

# **Kent County Council Superannuation Fund**

## **Draft Report & Accounts 2012**



## Members and Advisors

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 2<sup>nd</sup> Floor, Brenchley House, Week Street, Maidstone, Kent, ME14 1XQ (01622 694714).

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

### Administering Authority

Kent County Council

### Kent County Council Members as at 31 March 2012

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 J Burden (Labour) (Gravesham Borough Council)  
Mr D Carr (Conservative) (Medway Council)  
Mr P Clokie (Conservative) (Ashford Borough Council)  
Mr N Eden-Green (Liberal Democrat) (Canterbury City Council)

### Union Representative

Mr S Richards

### Staff Representative

Ms J De Rochefort

### Kent Active Retirement Fellowship

Mrs A Dickens  
Mrs M Wiggins

### County Officers

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

### 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  
Pyrford

### Custodian

JP Morgan Chase

### Banker

NatWest

### Consulting Actuaries

Barnett Waddingham LLP

### Investment Consultant

Hymans Robertson LLP

### Auditors

Audit Commission

### Performance Measurers

The WM Company  
Investment Property Databank Limited

### AVC Providers

Equitable Life Assurance  
Prudential Assurance Company  
Standard Life Assurance

## 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 at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

The key documents are:

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

## Chairman's Introduction

The 2011/12 financial year was a disappointing one in-terms of the total investment return, 2.7%, but still slightly above the Local Authority Average return.

The Fund is still predominately invested in equities, 69.7% at 31 March 2012 and equity returns were generally poor in the year with +1.4% for UK equities and +0.9% for global equities.

The Fund did not make any major asset allocation changes in the year except for a new 5% allocation to Absolute Return targeting a return of Cash plus 5% per annum.

This allocation was part of a longer term strategy of reducing the reliance on Equities to add value.

Overall the investment market has been dominated by the continuing effects of a global banking issues and recession. Many individual companies we own have continued to perform well and dividend returns have been good.

Apart from the addition of the absolute return fund, managed by Pырford, there have been no changes in the investment manager roster. The fund has a relatively small number of managers in whom we have strong conviction in.

Whilst we can expect investment returns to improve over the cycle there is a major new issue for the Fund which is highlighted in these accounts.

Employer contribution rates are generally expressed as a percentage of payroll and income from employers has markedly declined, by around £13m per annum or 7%. This reflects the significant reduction in staffing numbers and payroll at the local authority employers and Kent County Council and Medway Council in particular. Our long-term positive cash flows have enabled the Fund to manage investments without major liquidity considerations – this may be starting to change.

Overall the Fund is in a good position, with a carefully diversified asset allocation and a good group of investment managers. All members and officers associated with the management of the Fund remain acutely aware of its importance to scheme members, pensioners and employers in these very turbulent economic times.



**James Scholes**  
**Chairman - Superannuation Fund Committee**

## Investment Report

### Asset Allocation

The strategic asset allocation of the Fund is:

	Benchmark		Actual at 31 March 2012	
	%	%	%	%
Equities:				
UK	34.5		35.8	
Global	34.5	69	33.9	69.7
Fixed Income		15		14.0
Property		11		9.5
Other Assets		5		3.0
Cash		0		3.7
		<b>100</b>		<b>100</b>

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.

With the increased allocations to Private Equity, Infrastructure and Absolute Return the formal asset allocation was changed by the Superannuation Fund Committee in May resulting in allocations of UK Equities 32%, Global Equities 32%, Private Equity 2.5%, Infrastructure 2.5%, Commercial Property 10%, Absolute Return 5%, Fixed Income 15% and Cash 1%.

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### Market Returns to 31 March 2012

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	+1.4	+18.8	+1.8
North American Equities	+6.9	+18.8	+6.5
European Equities ex UK	-11.4	+12.3	+0.1
Japan Equities	+0.9	+7.9	-1.0
Pacific ex Japan equities	-4.6	+22.3	+9.3
Other International Equities	-0.4	+16.8	+4.8
UK Bonds	+14.5	+6.6	+7.5
Overseas Bonds	+5.4	+2.5	+11.9
UK Index Linked	+18.1	+11.5	+9.1
UK Property	+6.6	+11.2	-1.8
Cash/Alternatives	+0.5	+0.4	+2.1

The relative performance of the Fund for 2011-12 was:

	Kent Fund	WM Local Authority Universe
	%	%
1 Year	+2.7	+2.6
3 Year	+15.2	+14.5
5 Year	+2.9	+3.2

This places us in the 56th percentile over 1 year, 36th percentile over 3 years and 53rd 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 2012 was:

Asset Class	Manager	% of Fund
UK Equities	Schroder Investment Management	16
	Invesco Perpetual	12
	State Street Global Advisors	6
Global Equities	Baillie Gifford	18
	GMO	6
	Schroder Investment Management	4
	State Street Global Advisors	8
	Impax Asset Management	1
Absolute Return	Pyrford International	2
Fixed Income	Goldman Sachs Asset Management	8
	Schroder Investment Management	6
Property	DTZ Investment Management	9
Alternatives	Henderson Secondary PFI Funds	-
	Partners Group Global Infrastructure	1
	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.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

## Performance to 31 March 2012

	1 Year		3 Year	
	Fund	Benchmark	Fund	Benchmark
	%	%	%	%
<b>UK Equity</b>				
Schroder Investment Management	-2.1	+1.4	+19.0	+18.5
StateStreet Global Advisors	+1.5	+1.4	+18.9	+18.8
Invesco Perpetual	+12.1	+1.4	+17.6	+18.8
<b>Overseas Equity</b>				
Baillie Gifford	+1.5	-2.0	+20.5	+15.8
GMO	+0.3	+0.9	+14.0	+16.2
Impax Asset Management	-12.5	+0.9		
Schroder Investment Management	-3.7	+0.9	+19.4	+16.2
StateStreet Global Advisors	+0.3	+0.3		
<b>Fixed Interest</b>				
Goldman Sachs Asset Management	+10.8	+10.2	+11.9	+8.8
Schroder Investment Management	+3.8	+7.0	+7.0	+6.3
<b>Property</b>				
DTZ Investment Management	+8.3	+7.3	+12.0	+9.0
<b>Private Equity and Infrastructure</b>				
Partners Group	-6.6	+0.5		
Harbourvest	-8.7	+0.5		
YFM Private Equity	+43.0	+0.5		
Henderson Equity Partners	+4.0	+0.5		

Note: Investment with Pyrford International did not cover a full year period

### Investment Manager Performance

#### 1 Year

The value of the Fund was £3,272.576m, an increase of £113m in the year and a return of +2.7% compared with a benchmark return of +3.4%. The underperformance against the benchmark was due to asset allocation (-0.8%) whilst stock selection was positive (+0.1%) – but positive stock selection of +0.7% on UK Equities and +0.1% on Overseas Equities was offset by -0.7% on Fixed Income.

The WM local authority average return for the year was 2.6% placing the Kent return in the 56th percentile. So the Fund slightly outperformed the Local Authority Average.

At investment manager level the main positive contributors in the year were:



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Invesco UK Equities +10.6%  
Baillie Gifford Overseas Equities +3.6%  
DTZ Property +1%

At investment manager level the main negative contributors in the year were:

Schroders UK Equities -3.5%  
GMO Overseas Equities -0.6%  
Schroders Global Active Value -4.5%  
Schroders Fixed Income -3%  
Goldman Sachs Fixed Income -2.1%  
Impax Global Equities -13.3%

### 3 Years

Moving on to the 3 year performance position, the Fund return of +15.2% per annum is +0.1% ahead of benchmark, overall asset allocation detracted -0.5% but stock selection added +0.6% due primarily to Overseas Equities (+0.4%). The Fund outperformed the Local Authority Average return by +0.7% per annum and this put the Fund in the 36th percentile.

At investment manager level the main positive contributors over 3 years were:

Baillie Gifford Overseas Equities +4%  
Schroders Global Active Value +2.8%  
Goldman Sachs Fixed Income +2.5%  
Schroders UK Equities +0.5%  
Schroders Fixed Income +0.7%  
DTZ Property +2.8%

At investment manager level the main negative contributors over 3 years were:

GMO Global Equities -1.9%  
Invesco UK Equities -1%

Over the 3 year period the Fund also benefitted from the introduction of State Street in January 2009 to manage equities on a passive basis. Over 3 years State Street added +0.1% per annum on UK Equities. But more importantly a significant proportion of the total equity allocation could not underperform the benchmark.

### 5 Years

Looking at 5 year returns the Fund return of +2.9% is -0.4% behind benchmark. Compared to the WM Local Authority Average return of +3.2% the Fund return is in the 53rd percentile. The 5 year performance returns include significant underperformance from managers no longer used – Alliance Bernstein and Soc Gen. The existing managers with 5 year returns have the following relative returns per annum:

Schroders UK Equities +1.5%  
Baillie Gifford Overseas Equities +3.5%  
GMO Global Equities -1%

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Schroders Global Active Value -0.5%  
Goldman Sachs Fund Income +0.1%  
Schroders Fixed Income +0.9%  
DTZ Property +2.3%

### **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 1/60<sup>th</sup> 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 1/80<sup>th</sup> 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 at [www.kentpensionfund.co.uk](http://www.kentpensionfund.co.uk)

## 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.

2011/12 Disputes considered	2011/12 Appeals upheld
12	0

As at 31 March 2012, scheme employers make up the membership as follows:

	Contributors	Pensioners	Deferred Pensioners
<b>Kent County Council</b>	<b>21,752</b>	<b>17,213</b>	<b>19,768</b>
Medway Council	4,764	2,506	4,103
Kent Police Authority	2,453	1,500	1,697
Kent Fire Authority	281	133	113
District Councils	4,038	7,631	4,870
Other Scheduled	6,369	1,908	2,952
<b>Total Scheduled bodies</b>	<b>17,905</b>	<b>13,678</b>	<b>13,735</b>
<b>Admitted Bodies</b>	<b>1,766</b>	<b>1,367</b>	<b>1,927</b>
<b>Grand Total</b>	<b>41,423</b>	<b>32,258</b>	<b>35,430</b>

### Member Age Profile

As at 31 March 2012, contributing membership is made up of the following age bands:-

Under 20	161
20 – 25	1,833
26 – 30	2,574
31 – 35	3,266
36 – 40	4,565
41 – 45	6,857
46 – 50	7,775
51 – 55	6,762
56 – 60	5,034
61 – 65	2,311
66 – 70	253
Over 70	32

## Pension Section Performance 2011/12

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	2,434	99%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	364	98%
Provision of estimates	20 days from receipt of paperwork	3,133	99%
Correspondence	Full reply within 15 working days	1,473	98%

## CIPFA Benchmark Survey

The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey. The survey compares the cost of administration with 59 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 2011.

	Kent Pension Scheme	All Scheme Average
	£	£
Total cost of administration per scheme member	19.40	22.14
Payroll costs per pensioner (including staff)	1.54	3.11
Staff costs per Scheme Member (ex Payroll)	9.80	9.91
IT Costs per member	1.99	2.38
Communication costs per member	2.09	0.82
Actuarial costs per member	1.86	1.24
Accommodation costs per member	1.23	0.79

The results above place Kent at 21<sup>st</sup> of 59 authorities in terms of the cost of administration per member of the scheme.

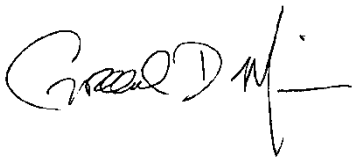


### Post Valuation Events – Changes in market conditions

Since March 2010, we estimate that investment returns are likely to have been slightly lower than assumed at the 2010 valuation and so the assets will be lower than projected. The liabilities as at 31 March 2012, based on updated market conditions, are expected to be broadly in line with the 2010 expectations.

Overall, we estimate that the current financial position of the Fund will have worsened for most employers compared 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**

3 August 2012

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 and Procurement.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Superannuation Fund's statement of accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2012.

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

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

The Corporate Director of Finance and Procurement has also:

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

I confirm that these accounts give a true and fair view of the financial position of the Superannuation Fund at the reporting date and its income and expenditure for the year ended 31 March 2012.

### Certificate of the Corporate Director of Finance and Procurement



**Andy Wood**  
**Corporate Director of Finance and Procurement**  
**26 July 2012**

## Independent Auditor's report to members of Kent County Council

### Opinion on the Superannuation Fund Accounts

I have audited the Superannuation Fund accounts for the year ended 31 March 2012 under the Audit Commission Act 1998. The Superannuation Fund's accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Superannuation Fund accounts have been prepared under the accounting policies set out in the Summary of Main Accounting Policies.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### Respective responsibilities of the Corporate Director of Finance and Procurement and Auditor

The Corporate Director of Finance and Procurement is responsible for preparing the Superannuation Fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing the Superannuation Fund accounts the Corporate Director of Finance and Procurement is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the Superannuation Fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Superannuation Fund accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Superannuation Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Superannuation Fund Annual Report, is consistent with the Fund accounts. That information comprises the chairman's introduction and the investment report.

I read other information published with the Superannuation Fund accounts and related notes and consider whether it is consistent with the audited Superannuation Fund accounts. This other information comprises the remaining elements of the Superannuation Fund Annual Report which are the report of the consulting actuaries and the property valuation. I consider the implications for my report if I become aware of any apparent

misstatements or material inconsistencies with the Superannuation Fund accounts and related notes. My responsibilities do not extend to any other information.

### **Basis of Opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Superannuation Fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the Superannuation Fund accounts and related notes, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Superannuation Fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Superannuation Fund accounts and related notes.

### **Opinion**

In my opinion:

- the Superannuation Fund accounts and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Superannuation Fund during the year ended 31 March 2012, and
- the amount and disposition of the Fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year: and

the information given in the commentary on financial performance included within the Superannuation Fund Annual Report is consistent with the Fund accounts

Darren Wells  
District Auditor  
Audit Commission  
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