

Kent County Council Superannuation Fund

Draft Report & Accounts 2011



Report & Accounts 2011

MEMBERS AND ADVISERS

County Council Members are appointed by the respective political parties.

The District Council representatives are appointed by the respective District Council, in connection with the Association of District Councillors.

Other representatives are nominated and appointed by the respective bodies.

The same appointees are responsible for the removal of their representatives.

Appointments and removals are noted at the Superannuation Fund Committee meetings.

Enquiries and more detailed information on the Fund benefits and contributions can be obtained from Pat Luscombe (Pensions Manager) at 2nd Floor, Brenchley House, Week Street, Maidstone, Kent (01622 694714).

Enquiries regarding the Fund's accounting and investment activities should be made to Nick Vickers (Head of Financial Services) at County Hall (01622 694603).
Sessions House
County Hall
Maidstone
Kent
ME14 1XQ

Administering Authority as at 31 March 2011

Kent County Council

Kent County Council Members

Mr J E Scholes Chairman (Conservative)
Mr D S Daley Vice Chairman (Liberal Democrat)
Mr J A Davies (Conservative)
Mr M Jarvis (Conservative)
Mr J F London (Conservative)
Mr R A Marsh (Conservative)
Mr R J Parry (Conservative)
Mr M V Snelling (Conservative)

Other Local Authority Representatives

Mr K Bamber (Conservative) (Medway Council)
Mr J Burden (Labour) (Gravesham Borough Council)
Mr P Clokie (Conservative) (Ashford Borough Council)
Mr R Packham (Liberal Democrat) (Ashford Borough Council)

Union Representative

Mr S Richards

Staff Representative

Ms J De Rochefort

Kent Active Retirement Fellowship

Mrs A Dickens
Mrs M Wiggins

Investment Managers and Advisers

Baillie Gifford & Co
Goldman Sachs Asset Management Limited
GMO
Harbourvest Partners
Henderson Fund Management
Impax
Invesco Perpetual Partners Group
Schroder Investment Management Limited
State Street Global Advisers Limited
YFM Equity Partners
DTZ Investment Management Limited

Investment Consultant

Hymans Robertson LLP

Consulting Actuaries

Barnett Waddingham LLP

Auditors

Audit Commission

Performance Measurers

The WM Company
Investment Property Databank Limited

AVC Providers

Equitable Life Assurance
Prudential Assurance Company
Standard Life Assurance

County Officers

Mr A Wood, Acting Corporate Director of Director of Finance and Procurement
Mr N Vickers, Head of Financial Services
Mr G Wild, Director of Governance and Law

Scheme Documentation

The Fund is required by the Department for Communities & Local Government to maintain certain formal documents, rather than reproduce them in this report they are on the www.kent.gov.uk website.

The key documents are:

- Statement of Investment Principles
- Funding Strategy Statement
- Environmental, Social and Governance Investment
- Policy Statement
- Governance Compliance Statement
- Communication Policy

Chairman's Introduction

The last year has been another highly positive one for the Fund. Overall the Fund increased in value by £316m and we received an encouraging actuarial valuation. The Fund is in good shape but there are still huge risks in financial markets and we will look to protect the gains that we have made and reduce risk by spreading our investments across a wider range of assets moving forward.

I would now like to address some of the major issues for the Fund in the year:

Actuarial Valuation

The outcomes of the valuation at Fund level were highly satisfactory with the funding level increasing by 4% to 77% and at Fund level the employer contribution rate reducing by 2% - the actual rates paid reflect changes at individual employer level. Of the 16 local authority employers 15 saw a reduction in the rate the actuary was prepared to certify. The decision to appoint Barnett Waddingham as actuary in 2009 has been confirmed as providing a technically robust approach which reflects the reality of employer's financial positions as much as possible.

Fund Managers

This was a strong year for fund performance with a total return of +9% outperforming the fund benchmark of +8.1%. The largest equity mandates in the Fund; Schroders UK equities and Baillie Gifford overseas equities performed particularly strongly.

The Fund removed Alliance Bernstein in August after a prolonged period of under performance in global equities. These monies were then placed in passive global equities funds managed by State Street.

In April 2010 £25m was invested with Impax Asset Management, a global equity manager which invests in companies that derive over 50% of their revenue from environmental themes.

Alternative Investments

The Fund needs to spread its investments into different types of assets to reduce the exposure that the Fund has to Equities. The Fund has deliberately sought to do this in a relatively low risk way through the following investments:

Private equity manager appointment – Harbourvest was appointed to manage a £75m private equity fund of funds mandate in May 2010 and by the end of March 2011 £60m had been committed.

Infrastructure manager appointment – Partners Group was appointed to manage a £75m infrastructure fund of funds mandate in November 2010 and this was fully committed by March 2011.

Reflecting our very deliberate approach to where we take risk in March 2011 we decided not to proceed with the appointment of a currency manager.

Treasury Management

A separate bank account for the Superannuation Fund has been set up and cash is managed on a fully segregated basis using counterparties agreed by the Superannuation Fund Committee. The counterparties are Royal Bank of Scotland, NatWest Bank and the JP Morgan Sterling Liquidity Fund.

Lord Hutton's Review of Public Sector Pensions

All the public sector pension schemes are under review and the Government's response to Lord Hutton's review is due in the autumn. Inevitably there will be major changes to the Local Government Scheme in the next 2-3 years and the Fund will need to communicate well with scheme members and employers and be alert to what could be fundamental changes which may require a major revision of our investment strategy.

Whilst we support change the funded position of the LGPS does put us in a much stronger position than unfunded public sector schemes and this seems to have been ignored in Lord Hutton's review.

Development of the website

The website www.Kent.gov.uk/pensions website has been fully updated and we want it to become much more central in how we communicate with scheme members and employers.

James Scholes
Chairman - Superannuation Fund Committee

Investment Report

Asset Allocation

The strategic asset allocation of the Fund is:

	Benchmark		Actual at 31 March 2011	
	%	%	%	%
Equities:				
UK	34.5		37	
Global	34.5	69	37	74
Fixed Income		15		14
Property		11		9
Cash/Other Assets		5		3
		100		100

The asset allocation is based upon detailed financial modelling undertaken by Hymans Robertson which evaluates return scenarios against measures of Prudence, Affordability, Stability and Stewardship.

The actual allocation at 31 March 2011 reflects the strength of equity returns. The Superannuation Fund Committee meets 6 times a year and at each meeting considers whether any re-balancing is required.

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Market Returns to 31 March 2011

All equity markets other than Japan performed strongly during the year. Returns in the major asset classes were:

	1 year	3 year	5 year
	%	%	%
UK Equities	+8.7	+5.4	+3.7
North American Equities	+9.6	+10.5	+5.0
European Equities ex UK	+7.5	+3.3	+5.0
Japan Equities	-4.0	+3.6	-3.3
Pacific ex Japan Equities	+14.6	+13.8	+13.0
Other International Equities	+8.2	+8.7	+5.2
UK Bonds	+5.1	+5.3	+4.8
UK Index Linked	+6.5	+5	+6.2
UK Property	+10.7	-1.4	-0.2
Cash	+0.4	+1.5	+3.0

The relative performance of the Fund for 2010-11 was:

	Kent Fund	WM Local Authority Universe
	%	%
1 Year	9.0	8.1
3 Year	6.2	5.7
5 Year	3.6	4.1

This placed the Fund in the 22nd percentile over 1 year, 31st percentile over 3 years and 60th percentile over 5 years compared with other Local Authority Funds

Investment Managers

All assets of the Fund other than cash are under external management. All manager appointments are made through European Union public service tender processes, in a small number of cases direct investments are made in funds.

The Manager Structure as at 31 March 2011 was:

UK Equities	Schroder Investment Management
	Invesco Perpetual
	State Street Global Advisors
Global Equities	Baillie Gifford & Co
	GMO
	Schroder Investment Management
	State Street Global Advisors
	Impax Asset Management
Fixed Income	Goldman Sachs Asset Management
	Schroder Investment Management
Property	DTZ Investment Management
Alternatives	Henderson Secondary PFI Funds
	Partners Group Global Infrastructure
	YFM Private Equity
	Harbourvest Private Equity

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

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Performance to 31 March 2011

	1 Year		3 Year	
	Fund	Benchmark	Fund	Benchmark
	%	%	%	%
UK Equity				
Schroders	12.9	8.6	8.6	5.3
StateStreet	8.8	8.7		
Invesco	8.8	8.7	5.4	5.4
Overseas Equity				
Baillie Gifford	12.4	7.5	11.1	7.6
GMO	6.5	7.4	6.1	7.6
Impax	n/a	n/a	n/a	n/a
Schroders	10.2	7.4	10	7.6
StateStreet	7.8	8		
Fixed Interest				
Goldman Sachs	5.5	5.3	6.5	5.6
Schroders	4.1	3	7	4.8
Property				
DTZ UK	10.7	10.7	1.9	-1.4

Investment Manager Performance

Overall in the year the Fund returned +9% against a benchmark of +8.1%. The Fund spreads its assets across a wide range of different type of asset and also across managers who are taking different approaches to adding value. No individual manager or style of management will always be successful.

The main reason for the outperformance in the year was the strong performance of the 2 largest equity mandates, Schroders' management of UK equities and Baillie Gifford's management of overseas equities. These managers' 3 year track records are also very strong.

The Invesco UK equity mandate is much more defensively positioned than our other equity mandates and we expect strong outperformance in this financial year.

The Fund removed Alliance Bernstein as manager of global equities last August after a period of poor performance where the Fund was not confident of out performance moving forward. Alliance Bernstein have since seen a very large outflow of funds and this was a well timed decision.

The Fund has a significant element of passive equity exposure managed by State Street. This is in part a holding position until funds are actually invested in alternative areas such

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as Private Equity and Infrastructure, but also reflects an industry approach of getting some of our equity exposure very cheaply through a passive manager.

Both our Fixed Income managers Goldman Sachs and Schroders added value compared with their benchmark.

Commercial Property returns were good in the year but the recovery is stalling and Commercial Property values still remain well down from their peak. The Fund is looking to add to its' property exposure but only in a well risk managed way.

The fund's major equity holdings are shown in Appendix 1 page..... and a complete list of properties owned is shown in Appendix 2 page.....

Custodian

The Fund uses an independent custodian, JP Morgan, to safeguard its segregated financial assets. The custodian is responsible for the safe-keeping of those assets, the settlement of transactions, income collection and other administrative actions in relation to assets.

Scheme Details

Kent County Council administers the Kent Pension Fund on behalf of its own employees and the other employing bodies. Scheme regulations are set by Central Government. From April 2008 major changes were made to the benefit structure by Central Government.

Benefits

The scheme is a defined benefit occupational pension scheme which provides a significant range of benefits to its members. Membership is open to all employees of qualifying employers who have a contract of employment of at least 3 months and are under the age of 75 and most are automatically admitted to membership of the scheme upon commencing employment.

Scheme benefits are based upon the individual's length of period of membership and 'final salary' which will generally be the final 12 months pensionable pay of the scheme member.

For membership built up after 31 March 2008 members will receive an annual pension based on 1/60th of their final year's pensionable pay and will have the option to take part of the pension as a tax free lump sum. For membership before 1 April 2008 they will receive an annual pension based on 1/80th of their final year's pensionable pay and an automatic tax free lump sum of 3 times the pension.

The amount that the employee contributes has been amended from April 2008, these contributions range between 5.5% and 7.5 % of pay with the rate being determined by the level of the member's pay.

If a member has to leave work at any age due to permanent ill health the scheme provides a tiered ill health retirement package. If the member is unlikely to be capable of gainful employment within a reasonable time after they leave they will receive increased benefits payable immediately. A scheme member needs to have total membership of at least 3 months to qualify for ill health benefits.

Where a scheme member dies in service a lump sum is payable by way of a death grant equal to three years' pay. Scheme members are able to make an 'expression of wish' concerning to whom the grant should be payable in the event of their death.

The scheme also makes provision in the event of death for the payment of pensions to surviving spouses, civil partners, eligible children and, subject to certain qualifying conditions, nominated co-habiting partners.

Increasing benefits

In addition to the scheme benefits members may, if they wish, pay extra to increase their retirement benefits. They can do this either by paying additional contributions to buy extra LGPS pension, by making payments to the scheme's Additional Voluntary Contributions (AVC) arrangements, or by making payments to a personal pension, stakeholder pension or Free-standing AVC scheme of their choice.

Full details of the scheme are provided on the www.kent.gov.uk/pensions website.

Communications

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

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

Internal Dispute Procedure

The Kent Pension Scheme has a formal Internal Dispute Procedure to consider a member dispute over a decision made either by a scheme employer or Kent County Council acting as the administering body. An independent person is appointed to consider an appeal made by a scheme member.

2010/11 Disputes considered	2009/10 Appeals upheld
5	0

As at 31 March 2011, scheme employers make up the membership as follows:

	Contributors	Pensioners	Deferred Pensioners
Kent County Council	21,956	15,509	16,559
Medway Council	5,134	2,203	3,482
Kent Police Authority	2,731	1,369	1,495
Kent Fire Authority	280	126	106
District Councils	4,737	7,515	4,805
Other Scheduled	6,658	2,584	4,473
Total Scheduled bodies	19,540	13,797	14,361
Admitted Bodies	1,912	1,243	1,698
Grand Total	43,408	30,549	32,618

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Member Age Profile

As at 31 March 2011, contributing membership is made up of the following age bands:-

Under 20	172
20 – 25	2,112
26 – 30	2,793
31 – 35	3,394
36 – 40	5,043
41 – 45	7,316
46 – 50	7,891
51 – 55	6,727
56 – 60	5,194
61 – 65	2,468
66 – 70	267
Over 70	31

Pension Section Performance 2010/11

The Pension section is subject to performance monitoring, both internally and externally against other Local Authority Pension Funds (CIPFA Benchmarking). The performance outcomes are shown in the tables below.

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt of paperwork	2,076	99%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	315	99%
Provision of estimates	20 days from receipt of paperwork	2,861	98%
Correspondence	Full reply within 15 working days	1,705	99%

CIPFA Benchmark Survey

The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey. The survey compares the cost of administration with 63 other Local Authority Administering Bodies across the UK. The results contained in these accounts are in respect of the Kent Pension Section performance in the year ending 31 March 2010.

	Kent Pension Scheme	All Scheme Average
Total cost of administration per scheme member	£19.12	£22.72
Payroll costs per pensioner (including staff)	£1.43	£3.49
Staff costs per Scheme Member (ex Payroll)	£10.19	£10.05
IT Costs per member	£1.49	£2.14
Communication costs per member	£2.03	£0.92
Actuarial costs per member	£2.03	£1.11
Accommodation costs per member	£1.23	£0.75

The results above place Kent at 17th of 63 authorities in terms of the cost of administration per member of the scheme.

Report of the Consulting Actuaries

Introduction

As required by Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended, an actuarial valuation of the Fund was carried out as at 31 March 2010.

2010 Valuation

The 2010 valuation certified a common contribution rate of 20.8% of pensionable pay to be paid by each employing body participating in the Kent County Council Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Employer Contribution rates

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

- The ongoing annual accrual of benefits for active members in respect of each employer that build up each year within the Fund, allowing for future pay increases and increases to pension in payment when these fall due
- Plus an amount to fund the difference between each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund.

Asset Value and Funding Level

The value of the Fund's assets as at 31 March 2010 for valuation purposes was £2,780m which represented 77% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The contribution rates were calculated using the Projected Unit Method.

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

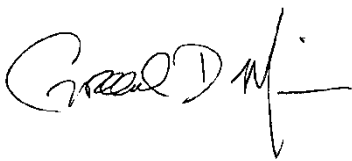
- Rate of return on investments 6.6% per annum
- Rate of increases in pay 5.0% per annum
- Rate of Increases to pensions in payment 3.0% per annum

Post Valuation Events – Changes in market conditions

Since March 2010, we estimate that investment returns are likely to have been slightly more than assumed at the 2010 valuation although expectations for future levels of inflation have increased.

Overall, we estimate that the current financial position of the Fund will not be materially different to the position as at the 2010 valuation

The next actuarial valuation is due as at 31 March 2013 and results will be reported during 2013/14.

A handwritten signature in black ink, appearing to read 'Graeme D Muir'.

Graeme D Muir FFA

Partner

23 August 2011

For and on behalf of Barnett Waddingham

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance & Procurement.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

Corporate Director of Finance & Procurement's Responsibilities

The Corporate Director of Finance & Procurement is responsible for the preparation of the Authority's Superannuation Fund's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (the Code), is required to present fairly the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2011.

In preparing this statement of accounts, the Corporate Director of Finance & Procurement has:

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

The Corporate Director of Finance & Procurement has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Acting Corporate Director of Finance & Procurement