieved in 2020/21

- Approval and launch of a range of sub-funds reflecting the strategic asset allocation needs of the ACCESS Funds.
- Provision of updates of progress of pooling to Government.
- Appointment of Engine MHP to review and advise in the further development of the Communications Policy.
- Appointment of Minerva to provide advice and guidance to develop Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the second investor day for Elected members and officers of the individual Authorities. There were presentations by Link Fund Solutions as the ACS operator and Northern Trust as the depositary.
- Determined an approach to pooling and managing the illiquid assets covering private equity, private debt, infrastructure and property.
- Additional resources appointed to the ASU to support the activities of the ACCESS Pool.

### Objectives for 2021/22

ACCESS is well placed to continue to develop the pool and progress will continue unabated despite the restrictions imposed by the COVID-19 lockdown. Virtual meetings are well established and productive. It is anticipated that 2021/22 will see key activities within the following themes:

- Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).
- Alternative / non listed assets: the initial implementation of pooled alternative assets.
- Passively managed assets: ongoing monitoring and engagement with UBS.
- Finalise and implement the Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- ACCESS Support Unit (ASU): the size and scope of the ASU will be kept under review.

### Expected v Actual Costs and Savings

The table opposite summarises the financial position for 2020/21 along with the cumulative position since the commencement of ACCESS activity in early 2016.

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the eleven Authorities. 2020/21 saw an underspend primarily due to lower than anticipated costs of external advice combined with an underspend in the technical lead recharge costs.

	2020-21 Actual In Year £'000	2020-21 Budget In Year £'000	2016-21 Actual Cumulative to date £'000	2016-21 Budget Cumulative to date £'000
Set Up Costs	–	–	1,824	1,400
Transition Costs	–	–	674	2,499
Ongoing Operational Costs	863	1,079	3,071	3,548
Operator & Depositary Costs	3,672	4,077	7,304	6,577
<b>Total Costs</b>	<b>4,535</b>	<b>5,156</b>	<b>12,873</b>	<b>14,024</b>
<b>Pool Fee Savings</b>	<b>21,747</b>	<b>13,600</b>	<b>42,262</b>	<b>32,050</b>
<b>Net Savings Realised</b>	<b>17,212</b>	<b>8,444</b>	<b>29,389</b>	<b>18,026</b>

Operator and depositary fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator. The 2020/21 fee savings have been calculated using the CIPFA price variance methodology and based on the average asset values over the year. This approach highlights the combined level of investment fee savings, across all ACCESS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the MHCLG submission whilst delivering an enhanced level of savings ahead of the timeline contained in the original proposal.

### Environmental, Social and Governance (ESG) and Responsible Investment (RI)

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environmental 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 has reviewed its own ESG/RI guidelines to reflect both the requirements of the Authorities and the expectations associated with this fundamental aspect of institutional investment. Minerva have been appointed as part of this review to provide advice on guidelines and implementing these in a pooling environment.

Minerva will also provide advice on future appropriate reporting requirements to provide transparency to stakeholders, monitor adherence to the Guidelines and inform discussion on ESG/RI matters.

The ACCESS pool has a set of voting guidelines which 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 guidelines sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies. During the year ACCESS voted at 868 meetings on 11,351 resolutions.

### Cllr Mark Kemp-Gee

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 2020-21 is detailed below. There were 6 full Committee meetings during the year, all were held virtually.

## Committee members

### Employer representatives

All elected members (employer representatives) have full voting rights at the committee.



**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 Bartlett**  
Kent County Council



**Paul Cooper**  
Kent County Council



**John Wright**  
Kent County Council



**Stuart Tranter**  
Medway Council

## Member Representatives

Member representatives do not have a vote but otherwise are treated equally in terms of access to papers, training and opportunity to contribute to the decision making process.

### Kent Active Retirement Fellowship Representatives

Mary Wiggins  
David Coupland

### Union Representative

Joe Parsons

### Kent County Council Staff Representative

Vacancy

## 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 2020-21 is detailed below; there was one full Board meeting during the year. Another Board meeting held was not quorate due to insufficient members being able to attend.

## 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.

## Board members

Employer Representatives	Representing
Margaret Crabtree, Chairperson	Kent County Council
Rosalind Binks	Kent County Council
David Monk	Shepway District Council
Alison Kilpatrick	Kent and Medway Fire
Member Representatives	
Joe Parsons, Vice Chairperson	Districts/Medway staff
Lauren Shah (until Nov. 2020)	Kent County Council staff
David Coupland	Kent Active Retirement Fellowship
Vacancy	Representing Trade Union

## Governance 2020-21

During the year the Superannuation Fund Committee met six times and the Pensions Board met once. 5 out of 6 Committee meetings and all Board meetings were held virtually. Attendance at the Committee and Board meetings was as below:

### Superannuation Fund Committee

Member	Meetings attended
Charlie Simkins	6/6
Nick Chard	5/6
Paul Barrington-King	6/6
Paul Bartlett	6/6
John Burden	5/6
Paul Clokie	4/6
Paul Cooper	6/6
David Coupland	4/6
Dan Daley	3/6
Nick Eden-Green	6/6
Peter Homewood	6/6
James McInroy	6/6
Joe Parsons	5/6
Stuart Tranter	3/6
Mary Wiggins	0/6
John Wright	6/6

### Pensions Board

Member	Quorate meetings attended
Margaret Crabtree	1/1
Joe Parsons	1/1
Rosalind Binks	1/1
David Coupland	1/1
Alison Kilpatrick	1/1
David Monk	0
Lauren Shah	0
Unison Rep – VACANCY	

### Committee activity

Items considered by the Committee at its meetings in 2020/21 were as follows:

- Updates on the implementation of the Fund's investment strategy
- Quarterly updates on the Fund's asset allocation and performance
- Review of the Fund's Property investment strategy
- ACCESS pooling updates
- Updates on Employer matters and governance matters
- Update from the Fund's Actuary
- Pension administration updates
- The 2019/20 Report and Accounts and External Audit Report
- Updates on the Fund's Risk Register
- Update of the Fund's Training Plan
- The Pension Fund Committee's work programme
- Quarterly updates on the Pension Fund's business plan
- Review of its Responsible Investment Policy
- Updates on Pension Fund cash flow

- Design and implementation of Equity Downside Protection programme
- Updates on implementation of Internal Audit Review recommendations
- Updates on Fund Managers
- Report from the Pension Board

### Board activity

The Board met twice during the year; once in October 2020 and again in February 2021, however the February 2021 meeting was not quorate. At its meeting in October 2020 the Pension Board considered the following:

- Pension Fund Business Plan
- Fund Employer and Governance Matters
- Superannuation Fund Report and Accounts and External Audit
- Internal Audit Review update
- Board Member Training
- ACCESS update
- Superannuation Fund Committee update
- Pension Fund Risk Register

### Training update for the report

As an administering authority of the Local Government Pension Scheme, Kent County Council recognises the importance of ensuring that all officers and members charged with financial management and decision making for the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

The Kent Fund Training Strategy agreed in 2019 reflects the current requirements of frameworks, codes and guidance issued by a range of bodies including CIPFA, the Pensions Regulator and the Scheme Advisory Board and will be updated as these are revised. The Fund has delegated responsibility for the implementation of the Strategy to the Corporate Director of Finance.

Members agreed the Fund Training Plan in February 2021 and it provides an ongoing training programme for Board and Committee members taking account of the results of the 2020 Hymans Robertson (HR) National Knowledge Assessment, and future training needs. It also builds on training provided and suggested to date, including in the 2019 Internal Audit Report of their review of Fund governance. The training plan includes in-house training sessions, external training events, use of online learning tools and background reading as appropriate.

The main training events attended by committee and board members during 2020-21 were as follows:

Date	Topic	Provider
June 2020	LGPS Committee & Local Pension Board Members update	CIPFA / Barnett Waddingham
June 2020	Trustee training	Schroders
August 2020	McCloud Implementation workshop	CIPFA
October 2020	LGPS Committee & Local Pension Board Members update	Barnett Waddingham
October 2020	LGPS Local Pension Board Members & Officers Autumn Seminar 2020	CIPFA
February 2021	Superannuation Fund and local Pension Fund training day covered the issues of fiduciary duty and actuarial methods as well as an update on the ACCESS pool	Barnett Waddingham / ACCESS
February 2021	Addressing the funding question for Pension Funds	Insight

Committee members have also had an opportunity to gain an understanding of new asset classes and existing investment mandates from investment managers at the following Committee meetings:

Date	Topic	Provider
June 2020	UK equities	Schroders
September 2020	Property	Fidelity
November 2020	Absolute Return	Pyrford
March 2021	Fixed income	GSAM

In addition 4 board members completed the tPR toolkit during the year.

Individual members and officers have also attended training events organised by the Fund's investment managers and other external organisations as follows:

- Keeping LGPS Connected
- Investment Management, individual accountability
- Managing TO Engagements
- Enterprise wide insider threat programme
- Strength in Diversity: Consciously managing bias

## Fund managers

Schroders



Asset Management

KAMES CAPITAL



HARBOURVEST



IMPAX Asset Management



Partners Group  
REALIZING POTENTIAL IN PRIVATE MARKETS



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	Utmost Life, (earlier 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.
- Responsible Investment Policy.

These documents can be found on the Pension Fund's website <https://www.kentpensionfund.co.uk/local-government/about-us/investment-management-of-the-fund/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. The Covid-19 pandemic has thrown up new challenges in the investments as well as the administration of the fund. Whilst actions to mitigate the risks have been put in place and are being monitored, the key risks currently identified remain:

- Investments achieve returns below rate assumed by the actuary.
- Risk to service delivery due to remote working arrangements.
- Increased risk of cyber attacks.

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 risk based 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 external service providers operations is provided by investment managers and custodian[s] who are required to provide annual AAF 01/06 reports and ISAE 3402 reports.

## Financial Performance

### Fund Trends

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

	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Net Assets at 31 March (£'000)</b>	5,565,175	5,828,846	6,218,169	5,716,878	<b>7,513,632</b>
<b>No. of Contributors</b>	50,834	52,775	51,345	51,685	<b>52,725</b>
<b>Contributions (£'000)</b>	228,285	232,037	238,331	250,263	<b>267,955</b>
<b>Number of Pensioners</b>	38,648	39,813	41,739	43,441	<b>44,838</b>
<b>Benefits Paid (£'000)</b>	214,895	220,876	235,953	243,832	<b>247,448</b>

### Financial Summary

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
<b>Value of Fund at start of year</b>	4,597,540	5,565,175	5,828,846	6,218,169	<b>5,716,878</b>
Revenue account for year					
– Contributions and transfers in	238,851	243,299	247,758	259,591	<b>272,972</b>
– Investment and other income net of expenditure	84,792	93,503	84,971	109,358	<b>83,969</b>
– Benefits and transfers out	(222,949)	(232,373)	(248,538)	(256,540)	<b>(257,505)</b>
<b>Net Revenue</b>	100,694	104,429	84,191	112,409	<b>99,436</b>
Increase (Decrease) in market value of investments in year	866,941	159,242	305,132	(613,700)	<b>1,697,318</b>
<b>Increase (decrease) in Fund during year</b>	967,635	263,671	389,323	(501,291)	<b>1,796,754</b>
<b>Value of Fund at end of year</b>	5,565,175	5,828,846	6,218,169	5,716,878	<b>7,513,632</b>

The fund had recovered very well this year after the pandemic hit asset values hard last year.

The number of contributors in the Fund has continued to rise again this year.

The amount of contributions has increased by 5% this year, whilst the number of contributors increased by just 2%, mainly due to a continued increase in salary levels of employees.

Number of pensioners has continued to grow and were 15% higher at 31 March 2021 compared to 31 March 2017. Pension payments have also increased by 15% during the same period.

### Pension Fund Administration and Governance Costs

The following table compares actual Administration, Governance and Oversight costs against the budget for 2020-21.

	2020-21 Actual £'000	2020-21 Budget £'000
Pensions Administration	3,033.73	3,411.90
Pensions Payroll Services	221.54	225.97
Payment Services	16.65	17.34
Financial Services	64.70	68.34
Legal Fees	23.72	125.00
Miscellaneous	1.00	-
<b>Administration Expenses</b>	<b>3,361.34</b>	<b>3,848.55</b>
Actuarial Fee including cost of valuation	315.82	260.00
Direct recovery of actuary, legal fees and admin costs	(257.09)	(225.00)
Subscriptions	41.51	46.00
ACCESS pooling costs	82.16	100.00
Investment Accounting and Oversight costs	371.87	400.00
Performance Measurement and other advice fees	29.08	30.00
Investment Consultancy	318.35	210.00
<b>Governance and Oversight Expenses</b>	<b>901.70</b>	<b>821.00</b>
Audit fee	41.03	24.00
<b>Total</b>	<b>4,304.07</b>	<b>4,693.55</b>

The costs of administration of the scheme were lower than budget due to vacancies in the section and lower than expected legal fees due to lower employer related activity.

Whilst there were savings in oversight costs due to vacancies, there were increased costs of investment consultancy for the implementation of the equity protection programme. Audit fees have been increased to reflect increased scope of testing.

## Employers

At 31 March 2021 there were 454 Employers in the Fund. During the year 6 organisations joined the Fund as either scheduled 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 12 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 employer type 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	68	306
Admitted Body	72	76	148
<b>Total</b>	<b>310</b>	<b>144</b>	<b>454</b>

### Amounts due from Employers

During 20-21 we collected 99%, (99% in 2019-20) of total contribution income by value from Employers by the due date of the 19th of the following month and 95% of employers paid on time. The lower percentage reflects the difficulties some small employers had with new payment processes as a result of the pandemic and some back dated admissions to the Fund. The option to levy interest on overdue contributions was not exercised. At 31 March 2021, contributions in respect of the March salaries totalling £17.2m (31 March 2019 £17.9m) due by 19 April had not been received.

### Member Age Profile

The following table shows that at 31 March 2020 the age profile of the contributing membership was:

Age	Members
Under 20	504
20 – 25	3,752
26 – 30	4,046
31 – 35	4,762
36 – 40	5,769
41 – 45	6,415
46 – 50	7,515
51 – 55	8,203
56 – 60	6,910
61 – 65	3,945
66 – 70	741
Over 70	163

### 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
2017	1	4,946	No next of kin so written-off
	1	537	No response – written-off
2019	2	641	Written-off
	1	207	To be written off as no next of kin
	1	2,135	Being investigated
<b>2021</b>	<b>1</b>	<b>11,500</b>	(est) Assistance sought from KCC's counter fraud team regarding recovery
	<b>2</b>	<b>417</b>	Seeking recovery from next of kin
	<b>1</b>	<b>244</b>	To be written off as no next of kin
<b>Total</b>	<b>10</b>	<b>20,627</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 (£)
2016-17	36	8,135
2017-18	39	53,946 *
2018-19	18	27,717 *
2019-20	3	1,318
<b>2020-21</b>	<b>12</b>	<b>3,133</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 2020-21 the Committee reviewed the Fund's actual asset allocation compared to the benchmark, in the context of how it will achieve the required investment return of 5.8% per annum assumed by the Fund actuary and agreed any action required.

The Fund's strategic asset allocation as at 1 April 2020 was as follows:

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

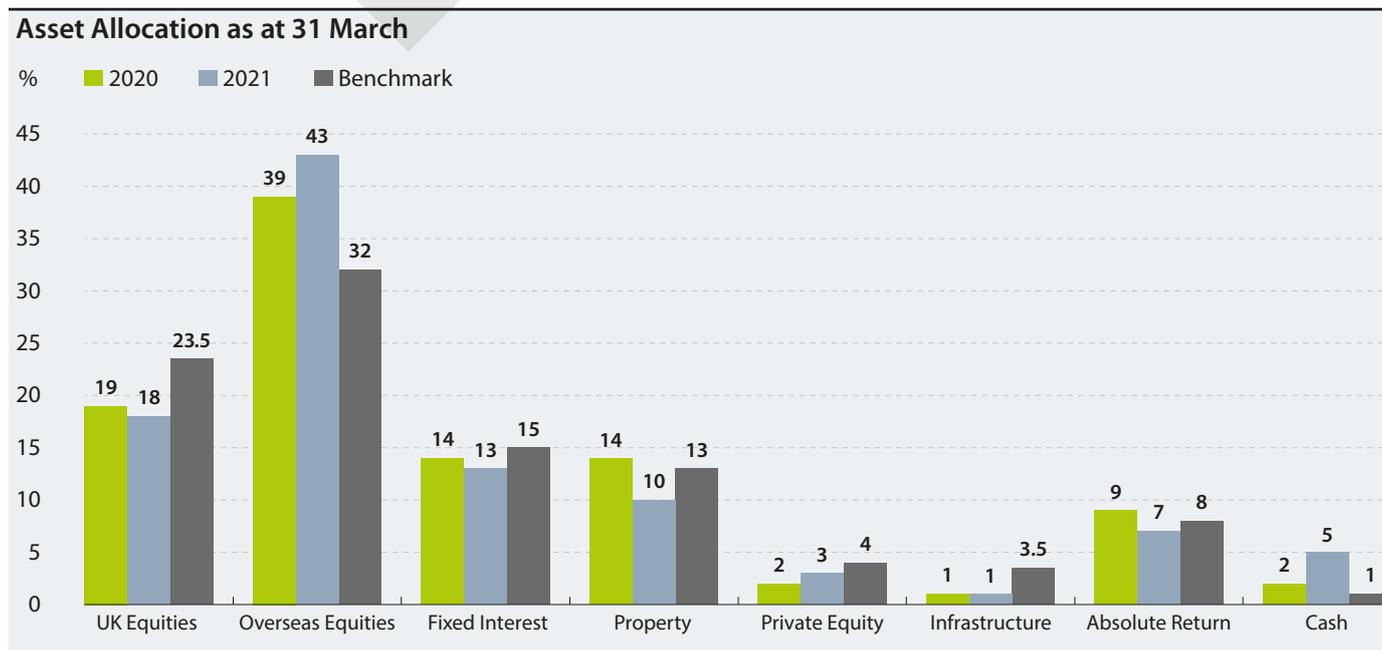
The Kent Pension Fund has made a commitment to pool its assets other than its direct property holdings into the ACCESS Pool. (Please see section on ACCESS for further information about the Pool).

As at 31 March 2021 it had investments of £3.7 billion in four ACCESS sub-funds.

The Kent Fund has achieved £6.9m of savings in pooling initiatives of which £2.7m are in relation to assets awaiting pooling

### Portfolio Distribution

The graph shows the Fund's actual portfolio distribution between the main asset-classes as at 31 March 2020 and 31 March 2021 vs the benchmark.

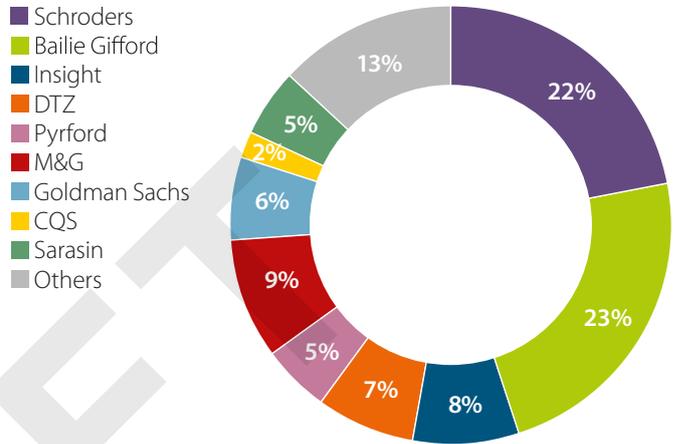


## Value of funds under management by Fund Manager

The following graph shows the Assets Under Management (AUM) and the proportion of the Fund under management by fund manager as at 31 March 2021:

Fund Managers	AUM (£m)
Schroders	1,640
Baillie Gifford	1,710
Insight	611
DTZ	539
Pyrford	407
M&G	671
Goldman Sachs	417
CQS	158
Sarasin	353
Others	1,000
<b>Total</b>	<b>7,506</b>

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



### Investment performance 2020-21

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.

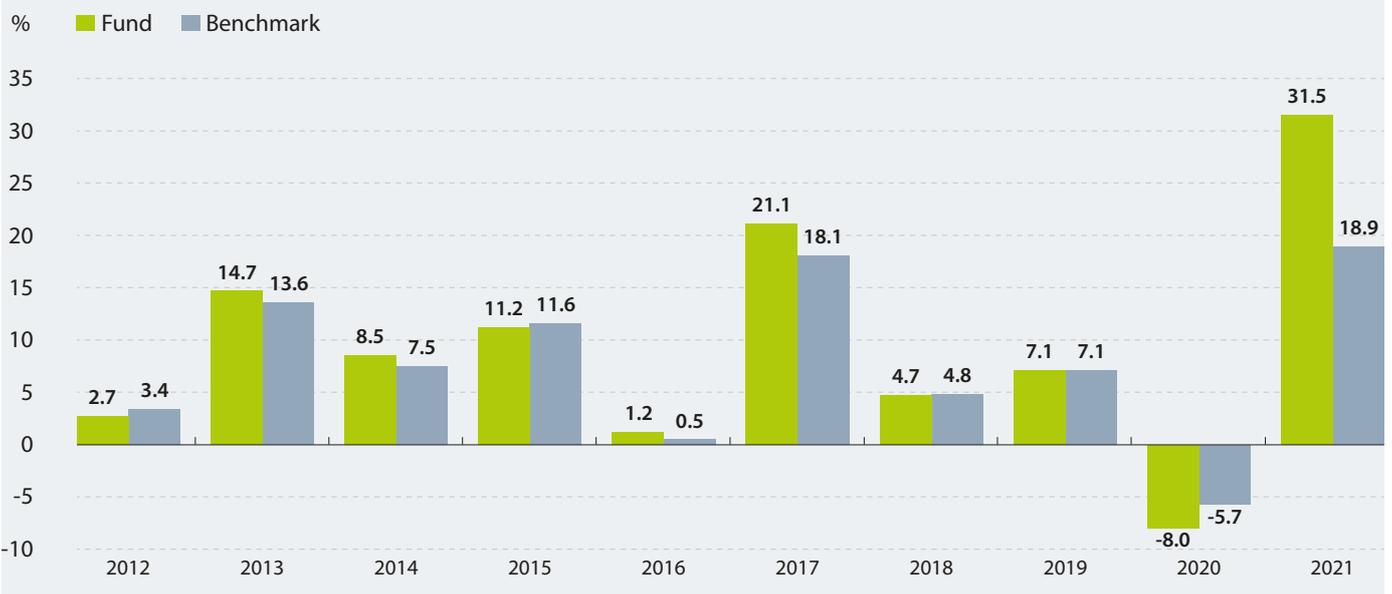
Managers are required to provide valuation information to Northern Trust which assesses the rate of return achieved and provides performance reports for consideration by the Committee.

### Total Fund Performance

The graph below shows the relative performance of the investments over the last 10 years. The overall return on the investments for 2020-21 was 31.52% compared to the customised strategic benchmark of 18.93%.

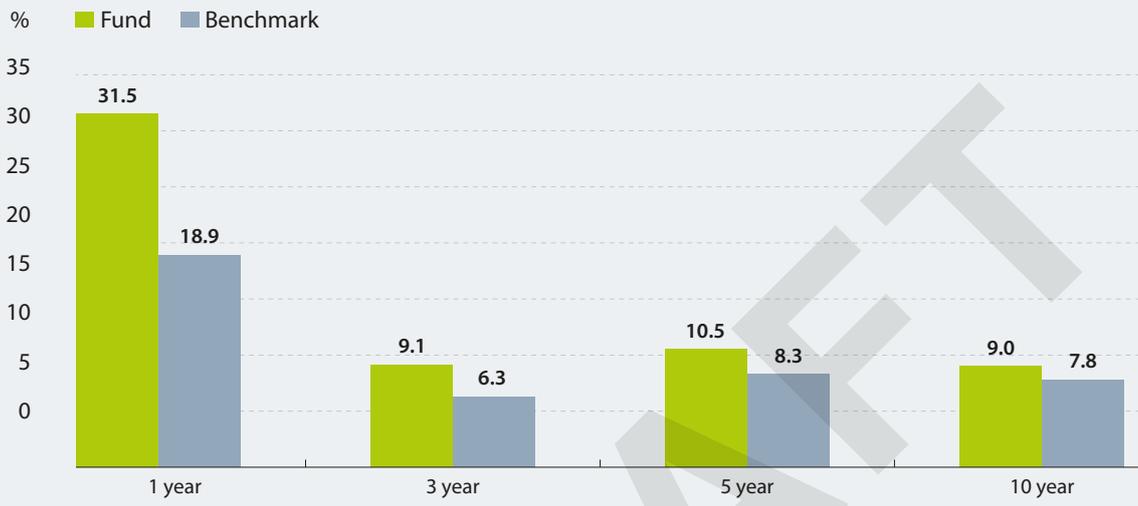
For comparison the PIRC Local Authority Universe average fund return for 2020-21 was 22.8%.

### Annual Investment Returns



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

### Long Term Performance Summary



### Returns by Asset Class

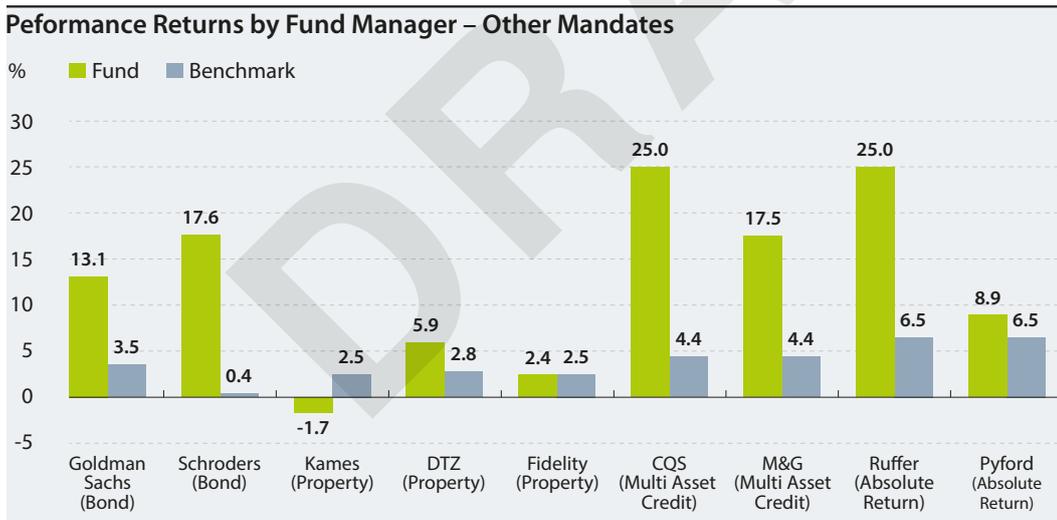
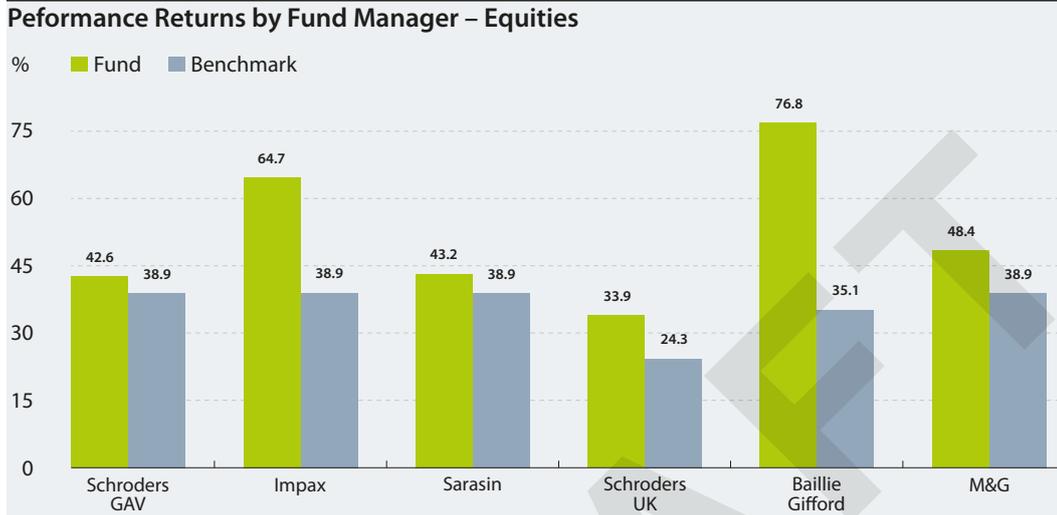
The analysis set out below shows the returns by asset class for 2020-21:

### 2020-21 Returns by Asset Class



**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 2021.



## Responsible Investment (RI) Policy

### The Fund's RI policy can be viewed [here](#)

#### The Kent Pension Fund:

- Has a **Responsible investment policy, which is part of its investment strategy** which explains how Environmental, Social and Governance (ESG) factors will be considered when making investment decisions and how the Pension Fund expects its investment managers to engage with companies about ESG issues and take part in shareholder voting.
- Has set up an **RI working group to focus on Responsible Investment**. The group is made up of members of the Pension Fund Committee and makes recommendations to the Committee.
- Is a **signatory to the Principles of Responsible Investment (PRI)** which sets out six principles for responsible investors to follow.
- **Expects its investment managers to be signatories to the UK Stewardship Code 2020** which is about how investors should act when making and owning investments.
- Provides training for the Pension Fund Committee.

### Addressing climate change concerns

#### The Kent Pension Fund:

- recognises it is consistent with its fiduciary duty to manage Environmental issues including climate change that may be financially material and expects those responsible for managing its investments to comply with the Fund's policy.
- does not believe it should divest from companies involved in fossil fuels as that action of itself will not reduce the impact on the climate. The Fund believes that its policy of engagement with companies to encourage responsible investment behaviour will be more effective in terms of achieving change.
- is actively monitoring and supporting the development of companies' management of environmental issues including those companies traditionally associated with fossil fuels. It is seeking out sustainable investment opportunities and for example holds units in a fund that invests in companies developing alternative sources of energy and cleaner uses of water and waste.
- is a member of the **The Institutional Investors Group on Climate Change (IIGCC)**. The Fund monitors developments on climate change and uses the research undertaken to monitor and challenge our investment managers.

### Developing the Fund's approach to ESG issues

#### The RI working group will:

- consider and progress the further development of the Fund's RI policy and its implementation taking account of recent ESG initiatives
- work with investment managers to enhance their reporting on ESG issues including regular updates on their engagement with companies on governance matters, and their voting activity.

#### The Kent Pension Fund:

- is committed to improving its approach to and the processes associated with the implementation of its responsible investment policy and to ensure that these changes are consistent with the Fund's fiduciary duty to its members and local taxpayers.
- will seek to align itself with the recommendations of the Task Force on Climate-Related Financial Disclosures.

#### Voting by Managers 2020/21

	Number of Resolutions		
	For	Against	Abstain
Baillie Gifford	1,876	38	27
Schorders UK Equity	845	13	4
Schroders GAV	2,988	270	3
M&G Global Dividend	316	107	7
Ruffer	312	10	3
Sarasin	404	177	38
Impax	815	45	20
Pyrford	1,287	89	0

## 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 58 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	2,300	93%
Calculation and payment of dependants' benefit	15 days from receipt of paperwork	500	100%
Provision of estimates	20 days from receipt of paperwork	3,830	58%
Correspondence	Full reply within 15 working days	4,540	99%

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

- further roll out of i-Connect, a process for receiving data from employers on a monthly basis
- preparation for roll out of member self service to scheme members
- work involved in dealing with the exit cap legislation which was then rescinded
- preparation for dealing with the impact of the McCloud judgement

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

Type of retirement	From Active membership	From Deferred membership	Total Retirements
Redundancy	132	–	132
Ill Health	43	9	52
Early	510	1,044	1,554
Normal	8	263	271
Late	229	64	293
Flexible	56	–	56
<b>Total</b>	<b>978</b>	<b>1,380</b>	<b>2,358</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 22 other local authority administering bodies across the UK. The table below is in respect of the year ending 31 March 2020 which is the most recent survey to be conducted.

	Kent £	All Scheme Average £
Total cost of administration per scheme member	19.68	20.16
LGPS members per FTE staff	3,253	2,781
Membership engagement	0.57	2.04

It is pleasing to note that survey results place Kent 8th of 23 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.

## 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, virtual meetings being held this year, 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.

**2020/21 Disputes considered: 7**

**2020/21 Appeals upheld: 1**

# Actuary's Statement as at 31 March 2021

## Introduction

The last full triennial valuation of the Kent County Council Pension Fund (the Fund) was carried out as at 31 March 2019 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 2020.

## Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The value of the Fund's assets as at 31 March 2019 for valuation purposes was £6,193m.
- The Fund had a funding level of 98% i.e. the assets were 98% 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 £129m.

## Contribution rates

The employer 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;
- 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 primary rate of contribution on a whole Fund level was 18.4% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, further "secondary" contributions were required in order to pay off the Fund's deficit by no more than 14 years with effect from the 2019 valuation. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2019, over the three years to 31 March 2023 was estimated to be as follows:

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	2.8%	3.1%	3.5%
Equivalent to total monetary amounts of	£24.93m	£28.68m	£33.57m

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period. Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in the triennial valuation report.

## Assumptions

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

### Financial assumptions

Market date	31 March 2019
CPI inflation	2.6% p.a.
Long-term salary increases	3.6% p.a.
Discount rate	4.7% p.a.

### Demographic assumptions

Post-retirement mortality	Male/Female
Member base tables	S3PA
Member mortality multiplier (Male/Female)	110%/115%
Dependant base tables (Male/Female)	S3DA
Dependant mortality multiplier (Male/Female)	95%
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.5
Initial addition to improvements	0.5% p.a.

The mortality assumptions translate to life expectancies as follows:

**Assumed life expectancies at age 65:**

Average life expectancy for current pensioners – men currently age 65	21.7 years
Average life expectancy for current pensioners – women currently age 65	23.7 years
Average life expectancy for future pensioners – men currently age 45	23.1 years
Average life expectancy for future pensioners – women currently age 45	25.1 years

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

## Updated position since the 2019 valuation

### Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were slightly more than where they were projected to be based on the previous valuation.

### Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

Please note that we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

### Overall position

On balance, we estimate that the funding position has weakened slightly when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. Deficit contributions would also be slightly higher as a result of the worsening in the funding position.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also continued uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

**Graeme D Muir, FFA**  
Partner, Barnett Waddingham

# 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 8 October 2020 on behalf of Kent County Council and have been re-signed as authorisation to issue.

**Councillor David Brazier**  
**Chairman of the Governance and Audit Committee**  
**27 November 2020**

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

The Corporate Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2020.

**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 Council at the reporting date and its income and expenditure for the year ended 31 March 2020.

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

**Zena Cooke**  
**Corporate Director of Finance**  
**27 November 2020**

## Pension Fund Accounts

The following financial statements are included in the Kent County Council Superannuation Fund's Annual Report and Accounts 2021 available from the Fund's website at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk).

### Fund Account for the year ended 31 March

	Notes	2020-21 £'000	2019-20 £'000
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	7	267,955	250,263
Transfers in from other pension funds	8	5,017	9,328
		<b>272,972</b>	259,591
Benefits	9	(247,448)	(243,832)
Payments to and on account of leavers	10	(10,057)	(12,708)
		<b>(257,505)</b>	(256,540)
<b>Net additions from dealings with Members</b>		<b>15,467</b>	3,051
Management Expenses	11	(27,277)	(25,606)
<b>Net additions/withdrawals including fund management expenses</b>		<b>(11,810)</b>	(22,555)
<b>Returns on Investments</b>			
Investment Income	13	111,339	135,344
Taxes on Income		(93)	(380)
Profits and losses on disposal of investments and changes in the market value of investments	15a	1,697,318	(613,700)
<b>Net Return on Investments</b>		<b>1,808,564</b>	(478,736)
<b>Net increase/(decrease) in the Net Assets available for benefits during the year</b>		<b>1,796,754</b>	(501,291)

### Net Assets Statement as at 31 March

	Notes	2020-21 £'000	2019-20 £'000
Investment Assets		7,511,024	5,720,555
Investment Liabilities		(6,848)	(17,405)
<b>Net Investment Assets</b>	15	<b>7,504,176</b>	5,703,150
Current Assets	21	34,422	34,625
Current Liabilities	22	(24,966)	(20,897)
<b>Net Assets available to fund benefits at the period end</b>		<b>7,513,632</b>	5,716,878

# 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 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 Admission Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admission 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 310 employers actively participating in the Fund and the profile of members is as detailed below:

	Kent County Council	Kent County Council	Other Employers	Other Employers	Total	Total
	31 Mar 2021	31 Mar 2020	31 Mar 2021	31 Mar 2020	31 Mar 2021	31 Mar 2020
Contributors	21,510	20,986	31,215	30,699	52,725	51,685
Pensioners	22,959	22,372	21,879	21,069	44,838	43,441
Deferred Pensioners	24,077	24,316	23,320	23,090	47,397	47,406
<b>Total</b>	<b>68,546</b>	<b>67,674</b>	<b>76,414</b>	<b>74,858</b>	<b>144,960</b>	<b>142,532</b>

### Funding

Benefits are funded by contributions and investment earnings. The 2019 triennial valuation certified a common contribution rate of 18.4% of pensionable pay to be paid by each employer participating in the Kent Pension Fund for 2020-21. 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 2020-21 financial year and its position at 31 March 2021.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 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, distributions, 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. Where 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. Direct property related income mainly comprises of rental income which is recognised when it becomes due. Rental income is adjusted for provision for rent invoiced but collection of which is assessed as doubtful.

### 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 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. Debtors are adjusted for provision made for doubtful debts relating to rent income.

#### 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 2020. 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 2021.

#### 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 2020 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019. 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 member of the ACCESS pool, 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 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.

Market movements since the outbreak of Covid-19 have seen significant volatility in gilt yields and equity values. As per the actuary, the Fund's funding model is designed to withstand short-term volatility in markets as we use smoothed assumptions over a six-month period with the ultimate aim of setting stable contributions for employers. Therefore, the model helps to mitigate some of the impact of the extreme events.

## 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 £236m. A 0.1% increase in assumed earning inflation would increase the value of liabilities by approx. £22m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £519m.
Private Equity and Infrastructure and other level 3 investments (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 and other level 3 investments on the financial statements are £282m. 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 affect of 10% variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property and property pooled funds of £78m on a fair value of £775m.

### 6. Events after the Balance Sheet date

There have been no events since 31 March 2021, up to the date when these accounts were authorised, that require or do not require any adjustment to these accounts.

### 7. Contributions Receivable

	2020-21 £'000	2019-20 £'000
<b>By Category</b>		
Employees' contributions	59,348	56,324
Employers' contributions		
– normal contributions	172,479	134,662
– deficit recovery contributions	32,533	53,952
– augmentation contributions	3,595	5,325
Total Employers' contributions	208,607	193,939
<b>Total contributions receivable</b>	<b>267,955</b>	<b>250,263</b>
<b>By type of employer</b>		
Kent County Council	98,024	94,300
Scheduled Bodies	151,255	141,689
Admitted Bodies	18,676	14,274
<b>Total</b>	<b>267,955</b>	<b>250,263</b>

## 8. Transfers in from other pension funds

	2020-21 £'000	2019-20 £'000
Individual	5,017	9,328
Group	0	0
<b>Total</b>	<b>5,017</b>	<b>9,328</b>

## 9. Benefits Payable

	2020-21 £'000	2019-20 £'000
<b>By Category</b>		
Pensions	210,886	203,810
Retirement Commutation and lump sum benefits	30,202	34,195
Death benefits	6,360	5,827
<b>Total</b>	<b>247,448</b>	<b>243,832</b>
<b>By type of employer</b>		
Kent County Council	112,653	109,643
Scheduled Bodies	119,813	119,218
Admitted Bodies	14,982	14,971
<b>Total</b>	<b>247,448</b>	<b>243,832</b>

## 10. Payments to and on account of leavers

	2020-21 £'000	2019-20 £'000
Group transfers	8,736	11,087
Individual transfers	0	0
Payments/refunds for members joining state scheme	0	-95
Refunds of contributions	1,321	1,716
<b>Total</b>	<b>10,057</b>	<b>12,708</b>

## 11. Management Expenses

	Notes	2020-21 £'000	2019-20 £'000
Administration costs		3,361	3,545
Governance and oversight costs		820	764
Investment management expenses	12	22,973	21,163
Audit fees		41	60
Pooling expenses		82	74
<b>Total</b>		<b>27,277</b>	<b>25,606</b>

The Audit fee for 2019-20 included £23k for charges for assurance letters to scheduled bodies in relation to 2019 and 2020 audits. For 2020-21, the cost of assurance letters will be recovered from the scheduled bodies and is not shown as a cost for the Fund.

## Notes to the Pension Fund Accounts continued

## 12. Investment Management Expenses

	2020-21 £'000	2019-20 £'000
Investment managers' fees	22,207	20,415
Transaction costs	710	709
Custody fees	56	39
<b>Total</b>	<b>22,973</b>	<b>21,163</b>

The management fees disclosed above include all investment management fees directly incurred by the fund including 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. These indirect costs are not separately provided to the Pension Fund.

## 13. Summary of Income from Investments

	Notes	2020-21		2019-2020	
		£'000	%	£'000	%
Bonds		15,279	13.8	17,132	12.7
Equities		4,277	3.9	5,421	4.0
Pooled Investments		68,023	61.1	85,335	63.1
Private Equity / Infrastructure		9,879	8.9	4,644	3.4
Property	14	8,228	7.4	15,488	11.4
Pooled Property Investments		5,465	4.9	6,010	4.4
Cash and cash equivalents		155	0.0	1,273	0.9
Stock Lending		33	0.0	42	0.0
<b>Total</b>		<b>111,339</b>	<b>100.0</b>	<b>135,344</b>	<b>100.0</b>

During the year because of the pandemic the Fund experienced lower levels of income and distributions across most asset classes compared to the previous year.

## 14. Property Income and Expenditure

	2020-21 £'000	2019-20 £'000
Rental Income from Investment Properties	12,427	21,697
Direct Operating Expenses	(4,199)	(6,209)
<b>Net operating income from Property</b>	<b>8,228</b>	<b>15,488</b>

Rental income for 2020-21 is net of provision for doubtful debts of £6.3m.

## 15. Investments

	Market Value as at 31 March 2021 £'000	Market Value as at 31 March 2020 £'000
<b>Investment Assets</b>		
Bonds	401,001	339,055
Equities	348,033	236,536
Pooled Investments	5,343,724	4,028,527
Private Equity/Infrastructure	274,023	189,864
Property	493,314	478,104
Pooled Property Investments	281,718	287,008
Derivatives – Forward Currency contracts	962	0
Investment Cash and cash equivalents	201,228	131,959
Cash held with fund managers pending issue of units	150,000	0
Investment Income due	15,996	11,975
Amounts receivable for sales	0	724
Margin cash	1,025	16,803
<b>Total Investment Assets</b>	<b>7,511,024</b>	<b>5,720,555</b>
<b>Investment Liabilities</b>		
Amounts payable for purchases	(561)	(324)
Margin cash liability	0	0
Provision for Doubtful Debts	(6,287)	0
Derivatives – Forward Currency contracts	0	(17,081)
<b>Total Investment Liabilities</b>	<b>(6,848)</b>	<b>(17,405)</b>
<b>Net Investment Assets</b>	<b>7,504,176</b>	<b>5,703,150</b>

Investment income due (debtors) includes a sum of £9.4m for rents and service charges payable by tenants of properties owned by the Pension Fund. In the pandemic, rent collection has been significantly impacted and there is a high likelihood that a significant portion will not be fully recovered. A provision of £6.3m has therefore been made for doubtful rent debts. In the previous year, the doubtful debts were estimated at £1.82m but no provision was made.

## Notes to the Pension Fund Accounts continued

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

	Market Value as at 31 March 2020 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value as at 31 March 2021 £'000
Bonds	339,054	134,314	(73,777)	1,410	<b>401,001</b>
Equities	236,536	155,000	(146,114)	102,611	<b>348,033</b>
Pooled Investments	4,028,528	1,147,986	(1,344,347)	1,511,557	<b>5,343,724</b>
Private Equity/Infrastructure	189,864	72,544	(29,734)	41,349	<b>274,023</b>
Property	478,105	0	0	15,209	<b>493,314</b>
Pooled Property Investments	287,008	2,007	(1,503)	-5,794	<b>281,718</b>
	5,559,095	1,511,851	(1,595,475)	1,666,342	<b>7,141,813</b>
Derivative contracts					
– Forward Currency contracts	(17,082)	3,512,898	(3,526,105)	31,251	<b>962</b>
	<b>5,542,013</b>	<b>5,024,749</b>	<b>(5,121,580)</b>	<b>1,697,593</b>	<b>7,142,775</b>
Other Investment balances					
– Investment Cash and cash equivalents	131,959	0	0	(275)	<b>201,228</b>
– Cash pending issue of units	0	0	0	0	<b>150,000</b>
– Amounts receivable for sales	724	0	0	0	<b>0</b>
– Amounts payable for purchases	(324)	0	0	0	<b>(561)</b>
– Margin cash liability	16,803	0	0	0	<b>1,025</b>
– Investment Income due	11,975	0	0	0	<b>15,996</b>
– Provision for doubtful debt	0	0	0	0	<b>(6,287)</b>
<b>Net Investment Assets</b>	<b>5,703,150</b>	<b>0</b>	<b>0</b>	<b>1,697,318</b>	<b>7,504,176</b>

	Market Value as at 31 March 18 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value as at 31 March 2019 £'000
Bonds	363,728	73,391	(86,027)	(12,038)	<b>339,054</b>
Equities	249,994	82,835	(83,716)	(12,577)	<b>236,536</b>
Pooled Investments	4,601,708	408,148	(418,777)	(562,551)	<b>4,028,528</b>
Private Equity/Infrastructure	150,015	59,487	(27,272)	7,634	<b>189,864</b>
Property	487,193	1,844	(4,710)	(6,222)	<b>478,105</b>
Pooled Property Investments	257,690	39,191	(2,696)	(7,177)	<b>287,008</b>
	6,110,328	664,896	(623,198)	(592,931)	<b>5,559,095</b>
Derivative contracts					
– Forward Currency contracts	3,122	3,438,138	(3,436,691)	(21,651)	<b>(17,082)</b>
	<b>6,113,450</b>	<b>4,103,034</b>	<b>(4,059,889)</b>	<b>(614,582)</b>	<b>5,542,013</b>
Other Investment balances					
– Investment Cash and cash equivalents	80,526	0	0	882	<b>131,959</b>
– Cash pending issue of units	0	0	0	0	<b>0</b>
– Amounts receivable for sales	0	0	0	0	<b>724</b>
– Amounts payable for purchases	(1,373)	0	0	0	<b>(324)</b>
– Margin cash liability	(4,533)	0	0	0	<b>16,803</b>
– Investment Income due	17,028	0	0	0	<b>11,975</b>
– Provision for doubtful debt	0	0	0	0	<b>0</b>
<b>Net Investment Assets</b>	<b>6,205,098</b>	<b>0</b>	<b>0</b>	<b>(613,700)</b>	<b>5,703,150</b>

## 15b. 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	GBP	1,037	USD	(1,427)	2	
Up to one month	GBP	25	EUR	(29)	0	
Up to one month	GBP	55	EUR	(65)	0	
Up to one month	GBP	249	USD	(343)	1	
Up to one month	GBP	60,119	EUR	(67,427)	2,675	
Up to one month	GBP	2,974	EUR	(3,356)	115	
Up to one month	GBP	952	EUR	(1,084)	28	
Up to one month	GBP	1,790	EUR	(2,063)	33	
Up to one month	GBP	821	EUR	(948)	13	
Up to one month	GBP	798	EUR	(925)	10	
Up to one month	GBP	540	EUR	(625)	7	
Up to one month	GBP	387	EUR	(452)	2	
Up to two months	GBP	267,202	USD	(371,334)		(1,900)
Up to two months	USD	4,153	GBP	(2,975)	35	
Up to two months	GBP	3,184	USD	(4,407)		(10)
Up to two months	GBP	2,378	USD	(3,302)		(15)
Up to two months	GBP	3,820	USD	(5,312)		(29)
Up to two months	GBP	1,184	USD	(1,634)		0
Up to two months	USD	1,427	GBP	(1,037)		(2)
Up to two months	USD	343	GBP	(249)		(1)
					2,921	(1,957)
<b>Net forward currency contracts at 31 March 2021</b>						<b>964</b>
Prior year comparative						
Open forward currency contracts at 31 March 2020					816	(17,896)
<b>Net forward currency contracts at 31 March 2020</b>						<b>(17,080)</b>

## 15c. Property Holdings

	Year ending 31 March 2021 £'000	Year ending 31 March 2020 £'000
<b>Opening Balance</b>	<b>478,105</b>	487,193
Additions	0	1,844
Disposals	0	(4,710)
Net increase/decrease in market value	<b>15,209</b>	(6,222)
<b>Closing Balance</b>	<b>493,314</b>	478,105

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.

## Notes to the Pension Fund Accounts continued

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

	Year ending 31 March 2021 £'000	Year ending 31 March 2020 £'000
Within one year	16,161	18,228
Between one and five years	36,708	42,150
Later than five years	33,610	33,885
<b>Total</b>	<b>86,479</b>	<b>94,263</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 the possibility of tenants taking advantage of break clauses in their contracts to terminate tenancies.

### 15d. Investments analysed by Fund Manager

	Market Value as at 31 March 2021	Market Value as at 31 March 2021	Market Value as at 31 March 2020	Market Value as at 31 March 2020
	£'000	%	£'000	%
<b>Investments managed by Link for the ACCESS Pool</b>				
Baillie Gifford	1,709,000	22.8	1,122,058	19.7
M&G	443,546	5.9	298,971	5.2
Ruffer	134,026	1.8	71,377	1.3
Schroders	1,384,541	18.5	770,263	13.5
	<b>3,671,113</b>	<b>49</b>	<b>2,262,669</b>	<b>40</b>
<b>Investments managed outside the ACCESS Pool</b>				
CQS	157,732	2.1	108,422	1.9
DTZ	538,729	7.2	529,174	9.3
Fidelity	133,795	1.8	130,671	2.3
Goldman Sachs	416,621	5.6	368,288	6.5
HarbourVest	149,608	2.0	94,199	1.8
Impax	70,886	0.9	43,028	0.8
Insight	610,989	8.1	0	0.0
Kames	43,566	0.6	47,176	0.8
Kent County Council Investment Team	336,574	4.5	98,019	1.7
M&G	227,169	3.0	185,344	3.2
Partners Group	77,133	1.0	60,157	1.1
BMO (Pyrford)	407,083	5.4	415,074	7.3
Sarasin	352,812	4.7	246,207	4.3
Schroders	254,982	3.4	466,119	8.2
UBS	0	0.0	577,391	10.1
YFM	47,282	0.6	35,508	0.6
Link Fund Solutions (previously Woodford)	8,102	0.1	35,704	0.6
	<b>3,833,063</b>	<b>51</b>	<b>3,440,481</b>	<b>60</b>
<b>Total</b>	<b>7,504,176</b>	<b>100</b>	<b>5,703,150</b>	<b>100</b>

All the external fund managers above are registered in the United Kingdom. Movements during the year include:

- Assets in the GAV fund managed by Schroders were transitioned in to the ACCESS pool
- Appointed Insight as manager to implement an equity protection programme
- Complete sale of units in the UBS tracker funds to fund the equity protection programme
- Redemption of £200m of units in fund managed by Baillie Gifford
- Reallocation of £45m from Pyrford to Ruffer absolute return funds
- Investment of £20m each in M&G Alpha Opportunity and CQS Funds

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

Investments	31 March 2021	
	£'000	% of net assets
LF ACCESS Global Equity Core Fund	1,709,000	22.8
LF ACCESS UK Equity Fund	1,031,581	13.8
LDI Solutions Plus ICAV Active (Insight)	610,989	8.2
LF ACCESS Global Dividend Fund	443,546	5.9
BMO Investments Ireland (Plc) Global Total Return Fund	407,083	5.4

Investments	31 March 2020	
	£'000	% of net assets
LF ACCESS Global Equity Core Fund	1,122,058	19.7
LF ACCESS UK Equity Fund	770,263	13.5
BMO Investments Ireland (Plc) Global Total Return Fund	415,074	7.3
LF ACCESS Global Dividend Fund	298,971	5.2
UBS Life UK Equity Tracker Fund	289,255	5.1

### 15f. 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 2021		31 March 2020		Collateral Type
	Market Value £'000	Collateral Value £'000	Market Value £'000	Collateral Value £'000	
Equities	8,099	8,458	12,842	13,377	Treasury Notes and other Government debt
Bonds	11,004	11,492	7,761	8,084	Treasury Notes and other Government debt
<b>Total</b>	<b>19,103</b>	<b>19,950</b>	<b>20,603</b>	<b>21,461</b>	

## Notes to the Pension Fund Accounts continued

## 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 2021			31 March 2020		
	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	401,001			339,054		
Equities	348,033			236,536		
Pooled Investments	5,343,724			4,028,528		
Property Pooled Investments	281,718			287,008		
Private Equity/Infrastructure	274,023			189,864		
Derivative contracts	962			0		
Cash & Cash equivalents	191,737	159,491		123,138	11,889	
Other Investment Balances		17,021			29,502	
Debtors/ Receivables		34,422			31,557	
	<b>6,841,198</b>	<b>210,934</b>	<b>0</b>	<b>5,204,128</b>	<b>72,948</b>	<b>0</b>
<b>Financial Liabilities</b>						
Derivative contracts				(17,081)		
Other Investment balances			(6,848)			(324)
Creditors			(24,966)			(20,897)
	<b>0</b>	<b>0</b>	<b>(31,814)</b>	<b>(17,081)</b>	<b>0</b>	<b>(21,221)</b>
<b>Total</b>	<b>6,841,198</b>	<b>210,934</b>	<b>(31,814)</b>	<b>5,187,047</b>	<b>72,948</b>	<b>(21,221)</b>

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

	31 March 2021 £'000	31 March 2020 £'000
Fair value through profit and loss	1,682,384	(608,360)
Assets at amortised cost	(275)	882
<b>Total</b>	<b>1,682,109</b>	<b>(607,478)</b>

## 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.

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 including pooled property	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
Quoted Funds in administration	3	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values/or if the fund holds illiquid assets, valuation of underlying investment/assets/companies/EBITDA multiples	If the fund holds illiquid assets, estimation techniques used in valuations, changes in market conditions, industry specific conditions
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
Bespoke fund for equity protection programme assets	2	Net Asset value of Fund based on valuation of underlying assets with quoted prices for bond holdings and market prices for derivatives	Wide range of deals executed in the bond holdings but limited comparable transactions for specialist equity derivatives	Valuation of derivatives is affected by the equity and foreign exchange market conditions

### 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 2021.

## Notes to the Pension Fund Accounts continued

	Assessed valuation range (+/-)	Value as at 31 March 2021 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	23.3%	196,890	242,765	151,015
Infrastructure	19.0%	77,133	91,788	62,478
Other Level 3 investments	23.3%	8,101	9,989	6,213
<b>Total</b>		<b>282,124</b>	<b>344,542</b>	<b>219,706</b>

	Assessed valuation range (+/-)	Value as at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	23.3%	129,707	163,690	95,724
Infrastructure	19.0%	60,157	77,362	42,952
Other Level 3 investments	23.3%	35,704	45,058	26,350
<b>Total</b>		<b>225,568</b>	<b>286,111</b>	<b>165,025</b>

**17a. Fair Value Hierarchy****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 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 assets also include investments in quoted funds that were in administration as at 31 March 2021 and are invested in illiquid underlying assets.

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 2021</b>				
<b>Financial assets at fair value through profit and loss</b>				
Bonds	401,002			401,002
Equities	348,033			348,033
Pooled investments	732,934	4,602,688	8,101	5,343,723
Pooled property investments		281,717		281,717
Private equity and infrastructure			274,023	274,023
Derivatives		963		963
Cash Deposits	351,228			351,228
Other Investment balances	17,021			17,021
<b>Non-Financial assets at fair value through profit and loss</b>				
Property		493,314		493,314
<b>Financial liabilities at fair value through profit and loss</b>				
Derivatives	0			0
Other investment liabilities	(6,848)			(6,848)
<b>Net Investment Assets</b>	<b>1,843,370</b>	<b>5,378,682</b>	<b>282,124</b>	<b>7,504,176</b>
<b>Values at 31 March 2020</b>				
<b>Financial assets at fair value through profit and loss</b>				
Bonds	339,054			339,054
Equities	236,536			236,536
Pooled investments	1,285,589	2,707,234	35,704	4,028,527
Pooled property investments		287,008		287,008
Private equity and infrastructure			189,864	189,864
Derivatives				0
Cash Deposits	151,830			151,830
Other Investment balances	9,631			9,631
<b>Non-Financial assets at fair value through profit and loss</b>				
Property		478,104		478,104
<b>Financial liabilities at fair value through profit and loss</b>				
Derivatives		(17,081)		(17,081)
Other investment liabilities		(324)		(324)
<b>Net Investment Assets</b>	<b>2,022,640</b>	<b>3,454,941</b>	<b>225,568</b>	<b>5,703,149</b>

## Notes to the Pension Fund Accounts continued

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

	£'000
Market Value 1 April 2020	225,568
Transfers into level 3	0
Transfers out of level 3	0
Purchases during the year	72,544
Sales during the year	(48,156)
Unrealised gains/ losses	32,168
Realised gains/losses	0
<b>Market Value 31 March 2021</b>	<b>282,124</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 2020-21 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	16.2
Overseas Equities	15.7
Global Pooled Equities inc UK	15.4
Bonds	4.5
Property	9.2
Infrastructure	19
Private Equity	23.3

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 2021 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	<b>351,228</b>	<b>0.00</b>	<b>351,228</b>	<b>351,228</b>
<b>Investment portfolio assets:</b>				
UK Equities	29,621	16.20	34,420	24,822
Overseas Equities	318,412	15.70	368,403	268,421
Global Pooled Equities inc UK	4,768,171	15.40	5,502,469	4,033,873
Bonds incl Bond Funds	976,553	4.50	1,020,498	932,608
Property Pooled Funds	281,718	9.20	307,636	255,800
Private Equity	196,890	23.30	242,765	151,015
Infrastructure Funds	77,133	19.00	91,788	62,478
Derivative assets	962	0.00	962	962
<b>Total</b>	<b>7,000,688</b>		<b>7,920,169</b>	<b>6,081,207</b>

During the year the Fund has implemented an equities downside protection programme which will protect the fund from falls between 10-40% in global equity markets and will cap the returns to the actuary's expected return objective of 6.5% for equities over the full valuation cycle. The current programme will run until March 2023.

Asset Type	Value as at 31 March 2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Cash and cash equivalents</b>	<b>135,027</b>	<b>0.00</b>	<b>135,027</b>	<b>135,027</b>
<b>Investment portfolio assets:</b>				
UK Equities	29,239	16.20	33,976	24,502
Overseas Equities	207,298	15.70	239,844	174,752
Global Pooled Equities inc UK	3,583,961	15.40	4,135,891	3,032,031
Bonds incl Bond Funds	783,621	4.50	818,884	748,358
Property Pooled Funds	287,008	9.20	313,413	260,603
Private Equity	129,707	23.30	159,929	99,485
Infrastructure Funds	60,157	19.00	71,587	48,727
Derivative assets	(17,081)	0.00	(17,081)	(17,081)
<b>Total</b>	<b>5,198,937</b>		<b>5,891,469</b>	<b>4,506,405</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 2021 and 31 March 2020 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2021 £'000	31 March 2020 £'000
Cash and cash equivalents	351,228	131,959
Cash Balances	4,596	3,068
Bonds		
– Directly held securities	401,001	339,055
– Pooled Funds	575,551	444,566
<b>Total</b>	<b>1,332,376</b>	<b>918,648</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 2021 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	(1%) £'000
Cash and cash equivalents	351,228	0	0
Cash Balances	4,596	0	0
Bonds			
– Directly held securities	401,001	(4,010)	4,010
– Pooled Funds	575,551	(5,756)	5,756
<b>Total change in assets available</b>	<b>1,332,376</b>	<b>(9,766)</b>	<b>9,766</b>

Asset Type	Carrying amount as at 31 March 2020 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	(1%) £'000
Cash and cash equivalents	131,959	0	0
Cash Balances	3,068	0	0
Bonds			
– Directly held securities	339,055	(3,391)	3,391
– Pooled Funds	444,566	(4,446)	4,446
<b>Total change in assets available</b>	<b>918,648</b>	<b>(7,836)</b>	<b>7,836</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 and the Fund is exposed to currency risk on these financial instruments. However, a significant proportion of the investments managed by Goldman Sachs Asset Management and all investments in the CQS Fund are 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 2021 and 2020:

Currency exposure – asset type	Asset value 31 March 2021 £'000	Asset value 31 March 2020 £'000
Overseas Equities	318,412	207,298
Overseas Pooled Funds	3,891,344	2,623,144
Overseas Bonds	0	0
Overseas Private Equity, Infrastructure and Property funds	226,885	154,618
Non GBP Cash	9,981	9,123
<b>Total overseas assets</b>	<b>4,446,622</b>	<b>2,994,183</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 2020-21 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:

Asset Type	Asset value as at 31 March 2021	Change to net assets available to pay benefits	
	£'000	+6.8% £'000	(6.8%) £'000
Overseas Equities	318,412	340,064	296,760
Overseas Pooled Funds	3,891,344	4,155,955	3,626,732
Overseas Bonds	0	0	0
Overseas Private Equity, Infrastructure and Property funds	226,885	242,313	211,457
Non GBP Cash	9,981	10,660	9,302
<b>Total change in assets available</b>	<b>4,446,622</b>	<b>4,748,992</b>	<b>4,144,251</b>

Asset Type	Asset value as at 31 March 2020	Change to net assets available to pay benefits	
	£'000	+6.8% £'000	(6.8%) £'000
Overseas Equities	207,298	221,394	193,202
Overseas Pooled Funds	2,623,144	2,801,518	2,444,770
Overseas Bonds	0	0	0
Overseas Private Equity, Infrastructure and Property funds	154,618	165,132	144,104
Non GBP Cash	9,123	9,743	8,503
<b>Total change in assets available</b>	<b>2,994,183</b>	<b>3,197,787</b>	<b>2,790,579</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 2021 £'000	Balance as at 31 March 2020 £'000
<b>Money Market Funds</b>			
Northern Trust Sterling Fund	AAAm	8,004	9,002
SSGA Liquidity Fund	AAAm	0	2
Blackrock ICS	AAAm	7	65
Blackrock USD Government Liquidity Fund	AAAm	3,417	17
Aberdeen Sterling Liquidity Fund	AAAm	74,998	18,619
Goldman Sachs Liquid Reserve Government Fund	AAAm	2,358	17,523
Aviva Investors Sterling Liquidity Fund	AAAm	49,994	42,348
Federated (PR) Short-term GBP Prime Fund	AAAm	9,998	10,001
Deutsche Managed Sterling Fund	AAAm	1,184	9,294
HSBC Global Liquidity Fund	AAAm	2	5,963
LGIM Liquidity Fund	AAAm	41,775	7,161
Insight Sterling Liquidity Fund	AAAm	0	3,143
		<b>191,737</b>	<b>123,138</b>
<b>Bank Deposit Accounts</b>			
NatWest SIBA	BBB+	4,627	0
		<b>4,627</b>	<b>0</b>
<b>Bank Current Accounts</b>			
NatWest Current Account	BBB+	50	30
NatWest Current Account – Euro	BBB+	814	39
NatWest Current Account – USD	BBB+	468	0
Northern Trust – Current Accounts	AA-	6,694	9,767
Barclays – DTZ client monies account	A*+	1,433	2,053
		<b>9,459</b>	<b>11,889</b>
			0
<b>Cash with fund managers</b>	n/a	<b>150,000</b>	<b>0</b>
<b>Total cash and cash equivalents</b>		<b>355,823</b>	<b>135,027</b>

Cash held with fund managers comprises of application money transferred to M&G and CQS for subscription of units in their credit funds. The units were subsequently acquired on 1 April 2021.

### 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 2021 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 2019.

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 2019 valuation a maximum deficit recovery period of 14 years (2016-17 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 2019 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £6,193m and the liabilities were £6,322m. The assets therefore, represented 98% (2016 - 89%) 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 20.9% to 21.1% of pensionable salaries in 2020-21 and to 21.2% in 2021-22 and 21.3% in 2022-23. 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 2019 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)	4.7% p.a.	
Rate of general pay increases:	Long term	3.6% p.a.
	Short term	N/A
Assumed pension increases	2.6% 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 2021 £m	31 March 2020 £m
<b>Actuarial present value of promised retirement benefits</b>		
Present value of promised retirement benefits	<b>(11,789.8)</b>	(9,099.7)
Fair value of scheme assets at bid value	<b>7,513.6</b>	5,716.9
Net liability	<b>(4,276.2)</b>	(3,382.8)

The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 63.7% 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 2019 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	3.85%
Inflation/Pensions increase rate	2.85%
Discount rate	2.00%

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 0.7% of the Fund's liabilities and these have been included in the total liabilities of the Fund.

### 21. Current Assets

	31 March 2021 £'000	31 March 2020 £'000
<b>Debtors</b>		
– Contributions due – Employees	4,067	4,160
– Contributions due – Employers	13,180	13,791
	17,247	17,951
Sundry Debtors	12,579	13,606
<b>Total Debtors</b>	<b>29,826</b>	31,557
<b>Cash</b>	<b>4,596</b>	3,068
<b>Total Current Assets</b>	<b>34,422</b>	34,625

### 22. Current Liabilities

	31 March 2021 £'000	31 March 2020 £'000
<b>Creditors</b>		
– Benefits Payable	14,178	12,039
– Sundry Creditors	10,788	8,858
<b>Total Current Liabilities</b>	<b>24,966</b>	20,897

### 23. Additional Voluntary Contributions

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.

	<b>Prudential</b>	Prudential	<b>Standard Life</b>	Standard Life	<b>Utmost Life</b>	Equitable Life
	<b>2020-2021</b>	2019-2020	<b>2020-2021</b>	2019-2020	<b>2020-2021</b>	2019-2020
	<b>£'000</b>	£'000	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Value at 1 April	<b>8,636</b>	8,636	<b>1,736</b>	2,017	<b>423</b>	424
Value at 31 March	<b>8,416</b>	8,416	<b>2,032</b>	1,736	<b>404</b>	423
Contributions paid	<b>1,305</b>	1,305	<b>108</b>	114	<b>1</b>	1

Investments with Equitable Life were transferred to Utmost Life and Pensions following a transfer of business by Equitable life in 2019-20. Prudential has been unable to provide us with updated figures for 2020-21 therefore figures for the year remain unchanged.

### 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.

	<b>2020-2021</b>	2019-2020
	<b>£'000</b>	£'000
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	<b>75,522</b>	71,025
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		
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	<b>3,797</b>	3,892
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	<b>(6,089)</b>	(823)

The year end credit balance due to KCC mainly comprises of recharges and of VAT payable to KCC. The large variance from the previous year is due to timing difference of the payments made.

#### Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2020-21 was the Director of Finance. Total remuneration payable to key management personnel is set out below:

	<b>31 March 2021</b>	31 March 2020
	<b>£'000</b>	£'000
Salary	<b>147</b>	137
Allowances	<b>7</b>	4
Other	<b>1</b>	0
Employer's pension contributions	<b>33</b>	39
<b>Total</b>	<b>188</b>	180

### 25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2021 totalled £514.92m (31 March 2020: £564.4m)

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

44 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 one mandate 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	1,709,000
Schroders	UK Equities	1,031,581
Schroders	Global Equity	352,961
M&G	Global Equities	443,546
Ruffer	Absolute Return	134,025
<b>Total Pooled</b>		<b>3,671,113</b>
<b>Non-Pooled</b>		
<b>Fund Manager</b>	<b>Asset Class</b>	<b>£'000</b>
Baillie Gifford	Global Equities	571
Schroders	Fixed Income	254,983
DTZ	Property	538,728
Goldman Sachs	Fixed Interest	416,621
Woodford	UK Equities	8,102
BMO (Pryford)	Absolute Return	407,083
CQS	Fixed income	157,732
Sarasin	Global Equities	352,812
Fidelity	Pooled Property	133,795
Kames	Pooled Property	43,566
Impax	Global Equities	70,886
Insight	Equity Protection	610,988
Partners Group	Infrastructure	77,133
Harbourvest	Private Equity	149,608
M&G	Pooled Property	64,314
M&G AO	Fixed Income	162,854
YFM	Private Equity	47,282
Kent County Council Investment Team	Cash	336,003
<b>Total Non-Pooled</b>		<b>3,833,061</b>
<b>Grand Total</b>		<b>7,504,174</b>

For 2020-21 the ongoing costs of the investments broken down between pooled and non-pooled assets are detailed below:

<b>Pool Set up Costs</b>	<b>2020-2021 £'000</b>	<b>Cumulative £'000</b>	<b>ACCESS</b>
Strategic & Technical Advice	0	56	614
Legal	0	37	409
Project Management	0	53	588
ACCESS Support Unit	0	0	3
Other	0	19	210
<b>Total</b>	<b>0</b>	<b>166</b>	<b>1,824</b>
<b>Transition costs</b>		<b>363</b>	

The Pooled ACS was operational in 2017-18 and all set up costs were incurred prior to that, so no costs attributable to set up for 2020-21.

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:

	2016-2017 £'000	2017-2018 £'000	2018-2019 £'000	2019-2020 £'000	2020-2021 £'000	Cumulative £'000
Set up costs	6	6	80	80	-	166
Pooling ongoing costs				137	87	306
Transition costs	-	-		363	-	608
Fee savings	26	242	776	1,436	1,596	7,992
Net savings	32	162	696	936	1,509	6,913

Of the above total savings of £6.913m, £2.67m relates to investments awaiting pooling.

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. Compared to 2015, the Fund's investment management fees was higher by £1.3m. Of this the increase attributable to the growth in Fund value was £5.3m. However, with fees negotiations and pooling the Fund achieved a saving of £4.7m during this period.

For 2020-21, 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		
	Direct £'000	Indirect £'000	Total £'000	Direct £'000	Indirect £'000	Total £'000
FM Fees	48.50	8,540.81	8,589.30	5,250.19	8,733.43	22,572.92
Pool shared (ASU)	82.16	-	82.16	0	0	82.16
Transaction costs	0	1,985.95	1,985.95	709.73	2,017.21	4,712.90
Custody			-	56.46		56.46
Other – pooled fund costs		327.68	327.68		1,455.85	1,783.54
<b>Total</b>	<b>130.66</b>	<b>10,854.44</b>	<b>10,985.10</b>	<b>6,016.38</b>	<b>12,206.50</b>	<b>29,207.97</b>

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	770	13.5	1,032	13.7	33.93	24.32
Global Equity	1,421	24.9	2,506	33.4	73.29	38.94
Absolute Return	71	1.3	134	1.3	25.03	6.48
<b>Total Pooled Assets</b>	<b>2,263</b>	<b>39.7</b>	<b>3,671</b>	<b>48.9</b>	<b>N/A</b>	<b>N/A</b>
<b>Under Pooled Governance</b>						
UK Passive Equity	275	4.8	-	0.0		
Global Passive Equity	302	5.3	-	0.0		
<b>Total Under Pooled Governance</b>	<b>577.4</b>	<b>10.1</b>	<b>-</b>	<b>-</b>		
<b>Assets Outside of the ACCESS Pool</b>						
UK Equity	36	0.6	8	0.1	(43.7)	26.7
Global Equity	539	9.5	424	5.7	39.7	39.0
Equity Protection	-	-	611	8.1		
Property	772	13.5	780	10.4	3.4	2.8
Infrastructure	60	1.1	77	1.0	(4.3)	(0.1)
Private Equity	130	2.3	197	2.6	35.2	(0.1)
Cash	97	1.7	336	4.5	0.1	(0.1)
Absolute Return	415	7.3	407	5.4	8.9	6.5
Fixed Income	813	14.3	992	13.2	16.7	2.9
<b>Total Non-Pooled Assets</b>	<b>2,862</b>	<b>50.2</b>	<b>3,833</b>	<b>51.1</b>	<b>N/A</b>	<b>N/A</b>
<b>Grand Total</b>	<b>5,702</b>	<b>100.0</b>	<b>7,504</b>	<b>100.0</b>	<b>31.52</b>	<b>18.93</b>

## Independent Auditor's report

### Independent auditor's report to the members of Kent County Council on the consistency of the pension fund financial statements of the pension fund 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 2020 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 2020 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 2019/20 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 November 27th 2020.

That report also includes an Emphasis of Matter – effects of COVID-19 on the valuation of property investments and pooled property investments section that draws attention to Note 5 in the audited pension fund financial statements, which is replicated in Note 5 of the pension fund financial statements. Note 5 describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. Note 5 indicates that since the outbreak of COVID-19, as at the valuation date, valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. As stated in our report dated 27th November 2020, our opinion is not modified in respect of this matter.

### Corporate Director of Finance's responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Corporate Director of Finance 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 2019/20.

#### 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  
27 November 2020



DRAFT

**Kent County Council  
Superannuation Fund  
Report and Accounts**

For the year ended 31 March 2021

# The Audit Findings Report for the Kent County Council Superannuation Fund

**Year ended 31 March 2021**

October 2021  
Page 57



# Contents



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## Section

1. Headlines
2. Financial statements
3. Independence and ethics

## Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion
- D. Management Letter of Representation

## Page

- 3
- 4
- 15
- 17
- 18
- 19
- 23

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. 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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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the Kent County Council Superannuation Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Page 59

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## Financial Statements

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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 remotely during June to September 2021. Our findings are summarised on pages 4 to 13. To date we have not identified any adjustments to the Pension Fund's reported financial position. We have identified some minor presentational issues which are documented 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 [Refer to Appendix D] or material changes to the financial statements, subject to the following outstanding matters;

- completion of our outstanding testing – refer to Page 4 for more details
- receipt of management representation letter {Refer to Appendix D}; and
- receipt and review of the Annual Report
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

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# 2. Financial Statements

## 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

No changes have been made to the approach set out in the Audit Plan issued on 23 April 2021.

## 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 Governance and Audit Committee meeting in November 2021, as detailed in Appendix C. These outstanding items include:

- completion of our outstanding testing in the following areas: Testing of the Fund's Direct Property
- completion of our internal review process
- receipt of management representation letter; and
- review of the final set of financial statements.

## 2. Financial Statements



### 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.

We have revised the performance materiality due to the Net Assets of the Fund changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for the Kent County Council Superannuation Fund.

### Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	75,000,000	Our Headline Materiality is based on the Net Assets of the Fund. Due to the considerable increase in the value from the prior year, we have revised this figure upwards ahead of the Final Accounts Audit.
Performance materiality	52,500,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	3,750,000	Triviality is based on a percentage of the overall materiality.



## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>During the audit, we have undertaken the following work:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>No issues have been identified from the testing performed in this area.</p>



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the Kent County Council Superannuation Fund.

During the audit, we have undertaken the following work:

- reviewed and tested the Fund's revenue recognition policies
- performed testing on material revenue streams

No issues have been identified from the testing performed in this area.

#### The expenditure cycle includes fraudulent transactions (rebutted)

Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets.

Having considered the risk factors relevant to the Pension Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 6.

During the audit, we have undertaken the following work:

- obtained an understanding of the design effectiveness of controls relating to operating expenditure.
- performed testing over post-year end transactions to assess completeness of expenditure recognition.
- tested a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year.

No issues have been identified from the testing performed in this area.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of Directly Held Property (Level 2 Investment) (Annual Revaluation)

The Fund revalues its directly held property on an annual basis, and indexed on a monthly basis with the relevant property sector index, to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at December 2020.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

During the audit, we have undertaken the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently request year-end confirmations from investment managers and custodian, and assessed their responses as part of our work.
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records
- where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls.

To date, our audit work has not identified any issues in respect of this risk. We will provide an update to Management and the Governance and Audit Committee should any issues be identified from our remaining testing.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Valuation of Level 3 Investments (Quarterly Revaluation)

The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Commentary

During the audit, we have undertaken the following work:

- evaluated management's processes for valuing Level 3 investments
- 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; to ensure that the requirements of the Code are met
- independently request year-end confirmations from investment managers and the custodian and consider the role played by the custodian in the asset valuations
- for a sample of 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 reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period; and
- in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's Asset Register
- where available, reviewed investment manager service auditor reports on design effectiveness of internal controls; and

To date, we have identified an error with the Capital Commitments disclosed in the draft Accounts, which were found to be **£63.6 million** higher than were initially disclosed. However as this is just shown as a disclosure note to the Accounts, this has no impact on the Fund Account or Net Asset Statement.

No other issues have been identified from the testing performed in this area.

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Level 2 Investments – Direct Property - £478m</b>	<p>The Pension Fund has investments in Direct Property that in total are valued on the Net Asset Statement as at 31 March 2021 at £478 million.</p> <p>These properties are valued by a RICS Qualified Valuer as at December 2020. The Valuer is employed by the Fund Manager on behalf of the Fund to provide valuations in line with the CIPFA Code of Practice guidance in this area.</p>	<p>At the current date our work in this area is ongoing, which includes our Auditor's Expert reviewing the work of the Valuer to help provide us with assurance over the assumptions and judgements made in respect of these valuations as at 31 March 2021.</p>	TBC
<b>Level 3 investments</b>	<p>The Pension Fund has investments in Private Equity and Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2021 at £282 million.</p> <p>These investments are not traded on an open exchange/market and the valuation of these investments is highly subjective due to a lack of observable inputs. In order to determine the values, management rely on the valuation provided by the Fund Manager, which are usually based on an audited value of the fund as at 31 December 2020, with the valuation then rolled forward to March 2021, considering any cash movements which have taken place in the intervening period. These are new investments for the Fund in 2020-21.</p>	<p>Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts.</p> <p>We have, on a sample basis, reviewed the basis on which the valuation of the Funds/Investments has been prepared, and where appropriate, considered the Audited Accounts of the Funds/Investments as well. No issues have been identified from the work performed in this area.</p>	 Light Purple

### Assessment

-  [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Level 2 Investments (excluding Direct Property) – £4,885 million</b>	<p>The Pension Fund have investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2021 at <b>£4,885 million</b>.</p> <p>Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments will be based on the value of these underlying investments at 31 March 2021, or the closest trade date to year end.</p> <p>The valuation of these investments has increased by <b>£1,908 million</b> from their value at 31 March 2020 (<b>£2,977 million</b>). Whilst there has been growth in the valuation as part of the recovery from the Pandemic, the Fund has also moved some of its Pooled Investments into Funds which are classified as Level 2 instead of the old Funds which were classified as Level 1.</p>	<ul style="list-style-type: none"> <li>Based on the work performed, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts.</li> <li>We have undertaken full triangulation of the closing valuations provided by the relevant Fund Managers to the values provided by the Fund's Custodian, and considered any significant variances identified from this work. No issues have been identified from the work performed in this area.</li> </ul>	 <p>Light Purple</p>

### Assessment

-  [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - 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.

Page 68

Issue	Commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Governance and 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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund, which is appended to this Report.

## 2. Financial Statements - other communication requirements



Issue	Commentary
<b>Confirmation requests from third parties</b>	<p>We requested from management permission to send confirmation requests to all of the Pension Fund's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</p> <p>We requested management to send letters to those solicitors who worked with the Pension Fund during the year. All responses have been received and no issues have been identified.</p>
<b>Accounting practices</b>	<p>We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p>
<b>Audit evidence and explanations/significant difficulties</b>	<p>The Fund produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management.</p>
<b>Disclosures</b>	<p>A handful of minor inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix D.</p>
<b>Matters on which we report by exception</b>	<p>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. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been produced. 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.</p>

## 2. Financial Statements - other communication requirements



### 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).

Page 70

Issue	Commentary
<b>Going concern</b>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Pension Fund and the environment in which it operates</li> <li>the Pension Fund’s financial reporting framework</li> <li>the Pension Fund’s system of internal control for identifying events or conditions relevant to going concern</li> <li>management’s going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

# 3. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit service was identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Provision of IAS 19 Assurances to Scheme Employer auditors	£11,000* (was £11,000 in 2019-20)	Self-Interest (because this is a recurring fee)	<p>Fee is recurring but not significant compared to the audit of the financial statements, and is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing of controls undertaken as part of the audit.</p> <p>The main self interest threat would arise if we reported weaknesses to the Pension Fund TCWG that they then put pressure on GT not to report to other auditors that are seeking to rely on the GT response for request for information. The safeguard to this would be to have a safeguarding partner review the AFR and request for information to confirm all matters where communicated. However we do not anticipate this to be an issue for our work at the Kent County Council Superannuation Fund.</p>

\* We have estimated the cost being the same as in the prior year, however we will only know the final figure once all IAS 19 letters have been issued and the Audit Certificate has been issued.

These services are consistent with the Pension Fund's on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.

# Appendices

# A. 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.

Page 73

## Impact of adjusted and unadjusted misstatements

No adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

## 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 omission	Impact on the Accounts	Adjusted?
Note 25 – Capital Commitments	Our testing identified that the Fund had not included the full Capital Commitments figure in the Accounts for two of the Private Equity Funds, which meant the value was understated by <b>£63.6 million</b> . This has subsequently been updated in the revised Accounts.	✓
Note 23 – Additional Voluntary Contributions	The Fund has been unable to obtain updated AVC Values from one of their providers, Prudential, and has proposed to include estimated values in the Note to reflect the current position.	✓
Note 17 – Valuation of Assets and Liabilities at Fair Value	A number of minor amendments have been made to Note 17 to enhance the transparency of the disclosures for the benefit of the reader of the Accounts.	✓

## B. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

The fees reconcile to the financial statements – refer to Note 11 of the Pension Fund Accounts for confirmation of this.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Pension Fund Audit	41,000	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£41,000</b>	<b>TBC</b>
<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Audit Related Services</b>		
Provision of IAS19 Assurances to Admitted and Scheduled Bodies	£11,000	TBC
<b>Total non-audit fees (excluding VAT)</b>	<b>£11,000</b>	<b>TBC</b>

We are unable to confirm the total cost of our IAS19 Assurances as we have yet to receive letters from all of those bodies that we would expect to provide assurances to as part of this work. In respect of the costs of this work, we have proposed a similar pricing structure to previous years, with a charge of £2,500 for the required controls testing, and a fee of £750 per response.

# C. Audit opinion

Our audit opinion is included below.

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 pension fund financial statements of the 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 2021 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 2020/21.

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 2021 and of the amount and disposition at that date of the fund's assets and liabilities,

- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Corporate Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Corporate Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Corporate Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director of Finance

# C. Audit opinion

Our audit opinion is included below.

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

and Those Charged with Governance for the financial statements' section of this report.

## Other information

The Corporate Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, 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 financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 (2020) 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 financial statements.

## 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 in relation to the Pension Fund.

## Responsibilities of the Authority, the Corporate Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance. The Corporate Director of Finance 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Finance 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 Corporate Director of Finance 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.

# C. Audit opinion

Our audit opinion is included below.

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

The Governance and Audit Committee is Those Charged with Governance for the Pension Fund. 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.

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.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and

adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

- We enquired of senior officers and the Governance and Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Governance and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - the journals posted by relevant officers during the course of the year, taking into account a range of different criteria to focus our testing on the most risky journals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Corporate Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on those journals that have been deemed risky via our assessment based on a range of criteria;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments; and

# C. Audit opinion

Our audit opinion is included below.

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

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.

Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures

implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## 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.

[Signature]

Paul Dossett, Key Audit Partner

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

London

xx November 2021

# D. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2A 1AG

xx November 2021

Page 7

Dear Sirs

**Kent County Council Superannuation Fund**

**Financial Statements for the year ended 31 March 2021**

This representation letter is provided in connection with the audit of the financial statements of the Kent County Council Superannuation Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the 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 2020/21 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 2020/21 ("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. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of Level 3 Investments. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. 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.

vii. 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.

viii. 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.

# D. Management Letter of Representation

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

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.

## Information Provided

xiii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the

nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xiv. We have communicated to you all deficiencies in internal control of which management is aware.

xv. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvi. 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.

xvii. 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:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xviii. 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.

xix. 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.

xx. 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.

xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxii. 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.

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

# D. Management Letter of Representation

## Approval

The approval of this letter of representation was minuted by the Fund's Governance and Audit Committee at its meeting on 7 October 2021

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Fund

Page 11 of 11



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

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