

SUPERANNUATION FUND COMMITTEE

Friday, 3rd July 2009





AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 3rd July, 2009 at 10.00 am
Medway Room, Sessions House, County
Hall, Maidstone

Ask for: **Geoff Rudd**
Telephone **01622 694358**

UNRESTRICTED ITEMS

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

A. COMMITTEE BUSINESS

- A1. Substitutes
- A2. Declarations of Interests by Members in items on the Agenda for this meeting.
- A3. Election of Vice Chairman
- A4. Minutes - 6 March 2009 (Pages 1 - 4)

B. MOTION TO EXCLUDE THE PRESS AND PUBLIC FOR EXEMPT ITEMS

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

EXEMPT ITEMS

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

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- C1. Minutes - 6 March 2009 (Pages 5 - 6)
- C2. Invesco
- C3. DTZ
- C4. Fund Structure (Pages 7 - 14)
- C5. Review of Fixed Income Mandates (Pages 15 - 26)
- C6. Actuarial Services Tender (Pages 27 - 28)

UNRESTRICTED ITEMS

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

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

- D1. 2008-09 Accounts (Pages 29 - 74)

- D2. To report on the latest cash and treasury management position of the Fund. Cash Management (Pages 75 - 80)
- D3. Pensions Administration (Pages 81 - 88)
- D4. Fund Position Statement (Pages 89 - 96)
- D5. Investment Advice (Pages 97 - 98)
- D6. Admissions

Peter Sass
Head of Democratic Services and Local Leadership
(01622) 694002

Thursday, 25 June 2009

- (i) *Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.*
- (ii) *In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Items C2 and C3.*

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KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 6 March 2009.

PRESENT: Mr J E Scholes (Chairman), Mr P Clokie, Mr D S Daley, Mrs J De Rochefort, Ms A Dickens, Mr C G Findlay (Substitute for Mr J A Davies), Mr P W A Lake, Mr J F London, Mr R A Marsh, Mr J I Muckle, Mr R J Parry, Mr S Richards, Mr J D Simmonds and Mrs M Wiggins.

IN ATTENDANCE: .

UNRESTRICTED ITEMS

1. Declarations of Interest
(Item)

There were none.

2. Minutes - 21 November 2008
(Item A3)

RESOLVED that the Minutes of the meeting held on 21 November 2008 are correctly recorded and that they be signed by the Chairman.

3. Matters Arising
(Item)

Pensions Administration

Mr J Scholes referred to paragraph 43 (b) and reported that Mr P Luscombe (Pensions Manager) had met with Mr T Crossley at DCLG and that the issue relating to the vesting period had been dealt with that way.

4. External Audit Plan
(Item D1)

Mr J Jacobs and Mr D Wells of the Audit Commission were in attendance for this item)

(1) Mr D Wells advised the Committee that the Audit Commission required a formal response to the request for information set out in paragraph 13, page 16 of the report.

(2) Mr N Vickers agreed to circulate information to the Members and that their responses be reported at the next meeting.

(3) RESOLVED that:-

(a) the report be noted; and

- (b) a report including the Members responses be presented to the next meeting.

5. Fund Position Statement

(Item D2)

Report by Director of Finance)

RESOLVED that the report be noted.

6. Application for Admission to the Fund

(Item D3)

Report by the Director of Finance)

RESOLVED that the admission to the Fund of Ridge Crest Cleaning Limited be approved.

EXEMPT ITEMS

(Open Access to Minutes)

7. Minutes - 21 November 2008

(Item C1)

RESOLVED that the Minutes of the meeting held on 21 November 2008 are correctly recorded and that they be signed by the Chairman.

8. DTZ

(Item C2)

(Mr M Callow, Mr P O’Gorman and Mr C Sim were in attendance for this item)

RESOLVED that the report be noted.

9. Alliance Bernstein

(Item C3)

(Mr M Palmer and Ms J Segal were in attendance for this item)

RESOLVED that the report be noted.

10. Actuarial Services

(Item C5)

(Report by Director of Finance)

RESOLVED that the report be noted.

SUMMARY OF EXEMPT ITEMS

(Where Access to Minutes Remains Restricted)

11. Fund Structure
(Item C4)

Report by Director of Finance)

The Committee agreed a number of issues relating to the structure and management of the Fund.

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

Agenda Item C1

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

Agenda Item C4

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

Agenda Item C5

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of the Local Government Act 1972.

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

Agenda Item C6

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 3 July 2009

Subject: **SUPERANNUATION FUND REPORT AND ACCOUNTS**

Clarification: Unrestricted

Summary: To present the draft Report and Accounts of the Superannuation Fund for 2008-09.

FOR DECISION

INTRODUCTION

1. A draft version of the Superannuation Fund report and accounts for the year ended 31 March 2009 (before typesetting and design) is attached.
2. The Pension Fund accounts have been subject to a full annual audit by the external auditor, the Audit Commission. The external auditor may report to the Committee under this item.

RECOMMENDATION

3. Members are asked to note the contents of the Annual Report and Accounts for 2008-09 and confirm that they can be formally adopted and printed.

Jane Gibbons
Principal Accountant (Investments & Treasury)
Ext 4625

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MEMBERS AND ADVISERS

County Council Members are appointed by the respective political parties.

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

Other representatives are nominated and appointed by the respective bodies.

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

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

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

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

Sessions House
County Hall
Maidstone
Kent
ME14 1XQ

Administering Authority

Kent County Council

Kent County Council Members as at 31 March 2009

Mr J E Scholes Chairman (Conservative)
Mr D Daley Spokesperson (Liberal Democrat)
Mr J Davies (Conservative)
Mr M Fittock Vice Chairman (Labour)
Mr J F London (Conservative)
Mr R A Marsh (Conservative)
Mr J I Muckle (Labour)
Mr J Simmonds (Conservative)

Other Local Authority Representatives

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

Union Representative Staff Representative Kent Active Retirement Fellowship

Mr S Richards
Ms J De Rochefort
Mrs A Dickenson
Mrs M Wiggins

Investment Managers and Advisers

Alliance Bernstein
Baillie Gifford & Co
GMO
Goldman Sachs Asset Management Limited
Henderson
Invesco Perpetual
Schroder Investment Management Limited
Societe Generale Asset Management Limited (replaced Feb 2009)
State Street Global Advisers Limited (appointed February 2009)
YFM
DTZ Investment Management Limited

Investment Consultant

Hymans Robertson LLP

Consulting Actuaries

Hymans Robertson LLP

Auditors

Audit Commission

Performance Measurers

The WM Company
Investment Property Databank Limited

AVC Providers

Equitable Life Assurance
Prudential Assurance Company
Standard Life Assurance

County Officers

Mrs L McMullan, Director of Finance
Mr N Vickers, Head of Financial Services
Mr G Wild, Director of Law and Governance

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CHAIRMAN'S INTRODUCTION

Whilst we are all aware that the asset classes we invest in are highly cyclical, I think few people would have expected the extent of the market downturn which we saw in 2008-09. The combination of the credit crunch plus a world wide recession led to significant falls in equity and property markets which have led to a major fall in the value of the Fund.

At this point equity markets look very good value and I believe that we are close to the bottom of the cycle for commercial property. This actually gives the Fund and our investment managers excellent opportunities to add value. I am confident of reporting a much more positive position next year.

James Scholes
Chairman, Superannuation Fund Committee

SUMMARY OF THE YEAR

Market Returns

Equity markets showed very significant falls in the year:

UK Equities	- 29.3%
Global Equities	
- US	- 14.0%
- Europe	- 31.1%
- Japan	-10.6%

The returns on overseas equities were even poorer in local currency terms.

At these lower prices there is potentially huge value to be had from equities moving forward and enormous scope for active managers to add value.

Property

For 2008 the return from Property was –24%. After such a strong period of performance from this asset class some correction was expected but the sector has suffered from two highly adverse forces. The lack of available finance due to the credit crunch has taken many debt based buyers out of the market and then the recession has had an adverse effect on rents and has further reduced demand.

Property remains an excellent investment opportunity for large pension funds and at some point in the next 12-18 months there should be excellent buying opportunities at much reduced prices.

Alternative Investments

In June 2008 the Committee decided to move over time from a 11% allocation to Alternative Investments (wholly property) to a 20% allocation. The increase would come from:

- UK property
- Global property
- Distressed assets
- Infrastructure
- Private equity

This is intended to increase diversification and reduce the Fund's reliance for outperformance on equity markets.

Adding on Property is for the future, we will seek Distressed opportunities and will return to looking at Infrastructure and Private Equity when these sectors seem more stable.

It is clear that some local authority pension funds have had exposure to very risky asset classes – we would rather sacrifice some future return for staying with asset classes which are well understood.

Cash Position

Since September 2007 the Fund has been holding Cash as a deliberate investment decision. In normal circumstances the Fund would have a maximum of £10-20m Cash which would be reallocated to investment managers.

The cash held reached a maximum balance of £150m, around £70m was put back into equity markets in late 2008 and early 2009.

Unfortunately £16m of the cash is trapped in Icelandic banks. The recovery prospects are very good.

Overall the decision to hold cash has been highly beneficial to the Fund.

Active or Passive Management

In January 2009 one of the UK equity managers of the Fund was replaced after a period of poor performance and finally a change in ownership. These funds have been placed with a passive manager State Street. This is our first move into positive management. The Fund retains a strong bias towards active management but this has to be active management that consistently adds value to the Fund.

New LGPS

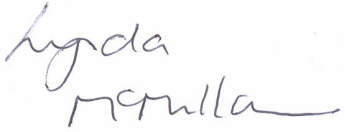
The new LGPS was introduced on 1 April 2008. From an administrative perspective the transition worked well and the cooperation of employers is appreciated.

Unfortunately whilst in one sense it was “new” it has largely failed to address the fundamental economic issues which the LGPS faces. By not addressing the affordability issue a fundamental blow may have been dealt to the sustainability of the scheme.

Environmental, Social and Governance Investment Policy

In September 2008 the Superannuation Fund Committee agreed a policy statement on Environmental, Social and Governance investing. It is available on the www.kent.gov.uk website.

The policy reflects the over-riding fiduciary responsibility we have to the Council Tax payer whilst acknowledging the broader responsibilities we have as a major investor.

A handwritten signature in black ink, reading "Lynda McMullan". The signature is written in a cursive style with a large initial 'L' and a long horizontal stroke at the end.

Lynda McMullan
Director of Finance

INVESTMENT POLICY

Policy Framework

The Local Government Pension Scheme Regulations set out the range of assets in which the Fund may be invested. Policy decisions are taken by the Superannuation Fund Committee of Kent County Council, which is the administering authority for the Fund.

The Superannuation Fund Committee meets on a quarterly basis to set investment strategy, review the performance of the fund managers and make policy decisions. It is advised by the Director of Finance and independent external consultants (Hymans Robertson).

All funds, except for a day to day cash balance, are managed by external fund managers who are responsible for taking investment decisions within the overall asset allocation set by the Committee. The daily cash balance of the Fund is invested by the County Council and interest is earned on the balance, in accordance with the Regulations.

Fund Managers

The Fund Managers and the asset class under management as at 31 March, is set out below.

Alliance Bernstein	Global Equities
Baillie Gifford & Co	Global Equities
GMO	Global Equities
Goldman Sachs Asset Management	Fixed Interest
Invesco Perpetual	UK Equities
Schroder Investment Management	UK Equities, Global Equities, Fixed Interest
State Street Global Advisors	UK Equities
DTZ Investment Management Ltd	Property – UK/Europe
Henderson	PFI
YFM	Private equity

Custodian

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

Asset Allocation

The benchmark for the Kent Fund as at 31 March 2009 is as follows

	Benchmark
	%
UK Equities	34.5
Overseas Equities	34.5
Total Bonds	15
Property	10

European Property
Cash

1
5

The position compared with 31 March 2008 is shown below for the whole Fund:

31 March 2009			31 March 2008	
£m	%		£m	%
675	33	UK Equities	817	33
666	33	Overseas Equities	857	35
86	4	Gilts	74	3
238	12	UK Fixed Interest	275	11
20	1	Overseas Bonds	36	2
173	8	Cash/Other Assets	159	6
180	9	Property	249	10
<hr/> 2,038	100		<hr/> 2,467	100

INVESTMENT PERFORMANCE

The County Council uses The WM Company investment performance service which in conjunction with CIPFA and the Society of County Treasurers produces performance figures for local authority funds. The property portfolio is subject to an independent review of performance by the Investment Property Databank

The performance figures below are given against the customised Kent benchmark and the WM Local Authority Universe. This Universe is representative of the UK Local Authority peer group and consists of xx funds for 2008/09.

2008-2009

The relative performance of the Kent Fund is shown in the table below for 2007-08

Kent Fund	Kent Benchmark	WM Local Authority Universe Average Return
%	%	%
-19.8	-19.8	-19.9

This performance was in the 45th percentile compared with the WM Local Authority Universe.

2007-2009 (3 Years)

The performance of the Kent Fund is shown in the table below for the last 3 years;

Kent Fund	Kent Benchmark	WM Local Authority Universe Average Return
%	%	%
-7.1	-6.1	-5.9

This performance was in the 71st percentile compared with the WM Local Authority Universe.

2000-2009 (10 Years)

The performance of the Kent Fund is shown in the table below for the last 10 years:

Kent Fund	Kent Benchmark	WM Local Authority Universe Average Return
%	%	%
1.1	1.7	2.0

This performance was in the 77th percentile compared with the WM Local Authority Universe.

SCHEME DETAILS

Kent County Council administers the Superannuation Fund on behalf of its own employees and the other employing bodies. From April 2008, new regulations have been introduced which govern the Local Government Pension Scheme (LGPS). These regulations are: the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pensions Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. The investments of the Fund are subject to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. The amount that the employee contributes has been amended from April 2008, these contributions range between 5.25 and 7.5 % of pay with the rate being determined by the level of the member's pay.

Benefits

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

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

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

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

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

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

Increasing benefits

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

Full details of the scheme are provided in the scheme booklet which members may request from their employer

Communications

In accordance with the Local Government Pension Scheme (Administration) Regulations 2008, a Communications Policy has been published, which is available on the website www.kent.gov.uk. The Pension Section communicates with members and employers in a variety of ways. Newsletters are sent to both pensioners and existing scheme members. Pension forums are used to communicate with employers. Scheme members and pensioners have access to the Pensions Section to make written, e-mail or telephone enquiries. Scheme members receive an annual benefit illustration and each pensioner and deferred pensioner is advised annually of the indexation increase to their pension.

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

Pensions Section Performance 2008/09

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt of paperwork	1814	95%
Calculation and payment of dependants benefit	15 days from receipt of paperwork	379	96%
Provision of estimates	20 days from receipt of paperwork	2364	95%
Correspondence	Full reply within 15 working days	1603	95%

Customer satisfaction questionnaire	Questionnaire sent with all retirement award letters	Number returned 45	% satisfied 93%
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Actuarial Statement

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of Kent County Council Pension Fund ("the Fund") was carried out as at 31 March 2007.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 31 March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments certificate dated 27 March 2008.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated 27 March 2008 and the assumptions contained therein.

Copies of these documents are available on request from Kent County Council, administering authority to the Fund.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

HYMANS ROBERTSON LLP

The key financial assumptions adopted for this valuation are as follows:

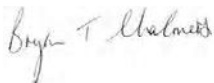
Financial Assumptions	March 2007	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.1%	2.8%
Pay Increases	4.7%	1.5%
Price Inflation / Pension Increases	3.2%	-

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £2,573 million, were sufficient to meet approximately 73% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years. Any rise in contribution rates from 31 March 2008 are being phased in over a period up to 6 years.

The next valuation of the Fund will be carried out as at 31 March 2010.

My opinion on the security of prospective rights is dependent upon any increased contribution requirements being met by the employers. This statement should be read in the context of the statutory nature of the scheme.



Bryan T Chalmers FFA

29 April 2008

For and on behalf of Hymans Robertson LLP

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The authority is required:

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

Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's Superannuation Fund's statement of accounts which, in terms of the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice ('the Code'), is required to present fairly the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2009.

In preparing this statement of accounts, the 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 Director of Finance has also:

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

DIRECTOR OF FINANCE

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NET ASSET STATEMENT
For the year ended 31 March 2009

	Note	2008/09 £000	2007/08 £000
Investments assets	9		
Fixed Interest Securities			
- Public		85,953	75,746
- Other		98,200	114,779
Equities			
- UK		332,331	580,397
- Overseas		439,050	571,946
Pooled Investment Vehicles			
- UK		529,814	429,135
- Overseas		214,317	273,033
- Property		37,344	55,633
Derivative Contracts			
Property - Freehold			757,801
Cash Deposits			63,415
Other Investments			201,087
			18,508
			15,721
		<u>1,974,561</u>	<u>2,399,400</u>
Investment liabilities	10	(29,890)	(36,104)
Fixed Assets		0	0
Liabilities			
Borrowings		0	0
Current assets	10	122,282	132,137
Current liabilities	10	(6,571)	(6,335)
Net Assets		<u>2,060,382</u>	<u>2,489,098</u>

As there has been a change in accounting for derivatives applicable to the 2008/9 accounts, asset values for 2007/08 have been restated to provide comparative figures.

The accounts summarise the transactions of the Pension Fund and deal with the net assets available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the pension fund year. The actuarial position of the Pension Fund, which does take account of such obligations, is dealt with in the Actuary's Report included in the Annual Report and these accounts should be read in conjunction with that report. The full actuarial valuation is available on www.kent.gov.uk

FUND ACCOUNT
For the year ended 31 March 2009

Contributions and Benefits	Note	2009 £000	2008 £000
Contributions			
from employers	3	171,710	158,769
from members	3	47,245	42,163
Transfers in	4	8,555	15,292
		227,510	216,224
Benefits			
Pensions	5	(114,119)	(106,080)
Lump Sums	5	(32,924)	(27,632)
Payments to and on account of leavers			
Refunds of contributions	27	27	(2)
Transfers Out	6	(9,487)	(10,559)
Other payments			
Administrative expenses	7	(2,833)	(2,768)
		(159,336)	(147,041)
Net additions (withdrawals) from dealings with Members		68,174	69,183

<i>Returns on Investments</i>	Note	2009 £000	2008 £000
<i>Investment Income</i>	8	76,533	67,125
<i>Change in Market value of investments</i>	9	(564,920)	(213,213)
<i>Taxation</i>		(2,177)	(1,193)
<i>Loss on Icelandic Investment</i>	15	(1,104)	0
		(491,668)	(147,281)
<i>Investment Management Expenses</i>			
<i>Investment Managers</i>	13	(5,152)	(6,125)
<i>Investment Consultancy</i>		(45)	(44)
<i>Performance Measurement</i>		(49)	(60)
<i>Other Expenses</i>	14	24	(215)
		(5,222)	(6,444)
<i>Net Return on Investments</i>		(496,890)	(153,725)
<i>Net Increase (Decrease) in Fund during the year</i>		(428,716)	(84,542)
<i>Add: Opening net assets of the scheme</i>		2,489,098	2,573,640
<i>Closing net assets of the scheme</i>		2,060,382	2,489,098

NOTES TO THE ACCOUNTS

1) Actuarial Position

An actuarial valuation of the Fund was carried out as at 31 March 2007

This valuation showed that the required level of contributions to be paid to the Fund by the County Council, Medway Unitary Authority and participating District Councils with effect from 1 April 2008 varied from 19.4% to 32.3% of payroll. The increase is being phased in over a number of years. by means of either a percentage increase or a monetary amount.

This rate of contribution is the rate at which, in addition to the contributions paid by members, is sufficient to meet:-

- 100% of the liabilities arising in respect of service after the valuation date, plus an adjustment to reflect the shortfall of the value of each participating employer's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases. This shortfall is being spread over a period of 20 years for local Authority employers and average future working lifetime for other employers in the Fund.

The 2007 valuation revealed that as at 31 March 2007, the Fund's assets of £2,573 million, represented 73% of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:-

Rate of return on investments:	6.1% per annum
Rate of general pay increases:	4.7% per annum
Rate of increases to pensions in payment (in excess of GMPs):	3.2% per annum

Valuation of assets: assets have been taken into account at their market value as at 31 March 2007

The next actuarial valuation is due as at 31 March 2010. Any change in employer contribution rates as a result of this valuation will take effect from April 2011.

2) Taxation

The Fund is accepted by the Inland Revenue as a registered scheme in accordance with paragraph 1(1) of Schedule 36 of the Finance Act 2004. It therefore qualifies for exemption from United Kingdom tax on investment income, sub-underwriting commission and gains on selling transactions. By virtue of Kent County Council being the Administering Authority, Vat input tax is recoverable on all Fund activities including investment and property expenses.

3) Contributions Receivable		2009	2008
		£000	£000
From Employers	<i>Normal</i>	106,366	76,166
	<i>Augmentation - (Early Retirement recoverable cost)</i>	8,704	6,534
	<i>Deficit Funding</i>	56,640	76,069
		171,710	158,769

Analysis of Employers' Contributions			
	<i>Kent County Council</i>	78,628	75,040
	<i>Scheduled Bodies</i>	83,242	74,160
	<i>Admitted Bodies</i>	9,840	9,569
		171,710	158,769

		2009	2008
		£000	£000
From Members	<i>Kent County Council</i>	21,084	18,780
	<i>Scheduled Bodies</i>	23,354	20,901
	<i>Admitted Bodies</i>	2,752	2,388
	<i>Lump Sum Contributions</i>	55	94
		47,245	42,163

Note :	<i>As at 31 March 2008 and 2009 the comparative numbers of contributing members were:</i>		
	<i>Kent County Council</i>	22,039	21,722
	<i>Scheduled Bodies</i>	19,380	18,938
	<i>Admitted Bodies</i>	1,966	1,853
		43,385	42,513

	2009	2008
	£000	£000
4) Transfers In	8,555	15,292
Individual	0	0
Bulk	8,555	15,292

5) Benefits Payable	KCC	Scheduled Bodies	Admitted Bodies	2009	2008
	£000	£000	£000	£000	£000
<i>Pensions</i>					
Retirement pensions	35,059	36,701	3,384	75,144	70,399
Widows pensions	2,192	2,703	229	5,124	4,984
Children's allowances	62	108	11	181	203
Pensions increase	17,703	19,333	1,092	38,128	34,879
Less benefits recovered directly from employing authorities	0	(4,334)	(124)	(4,458)	(4,385)
	55,016	54,511	4,592	114,119	106,080
<i>Lump Sums</i>					
Retirement Lump Sums	12,108	16,313	1,437	29,858	25,000
Death Benefits	1,453	1,522	91	3,066	2,632
	13,561	17,835	1,528	32,924	27,632

The amount stated as pensions increase represents the year on year cumulative increase on the nominal retirement pension received at the start date of retirement.

	2009	2008
	£000	£000
6) Transfers Out	9,487	10,559
Individual	0	0
Bulk	9,487	10,559

7) Administrative and Other Expenses borne by the Scheme	2009	2008
	£000	£000
Internal Administration	2,474	2,399
Actuarial Fees	158	239
Audit Fee	55	61
Legal & Other Professional Fees	91	59
Other miscellaneous expenses	55	10
	2,833	2,768

Legal & Other Professional Fees have been restated for 2007/08 to reflect £43,000 of fees which are charged as part of the Internal Administration (also restated).

8) Summary of Income from Investments for the year ended 31 March 2009

	2009		2008	
	£000	%	£000	%
<i>Fixed Interest</i>				
- UK	8,471	12.08	8,543	12.73
- Overseas	2,395	3.42	1,529	2.28
<i>Equities</i>				
- UK	19,671	28.06	23,597	35.15
- Overseas	16,462	23.48	12,948	19.29
<i>Pooled Investment Vehicles</i>				
- UK	2,500	3.57	2,442	3.64
- Overseas	5,132	7.32	1,311	1.95
- Property	1,557	2.22	1,257	1.87
<i>Property - Freehold</i>	11,629	16.59	10,354	15.42
Total Income From Investments	67,817	96.74	61,981	92.33
<i>Currency Deposit Accounts</i>	26	0.04	213	0.32
<i>Cash Balances</i>	8,143	2.44	4,673	6.96
<i>Sub-Underwriting Commission/Other</i>	173	0.25	38	0.06
<i>Stock Lending Income</i>	374	0.53	220	0.33
Total	76,533	100.00	67,125	100.00

9) Analysis of Change in Market Value of Investments

	Market Value 31.03.08	Purchases at Cost	Sales Proceeds	Change in Market Value	Market Value 31.03.09
	£000	£000	£000	£000	£000
Investments managed by Investment Managers					
United Kingdom					
<u>Fixed Interest</u>					
- UK Public	74,077	43,520	(34,895)	3,251	85,953
- Index-Linked	0	0	0	0	0
- UK quoted	84,683	27,152	(19,567)	(14,197)	78,071
- Overseas Public	1,669	2,940	(4,142)	(467)	0
- Overseas quoted	30,097	6,256	(9,936)	(6,288)	20,129
<u>Equities</u>					
- UK quoted	580,397	125,868	(186,004)	(187,930)	332,331
- Overseas quoted	571,946	289,847	(273,434)	(149,309)	439,050
<u>Pooled Investment Vehicles</u>					
<u>Managed Funds</u>					
- UK	34,045	132,646	(22,591)	(20,014)	124,086
- Overseas	160,459	44,329	(33,533)	(41,749)	129,506
<u>Unit Trusts</u>					
- UK Public/Fixed Interest	154,000	0	0	5,867	159,867
- UK	241,090	59,830	(53)	(55,006)	245,861
- Overseas	112,574	0	0	(27,763)	84,811
- Property UK	24,802	0	0	(10,943)	13,859
- Property Overseas	30,831	938	0	(8,284)	23,485
Property - Freehold	201,087	0	0	(58,825)	142,262
<u>Derivatives</u>					
- UK Bond future contracts	35,393	161,276	(166,089)	1,947	32,527
- Overseas Bond future contracts	(3,455)	334,675	(348,922)	412	(17,290)
- UK Equity future contracts	216	226	(368)	0	74
- Overseas Equity future contracts	502	3,172	(3,110)	23	587
Total	2,334,413	1,232,675	(1,102,644)	(569,275)	1,895,169
<u>Cash</u>					
- Cash Deposits					
- Cash backing open future contracts	50,583			4,355	60,374
<u>Other Investments</u>	<u>-32075</u>				<u>(15,215)</u>
- Debtors - Outstanding Sales					
- Creditors - Outstanding Purchases	4,813				1,786
- Profit/(Loss) on Forward Currency	(4,984)				(7,467)
- Investment Income Accruals	(362)				2,849
	10,908				7,175
	<u>2,363,296</u>			<u>(564,920)</u>	<u>1,944,671</u>

Investment liabilities of £29,890,000 have been netted off against the assets in this note to give total assets of £1,944,671,000. The Investment liabilities are explained in Note 10.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchase and sale proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £22,924,106 (2007/08 £21,804,360). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Pension Fund.

10)	2009	2009	2008	2008
	£000	£000	£000	£000
Investment Liabilities				
Derivatives contracts		(22,423)		(30,758)
Outstanding Purchases		(7,467)		(4,984)
Loss on forward currency		0		(362)
		<u>(29,890)</u>		<u>(36,104)</u>
Current Assets				
Contributions due from:				
- scheduled bodies	11,389		9,807	
- admitted bodies	890	12,279	907	10,714
Other current assets		1,036		747
Cash		<u>108,967</u>		<u>120,676</u>
		<u>122,282</u>		<u>132,137</u>
Current Liabilities				
Unpaid benefits		(4,016)		(4,133)
Other current liabilities		<u>(2,555)</u>		<u>(2,202)</u>
		<u>(6,571)</u>		<u>(6,335)</u>

The figures for the contributions due from scheduled and admitted bodies for 2008 have been restated because £518k was included as scheduled body contributions rather than admitted body contributions.

11) The following reflects the monetary split and percentage of the investments of the Fund between the investment managers and property portfolio (including cash held by the Fund Managers), with previous year's figures for comparison. The investment manager totals exclude investment debtors & creditors.

	2009	2009	2008	2008
	£000	%	£000	%
Alliance Bernstein	176,131	9.1	258,938	11.0
Baillie Gifford	324,776	16.8	395,473	16.8
DTZ	182,262	9.4	257,408	10.9
GMO	129,506	6.7	160,459	6.8
Goldman Sachs	186,872	9.7	196,320	8.3
Henderson	8,128	0.4	11,147	0.5
Invesco	236,756	12.2	237,034	10.1
JP Morgan	27,264	1.4	0	0.0
MLIM (Transition)	0	0.0	1,402	0.1
Schroders	549,364	28.4	662,369	28.1
Société Générale	29	0.0	170,622	7.3
Statestreet Global Advisors	112,325	5.8	0	0.0
YFM	1,232	0.1	1,577	0.1
	<u>1,934,645</u>	<u>100</u>	<u>2,352,749</u>	<u>100</u>

12) Derivative Contracts

Futures

Contract	Manager	Expiration	UK Fair Value £'000	Overseas Fair Value £'000
UK				
LIF GILT BOND	Goldman Sachs	June 2009	32,527	
US				
S&P 500 Future	Alliance Bernstein	June 2009	555	
US TREASURY NOTES	Goldman Sachs	June 2009		2,251
US TREASURY NOTES (SHORT)	Goldman Sachs	June 2009		(8,983)
JAPAN				
JGB TREASURY BOND (SHORT)	Goldman Sachs	June 2009		(7,807)
EUROPE				
EURX BUND	Goldman Sachs	June 2009		2,882
EURX BOND (SHORT)	Goldman Sachs	June 2009		(5,633)
			33,082	(17,290)

The Alliance Bernstein future is held to maturity as a hedge against their general shareholding positions.

The Goldman Sachs future contracts are bought and sold regularly, and are used to hedge their general positions and also to generate additional profit.

The S&P future is an Equity Future which appears in Note 9 together with the margin account value of £32,000 (Total £587,000)

Forward FX

Contract	Manager	Expiration	Profit on contract £000
US\$ Forward currency	JP Morgan	June 2009	2,544

The Forward FX was originally purchased to hedge the dollar exposure of an anticipated \$60m investment in a Distressed Asset Fund.

The Distressed Asset Fund was wound up in December 2008 and all investments made were returned.

At the 31.3.2009 there was still a commitment to the Forward FX of \$20m (£11.75m), but this has since been closed out.

13) Investment Management Expenses

	2009 £000	2008 £000
Investment Managers	4,548	5,375
Property Advisers	604	750
	5,152	6,125

14) Other Expenses

	2009 £000	2008 £000
Property Insurance (non recoverable)	0	5
Property miscellaneous expenses	(24)	210
	(24)	215

15) Loss on Icelandic Investment

£1.104m represents the loss to the Pension Fund on cash investments made in the Icelandic banks which collapsed in October 2008.

16) Stock Lending

In March 2008, the Pension Fund suspended the stock lending programme with the Fund's custodian, J P Morgan. No new loans have been made since this date. The remaining open loans will continue to be serviced by J P Morgan until their natural closure.

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

Loan Type	Market Value £000	Collateral Value £000	Collateral type
Corporate bonds	2,330	2,435	Cash
Equities	5,468	6,196	Gills
Equities	110	118	Cash
Equities	23,574	25,249	Euro Governments
Equities	514	549	US Treasuries
Treasury	15,251	15,814	Gills
Total	47,247	50,361	

17) Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 5(2)(c) of the LGPS(Management and Investment of Funds) Regulations 1998, these AVC contributions are not included within the Pension Fund Accounts. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company.

The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

There are also insurance based additional voluntary contributions invested with Equitable Life which only provide life insurance cover.

The sum deducted from KCC members and paid over to the AVC providers was: £878,712 (£812,503 - 2007/08). These amounts are included within the disclosure note figures below.

	Prudential 2007/08 £000	Prudential 2008/09 £000	Standard Life 2007/08 £000	Standard Life 2008/09 £000	Equitable Life 2007/08 £000	Equitable Life 2008/09 £000
Value at 1 April	2,292	2,777	2,118	2,002	1,594	1,483
Income						
Contributions Received	425	665	178	192	18	13
Transfer Values Received	90	149	11	15	0	0
Interest & bonuses	124	107	0	0	47	(8)
Total	639	921	189	207	65	5
Expenditure						
Retirement Benefits Paid	(130)	(316)	(257)	(296)	(168)	(270)
Transfer Values Paid	(6)	(24)	(44)	(6)	(8)	(21)
Refunds of Contributions	(8)	(33)	0	0	0	0
Total	(144)	(373)	(301)	(302)	(176)	(291)
Change in Market Value	(10)	(60)	(4)	(321)	0	(2)
Value at 31 March	2,777	3,265	2,002	1,586	1,483	1,195

	2009	2008
	£000	£000
18) Related Party Transactions		
Transactions between the KCC Pension Fund and Kent County Council		
- In respect of pensions administration costs, investment monitoring and other services	8,965	5,207

Outstanding Transactions between Scheduled and Admitted bodies participating in the Pension Fund

- In respect of employee and employer contributions payable by 19 April 2009	143	616
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Included within the employer related investment figure of £143,301 are balances due at the year end from the following related parties: Cranbrook School £22,539, Robert Napier School £20,913, Angley School £20,611, Mascalls School £15,760, Active Life £15,156, Swanley Town Council £12,477, Fort Pitt Grammar School £11,715

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £143,301 balance, are individually below £10,000 and relate to a number of scheduled and admitted bodies. These have not been listed individually.

There were no related party transactions with members or senior officers.

19) Investment Commitments

As at 31 March 2009 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Fund Commitment	Invested	Outstanding
YFM Private Equity Fund	£4million	£2.1million	£1.9million
Aurora European Property Fund	£33.6million (€36.3million)	£32.2 million (€34.7million)	£1.4million (€1.6million)
JP Morgan Forward Currency Dollar Hedge	\$20million (£11.75million)	Nil	\$20million (£11.75million)

20) Investment Performance

The County Council uses The WM Company investment performance service which in conjunction with CIPFA and the Society of County Treasurers produce local authority statistics.

The rates are expressed as rates of return and the statistical measure of performance enables valid comparisons to be made between individual funds and against the aggregate performance (median) of all local authority funds participating in the service.

The property portfolio is subject to an independent review of performance by the Investment Property Databank.

21) Cash Balances

Pension Fund cash which is not required on a day to day basis to pay benefits or administrative expenses of the Pension Fund must be invested on behalf of the pension Fund by Kent County Council. Kent County Council is required, in accordance with the Local Government Pension Scheme (Management & Investment) Regulations 1998, to pay interest to the Pension Fund on these cash investments. The rate of interest is that earned on the Kent County Council investment portfolio.

The remaining cash is split between the Investment Fund Managers, who hold it on deposit until required.

22) Pension Fund Documents

As required by The LGPS Regulations the Council has approved a Statement of Investment Principles, a Funding Strategy Statement a Governance Compliance Statement and a Communication Policy.

These are lengthy documents and are not therefore included in the Report & Accounts.

They are available on the authority's website <http://www.kent.gov.uk>.

Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent ME14 1XQ (Direct Dial 01622 694603)

ACCOUNTING POLICIES

1. Statement of Recommended Practice

- The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice (revised May 2007). However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

2. Investments

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2009. Unit Trusts and managed funds are valued at the closing bid price. Unquoted investments are valued by the fund managers at the year end in accordance with generally accepted guidelines.
- Derivatives with an initial purchase price are included in the accounts as purchases. Those that do not have an initial purchase price but require a deposit such as an initial margin to be placed with the broker are recorded at cost on purchase. Derivative contracts are included in the net asset statements at fair value.
- Open Future contracts are recognised in the net asset statement at their fair value. Amounts included in the change in market value represent realised gains or losses on closed future contracts and the unrealised gains or losses on open future contracts
- The industrial and commercial properties were valued at open market prices in accordance with the valuation principles laid down by the Royal Institution of Chartered Surveyors. The valuation has been undertaken by Colliers CRE, as at 31 December 2008
- The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2009.
-

3. Currency Transactions

- Assets and liabilities in foreign currency are translated into sterling at exchange rates ruling at the year-end. Differences arising on the translation of investments are included in investment gains.
- All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date.

4. Contributions, Benefits and Transfer Values

- Normal contributions from County Council members, are accounted for in the payroll month to which they relate, contributions from members of other employers are accounted for on a received basis. All contributions are at rates as specified in the rates and adjustments certificate. Payment of pensions and pensions increases are accounted for on an accruals basis. Lump sum payments are accounted for on the date of retirement or on death.
- Transfer values into and out of the Fund, return of contributions and other intermittent transactions are not dealt with on an accruals basis but are included in the accounts when the transactions occur.
- The numbers of pensioners shown on page xx include persons in receipt of injury allowances, gratuity and compensation payments and other non-fund benefits.

5. **Investment Income**

- Dividends, rents and cash deposits have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Foreign income has been translated into sterling at the rate ruling at the date of the transaction.
- Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

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6. **Expenditure**

- All expenses and benefits are accounted for on an accruals basis except that no account is taken of the long-term liabilities to pay benefits.
- The administrative costs relating to the payment of pensions, allowances and other benefits, maintaining employees records, arranging transfer values etc are borne by the Fund.
- Costs relating to investments are also borne by the Fund. Fees in respect of investment management, including custody, are calculated as a percentage of the value of the investments under management.

EMPLOYING BODIES

<u>Local Authority and District Councils</u>	
Ashford Borough Council	Medway Council
Canterbury City Council	Sevenoaks District Council
Dartford Borough Council	Shepway District Council
Dover District Council	Swale Borough Council
Gravesham Borough Council	Thanet District Council
Kent County Council	Tonbridge and Malling Borough Council
Maidstone Borough Council	Tunbridge Wells Borough Council
<u>Scheduled Bodies</u>	
Schools	
Allington Primary School	Meopham School
All Souls County Primary School	Minster College
Angley School	New Brompton College
Archbishops CE School	Newington Junior School
Aylesford School	Northfleet Technical College
Barton Court Grammar School	Oakwood Park Grammar School
Bennett Memorial School	Our Lady of Hartley RC Primary School
Borough Green Primary School	Park Farm County Primary School
Bradbourne School	Pent Valley Secondary School
Brockhill Park School	Queen Elizabeth's Grammar School
Canterbury Campus	Rainham Mark Grammar School
Charles Dickens High School	Robert Napier School
Chatham Grammar School for Girls	Rochester Grammar School for Girls
Chatham House Grammar School for Boys	Roseacre Junior School
Chaucer Technology School	Sandwich High School
Cheyne Middle School	Simon Langton Grammar School for Boys
Cranbrook School	Sir Roger Manwood School
Dane Court Grammar School	Skinner's School
Dartford Grammar School for Boys	Snodland County Primary School
Dartford Grammar School for Girls	St Anslem's RC Comprehensive School
Ditton Infant School	St Bartholomew County Primary School
Ditton CE Junior School	St Botolphs County Primary School
Dover Grammar School for Boys	St Edmund of Canterbury Comprehensive
Folkestone School for Girls	St Francis County Primary School
Fulston Manor School, Sittingbourne	St George's School, Broadstairs
Gravesend Grammar School for Boys	St George's School, Gravesend
Gravesend Grammar School for Girls	St Gregory's Catholic Comprehensive
Greatstone County Primary School	St John Fisher RC School
Halfway House County Primary School	St John RC Comprehensive
Harcourt County Primary School	St Joseph RC Primary School
Hayesbrook High School for Boys	St Simon Stock School
Herne Bay High School	Stella Maris RC Primary School
Herne Bay Junior School	Sutton at Hone County Primary School
Hillview School for Girls	Thamesview School
Holy Family RC Primary	Thomas Aveling School
Holy Trinity County Primary School, Dartford	Tonbridge Grammar School for Girls
Holy Trinity County Primary School, Gravesend	Tunbridge Wells High School
Homewood School, Tenterden	Westlands School
Horton Kirby County Primary School	Wilderness School
Howard School	Willesborough County Primary Junior School
Hugh Christie School	Wilmington County Primary School
Larkfield Brookfield Junior School	Wilmington Grammar School for Boys

Malling School	Wilmington Grammar School for Girls
Maplesden Noakes School, Maidstone	Wincheap County Primary School
Mascalls School	Wrotham School
Further Education Colleges	
Canterbury College	North West Kent College
Hadlow College	South Kent College
Hilderstone College	Thanet College
Mid Kent College	West Kent College
Other Scheduled Bodies	
Ash Parish Council	Kent Top Temps Limited
Birchington Parish Council	Kent Valuation Tribunal
Borough Green Parish Council	Leigh Parish Council
Broadstairs and St Peter's Town Council	Longfield and New Barn Parish Council
Chestfield Parish Council	Lower Medway Internal Drainage Board
Cranbrook Parish Council	Margate Charter Trustees
Darenth Parish Council	Minster on Sea Parish Council
Deal Town Council	Minster Parish Council
Ditton Parish Council	Otford Parish Council
Dover Town Council	Pembury Parish Council
East Malling and Larkfield Parish Council	Ramsgate Charter Trustees
Eastry Parish Council	River Stour Internal Drainage Board
Edenbridge Town Council	Romney Marsh Levels Internal Drainage Board
Eynsford Parish Council	Sandwich Town Council
Eythorne Parish Council	Seal Parish Council
Farningham Parish Council	Sevenoaks Town Council
Faversham Town Council	Snodland Town Council
Folkestone Town Council	Southborough Town Council
Great Mongeham Parish Council	Staplehurst Parish Council
Hartley Parish Council	Stone Parish Council
Hawkhurst Parish Council	Swanley Town Council
Hawkinge Parish Council	Swanscombe and Greenhithe Town Council
Herne & Broomfield Parish Council	Temple Ewell Parish Council
Horton Kirby and South Darenth Parish Council	Tenterden Town Council
Hythe Town Council	Upper Medway Internal Drainage Board
Kent and Essex Sea Fisheries Committee	Westerham Parish Council
Kent and Medway Towns Fire Authority	West Kingsdown Parish Council
Kent Police Authority	Woodnesborough Parish Council
Kent Probation	Yalding Parish Council
Academies	
Cornwallis Academy	Marlowe Academy
Folkestone Academy	Marsh Academy
Leigh Technology Academy	New Line Learning Academy
Longfield Academy	Spires Academy
Admitted Bodies	
Associated Employers	
Active Life Limited	Medway Community Living Services
Ashford Leisure Trust Limited	Medway Housing Society
The Avenues Trust	Mote House, Maidstone
Caldecott Community	Museum of Kent Life Trust
Canterbury and Rochester Diocesan Council	Orbit South Housing Association
Canterbury Archaeological Trust	Remade South East
Christchurch College, Canterbury	Rochester Bridge Trust
Connexions Partnership Kent & Medway	Russet Homes

Folkestone and Dover Water Company	Sevenoaks Leisure Limited
Gravesham Community Leisure	Sevenoaks School
Hope (Kent) Limited	St Vincents School, Tankerton
Hyde Housing Association	Swale Housing Association
Invicta Telecare Limited	Thanet Archaeological Trust
Kent College, Canterbury	Thanet Leisure Force
Kent College, Pembury	Tourism South East
Kent Community Housing Trust	Town & Country Group
Kent Music School	University Of Kent
Knotley Hall School	West Kent Housing Association
Maidstone Housing Trust	West Kent Water Company
Non – Associated Employers	
ABM Catering Limited	Mitie Cleaning & Support Services
APCOA Parking Limited	Northgate Managed Services
Brenwards Limited	Norwest Holst
Compass Group UK & Ireland	Quadron Services Limited
Fusion Lifestyle	Reliance Task Management
Mitie PFI Limited	Shaw Healthcare (FM Services) Ltd

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THE FUND IN PROFILE - 5 YEAR SUMMARY

<i>Financial</i>	2004-05 £000	2005-06 £000	2006-07 £000	2007-08 £000	2008-09 £000
Contributions	149,495	178,236	189,989	200,932	218,955
Investment and other income	71,309	93,112	82,107	81,224	81,807
Sub Total	220,804	271,348	272,096	282,156	300,760
Benefits and other payments	(124,939)	(137,395)	(142,862)	(153,485)	(164,558)
TOTAL	95,865	133,953	129,234	128,671	136,202

	31 March 2005 £000	31 March 2006 £000	31 March 2007 £000	31 March 2008 £000	31 March 2009 £000
Net Assets	1,794,945	2,375,106	2,573,640	2,489,098	2,060,382
Investments at Valuation	1,745,083	2,332,146	2,457,117	2,334,413	1,895,169

<i>Membership</i>	31 March 2005	31 March 2006	31 March 2007	31 March 2008	31 March 2009
Contributors	38,733	39,399	40,586	42,513	43,385
Pensioners	24,429	24,840	25,737	26,658	27,898
Deferred Pensioners	16,960	21,905	24,746	26,569	26,607

<i>Performance Statistics</i> <i>5 year period</i>	Annualised rate of return		Average Annual
	Kent Fund Return %	Time Weighted Return %	Retail Price Index %
2000/1-2005	-0.5	0.3	2.6
2001/2-2006	6.7	6.5	2.7
2002/3-2007	8.2	8.3	3.4
2003/4-2007	12.0	12.5	3.6
2004/5-2009	2.5	3	2.9

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ANALYSIS OF EQUITY INVESTMENTS

United Kingdom	£'000	%	Overseas	£'000	%
Basic Materials	23,390	3.34%	Industrials	94,983	14.49%
Consumer Goods	34,062	4.86%	Consumer Goods	80,259	12.24%
Consumer Services	47,869	6.83%	Financials	80,794	12.32%
Financial	53,100	7.57%	Futures	587	0.09%
Healthcare	39,114	5.58%	Information Technology	47,285	7.21%
Industrials	8,916	1.27%	Resources	47,080	7.18%
Oil & Gas	70,932	10.12%	Services	80,285	12.25%
Technology	22,579	3.22%	Utilities	7,096	1.08%
Telecommunications	26,280	3.75%	Pooled Vehicles	217,252	33.14%
Unit Trusts/Venture Caps	359,442	51.26%		655,621	100.00%
Utilities	6,062	0.86%			
PFI Funds and Private Equity	9,360	1.33%			
Futures	74	0.01%			
Total	701,180	100.00%			

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Valuation of Equity Investments

	£'000	%
Uk	894,745	58.04%
Europe	117,894	7.65%
Japan	33,899	2.20%
North America	192,657	12.50%
Pacific Other	33,448	2.17%
Emerging	268,884	17.44%
Total	1,541,527	100.00%

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Major UK & Overseas Equity & Unit Trust Holdings by Value as at 31 March 2009

United Kingdom	£000
INVESCO PERPETUAL INCOME FUND ACCUMULATI	236,756
MPF UK EQUITY INDEX SUB-FUND	112,325
VODAFONE GROUP	23,728
GLAXOSMITHKLINE ORD SHS GBP0.25	22,394
BG GROUP ORD 10P	22,335
ROYAL DUTCH SHELL 'B'SHS EUR0.07 (UK LIST)	17,544
UNILEVER PLC ORD GBP 0.031111	14,718
BP AMOCO ORD US\$0.25	13,762
ASTRAZENECA US \$0.25	11,920
PEARSON PLC ORD.25P	9,753
HSBC HLDGS ORD US\$0.50	8,726
ANGLO AMERICAN PLC ORD USD0.54945	8,486
PRUDENTIAL PLC ORD 5P	7,437
STANDARD CHARTERED ORD USD0.50	7,273
BAES SYSTEMS ORD 2.5P	7,012
CARNIVAL PLC WI	6,782
SCHRODER RECOVERY FUND INCOME UNITS	6,501
RSA INSURANCE GROUP PLC ORD 27.5	6,238
WHITBREAD PLC ORD 76.797385	6,231
CENTRICA PLC ORD 6.1728395P	5,637
SCOTTISH & SOUTHERN ENERGY PLC ORDINARY £	5,615
REED ELSEVIER	5,501
JOHNSON MATTHEY PLC ORD.#1	5,386
AUTONOMY CORP.	5,119
WETHERSPOON (J.D.) PLC ORDINARY 2P	4,876
BALFOUR BEATTY PLC	4,734
LEGAL & GENERAL ORD SHS GBP0.025	4,706
DANA PETROLEUM PLC ORD 15P	4,659
ROLLS-ROYCE GROUP PLC	4,536
 North America	
PEPSICO INC. CAP STK US\$0.01667	9,506
WAL-MART STORES INC. COM.STK \$0.10	9,150
WALGREEN CO	8,420
PRAXAIR	7,716
PHILIP MORRIS INTL.	7,603
SCHLUMBERGER COM.STK \$0.01	5,615
MICROSOFT CORP US \$0.00005	5,394
APACHE	4,940
EOG RESOURCES INC COM USD0.01	4,430
MARKEL	4,215
 Japan	
BAILLIE GIFFORD JAPANESE SMALLER COS FUND	2,935

MITSUI & CO LTD ORD YEN50	2,793
CANON INC. Y.50	2,601
TOKIO MARINE HOLDINGS COM STK NPV	2,514
ASAHI BREWERIES	2,321
MITSUI SUMITOMO INSURANCE	2,218
JAPAN TOBACCO	2,109
NISSAN MOTOR LTD. YEN50	1,950
KYOCERA	1,684
SMC CORP. ORD YEN50	1,415

Europe

SANOFI-AVENTIS SA EUR2	5,101
GROUPE BRUXELLES ORD SHS NPV (NEW)	5,003
ROCHE HOLDINGS AG GENUSSSCHEINE NPV	4,851
NESTLE SA ORD SHS CHF1(REGD)	4,515
SVENSKAHANDELSBANK AB SER 'A' SEK 4.30	3,679
HEINEKEN HLDG.	3,019
SAP AG ORD NPV	2,964
CREDIT SUISSE GRP ORD SHS CHF0.5 (REGD)	2,962
INVESTOR 'B'	2,845
ESSILOR INTL EUR0.35	2,840
CARLSBERG SER'B'DKK20	2,691
CELESIO AG ORD SHS NPV	2,682
L'OREAL	2,566
ATLAS COPCO 'B'	2,411
UBS 'R'	2,376

Pacific/Other

GMO DEVELOPED WORLD EQUITY INVESTMENT FU	129,506
SCHRODER GAV UNIT TST GBLQUANTI.ACTIVEVAL	84,811
TAIWAN SEMICONDUCTOR-SP ADR	5,534
PETROL BRASILEIROS ADS EACH 1 REP 1 COM NP'	4,586
BHP BILLITON PLC ORD NPV	4,372
BNC.ITAU HLDG.FINCA.PN ADR 1:1	3,952
SAMSUNG ELECTRONICS	3,646
HON HAI PRECISION GDR(REP 2 SHS TWD10)REG'S	2,838
OGX PETROLEO ON	2,823
WALMEX 'V'	2,733
CHINA UNICOM	2,625
CHINA MOBILE LTD HKD0.10	2,562
MOBILE TELESYSTEMS ADR	2,436

Property Valuation as at 31 March 2009

Location	Market Value £	Type of Property	
Unit A, Wyvern Link Road, Pride Park, Derby	1,396,967	Industrial	
Unit 1/13 Boyatt Wood Industrial Estate, Parham Drive, Eastleigh	2,991,723	Industrial	
Otterspool Way, Watford	2,623,511	Industrial	
Units 1/10 Stuart Close, Penarth Road, Cardiff	3,073,327	Industrial	
Units 6/13 Hawksworth Trading Estate, Bridgewater Close, Swindon	3,958,073	Industrial	
Capital Interchange, Brentford	4,464,572	Industrial	
Kings Park, Trafford Park, Manchester	6,053,523	Industrial	
49/59 Battersea Park Road, London SW8	11,966,893	Industrial	
Hertsmere Industrial Estate, Borehamwood	9,895,700	Industrial	46,424,289
42-50 Grey Street, Newcastle	4,187,471	Office	
The Tramshed, Walcot Street, Bath	4,610,367	Office	
1 Castle Terrace, Edinburgh	5,693,804	Office	
36 Dover Street, London W1	9,233,582	Office	
14-15 Conduit Street, London W1	11,260,466	Office	
3-5 Charing Cross Road, London W1	12,273,132	Office	47,258,822
22 St Ann's Road, Harrow	1,038,496	Retail Store	
24 St Ann's Road, Harrow	1,368,926	Retail Store	
17-19 Cornhill & 1 Tavern St, Ipswich	3,540,326	Retail Store	
21-23 Bridlesmith Gate, Nottingham	6,048,569	Retail Store	
National House, 34/36 St Ann's Street and 42/46 Cross Street, Manchester	7,444,392	Retail Store	19,440,709
Queens Drive, Nottingham	3,382,917	Retail/Warehouse	
Burton Road, Kendal, Cumbria	4,961,612	Retail/Warehouse	
Barker Road, Maidstone, Kent	4,285,029	Retail/Warehouse	
217a Bath Road, Slough	7,893,474	Retail/Warehouse	
Wenvoe Retail Park, Culverhouse Cross, Cardiff	8,615,163	Retail/Warehouse	29,138,195
Henderson UK Shopping Centre Fund	3,693,745	Property Fund	
Legal & General Leisure Fund	3,919,797	Property Fund	
ING Central London Fund	1,315,285	Property Fund	
Unite Student Accommodation Fund	4,930,087	Property Fund	13,858,914
Pradera/Aurora European Property Fund	23,484,872	Property Fund	23,484,872
Total Market Value	179,605,801		

During the year the no transactions were carried out within the property portfolio

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Superannuation Fund Audit

Kent County Council
Audit 2008/09

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Key messages

This report summarises the findings from the 2008/09 audit of the Superannuation Fund which is substantially complete. Subject to satisfactory clearance of work, we plan to issue an unqualified opinion in July 2009.

Financial statements

- 1 The Fund's financial statements were submitted for audit on the 5 June 2009 and were of a good quality. The audit has identified a small number of errors and omissions that officers have corrected within the accounts presented for members on 3 July 2009. In our opinion none of these need to be brought to your attention.
-

Audit opinion

- 2 The 2008/09 audit of the financial statements is substantially complete. Outstanding items at the time of writing (29 June 2009) are detailed in paragraph 6. Subject to satisfactory clearance of these matters, we plan to issue an unqualified opinion in July 2009.
-

Next steps

- 3 We ask the Superannuation Fund Committee to consider the matters raised in the report as part of its review of the financial statements.

Financial statements

- 4 The financial statements are important documents by which the Council accounts for its stewardship of public funds. Members have final responsibility for these statements. It is important that consideration is given to findings from the audit as part of the adoption of the financial statements.
- 5 The Fund's financial statements are an integral part of Kent County Council's financial statements. We have previously reported the outcome of the audit of the Council's financial statements within our Annual Governance Report to the Governance and Audit Committee on 30 June 2009. This report outlines the specific findings of our work on the Fund's financial statements for the year ended 31 March 2009.
- 6 The Fund's draft statements were presented for audit on the 5 June 2009, five weeks after the end of the financial year which is a positive achievement. Officers have been responsive to audit enquiries and this has allowed us to have completed the majority of our planned work by the end of June 2009. Inevitably, given the tight timelines, there are some matters that remain to be completed. Key items outstanding at the time of writing this report are:
 - completion of testing of deeds relating to the Fund's property portfolio;
 - review of all related party transaction declarations from officers and members;
 - to review any further developments relating to deposits made with Icelandic banks; and
 - audit of the draft Fund annual report 2008/09.
- 7 In planning our audit, we identified potential specific risks and areas of judgement that we would focus on during the audit. We report to you at paragraph 9 the findings of our work against those potential planning risks.
- 8 In addition, auditing standards require us to report to you:
 - the draft representation letter which we are asking management and you to sign;
 - our views about your accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our audit report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 9 In February 2009, we reported the planned audit testing for the Fund's accounts to the Superannuation Fund Committee. Set out below for members' information is a summary of the results against the planned testing. Our overall conclusion is that the results were satisfactory.
-

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Compliance with the Statement of Recommended Practice (SoRP) relating to the Fund's financial statements.	The accounts submitted for audit comply with recommended practice.
Collection of contributions, payment of benefits and transfers in and out of the Fund.	Our audit work confirmed that these transactions are completely and accurately included in the financial statements.
There is a change in the SoRP requirement about valuing the investment portfolio. We need to ensure this has been reflected in the accounts.	We concluded that the net assets of the Fund are fairly stated in the financial statements.
Some of the Fund's cash was invested in Icelandic banks. We need to consider how this is now reflected in the superannuation fund accounts given the collapse of these banks.	<p>The Council invested money on behalf of the Fund. Consequently the Fund has to bear some of the impairment resulting from the Icelandic Investments at risk. We have confirmed that the cash invested by the Council on behalf of the Fund has been accounted for correctly.</p> <p>More generally, the Council pools its own excess cash and that of the Fund when making investments. Following a review the Council identified that the Fund had been credited with interest at the London Inter bank Bid Rate (LIBID) rate rather than the actual rate of interest earned for its cash invested in 2007/08. It has corrected this in 2008/9. Interest at actual rate was calculated from September 2007 when there was a significant change in policy to increase cash holdings. In the 2008/9 accounts the Fund has been credited with the difference between actual interest rates on investments and LIBID, increasing income to the Fund by £177k for 2007/8 and £1.3m for 2008/9.</p>

Issue or risk	Finding
Compliance with the Statement of Recommended Practice (SoRP) relating to the Fund's financial statements.	The accounts submitted for audit comply with recommended practice.
Collection of contributions, payment of benefits and transfers in and out of the Fund.	Our audit work confirmed that these transactions are completely and accurately included in the financial statements.
There is a change in the SoRP requirement about valuing the investment portfolio. We need to ensure this has been reflected in the accounts.	We concluded that the net assets of the Fund are fairly stated in the financial statements.
We will seek to ensure that investment management fees are completely and accurately recorded.	We have confirmed the costs included in the accounts.
We have to remain alert to the potential of fraud and error in the accounts.	There are no matters to bring to your attention.
Superannuation Fund's Annual Report	We will complete our review of the Annual Report as soon as possible and report this formally.

Errors in the financial statements

- 10 The audit of the accounts seeks to ensure that the accounts are materially correct and present fairly a view of the financial transactions of the Fund in 2008/09. Materiality is defined in auditing standards as "information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement."
- 11 Our materiality for the Fund's audit was set at £20 million. We also set, in accordance with International Standards on Auditing (UK and Ireland), a threshold below which we judge any errors to be 'trivial' and do not seek any amendments to the accounts. The trivial threshold was £200,000.
- 12 During our audit we identified a small number of errors in the financial statements and reported these to management and these have been corrected. None of these in our opinion need to be brought to your attention to assist you to fulfil your

Superannuation Fund Audit

governance responsibilities. There are no unadjusted errors to bring to your attention.

Opinion on the financial statements

- 13** Subject to satisfactory clearance of outstanding matters, we plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of the draft audit report. The format is subject to some minor revision before being finalised but these changes will not alter the status of the unqualified audit opinion.
-

Material weaknesses in internal control

- 14** We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 15** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.
-

Accounting practice and financial reporting

- 16** I have considered the qualitative aspects of your financial reporting and there are no matters to highlight.
-

Other reporting issues

- 17** There are no other matters that we need bring to your attention.
-

Management representation letter

- 18** We have discussed this with officers and reported the areas where we will seek representation to the Governance & Audit Committee as this committee approves the full accounts which includes the Fund accounts. For your information and to be aware of the representations being made by officers, the draft representation letter is shown at appendix 1.
-

Audit fees

- 19** Our proposed fee of £55,600 for the 2008/09 audit of the Fund was set out in an audit plan which was issued February 2000. No increase in the fee is expected.

Appendix 1- Draft letter of representation

To: Darren Wells
Appointed Auditor

16 South Park
Sevenoaks
Kent
TN13 1AN

Kent County Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Kent County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Council Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 - as at 20/6/09 these are still being discussed - to be updated on 22/6/09

Appendix 1- Draft letter of representation

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

-

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements 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 regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;

Appendix 1- Draft letter of representation

- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Kent County Council

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date

By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 3 July 2009

Subject: **CASH MANAGEMENT**

Classification: Unrestricted

Summary: To report on the latest cash and treasury management position of the Fund.

FOR INFORMATION

INTRODUCTION

1. This report sets out for members the latest cash position of the Fund and gives an update on the Icelandic deposits and progress on developing a new Treasury Strategy.

CASH POSITION

2. As at 31 May the Fund held £119.3m in cash. Allocation of cash is dealt with under the confidential Fund Position Statement item.

ICELANDIC DEPOSITS

3. The Fund's exposure to the 3 Icelandic banks is approximately £16m split £5.8m Heritable, £4.8m Glitnir and £5.4m Landsbanki. The latest recovery position is set out below:
 - (1) Heritable – this is a UK domiciled subsidiary of Landsbanki. Ernst & Young is the administrator and KCC is one of two local authorities represented on the Creditors Committee. The administrator has now written publicly to all creditors and the base case return is 70-80p in the pound. The first dividend will be paid in July. Run-off will be largely complete by the end of 2010.
 - (2) Glitnir and Landsbanki – KCC is one of two local authorities representing UK local authorities on the Informal Creditor Committees set up by the Resolution Committees for each bank. Under Icelandic law depositors are preferred creditors and the recovery position is good. Claims will be filed by the end of 2009 and any legal challenges to our preferred creditor status will be heard in the first half of 2010. As long as the preferred creditor status holds we will get a 100% return from Glitnir (which had a

limited depositor base) in 2010, a 90% return is forecast for Landsbanki but over a longer period.

TREASURY STRATEGY

4. Since 9 October 2009 all new and maturing deposits have been placed with the Government Debt Management Agency. As at 5 June KCC's deposits were split.

DMA	68%
UK Banks	12%
UK Building Societies	8%
Belgian Bank	2%
Iceland	10%

All options for breaking fixed term deposits have been explored. The Dexia deposit has been restructured to come within the French/Belgian/Luxembourg Government guarantees.

5. There are now two main priorities:
- (1) To prepare options on counter party strategy moving forward for members. The current use of the DMA is not a viable long term strategy. Extensive work is underway on alternatives focussing on the most secure deposits.
 - (2) To fully implement the recommendations of the PwC report and the Audit Commission report. It should be noted on the latter that KCC already measures up very well against the good practices identified.
6. To achieve these objectives we have the following underway:
- (1) Appointment of a Treasury & Investment Manager – this is a new post at a senior level which will have the prime responsibility for treasury issues moving forward. Following an interim appointment a permanent appointment was made on 12 June. The postholder will report to a redefined post of Head of Investments & Pensions reporting direct to the Director of Finance.
 - (2) External Consultant – an experienced treasury professional has been undertaking detailed due diligence on Money Market Funds and in-particular the new Government guaranteed Money Market Funds. This report has been completed.
 - (3) External Adviser – Arlingclose have been commissioned to advise on investment issues for a 6 month period. Their remit is

focussed on assisting KCC in moving forward with a more diversified investment strategy rewriting the Treasury manual to reflect the new strategy and specifically addressing technical improvements identified by PwC in their review. Their action plan is attached in the Appendix. A tender process for treasury advisory services is being commenced.

7. The intention then is to bring firm proposals to the 18 September meeting on a Superannuation Fund Treasury Strategy using counterparties that the Committee finds acceptable – this may have similarities with but will be totally separate from KCC's Treasury Strategy. Pension Fund cash will then be deposited on a segregated basis in the name of the Fund.

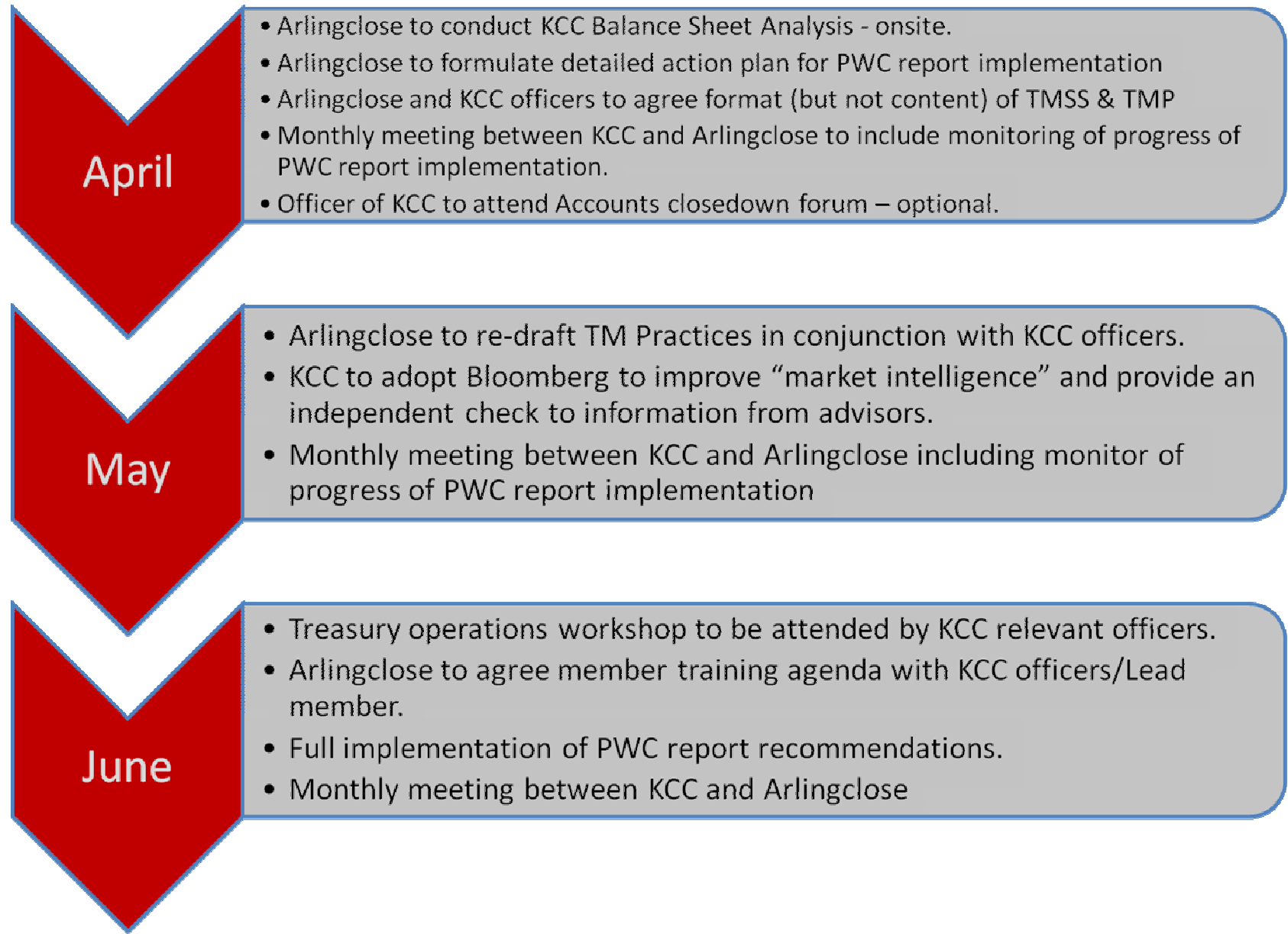
RECOMMENDATION

8. Members are asked note this report

Nick Vickers
Head of Financial Services

16 June 2009

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July

- Arlingclose to conduct ½ day training for members – low medium and high return scenarios.
- Adoption by Council of agreed TMSS following training.
- Monthly meeting between KCC and Arlingclose.

August

- Arlingclose staff to oversee implementation of new TMSS and TM Practices onsite - optional.
- Monthly meeting between KCC and Arlingclose

September

- Monthly meeting between KCC and Arlingclose
- Treasury Operations Workshop to be attended by KCC relevant officers
- Monthly meeting between KCC and Arlingclose to review performance of Arlingclose over the contract term.

By: Director of Finance
To: Superannuation Fund Committee - 3 July 2009
Subject: **PENSIONS ADMINISTRATION**
Classification: Unrestricted

Summary: To provide members with an update on administration issues.

FOR DECISION

INTRODUCTION

1. Members were provided with a report on 21 November 2008. This six monthly review will update members on the key issues since then.

VESTING PERIOD

2. Members were advised that the vesting period for LGPS members was reduced from 2 years to 3 months. This means that a member with 3 months or more service, in the event of their ceasing scheme membership, must by law have a deferred benefit and do not qualify for a simple refund of contributions.
3. The effect of this change was to have a significant impact upon the number of deferred benefits being created.
4. I advised members that I had sent a letter to the Department for Communities and Local Government (CLG), seeking a review of this decision based upon the significant number of trivial benefits being created at considerable administration cost. Equally important, benefits even after annual increases are of such insignificant amounts, former members were unlikely to maintain contact with the scheme and draw benefits at retirement.
5. I am pleased to report that CLG have asked the Local Government Employers Association (LGE), to engage an actuary to review the cost/benefit of this change to the rules. We have been asked to provide estimates of the administration costs.

85 YEAR RULE

6. There has been no progress made with regard to changes originally made to the '85 year rule', whilst Scotland decided to provide full membership protection through to 2020, England and Wales introduced a sliding level of protection through to 2016. Following challenge by the Unions this continues to be the subject of review.

13. In my last report I advised members of the number of trivial deferred benefits on the current database. At 30 September 2008 we had no less than 1576 benefits for annual pensions of £100 or less. Over 50% were in fact under £50 per annum. We now have 2089 benefits of £100 or less of which 982 are for less than £50 per annum. This clearly confirms the concern being expressed to CLG with regard to the cost/benefit of the regulation change in vesting period.
14. Scheme member numbers, of all categories of member (active, deferred, widows, pensioners etc.) have increased to 107,048.
15. In summary, I believe the statistics confirm a very pleasing outcome despite increasing workloads, legislative change and uncertainty around the new scheme. Whilst we plan more proactively for seasonal peaks, it is very difficult to balance the effort needed to meet KPI results and at the same time continue to reduce some of the high volume areas of work with no deadline.

PREPARATION FOR THE 2010 VALUATION

16. Work has already commenced in relation to the 2010 valuation. The valuation extract is to be used, in conjunction with all others around the UK, to inform the cost sharing decision making process.
17. As previously stated in this report, we are currently discussing use of a computerised data cleansing tool. However, the software merely focuses on those records which appear inconsistent but does not actually perform any intervention. That follows as a consequence of our reviewing the record and amending data accordingly. What it will do is to provide valuable extracts which it is hoped will enable the section to identify those areas which could have significant impact upon the valuation results and ensure these are undertaken in a priority sequence.

UPDATE ON TECHNOLOGY INITIATIVES

Pensions Website

18. The Pensions Website is now established as part of the KCC website. Members can log in at www.kent.gov.uk/pensions. The 'employer' section is now complete, however, always subject to updates etc. The Pensioner Section is currently under construction, will contain a link to the Kent Active Retirement Fellowship and, is scheduled for completion by the end of August 2009, whilst the employee section is scheduled for completion by the latest, December this year.
19. The member section is the most complex, given, it will ultimately provide interactive services such as calculation of benefits, additional regular contribution calculators etc. The initial phase (for December 2009) will consist of an information base only, with the more complex services being introduced at a later point.

AXISe Employer

20. Progress is being made in this initiative but one has to say more slowly than I would like.

Recent changes to data security laws has resulted in KCC IS department, reviewing the use of our preferred CITRUS link, enabling remote access by employers, via their own networks. We may now have to adopt access processes using the fob facility, comprising, individual access via a small key fob size, password provider. The numeric password changes on a daily basis for all users.

Our IS department are currently revising their costs for dealing with this project, having initially assessed the amount of around £30k. This 'one off' cost we believe may reduce as we do not think the cost of licenses, on a multiple employer basis will be necessary, given, other authorities have not experienced the need for individual licenses to be issued (Microsoft Word) as this will not be part of the service.

I seek members' agreement to the cost of this internal charge up to a maximum of £30k.

- 21 I hope to be able to report significant progress in this important development, providing self service option to employers, in my next report.

FUTURE PLANS

Staffing

22. Members were advised of our strategy to increase the number of Pension Support Assistants (PSAs) with a reduction in career grade administrators (CGAs). The latter are required to progress along a career path whilst PSAs undertake high volume/less complex tasks, whilst remaining on a single grade band.
23. The key is to balance cost without a loss of efficiency. Timing is crucial for the section, given the pace of change in recent years, the need to clear that part of the workload and KPIs outstanding and in knowledge of further scheme changes in the next 3-5 years.
24. Again, the appointment of two more staff to our Communication and Support Team is vital, but, given these posts will attract existing internal candidates within the administration career grade, timing is crucial.
25. We are carefully considering our options but initially intend to recruit and train 2 x PSAs and take two gap year students to assist with data cleansing.
26. The importance of strengthening the Communication and Support team, within the section, is a vital part of our planned efforts to assist employers in improving efficiency in transferring data to the section. This is an area of particular concern and one that is increased in importance by virtue of the need to cleanse data for cost sharing purposes.

INITIAL REPORT OF POTENTIAL IRREGULARITY

27. I regret it necessary to report to members the existence of a potential irregularity which has recently been identified.
28. Details have been submitted to the North Kent Crime Unit at Northfleet after consultation with our Internal Audit department. It is anticipated that following initial enquiries, criminal proceedings will be commenced.
29. The potential overpayment is £16,649.84 and the initial view is that it is the result of a deliberate act of deception following the death of a pensioner.
30. We rely upon the National Fraud Initiative to identify these cases and this years NFI exercise has highlighted the case. Internal Audit have confirmed that this was not picked up in previous NFI work and are seeking to establish why it was not. Internal Audit have confirmed that this case has never previously been reported to the Pensions Section.
31. A full, confidential, report will be given to the next meeting of the Committee.
32. I had already been reviewing a service from Faraday Tracing Bureau who specialise in data matching and trace processing.
33. The Local Government Employers (LGE) have undertaken comparative costing of others who offer a mortality screening service and, FTB are clearly more economic. They have reduced their fee from a previous cost at 50p per pensioner per annum, for a monthly data match, to 20p per annum. With around 38,000 pensioners the annual cost will be £7600 which is a very attractive offer. The cost reflects FTBs expectation of contracting with a large number of local authorities.
34. I would therefore recommend we contract with FTB and would seek members' agreement. We will ensure all data is transferred securely and ensure the monthly response from FTB is transferred securely.

RECOMMENDATION

35. Members are asked to note the content of this report and endorse the additional internal IS costs in respect of AXISe Employer development at a maximum of £30k.
36. Members are also asked to endorse the contract with FTB at an annual cost of £7600.

Patrick Luscombe
Pensions Manager
Extension 4714

**Achievements against Benchmark Targets
and Performance Indicators**

Case Type	Target Time	6 months to September 2007		6 months to April 2008		6 months to September 2008		6 months to April 2009	
		Number	In target	Number	In target	Number	In Target	Number	In Target
Calculation and payment of benefit award	20 days from receipt of all paperwork	803	99%	731	96%	977	92.5%	837	98.5%
Calculation and payment of dependant benefit	15 days from receipt of all paperwork	165	100%	170	91%	172	95.8%	200	100%
Provision of benefit estimate	20 days from receipt of all paperwork	1077	97%	951	95%	1198	91.5%	1166	98%
Reply to correspondence	Full reply within ten working days *	558	98%	607	95%	741	91.0%	862	98%

**Workload Increases
Year End 2006/2008 Comparison**

New Cases Created

	2004/05	2005/06	2006/07	2007/08	2008/09
Deferred Benefits	2734	3586	4101	4024	4443
Benefit Estimates	1507	1591	2403	2260	2364

Other Statistics

	2004/05	2005/06	2006/07	2007/08	2008/09
Outstanding tasks on Task Flow system at year end	6022	6378	9041	8345	7323*
Three year comparison of 20 weeks output May to September	-	-	11464	15240	14754

* Currently 7942

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By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 3 July 2009

Subject: **FUND POSITION STATEMENT**

Clarification: Unrestricted

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

FOR INFORMATION

INTRODUCTION

1. Attached is the Fund Position Statement report.

RECOMMENDATION

2. Members are asked to note this report.

Paul Leeves
Senior Accountant (Investments)
Ext: 4642

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FUND POSITION STATEMENT

Classification: Unrestricted
Item: D1 refers

Summary of Fund Asset Allocation and Performance

Superannuation Fund Committee

3rd July 2009

By: Chairman Superannuation Fund Committee

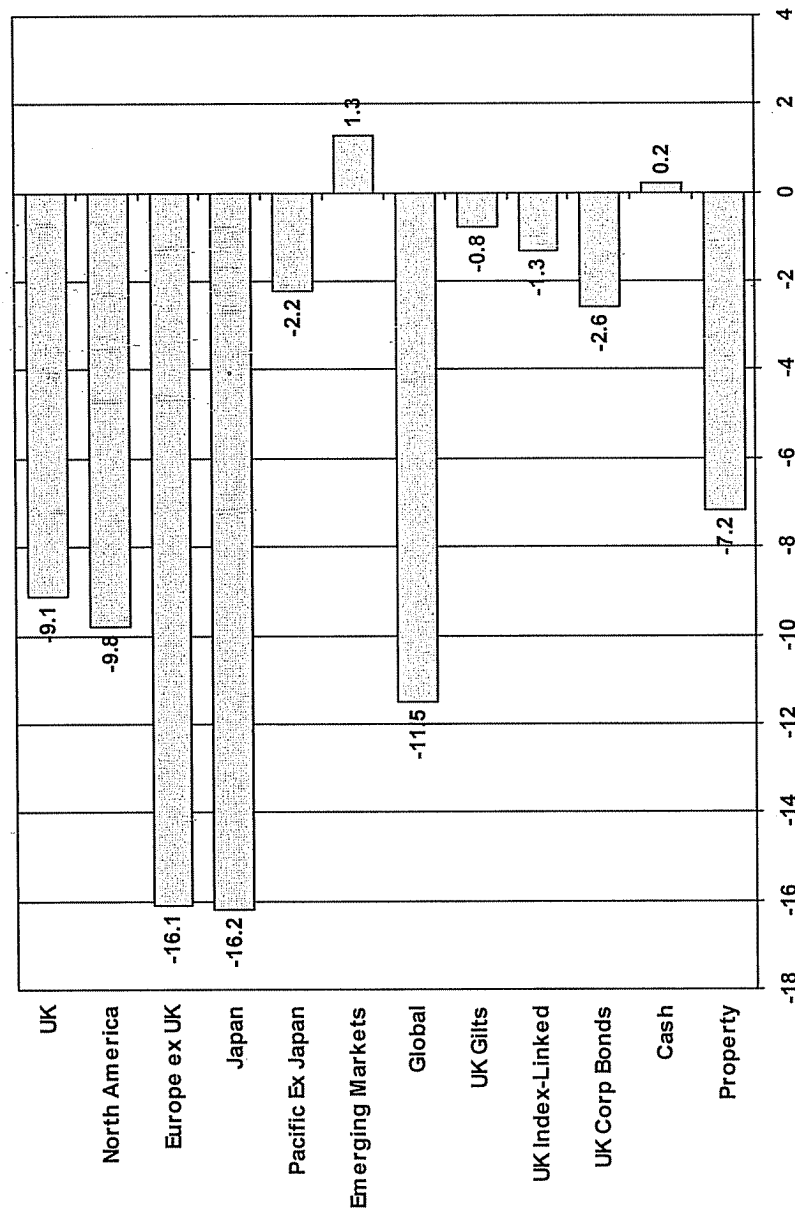
Director of Finance



Kent County Council
Superannuation Fund 2009

Nick Vickers—Head of Financial Services

Market Returns-3 months to 31 March 2009



- The first quarter of 2009 has been most volatile. Further falls in prices were experienced in both January and February before a strong rally in March provided some much needed relief.

- However, despite the strong rally in March, nearly all markets finished the quarter down. Only emerging markets delivered a positive return over the quarter.

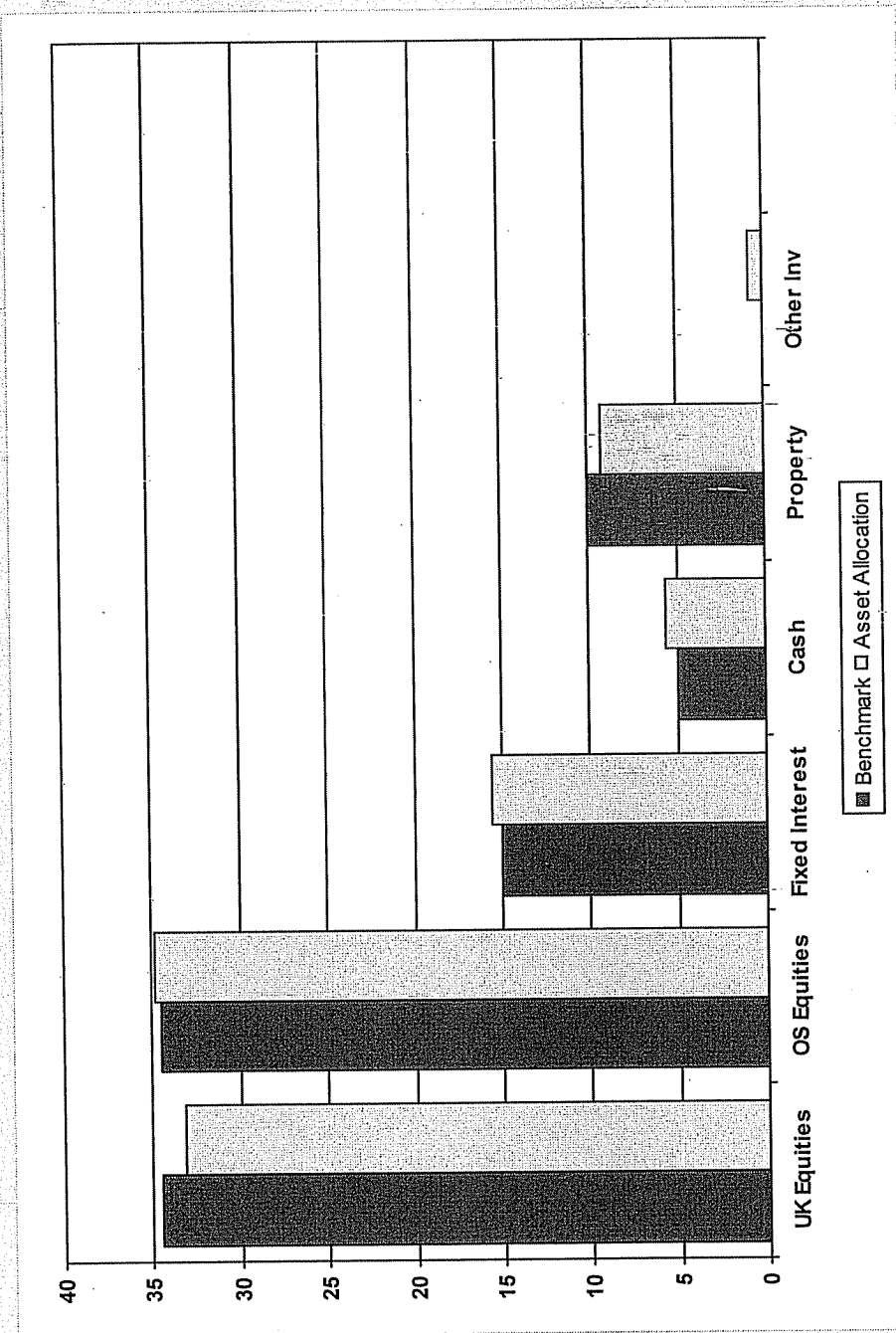
- UK equities outperformed Global equities, in sterling terms, with a return of -9.1% compared to -11.5%.

- Property values continued to decline throughout the quarter with a fall to -7.2%. Whilst valuations are now looking attractive the economic situation is leading to falling rental values.

Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted
Item: DJ refers

Asset Class	Kent Fund		Benchmark
	£m	%	%
UK Equities	675	33.1	34.5
Overseas Equities	666	32.7	34.5
Fixed Interest	367	18.0	15
UK Property	156	7.7	10
European Property	23	1.2	1
Cash	139	6.8	5
Other Inv	10	0.5	-
Total Value	2,036	100.0	100



Asset Distribution Fund Manager

Classification: Unrestricted
Item: D I refers

Values (GBP)'000	Mandate	Value at 31/12/08	Transactions	Capital Gain / loss	Income	Value at 31/03/09	Fund %	Benchmark
Schroders	UK Equity	325,752	12,937	-32,489	2,876	306,200	15	Customised
Invesco	UK Equity	261,474	10,000	-34,718	0	236,756	12	Customised
Societe Generale	UK Equity	123,846	-118,002	-5,814	349	29	0	Customised
State Street	UK Equity	0	119,098	-6,525	0	112,573	6	FTSE 100 All Share
Alliance Bernstein	Global Equity	196,252	968	-20,250	960	176,971	9	MSCI World
Ballie Gifford	Global Equity	337,311	11,620	-23,650	1,976	325,281	16	Customised
GMO	Global Quantative	148,985		-19,479		129,506	6	MSCI World
Schroders	Global Quantative	95,805		-10,994		84,811	4	MSCI World
Goldman Sachs	Fixed Interest	194,653	2,259	-10,057	2,668	186,855	9	ML £ Broad Market
Schroders	Fixed Interest	160,918		-1,025		159,893	8	ML £ Broad Market
DTZ	Property UK	173,399	-395	-14,749	3,583	158,255	8	IPD All Properties Index
DTZ	Property Europe	30,415	6	-6,936	114	23,485	1	IPD All Properties Index
Internally Managed	Cash	152,017	-12,275	-3,356	323	136,386	7	LIBID 7 Day Rate
Total Fund		2,200,827	26,216	-190,043	12,848	2,037,000	100	Kent Combined Fund

Performance Returns to 31 March 2009

Classification:
Unrestricted
Item: DI refers

	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %
Total Fund	-8.0	-8.2	-19.8	-19.8	-7.1	-6.1
UK Equity						
Schroders UK	-9.1	-8.9	-25.8	-28.8	-8.1	-5.5
State Street	-5.9	-9.1				
Invesco	-13.0	-9.1	-19.4	-29.3	-	-
Overseas Equity						
Alliance Bernstein	-9.8	-11.5	-31.8	-19.8	-	-
Baillie Gifford	-6.6	-10.7	-20.4	-19.8	-5.5	-6.2
GMO	-13.1	-11.5	-19.3	-19.8	-	-
Schroders GAV	-11.5	-11.5	-24.7	-19.8	-	-
Fixed Interest						
Goldmans Fixed Interest	-3.8	-2.6	-4.4	2.5	-0.5	2.1
Schroders Fixed Interest	-0.6	-2.6	3.8	2.5	-	-
Property						
UK Property	-6.5	-7.1	-25.9	-22.5	-5.4	-8.4
European Property	-22.5	n/a	-1.2	n/a	-	-

- The fund decreased in value by over £160m in the quarter.
- The Fund marginally outperformed the benchmark for the quarter posting negative returns of -8.0% compared to a benchmark return of -8.2%, placing us 67th against the WMLA average
- The 1 year performance is -19.8% against the benchmark of -19.8%, placing us 43rd against the WMLA average
- Our 3 year performance is -7.1% against a benchmark return of -6.1%. This places us 64th against the WMLA average
- Alliance Bernstein showed much improved performance over the quarter with returns of 1.7% greater than benchmark
- Baillie Gifford, Schroders Fixed Interest, UK Property, and State Street also showed relatively good performance over the quarter.
- Invesco's defensive portfolio underperformed benchmark in the quarter due to a lack of exposure to the rallying sectors of the FTSE All-Share Index.

Fund Structure

UK Equities

Schroders
+1.5%
£306m

State Street
+0.0%
£112m

Invesco
Unconstrained
£237m

Global Equities

Baillie Gifford
+1.5%
£325m

Alliance
Bernstein
+3.0%
£177m

GMO
+3.0%
£130m

Schroders
+3.0 - +4.0%
£85m

Fixed Interest

Goldman Sachs
+0.75%
£187m

Schroders
+1.0%
£160m

Alternative

DTZ
UK Property
£158m

DTZ
Europe Property
Eur 35m (£30m)
€34.5m invested
as at 30.09.08

Kent Cash
£136m

Henderson
Secondary PFI
£11m

YFM Private
Equity £4m
£1.6m invested
as at 30.09.08

Market Value £2.0bn
as at 31 March 2009.

By: Chairman Superannuation Fund Committee
 Director of Finance

To: Superannuation Fund Committee – 3 July 2009

Subject: **INVESTMENT ADVICE**

Classification: Unrestricted

Summary: To report on options for investment advice.

FOR INFORMATION

INTRODUCTION

1. This report is to raise with members options around how the Fund obtains investment advice. The Fund has significantly increased in size and complexity and the need for high quality investment advice is paramount. The Fund’s existing relationship with Hymans Robertson dates back to 1999.

OPTIONS

2. There are two main options available to us:

(1) Investment Advisers

Some funds use investment advisers who act as professional advisers to the Committee. They are normally highly experienced investment professionals who have retired from their full time employment.

- | | |
|------------|---|
| Advantages | <ul style="list-style-type: none"> - highly experienced individuals - independent - good networks - robust external challenge |
|------------|---|

- | | |
|---------------|---|
| Disadvantages | <ul style="list-style-type: none"> - keeping up to date in a rapidly changing environment. - lack of accountability - no access to other resources eg. research teams evaluating managers. - ability to cover all asset classes well. |
|---------------|---|

The approach can work well but it is wholly dependent on the quality of the individual.

(2) Investment Consultants

The major actuarial and accountancy firms all have large investment consultancy practices. Local Authorities have tended to have relationships with the actuarial firms, I am not aware of any use of the accounting firms.

Advantages

- well resourced
- ability to recruit and retain high quality individuals
- access to extensive in-house resource eg. manager research.
- can keep up with developments.

Disadvantages

- accountability for advice
- industry wise aversion risk

3. In the last 18 months links with Hymans Robertson have been re-established and David Boyd has provided clear high quality advice to the Committee.
4. As the new Committee moves forward with its work it will be important to keep options under review and explore different options.

RECOMMENDATION

5. Members are asked note this report

Nick Vickers
Head of Financial Services

17 June 2009

By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 3 July 2009

Subject: **APPLICATIONS FOR ADMISSION TO THE FUND**

Clarification: Unrestricted

Summary: To report on applications to join the Fund and changes to current admissions.

FOR DECISION

INTRODUCTION

1. Linked primarily to outsourcing of activities from local authority employers the Committee has the final decision on admissions and changes to admissions.
2. In the second half of the financial year officers will be reviewing such admissions and will report to members on the exposure of the Fund.

KENT COMMUNITY HOUSING TRUST (KCHT)

3. This application relates to 2 members of staff who have transferred from White Oak Court a KCC establishment to KCHT.
4. A bond has been calculated by Hymans Robertson and KCC Legal Services have confirmed that the admission is in accordance with the LGPS Regulations.

ORCHARD THEATRE

5. Dartford Borough Council as outsourced the staff at the Orchard Theatre to HQ Theatres with 19 staff transferring from 1 April 2009.
6. A bond has been calculated by Hymans Robertson and KCC Legal Services have confirmed that the admission is in accordance with the LCPS Regulations.

THANET COMMUNITY HOUSING ASSOCIATION (TCHA) / ORBIT

7. TCHA have been an admitted body since 1995. They have changed their name to Orbit South Housing Association and were looking to proceed with a Deed of Modification. The review has established that given that the agreement is a

new one it would be better to make a new agreement and this work is underway with KCC Legal Services.

RECOMMENDATION

8. Members are asked to:

- (1) Agree the admission of Kent Community Housing Trust.
- (2) Agree the admission of the Orchard Theatre as HQ Theatres.
- (3) Note the change of agreement on Thanet Community Housing Association / Orbit.

Nick Vickers
Head of Financial Services
Ext 4625