AGENDA

PENSION BOARD

Thursday, 18th November, 2021, at 2.00 pm	Ask for:	**Theresa Grayell**
online	Telephone	**03000 416172**

Membership

Scheme Employer Representatives (4)

Kent County Council (2)	Mr R Thomas (Chairman) and Mr D Jeffrey
District/Medway Council (1)	Vacancy
Police/Fire & Rescue (1)	Ms A Kilpatrick

Scheme Member Representatives (4)

KCC (1)	Vacancy
Medway/Districts (1)	Mr J Parsons (Vice-Chairman)
Trade Unions (1)	Vacancy
Kent Active Retirement Fellowship (1)	Vacancy

<u>UNRESTRICTED ITEMS</u>

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

1. Membership

To note that David Coupland has left the board.

2. Apologies and Substitutes

3. Declarations of Interest by board members on items on the agenda for this meeting

4. Minutes of the meeting held on 1 September 2021 (Pages 1 - 6)

5. Pension Fund Business Plan (Pages 7 - 14)

6. Pensions Administration (Pages 15 - 18)

7. Fund Employer and Governance Matters (Pages 19 - 78)

8. Superannuation Fund Report and Accounts and External Audit (Pages 79 - 204)

9. Report from the Superannuation Fund Committee meeting (verbal)

10. ACCESS update (Pages 205 - 210)

11. Date of next meeting

The next meeting of the board will be held on Tuesday 15 March 2022, commencing at 10.00 am.

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 ITEMS

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

12. Governance review (Pages 211 - 248)

13. Pension Fund Risk Register (Pages 249 - 254)

Benjamin Watts
General Counsel
03000 416814

Wednesday, 10 November 2021

KENT COUNTY COUNCIL

PENSION BOARD

MINUTES of a meeting of the Pension Board held in the online on Wednesday, 1 September 2021.

PRESENT: Mr D Jeffrey, Ms A Kilpatrick, Mr J Parsons and Mr R J Thomas (Chair)

IN ATTENDANCE: Mrs B Cheatle (Pensions Manager), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund) and Ms S Surana (Principal Accountant - Investments)

UNRESTRICTED ITEMS

1. Membership - the board is asked to note its revised membership
(Item 1)

The Chairman, Mr Thomas, welcomed the new members to the board and expressed his thanks to those who had served on it previously.

Mrs Mings agreed to discuss the current board membership vacancies with the Chairman, further to the recommendations of the Barnet Waddingham review, prior to the next board meeting.

2. Apologies and Substitutes
(Item 2)

Apologies for absence had been received from Mr Coupland and Mr Simkins (Chair of the Superannuation Fund Committee).

3. Declarations of Interest by Board members on items on the agenda for this meeting
(Item 3)

The Chairman, Mr Thomas, said that he was a Councillor for Canterbury City Council which was a member of the scheme.

4. Minutes of the meeting held on 15 October 2021
(Item 4)

It was RESOLVED that these were a correct record and that a paper copy be signed by the Chairman when this can be done safely.

5. Internal Audit Action Plan - Verbal Update
(Item 5)

1. Mrs Mings gave a verbal update and said good progress had been made on the recommendations made by the 2019 internal audit review which had included the undertaking of a review by Barnett Waddingham. An investment advisor was

now attending each meeting of the Superannuation Fund Committee and a review of the Fund Strategy Statement (FSS) was taking place.

2. It was RESOLVED that the information provided in the verbal update be noted.

6. Training Update
(Item 6)

1. Mrs Mings introduced the report setting out the progress on the fund training programme, training undertaken by committee and board members during 2021-21, and events planned for 2021-22.

2. Mrs Mings asked board members to confirm if they wished to attend the LGPS overview event on 28 October 2021 advising this event was for board members who were unable to attend the event in July.

3. Mrs Mings confirmed the LGPS pensions administration event on 4 November 2021 would be rescheduled as it coincided with County Council.

4. It was RESOLVED that the information set out in the report be noted.

7. Pension Fund Business Plan
(Item 7)

1. Mrs Mings introduced the report which included the updated business plan, costs incurred to deliver the plan in 2020-21 and the forecast for 2021-22.

2. In response to questions from the board Mrs Mings and Ms Surana said the following:

   (a) The 15% forecast increase in ACCESS pooling costs was due to outstanding complex issues taking longer to complete.

   (b) The Audit Fee increase to £41,000 included two years' worth of auditor charges (for the provision of assurances to scheduled bodies) being incorporated into last year's accounts. Later in the meeting, Ms Surana provided further clarification regarding this issue explaining the baseline increase had been used for the 2021/22 forecast.

   Ms Surana further advised that scheduled bodies would be recharged for the assurance fee and communication would be made with employers in advance of any action taken. Mrs Kilpatrick requested more detail regarding this which Ms Surana undertook to provide.

   (c) The forecast of £50,000 for legal fees (in comparison to the 2020/21 budget of £125,000) related to work undertaken by Invicta Law in reviewing applications from employers to become admission bodies. In the last two years the number of applications and activity had reduced due to the pandemic and changes in legislation.

   (d) The forecast increase for investment accounting and oversight costs related to the review of finance resources required to support the fund. A recruitment process had been approved, further to a recommendation from the Barnet Waddingham review, to establish a team of KCC staff to support the pension fund.

3. It was RESOLVED that the information set out in the report be noted.

8. Fund Employer and Governance Matters
(Item 8)

1. Mrs Mings introduced the report setting out information on employer related matters for the year ending 31 March 2021 and for the three months to 30 June 2021.

2. Mrs Mings and Mrs Cheatle responded to comments and questions from the board, including the following:

   (a) Regarding non-payment from fund employers Mrs Mings confirmed that most employers paid on time, however, some employers had issues over the last 12-18 months because of the pandemic and contact had been maintained during this time. It was confirmed that each employer was allocated a share of fund assets and if an employer underpaid their contributions, then the shortfall was set against that balance to protect other employers in the Fund.

   (b) The Chairman queried the timescale and administrative process for implementing the McCloud remedy. Mrs Cheatle explained a pilot was being carried out with one fund employer to test the data collection process with a view to all employers being contacted at the end of September. Once all the information had been received, verified, and uploaded to the database, benefits would be recalculated.

3. It was RESOLVED that the information set out in the report be noted.

9. Pensions Administration
(Item 9)

1. Mrs Cheatle introduced the report bringing members up to date with a range of issues concerning the administration of the Kent Local Government Pension Scheme (LGPS).

2. Mrs Cheatle responded to comments and questions from the board, including the following:

   (a) Five pension assistants had recently been recruited with the recruitment of project officers planned. Although vacancies remain, Mrs Cheatle was hopeful the outstanding vacancies would be filled this year. The option of using an external company to deal with the backlog was noted, along with the additional cost this could incur.

   (b) The board noted that officers had done exceptionally well in managing workload despite the number of current vacancies. Asked whether there was an optimum level of scheme members per staff Mrs Cheatle said that increasingly members were requiring more information and there was therefore a need to reduce this number. Other means of reducing officer time dealing with enquiries were being considered, for example, the introduction of a member self-service system.

(c) Asked whether a KPI for members per staff should be introduced, Mrs Cheatle said an optimum number would be difficult to gauge because of additional projects being added to the workload.

(d) The Chairman noted the importance of addressing the issue of staff vacancies and asked that the next pensions administration update focus on current vacancies and recommendations for alternative staffing arrangements.

3. It was RESOLVED that the information set out in the report be noted.

10. Breach of the Pension Scheme Regulations
(Item 10)

1. Mrs Cheatle introduced the report making the board aware of a breach of the Local Government Pension Scheme regulations and the options for reporting the breach to the Pensions Regulator.

2. Kent Police, an employer in the fund, had not supplied the information regarding their active members to KCC by the deadline of 30 June 2021, or by subsequent deadlines. KCC was therefore unable to issue annual benefit statements to the Police employees in the Local Government Pension Scheme by 31 August 2021. The report recommended that the breach be recorded but that it was not significant enough to be reported to the Pensions Regulator.

3. The Chairman noted although the breach related to one employer, a significant number of members (approximately 3,100) had been affected.

4. Mrs Cheatle confirmed discussions had taken place between KCC and Kent Police and Kent Police had put plans in place to ensure data was received by KCC in time next year.

5. The Chairman proposed that the recommendation of the report be changed, and the breach be reported to the Pensions Regulator. This was seconded by Mr Jeffrey.

6. It was RESOLVED that the information set out in the report be noted and that the breach be reported to the Pensions Regulator.

11. Report from the Superannuation Fund Committee (Verbal)
(Item 11)

1. Mr Simkins had sent his apologies to the meeting and Mrs Mings, in his absence, gave a verbal report from the Superannuation Fund Committee.

2. Mrs Mings said the membership of the Superannuation Fund Committee had changed since its meeting on 23 June and updated the board on the issues the committee was currently focusing on, including:

(a) The careful monitoring of the Equity Downside Protection Strategy since its implementation in December 2020. The strategy protects the value of the global equity portfolio should it fall.

(b) The formation of a responsible investment working group to consider the committee's agreed policy, how it should be implemented, and its work moving forward. There were plans to undertake a beliefs survey to understand the committee's current view of environmental issues.

(c) Reviewing the investment strategy and being mindful that the fund was significantly invested in equities. It was agreed at the last meeting that no changes were required.

(d) Developing the relationship between the board and the committee, as recommended by the governance review. Mr Thomas had been invited to attend committee meetings with Mr Simkins invited to attend board meetings.

3. In response to a question about the Equity Downside Protection Strategy Mrs Mings confirmed the programme only applied to the Fund's global equity exposure. The Fund was 98% funded at the last valuation.

4. The Chairman noted the importance of a 100% funded position and asked whether there was any intention of a review with scheme employers. Mrs Mings explained, on the issue of responsible investment, a consultation had been carried out with stakeholders and employers, and the committee welcomed these views.

5. In response to a question Mrs Mings confirmed that she was working with Mr Simkins and Zena Cooke on briefing the board on the findings of the governance review.

6. It was RESOLVED that the information set out in the verbal report be noted.

12. Access Update
(Item 12)

1. Mrs Mings introduced the report and provided a summary of the activities of the ACCESS pool and an update on membership of the Joint Committee.

2. Mrs Mings advised that the training session for members on 27 September 2021 would cover the issue of risk in the fund and provide more detail about ACCESS and its significance for the Kent Fund. The Chair expressed his gratitude for the training that was available to members.

3. It was RESOLVED that the information set out in the report be noted.

13. Date of next meeting
(Item 13)

It was noted the next meeting of the board would be held on 17 November 2021, commencing at 2pm.

A request was made by a member for Wednesday afternoons to be avoided for future meetings

14. Motion to exclude the press and public for exempt business

The Committee RESOLVED that, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEM
(open access to minute)

15. Pension Fund Risk Register
(Item 14)

1. Mrs Mings introduced the report and provided the board with a summary of the risks currently on the register and explained the separate covid risk register had been closed with the transfer of outstanding risks to the main risk register.

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

From: Chairman Kent Pensions Board
Corporate Director of Finance

To: The Pensions Board – 18 November 2021

Subject: Pension Fund Business Plan

Classification: Unrestricted

Summary:

To advise the Board of the progress made to date on the 2021-22 business plan and related outturn for 2021-22.

Recommendation:

The Board is recommended to note the report.

FOR INFORMATION

1. Introduction

1.1 The Board is asked to note the updated business plan and costs incurred to deliver the plan forecast for 2021-22.

2. 2021-22 Business plan

2.1 The Fund's business plan has been updated to reflect progress made to date and anticipated for 2021-22 and a copy is at appendix 1.

2.2 Members are asked to particularly note the following developments:

i) As part of the development of the Fund's RI policy committee members have completed an ESG beliefs survey with results being considered at a special meeting on 23 November.

ii) The Committee approved the updated Funding Strategy Statement following consultation with employers and other interested parties, at its September meeting and this has been published to the website.

iii) The Committee approved the updated Investment Strategy Statement at its meeting in September and this has been published to the website.

iv) The Fund accounts and audit timetable has been extended to the end of November. The Committee is to be asked to approve the Fund report before the 1 December deadline.

v) KCC is progressing the implementation of the restructure of the finance support for the Fund in line with the recommendations of the Barnett Waddingham review.

vi) Barnett Waddingham have completed their review of the governance of the Pension Fund and have issued their report. There will be a presentation on their findings and recommendations to members at the Board meeting on the 18th. It is anticipated that during 2021-22 efforts will be focused on the implementation of the recommendations.

3. 2021-22 forecast

3.1 The forecast costs to support the 2021-22 business plan are expected to amount to some £4.84m compared to the budget of £5.07m, a reduction of £230,000. Both Pension administration costs and Investment accounting and governance staffing costs are forecast to be lower than originally anticipated due to the later than planned recruitment of additional staff agreed as part of the implementation of the recommendations of the review of the finance function. These savings are offset by higher fees relating to the equity protection programme and actuarial costs.

3.2 It is anticipated that the resources required to support the changes to the Fund's governance arising from the Barnett Waddingham review will be provided from within the restructured Treasury and Investments team with support from Democratic Services colleagues.

4. Pension Fund Management Costs

4.1 The table below details forecast costs for 2021-22 compared to budget for the delivery of the Fund's business plan.

	Budget 2021-22	Forecast 2021-22
	£ '000	£ '000
Pensions Administration	3,610	3,356
Pension Payroll Services	226	226
Payment services	17	17
Financial Services	69	69
Administration Expenses	**3,922**	**3,668**
Actuarial Fee including cost of valuation	250	310
Legal Fees	50	25
Direct recovery of actuary, legal fee, and admin costs	-225	-230
Subscriptions	46	46
ACCESS pooling costs	115	115
Investment Accounting and Oversight costs	600	529
Performance Measurement Fees	30	30
Investment and governance consultancy	180	176
Equity Protection consultancy*	30	*105
Other professional advice	20	20

Governance and Oversight Expenses	**1,096**	**1,126**
Audit fee	50	50
Total	**5,068**	**4,844**

*Includes Equity Protection restructuring advice cost that was not factored in the budget

5. Review of the Finance support for the Fund

5.1 As previously reported progress has been made with implementing the recommendations of the Barnett Waddingham review.

5.2 Recruitment of the proposed Head of Pensions and Treasury is in hand and the Treasury and Investments team is being restructured with existing staff moving to new roles within the team and the recruitment of a graduate accounting trainee and a Treasury Accountant. Most staff have commenced their new roles and training is in hand to cover their new responsibilities.

5.3 The recommendation to recruit 3 project officers to support the Pensions Administration team and the recruitment of these staff is underway.

5.4 Pension administration and Fund investment, accounting and oversight costs are expected to be higher in 2021-22 than in 2020-21 as a result of the restructure however this increase is less than budgetted due to the restructure and recruitment being completed later than originally planned.

Alison Mings, Acting Business Partner – Kent Pension Fund

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November 2021

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Kent Pension Fund Business Plan

Action No.	Description	Accountable Officer(s)	Proposed 2021-22 activity	November 2021 update

1. Investment Strategy

1.1	Implement the revised asset allocation agreed by Superannuation Fund Committee on 9 February 2018.	Zena Cooke / Alison Mings	Finalise monitoring and reporting for equity protection programme	Implementation of the UK cover pending rise in FTSE100 to trigger point. Update on the restructure of global protection to be reported to the December committee Currency hedging review to be rolled forward into future asset investment strategy review
1.2.1	Strategic review of asset allocation taking account of results of the 2019 valuation	Zena Cooke / Alison Mings / Sangeeta Surana	Engage investment consultant to undertake review Q1, report outcome to June committee	Review deferred to Q3 2021-2022
1.2.2	Implement the agreed recommendations of the strategic asset allocation review	Zena Cooke / Alison Mings / Sangeeta Surana	Engage investment consultant to advise on new investment options including ACCESS funds, and selection of managers	See 1.2.1
1.3	Manage the transition of investments including to the ACCESS pooled funds	Alison Mings / Sangeeta Surana	Transition fixed Income sub-fund investments as already agreed to the ACCESS platform Implement other transitions arising from recommendations of strategic asset allocation review	Timing for fixed income sub-fund transition to be reviewed
1.4	Monitoring the performance of investment managers and funds.	Zena Cooke / Alison Mings / Sangeeta Surana	Investment Managers attending quarterly committee meetings Monthly flash reports, quarterly fund performance reports Investment consultant attending every committee meeting. Quarterly manager reviews. Asset allocation review at every meeting against Rebalancing Framework	
1.5	Develop enhanced Responsible Investment (RI) / Environmental Social and Governance (ESG) policy / reporting	Alison Mings Sangeeta Surana Katherine Gray	Ongoing - RI working group monthly meetings, recommendations to the committee, training for the committee on RI developments	RI beliefs survey completed, committee meeting on 23 November to consider outcome and next steps
1.6	Investment Consultant procurement	Sangeeta Surana Alison Mings	Ongoing management of Investment consultant contract	
1.7	Update investment strategy statement (ISS) reflecting CIPFA guidance and best practice	Alison Mings Sangeeta Surana	ISS to be updated with assistance from the investment consultant reflecting revised strategic asset allocation	Updated ISS approved by Committee at its September meeting and published to the website
1.8	Custody contract	Sangeeta Surana Katherine Gray	Complete procurement of a long-term custody contract Q2 and manage transition to new provider if required.	Procurement completed. New contract awarded from 1 August 2021

2. ACCESS Pool

2.1	Support the Chairman in his role on the Joint Committee (JC).	Alison Mings	Quarterly meetings	
	Membership of the S151 group	Zena Cooke	Quarterly meetings before the Joint Committee meetings	
2.2	Membership of the Officer working group (OWG) and other working groups to support the progress of the pooling agenda	Alison Mings Sangeeta Surana Katherine Gray	Continue to support the progression of pooling in ACCESS through participation in working groups as required. Most of the current working groups are expected to continue in 2021-22	Continued membership of OWG, Active listed assets sub-group, Reporting sub-group, Non-listed assets sub-group, Investor user group RI task and finish group, Custody procurement task and

Kent Pension Fund Business Plan

Action No.	Description	Accountable Officer(s)	Proposed 2021-22 activity	November 2021 update
				finish group – work complete,
2.3	Support the role of host authority and Access Support Unit (ASU)	Alison Mings	Kent Democratic Services providing clerking support to the JC	
2.4	Ensure the Superannuation Fund Committee and Board are kept fully informed on ACCESS issues.	Alison Mings	Quarterly updates for the board and committee	

3. Governance and employer matters

Action No.	Description	Accountable Officer(s)	Proposed 2021-22 activity	November 2021 update
3.1	Support the Superannuation Fund Committee and the Pension Board members to effectively undertake their roles and ensure that appropriate training is available.	Zena Cooke / Alison Mings	Put in place permanent resources and agreed management structure within the KCC finance function Implement updated training plan See actions 3.7 and 3.8	Report on the review of KCC finance support received 23 April. Recommendations implemented in October / November 2021. Training programme launched 1 April
3.2	Prepare the Fund's annual accounts and report including compliance with cost transparency requirements and with revised reporting guidelines	Sangeeta Surana / Katherine Gray	Complete accounts and report in line with timetable agreed with KCC Chief Accountant and external auditors.	Accounts and audit timetable extended to end November. Accounts sign off by G&A Committee 30 November and report approval 1 December 2021 committee
3.3	Response to consultations and regulation changes	Alison Mings / Barbara Cheatle	ongoing	ongoing
3.3.1	Employer flexibilities	Alison Mings	Work with the Fund Actuary on implementing changes re exiting employers.	Updated FSS agreed by the Committee at its September meeting, following consultation with employers and other interested parties, and published to the website
3.3.2	McCloud remedy	Barbara Cheatle	Implement changes required, see action 4.5	
3.3.3	Public Sector Exit Payments	Barbara Cheatle	Implement changes required, see action 4.6	No changes required as legislation withdrawn
3.4	Actuarial triennial valuation	Fund actuary / Alison Mings / Steve Tagg / Barbara Cheatle	Planning for 31 March 2022 valuation	
3.5	Update Funding Strategy Statement (FSS)	Alison Mings / Stave Tagg	FSS to be updated taking account of advice from Governance consultant	See 3.3.1
3.6	Fund actuary contract	Alison Mings / Steve Tagg	Ongoing management of actuary contract	
3.7	Review governance arrangements considering internal audit recommendations.	Zena Cooke / Alison Mings	Complete review and implement recommendations	Report received. To be shared with the Board and Committee at their next meetings in November and December 2021 respectively. Work in hand on implementation of recommendations.
3.8	Undertake review of finance resources considering internal audit recommendations.	Zena Cooke / Alison Mings	Implement recommendations Q1	Implementation Q2 and Q3 2021-22

4. Administration

Action No.	Description	Accountable Officer(s)	Proposed 2021-22 activity	November 2021 update
4.1	Roll out i-Connect employer self service	Barbara Cheatle	Further rollout planned	Discussions and planning ongoing with larger employers and other employers onboarded
4.2	Preparation of annual benefit illustrations for despatch to members by the statutory deadline	Barbara Cheatle	Ongoing	
4.3	Follow up GMP (guaranteed minimum pension) reconciliation exercise	Barbara Cheatle	HMRC have confirmed errors in previous information supplied for GMP reconciliation and so rework required by external company	Following HMRC confirming errors in previous information supplied for GMP reconciliation rework carried out by external company. New reconciliation queries to be actioned before stage 3 can be commenced.
4.4	Develop plan for introducing member	Barbara Cheatle	Planned roll out to members	Details of how to register for

Kent Pension Fund Business Plan

Action No.	Description	Accountable Officer(s)	Proposed 2021-22 activity	November 2021 update
	Self Service (MSS)			member self-service supplied to deferred members in statements despatched in July and to active members in September
4.5	McCloud remedy project - changes to LGPS following the McCloud judgement	Barbara Cheatle	Project to commence once remedy agreed	Project to commence once remedy agreed. Pilot actioned with one employer based on guidance before launch to all employers
4.6	Exit payments £95k cap	Barbara Cheatle	Implementation of changes per LGPS regulations and guidance	Legislation withdrawn, awaiting further information

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From:	Corporate Director of Finance
To:	Pension Board – 18 November 2021
Subject:	Pensions Administration
Classification:	Unrestricted

Summary:

This report brings members up to date with a range of issues concerning the administration of the Kent Local Government Pension Scheme (LGPS).

Recommendations:

The Board is recommended to note the report

REPORT SUMMARY

i) Number of tasks completed in the 6 months to 30 September 2021 have returned to levels achieved prior to the pandemic.
ii) Key Performance Indicators in some areas have been severely impacted by the system problems experienced during the 6 months
iii) System problems stabilise
iv) Update on Annual Benefit Illustrations and reportable breach
v) Introduction of Member Self Service

1. WORKLOAD POSITION

Tasks completed in key areas in 6 months to 30 September 2021 and comparison with previous 4 years

	TOTAL	Retirement Benefit	Corres pondence	Estimate Retirement Benefit	Dependant Benefit	Deferred Benefit	Divorce	Transfer/ Interfund In	Transfer/ Interfund Out
6 mths to 30/09/21	**10,070**	1290	3710	2480	230	1760	200	60	340
2020 -2021	**14,320**	2300	4540	3830	500	1750	320	310	770
2019 - 2020	**19,520**	2480	4280	3900	450	6680	350	490	890
2018 - 2019	**18,120**	2590	5790	3680	530	3910	400	430	790
2017 - 2018	**14,290**	2010	5340	3030	580	1720	330	420	860

Numbers rounded to the nearest 10 for clarity

1.1 As at 30 September 2021 the total number of tasks completed was 10,070. If workloads continue at the same level for the remainder of 2021/22 then the total number of tasks completed during the year will exceed those completed in 2020/21 and will be on a par with 2019/20. The reason for the fall in the number of cases completed in 2020/21 was mainly due to staff being unable to work for periods during that year due to the lack of IT equipment.

1.2 During the 6 months to 30 September 2021 there has been a marked increase in the amount of correspondence and requests for estimates of retirement benefits. This could be due to scheme members considering lifestyle changes following the pandemic. The number of deferred benefits completed has already exceeded the amount completed in the previous year. This is mainly due to the assistance we are receiving from ITM limited with dealing with this category of work.

1.3 The number of transfers of pension rights both into and out of the scheme have fallen as these categories of work were not prioritised at the start of the pandemic however a project has now commenced to deal with these cases.

2 ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

KPIs in key areas in 6 months to 30 September 2021 and comparison with previous 4 years

	Calculation and payment of retirement benefit	Response to correspondence	Calculation of retirement benefit estimate	Calculation and payment of dependant benefit
KPI	20 days	15 days	20 days	15 days
6 mths to 30/09/21	59%	98%	77%	17%
2020/2021	93%	99%	58%	100%
2019/2020	97%	100%	90%	93%
2018/2019	96%	100%	72%	97%
2017/2018	98%	99%	72%	99%

NB. All target turnaround times commence when we have all the necessary documentation to complete the particular task. Requirement to complete 95% of the recorded KPI tasks, within the agreed target turnaround times

2.2 The table of our performance against our target key performance indicators, especially with regard to retirement benefits and dependant benefits, reflects the problems we have experienced during the 6 months to 30 September with connectivity to our hosted pension administration service. Members will recall that I have reported over several meetings the problems that staff were experiencing culminating in a 10 day period in August when productivity slowed considerably. Although these system issues have eased and stabilised at this time we are still suffering the consequences of these earlier disruptions when completing these areas of work within the KPI timeframe.

3 SYSTEM AND CONNECTIVITY PROBLEMS

3.1 Members will recall at the last meeting that I detailed the problems that staff had been experiencing with regard to the slowness of connection to the hosted service.

3.2 Since that time certain staff have been piloting different ways of connecting to the service with the aid of KCC's IT department and Aquila Heywood. The results show that 2 of the 3 methods being trialled are providing the best results with the added advantage that it would appear using these methods means that pension administration staff will be able to access the service from any area in a KCC building rather than being restricted to especially configured areas.

3.3 A decision with regard to the preferred method of connecting will be decided shortly with the agreement of KCC's IT department with all staff moving to this method after this.

4 ANNUAL BENEFIT ILLUSTRATIONS

4.1 Members will recall that at the last meeting I detailed that as the administrating authority we had not been able to fulfil our statutory responsibility to provide the non uniformed staff, approximately 3,100 scheme members, employed by Kent Police and the Police and Crime Commissioner, with Annual Benefit Illustrations by the 31 August. The reason that we were unable to provide the Illustrations was that we had not received the data required from Kent Police despite providing extended deadlines for the receipt of this data.

4.2 It was decided by members at the last Pension Board meeting, and agreed at the subsequent Superannuation Committee meeting, that this was a material breach of the pension scheme regulations and as such should be reported to the Pensions Regulator.

4.3 Following the meetings dialogue continued with Kent Police to resolve outstanding issues with regard to the data that was provided and to provide a timetable for the receipt of this data in order that arrangements could be made with our printers to provide Illustrations. Provided all queries are resolved Illustrations will be provided before the Christmas break.

4.4. Letters were sent to both the Chief Constable and the Police and Crime Commissioner explaining the situation and asking them to respond to questions raised by the Board and Committee with regard to what circumstances had caused the data not to be submitted in a timely fashion in 2021 and the steps that would be put in place to ensure that the situation did not occur again.

4.5 When the situation regarding the Illustrations for 2021 has been finalised I will then be in the position to report the breach to the Pensions Regulator and provide an explanation as to how the position has now been resolved.

5 MEMBER SELF SERVICE

5.1 Member Self Service (MSS) is an online secure facility for scheme members to access their individual pension account where they are able to see the current value

of their pension and using pension projectors can model different potential scenarios to see what pension savings they could receive at retirement.
5.2 They can also use MSS to go online to inform us of a change of address or a change to their wishes with regard to any death grant that may become payable.
5.3 Details of how to register for MSS were provided in the deferred benefit updates provided earlier in the year and in the Annual Benefit Illustrations provided at the end of August.
5.4 Currently 786 scheme members have registered to use the service, made up of 425 current members and 361 deferred members. Although this number may appear disappointing a deliberate decision was made to start slowly in order to gauge the impact on team members in resolving registration problems etc however this has proved to be manageable and so in future more prominence will be given to this new service both on our website and in future communications.
5.5 MSS is not currently available to pensioner members but we are looking to introduce this in the future with these members being able to view their payslips and P60s online.

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November 2021

From:	Chairman – Kent Pension Board Corporate Director of Finance
To:	Kent Pension Board – 18 November 2021
Subject:	Fund Employer and Governance Matters
Classification:	Unrestricted

Summary:

This report provides an update on Fund employers, the Funding Strategy Statement, a government consultation and admission matters.

Recommendation:

The Board is recommended to note the report.

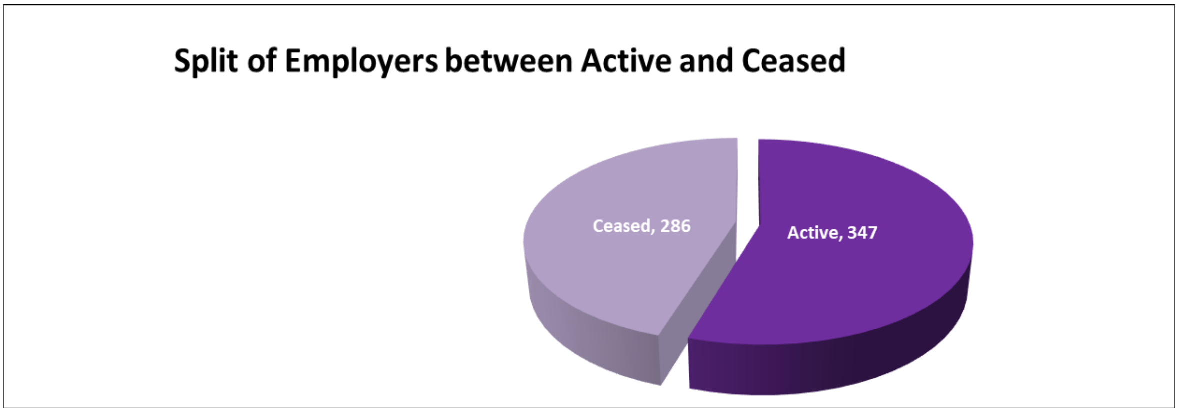
FOR INFORMATION

1 Introduction

1.1 This report sets out information on employer related matters for the 6 months to 30 September 2021. It also provides an update on the Fund's Funding Strategy Statement (FSS), a government consultation and admission matters.

2 Fund Employer update

2.1 There was a total of 633 employers in the Kent Pension Fund on 30 September 2021, an increase of 1 from 30 June 2021.



2.2 The number of active employers regularly paying contributions increased by 7, 4 were new to the Fund, 2 employers changed their payroll provider and 1 ceased employer became active again. 6 employers ceased to have active members in the Local Government Pension Scheme (LGPS). The ceased employers no longer have active contributing members in the LGPS and the Fund has an existing or future liability to pay any pensions.

2.3 The following table lists employers who joined the Fund as well as those who ceased to have active members in the Fund during the 6 months to 30 September 2021.

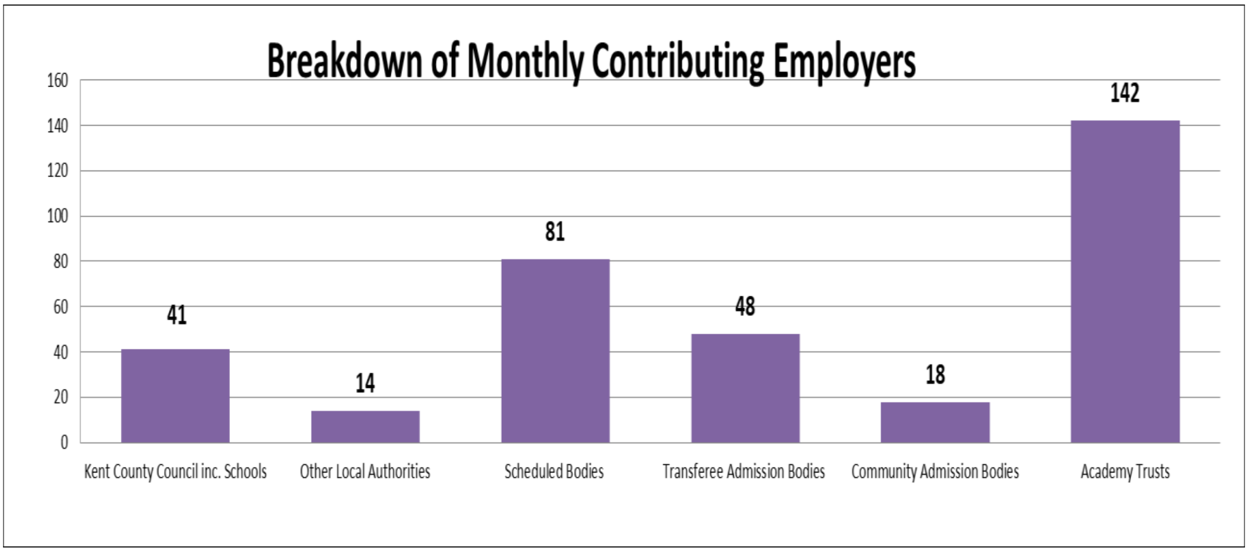
New Employers	**Effective date**
Admission Bodies	
Churchill Contract Services Ltd (re Thinking Schools Academy Trust)	1 September 2019 (backdated admission)
Scheduled Bodies	
Canterbury Environment Company Ltd	1 February 2021 (backdated admission)
Kite College	1 May 2021
Academy Trusts	
Inspire Trust	1 April 2021
Ceased / Merged to Trust Employers	**Effective Date**
Admission Bodies	
Kent College Canterbury	31 January 2021 (late notification of last active member leaving)
Rochester Care Homes Ltd	31 March 2021
Deep Beat Entertainment Ltd (Medway Park)	18 May 2021
Deep Beat Entertainment Ltd (Strood)	18 May 2021
Busy Bee Cleaning Services Ltd	31 July 2021
Academy Trusts	
Village Academy Trust	31 May 2021
Brook Learning Trust	31 August 2021
Scheduled Bodies	
Kent Magistrates Courts Committee	31 March 2021

2.4 In the 6 months to September 2021 the Fund received £133.6m from employers in respect of their monthly contributions (employer and employee) as follows:

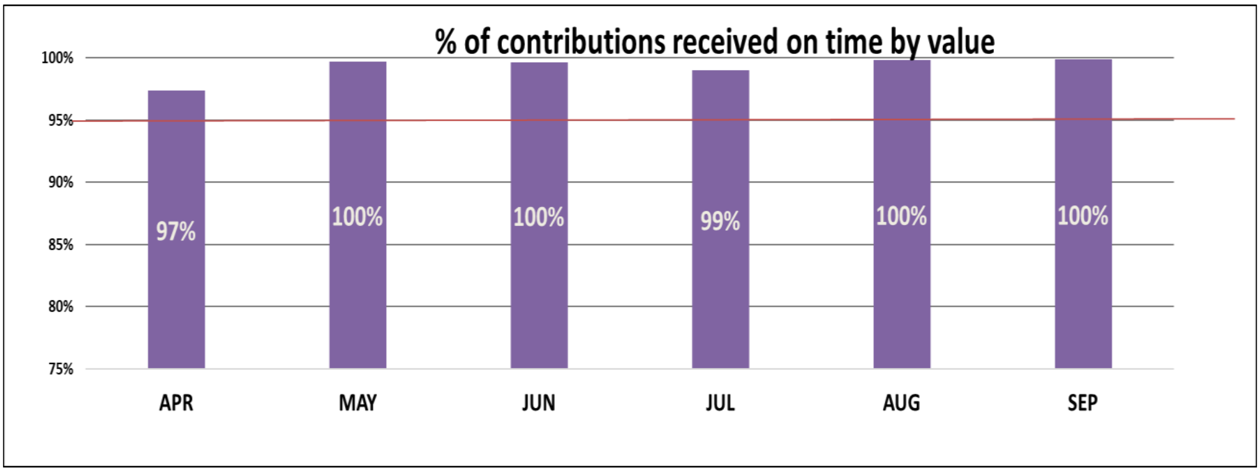
	Received Early	**Cash on 19th**	**Received Late**	**Total**
	£	**£**	**£**	**£**
April	12,840,115	8,765,012	587,525	22,192,651
May	12,279,932	9,762,932	60,322	22,103,186

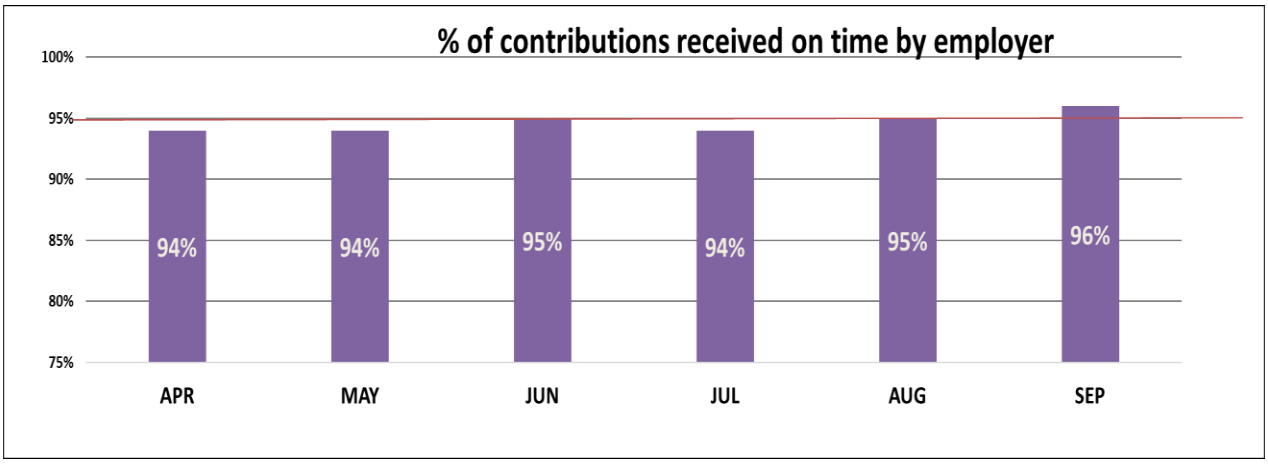
June	12,716,335	9,642,629	76,950	22,435,554
July	13,282,861	8,791,062	224,129	22,298,052
August	12,766,590	9,576,083	40,569	22,383,242
September	13,069,099	9,086,697	30,949	22,186,746
Total	**76,954,932**	**55,624,415**	**1,020,444**	**133,599,431**

2.5 The following table shows employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the council's and schools' relationships with several payroll providers.



2.6 Officers continue to monitor the receipt of these contributions and the following two charts show the % of employer contributions received on time by two different measures; by value and by number of employers. The Key performance indicator (KPI) of 95% for % of contributions received on time by employer was not achieved in April, May or July due to backdated admissions and some Parish Councils having issues with their bank. Since August we have achieved our KPI of 95% each month.





3 Funding Strategy Statement (FSS) and associated Fund policies

3.1 At their meeting on 8 September the Committee agreed the revised FSS and associated policies in light of the results of the consultation run over a 6-week period through July and August and advice from Barnett Waddingham.

3.2 Members also agreed to accept alternative forms of security provided by admission bodies irrespective of the tax raising powers of the letting authority subject to the following:

i) a satisfactory assessment of the financial strength of the letting authority

ii) that the detail of any pass-through agreement and / or guarantee is captured in the associated admission agreement.to accept alternative forms of security provided by admission bodies irrespective of the tax raising powers of the letting authority subject to a satisfactory assessment of the financial strength of the letting authority and that the detail of any pass-through agreement and / or guarantee is captured in the associated admission agreement.

3.3 A copy of the FSS has been published to the Fund's website at: [Funding strategy statement - Kent Pension Fund].

4 Government consultation on the cost control mechanism

4.1 As previously reported, HM Treasury ran a consultation on proposed changes to the cost control mechanism from June through August 2021. On 4 October the Government published their response to the consultation and a copy of their response is at appendix 1.

4.2. The Government has advised that it is pushing ahead with the proposed reforms, and they should be in place for the 2022 LGPS valuation, so

- Removing the allowance in the mechanism for the legacy schemes
- Widening the current 2% corridor to 3% of pensionable pay

- Adding an economic check, essentially as a sense check of the mechanism's results.

4.3 It is anticipated future legislation changes will follow.

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5. Employer admission matters

5.1 At their meeting on 8 September 2021 the Committee agreed to:

a) the admission to the Fund of Cater link Ltd (re Education for the 21st Century Academy Trust),

b) that a Deed of Modification be entered into in respect of Enterprise (AOL) Ltd

6. Recommendation

6.1 The Board is recommended to note the report.

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November 2021

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HM Treasury

Public Service Pensions: cost control mechanism consultation

Government response to the consultation

October 2021

HM Treasury

Public Service Pensions: cost control consultation

Government response to the consultation

October 2021

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

Contents

Executive summary

The cost control mechanism was introduced following the recommendations of the Independent Public Service Pensions Commission (IPSPC) in 2011. It is a mechanism designed to ensure a fair balance of risk between members of public service Defined Benefit (DB) pension schemes and the Exchequer (and by extension taxpayers).

The cost control mechanism was first tested at the 2016 valuations. Provisional results raised the question of whether the cost control mechanism, as currently designed, is too volatile. Following this, at HM Treasury's request, the Government Actuary (GA) conducted a review of the cost control mechanism. The review was commissioned amidst concern that the mechanism was not operating in line with its original objectives. The GA's final report to HM Treasury containing his findings and recommendations was published on 15 June 2021.

Having considered the GA's report, the Government held a consultation between 24 June 2021 and 19 August 2021 to seek views on three key proposals to reform the mechanism, all of which were recommendations by the GA:

- **Moving to a 'reformed scheme only' design** so that the mechanism only considers past and future service in the reformed schemes, and costs related to legacy schemes are excluded. This ensures consistency between the set of benefits being assessed and the set of benefits potentially being adjusted;
- **Widening the corridor from 2% to 3% of pensionable pay.** This aims to achieve a better balance between stability and responsiveness of the cost control mechanism; and
- **Introducing an economic check.** The GA's report noted that "It does not seem possible for the mechanism to be able to protect taxpayers unless it considers more of the factors affecting the actual cost of providing a pension." Currently the mechanism does not include changes in long-term economic assumptions and therefore cannot consider the actual cost to the Government of providing pension benefits. The Government proposes introducing an economic check so that a breach of the mechanism would only be implemented if it would still have occurred had any changes in the long-term economic assumptions have been considered.

HM Treasury received 61 responses in total from a broad range of respondents. These have been considered in detail.

Changes to the core mechanism

Reformed scheme only design

The majority of respondents supported the Government's proposal to move to a reformed scheme only design and agreed that it did not seem fair for the costs of legacy schemes to impact the benefits received by relatively younger members in the reformed schemes. They agreed that as the mechanism can only adjust benefits in the reformed schemes, it seems fair to exclude the impact of legacy schemes.

A small minority felt that the current approach was preferable, as many members have service in both the legacy and reformed schemes, and so the mechanism should account for all these costs.

Others felt that a future service only design, (whereby the mechanism would only account for the costs of future service in reformed schemes) would be even fairer for relatively younger members in the reformed schemes, as they would not be affected by the impact of any past service costs of relatively older members, the impact of which will increase over time.

In line with the majority of respondents, the Government believes that a reformed scheme only design is necessary to ensure the right balance of risks between members and the Exchequer and to improve stability. A reformed scheme only design will mean that the risk of costs associated with legacy schemes will be transferred to the Exchequer, but the Government believes it is right for the Exchequer to bear this risk in order to reduce intergenerational unfairness.

Wider corridor

A majority of respondents agreed with the proposal to widen the corridor, and a slight majority agreed that the corridor should be set at +/-3% of pensionable pay. They welcomed the fact that widening the corridor would lead to a more stable mechanism by minimising the frequency of breaches, which will lead to fewer changes in benefits or member contributions. They felt that a corridor size of +/-3% was appropriate, and will strike the right balance between stability and effective cost control.

However, some favoured retaining a +/-2% corridor on the basis that a wider corridor, while providing more stability, would also diminish the cost control provided by the mechanism. Many respondents raised concerns that a wider corridor would exacerbate the "cliff-edge" nature of the mechanism which means larger changes in costs can occur without remedial action. Many argued that a proportional cost corridor, where the size of the corridor would vary depending on the size and costs of that scheme, would be more appropriate.

The Government considers that a +/-3% corridor would strike the right balance between providing effective cost control and a stable mechanism. A corridor size larger than this would not be appropriate as it would allow costs to diverge by too much before being brought back to target. The Government considers that while the "cliff-edge" risk exists, a wider corridor is necessary to ensure a more stable mechanism. The Government believes that a consistent corridor design for all schemes is preferable to a proportional cost corridor. A consistent corridor size limits the absolute change in costs that can occur across all schemes before a breach is triggered. The Government does not consider that just because a scheme is more expensive from the outset, it should be allowed to let costs change by a greater absolute amount. Furthermore, the Government considers that a proportional cost corridor would be overly complex and more difficult for members to understand than the current consistent corridor design, potentially eroding transparency and trust in the mechanism.

Economic check

Responses on the proposal for an economic check were mixed; similar numbers of respondents supported and opposed the proposal. Some argued that it would lead to a more stable mechanism and also help avoid benefit reductions if the wider economic outlook improved but individual scheme costs rose. Many raised concerns that this proposal may be a breach of the 25-year guarantee, and that it had been agreed when the mechanism was set up that changes in the SCAPE discount rate would not impact member benefits. Many also raised concerns that the economic check would not be transparent or objective and would make the mechanism subject to government interference.

Respondents with links to the Local Government Pension Scheme (LGPS) were consistently of the view that if an economic check was adopted, linking it to expected long-term GDP would not be appropriate for the LGPS. The LGPS, as a funded scheme, looks to achieve investment returns to ensure a minimum call on future local taxpayers by maintaining a pension fund able to meet all future liabilities. They argued that this is a fundamentally different situation to the unfunded schemes, where taxpayers are directly responsible for paying the cost of public service pensions.

The Government has considered all responses and maintains the view that an economic check should be introduced for all schemes, with further consideration required for potential allowances for the LGPS. The economic check will operate in line with the GA's recommended design and will be linked to the OBR's independent and objective measure of expected long-term GDP growth and the long-term earnings assumption. The economic check may potentially be linked to the SCAPE discount rate if the methodology remains linked to expected long-term GDP growth. The SCAPE consultation response will be published in due course; the Government has considered any relevant points raised as part of that consultation here.

In the Government's view, the main purpose of the economic check is to ensure consistency between benefit changes and changes to the long-term economic outlook. This approach ensures that there will be a higher bar for benefit increases to be awarded if the country's long-term economic outlook has worsened. This will equally apply to benefit cuts if the long-term economic outlook has improved. The Government can confirm that the economic check will apply symmetrically, operating in the exact same way in relation to floor breaches as it would to ceiling breaches. It will operate purely mechanically and transparently, with no scope for interference from individuals or groups, either from within the Government, or outside.

The Government has taken into consideration the concerns raised by LGPS stakeholders that an economic check linked to expected long-term GDP growth is not appropriate for the funded LGPS. The Government recognises the different nature of the LGPS. However, on balance, the Government still believes that the economic check as a whole is an appropriate proposal for LGPS.

As noted by respondents, the purpose of LGPS investments is to minimise the cost pressures facing LGPS employers who will meet the balance of costs. If the cost of benefits goes up the responsibility will fall on local authorities, who are funded to a significant extent by local taxpayers and other LGPS employers. Similar to the reason for the economic check for the unfunded schemes, the purpose of an economic check in the LGPS is to ensure consistency between benefit changes and changes in the wider economic outlook. Whilst the financial health of individual local authorities is not directly linked to expected long-term GDP growth, the Government would still expect a link between the economic performance of the UK and the financial health of local authorities.

HM Treasury will work with the Department for Levelling up, Housing and Communities and LGPS stakeholders to consider whether it is desirable for the England and Wales Scheme Advisory Board (SAB) process to be adapted in line with the principles of the economic check. The Government also acknowledges that the SABs in Scotland and Northern Ireland may wish to consider introducing a similar process to the England and Wales SAB, and will work with colleagues in the Devolved Administrations if they feel it would be desirable to do so.

Next steps

The Government is aiming to implement all three proposals in time for the 2020 valuations. It is necessary to implement the reformed scheme only design and the economic check through expanded powers in primary legislation, when parliamentary time allows, and then by making Treasury Directions under those powers in due course. The wider cost corridor will be implemented to a longer timeline via secondary legislation.

Chapter 1
Introduction

Background

The establishment of the cost control mechanism

1.1 The cost control mechanism (CCM) is a mechanism designed to ensure a fair balance of risk with regard to the cost of providing public service Defined Benefit (DB) pension schemes between members of those schemes and the Exchequer (and by extension taxpayers). It was introduced following the recommendations of the Independent Public Service Pensions Commission (IPSPC) in 2011. Whilst the IPSPC recommended a mechanism to protect the Exchequer from increased costs, the final mechanism negotiated between the Government and member representatives is symmetrical and so also maintains the value of pensions to members when costs fall.

1.2 The original objectives of the CCM can be summarised as follows:

1. To protect the Exchequer (and by extension taxpayers) from unforeseen costs;
2. To maintain the value of a public service DB pension scheme to its members; and
3. To provide stability and certainty on member benefit and contribution levels – the mechanism should only be triggered by 'extraordinary, unpredictable' events.

1.3 For each scheme, the mechanism assesses certain aspects of the costs of providing that scheme compared to a base level ("the employer cost cap"); if, when the mechanism is tested, those costs have decreased/increased by more than a specified percentage of pensionable pay compared to the employer cost cap, then member benefits in the relevant scheme are increased/reduced to bring the cost of that scheme back to target. The target cost is the same as the employer cost cap. So, there is effectively a corridor either side of the target cost, with a margin representing the 'ceiling' and 'floor'. If costs fall below the lower margin (a "floor breach"), then benefits must be increased to bring costs back to target. If costs increase above the upper margin (a "ceiling breach"), then benefits must be reduced.

1.4 The Government made provision to establish the CCM in the Public Service Pensions Act 2013 ('the Act'). Following consultation with member representatives, the Government set out in a policy paper[1] how the mechanism would operate and the Treasury made directions to put this policy into effect.

The 2016 valuations

1.5 The first test of the mechanism was at the 'as at' 31 March 2016 valuations ("the 2016 valuations"). Provisional results indicated floor breaches across all schemes for which results were assessed. It was in the context of these provisional results that the Government announced that it was asking the Government Actuary (GA) to review the cost control mechanism.[2] The Government's intention is that the cost control mechanism is only triggered by 'extraordinary, unpredictable events'. The key drivers of the indicative floor breaches were a reduction in assumed future pay increases (caused by short term pay restraint) and a reduction in assumed life expectancy. The Government did not consider that either short term pay restraint or a change in future projections of life expectancy fit the category of 'extraordinary, unpredictable events', raising the question of whether the cost control mechanism, as currently designed, is too volatile. Meanwhile, employer contribution rates increased by up to 9% of pensionable pay before the impact of the CCM. But the preliminary results of the CCM for all schemes showed a floor breach which would have further increased employer contribution rates and costs to the taxpayer.

1.6 The cost control element of the 2016 valuations was paused due to the uncertainty arising over the value of member benefits following the judgments in the McCloud and Sargeant litigation, and with it so was the GA's review of the CCM. On 16 July 2020, alongside the publication of the Government's consultation on addressing the discrimination identified in the McCloud and Sargeant judgments, the Government announced that the pause of the cost control element of the 2016 valuations process would be lifted and the GA's review of the CCM would proceed.[3] In addition, the Government announced that the costs associated with addressing the discrimination would be considered when completing the cost control element of the 2016 valuations.[4]

1.7 Whilst amending directions instructing schemes on how to complete the cost control element of the 2016 valuations are yet to be finalised, and will be published in due course, early estimates indicate that some ceiling breaches are likely. If normal statutory procedure were followed, any ceiling breaches would lead to a reduction in member benefits in order to bring costs back to target. The Government decided that there should not be reductions to member benefits as a result of completing the cost control element of 2016 valuations, particularly based on a mechanism that may not be working as originally intended. The Government has therefore announced that, should results identify ceiling breaches once finalised, the impact of these will be waived. This means that the benefit reductions that would be

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1 https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism

2 https://questions-statements.parliament.uk/written-statements/detail/2018-09-06/hcws945

3 https://questions-statements.parliament.uk/written-statements/detail/2020-07-16/HCWS380

4 Policy note - cost cap unpause and McCloud costs.docx (publishing.service.gov.uk)

expected following such ceiling breaches will not be implemented. As a result, where results show that costs in a scheme fall within the corridor or above the ceiling, benefit levels will not be changed as a result of the 2016 valuations.

1.8 The Government has, however, committed to delivering the impact of any floor breaches that occur. This means that when results have been finalised and implemented, any benefit improvements that are due will be delivered via increases in benefit accrual and/or reductions in member contributions in respect of service from 1 April 2019. The Government has introduced legislation to waive ceiling breaches in the Public Service Pensions and Judicial Offices Bill, which is currently before Parliament having been introduced into the House of Lords on 19 July 2021.

Government Actuary's Review and Consultation

1.9 The GA concluded his review in May 2021 and his final report was published on 15 June 2021.[5] The GA noted that:

- **Legacy schemes (i.e. those in place before the 2014/2015 reforms) were the main driver of the floor breaches** seen in the provisional results of the 2016 valuations. The breaches were caused primarily by a reduction in assumed pay increases and a reduction in the rate of increase of life expectancy. The GA considers that these costs relate to risks that have largely been mitigated in the reformed schemes: salary risk is mitigated by the career average (CARE) design of the schemes and most workforces mitigate the longevity risk by the link between Normal Pension Age (NPA) and State Pension age (SPA).[6] Although the mechanism assesses costs in both the legacy and reformed schemes, the impact of any breaches can only be delivered through changes to reformed schemes. The GA comments that "it is not clear to me why these residual risks in the legacy schemes should continue to influence the level of benefits in the reformed schemes".

- It was a **"perverse outcome"** that the 2016 valuations resulted in employer contribution rates increasing, whilst provisional cost control results found that all schemes breached the floor. If they had been confirmed, floor breaches would have led to benefit improvements, resulting in a further increase to employer contribution rates. The GA finds that this outcome was primarily driven by the fact that the cost control mechanism does not currently account for the change in the SCAPE discount rate, which is used to determine employer contribution rates.[7]

- **The current corridor is too narrow** and will lead to excessive volatility in the mechanism. The GA notes that even under a reformed mechanism,

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5 https://www.gov.uk/government/publications/cost-control-mechanism-government-actuarys-review-final-report

6 Most of the reformed schemes have a Normal Pension Age (NPA) linked to the member's State Pension age (SPA) (the age at which a State Pension can be received). There are exceptions for the armed forces, the police and firefighters, where the NPA is set at 60 for those retiring from active service.

7 Superannuation Contributions Adjusted for Past Experience (SCAPE) is the methodology used to value unfunded public service pension schemes. It uses a 'SCAPE discount rate' to convert the value of future pension payments into today's terms.

the current corridor would still mean a high likelihood of frequent breaches.

1.10 In the context of these findings, the GA made a series of recommendations on how the CCM could be reformed to bring it more in line with its objectives.

1.11 Between 24 June 2021 and 19 August 2021, the Government sought views on proposals to reform the cost control mechanism. The consultation document set out the Government's response to the GA's report and proposed changes to the mechanism. The Government proposed three changes to the mechanism in the consultation, all of which were recommended by the GA:

- **Moving to a 'reformed scheme only' design** so that the mechanism only considers past and future service in the reformed schemes, and costs related to legacy schemes are excluded. This ensures consistency between the set of benefits being assessed and the set of benefits potentially being adjusted;
- **Widening the corridor from 2% to 3% of pensionable pay.** This aims to achieve a better balance between stability and responsiveness of the cost control mechanism; and
- **Introducing an economic check.** The GA's report noted that "It does not seem possible for the mechanism to be able to protect taxpayers unless it considers more of the factors affecting the actual cost of providing a pension." Currently the mechanism does not consider the wider economic situation when determining whether breaches of the mechanism should result in a change to member benefits. The Government proposes introducing an economic check so that a breach of the mechanism would only be implemented if it would still have occurred had any changes to long-term economic assumptions been considered.

1.12 The Government believed these proposed changes would establish a fairer balance of risks between the Exchequer and scheme members and create a more stable mechanism. The Government sought views on these proposed changes in its consultation.

1.13 The GA's review and the consultation applied to all public service schemes covered by the CCM. These schemes are set out in Annex A.

1.14 In parallel to this consultation, the Government also held a separate consultation on the methodology used to determine the discount rate for setting employer contribution rates in the unfunded public service schemes (the SCAPE discount rate). The Government is considering responses to that consultation separately and will set out its response in due course; the Government has considered any relevant points to the CCM raised as part of that consultation here.

Stakeholder engagement

1.15 As part of his review, the GA held a stakeholder event attended by member and employer representatives from across the public service pension schemes from England, Wales, Scotland and Northern Ireland. At the event, the GA gathered views on the current functioning of the mechanism and whether there should be any changes made to it. The GA considered stakeholders' views in carrying out his review.

1.16 Following publication of his final report, the GA chaired a webinar which discussed his assessment of the current mechanism and recommendations on possible changes to the mechanism, followed by a Q&A. Speakers also included members of the team that assisted the GA with his review, and an introduction from HM Treasury officials.

1.17 Following publication of its consultation on proposed changes to the cost control mechanism, HM Treasury ran a number of engagement sessions in July and August 2021 to ensure stakeholders were given the opportunity to express their views directly to the Government. Meetings were held with members of Scheme Advisory Boards (SABs)[8] from across the UK relating to each public service workforce, which are made up of member, employer, and administrator representatives. These sessions also allowed stakeholders to seek clarification on any of the proposals. Most stakeholders followed up with formal written responses and the feedback received during the stakeholder sessions and in formal written responses has been considered in deciding the final policy proposals.

1.18 HM Treasury also held a further engagement session with the Local Government Pension Scheme (LGPS) England and Wales SAB in August 2021 to discuss the proposals in more detail, given the difference in the way the LGPS is funded.

1.19 In addition, the Chief Secretary to the Treasury (CST) met with the General Secretary of the Trades Union Congress (TUC) and a delegation of other Trade Union leaders. This allowed the TUC to share their views with the CST on behalf of their member organisations, which stretch across the public sector and are affected by the consultation.

1.20 Stakeholder engagement will remain important as the Government looks to implement changes to the cost control mechanism. HM Treasury will continue to engage with stakeholders directly where necessary, and through relevant government departments responsible for the different public service pension schemes.

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[8] Statutory bodies, created by the Public Service Pensions Act 2013, that advise responsible secretaries of state on potential changes to public service pension schemes and advise on the administration and management of the relevant schemes. The SABs usually consist of representatives of the relevant employers, employees and administrators.

Responses to the consultation

1.21 Consultees were asked to respond to a total of 7 questions. Responses to each question were considered in making final policy decisions, and in the drafting of this response.

1.22 Responses to the consultation were received in email form and presented in different formats. Each answered all, some or none of the questions asked in the consultation document. While some responses did not necessarily address the specific questions posed in the consultation document, all responses have been considered appropriately.

1.23 The Government has undertaken quantitative and qualitative analysis of the responses, and the common themes and views are summarised within this document. Whilst trade unions and other representative bodies represent a large portion of public service workers, it should be noted that the Government recognises that the number of responses received does not accurately represent all public service pension scheme members. Therefore, any quantitative data has its limitations and has been handled with caution during the decision-making process. Where we have supplied data in this document, it is to simplify and summarise responses and provide the reader with a sense of trends – the Government did not treat respondents' answers in a binary way (agree or disagree) when forming its final policy.

1.24 HM Treasury received 61 responses from a broad range of respondents. These included trade unions and other member representative bodies, Scheme Advisory Boards (SABs), government agencies, actuarial and pensions specialists and pension scheme administrators. A wide range of trade unions and other member representative bodies, including but not limited to the Trades Union Congress (TUC), Prospect, the Public and Commercial Services Union (PCS), the British Medical Association, the National Education Union (NEU), the Scottish Police Federation and the Defence Police Federation, responded to the consultation, representing over 3.5 million public service workers.

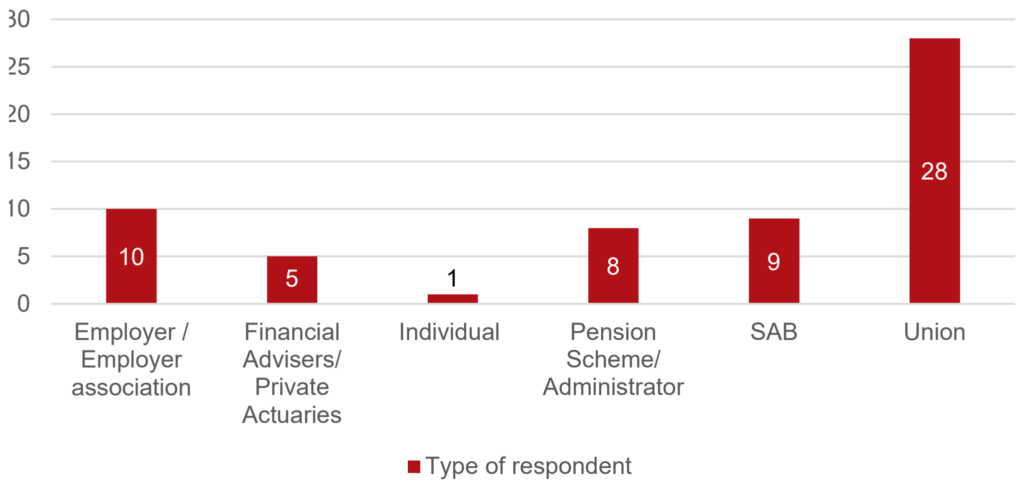
1.25 The 61 responses came from the following stakeholders:

- 9 SABs, representing the NHS (England & Wales), NHS (Scotland), Teachers (Scotland), Police (England & Wales), Police (Scotland), Local Government (England & Wales), Firefighters (England), and Firefighters (Scotland) Schemes.
- 28 trade unions and member representative bodies.
    - Of these, 10 predominantly represent members in schemes for teachers, 4 in schemes for police, 2 in schemes for firefighters, 2 in the scheme for civil servants, 1 in NHS schemes, 1 in schemes for local government, 1 in the scheme for the armed forces, and 7 across multiple schemes.
- 10 employers and employer associations.
    - Of these, 5 predominantly employer members in schemes for teachers, 2 in schemes for local government, 1 in schemes for firefighters, 1 in the scheme for the armed forces, and 1 in multiple schemes.

- 8 pension schemes and administrators.
  - Of these, 7 administer Local Government pension funds and 1 administers multiple schemes.
- 5 financial advisors and consulting actuaries.
- 1 individual.

1.26 A broad range of responses were received, as shown in Chart 1.A, which have been used to identify views and issues from members and bodies in relation to all the main pension schemes. The responses have usefully informed our assessment of the equalities impacts of the policy options, and in line with the Government's duty to have regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations in formulating its response.

Chart 1.A: Chart



Chapter 2
Changes to the core mechanism

Reformed scheme only design

Proposal

2.1 At present, the cost control mechanism assesses costs relating to active members in the legacy schemes as well as all members in the reformed schemes. The mechanism does not assess costs relating to deferred and pensioner members in the legacy schemes. In its consultation, the Government proposed excluding costs related to the legacy schemes so that, going forward, the mechanism would only consider costs associated with members in the reformed schemes (both past and future service).

2.2 A reformed scheme only design would ensure consistency between the set of benefits being assessed and the set of benefits potentially being adjusted. Under the current cost control mechanism, costs relating to active members with service in legacy schemes are assessed, but rectification can only occur in the reformed schemes. A reformed scheme only design would only assess and adjust benefits in the reformed schemes.

2.3 The consultation also set out that this proposal would reduce intergenerational unfairness as it would mean that comparatively younger members no longer experience changes to their benefits based on the cost of providing benefits to comparatively older members with past service in a legacy scheme.

2.4 Question 1 in the consultation asked whether respondents agree that a reformed scheme only design would achieve the right balance of risk between scheme members and the Exchequer (and by extension the taxpayer) and would create a more stable mechanism.

Responses

2.5 In total 60 stakeholders responded to Question 1. A high majority of respondents agreed with the proposal to move to a reformed scheme only design.

2.6 Many respondents noted that only benefits from the reformed scheme can be adjusted by the mechanism and therefore it is reasonable for the mechanism to only assess the costs of the reformed scheme.

"By reducing the size of the past service component, this would lead to a more stable mechanism, which could potentially increase confidence in the system for both members and employers. It seems reasonable to ensure that only those benefits that can be adjusted by the mechanism are considered in the assessment of cost."

Trades Union Congress (TUC)

2.7 Many respondents also agreed that this proposal would reduce intergenerational unfairness, as it seems unfair that relatively younger members in the reformed schemes should bear the risks relating to the final salary legacy schemes. They agreed that the reformed scheme only design would create a more stable mechanism over the short-medium term. Some respondents noted that stability is a key consideration of the mechanism, because frequent changes to benefits and/or contributions add more complexity to schemes and can create confusion among members.

"The NEU believes a reformed scheme only design is fairer on intergenerational grounds. This is especially the case for those members who join after April 2022 (the current proposed date to move all active members into the career average schemes). It seems unfair to make these members in particular bear risks relating to the previous final salary schemes."

National Education Union (NEU)

2.8 Some respondents noted that creating the "right" balance of risks between scheme members and the Exchequer is a different objective to that of creating a more stable mechanism, although the proposal to include both past and future service from reformed schemes in the mechanism represents a reasonable compromise between these aims.

2.9 Some respondents favoured the current design of the mechanism which takes account of costs in both the legacy and reformed schemes, and noted that a reformed scheme only design does not reflect that many members will have service in both the legacy and reformed schemes. They felt that changes in the value of final salary benefits should be taken into account when determining whether reformed scheme benefits should change, and that a cost control mechanism should cover all liabilities, not just those of the reformed schemes or future benefits.

2.10 Alternatively, a small minority of respondents argued for a future service only mechanism. They felt that the mechanism is designed to rectify any future service benefits and therefore an approach that only accounts for the revised costs of future benefits may be more appropriate. They argued that past service benefits in the reformed schemes will inevitably increase over time, and that where the impact of past service is included, but only future benefits are changed, intergenerational unfairness occurs. Therefore, they felt that a future service only design will preserve fairness for future joiners to schemes. Additionally, they felt that a reformed scheme only design will only have a short-term impact on intergenerational fairness as the value/cost of past service will build up over time. Some respondents were also concerned that one of the justifications the Government provided for rejecting a future service only design in its consultation was that it would make it *"difficult for the Government to respond to changes in overarching pension legislation which impacts past service costs or to respond to court judgements which impact past service, such as McCloud."* They felt it was not appropriate that a decision on reforming the cost control mechanism should be influenced by what they claimed was the Government's desire to avoid any future costs arising from any future wrongdoing.

"The proposed inclusion of both past and future service reformed scheme benefits seeks to address the competing objectives of maintaining the value of a public service defined benefit pension scheme to members, and protecting the exchequer from unforeseen costs. Stability will be important for confidence on both issues and member benefit and contribution rates are of importance to members. The SPF however is less persuaded this approach will have as stark an impact as is suggested on intergenerational unfairness. Although we consider this is a likely short-term outcome, we feel it is important to observe that past service benefits will inevitably increase in value over time. The potential impact of this on the cost cap and the weighting this will add to potential floor or ceiling breaches appear obvious. The very nature of cost cap reviews could see breaches that were essentially driven by past service experience (and by default, usually by the oldest members) being addressed by changes (either in contribution rates and/or benefits) being borne by younger scheme members."

Scottish Police Federation

2.11 A small number of respondents also raised questions about the potential interaction between the McCloud remedy cost and cost sharing under a reformed scheme-only design, and what impact this would have on the 2020 valuations.

2.12 Several respondents with an interest in the Local Government Pension Scheme (LGPS) noted that a reformed scheme only design may be more difficult to achieve for LGPS given the effect of the underpin[1], and it was not made clear in the consultation how the underpin will be treated under this design. They also noted that unlike for the unfunded schemes, where the risk of legacy benefits would be borne by the Government, for the funded LGPS the risk of legacy benefits would fall entirely on LGPS employers.

[1] The Local Government Pension Scheme for England and Wales (LGPS) was reformed in 2014 and all members were transferred to the reformed scheme. LGPS members in scope will be protected by an underpin in respect of any accruals from 1 April 2014 to 31 March 2022. This will provide, within the reformed scheme, whichever is the higher: the pension under the reformed scheme or the pension they would have been entitled to under the legacy scheme.

Government response

2.13 The Government has considered the responses received and remains of the view that a reformed scheme only design achieves the right balance of risks between members and the Exchequer, improves stability of the mechanism and reduces intergenerational unfairness. As set out above, this view was shared by the majority of respondents. The Government recognises that creating the right balance of risks between scheme members and the Exchequer and creating a more stable mechanism are not the same aim. However, the Government feels that a reformed scheme only design will allow the mechanism to better meet both aims. Although it means that the risk associated with legacy scheme costs will be transferred to the Exchequer, the Government believes this is the right approach to take in order to reduce intergenerational unfairness and ensure the mechanism is fairer to younger members who did not previously have access, or had access for a shorter time, to the legacy schemes.

2.14 It is acknowledged that many members will have service in both the legacy and reformed schemes. However, from 1 April 2022, it is intended there will be no members accruing benefits in the legacy schemes, and members with legacy scheme benefits will gradually leave active membership over the coming decades. The GA found that a key cause of the floor breaches seen in the provisional results of the 2016 valuations was the impact of the legacy schemes. The Government believes it is right that as the mechanism can only adjust the benefits of the reformed schemes, it should only account for the costs associated with the reformed schemes. This is emphasised by the fact that the IPSPC concluded that the structure of the legacy schemes was unfair and unsustainable, so it would not seem appropriate for these schemes to continue to influence the level of benefits in the reformed schemes.

2.15 The Government also recognises that the past service component of the reformed schemes will increase over time, and that a future service only design would therefore further reduce intergenerational unfairness and increase stability. However, the Government does not believe that the Exchequer should bear the entire risk of costs associated with past service in the reformed schemes. The mechanism was designed to protect both taxpayers and members, and the Government believes that a future service only design would not adequately protect taxpayers from unforeseen increases in costs. Additionally, the Government remains of the view that a future service only mechanism would restrict its ability to respond to future developments, such as changes in overarching legislation or court cases which may impact the value of past service benefits, such as McCloud. If a future development were to retrospectively impact the value of past service in the reformed schemes for members (for example following a legal judgment), and therefore increase the value of schemes to members, then it would be accounted for in the cost control mechanism, in line with the pre-determined framework for assessing costs. It should also be noted that under this approach, if the value of the past service component of the reformed schemes falls, the CCM would take account of this.

2.16 The Government will provide further details on how the reformed scheme-only design will be implemented at the 2020 valuations and beyond, and the extent to which there will be any interaction with the McCloud remedy at future valuations, in due course.

2.17 In relation to LGPS, the Government notes that removing the impact of legacy schemes means that these risks sit with employers. The Government acknowledges that the arrangements for budgeting for and funding LGPS employer contributions are different from the unfunded schemes. It is also acknowledged that the implementation of the reform scheme only design may be different for the LGPS given the presence of the underpin within the reformed schemes. However, the Government still believes that a reformed scheme only design is appropriate for LGPS, and that it is still fair and appropriate to remove the impact of the legacy schemes from LGPS for the same reasons as set out above, including to reduce intergenerational unfairness. The Government will work with LGPS stakeholders to consider the most appropriate way to implement this proposal for LGPS at the 2020 and subsequent valuations, including the treatment of the underpin, and provide further details in due course.

Wider corridor

Proposal

2.18 The corridor is currently set at +/-2% of pensionable pay for all schemes. In its consultation, the Government proposed widening the corridor to improve the stability of the mechanism. The Government set out that it considered a corridor of +/-3% of pensionable pay to be appropriate when applied to a reformed scheme only mechanism, which will increase the stability of the mechanism while also continuing to provide effective cost control.

2.19 Question 2 in the consultation asked for views on the Government's intention to widen the corridor. Question 3 asked for views on whether the proposed corridor size of +/-3% is appropriate.

Responses

2.20 Both questions 2 and 3 were responded to by 59 stakeholders each. A majority of respondents agreed with the proposal to widen the corridor, and a slight majority agreed that the corridor should be set at +/-3% of pensionable pay. That majority welcomed the fact that widening the corridor would lead to a more stable mechanism by minimising the frequency of breaches, which will lead to fewer changes in benefits or member contributions. They felt that a corridor size of +/- 3% was appropriate, and will strike the right balance between stability and effective cost control. However, their view was that +/-3% should be the absolute maximum size of the corridor.

2.21 A key concern amongst those who favoured retaining a +/-2% corridor was that although a wider corridor would increase stability, it would mean that changes would be too infrequent which would diminish cost control. They did not consider the estimated breach frequency of every 5 valuations[2]

[2] based on modelling provided by the Government Actuary's Department

(therefore every 20 years) expected under the current corridor to be too frequent.

> "SLS agrees with the proposal to widen the corridor to develop a more stable cost control mechanism, as per the Government's stated intention. A wider corridor will reduce volatility, leading to fewer changes in benefits or member contributions. However, it is possible that any subsequent changes will, by their definition, be greater in exacerbating the "cliff edge" nature of the cost control mechanism."
>
> School Leaders Scotland (SLS)

2.22 A majority of respondents, including many of those who agreed with the proposal for a widened corridor and supported the corridor size of +/-3%, as well as those who disagreed, raised concerns that widening the corridor exacerbates the 'cliff edge' nature of the mechanism. This is because under a wider corridor, larger changes in costs can occur without any remedial action. They noted that this would mean changes in costs between +/-2 to 3% could go unaddressed for long periods of time and argued this could cause problems to go undetected. They argue that this would increase the scale of rectification necessary when a breach does occur, which would mean significant benefit changes for members once the mechanism was triggered. A proposal put forward to mitigate the risk of dramatic changes in benefits was that when a breach occurs, the mechanism could allow schemes to bring costs back to a level within the corridor to rectify the breach, rather than back to the employer cost cap.

2.23 An alternative suggestion to manage the cliff edge risk was that schemes could be provided with discretionary powers to adjust benefits if costs moved within the corridor e.g. that schemes would have the option, but not the obligation, to adjust benefits if costs moved between +/-2% and +/-3%. They argued that providing schemes with this type of flexibility would allow for earlier and milder interventions.

2.24 Many respondents expressed concerns that a +/-3% corridor would still not lead to stability for certain schemes. They argued that a proportional cost corridor, where the size of the corridor would vary depending on the size and costs of that scheme, would be more appropriate. They felt that schemes have different overall pension costs, so a +/- 3% corridor may be proportionally narrower or wider for certain schemes versus others. They argued that while an average scheme is estimated to expect a breach frequency once every 10 valuations under a reformed scheme design with a +/-3% corridor (based on modelling from the Government Actuary's Department), schemes with higher costs could expect a breach more frequently. On this point, respondents argued that different public services have different characteristics and different workforce challenges to deal with, so sector-specific approaches may be more appropriate.

"As a scheme with a higher total long-term cost than most other public service pension schemes, we are concerned that, even with a widening of the corridor to +/-3% of pensionable pay, we may still be more likely to suffer breaches as a result of events that are not out of the ordinary, due to the fact that the cost corridor is proportionately narrower for the FPS than other public service pension schemes. For example, a 3% corridor would require a 15% increase in long-term costs for the Teachers' Pension Scheme but only a 10% increase for the FPS, for the cost cap to be breached. Therefore, while the "average" scheme might expect a breach only once every 40 years, the Fire schemes might expect a breach more frequently than this. If instead the 40 years breach was set consistently between schemes, this could be achieved by setting the corridor as equal to the 15%, say, of the cost of the scheme. Thus, if the corridor was set at +/-3%, say, for the Teachers' Pension Scheme (which had a 2012 long-term cost of 20.5%), then the proportionate corridor for the FPS, would be +/-4.4%."

Firefighters' Pensions (England) SAB

2.25 The Police Pension SAB argued that in absence of proportional cost corridor, a consistent +/-4% corridor for all schemes may be more appropriate to improve stability for those schemes with higher costs too. Some suggested that the Government should ask the GA to provide modelling specifically for each individual scheme, rather than base a decision on modelling for an average scheme. A small minority expressed concerns on whether the estimates of expected breach frequencies could be relied upon.

2.26 Some respondents felt that widening the corridor did not seem necessary if the proposal for an economic check was put in place. Similarly, a small number of respondents felt that a wider corridor would be unnecessary if a reformed scheme only design is adopted, and only supported implementing one or the other.

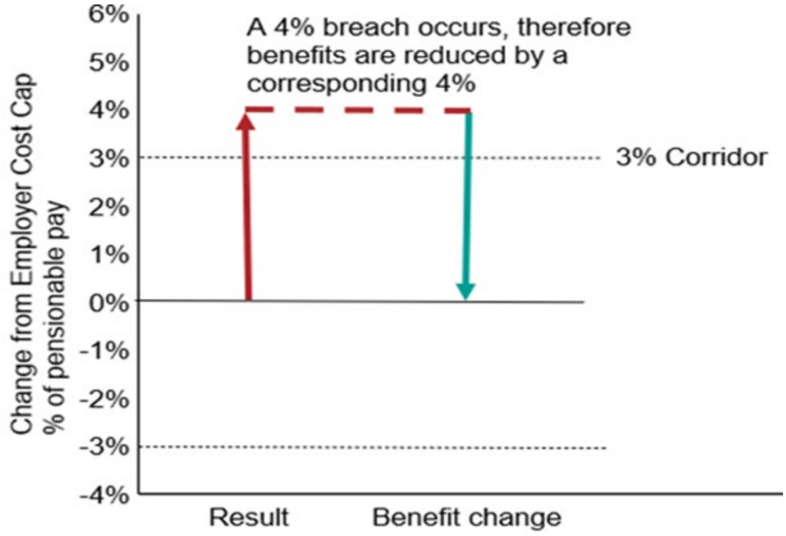
Government response

2.27 The Government recognises that a wider corridor increases the cliff edge nature of the mechanism, and that this means larger changes in costs can occur without any remedial action. This was highlighted in the GA's report and the Government considered this risk carefully as part of the consultation process. To clarify, a wider corridor will not mean that different action would need to be taken if a breach beyond +/- 3% was observed. For example, a breach of +/-4% would still require the same changes in benefits under either a +/-2% or +/-3% corridor. This is illustrated in the diagram below.

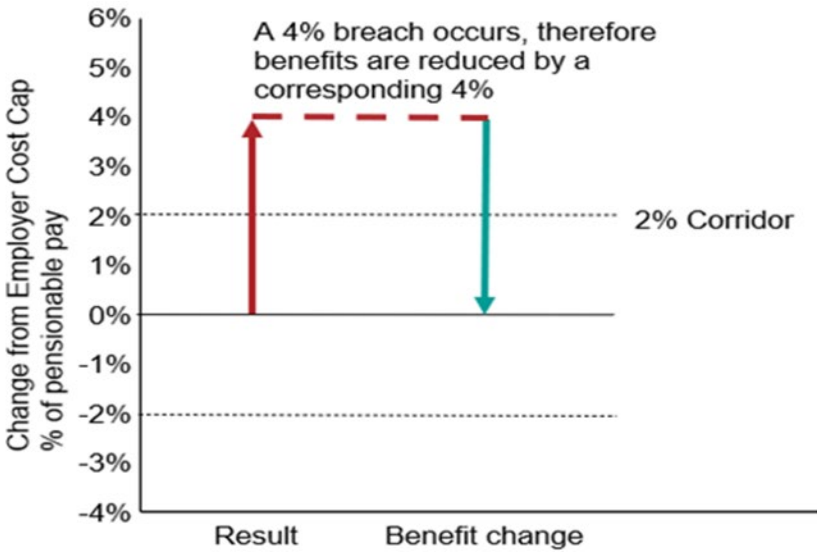
Box 2.A: Corridor width illustrations

Scenario: the costs increase by 4% of pensionable pay from the employer cost cap in a single valuation. Regardless of whether the corridor is +/-2% or +/-3%, the same level of benefit change will occur.

3% corridor



2% corridor



Illustrations provided by the Government Actuary's Department

2.28 However, a +/-3% corridor will mean that cost changes between +/-2-3% will not trigger a breach and require rectification, which could lead to a larger than otherwise breach occurring at subsequent valuations. For example, if at one valuation the results were +/-2.5% and then at the next were +/-3.5%. The Government considers that, although this risk exists, a wider corridor is necessary to ensure a more stable mechanism and limit the frequency of benefit changes. The Government considers that a +/-3% corridor would strike the right balance between providing effective cost control and a stable mechanism. A corridor size larger than this would not be appropriate as it would allow costs to diverge by too much before being brought back to target.

2.29 It is also not correct to assume that if a scheme shows cost changes between 2-3% at one valuation, then that automatically means that costs would either stay at that level or move further in the same direction at subsequent valuations and therefore result in a breach that would be larger than under a smaller corridor. Multiple factors affect the cost of a scheme. It is perfectly possible that a scheme may see a small increase in costs at one valuation, and then a reduction in costs at the next due to a change in factors. A wider corridor of +/-3% may prevent confusion and disruption for schemes and members by reducing the likelihood that smaller, temporary fluctuations in costs within the corridor will lead to benefit changes, which may then be reversed at subsequent valuations.

2.30 In response to the proposal to mitigate large benefit changes when breaches occur by allowing schemes to bring costs back to a level within the corridor rather than back to the target of the employer cost cap, the Government does not believe such an approach would provide effective cost control. Bringing costs back to the level of the cap once the +/-3% corridor is breached ensures that costs are brought back to the original level. If costs are only brought back to the edge of the corridor or to within e.g.1% of the employer cost cap, then that means the mechanism would not be maintaining value to members or fully protecting taxpayers (because as soon as costs have increased by more than 3% they will always be higher than their original level). That might result in more frequent breaches and reduce stability. Furthermore, if the approach was to allow either the Government or scheme to determine the appropriate level to bring costs back to, depending on the size of the breach, this would introduce a level of subjective decision making into the process, contrary to the transparent and mechanical process which the Government believes it is very important to maintain.

2.31 In relation to a proportional cost corridor, the GA mentioned in his report that it would be reasonable to consider this. However, the GA did not recommend this approach over a consistent corridor as a percentage of pensionable pay. The Government has considered this option and does not believe that it would be a better approach. A consistent corridor size limits the absolute change in costs that can occur across all schemes before a breach is triggered. The Government does not consider that just because a scheme is more expensive from the outset, it should be allowed to let costs change by a greater absolute amount. Furthermore, the Government considers that a proportional cost corridor would be overly complex and more difficult for members to understand than the current consistent corridor design, potentially eroding transparency and trust in the mechanism. It is important that members understand the mechanism operates consistently and transparently across all the public service pension schemes. Therefore, the Government chose not to consult on this option, and maintains the view that it is preferable to have a consistent size corridor, based on a specified percentage of pensionable pay, across all schemes. A proportional corridor could also raise concerns of fairness, as wider corridors for schemes with higher costs may appear to benefit members of some schemes over others. It could lead to a position where there is the same change in costs in two different schemes with different cost corridors (but that represent a consistent proportional cost); the scheme with a narrower cost corridor could see benefits or contribution rates adjusted whereas a scheme with a relatively wider proportional cost corridor would not. The Government acknowledges that a +/-3% corridor may result in greater stability for some schemes compared to others. However, the Government maintains that on balance, the same size corridor applied uniformly to all schemes is the fairer solution.

2.32 Similarly, the Government does not believe it would be beneficial to provide schemes with a discretionary power to adjust benefits if costs changes are observed within the +/-3% corridor. Such a discretionary power would rely on schemes reaching agreement between employers and members on whether to adjust benefits if e.g. a movement in costs between 2-3% was observed. The Government believes it is important to maintain the mechanical and objective nature of the CCM, whereas this approach would introduce an element of subjective decision making which the Government believes would increase complexity, erode transparency and reduce trust in the process. Furthermore, a key advantage of the +/-3% corridor is that it will reduce the frequency of breaches and lead to increased stability and certainty over benefit levels, which this approach will not provide to the same degree. Additionally, the lack of a consistent approach across all schemes may raise issues of fairness, as it could lead to cases where two schemes experience the same change in costs, but one agrees to adjust benefits and the other does not. The Government believes it is important to ensure that all schemes are subject to the same general rules, and that rectification action is only taken when breaches occur outside of the +/-3% corridor.

2.33 Some respondents felt that implementing a wider corridor alongside the reformed scheme only design was unnecessary. However, modelling from the Government Actuary's Department suggests that a +/-2% corridor under a reformed scheme only design would still result in expected breaches on average every 5 valuations (every 20 years), which the Government believes would be too frequent and not in line with the aim of a stable mechanism that is only triggered by unforeseen and unpredictable events. The Government believes that an estimated breach frequency of every 10 valuations (every 40 years) provides the right balance between stability and effective cost control.[3]

[3] Please note that these estimated breach frequencies are provided as a high-level indication only. They are of course just estimates based on a certain set of parameters, the actual frequency at which breaches occur is unknown and may well differ from these estimates. Furthermore, if the estimated breach frequency is for example "once every 5 valuations" for an individual scheme that does not mean it is expected to happen exactly every 5 valuations. It may mean that a scheme still breaches either the floor or ceiling at the next scheme valuation, whereas another scheme may breach after another 2, 3 or 4 valuations. Although in practice there will be a strong degree of correlation between the outcomes for different schemes.

Chapter 3
Economic check

Proposal

3.1 Currently, the cost control mechanism does not consider the long-term economic outlook (such as changes in expected long-term GDP or the long-term earnings assumption) when determining whether breaches should result in a change to member benefits. The GA recommended introducing an objective and symmetrical technical validation layer, which would only allow a breach to be implemented if it would still have occurred had the long-term economic assumptions been considered. In its consultation, the Government proposed introducing an 'economic check' to the cost control mechanism, in line with the GA's recommended design.

3.2 Under the GA's recommended design, a breach would only be implemented if the cost of a scheme still results in a breach once the impact of any change in the SCAPE discount rate on the cost of the scheme is taken into account. The consultation set out that, depending on the outcome of the review of the SCAPE discount rate methodology, the economic check would be based on objective forecasts of expected long-term GDP growth from the OBR (potentially through the SCAPE discount rate) and would also take account of changes in the long-term earnings assumption. Examples of how the economic check would work in practise are set out at Annex C.

3.3 Question 4 of the consultation asked for views on whether stakeholders agreed with the proposal to introduce an economic check. Question 5 asked for views on whether the SCAPE discount rate, which under its current methodology is linked to expected long-term GDP growth, is an appropriate economic measure for the economic check. Question 6 asked for views on whether, in the case where the SCAPE discount rate methodology changes, expected long term GDP is an appropriate measure, and if not, what other appropriate measures may be.

Responses

3.4 In total, we received 60 responses to question 4, 54 responses to question 5, and 52 responses to question 6.

3.5 In response to question 4, similar numbers of respondents agreed with the proposal to introduce an economic check as disagreed with the proposal. Some respondents were ambivalent, and noted that an economic check may be beneficial, but expressed a number of reservations.

3.6 Respondents who supported the proposals noted that it could help avoid 'perverse outcomes' such as those seen at the 2016 valuations and identified in the GA's final report, where no factors linked to the change in economic growth were considered and help improve stability. They felt it was important that a symmetrical check would also maintain scheme benefits in the event of increased scheme costs but an improved economic outlook.

> "Yes, an economic check makes sense and will help avoid perverse results such as those seen in the preliminary 2016 results where no factors linked to the change in economic growth were considered."
>
> Essex Pension Funds

> "Although the proposals fundamentally alter the cost control mechanism, some form of economic check seems appropriate since it should help to improve the stability of public sector pension schemes and avoid perverse outcomes such as that experienced with 2016 scheme valuations. Stability and affordability for government, employers and scheme members has to be sought to maintain the long-term viability of public pensions."
>
> Fire Officers' Association

3.7 Many respondents expressed concerns this proposal may be a breach of the 25-year guarantee. They argued that the economic check is a significant departure from the process for the cost control mechanism originally agreed between Trade Unions and the Government and that, during discussions at the time, it was strongly suggested by the Government that the originally agreed cost control processes were covered by the guarantee. A related concern was that the Government has previously made explicit promises that employers would meet any costs arising from changes to the SCAPE discount rate, and that such impacts would be excluded from the cost control mechanism as they were not member costs. Relatedly, some also questioned the concept of 'perverse outcomes' presented in the GA's report and noted that the exclusion of SCAPE from the CCM was an intentional decision and so there was no expectation that employer rates and the results from the CCM would move in the same direction.

> "ASCL's view is that the exclusion of the SCAPE discount rate from the cost control mechanism is a fundamental part of its design. So, whilst the discount rate currently has no impact on member's benefits, the proposal introduces a risk of to both members' benefits and contributions being affected by changes in the discount rate."
>
> Association of School and College Leaders (ASCL)

3.8 Many respondents expressed concerns that the check could easily be subject to Government or political interference, and they would need significant assurances that it would operate objectively and transparently. Some felt that the proposed design essentially amounts to a qualitative review and would lead to arbitrary decisions by Government on whether or not to apply the results of a cost control valuation. In contrast to this, others noted that a qualitative breach review, instead of or alongside an economic check, may actually be more appropriate and preferable. They recognised the need to consider the reasons behind a breach if it occurs and consider the appropriateness of any corrective actions. The NHS Scheme Advisory Board (SAB) proposed a form of qualitative breach review where the SAB would provide advice to the Secretary of State if a breach occurs. This would include an assessment of why the breach has occurred, a recommendation of whether any rectification is necessary and, if so, the extent of any such rectification. They argued that this *"places emphasis on qualitative collaboration rather than running more numbers and would be a more open and transparent process."* The SAB urged Government to give serious consideration and directly respond to this alternative proposal.

> "The cost control mechanism needs to operate independently from politics and all stakeholders and scheme members need to feel reassured that the sole purpose is to objectively measure costs without results being subject to wider political issues. Ultimately, UNISON remains unconvinced by the economic check methodology proposed in the consultation and considerable reassurance is needed from HM Treasury to ensure that any economic check is fair, transparent, and free from government manipulation. We also wish to register our concerns as to whether these proposed changes to the cost control mechanism contradict the Government's 25-year Guarantee for not making further scheme reforms and undermine the Proposed Final Agreements struck with schemes."
>
> UNISON

3.9 In relation to what measure of economic growth is appropriate, many expressed a strong view that the discount rate used in the economic check should match the rate used to set employer contribution rates, to avoid perverse outcomes in future. They argued that assumptions used to set employer contribution rates should be consistent with those used in the mechanism and the economic check. They felt that if a methodology based on the Social Time Preference Rate (STPR) was adopted for setting the SCAPE discount rate then the economic check should also be based on STPR. Others argued for the merits of using STPR on its own terms regardless of the SCAPE discount rate methodology. As STPR is a measure used to assess other government investments, they argued that it is also appropriate to assess pension costs, as public service pensions are also a form of government investment.

3.10 Some respondents highlighted that the adoption of a methodology based on expected long term GDP growth to set the SCAPE discount rate in 2011 had contributed towards increased volatility in employer contribution rates over the last 10 years. They argued that if the SCAPE methodology had remained based on STPR, employer contribution rates may not have increased at the 2016 valuations and the 'perverse outcomes' identified by the GA at the 2016 valuation provisional results would not have occurred. They therefore argued that adopting a SCAPE discount rate methodology based on STPR could negate the need for an economic check. They felt that trying to address problems caused by the SCAPE discount rate methodology through the cost control mechanism was inappropriate.

3.11 Some felt that an economic check was an unnecessary addition to the reformed scheme only and wider corridor proposals. Others supported the proposal, but only if applied to a future service only mechanism. Concerns were also expressed by some respondents that an economic check would mean that results which showed a breach may be hidden, and that SABs may not be told about the results of the mechanism before the long-term economic outlook is taken into account.

LGPS responses

3.12 Respondents with links to the LGPS were consistently of the view that if an economic check was adopted, linking it to expected long-term GDP would not be appropriate for the LGPS. They felt that unlike with the unfunded schemes, the SCAPE rate does not directly drive employer costs, which are determined by locally set discount rates, taking advice from fund actuaries as part of the triennial fund valuation process. These locally determined discount rates are designed to track the returns of each LGPS fund's investment strategy, risk appetite and globally diversified asset allocations. The LGPS, as a funded scheme, looks to achieve investment returns to ensure a minimum call on future local taxpayers by maintaining a pension fund able to meet all future liabilities. They argue that this is a fundamentally different situation to the unfunded schemes, where taxpayers are directly responsible for paying the cost of public service pensions.

3.13 Respondents proposed alternative approaches for the economic check. One key alternative was to use an LGPS specific discount rate for the economic check in relation to its application to LGPS. Such a rate could take into account factors that influence the actual discount rates in operation across the LGPS to reflect both future and past investment returns.

"..the SCAPE rate is divorced from the drivers of actual employer contributions in the scheme. These contributions, which are determined locally, use discount rates designed to track the returns of each LGPS fund's investment strategy, risk appetite and globally diversified asset allocations. A discount rate based on the OBR's long-term forecast of UK GDP is entirely appropriate for assessing the future affordability of the unfunded schemes against the projected tax base. The purpose being to ensure the costs of the scheme remain affordable to future taxpayers who will be responsible for meeting those costs. The LGPS, as a funded scheme, looks to set a discount rate for a different purpose. That purpose being to ensure a minimum call on future local taxpayers by maintaining a pension fund able to meet all future liabilities. As such the rate must be able to reflect changes in global asset values given the global nature of the scheme's investments. We would therefore propose that – should the economic check be introduced – it would, for the LGPS, use the changes in an 'LGPS discount rate' rather than SCAPE. Such a rate would take into account the factors which influence the actual discount rates in operation across the LGPS (reflecting both future and past investment returns) and would therefore be much more closely aligned with movements in employer contributions."

LGPS (England and Wales) SAB

3.14 Another alternative was based around the separate but subordinate cost management process that is operated by the LGPS (England and Wales) SAB, and was set up given the key differences between LGPS and the unfunded schemes. The current SAB process operates within and is subject to the CCM. It is broadly similar but can use different assumptions around employee cost elements. It was argued that this SAB process could act as the economic check for LGPS, and would be required to reflect movements in an LGPS specific discount rate as proposed above. It would operate in the same way as the economic check, in that it could not cause or extend a breach – only provide a check on a breach (either way). In operational terms, a breach of the HMT corridor would only result in mandatory recommendations for a change to benefits/contributions if the LGPS SAB process also resulted in a breach.

3.15 The Scottish LGPS SAB also proposed an alternative for a continuous review process rather than the current cost control process which always takes place at one point in time. The SAB suggested that such an approach could be based on a combination of the England and Wales SAB model and work undertaken by GAD, but crucially would be on a continuous basis. This would not however mean that breaches or non-breaches would be measured or that changes would need to be applied more frequently, as any decision to change could come at an agreed point in time.

Government response

3.16 The Government has considered all responses and maintains the view that an economic check should be introduced for all schemes, with further consideration required for potential allowances for the LGPS. The economic check will operate in line with the GA's recommended design and will be linked to the OBR's independent and objective measure of expected long-term GDP growth and the long-term earnings assumption. The economic check may potentially be linked to the SCAPE discount rate if the methodology remains linked to expected long-term GDP growth. The SCAPE consultation response will be published in due course.

3.17 In his report, the GA concluded that the mechanism cannot protect the taxpayer unless it has some allowance for changes in the long-term economic outlook. Ultimately, future taxpayers will pay the costs of any pension benefits accrued now. In the Government's view, the main purpose of the economic check is to ensure consistency between benefit changes and changes to the wider economic outlook. This approach ensures that there will be a higher bar for benefit increases to be awarded if the country's long-term economic outlook has worsened. This will equally apply to benefit cuts if the long-term economic outlook has improved. The Government believes that using an independent and objective measure of expected long-term GDP growth best serves this purpose. For the unfunded schemes, pensions are paid out of general taxation, so the Government feels it is appropriate to introduce an economic check to ensure the mechanism is better able to protect the taxpayer. However, the Government also feels it is equally important to honour the objective to protect the value of schemes to members, and therefore the economic check will operate symmetrically to also protect the value of schemes to members.

3.18 The Government agrees that it is of the utmost importance that an economic check should be implemented in a transparent way, and that the process will be mechanistic and objective. The Government can confirm that the economic check will apply symmetrically, operating in the exact same way in relation to floor breaches as it would to ceiling breaches. It will operate purely mechanically, with no scope for interference from individuals or groups, either from within the Government, or outside.

3.19 The costs of the schemes would be assessed excluding any changes to the long-term economic variables, as they are now, to see if a breach has occurred. If a breach has occurred, in either direction, then the calculation would be repeated with the measure of the wider economic situation – changes in expected long-term GDP and changes in the long-term earnings assumption - taken into account. If a breach had still occurred in the same direction following this second calculation, only then would it be implemented, with the smaller of the two breaches being implemented. In this way, the economic check could offset a breach of either the floor or the ceiling, but it could never cause a breach or increase the size of a breach. The economic check would apply to initial breaches in either direction, so would operate symmetrically.

3.20 The Government does not currently see the value in implementing a subjective breach review, either instead of or alongside the economic check.

The Government believes that a key advantage of the economic check is that it will be mechanistic and transparent, and apply consistently across all schemes. The Government believes it would be difficult to ensure that a subjective breach review could operate in the same way so that members felt that their benefits were being decided in a transparent way.

3.21 In response to the alternative suggestion from the NHS SAB, the Government feels this again raises the same issues as a discretionary power to take action when costs move within the corridor. Such an approach would introduce a level of subjective decision making into the process and not be in line with the Government's intention to maintain an objective, technical and mechanical CCM, and the views of many respondents who wanted reassurance that the check would not be subjective. Such an approach would also not be in line with the main objective of the economic check, to ensure consistency between benefit changes and changes to the wider economic outlook. It is difficult to determine how an individual, group or SAB could make such a judgement without considering long-term GDP projections in any case.

3.22 The Government will shortly respond to its consultation on the methodology used to set the discount rate for setting employer contribution rates in the unfunded public service schemes. The Government invited respondents to provide views what it believes are the two most appropriate possible methodology options for setting the SCAPE discount rate: a methodology based on expected long-term GDP growth and a methodology based on STPR. Respondents were also able to suggest alternative methodologies. In reaching a decision on the SCAPE discount rate methodology, the Government will have regard to the distinct objectives for the SCAPE discount rate, which differ to the cost control mechanism, and points raised by stakeholders in support of consistency between the discount rate and the economic check.

3.23 The Government does not believe that the STPR would be an appropriate measure for the economic check. The STPR is set by HM Treasury as an estimation of society's preference for consumption sooner rather than later and is used by the Government to appraise the value for money of projects which involve short-term public expenditure to deliver future welfare benefits. The STPR is not intended to provide an estimate of the long-term economic outlook.[1] As a result, it does not fulfil the purpose of the economic check: to ensure consistency between benefit changes and changes in the wider economic outlook. Therefore, the measure of long-term economic outlook applied to the economic check will be linked to expected long-term GDP growth for the reasons set out above. The economic check may potentially be linked to the SCAPE discount rate if the methodology remains linked to expected long-term GDP growth.

3.24 The Government recognises that the addition of the economic check is introducing a new step into the process, and that political statements were

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1 For further details on the Social Time Preference Rate please see Annex 6 of the Green Book. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938046/The_Green_Book_2020.pdf

made to the effect that the 25-year guarantee would mean that there should be no changes to scheme design, benefits or contribution rates outside of the processes agreed for the CCM. However, the Government does not believe that the proposal for the economic check necessarily breaches the 25-year guarantee. The elements protected by the 25-year guarantee in law are set out in section 22 of the Public Service Pensions Act 2013 and include i) the CARE nature of schemes, ii) member contribution rates and iii) benefit accrual rates. The cost control mechanism is not one of the protected elements. Furthermore, the Government is proposing this change following a thorough and independent review of the mechanism by the GA. As the GA's report makes clear, the CCM processes are not operating properly to serve its objective to sufficiently protect taxpayers. The Government is now seeking to implement the economic check to improve the CCM process and ensure the mechanism is better able to meet this objective, while also ensuring that the mechanism equally continues to protect members.

3.25 Furthermore, the introduction of the economic check will reduce the likelihood that member benefits can be reduced or increased in future, in line with the principles of the 25-year guarantee to provide greater stability and confidence to members on benefit levels. It is right that Government is able to review policy and make changes if it is felt that a key element of a reform is not operating as designed, after following a proper process of review and an open and transparent consultation. The Government is not proposing to make changes to the objectives of the mechanism themselves. However, the Government believes that even if the introduction of the economic check were to contradict previous statements made, it would in any event be justified and proportionate to depart from those statements in the circumstances. The economic check will maintain the technical and symmetrical nature of CCM processes and will never be able to cause benefit reductions, or benefit improvements, only prevent or reduce benefit changes.

3.26 The Government recognises that when the mechanism was set-up, the intention was that changes in the SCAPE discount rate, and by extension changes in expected long-term GDP growth, would be excluded and would not impact on member benefits. However, in line with the GA's recommendations and for the reasons set out above, the Government believes it is now justified and appropriate to introduce the impact of changes in expected long-term GDP growth to the mechanism, albeit in a limited way, through the economic check.

3.27 While some respondents felt that the economic check would be unnecessary under a reformed scheme only design and a 3% corridor, the Government believes all three proposals should be implemented in tandem. Without the economic check, the mechanism will not be able to ensure consistency between benefit changes and changes in the wider economic context. In relation to suggestions that the economic check should only be implemented under a future service only design, the Government does not believe a future service only design would be appropriate for the reasons provided in chapter 2.

3.28 In response to concerns around whether schemes will be notified at future valuations of how schemes costs have changed prior to the application of the economic check, and to ensure transparency, the Government would expect valuation reports to publish results both before and after the impact of the economic check.

Government response for the LGPS

3.29 The Government has taken into consideration the concerns raised by LGPS stakeholders that an economic check linked to expected long-term GDP growth is not appropriate for the funded LGPS. The Government recognises the different nature of the LGPS, which is funded and where money is invested in a diverse range of global assets, and acknowledges that different considerations apply to LGPS. In particular, expected long-term GDP growth is not used to set employer contribution rates for LGPS. However, on balance, the Government still believes that the economic check as a whole is an appropriate proposal for LGPS.

3.30 Firstly, while it is correct that the discount rate used to set employer contribution rates in LGPS will be based on expected investment returns, expected long-term GDP growth should act as a broad proxy for this and therefore the use of the economic check as envisaged would still appear to be relevant. Furthermore, as noted by respondents, the purpose of LGPS investments is to minimise the cost pressures facing LGPS employers who will meet the balance of costs. If the cost of benefits go up the responsibility will fall on local authorities, who are funded to a significant extent by local taxpayers, and other LGPS employers. Similar to the reason for the economic check for the unfunded schemes, the purpose is to ensure consistency between benefit changes and changes in the wider economic outlook. Whilst the financial health of individual local authorities is not directly linked to the expected long-term GDP growth, the Government would still expect a link between the economic performance of the UK and the financial health of local authorities. It is also important to note that the IPSPC reforms were intended to provide some commonality of design and value across the public service pension schemes, particularly for the non-uniformed services, which also requires similarities of approach in valuing and amending schemes. A consistent approach also means that public service workers will not be treated differently in unfunded and funded schemes. Therefore, having considered the alternatives, the Government remain of the view that an economic check linked to expected long-term GDP is appropriate for the LGPS.

3.31 In relation to the 2 alternative proposals, the Government does not consider they would be appropriate to include in the mechanism. An LGPS specific rate based on a best estimate of expected returns would introduce a level of subjectivity into the mechanism, as any discount rate based on future investment returns would be subjective, and there will be a huge range of views on how any particular asset may be expected to perform. As noted above, the Government does not currently believe that introducing a level of subjectivity into the mechanism is desirable, as it may erode transparency and trust in the process. The Government also does not believe there should be a change to the current dynamic between the England and Wales LGPS

SAB process and the cost control mechanism. The Government believes that the current interaction between the 2 separate but linked processes should be maintained. Given the different nature of the LGPS, the Government acknowledges the value of the SAB process in that it can take account of LGPS specific assumptions to provide a recommendation to the Government as part of the cost control valuations.

3.32 HM Treasury will work with the Department for Levelling up, Housing and Communities and LGPS stakeholders to consider whether it is desirable for the England and Wales SAB process to be adapted in line with the principles of the economic check. The Government also acknowledges that the Scottish and Northern Irish SABs may wish to consider introducing a similar process to the England and Wales SAB and will work with colleagues in the Devolved Administrations if they feel it would be desirable to do so.

3.33 In relation to the alternative proposal from the Scottish LGPS SAB, the Government believes this proposal is to effectively replace the cost control mechanism entirely, rather than just reform it. The Government does not wish to fundamentally replace the cost control mechanism with an alternative cost management approach, but to improve its operation.

Other issues raised

3.34 Some respondents raised other issues not directly related to the questions posed in the consultations, which the Government has sought to address below.

3.35 Some respondents noted that they did not believe an 8-week timeline for consultation was long enough to adequately respond to the consultation, especially given the complexity of the topic area and that the consultation was held over the summer period. The Government also received requests from a small number of respondents for a short extension to the consultation deadline towards the end of the consultation period. The Government carefully considered the appropriate period for consultation in advance of launching the consultation, and revisited its justification in light of later requests for an extension. The Government believes that 8 weeks was a sufficient period of time to allow the full range of stakeholders to provide a considered response to the questions raised. However, to ensure that key stakeholders were as informed as possible, and to mitigate concerns about the consultation period, HM Treasury decided to supplement the consultation document by holding several official-led consultation events with employer and member representative groups over the consultation period. The Chief Secretary to the Treasury also met with the TUC to discuss issues raised in the consultation. Additionally, an important consideration was ensuring that the consultation was concluded in time to ensure any changes to the CCM could be implemented in time for the 2020 valuations. As the GA has found, the mechanism is not operating in line with its objectives, and the Government believes it is crucial that the changes outlined above are in place for the next scheme valuations. In light of this, the Government believes that the correct balance has been struck between providing sufficient time for informed and intelligent responses, and the need to implement the reforms in time for the 2020 valuations.

3.36 Some respondents noted that the baseline assumptions and estimates used to set the employer cost caps at the 2012 valuations may be flawed and the Government should consider whether these remain appropriate for the purposes of the CCM or whether they need to be reset. The Government does not believe that the employer cost caps need to be reset based on a new set of assumptions. The Government believes it is normal and expected that actuarial assumptions are updated at each valuation as further experience comes to light and views of the future change. Revised assumptions, such as those seen at the 2016 valuations, are therefore not a reason to reset the employer cost caps. The employer cost caps were set using best estimate assumptions of the costs at the time the reformed schemes were introduced and this policy decision made at the time is not being revisited. This was also not a recommendation made by the GA.

3.37 Many respondents also raised the fact that the 2016 valuation process has not yet been completed, and the Government's decision to include the cost of McCloud remedy within the mechanism at the 2016 valuations. The Government has previously set out the rationale for the decision to reflect the McCloud remedy in completing the cost control element of the 2016 valuations.[2] The Government will finalise the Directions to complete the 2016 process in due course.

3.38 Some respondents noted that changes in life expectancy have an impact on pensions, but the impact of longevity is largely mitigated by the link to the State Pension Age in some of the reformed schemes. The consultation noted that the GA had also considered this issue and set out two considerations for Government in light of this: i) the Government could remove the impact of changing longevity and SPA from the mechanism for the relevant schemes, given they already have mitigation in place; or ii) alternatively, the Government could consider smoothing longevity assumptions given their potentially disproportionate impact on the mechanism and the likelihood for such assumptions to fluctuate. One respondent noted their opposition to these two proposals. However, the Government did not consult on these proposals. As noted in the consultation, the Government will consider these recommendations on longevity to a longer timescale.

Next steps

3.39 The Government is aiming to implement all three reforms to the CCM in time for the 2020 valuations, through the appropriate legislative vehicle. It is necessary to implement the reformed scheme only design and the economic check through expanded powers in primary legislation, when parliamentary time allows, and then by making Treasury Directions under those powers in due course. The wider cost corridor will be implemented to a longer timeline via secondary legislation.

2 https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes/outcome/update-on-the-2016-and-2020-valuations

Annex A
Schemes in scope

A.1 The consultation covered schemes for the following public servants:

- Civil servants;
- The judiciary;
- Local government workers for England, Wales and Scotland;
- Teachers for England, Wales and Scotland;
- Health service workers for England, Wales and Scotland;
- Fire and rescue workers for England, Wales and Scotland;
- Members of police forces for England, Wales and Scotland;
- The Armed Forces.

A.2 The GA's review also considered the corresponding schemes provided in Northern Ireland. Cost control provision for the equivalent and similarly constituted Northern Ireland public service schemes established under the Public Service Pensions Act (NI) 2014 broadly reflects that provided under the Public Service Pensions Act 2013. The consultation welcomed input from interested stakeholders across all of the UK public service schemes.

A.3 Other public servants also have pension schemes which mirror the cost control mechanism, although they are not legislatively required to do so.

A.4 The Local Government Pension Scheme (England and Wales) also has a second and separate cost control mechanism operated by its Scheme Advisory Board. The scheme will consider any necessary changes to this second mechanism in the light of the overall changes made across schemes.

Annex B
Equality impact assessment

B.1 The Government has considered the equalities impacts of these proposed changes. This section records the equalities analysis undertaken in relation to all three reforms to the cost control mechanism, to enable Ministers to fulfil the requirements placed on them by the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010.

B.2 Question 7 in the consultation asked for views on any equalities impacts envisaged from the proposals to reform the mechanism which the Government should take account of. The analysis in this section builds on, and updates, the equalities impact analysis undertaken by HM Treasury set out in the consultation document, in light of the responses received to question 7.

B.3 When formulating policy, the government is required to comply with the PSED. The duty requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between people with different protected characteristics when carrying out their activities. This section includes the assessment of the impacts of the three policies outlined above (reformed scheme only design, +/-3% corridor and economic check), by reference to the protected characteristics identified in the Equality Act 2010 of: sex, age, disability, race, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marital or civil partnership status.

B.4 In total, 54 responses to question 7 were received. A majority of respondents believe that these proposals will have an equalities impact, with the impact on age and intergenerational unfairness being the key consideration. However, some respondents also raised equalities impacts in response to questions 1-6, and those comments have also been considered as part of the analysis in this section.

Age

B.5 The Government acknowledges that the policies set out in the consultation response may have different impacts on people depending on their age. It has considered whether those potential impacts are proportionate and justified and has concluded that they are, as set out below.

B.6 Some respondents raised the impact on intergenerational unfairness of the Government's decision to account for the costs of McCloud remedy as part of completing the cost control element of the 2016 valuation process. As the consultation focussed on the three proposed reforms to the mechanism, with the aim of implementing them in time for the 2020 valuations, the

Government has only sought to analyse the impacts of these three reforms in this section. The Government has not sought to address any equalities impacts in relation to decisions relating to the 2016 valuations in this document.

Reformed scheme only design

B.7 Respondents generally felt that a reformed scheme only design would have positive consequences for younger members of the scheme and reduce intergenerational unfairness. They felt that moving to a reformed scheme only design would mean that comparatively younger members will not experience changes to their benefits based on costs associated with relatively older members in the legacy final salary schemes.

B.8 In contrast, some respondents noted that younger members would benefit if reformed scheme benefits were improved if the impact of including legacy scheme costs led to a floor breach. They argued that excluding the impact of legacy service would therefore not necessarily benefit younger members or those with mixed service.

B.9 The move to a reformed scheme only design will have an overall positive impact on intergenerational fairness, although some age-related consequences remain.

B.10 The protected nature of accrued pension rights and the design of the cost control mechanism are such that it is not possible to exactly align the change in costs that trigger a breach with those who will directly be affected by any related rectification. Currently, the cost control mechanism delivers something of an 'intergenerational transfer': past service costs associated with a group of employees who are, on average, older, affect the pension benefits/contributions of a group of employees who are younger on average – though the latter group will include some of the former group. It is inherent in the design of defined benefit schemes that members in a particular scheme mutually share the risks and benefits, and that there are cross-subsidies between members. Whilst such an 'intergenerational transfer' remains within a reformed scheme only cost control mechanism, it is now with respect to a consistent scheme design. This would appear to be more intergenerationally fair than the current mechanism whereby comparatively younger members experienced changes to their benefits based on the cost of providing benefits to comparatively older members with past service in a legacy scheme that the comparatively younger members never had access to.

B.11 However, whilst improving overall intergenerational fairness, a consequence of this change is that if the value of benefits in the legacy schemes to members reduces, there would be no corresponding increase in reformed scheme benefits, which would impact members with significant legacy scheme benefits who are, on average, older.

B.12 On balance, the Government considers that removing the impact of legacy scheme costs from the mechanism will have an overall positive impact on intergenerational fairness, for the reasons set out in chapter 2 above, which most respondents supported. The Government recognises that younger members would also benefit if legacy impacts led to floor breaches, however, if legacy impacts led to ceiling breaches in future, this would mean that younger members would see their benefits reduced as a result of costs relating to the legacy schemes. The Government therefore considers that a reformed scheme only design is fair and proportionate.

Wider corridor

B.13 Some respondents noted that widening the corridor to +/-3% may also have an impact on intergenerational unfairness. They argued that there may be a greater intergenerational impact if the wider corridor led to less frequent benefit adjustments, since those in service following the breach will have their benefits adjusted, whereas relatively older members who will have retired or be closer to retirement would be unaffected or less affected. They argued that more frequent benefit adjustments may be fairer across the age range, because the impact of breaches would be felt more frequently by members across their service.

B.14 The Government recognises agrees that a wider corridor should lead to fewer breaches of the mechanism and fewer benefit adjustments, which may have an impact on intergenerational fairness, depending on the underlying causes of the breach when it does occur. However, a wider corridor may also insulate relatively younger members from smaller and temporary changes in costs related to the past service of relatively older members. The Government maintains the view that the benefits provided by a wider corridor in terms of increased stability and certainty of benefit levels for members make it a justified and proportionate measure to introduce.

Economic check

B.15 Respondents did not raise any particular points on the impact of the economic check on intergenerational fairness.

B.16 The Government considers that the economic check will make it less likely that breaches of the floor and ceiling are implemented through benefit increases or benefit reductions. As the economic check is expected to lead to fewer benefit adjustments, this may have an impact on intergenerational unfairness in the same way as a wider corridor, depending on the underlying causes of the breach when it does occur. However, it may also insulate relatively younger members from benefit changes based on smaller and temporary changes in costs. Furthermore, due to its symmetrical design, it will insulate younger members in relation to both benefit increases and reductions. The Government maintains the view that the benefits provided by a wider corridor in terms of increased stability and certainty of benefit levels for members make it a justified and proportionate measure to introduce. The Government has also set out that it believes the economic check is necessary to protect taxpayers by ensuring consistency between benefit changes and changes in the wider economic outlook whilst also maintaining the value of schemes to members.

Sex

B.17 Some respondents noted that these proposals may have an indirect impact on women, as women are generally overrepresented across the public sector and are more likely to be part-time workers, particularly in certain public sector workforces such as local government.

B.18 The policies outlined apply regardless of sex and to all members regardless of full-time or part-time status. The Government, therefore, does not expect there to be a direct impact on women from these proposals.

B.19 However, the government acknowledges there may be an indirect impact insofar that women have entered the workforce in greater numbers as time has progressed, meaning that they account for a greater proportion of younger cohorts than they do of older cohorts. Therefore, women may be disproportionately affected by proposals which also have a differential impact by age.

B.20 For instance, as women in the workforce in the workforce are more likely to be younger, they might be more affected by the fact that, under a reformed scheme only design, members will not experience changes to their benefits based on costs associated with relatively older members in the legacy final salary schemes. This will disproportionately advantage women where legacy scheme costs would otherwise result in a reduction in benefits.

B.21 Women may be relatively less disadvantaged in the scenario that the value of benefits in the legacy schemes reduces and there is no corresponding increase in reformed scheme benefits, as this would impact members with significant legacy scheme benefits who are, on average, older and so more likely to be male. In contrast, where younger members with no or little legacy scheme benefits, who are more likely to be women, would have previously seen an increase in their benefits in this scenario despite the change in value relating to benefits of earlier cohorts, they will no longer be disproportionately advantaged.

B.22 As set out above, the Government considers that a reformed scheme only design is fair and proportionate. This is particularly so as a reformed scheme only design means more women will be insulated from benefit changes based on changes in costs associated with legacy schemes of which they are relatively less likely to be members, and those legacy scheme costs could otherwise lead to both ceiling and floor breaches.

B.23 Women may also be disproportionately impacted by changes which are expected to reduce the frequency of breaches - the economic check and widened corridor - depending on the underlying causes of the breach when it does occur and whether they are associated with costs for older members, who are more likely to be men. However, women may also be relatively more insulated from smaller and temporary changes in costs related to the past service of relatively older members who are more likely to be men.

B.24 As set out above, the Government believes that the benefits provided by a wider corridor and economic check, in terms of increased stability and certainty of benefit levels for members, make them justified and proportionate measures to introduce. The Government believes these reforms strike an appropriate balance between the the need to protect taxpayers while preserving the value of schemes to members, and the duty to do so in a way that does not unnecessarily disadvantage women. This is evidenced by the fact that women may be either net beneficiaries or net losers of the policy depending on prevailing economic and financial factors unrelated to sex.

Other protected characteristics

B.25 As the policy proposals outlined apply equally to public service pension scheme members, the Government does not consider it likely that there will be direct impacts from these proposals on those with other protected characteristics, such as race or disability.

B.26 However, the Government recognises there may be indirect impacts in relation to race and other protected characteristics. This is because a higher proportion of younger members are likely to have protected characteristics such as disability, sexual orientation or being from an ethnic minority compared to older members. This is through a combination of demographic changes, because members of these groups have entered the workforce in greater numbers over time and because several employers have made efforts to increase diversity among their workforce.

B.27 Consequently, the same analysis set out above in relation to women is also expected to hold in relation to these groups. As members of these groups in the workforce are more likely to be younger, they might be more affected by the fact that, under a reformed scheme only design, members will not experience changes to their benefits based on costs associated with relatively older members in the legacy final salary schemes, who are more likely to be white, heterosexual, and to not disclose a disability. This will disproportionately advantage these groups where legacy scheme costs would otherwise result in a reduction in benefits.

B.28 These groups will also be relatively less disadvantaged in the scenario that the value of benefits in the legacy schemes reduces and there is no corresponding increase in reformed scheme benefits, as this would impact members with significant legacy scheme benefits who are less likely to hold these characteristics. In contrast, where younger members with no or little legacy scheme benefits, of which these groups are more likely to be part of, would have previously seen an increase in their benefits in this scenario despite the change in value relating to benefits of earlier cohorts, they will no longer be disproportionately advantaged.

B.29 The Government considers that a reformed scheme only design is fair and proportionate way of achieving its policy aims. This is particularly so as a reformed scheme only design means later cohorts with less service in legacy schemes, and which are more likely to include members with protected characteristics, will be insulated from benefit changes based on changes in costs associated with legacy schemes of which they are relatively less likely to be part of, which could otherwise lead to either ceiling or floor breaches.

B.30 Members with protected characteristics of race, sexual orientation or disability may also be disproportionately impacted by changes which are expected to reduce the frequency of breaches - the economic check and widened corridor - depending on the underlying causes of the breach when it does occur and whether they are associated with costs for older members, who are less likely to hold these protected characteristics. However, by reducing the frequency of breaches, these measures may insulate members with these protected characteristics from smaller and temporary changes in costs which are related to the past service of earlier cohorts which they are less likely to be part of.

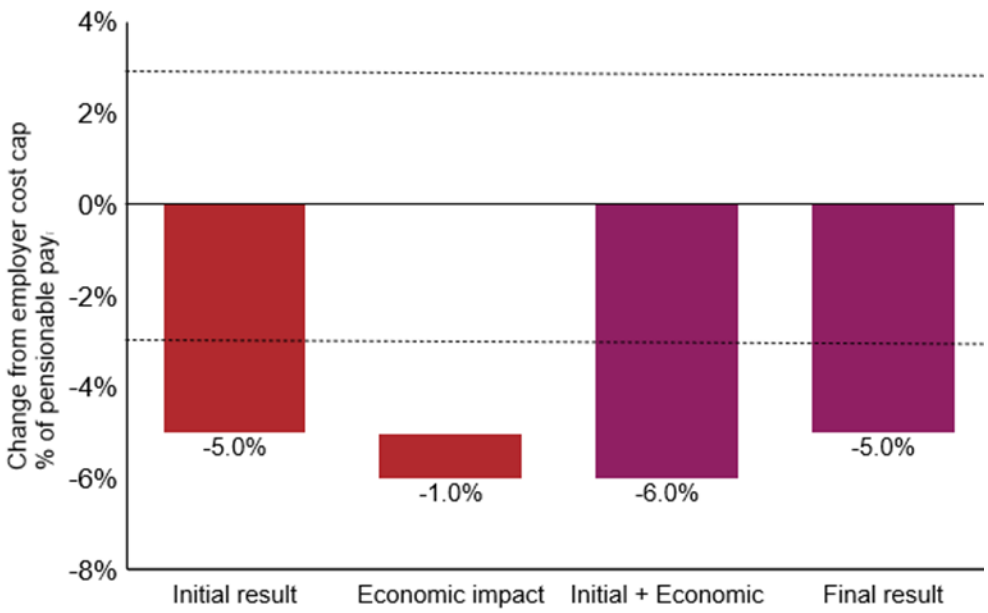
B.31 Again, the Government believes that the benefits provided by a wider corridor and economic check, in terms of increased stability and certainty of benefit levels for members, make them justified and proportionate measures to introduce. The Government believes these reforms strike an appropriate balance between the need to protect taxpayers while preserving the value of schemes to members, and the duty to do so in a way that does not unnecessarily disadvantage members with protected characteristics. This is supported by the fact that members with protected characteristics may be either net beneficiaries or net losers of the policy depending on prevailing factors unrelated to these characteristics.

B.32 The Government does not have sufficient evidence to consider the impacts on other protected characteristics not mentioned here. Collecting this data would not have been proportionate as it would have required public service pension schemes to collect and hold new data on its members that it does not currently hold. In making this assessment Government has considered the burden on members and the presumption that public bodies should not hold data on individuals that it does not require to fulfil its core purposes.

Annex C
Economic check illustrations

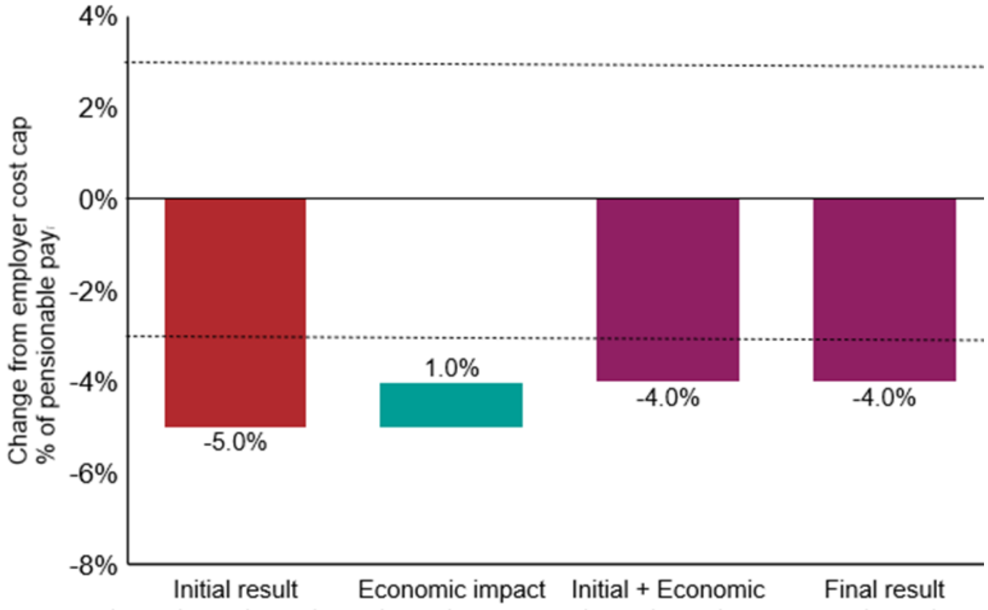
C.1 The following scenarios illustrate how the economic check will work in practice. They are similar to the scenarios included in the consultation document and the Government Actuary's report, but have been updated to consider a +/-3% corridor width.

Box C.1: Scenario 1



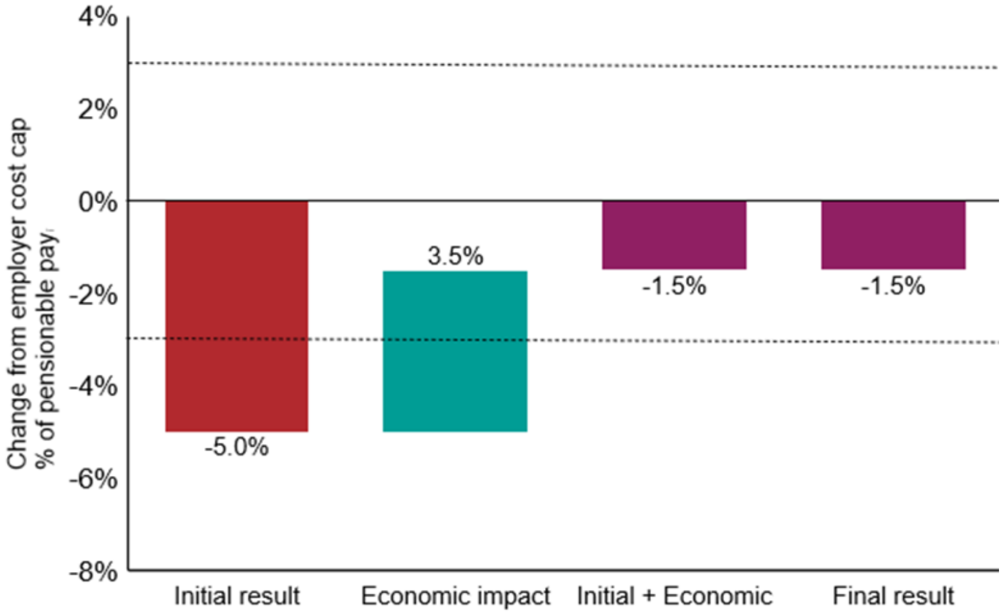
- The initial result of the cost control mechanism is that costs have reduced by 5% of pensionable pay from the employer cost cap
- The discount rate has increased slightly from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would reduce assessed costs by a further 1% of pensionable pay
- The change in discount rate can only offset a breach and cannot cause or contribute to one. Therefore, the final result of the cost control mechanism remains at a reduction of 5% of pensionable pay from the employer cost cap

Box C.2: Scenario 2



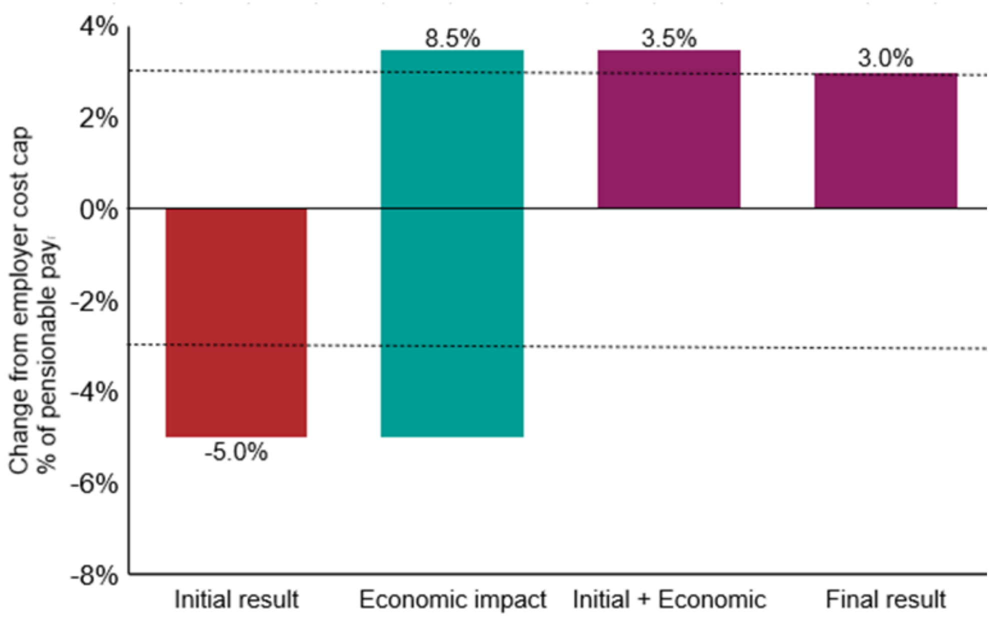
- The initial result of the cost control mechanism is that costs have reduced by 5% of pensionable pay from the employer cost cap
- The discount rate has decreased slightly from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would increase assessed costs by 1% of pensionable pay in isolation
- This impact would partially offset the initial breach with the final result of the cost control mechanism being a reduction of 4% of pensionable pay from the employer cost cap

Box C.3: Scenario 3



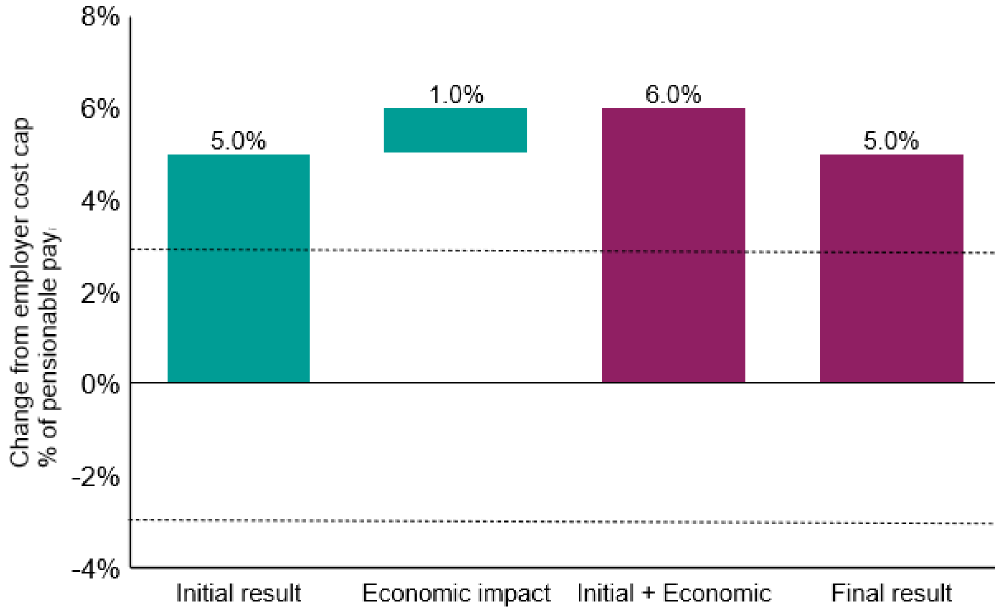
- The initial result of the cost control mechanism is that costs have reduced by 5% of pensionable pay from the employer cost cap
- The discount rate has decreased from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would increase assessed costs by 3.5% of pensionable pay in isolation
- This impact would offset the initial breach with the final result of the cost control mechanism being a reduction of 1.5% of pensionable pay from the employer cost cap. In this scenario the final result is back within the corridor and therefore no benefit changes would occur

Box C.4: Scenario 4



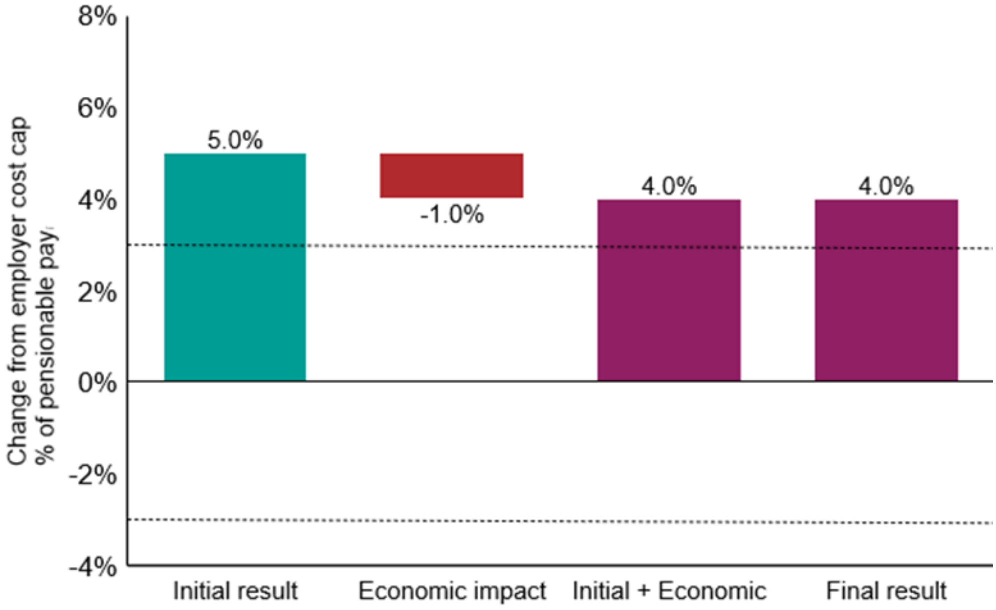
- The initial result of the cost control mechanism is that costs have reduced by 5% of pensionable pay from the employer cost cap
- The discount rate has significantly decreased from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would increase assessed costs by 8.5% of pensionable pay in isolation
- This impact would more than offset the initial floor breach and instead cause a ceiling breach. However the impact of a change in the discount rate can only offset a breach and cannot in itself cause one, therefore no benefit changes would occur
- Note that for illustration purposes the final result is depicted at the edge of the opposite corridor to the initial breach. A decision on what exactly the quoted final result would be in this situation has yet to be made, however the important point is that the final result would be treated as being within the corridor and no breach would occur

Box C.5: Scenario 5



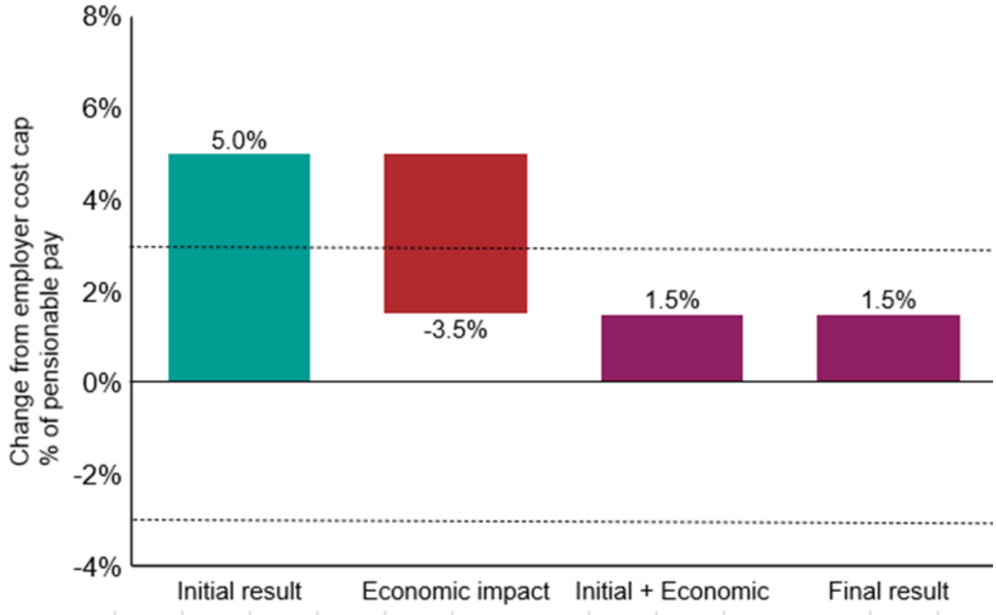
- The initial result of the cost control mechanism is that costs have increased by 5% of pensionable pay from the employer cost cap
- The discount rate has decreased slightly from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would increase assessed costs by a further 1% of pensionable pay
- The change in discount rate can only offset a breach and cannot cause or contribute to one. Therefore, the final result of the cost control mechanism remains at an increase of 5% of pensionable pay from the employer cost cap

Box C.6: Scenario 6



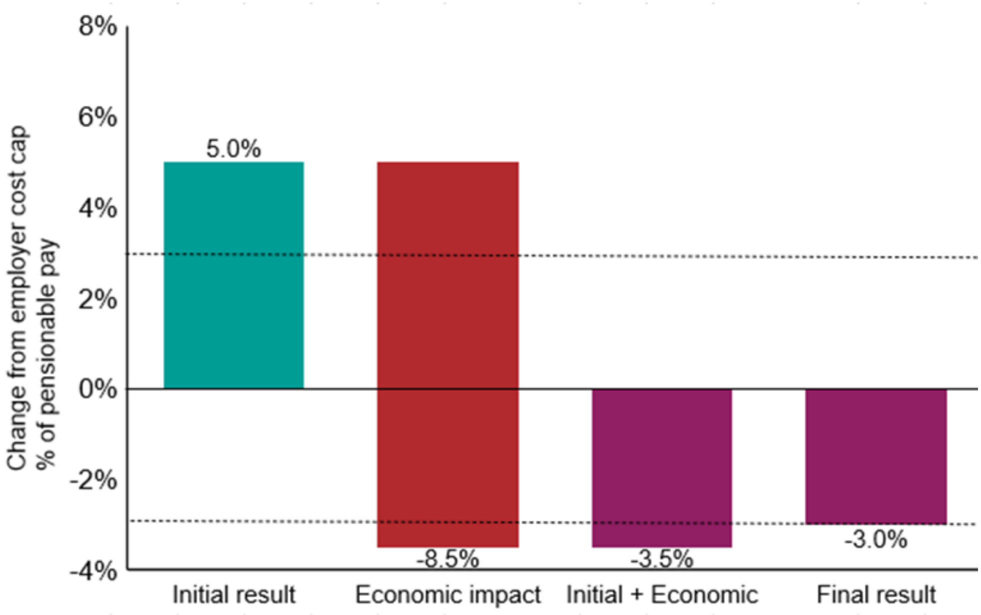
- The initial result of the cost control mechanism is that costs have increased by 5% of pensionable pay from the employer cost cap
- The discount rate has increased slightly from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would decrease assessed costs by 1% of pensionable pay in isolation
- This impact would partially offset the initial breach with the final result of the cost control mechanism being an increase of 4% of pensionable pay from the employer cost cap

Box C.7: Scenario 7



- The initial result of the cost control mechanism is that costs have increased by 5% of pensionable pay from the employer cost cap
- The discount rate has increased from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would decrease assessed costs by 3.5% of pensionable pay in isolation
- This impact would offset the initial breach with the final result of the cost control mechanism being an increase of 1.5% of pensionable pay from the employer cost cap. In this scenario the final result is back within the corridor and therefore no benefit changes would occur

Box C.8: Scenario 8



- The initial result of the cost control mechanism is that costs have increased by 5% of pensionable pay from the employer cost cap
- The discount rate has significantly increased from the 3% a year (net of CPI) rate in force at the time employer cost caps were set. If this were to be recognised in the mechanism it would decrease assessed costs by 8.5% of pensionable pay in isolation
- This impact would more than offset the initial ceiling breach and instead cause a floor breach. However the impact of a change in the discount rate can only offset a breach and cannot in itself cause one, therefore no benefit changes would occur
- Note that for illustration purposes the final result is depicted at the edge of the opposite corridor to the initial breach. A decision on what exactly the quoted final result would be in this situation has yet to be made, however the important point is that the final result would be treated as being within the corridor and no breach would occur

HM Treasury contacts

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From: Acting Business Partner – Kent Pension Fund
Corporate Director of Finance

To: Kent Pension Board – 18 November 2021

Subject: Superannuation Fund Report & Accounts and External Audit

Classification: Unrestricted

Summary:

To present the Draft Report and Accounts of the Superannuation Fund for 2020/21, the External Audit Findings Report and updated Fund policies.

Recommendation:

The Pension Board to note this report.

FOR INFORMATION

1. Introduction

1.1 Members are advised that the Kent County Council Accounts will be presented for approval to the Governance and Audit Committee on the 30th of November 2021. Grant Thornton will issue an audit opinion to Kent County Council on the same or next day. The Statement of Responsibilities and the independent Auditors Certificate will be updated in the draft Report once they are finalised.

1.2 The Pension Fund has a statutory deadline for publishing its Report and Accounts by 1 December. It is therefore planned to present the draft Report and Accounts to the Superannuation Fund Committee on the 23rd of November for in-principle approval in advance of the G&A Committee.

1.3 Subject to obtaining all the approvals, the Report and Accounts will be published to the Kent Pension Fund website on 1 December and are attached here for the Board's information at appendix 1.

1.4 The key findings and other matters arising from the statutory audit of the Fund are included in the external auditor's Audit Findings Report which is also attached at appendix 2.

1.5 Copies of the Fund policies should be reviewed and updated annually. The updated versions of the Funding Strategy Statement and Investment Strategy Statement have been approved by the Committee and are included in appendices 3 and 4. The Governance Compliance statement is being updated in line with the recommendations made by the recent Barnet Waddingham review and will be presented to the Board after it has been completed and approved by the Committee.

Alison Mings, Acting Business Partner – Kent Pension Fund

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November 2021

Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2021

Kent County Council
kent.gov.uk

Contents

If you have any comments on the annual report,

• please call 03000 416 431

• email 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 142,532 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 £7.6bn, a gain over the 12 months of £1.9bn. 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

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

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

- **£12.9m** costs
- **£38.4m** gross savings
- **£25.5m** net savings

Cumulative: 2016 inception 31 March 2021

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

*FTE = Full Time Equivalent
ASU = ACCESS Support Unit

**Technical Leads drawn from ACCESS Authorities

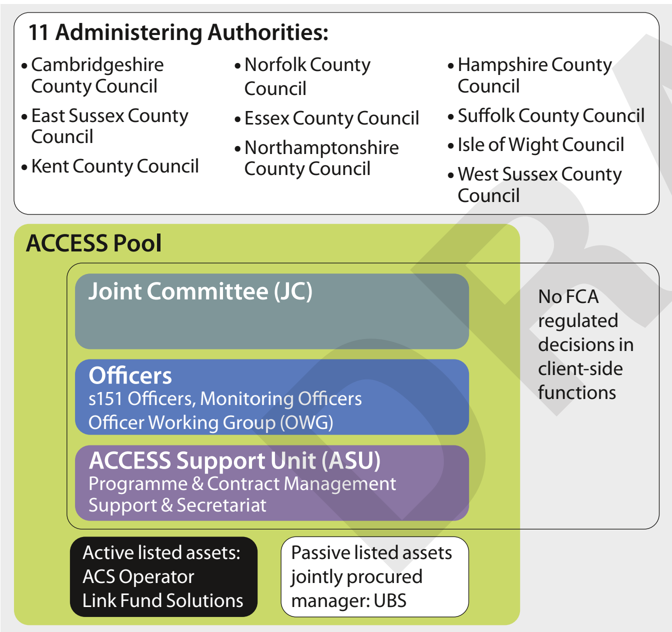
All figures as at 31 March 2021 unless stated

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

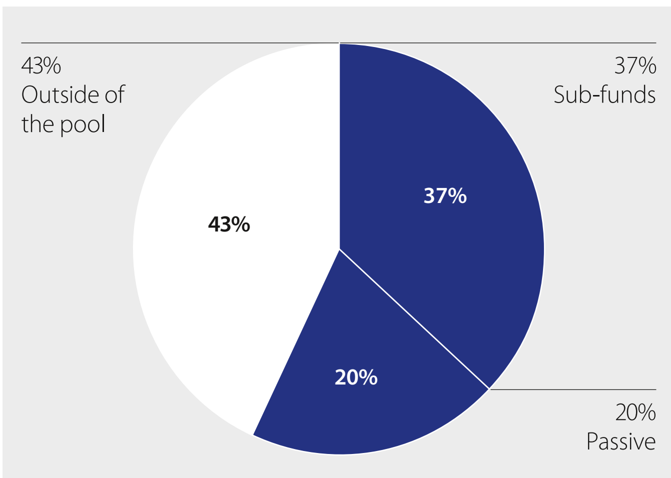
Pool Aligned Assets: UBS

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
Total Pooled Investments	**31.510**

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
Total Costs	**4,535**	**5,156**	**12,873**	**14,024**
Pool Fee Savings	**21,747**	**13,600**	**42,262**	**32,050**
Net Savings Realised	**17,212**	**8,444**	**29,389**	**18,026**

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	Non Kent County Council staff

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 implementaion 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

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	Utmost Life, (earlier Equitable Life Assurance)
(AVC) Providers	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**
Net Assets at 31 March (£'000)	5,565,175	5,828,846	6,218,169	5,716,878	**7,513,632**
No. of Contributors	50,834	52,775	51,345	51,685	**52,725**
Contributions (£'000)	228,285	232,037	238,331	250,263	**267,955**
Number of Pensioners	38,648	39,813	41,739	43,441	**44,838**
Benefits Paid (£'000)	214,895	220,876	235,953	243,832	**247,448**

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

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**	**–**
Administration Expenses	**3,361,34**	**3,848.55**
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**
Governance and Oversight Expenses	**901.70**	**821.00**
Audit fee	**41.03**	**24.00**
Total	**4,304.07**	**4,693.55**

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 emplyer 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
Total	**310**	**144**	**454**

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
2021	**1**	**11,500**	(est) Assistance sought from KCC's counter fraud team regarding recovery
	2	**417**	Seeking recovery from next of kin
	1	**244**	To be written off as no next of kin
Total	**10**	**20,627**	

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
2020-21	**12**	**3,133**

*£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
Total	**100**	

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).

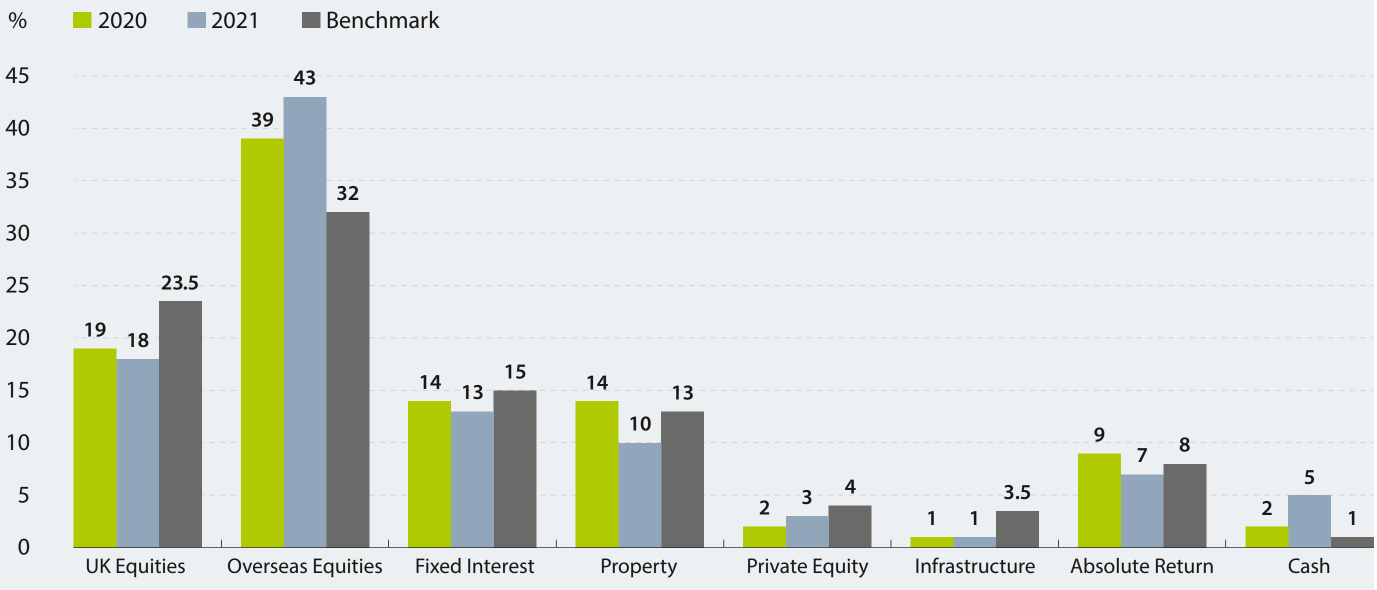
As at 31 March 2021 it had investments of £3.7 billion in four ACCESS sub-funds.

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.

Asset Allocation as at 31 March

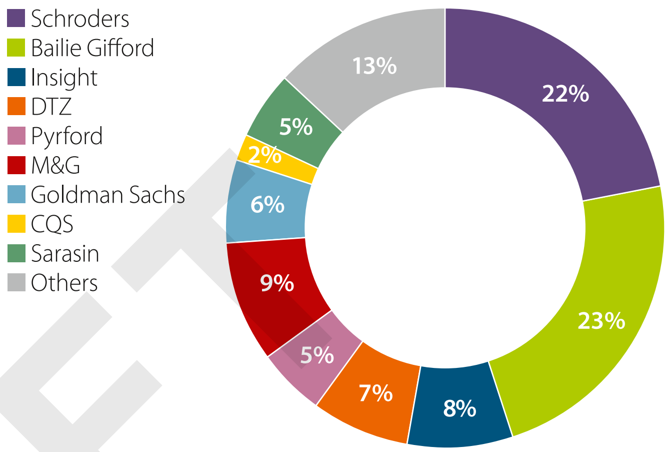


Value of funds under management by Fund Manager

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
Total	**7,504**

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.

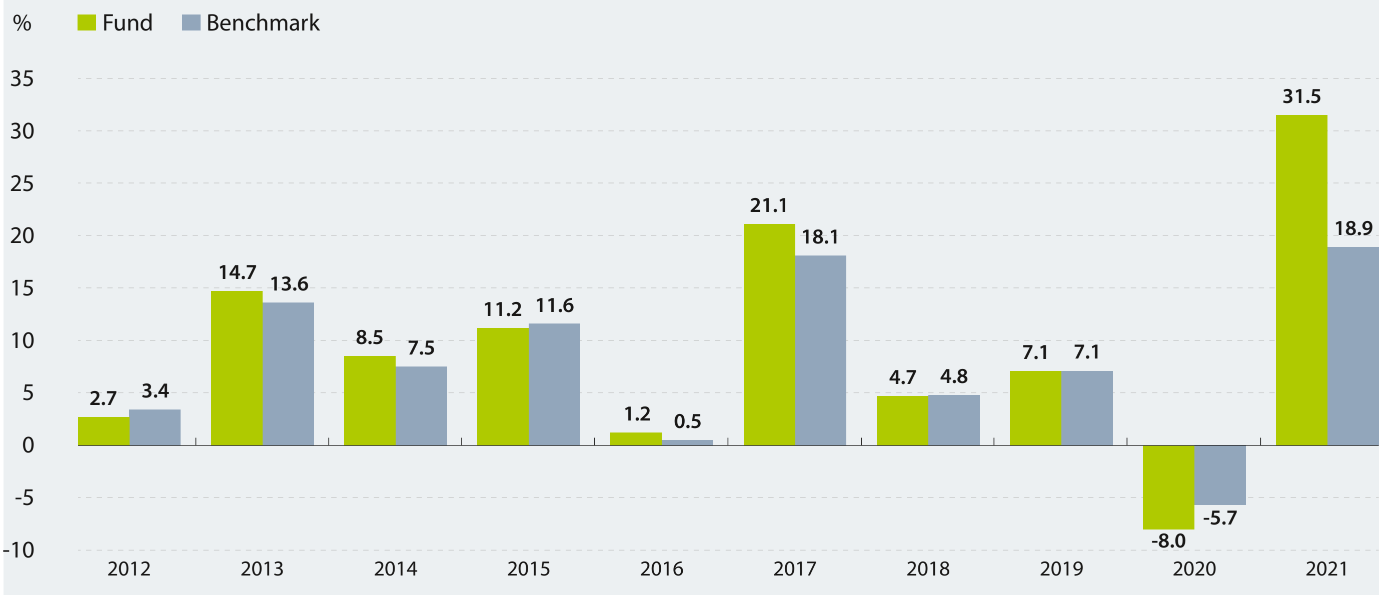
Managers are required to provide valuation information to Northern Trust which assesses the rate of return achieved and provides performance reports for consideration by the Committee.

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%.

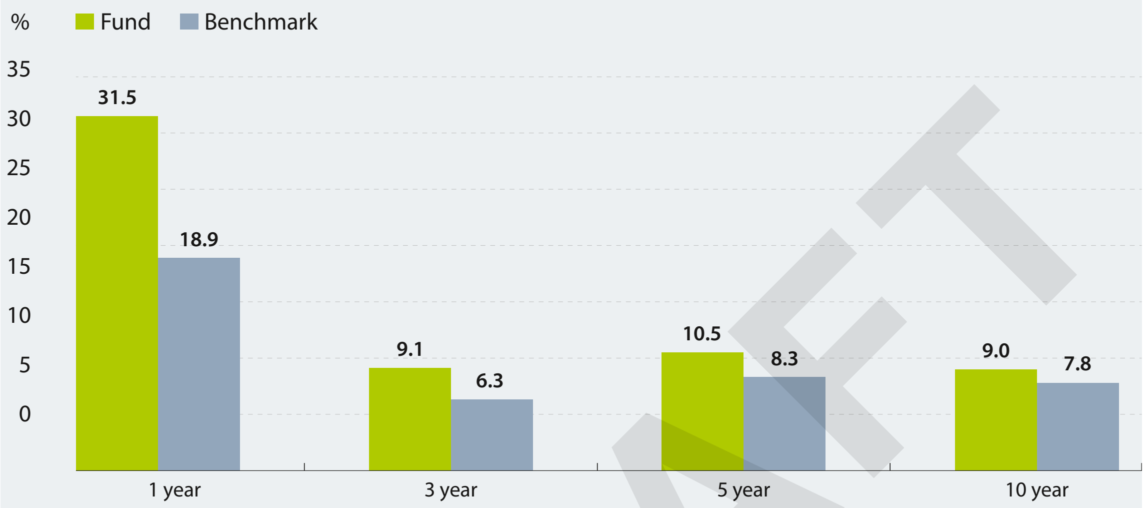
For comparison the PIRC Local Authority Universe average fund return for 2020-21 was 22.8%.

Annual Investment Returns



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

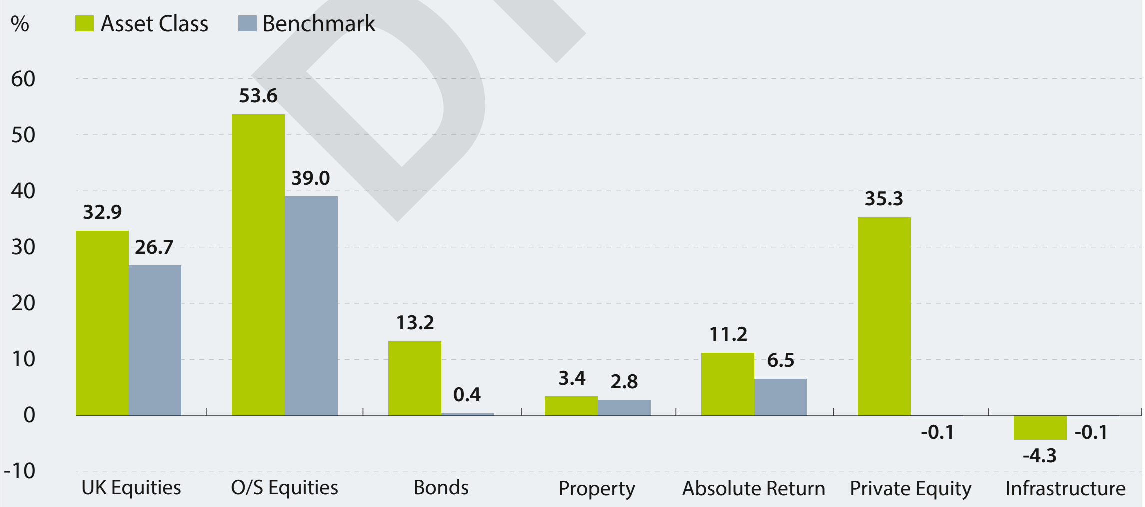
Long Term Performance Summary



Returns by Asset Class

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

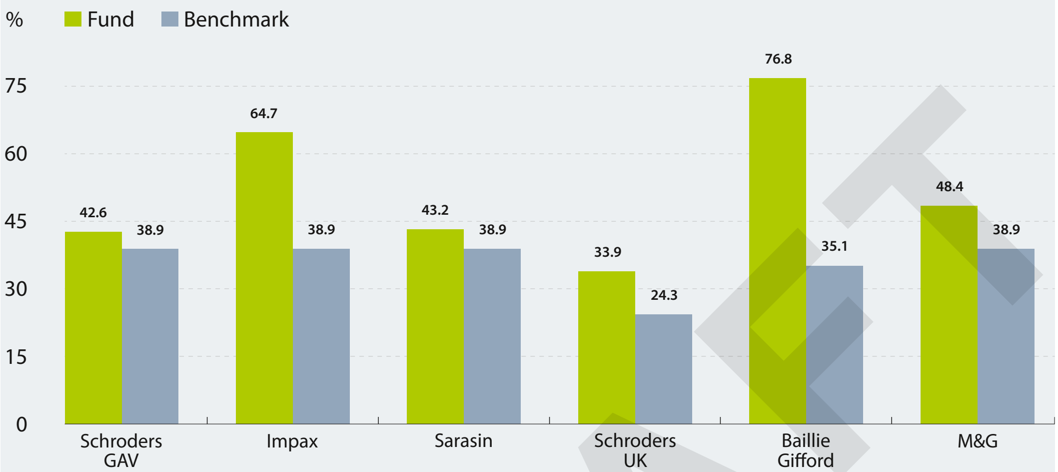
2020-21 Returns by Asset Class



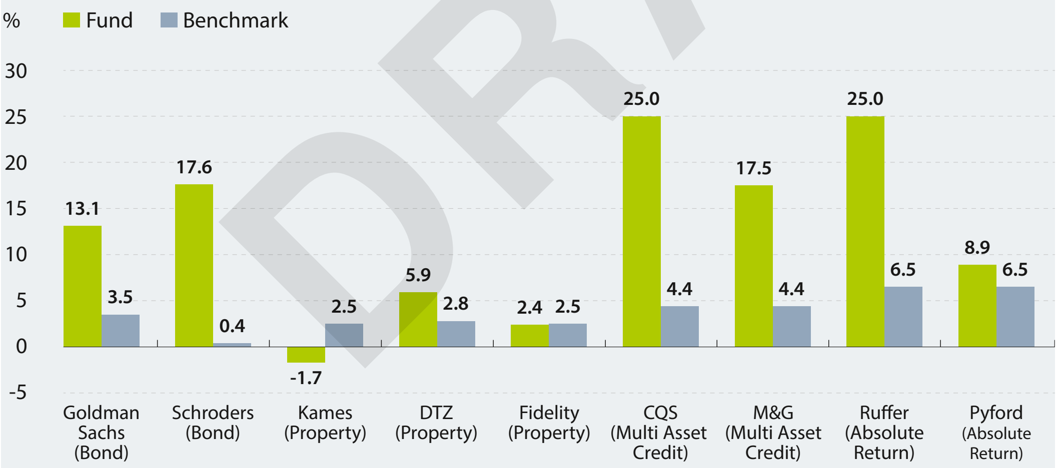
Performance by Fund Manager

The following graphs show the performance of the Equity and other Mandates compared to their benchmarks for the year ended 31 March 2021.

Peformance Returns by Fund Manager – Equities



Peformance Returns by Fund Manager – Other Mandates



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
Total	**978**	**1,380**	**2,358**

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 equites 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.

Fund Account for the year ended 31 March

	Notes	2020–21 £'000	2019–20 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	**267,955**	250,263
Transfers in from other pension funds	8	**5,017**	9,328
		272,972	259,591
Benefits	9	**(247,448)**	(243,832)
Payments to and on account of leavers	10	**(10,057)**	(12,708)
		(257,505)	(256,540)
Net additions from dealings with Members		**15,467**	3,051
Management Expenses	11	**(27,277)**	(25,606)
Net additions/withdrawals including fund management expenses		**(11,810)**	(22,555)
Returns on Investments			
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)
Net Return on Investments		**1,808,564**	(478,736)
Net increase/(decrease) in the Net Assets available for benefits during the year		**1,796,754**	(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)
Net Investment Assets	15	**7,504,176**	5,703,150
Current Assets	21	**34,422**	34,625
Current Liabilities	22	**(24,966)**	(20,897)
Net Assets available to fund benefits at the period end		**7,513,632**	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
Total	**68,546**	67,674	**76,414**	74,858	**144,960**	142,532

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
Pension	1/80 x final pensionable salary	1/60 x final pensionable salary	1/49 (or 1/98 if opted for 50/50 section) x career average revalued salary
Lump sum	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

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 assesesed 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
By Category		
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
Total contributions recievable	**267,955**	**250,263**

	2020–21 £'000	2019–20 £'000
By type of employer		
Kent County Council	**98,024**	94,300
Scheduled Bodies	**151,255**	141,689
Admitted Bodies	**18,676**	14,274
Total	**267,955**	250,263

8. Transfers in from other pension funds

	2020–21 £'000	2019–20 £'000
Individual	**5,017**	9,328
Group	**0**	0
Total	**5,017**	9,328

9. Benefits Payable

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

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
Total	**10,057**	12,708

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
Total		**27,277**	25,606

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
Total	**22,973**	21,163

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

		2020–21		2019–2020	
	Notes	£'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
Total		**111,339**	**100.0**	135,344	100.0

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)
Net operating income from Property	**8,228**	15,488

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

15. Investments

Investment Assets	Market Value as at 31 March 2021 £'000	Market Value as at 31 March 2020 £'000
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
Total Investment Assets	**7,511,024**	5,720,555
Investment Liabilities		
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)
Total Investment Liabilities	**(6,848)**	(17,405)
Net Investment Assets	**7,504,176**	5,703,150

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

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

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)
Net forward currency contracts at 31 March 2021						**964**
Prior year comparative						
Open forward currency contracts at 31 March 2020					816	(17,896)
Net forward currency contracts at 31 March 2020						**(17,080)**

15c. Property Holdings

	Year ending 31 March 2021 £'000	Year ending 31 March 2020 £'000
Opening Balance	**478,105**	487,193
Additions	**0**	1,844
Disposals	**0**	(4,710)
Net increase/decrease in market value	**15,209**	(6,222)
Closing Balance	**493,314**	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
Total	**86,479**	**94,263**

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 £'000	**Market Value as at 31 March 2021 %**	Market Value as at 31 March 2020 £'000	Market Value as at 31 March 2020 %
Investments managed by Link for the ACCESS Pool				
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
	3,671,113	**49**	2,262,669	40
Investments managed outside the ACCESS Pool				
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
	3,833,063	**51**	3,440,481	60
Total	**7,504,176**	**100**	5,703,150	100

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

	31 March 2021	
Investments	**£'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**

	31 March 2020	
Investments	£'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.

	31 March 2021		31 March 2020		
Loan Type	**Market Value £'000**	**Collateral Value £'000**	Market Value £'000	Collateral Value £'000	**Collateral Type**
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
Total	**19,103**	**19,950**	20,603	21,461	

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
Financial Assets						
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	
	6,841,198	**210,934**	**0**	5,204,128	72,948	0
Financial Liabilities						
Derivative contracts				(17,081)		
Other Investment balances			**(6,848)**			(324)
Creditors			**(24,966)**			(20,897)
	0	**0**	**(31,814)**	(17,081)	0	(21,221)
Total	**6,841,198**	**210,934**	**(31,814)**	5,187,047	72,948	(21,221)

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
Total	**1,682,109**	(607,478)

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 asets, 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
Total		**282,124**	**344,542**	**219,706**

	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
Total		**225,568**	**286,111**	**165,025**

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.

Values at 31 March 2021	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
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**
Non-Financial assets at fair value through profit and loss				
Property		**493,314**		**493,314**
Financial liabilities at fair value through profit and loss				
Derivatives	**0**			**0**
Other investment liabilities	**(6,848)**			**(6,848)**
Net Investment Assets	**1,843,370**	**5,378,682**	**282,124**	**7,504,176**

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Values at 31 March 2020	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
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
Non-Financial assets at fair value through profit and loss				
Property		478,104		478,104
Financial liabilities at fair value through profit and loss				
Derivatives		(17,081)		(17,081)
Other investment liabilities		(324)		(324)
Net Investment Assets	2,022,640	3,454,941	225,568	5,703,149

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
Market Value 31 March 2021	**282,124**

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
Cash and cash equivalents	**351,228**	**0.00**	**351,228**	**351,228**
Investment portfolio assets:				
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**
Total	**7,000,688**		**7,920,169**	**6,081,207**

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
Cash and cash equivalents	135,027	0.00	135,027	135,027
Investment portfolio assets:				
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)
Total	5,198,937		5,891,469	4,506,405

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
Total	**1,332,376**	**918,648**

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
Total change in assets available	1,332,376	(9,766)	9,766

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
Total change in assets available	918,648	(7,836)	7,836

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
Total overseas assets	**4,446,622**	**2,994,183**

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 value as at 31 March 2021	**Change to net assets available to pay benefits**	
Asset Type	**£'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**
Total change in assets available	**4,446,622**	**4,748,992**	**4,144,251**

	Asset value as at 31 March 2020	Change to net assets available to pay benefits	
Asset Type	£'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
Total change in assets available	2,994,183	3,197,787	2,790,579

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
Money Market Funds			
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
		191,737	123,138
Bank Deposit Accounts			
NatWest SIBA	**BBB+**	**4,627**	0
		4,627	0
Bank Current Accounts			
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
		9,459	11,889
			0
Cash with fund managers	**n/a**	**150,000**	**0**
Total cash and cash equivalents		**355,823**	**135,027**

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.

Actuarial present value of promised retirement benefits	31 March 2021 £m	31 March 2020 £m
Present value of promised retirement benefits	**(11,789.8)**	(9,099.7)
Fair value of scheme assets at bid value	**7,513.6**	5,716.9
Net liability	**(4,276.2)**	(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.

Assumptions used:	% 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
Debtors		
– Contributions due – Employees	4,067	4,160
– Contributions due – Employers	13,180	13,791
	17,247	17,951
Sundry Debtors	12,579	13,606
Total Debtors	**29,826**	31,557
Cash	**4,596**	3,068
Total Current Assets	**34,422**	34,625

22. Current Liabilities

	31 March 2021 £'000	31 March 2020 £'000
Creditors		
– Benefits Payable	14,178	12,039
– Sundry Creditors	10,788	8,858
Total Current Liabilities	**24,966**	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.

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

	2020–2021 £'000	2019–2020 £'000
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	**75,522**	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.	**3,797**	3,892
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	**(6,089)**	(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 our below:

	31 March 2021 £'000	31 March 2020 £'000
Salary	**147**	137
Allowances	**7**	4
Other	**1**	0
Employer's pension contributions	**33**	39
Total	**188**	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:

Pooled (ACCESS)		
Fund Manager	**Asset Class**	**£'000**
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
Total Pooled		**3,671,113**

Non-Pooled		
Fund Manager	**Asset Class**	**£'000**
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 Returm	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
Total Non-Pooled		**3,833,061**
Grand Total		**7,504,174**

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

Pool Set up Costs	**2020–2021 £'000**	Cumulative £'000	ACCESS
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
Total	**0**	**166**	**1,824**
Transition costs		**363**	

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:

	2056–2016 £'000	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	**82**	306
Transition costs	–	–		363	–	**245**	608
Fee savings	26	242	776	1,436	1,596	**3,968**	7,992
Net savings	32	162	696	936	1,509	**3,641**	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 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 Direct £'000	**Asset Pool** Indirect £'000	**Asset Pool** Total £'000	**Non Asset Pool** Direct £'000	**Non Asset Pool** Indirect £'000	**Non Asset Pool** 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
Total	**130.66**	**10,854.44**	**10,985.10**	**6,016.38**	**12,206.50**	**29,207.97**

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

Asset Category	**Opening Value** £'000	**Opening Value** % of total fund	**Closing Value** £'000	**Closing Value** % of total fund	**1 Yr Performance** %	**Benchmark** %
ACCESS Pooled Investments						
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
Total Pooled Assets	**2,263**	**39.7**	**3,671**	**48.9**	**N/A**	**N/A**
Under Pooled Governance						
UK Passive Equity	275	4.8	–	0.0		
Global Passive Equity	302	5.3	–	0.0		
Total Under Pooled Governance	**577.4**	**10.1**	**–**	**–**		
Assets Outside of the ACCESS Pool						
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
Total Non-Pooled Assets	**2,862**	**50.2**	**3,833**	**51.1**	**N/A**	**N/A**
Grand Total	**5,702**	**100.0**	**7,504**	**100.0**	**31.52**	**18.93**

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

Kent County Council
kent.gov.uk

Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

The Audit Findings Report for the Kent County Council Superannuation Fund

Year ended 31 March 2021

7 October 2021

Contents

Your key Grant Thornton team members are:

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Page 136

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.

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.

Financial Statements

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

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

Our audit work was completed 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.

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.

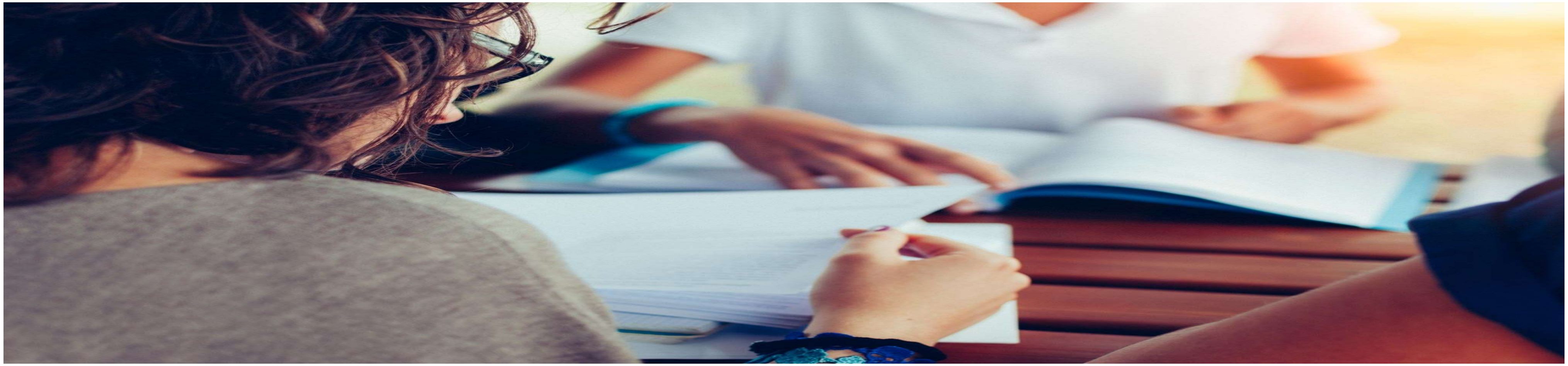
	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	75,000,000	Our Headline Materiality is based on the Net Assets of the Fund. Due to the considerable increase in the value from the prior year, we have revised this figure upwards ahead of the Final Accounts 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
Management override of controls 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. 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.	During the audit, we have undertaken the following work: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. No issues have been identified from the testing performed in this area.



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	Commentary
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.	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
Level 2 Investments – Direct Property - £478m	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. 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.	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.	TBC
Level 3 investments	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. 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.	Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts. 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.	● Light Purple

Page 144

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
Level 2 Investments (excluding Direct Property) – £4,885 million	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 **£4,885 million**. 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. The valuation of these investments has increased by **£1,908 million** from their value at 31 March 2020 (**£2,977 million**). 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.	• Based on the work performed, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts. • 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.	Light Purple

Page 145

Assessment

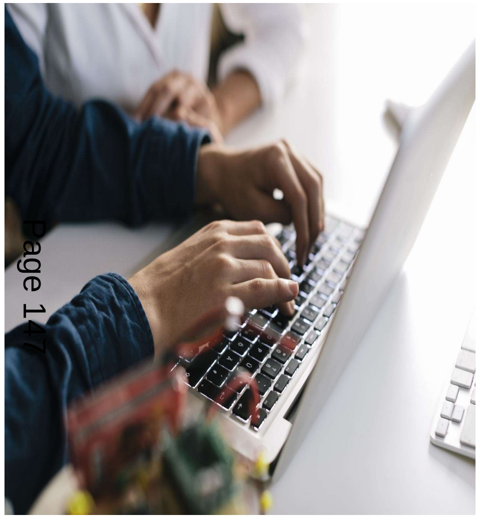
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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.

Issue	Commentary
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	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
Confirmation requests from third parties	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. 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.
Accounting practices	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.
Audit evidence and explanations/ significant difficulties	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.
Disclosures	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.
Matters on which we report by exception	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.

2. Financial Statements - other communication requirements

Page 148

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).

Issue	Commentary
Going concern	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 • 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. 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: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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)]

Page 149

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
Audit related			
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)	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. 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.

* 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 151

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 **£63.6 million**. 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.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	41,000	TBC
Total audit fees (excluding VAT)	£41,000	TBC

Page 152

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

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

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. 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

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……………………………..

Page 159

Name……………………………

Position…………………………..

Date……………………………..

Signed on behalf of the Fund

Grant Thornton

grantthornton.co.uk

Kent County Council Pension Fund Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the Kent County Council Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Kent County Council's strategy, in its capacity as administering authority, for the funding of the Kent County Council Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is Kent County Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The results of the 2019 valuation are set out in the table below:

2019 valuation results	
Surplus (Deficit)	(£129m)
Funding level	98%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 18.4% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

This assumption was reviewed following the Chancellor's November 2020 announcement on the reform of RPI and is now assumed to be 0.4% p.a. lower than the 20 year point on the inflation curve. This change will be reflected in the ongoing funding assumptions with effect from 1 April 2021, with the change smoothed in over the six month period straddling this date. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. At the March 2019 actuarial valuation, a deduction of 1.0% p.a. was made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted at March 2019 was 2.6% p.a.

This assumption was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above and CPI inflation is now assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve). This change will be reflected in the ongoing funding assumptions with effect from 1 April 2021, with the change smoothed in over the six month period straddling this date. This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change the RPI calculation method in line with the Consumer Prices Index including Housing costs (CPIH). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.

Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.7% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits. On 13 May 2021 the Government issued a ministerial statement which confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1 April 2014. The Government's intention is that revised regulations will come into force on 1 April 2023, and draft regulations are expected later in 2021.

Further details of this can be found below in the Regulatory risks section.

As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than 0.05% of the discount rate assumption.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 23 March 2021, the government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching SPA beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found at: https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a period of 0 to 16 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over an appropriate period.

The deficit recovery periods adopted at the 2019 valuation varied amongst individual 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. The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Where an employer's contribution has to increase significantly then, if appropriate, the increase may be phased in over a period not exceeding three years.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Kent County Council	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Colleges	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Academies	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level

There are also a number of connected employers within the Fund. Connected employers are those where we understand that the organisation controls all of the employers or has responsibility for all the pension obligations. Examples include parent/subsidiaries or former Transferee Admission Bodies who have ceased to participate where the legacy liabilities have been passed back to the Letting Authority. In these instances, the contribution rate has been determined as a pooled rate.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2019 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

Exit credit policy

Under advice from MHCLG, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not been asked to pay an exit payment had a deficit existed at the time of exit.

- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out in writing why the arrangements make payment of an exit credit appropriate.

- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.

- As detailed above, the Fund Actuary may adopt differing approaches depending on the employer the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing/long-term funding basis.

- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.

- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Consolidation of Multi Academy Trusts (MATs)

Where an academy is transferring into or out of the Fund as part of a MAT consolidation exercise, the Fund generally expects that this will proceed through a Direction Order from the Secretary of State. In these situations, and subject to the terms agreed between the Fund Actuary to both LGPS Funds, typically all the assets attributable to the academy in the ceding Fund are transferred to the receiving Fund.

Where the academy is transferring out of the Fund, the Fund requires a Direction Order to be sought such that all associated deferred and pensioner liabilities are also transferred out of the Fund.

Where the academy is transferring into the Fund, where appropriate, the academy will become part of the Fund's Academy pool. If the funding level of the transfer into the Fund is substantially lower than the funding level of the academy pool then the Fund may require additional contributions to be paid by the academy to protect the other academies in the pool from an increased funding cost as a result of the transfer terms. There may be some instances where it is not deemed appropriate for the academy to join the Academy pool, or at least not immediately. For example, if a large number of academies from a MAT transfer into the Fund at one time, then it may be more appropriate to initiate a separate funding pool for these academies until their funding position is in line with the main Academy pool, at which point it can then be merged into the Academy pool.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. On 13 May 2021 the Government issued a ministerial statement which confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1 April 2014. The Government's intention is that revised regulations will come into force on 1 April 2023, and draft regulations are expected later in 2021.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited.

So far, two partial responses to the consultation have been issued:

- On 27 February 2020, a partial response was issued relating to policy changes to exit credits
- On 26 August 2020, a partial response was issued relating to review of employer contributions and flexibility on exit payments

This FSS has been updated in light of these responses and will be revisited again once the outcomes are known for the remaining items.

Detail of the outstanding policy proposals are outlined below:

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. These results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. As these types of employer participate in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer’s membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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Investment strategy statement

Introduction and background

This is the Investment Strategy Statement (the "Statement") of the Kent County Council Superannuation Fund, which is administered by Kent County Council (the "Scheme Manager") as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 Regulations") in accordance with the guidance issued by Secretary of State.

Kent County Council has delegated to the Superannuation Fund Committee (the Committee) all the powers and duties of the Council in relation to its functions as an Administering Authority. The Committee has a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested, and to take proper advice in the execution of this function.

Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires that the Statement must include:

- a requirement to invest money in a wide range of investments
- the authority's assessment of the suitability of particular investments and types of investments
- the authority's approach to risk, including the ways in which risks are to be measured and managed
- the authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments, and
- the authority's policy on the exercise of rights (including voting rights) attaching to investments.

As set out in the regulations the Statement is subject to review every three years and from time to time on any material change in investment policy or other matters as required by law.

Investment strategy

Fund Objective

The Fund's primary objective is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This primary objective is set out in more detail in the Fund's Funding Strategy Statement (FSS).

The funding objective for the Fund is to ensure that over the long term it will have sufficient assets when taken in conjunction with future contributions, to meet pension liabilities as they fall due. At the present time the Fund's aim is to achieve at least a return in line with that set by the actuary for the 3-year valuation period, presently 5.8% p.a. based on the 2019 valuation results.

In order to achieve the funding objective the investment strategy seeks to:

- maximise returns for a given level of risk
- ensure liquidity requirements are met at all times
- achieve and maintain 100% funding level
- maintain stable employer contribution rates.

The Fund has had a customised asset allocation for a number of years and has regularly reviewed this in light of valuation results, changes in liabilities and investment cycles.

In 2018, the Committee approved a revised asset allocation for the Fund based on a review of its investment strategy that it carried out with the assistance of its investment advisor, Mercer. The Fund's investments are allocated across a range of asset classes with the largest allocation being to equities, which also accounts for the majority of the investment risk taken by the Fund.

The Fund’s current strategic asset allocation is shown in the table below.

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

The Fund has an 84% allocation to growth assets (equities, property, absolute return, private equity and infrastructure) in order to meet the long-term funding assumptions set out in the 2019 actuarial valuation (PDF, 2.0 MB) and a 16% allocation to defensive assets (bonds and cash) to help manage overall levels of funding volatility.

Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocations to asset classes other than equities and bonds allow the Fund to gain exposure to other forms of risk premium and can reduce the overall volatility of portfolios. These assets are expected to generate returns broadly similar to equities over the long term and so allocations to these can maintain the expected return and assist in the management of volatility.

The Committee monitors its investment strategy relative to the agreed allocation benchmark. In addition to ongoing monitoring, the Investment Strategy is reviewed at least every three years, in line with the valuation period.

Asset rebalancing policy

The Committee reviews the strategy at each quarterly meeting and has agreed a rebalancing policy focused on the high-level asset classes of Equity, Fixed Income, Alternatives and Cash. The review is based on the latest published month end position with reference to set tolerance ranges as per the following table, and any rebalancing is only made between the Fund's liquid assets. A decision on rebalancing is taken as a standing item at the Committee meeting.

	Benchmark allocation	**Agreed ranges**
Asset Class	**%**	**%**
Equity	55.5	48 - 63
Fixed Income	15	10 - 20
Alternatives	28	18.5 - 38.5
Cash	1	0 - 5
Total	**100**	

Decisions of where to either invest or disinvest cash within these high-level categories is at the discretion of the Committee and should balance consideration of the following: relative market weights, liquidity and transaction costs, medium term market views, manager ratings and the confidence of the Committee in the manager's ability to meet performance targets.

Unless there is good reason otherwise, rebalancing is undertaken to bring the over or underweight asset class back to approximately the mid-point between its target allocation and the current position to reduce transaction costs and regret risk.

Equity downside protection

As part of its investment strategy the Committee agreed to implement an equity downside protection programme on its global equity portfolio in December 2020. The Committee has also agreed to implement protection on the UK equity portfolio pending the FTSE100 index reaching an agreed trigger level.

The current strategy covers the period to the end of the next actuarial valuation cycle in 2023.

Use of external investment consultants

The Committee engages Mercer to assist it with the implementation of its Investment Strategy. It receives a quarterly manager monitoring report setting out Mercer's latest manager ratings and news updates, as well as in-depth manager reviews as requested.

Investment management arrangements

All investment management activities are carried out externally and there is no internal management other than of cash flow. The Fund has a policy of appointing specialist managers who are experts in managing specific investment strategies which should help the Fund deliver over different investment cycles. Advice is sought when appointing investment managers.

Managers are required to attend a Committee meeting periodically to provide an update on the mandates they manage for the Fund as well as to explain how they implement the Fund's Responsible Investment policy.

The current manager structure and the rationale for this is set out in the table below:

Asset Class/Manager	**Performance target**	**Style**
UK Equities		
Schroders	Customised UK equity + 1.5%	High concentration
Link	FTSE All Share	Unconstrained (This fund is now winding down)
Insight	FTSE All Share	Synthetic passive equity
Global Equities		
Baillie Gifford	Customised regional equity + 1.5%	Fixed weight regional equity
Sarasin	MSCI AC World + 2.5%	Thematic
M&G	MSCI AC World + 3%	Dividend growth
Schroders	MSCI AC World + 3-4%	Quantitative value
Impax	MSCI AC World + 2%	Environmental themed
Insight synthetic equity	MSCI World	Synthetic passive equity
Insight Equity Options	Blended index returns	Equity options structure
Fixed Income		
Schroders	3 months Sterling Libor + 4%	Total return

Goldman Sachs	+3.5-6%	Target return long term hold
CQS	Libor+4%	
M&G	Libor+4%	
Insight	SONIA + 2%	Asset Backed Securities
Property		
DTZ	IPD Customised Pension Fund Index	Direct UK property
Fidelity	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund open ended
Aegon (Kames)	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund close ended
M&G	IPD UK PF All Balanced Property Fund Index	UK residential property fund
Absolute Return		
Pyrford	RPI + 5%	Low risk equities/fixed income/cash
Ruffer	RPI	Low risk equities/fixed income/cash
Alternatives		
Private Equity - YFM	GBP 7 Day LIBID	Small value direct UK
Private Equity - HarbourVest	GBP 7 Day LBID	Global fund of funds
Infrastructure - Partners Group	GBP 7 Day LBID	Global fund of funds
Cash		
Insight	SONIA	Money market fund

Risk measurement and management

The Fund is open to new members and has a large member base. It is relatively well funded (98% at its last triennial valuation in 2019). The last strategic investment allocation review in 2018 took into account the actuary's required rate of return and the relative return and risk characteristics of the different asset classes to determine the asset allocation required to achieve the return within the parameters of acceptable risk. The Fund assesses risk both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

The Fund maintains a full risk register which is reported to every meeting of the Committee. This covers the full range of risks faced and not just investment risks. The Committee takes advice from its investment advisors on investment risks.

The principal investment risks faced are:

Risk	Mitigation
Equity allocation risk	The largest risk the Fund is exposed to is its equity holding. Equity risk arises should equity market conditions deteriorate significantly, this will have a negative impact on the funding level. The Fund holds equities in order to generate investment returns so that the Fund remains affordable for stakeholders. However, in line with its review of the Fund's asset allocation it is now reducing its exposure to traditional equities to reduce the impact of a material fall in equity markets. In order to manage equity risk the Fund invests in managers with a variety of investment styles and has implemented an equity protection programme to limit the impact of falls in global equity markets.
Asset class concentration risk	Asset class concentration risk is a risk that any impact of adverse economic conditions affecting a particular asset class poses an outsized risk to the Fund's funding level and that the risk is not mitigated by investments in other asset classes. The Fund is reducing its allocation to UK equities to reduce concentration risk. It is also seeking to diversify its bond allocation.
Active manager risk	Active manager risk is the risk that a manager underperforms their benchmark. The Committee believes that good active managers will add value to the Fund, and it aims to establish long term relationships with managers. The risk is small relative to asset class risk; nevertheless, the Fund addresses the risk through diversification of its exposure to active managers and careful monitoring of their progress. Managers of the larger mandates annually attend committee meetings and others have regular meetings with officers.
Inflation risk	Inflation risk is the risk that a rise in inflation erodes the value of the investment returns required by the Fund to meet its pension liabilities. The Fund invests in asset classes that seek to provide returns in excess of inflation. Additionally, equities, property and infrastructure investments aim to achieve an indirect linkage to inflation.
Exchange rate risk	The Fund invests in overseas assets. Exchange rate risk is the risk that the value of the Fund's reporting currency GBP falls in comparison to other currencies (and affects the Fund's ability to realise the stated value of its global investments). The Fund is a long-term investor and can withstand short term currency fluctuations. The Fund monitors its overseas investment currency exposure but has not made arrangements to hedge this risk.
Alternative asset classes risk	The Fund has invested in a range of alternative assets. These assets bring with them diversification and reduce the reliance on equities. The risks that these assets bring at the individual level are not insignificant, but the Committee believes that over the long term the alternatives will provide returns for the risks being run. The Fund is increasing its investments in non-property alternative investments following its review of the strategic asset allocation in 2018 and it is monitoring the illiquidity risk arising from alternative asset classes.
Liquidity risk	Liquidity risk is the risk that the Fund will not have sufficient cash to meet its pension and investment liabilities in time and becomes a forced seller of assets at an inopportune time. The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Custody risk	Custody risk is the risk that the investments might not be held and transacted securely and efficiently for the benefit for the Fund. The Fund must maintain its beneficial ownership of Fund assets when held in custody or trading and it does this through its global custodian. Counterparty risk is mitigated through a robust

	selection and legal contracting process. Direct custody risk is reducing as the Fund moves its investments into pooled funds. Indirect custody risk is mitigated by careful selection of funds.
Transition risk	Transition risk is the risk that there is expense and opportunity cost incurred in moving assets between investment managers. The risk of incurring additional costs in relation to the transitioning of assets between external managers is managed through the use of professional advisers and experienced in house staff.
Stock lending risk	Stock lending risk is the risk that assets lent are not recovered in full or partially. The Fund has agreed a stock lending policy for its segregated mandates as well as for its investments in the ACCESS pool. This is a limited programme of stock lending and risk is mitigated by lending to approved counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.
Regulatory risk	Regulatory risk is the risk that the Fund will be in breach of a regulatory requirement. Regulatory risk is predominantly transferred to the externally appointed investment managers who have to meet regulatory requirements. The Fund only manages cash internally and complies with CIPFA and MHCLG requirements in relation to that.
Investment advice risk	Investment advice risk is the risk that the Fund receives inappropriate or poor-quality investment advice. The Fund has engaged Mercer as its investment consultant. In-line with the CMA Order 2019, the Committee has set strategic objectives for Mercer and regularly considers the effectiveness of the advice given against these objectives.
Unmatched liability risk	Unmatched liability risk is the risk that the growth of the Fund's assets is less than the growth of the Fund's pension liabilities (and therefore the Fund does not have sufficient assets to meet its long-term liabilities). The Fund is diversifying its investment in fixed income strategies which should more closely match the characteristics of the Fund's liabilities.

Asset pooling

The Fund is part of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool which was established in 2015 and assets under pooled governance totalled £20.4bn as at 31 March 2021. The ACCESS funds emphasise retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.

In 2018, Link Fund Solutions contracted with the 11 ACCESS authorities to provide a pooled operator service. Link is responsible for operating an Authorised Contractual Scheme (ACS) along with the creation of investment sub-funds to meet the needs of the ACCESS funds.
The Kent Fund has made a commitment to pool its investments other than its direct property holdings but will rigorously apply the value for money test before moving assets into the pool. There are various challenges and complications in pooling directly held properties, including transition (re-registration) costs, lack of liquidity, and determining fair transfer values that make it unviable to pool direct

property. The government has recognised these issues and exempted direct property from the pooling requirement.

As at 31 March 2021 the total value of the Kent Fund's investments in the ACCESS pool was £3.7 bn, being 49% of the total assets of the Fund. Further sub-funds are being launched for equity and fixed income asset classes and the Fund will continue to look for opportunities to pool their remaining liquid assets. The Fund will also participate in the pooling of alternative assets (other than direct property) through the structures being developed in the ACCESS pool.

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Environmental, Social and Governance Considerations

Fiduciary duty

The fundamental responsibility of the Fund is to ensure that it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost-effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the Fund must comply with its fiduciary responsibilities.

Responsible Investment (RI)Policy

The Fund recognises it is consistent with its fiduciary duty to manage Environmental, Social and Governance (ESG) issues including climate risk, that may be financially material and expects those responsible for managing its investments to comply with the Fund's policy.

The Fund is committed to being a responsible investor and a good long-term steward of the assets in which it invests. The current policy at appendix 1 sets out the Fund's approach to RI and details the actions the Fund and its external providers take on its behalf, to protect the Fund and its assets from ESG and reputational risk.

The Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund. The Committee considers ESG integration and active ownership when selecting and monitoring investment managers.

Investment managers are expected to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of the Fund’s investments. The Fund would engage directly with a company in which it is directly invested, in exceptional circumstances.

The Fund also expects feedback from the investment managers on the activities they undertake and regularly reviews this feedback through meetings and reporting. The Fund’s investment advisors also provide quarterly updates to the Committee on the investment managers’ ESG ratings.

The 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.

The Committee has established an RI working group that will consider and progress the further development of the Fund’s RI policy and its implementation taking account of recent ESG initiatives and will 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.

Exercise of voting rights

Assets outside the ACCESS Pool
The Fund has instructed its investment managers to vote in accordance with their in-house policies and practices.

Assets in the ACCESS pool
The ACCESS pool has agreed voting guidelines that it expects each of the underlying investment managers managing sub funds on its behalf to comply with or, when this is not the case, to provide an explanation.

The Fund supports the UK Stewardship Code and expects the investment managers who hold shares on its behalf to fully comply with the UK Stewardship Code 2020 and to fully participate in voting at company annual general meetings. It expects its investment managers to carry out all voting decisions on behalf of the Fund and to provide feedback information on voting decisions on a quarterly basis.

The majority of the Fund’s investment managers are signatories to the UK Stewardship Code.

Stock lending

The Fund has agreed a programme of stock lending with the custodians of its segregated investments. With regard to the Fund's pooled investments stock lending is undertaken at the discretion of the pooled fund manager. The Fund also participates in the ACCESS stock lending programme for investments under ACCESS Pool governance.

Advice

The Committee takes advice and information from:

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

Policy amended August 2021

APPENDIX 1

KENT COUNTY COUNCIL SUPERANNUATION FUND RESPONSIBLE INVESTMENT POLICY

The Kent County Council Superannuation Fund (the Fund) is committed to being a Responsible Investor and a good long-term steward of the assets in which it invests.

The Fund recognises it is consistent with its fiduciary duty to manage **Environmental, Social and Corporate Governance (ESG)** issues that may be financially material.

This policy sets out the Fund's approach to **Responsible Investment (RI)** and details the actions the Fund and its external providers take on its behalf, to protect the Fund and its assets from ESG and reputational risk.

Kent County Council Superannuation Fund's Responsible Investment (RI) Beliefs

- As a long-term investor, seeking to deliver long-term sustainable returns, taking a sustainable investment view is more likely to create and preserve long-term investment capital.

- The identification and management of ESG risks that may be financially material is consistent with our fiduciary duty.

- The Fund seeks to integrate ESG issues at all stages of its investment decision making process, from setting the investment strategy to monitoring its investment managers.

- Active ownership helps the realisation of long-term shareholder value. The Fund has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.

- The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. This is evidenced by participation in the various initiatives outlined in this document

- The Fund seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.

- It is important that the Fund be transparent and accountable to members and stakeholders with respect to its RI activities.

Implementation

The Fund seeks to integrate RI across its investment decision-making process and adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure it is robust from a risk and return perspective.

In setting and implementing its investment strategy, the Fund takes advice from professional investment advisors.

The Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund. The Committee considers ESG integration and active ownership when selecting and monitoring investment managers.

The Fund expects its investment managers to engage with companies to monitor and develop their management of ESG issues in order to enhance the value of the Fund's investments. The Fund also expects feedback from the investment managers on the activities they undertake and regularly reviews this feedback through meetings and reporting.

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

The Fund supports and has signed up to the **Principles of Responsible Investment (PRI)** and expects its external investment advisors and investment managers, to be signatories, and demonstrate commitment, to the PRI.

The Fund expects the investment managers who hold shares on its behalf to fully comply with the **UK Stewardship Code 2020** **(the Code)** and to fully participate in voting at company annual general meetings. It expects its investment managers to carry out all voting decisions on behalf of the Fund and to provide feedback information on voting decisions on a quarterly basis.

As a member of **The Institutional Investors Group on Climate Change (IIGCC)** the Fund will monitor developments on climate change and use the research undertaken to monitor and challenge our investment managers.

Our Commitment

We acknowledge that the Fund's approach to RI will need to continually evolve, both due to the changing landscape with respect to ESG issues, as well as broader industry developments. We are committed to making ongoing improvements to the Fund's approach and the processes that underpin the delivery of this policy to ensure it remains relevant.

Glossary

ESG – Environmental, social and corporate governance issues

RI - Responsible Investment – This refers to the incorporation of environmental, social and corporate governance considerations into investment processes, as these are absent in much traditional financial analysis. RI was very focused on company level analysis, but climate change and sustainability challenges increasingly require a more strategic, forward looking, portfolio view. There are 4 levers that an investor can use in its responsible investment approach: integration, stewardship, thematic investment and exclusions.

PRI – The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary General. The principles are as follows:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the Principles.

Stewardship and Active Ownership – The principle that shareholders should not be passive in their role as providers of capital and should take an active approach to using the voting rights attached to their shares and engaging with the companies they invest in (where appropriate) to encourage best practise and maximise shareholder value. For pooled fund clients, good stewardship and active ownership can be demonstrated through the review and ongoing monitoring of the pooled fund managers' activities in the areas of voting and engagement and the managers demonstrating the potential value of their actions.

UK Stewardship Code – Introduced for institutional investors in 2010, the UK Stewardship Code aims to incentivise investors to seek increased accountability from company boards and encourage them to seek on-going dialogue with their investors. The Stewardship Code has seven Principles, and it is a mandatory requirement of the Financial Conduct Authority (FCA) that UK authorised asset managers disclose their compliance with the Code or explain otherwise through a public 'Statement of Commitment'.

IIGCC – The institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change.

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From:	Chairman Kent Pension Board Corporate Director of Finance
To:	Kent Pension Board – 18 November 2021
Subject:	ACCESS update
Classification:	Unrestricted

Summary:

This update provides a summary of the activities of the ACCESS pool

Recommendation:

The Pension Board is recommended to note this report

FOR INFORMATION

1. Introduction

1.1 This report is to update the Board on the work being undertaken by the ACCESS pool.

2. Joint Committee

2.1 The Joint Committee (JC) last met on 6 September and a copy of the notes of the meeting are at appendix 1. Copies of the agenda and unrestricted papers for the 6 September meeting are available at: ACCESS Joint Committee 6 September 2021

2.2 At their meeting the incumbent chairperson, Cllr Mark Kemp-Gee (Hampshire), and vice chairperson, Cllr Susan Barker (Essex), were unanimously re-elected.

2.3 On 6 September the Joint Committee noted the updated business plan which anticipates progress on the following issues:

- Communications
- Responsible Investment
- Implementation Adviser appointment
- BAU evaluation next steps
- Sub-fund performance and implementation
- Contract Management

2.4 The Committee also noted progress on ACCESS costs and a forecast underspend against the budget for 2021-22 of £155k, (£14k per authority) was reported. The underspend reflects savings on staff costs due to the delayed recruitment of additional ASU staff, reduced charges from Essex County Council who act as host authority for ACCESS, and lower than anticipated strategic and legal fees.

3. Recent Activity

3.1 As at 30 September 2021 the Kent Fund had invested in 5 sub-funds in the ACCESS authorised contractual scheme (ACS) operated by Link Financial Solutions, with a combined value of £3.97bn.

3.2 Since the last report to the Board the Officer Working Group (OWG) as well as other working groups with Kent being represented on each group, have continued to meet on a periodic basis. Progress continues to be made on the set up of new sub-funds as well as on the establishment of suitable platforms for pooling non listed assets.

Alison Mings, Acting Business Partner – Kent Pension Fund

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November 2021

SUMMARY UPDATE (Part I)
ACCESS Joint Committee (JC):
6 September 2021

Nine ACCESS Authorities were represented. The key matters considered are described below.

Part I Item	Details
Election of Chairman	Cllr Mark Kemp-Gee (Hampshire), incumbent, was unanimously re-elected as Chair of the Joint Committee for a period of two years.
Election of Vice Chairman	Cllr Susan Barker (Essex), incumbent, was unanimously re-elected as Vice Chair of the Joint Committee for a period of two years.
Chairman's remarks	Cllr Kemp-Gee welcomed all Members to the first "in person" meeting of the Joint Committee since March 2020. He extended a particular welcome to Cllr Williams (Northants) to his first Joint Committee.
Minutes of meeting 8 March 2021	Minutes of the Joint Committee meeting of 8 March 2021 were agreed, pending the update to page 5 (sub-fund implementation) item 256, where wording would be amended to read: *"It was noted that the Section 151 Officers of all member Authorities had received a copy of the emerging markets report."*
Business plan, forecast outturn and risk summary	The Committee received an update on the 2020/21 Business Plan and outturn, the 2021/22 budget update, and the risk register. Particular attention was drawn to the planned briefing, to be led by ESG / RI advisers Minerva on the update of the draft ACCESS ESG / RI Guidelines. This event is expected to take place in October. It was highlighted that the 2020/21 outturn had been noted at informal virtual briefing for Elected Members in June and would be brought to the next formal Joint Committee in December. **The Committee:** • **noted the updates in respect of the 2020/21 business plan.**
Communications and Spokespeople	The Committee received an update on the progress of training for ACCESS Elected Member spokespeople which noted that the ASU Director will remain the spokesperson "in the first instance", with Cllr Fox (East Sussex) the spokesperson for responsible investment, Cllr Oliver (Norfolk) covering governance, Cllr Soons (Suffolk) covering media strategy, and Cllr Kemp-Gee (Chair, Hampshire) and Cllr Barker (Vice Chair, Essex) covering political, governmental relations, parliamentary, inter-pool and overall strategy.

	The Committee: • **noted the report, agreed to the proposed Elected Member spokespeople shown above, and noted the associated training arrangements in progress.**
Part II Item	Details
Implementation Adviser procurement	The Committee received a report on the outcome of the process for the procurement of the Implementation Adviser. The process and outcome were discussed and the arrangements for notifications to bidders and standstill period were highlighted. **The Committee:** • **noted the matters highlighted in the report;** • **endorsed the outcome of the procurement exercise; and** • **noted that ECC, as Procurement Lead Authority, will enter into a contract with the winning bidder on behalf of the Councils.**
Sub-fund implementation	The Committee received a report outlining progress on sub-fund implementation and discussion included specific sub-funds that had been anticipated for September launch. **The Committee:** • **noted the report.**
Scheduled Business as Usual (BAU) evaluation	The Committee received a report presentation from Hymans Robertson recapping on the Scheduled BAU evaluation work undertaken during 2020/21 and detailing the background to a series of recommended actions, which had been considered and endorsed by all administering authority s151 Officers and the OWG. **The Committee:** • **noted the presentation from Hymans Robertson; and** • **agreed, by unanimous vote, the report's recommendations;** • **requested a detailed timetable for progressing the approved recommendations.**
Investment Performance, MHCLG return and Annual Report	The Committee noted the Investment Performance report as at 30 June 2021. The total pooled assets of all ACCESS Authorities was £32.602bn on that date having been £31.510bn on 31 March 2021. No sub-fund lunches had taken place within the quarter. An overview was included on the collaborative work with other pools on updates to the annual MHCLG report template. As a consequence, this annual return would be submitted later in September. The Committee received printed copies of the draft Annual Report highlighting key milestones from 2020/21. This enabled each Authority to include a common narrative on pool activity with individual Fund's Annual Report & Accounts publications. A presentational change to the layout of the final table

	was highlighted and agreed. **The Committee:** • **noted the performance report;** • **noted progress with the annual MHCLG return; and** • **recommended the Annual Report for publication by each ACCESS Authority.**
Review of Emerging Markets process	The Committee received a report on the review of the Emerging Markets process. The recommendations outlined potential developments regarding updating sub-fund establishment arrangements and amending relevant governance processes. **The Committee:** • **agreed the seven recommendations of the Emerging Markets review as set out in the Executive Summary.**
Response to the Emerging Markets Review	The Committee received a report outlining the initial response to the recommendations within the Emerging Markets review. **The Committee:** • **noted the report.**
Contract and Supplier Relationship Management	The JC received the regular report covering a number of aspects of Contract and Supplier Relationship management. **The Committee:** • **noted the report.**
Risk Management	The Committee received a report on the Pool's Risk Register. This highlighted that, following approval s151 Officers at their meeting in June 2021, the assessment of risks had moved from a '3x3' matrix to a '4x4' matrix style including dashboard reporting. It was highlighted that the scores for each risk were unchanged to those circulated at the June Elected Member briefing. **The Committee:** • **noted the report.**
Next meeting date	6 December 2021

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