

**SUPERANNUATION FUND COMMITTEE**

**Friday, 20th August, 2010**

**10.00 am**

**Medway Room, Sessions House, County Hall,  
Maidstone**





## **AGENDA**

### **SUPERANNUATION FUND COMMITTEE**

Friday, 20th August, 2010 at 10.00 am      Ask for:      **Geoff Rudd**  
Medway Room, Sessions House, County      Telephone:      **01622 694358**  
Hall, Maidstone

#### **UNRESTRICTED ITEMS**

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

#### **A. COMMITTEE BUSINESS**

1. Substitutes
2. Declarations of Interests by Members in items on the Agenda for this meeting.
3. Minutes - 18 June 2010 (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**

1. Minutes -16 June 2010 (Pages 5 - 6)
2. Schrodgers (Pages 7 - 8)
3. Review of Asset Allocation And Equity Managers (Pages 9 - 40)
4. Fund Structure (Pages 41 - 64)

#### **UNRESTRICTED ITEMS**

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

#### **D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE**

1. Superannuation Fund Report & Accounts (Pages 65 - 126)
2. Fund Position Statement (Pages 127 - 134)
3. Cash Management (Pages 135 - 136)
4. Application for Admission to the Fund (Pages 137 - 140)

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

**Thursday, 12 August 2010**

- (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.*

**KENT COUNTY COUNCIL**

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**SUPERANNUATION FUND COMMITTEE**

MINUTES of a meeting of the Superannuation Fund Committee held in the Medway Room, Sessions House, County Hall, Maidstone on Friday, 18 June 2010.

PRESENT: Mr J E Scholes (Chairman), Mr P Clokie, Ms A Dickensen, Mr M J Jarvis, Mr J F London, Mr R A Marsh, Mr R J Parry, Mr S Richards, Mr M V Snelling, Mr R Tolputt (Substitute for Mr J A Davies) and Mrs M Wiggins.

ALSO PRESENT: Miss S Carey and Mr J Simmonds

IN ATTENDANCE: Ms L McMullan (Director of Finance), Ms A Mings (Treasury & Investments Manager), Mr N Vickers (Head of Financial Services) and Mr G Rudd (Assistant Democratic Services Manager).

**UNRESTRICTED ITEMS**

**A. COMMITTEE BUSINESS**

**15. Minutes - 5 March 2010**

*(Item A3)*

- (1) RESOLVED that the Minutes of the meeting held on 5 March 2010 are correctly recorded and that they be signed by the Chairman.
- (2) RESOLVED that paragraph 14 of the Minutes of the meeting held on 18 June 2004 be amended to read that the admission of APCOA Parking UK Ltd be "agreed" and not "noted" as originally stated.

**16. External Audit**

*(Item D1 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

(Mr G Brown of the Audit Commission was in attendance for this item)

RESOLVED that the report be agreed.

**17. Pensions Administration**

*(Item D2 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

(Mr P Luscombe, Pensions Manager, was in attendance for this item)

RESOLVED that the report be noted.

**18. Treasury Management**

*(Item D3 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

RESOLVED that the Treasury Management Strategy proposed in the report be approved.

## **19. Fund Position Statement**

*(Item D4 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

RESOLVED:

- (a) that the performance for the quarter and the year be noted;
- (b) not to rebalance asset classes;
- (c) that the self-assessment be noted; and
- (d) that Mr D Boyd of Hymans Robertson be asked to attend the next meeting on 20 August 2010.

## **20. Superannuation Fund Business Plan 2010-11**

*(Item D5 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

RESOLVED that the business plan be agreed.

## **21. Training Plan**

*(Item D6 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

RESOLVED that the training plan be agreed.

## **22. Future Meetings**

- (1) Mr N Vickers confirmed that the next meeting of the Committee would be held on 20 August 2010 and that there would be two additional meetings next year.
- (2) RESOLVED that Mr G Rudd email the Members with next year's dates.

### **EXEMPT ITEMS**

(Open Access to Minutes)

## **23. Minutes - 5 March 2010**

*(Item C1)*

RESOLVED that the exempt Minutes of the meeting held on 5 March 2010 are correctly recorded and that they be signed by the Chairman.

## **24. Alliance Bernstein**

*(Item C2)*

- (1) Mr A Brown and Mr A Pickering of Alliance Bernstein attended the meeting to give a presentation on Alliance Bernstein's performance and to answer Members' questions.
- (2) RESOLVED that the report from Alliance Bernstein be noted.

## **25. DTZ**

*(Item C5)*

- (1) Mr P O’Gorman, Mr C Sim and Mr M Callow of DTZ attended the meeting to give a presentation of DTZ’s performance and to answer Members’ questions.
- (2) RESOLVED that the report from DTZ be noted.

### **SUMMARY OF EXEMPT ITEMS**

(Where Access to Minutes Remains Restricted)

#### **26. Fund Structure**

*(Item C3 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

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

#### **27. Admission to the Fund**

*(Item C4 - report by the Chairman of the Superannuation Fund Committee and the Director of Finance)*

The Committee agreed issues relating to Admission to the Fund.

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By: Chairman Superannuation Fund Committee  
Director of Finance

To: Superannuation Fund Committee – 20 August 2010

Subject: **SUPERANNUATION FUND REPORT & ACCOUNTS**

Classification: Unrestricted

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Summary: To present the draft Report & Accounts of the Superannuation Fund for 2009-10.

## **FOR INFORMATION**

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### **INTRODUCTION**

1. A draft version of the Superannuation Fund report & accounts for the year ended 31 March 2010 (before typesetting and design) is attached.
2. The requirement to produce a Pension Fund annual report is included within the Local Government Scheme Pension (Administration) Regulations 2008 and these regulations require the Administering Authority to “have regard to guidance given by the Secretary of State”.
3. Draft guidance was issued by the Department for Communities & Local Government 23 July 2009. Although the guidance is still in draft form, officers have reviewed the annual report against the requirements of the draft guidance and made changes to the annual report as appropriate.
4. The accounts have been subject to a full audit by the external auditor, the Audit Commission. The external auditor’s Annual Governance Report is attached.
5. The Audit Commission require the Fund’s accounts to be approved by Governance & Audit Committee. A report was submitted to Governance & Audit Committee on 30 June. The Committee was concerned over how it can gain assurance on Superannuation Fund issues and it is proposed that Mr Scholes should attend a future meeting of Governance & Audit Committee to discuss.

### **RECOMMENDATION**

6. Members are asked to note:
  - (1) the content of the Annual Report and Accounts for 2009 -10 and confirm that they can be published, and
  - (2) the external auditor’s Annual Governance Report, and
  - (3) the position with regard to Governance & Audit Committee.

**Jane Gibbons**  
**Principal Accountant (Investments)**  
**Ext: 7000 4625**



## 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 2<sup>nd</sup> 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 2010**

Mr J E Scholes Chairman (Conservative)

Mr D Daley Vice Chairman (Liberal Democrat)

Mr J A Davies (Conservative)

Mr M Jarvis (Conservative)

Mr J London (Conservative)

Mr R A Marsh (Conservative)

Mr R J Parry (Conservative)

Mr M V Snelling (Conservative)

### **Other Local Authority Representatives**

Mr K Bamber (Conservative) (Medway Council)

Mr J Burden (Labour) (Gravesham Borough Council)

Mr P Clokie (Conservative) (Ashford Borough Council)

Mr R Packham (Liberal Democrat) (Ashford Borough Council)

### **Union Representative 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

State Street Global Advisers Limited

YFM

DTZ Investment Management Limited

### **Investment Consultant**

Hymans Robertson LLP

### **Consulting Actuaries**

Hymans Robertson LLP (replaced Oct 2009)

Barnett Waddingham LLP (appointed Oct 2009)

### **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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## **SCHEME DOCUMENTATION**

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

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

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## CHAIRMAN'S INTRODUCTION

It is hard to believe that a year ago as the recession deepened we would see record equity returns in 2009-10, with the FTSE All Share index increasing by +52.3% and the MSCI World index by +44.0%. Local authority pension funds have a heavy exposure to equities, around 70% for the Kent Pension Fund (the Fund), and in the last year this has been highly beneficial to us - in the year the Fund increased in value by £823m and the overall increase in value was +36.7%.

Before looking at key issues on the management of the Fund I would like to address the much publicised issue of the supposed "black hole" in public sector pension funds. So here are some facts about the Fund:

- At the last valuation the Fund was 73% funded and we have a plan agreed with the Fund actuary to return to 100% funding. We also have a strong positive cashflow with annual income exceeding expenditure by around £100m. This is a strong position particularly compared with the other non-funded public sector pension schemes which have to pay pensions direct from tax revenue.
- The average pension paid by the Fund is £4,600. 73% of pensions paid by the Fund are less than £5,000. These figures I believe put the Local Government Pension Scheme in proper context - this is primarily a scheme for staff undertaking relatively low paid front line jobs in schools and adult and children social services.

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

### **Fund Managers**

The year has seen exceptional performance by a number of our external fund managers but also some extremely disappointing performance. We closely scrutinise the reasons for good and bad performance trying to understand the fundamental of what has occurred and then decide whether to retain or dismiss managers. We give this issue the very highest priority.

### **Fixed Income**

The Fund has a 15% allocation to Fixed Income - primarily Government bonds and Corporate bonds issued by companies. The two managers, Schroders and Goldman Sachs, have good long term investment performance.

In the year with our investment consultants, Hymans Robertson, we reviewed both mandates and changed significantly the types of asset the managers could invest in to give them more scope to add value.

The strong outperformance by the two managers has continued.

## **Commercial Property**

The Fund's investment in Commercial Property managed by DTZ Investment Management has been a highly successful investment for the Fund over the long term.

In 2009 the overall return for Commercial Property was +3%, whereas the Fund returned +14% - a very significant outperformance.

Late in 2009 the Committee decided to allocate a further £50m to Property pooled funds - DTZ were appointed to manage this. By year end £34m of this had been invested.

## **Cash Management**

During the year the Cash balance reduced from £119m to £55m.

The Committee's decision to move money from Cash to equities from late 2008 to mid 2009 was well timed.

The Committee agreed its own Treasury Strategy determining which financial institutions cash can be deposited with, this is limited to 6 UK banks and the Government Debt Management Office.

## **Actuarial Valuation**

The actuarial valuation of all LGPS funds is due at 31 March 2010. This is a very significant event as it will determine future employer contribution rates. The Committee is committed to doing all it can to hold down increases in employer contribution rates, whilst at the same time not endangering the long term financial viability of the Fund.

In September 2009 the Committee, following an EU tender process, appointed Barnett Waddingham as the fund actuary. We will look for Barnett Waddingham to work closely with employers on contribution rates.

## **LGPS**

Notwithstanding earlier comments about the media misrepresentation of the LGPS the long term cost burden is too high for employers. Fundamental change with a more appropriate cost placed on employees or reductions in benefits has to be done and has to be done quickly. We will actively engage with government and our scheme employers in this process.

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

## INVESTMENT REPORT

### Asset Allocation

The strategic asset allocation of the Fund is:

	Benchmark		Actual at 31 March 2010	
	%	%	%	%
Equities				
UK	34.5		35	
Global	34.5	69	39	74
Fixed Income		15		14
Property		11		8
Cash/Other Assets		5		4
		100		100

This asset allocation is based upon detailed financial modelling undertaken by Hymans Robertson which evaluates return scenarios against measures of Prudence, Affordability, Stability and Stewardship. This work was undertaken in 2008 and will be updated following the 2010 actuarial valuation.

The actual allocation at 31 March 2010 reflects the strength of equity returns. The Superannuation Fund Committee considers at each quarterly meeting whether any re-balancing is required.

### Market Returns in 2009-10

Equity markets recovered very strongly in the year and returns in the major asset classes were:

	%
UK Equities	+52.3
North American Equities	+43.2
European Equities ex UK	+42.8
Japan Equities	+29.6
Pacific ex Japan equities	+67.2
Other International Equities	+46.8
Global Equities	+44.8
UK Bonds	+0.8
UK Index Linked	+10.3
UK Property	+16.3
Cash	+0.4

The relative performance of the Fund for 2009-10 was

<b>Kent Fund</b>	<b>WM Local Authority Universe Average Return</b>
%	%
36.7	36.4

This placed the Fund in the 42<sup>nd</sup> percentile compared with other local authority funds.

### **Investment Managers**

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

The manager structure as at 31 March 2010 was:

UK Equities	Schroder Investment Management Invesco Perpetual State Street Global Advisors
Global Equities	Ballie Gifford & Co Alliance Bernstein GMO Schroder Investment Management
Fixed Income	Goldman Sachs Asset Management Schroder Investment Management
Property	DTZ Investment Management
Alternatives	Henderson Secondary PFI Funds YFM Private Equity

More details of the mandates are contained in the Statement of Investment Principles and committee papers which can be accessed on [www.kent.gov.uk](http://www.kent.gov.uk)



## **Performance for Year 2009-10**

		<b>1 Year</b>	
	<b>Notes</b>	<b>Fund %</b>	<b>Benchmark %</b>
<b><u>UK Equity</u></b>			
Schroders UK		52.7	50.7
State Street		52.7	52.3
Invesco	1	33.4	52.3
<b><u>Overseas Equity</u></b>			
Alliance Bernstein		43.4	44.8
Baillie Gifford		53.3	47.4
GMO	2	38.9	44.8
Schroders GAV	3	60.5	44.8
State Street	4		
<b><u>Fixed Interest</u></b>			
Goldman Sachs Fixed Interest	5	19.3	11
Schroders Fixed Interest	5	13.5	8.5
<b><u>Property</u></b>			
UK Property	6	28.5	16.3

### **Notes**

1. Unfortunately after a strong outperformance in 2008-09 Invesco performed poorly in 2009-10 against benchmark. Invesco have positioned the portfolio very defensively, for example they own no banks, and did not fully participate in the recovery in share prices in 2009.
2. GMO is a quantitative manager with stock selection and portfolio construction undertaken by computer models.
3. Schroders have a quantitative global equities mandate with the money invested in the Global Active Value fund. The 3 year numbers are slightly ahead of benchmark by +0.3% per annum but the performance since inception is +2.4% per annum.

4. Late in 2009 a small investment was made in a passive State Street global equities fund
5. In 2009 the Superannuation Fund Committee undertook a major review of the Fixed Interest mandates and the main conclusions were:
  - To retain the existing managers.
  - To make major changes to the mandates to give the managers much greater flexibility, to reduce the proportion of Government gilts and to introduce absolute return to the mandates
6. The excellent return on the Property portfolio was due to strong rental income assisted by a very low void rate (1.7% compared with an IPD average of 10.8%), the quality of properties in the portfolio and the generally good covenant of the occupiers.

The Fund's major equity holdings are shown in Appendix x. and a complete list of properties owned is shown in Appendix xx.

### **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.

## SCHEME DETAILS

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

### Benefits

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

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

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

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

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

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

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

### Increasing benefits

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

Full details of the scheme are provided on the [www.kent.gov.uk/pensions](http://www.kent.gov.uk/pensions) website.

### Communications

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

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

### Internal Dispute Procedure

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

2009/10 Disputes considered	2009/10 Appeals upheld
7	0

As at 31 March 2010, scheme employers make up membership as follows:

	Contributors	Pensioners	Deferred Pensioners
Kent County Council (includes schools)	25,763	15,519	17,074
Medway Council	5,625	2,123	3,376
Kent Police Authority	2,926	1,286	1,344
Kent Fire Authority	2,96	91	92
District Councils	4,980	7,403	4,731
Other Employers	4,919	2,685	4,074
<b>Grand Total</b>	<b>44,509</b>	<b>29,107</b>	<b>30,691</b>

### Member Age Profile

As at 31 March 2010, contributing membership is made up of the following age bands:-

Under 20	258
20 – 25	2,413
26 – 30	2,949
31 – 35	3,534
36 – 40	5,492
41 – 45	7,637
46 – 50	7,690
51 – 55	6,661
56 – 60	5,089
61 – 65	2,502
66 – 70	259
Over 70	25

## **Pension Section Performance 2009/10**

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

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt paperwork	1,820	98%
Calculation and payment of dependants benefit	15 days from receipt paperwork	312	99%
Provision of estimates	20 days from receipt paperwork	2,405	99%
Correspondence	Full reply within 15 working days	1678	98%

### **CIPFA Benchmark Survey**

The Kent Pension Fund administration section participates annually in the CIPFA Benchmark survey. The survey compares the cost of administration with 56 other Local Authority Administering Bodies across the UK. The results contained in these accounts are in respect of the Kent Pension Section performance in the year ending 31 March 2009.

	<b>Kent Pension Scheme</b>	<b>All Scheme Average</b>
Total cost of administration per scheme member	£17.66	£21.77
Payroll costs per pensioner (including staff)	£1.08	£3.18
Staff costs per Scheme Member (ex Payroll)	£10.85	£9.74
IT Costs per member	£1.22	£2.37
Communication costs per member	£1.65	£0.91
Actuarial costs per member	£0.83	£1.24
Accommodation costs per member	£1.26	£0.83

The results above place Kent at 14<sup>th</sup> of 56 authorities in terms of the cost of administration per member of the scheme.

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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. The valuation was carried out in accordance with the Funding Strategy Statement.

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 and for members to leave or retire in line with our assumptions. 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.

My opinion on the security of prospective rights is dependent upon any increased contribution requirements being met by the employers.

#### Experience since April 2007

Market conditions since the previous formal valuation have been unfavourable. In particular, assets have significantly underperformed relative to the assumptions set at the valuation causing the funding level to deteriorate.

This is likely to cause upward pressure on the level of employer contributions following the next formal valuation of the Fund as at 31 March 2010. The employer contribution rates and Funding Strategy Statement will be reviewed as part of the valuation which will be reported in March 2011.

This statement should be read in the context of the statutory nature of the scheme.

Bryan T Chalmers FFA

30 July 2010

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 2010.

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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## Independent auditor's report to Members of Kent County Council

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### Opinion on the Superannuation Fund accounts

I have audited the Superannuation Fund accounts for the year ended 31 March 2010 under the Audit Commission Act 1998. The Superannuation Fund's accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Superannuation Fund accounts have been prepared under the accounting policies set out in the Summary of Main Accounting Policies.

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

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### Respective responsibilities of the Director of Finance and auditor

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

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

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

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

I read other information published with the Superannuation Fund accounts and related notes and consider whether it is consistent with the audited Superannuation Fund accounts. This other information comprises the remaining elements of the Superannuation Fund Annual Report which are the report of the consulting actuaries and the property valuation. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Superannuation Fund accounts and related notes. My responsibilities do not extend to any other information.

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### **Basis of audit opinion**

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

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

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### **Opinion**

In my opinion:

- the Superannuation Fund accounts and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Superannuation Fund during the year ended 31 March 2010, and
- the amount and disposition of the Fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year: and
- the information given in the commentary on financial performance included within the Superannuation Fund Annual Report is consistent with the Fund accounts.

Darren Wells  
District Auditor  
Audit Commission  
16 South Park  
Sevenoaks  
Kent TN13 1AN  
30<sup>th</sup> July 2010

**FUND ACCOUNT***For the year ended 31 March 2010*

<b>Contributions and Benefits</b>	<b>Note</b>	<b>2010 £000</b>	<b>2009 £000</b>
<b>Contributions</b>			
<i>from employers</i>	<b>3</b>	175,531	187,015
<i>from members</i>	<b>3</b>	48,849	47,245
<b>Transfers in</b>	<b>4</b>	14,876	8,555
		<hr/>	<hr/>
		<b>239,256</b>	<b>242,815</b>
		<hr/>	<hr/>
<b>Benefits</b>			
<i>Pensions</i>	<b>5</b>	(123,803)	(114,119)
<i>Lump Sums</i>	<b>5</b>	(33,353)	(32,924)
<b>Payments to and on account of leavers</b>			
<i>Refunds of contributions</i>		(231)	27
<i>Transfers Out</i>	<b>6</b>	(18,678)	(9,487)
<b>Other payments</b>			
<i>Administrative expenses</i>	<b>7</b>	(3,211)	(2,833)
		<hr/>	<hr/>
		<b>(179,276)</b>	<b>(159,336)</b>
		<hr/>	<hr/>
<b>Net additions (withdrawals) from dealings with Members</b>		<b>59,980</b>	<b>83,479</b>
		<hr/>	<hr/>

<b>Returns on Investments</b>	<b>Note</b>	<b>2010 £000</b>	<b>2009 £000</b>
<b>Investment Income</b>	<b>8</b>	65,462	76,533
<b>Change in Market value of investments</b>	<b>9</b>	689,461	(564,920)
<b>Taxation</b>		(311)	(2,177)
<b>Loss on Icelandic Investment</b>	<b>15</b>	874	(1,104)
		<b>755,486</b>	<b>(491,668)</b>
<b>Investment Management Expenses</b>			
<b>Investment Managers</b>	<b>13</b>	(5,116)	(5,152)
<b>Investment Consultancy</b>		(107)	(45)
<b>Performance Measurement</b>		(50)	(49)
<b>Other Expenses</b>	<b>14</b>	(417)	24
		<b>(5,690)</b>	<b>(5,222)</b>
<b>Net Return on Investments</b>		<b>749,796</b>	<b>(496,890)</b>
<b>Net Increase (Decrease) in Fund during the year</b>		<b>809,776</b>	<b>(413,411)</b>
<b>Add: Opening net assets of the scheme</b>		<b>2,075,687</b>	<b>2,489,098</b>
<b>Closing net assets of the scheme</b>		<b>2,885,463</b>	<b>2,075,687</b>

There has been a change in accounting for augmentation applicable to the 2009/10 accounts.  
Employer contributions have been restated for 2008/9 to provide comparative figures.

**NET ASSET STATEMENT**  
 For the year ended 31 March 2010

	Note	2009/10 £000	2008/09 £000
<b>Investments assets</b>	<b>9</b>		
<i>Fixed Interest Securities</i>			
- Public		0	85,953
- Other		0	98,200
		0	184,153
<i>Equities</i>			
- UK		527,343	332,331
- Overseas		659,241	439,050
		1,186,584	771,381
<i>Index-Linked Securities</i>			
- Public		30,540	0
<i>Pooled Investment Vehicles</i>			
- UK		855,019	529,814
- Overseas		440,396	214,317
- Property		64,334	37,344
		1,359,749	781,475
<i>Derivative Contracts</i>		151	38,321
<i>Property - Freehold</i>		168,177	142,262
<i>Cash Deposits</i>		63,706	45,159
<i>Other Investments</i>		5,715	11,810
		<b>2,814,622</b>	<b>1,974,561</b>
<b>Investment liabilities</b>	<b>10</b>	<b>(3,703)</b>	<b>(29,890)</b>
<b>Fixed assets</b>		<b>0</b>	<b>0</b>
<b>Liabilities</b>			
<b>Borrowings</b>		<b>0</b>	<b>0</b>
<b>Current assets</b>	<b>10</b>	<b>80,926</b>	<b>137,587</b>
<b>Current liabilities</b>	<b>10</b>	<b>(6,382)</b>	<b>(6,571)</b>
<b>Net Assets</b>		<b>2,885,463</b>	<b>2,075,687</b>

During 2009/10 the Goldman Sachs mandate was changed and they no longer hold derivatives.  
 Note 14 shows the Derivative Contracts open at 31 March 2010.

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](http://www.kent.gov.uk)

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## 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****From Employers**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<i>Normal</i>	110,379	106,366
<i>Augmentation - (Early Retirement recoverable cost)</i>	4,219	24,009
<i>Deficit Funding</i>	60,933	56,640
	<b>175,531</b>	<b>187,015</b>

**Analysis of Employers' Contributions**

<i>Kent County Council</i>	80,214	90,013
<i>Scheduled Bodies</i>	85,125	86,701
<i>Admitted Bodies</i>	10,192	10,301
	<b>175,531</b>	<b>187,015</b>

**From Members**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<i>Kent County Council</i>	21,758	21,084
<i>Scheduled Bodies</i>	24,215	23,354
<i>Admitted Bodies</i>	2,839	2,752
<i>Lump Sum Contributions</i>	37	55
	<b>48,849</b>	<b>47,245</b>

As at 31 March 2009 and 2010  
the comparative numbers of  
contributing members were:

	<b>2010</b>	<b>2009</b>
<i>Kent County Council</i>	22,945	22,039
<i>Scheduled Bodies</i>	19,628	19,380
<i>Admitted Bodies</i>	1,936	1,966
	<b>44,509</b>	<b>43,385</b>

	2010	2009
	£000	£000
<b>4) Transfers In</b>		
Individual	14,876	8,555
Bulk	0	0
	14,876	8,555

**5) Benefits Payable**

	KCC	Scheduled	Admitted	2010	2009
	£000	Bodies £000	Bodies £000	£000	£000
<b>Pensions</b>					
Retirement pensions	37,458	39,070	3,703	80,231	75,144
Widows pensions	2,254	2,847	247	5,348	5,124
Children's allowances	78	129	12	219	181
Pensions increase	19,763	21,506	1,313	42,582	38,128
Less benefits recovered directly from employing authorities	0	(4,448)	(129)	(4,577)	(4,458)
	59,553	59,104	5,146	123,803	114,119
<b>Lump Sums</b>					
Retirement Lump Sums	12,903	14,688	2,778	30,369	29,858
Death Benefits	959	1,884	141	2,984	3,066
	13,862	16,572	2,919	33,353	32,924

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

	2010	2009
	£000	£000
<b>6) Transfers Out</b>		
Individual	18,678	9,487
Bulk	0	0
	18,678	9,487

**7) Administrative and Other Expenses borne by the Scheme**

	2010	2009
	£000	£000
Internal Administration	2,511	2,474
Actuarial Fees	199	158
Audit Fee	50	55
Legal & Other Professional Fees	221	91
Other miscellaneous expenses	230	55
	3,211	2,833

8) Summary of Income from Investments for the year ended 31 March 2010

	<b>2010</b>		<b>2009</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
<i>Fixed Interest</i>				
- UK	1,990	3.04	8,471	11.07
- Overseas	757	1.16	2,395	3.13
<i>Equities</i>				
- UK	15,522	23.71	19,671	25.70
- Overseas	12,193	18.63	16,462	21.51
<i>Index-Linked Securities</i>				
- UK	314	0.48	0	0.00
<i>Pooled Investment Vehicles</i>				
- UK	17,121	26.15	2,500	3.27
- Overseas	3,764	5.75	5,132	6.71
- Property	1,075	1.64	1,557	2.03
<i>Property - Freehold</i>	10,935	16.70	11,629	15.19
<b>Total Income From Investments</b>	<b>63,671</b>	<b>97.26</b>	<b>67,817</b>	<b>88.61</b>
<i>Currency Deposit Accounts</i>	2	0.00	26	0.03
<i>Cash Balances</i>	1,310	2.00	8,143	10.64
<i>Sub-Underwriting Commission/Other</i>	447	0.68	173	0.23
<i>Stock Lending Income</i>	32	0.05	374	0.49
<b>Total</b>	<b>65,462</b>	<b>100.00</b>	<b>76,533</b>	<b>100.00</b>

The percentage figures for investment income in 2009 have been found to be incorrect. These have been restated in the table above.

9) Analysis of Change in Market Value of Investments

	Market Value 31.03.09	Purchases at Cost	Sales Proceeds	Change in Market Value	Market Value 31.03.10
	£000	£000	£000	£000	£000
<b>Investments managed by Investment Managers United Kingdom</b>					
<u>Fixed Interest</u>					
- UK Public	85,953	39,803	(124,743)	(1,013)	0
- UK quoted	78,071	32,739	(125,094)	14,284	0
- Overseas quoted	20,129	2,033	(27,501)	5,339	0
<u>Equities</u>					
- UK quoted	332,331	121,993	(98,342)	171,361	527,343
- Overseas quoted	439,050	264,532	(254,188)	209,847	659,241
<u>Index Linked</u>					
- UK Public	0	32,648	(1,555)	(553)	30,540
<u>Pooled Investment Vehicles</u>					
<u>Managed Funds</u>					
- UK	124,086	21,101	0	58,997	204,184
- Overseas	129,506	1,774	(1,774)	50,320	179,826
<u>Unit Trusts</u>					
- UK Public/Fixed Interest	159,867	96,180	(87,597)	10,368	178,818
- UK	245,861	135,950	(37)	90,243	472,017
- Overseas	84,811	119,360	(1,400)	57,799	260,570
- Property UK	13,859	29,634	0	3,309	46,802
- Property Overseas	23,485	126	0	(6,079)	17,532
Property - Freehold	142,262	9,318	(12,224)	28,821	168,177
<u>Derivatives</u>					
- UK Bond future contracts	32,527	0	(33,059)	532	0
- Overseas Bond future contracts	(17,290)	22,314	(5,056)	32	0
- UK Equity future contracts	74	1,623	(1,708)	0	(11)
- Overseas Equity future contracts	587	611	(1,000)	(36)	162
<b>Total</b>	<b>1,895,169</b>	<b>931,739</b>	<b>(775,278)</b>	<b>693,571</b>	<b>2,745,201</b>
<u>Cash</u>					
- Cash Deposits	60,374			(4,110)	63,706
- Cash backing open future contracts	(15,215)				
<u>Other Investments</u>					
- Debtors - Outstanding Sales	1,786				2,213
- Creditors - Outstanding Purchases	(7,467)				(3,682)
- Profit/(Loss) on Forward Currency	2,849				(21)
- Investment Income Accruals	7,175				3,502
	<b>1,944,671</b>			<b>689,461</b>	<b>2,810,919</b>

*Investment liabilities of £3,703,000 have been netted off against the assets in this note to give total assets of £2,810,919,000. 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 £28,597,559 (2008/09 £22,924,106). 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.*

<b>10) Current Assets &amp; Liabilities</b>	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Investment Liabilities</b>				
Derivatives contracts		0		(22,423)
Outstanding Purchases		(3,682)		(7,467)
Loss on forward currency		(21)		0
		<u>(3,703)</u>		<u>(29,890)</u>
<b>Current Assets</b>				
Contributions due from:				
- scheduled bodies	23,424		26,233	
- admitted bodies	850	24,274	1,351	27,584
Other current assets		1,327		1,036
Cash		55,325		108,967
		<u>80,926</u>		<u>137,587</u>
<b>Current Liabilities</b>				
Unpaid benefits		(4,369)		(4,016)
Other current liabilities		(2,013)		(2,555)
		<u>(6,382)</u>		<u>(6,571)</u>

There has been a change in accounting for augmentation applicable to the 2009/10 accounts. The accruals in respect of employer contributions have been restated for 2008/09 to provide comparative figures.

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.

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Alliance Bernstein	253,065	9.0	176,131	9.1
Baillie Gifford	512,705	18.3	324,776	16.8
DTZ	233,090	8.3	182,262	9.4
GMO	179,826	6.4	129,506	6.7
Goldman Sachs	226,217	8.1	186,872	9.7
Henderson	6,432	0.2	8,128	0.4
Invesco	326,931	11.6	236,756	12.2
JP Morgan	23,119	0.8	27,264	1.4
Schroders	794,675	28.3	549,364	28.4
Société Générale	0	0.0	29	0.0
Statestreet Global Advisors	251,276	8.9	112,325	5.8
YFM	1,572	0.1	1,232	0.1
	<u>2,808,908</u>	<u>100</u>	<u>1,934,645</u>	<u>100</u>

**12) Derivative Contracts****Futures**

<i>Contract</i>	<i>Manager</i>	<i>Expiration</i>	<i>UK Fair Value £'000</i>	<i>Margin £'000</i>	<i>Total £'000</i>
<b>UK</b>					
<i>FTSE 100 IDX</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	224	(11)	213
<b>US</b>					
<i>S&amp;P 500 Future</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	768	40	808
<i>S&amp;P 500 EMINI Future</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	1,114	83	1,197
<b>JAPAN</b>					
<i>TOPIX INDX FUTR</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	276	(3)	273
<b>EUROPE</b>					
<i>DJ EURO STOXX 50</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	509	42	551
			2,891	151	3,042

The Alliance Bernstein futures are held to maturity as a hedge against their general shareholding positions.  
All the futures are exchange traded.

**Forward FX**

<i>Contract</i>	<i>Manager</i>	<i>Expiration</i>	<i>Loss on contract £'000</i>
<i>Euro Forward Currency</i>	<i>Alliance Bernstein</i>	<i>Jun-10</i>	(61)

**13) Investment Management Expenses**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<i>Investment Managers</i>	4,627	4,548
<i>Property Advisers</i>	489	604
	<b>5,116</b>	<b>5,152</b>

**14) Other Expenses**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<i>Property Insurance (non recoverable)</i>	0	0
<i>Property miscellaneous expenses</i>	417	(24)
	<b>417</b>	<b>(24)</b>



### 15) Loss on Icelandic Investment

2008/9 accounts included £1.104m representing the loss to the Pension Fund on cash investments made in the Icelandic banks which collapsed in October 2008. For 2009/10, this loss has been reduced by £874,000 to £230,000 based on the assumption that KCC has priority creditor status.

### 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 continued to be serviced by J P Morgan until their natural closure. At the year end 31 March 2010, there were no open loans.

### 17) Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS( Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are 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: £371,311 (£878,712 - 2008/09). These amounts are included within the disclosure note figures below.

	<b>Prudential 2008/09 £000</b>	<b>Prudential 2009/10 £000</b>	<b>Standard Life 2008/09 £000</b>	<b>Standard Life 2009/10 £000</b>	<b>Equitable Life 2008/09 £000</b>	<b>Equitable Life 2009/10 £000</b>
Value at 1 April	2,777	3,265	2,002	1,586	1,483	1,195
<b>Income</b>						
Contributions Received	665	760	192	160	13	11
Transfer Values Received	149	40	15	3	0	0
Interest & bonuses	107	30	0	0	(8)	139
<b>Total</b>	<b>921</b>	<b>830</b>	<b>207</b>	<b>163</b>	<b>5</b>	<b>150</b>
<b>Expenditure</b>						
Retirement Benefits Paid	(316)	(255)	(296)	(105)	(270)	(119)
Transfer Values Paid	(24)	(33)	(6)	(8)	(21)	(3)
Refunds of Contributions	(33)	(16)	0	0	0	0
<b>Total</b>	<b>(373)</b>	<b>(304)</b>	<b>(302)</b>	<b>(113)</b>	<b>(291)</b>	<b>(122)</b>
Change in Market Value	(60)	115	(321)	446	(2)	(1)
<b>Value at 31 March</b>	<b>3,265</b>	<b>3,906</b>	<b>1,586</b>	<b>2,082</b>	<b>1,195</b>	<b>1,222</b>

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
<b>18) Related Party Transactions</b>		
<i>Transactions between the KCC Pension Fund and Kent County Council</i>		
- In respect of payments for pensions administration costs, investment monitoring legal and other services	2,647	2,536
- In respect of cash invested by Kent County Council on behalf of the KCC Pension Fund	55,325	108,967
- In respect of interest received on cash deposits	1,259	6,429
<i>Outstanding Transactions between Scheduled and Admitted bodies participating in the Pension Fund</i>		
- In respect of employee and employer contributions payable by 19 April 2010	993	143

Included within the employer related investment figure of £993,377 are balances due at the year end from the following related parties: Gravesham Borough Council £301,227, Tonbridge & Malling Borough Council £267,265, Canterbury College £86,821, Ashford Leisure Trust £46,532, Maidstone Housing Trust £42,230, Town & Country Housing Group £36,488, Folkestone Academy £30,307, Robert Napier School £23,232, Astor College for the Arts £22,537, Angley School £21,466, Wilmington Hall School £17,657, Thanet Community Housing Association £17,279, Astor of Hever £14,159, Swanley Town Council £12,768, Fort Pitt Grammar School £11,274, Thanet Leisure Force £10,099.

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £993,377 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 2010 the Pension Fund had a future commitment to invest in the following Funds:

Fund	Fund Commitment	Invested	Outstanding
YFM Private Equity Fund	£4 million	£3 million	£1 million
Aurora European Property Fund	£31.2 million (€35million)	£31 million (€34.76million)	£203 thousand (€227 thousand)
Quercus	£8 million	£2.7 million	£5.3 million

#### **20) Investment Performance**

The County Council uses The WM Company investment performance service which in conjunction with CIPFA and the Society of County Treasurers produces 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 not required on a day to day basis to pay benefits or administrative expenses of the Pension Fund may 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 2009, 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.

## 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. The accounts are prepared on a going concern basis.

### 2. Investments

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2010. 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 2009
- The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2010.

### 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. CIPFA has revised the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice, the revision requires that augmentation costs are recognised when they vest rather than on a deferred basis when an employer has negotiated payments in future years.
- 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.

#### 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

<b><u>Local Authority and District Councils</u></b>	
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
<b><u>Scheduled Bodies</u></b>	
<b>Schools</b>	
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
<b>Further Education Colleges</b>	
Canterbury College	North West Kent College
Hadlow College	South Kent College
Hilderstone College	Thanet College
Mid Kent College	West Kent College
<b>Other Scheduled Bodies</b>	
Ash Parish Council	Kent Valuation Tribunal
Birchington Parish Council	Kings Hill Parish Council
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
Kent Top Temps Limited	
<b>Academies</b>	
Cornwallis Academy	Marsh Academy
Folkestone Academy	New Line Learning Academy
Isle of Sheppey Academy	Skinners Academy
Leigh Technology Academy	Spires Academy
Longfield Academy	Strood Academy
Marlowe Academy	
<b>Admitted Bodies</b>	
<b>Community Admission Bodies</b>	
Active Life Limited	Medway Community Living Services
Ashford's Future Company Ltd	Medway Housing Society
Ashford Leisure Trust Limited	Mote House, Maidstone
The Avenues Trust	Museum of Kent Life Trust
Caldecott Community	Orbit South Housing Association

Canterbury and Rochester Diocesan Council	Remade South East
Canterbury Archaeological Trust	Rochester Bridge Trust
Christchurch College, Canterbury	Russet Homes
Connexions Partnership Kent & Medway	Sevenoaks Leisure Limited
Folkestone and Dover Water Company	Sevenoaks School
Gravesham Community Leisure	St Vincents School, Tankerton
Hope (Kent) Limited	Swale Housing Association
Hyde Housing Association	Thanet Archaeological Trust
Invicta Telecare Limited	Thanet Leisure Force
Kent College, Canterbury	Tourism South East
Kent College, Pembury	Town & Country Group
Kent Community Housing Trust	University Of Kent
Kent Music School	West Kent Housing Association
Knotley Hall School	West Kent Water Company
Maidstone Housing Trust	
<b>Transferee Admission Bodies</b>	
ABM Catering Limited	Mitie Cleaning & Support Services
APCOA Parking Limited	Northgate Managed Services
Avenues Trust Community Support Service	Norwest Holst
Brenwards Limited	Orchard Theatre Dartford Limited
Compass Group UK & Ireland	Quadron Services Limited
Fusion Lifestyle	Reliance Task Management
Mitie PFI Limited	Shaw Healthcare (FM Services) Ltd

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## **RISK MANAGEMENT**

### **Investment Risk**

The over-riding risk to the Kent Pension Fund (the Fund) is a loss on financial investments which ultimately could mean the Fund could not pay benefits but more realistically that employer contribution rates would have to increase at the actuarial valuation.

There are a variety of ways in which the Fund seeks to address this risk:

- Diversified asset allocation – the Fund invests in a range of asset classes on a global basis to help guard against sharp falls in a particular asset class. The Fund does have a high allocation to Equities at around 70% and this is typical of local authority funds. This does mean that returns are highly correlated with equity markets.
- Diversification in manager selection – in appointing managers the Committee is looking for types of manager which combine well. No manager can succeed in all market conditions and we diversify risk by appointing a number of managers with different investment styles for each asset class. In the last 18 months the Fund has also introduced a passive equity manager in State Street where the risk of manager under-performance of a benchmark is eliminated and the index return is achieved.
- Alternative Investments – historically the majority of investments have been in equities, fixed income and property. Investment theory for institutional investors now encourages funds to follow the example of the endowment funds in the USA and make significant allocations to Alternative investments, primarily Private Equity, Hedge Funds, Infrastructure and Commodities. These asset classes can offer diversification, higher returns and in theory less risk.

Overall, with advice from Hymans Robertson the Fund sets an overall asset allocation, appoints specialist managers to manage each asset class and then monitors investment performance. The effectiveness of the asset allocations is reviewed regularly and continued under-performance by managers will lead to their dismissal.

### **Business Risk**

Officers of Kent County Council formally review and update the Pensions Risk Register (Register). The Register was last reviewed in January 2009 and the Top 10 Risks for the Fund and the controls in place are set out below.

<b>Ref:</b>	<b>Risk</b>	<b>Controls</b>
G1	Failure of governance arrangements	<ul style="list-style-type: none"> <li>- Committee meetings</li> <li>- Liaison with Chairman, Vice Chairman, spokesman</li> <li>- Advice from Legal &amp; Secretariat</li> </ul>
G2	Financial default by an employer.	<ul style="list-style-type: none"> <li>- Enforce Guarantee Bond arrangements</li> <li>- Review existing exposure</li> </ul>
G7	2010 Valuation	<ul style="list-style-type: none"> <li>- Detailed timetable for process</li> <li>- Regular briefing for major employers</li> <li>- Review of actuarial service</li> </ul>
I1	Pension Fund Cash Management	<ul style="list-style-type: none"> <li>- New investment adviser</li> <li>- Segregated cash management policy</li> <li>- Regular monitoring reports</li> </ul>
I2	Investment advice	<ul style="list-style-type: none"> <li>- Examine different options for investment advice</li> </ul>
I3, I4, I5	Investment under-performance & Investment Manager Complexity / structure	<ul style="list-style-type: none"> <li>- Quarterly monitoring of managers</li> <li>- Update of investment strategy</li> </ul>
P1	Disaster recovery for pensions data	<ul style="list-style-type: none"> <li>- Disaster recovery arrangements with Heywoods</li> <li>- Regular testing of arrangements</li> </ul>
P8	Recruitment & Retention of staff	<ul style="list-style-type: none"> <li>- Ensure that both teams are properly resourced</li> <li>- Ongoing training &amp; development of staff</li> </ul>
P11	Not meeting Pensions KPI's	<ul style="list-style-type: none"> <li>- Weekly reporting</li> <li>- Monthly reporting</li> <li>- Twice yearly reports to Committee</li> </ul>
P22	KCC data quality	<ul style="list-style-type: none"> <li>- Close liaison with KCC Personnel &amp; Development staff</li> </ul>

## THE FUND IN PROFILE - 5 YEAR SUMMARY

<i>Financial</i>	2005-06 £000	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000
Contributions	178,236	189,989	200,932	218,955	224,380
Investment and other income	93,112	82,107	81,224	81,807	80,901
Sub Total	271,348	272,096	282,156	300,760	305,281
Benefits and other payments	(137,395)	(142,862)	(153,485)	(164,558)	(184,966)
<b>TOTAL</b>	<b>133,953</b>	<b>129,234</b>	<b>128,671</b>	<b>136,202</b>	<b>120,315</b>
	31 March 2006 £000	31 March 2007 £000	31 March 2008 £000	31 March 2009 £000	31 March 2010 £000
Net Assets	2,375,106	2,573,640	2,489,098	2,075,687	2,885,463
Investments at Valuation	2,332,146	2,457,117	2,334,413	1,895,169	2,745,201
	31 March 2006	31 March 2007	31 March 2008	31 March 2009	31 March 2010
<i>Membership</i>	39,399	40,586	42,513	43,385	44,509
Contributors	24,840	25,737	26,658	27,898	29,107
Pensioners	21,905	24,746	26,569	26,607	30,691
Deferred Pensioners					

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Major UK & Overseas Equity & Unit Trust Holdings by Value as at 31 March 2010

United Kingdom	£000
INVESCO PERPETUAL INCOME FUND	326,931
MPF UK EQUITY INDEX SUB-FUND	194,147
VODAFONE GROUP	29,815
BG GROUP	26,198
GLAXOSMITHKLINE	25,773
ANGLO AMERICAN PLC	22,751
HSBC HOLDINGS	21,953
UNILEVER PLC	21,843
ROYAL DUTCH SHELL	20,799
RIO RINTO	20,377
ASTRAZENECA	20,166
BP AMOCO	15,674
STANDARD CHARTERED	15,637
CARNIVAL PLC	14,980
PEARSON PLC	13,176
LEGAL & GENERAL	11,822
PRUDENTIAL PLC	11,752
SCHRODER RECOVERY FUND INCOME UNITS	11,392
RENTOKIL INITIAL	10,910
LLOYDS TSB GROUP PLC	10,282
 North America	
APPLE COMPUTER CO	13,728
ORACLE	12,264
PHILIP MORRIS INTL.	8,441
MICROSOFT CORP	8,405
BAXTER INTL	8,018
ALTRIA GROUP INC	7,926
PEPSICO INC.	7,796
WAL-MART STORES INC.	7,005
O'REILLY AUTOMOTIVE	6,630
PRAXAIR	6,304
 Japan	
JAPAN TOBACCO	4,844
CANON INC.	4,805
BAILLIE GIFFORD JAPANESE SMALLER COS FUND	4,268
MITSUI & CO LTD ORD YEN50	3,336
NISSAN MOTOR LTD.	2,837
TOKIO MARINE HOLDINGS COM STK NPV	2,766
MITSUI SUMITOMO INSURANCE	2,527
MITSUBISHI CORP	2,469
KYOCERA	2,365
KOMATSU	2,138

Europe	
TOTAL	7,542
SANOFI-AVENTIS SA	6,417
L'OREAL	6,252
CELESIO AG	5,746
HEINEKEN	5,252
ESSILOR INTL	4,457
SAP AG	3,826
DEUTSCHE POST AG	3,055
ASML	3,006
DEUTSCHE BORSE AG	2,908
Pacific/Other	
GMO DEVELOPED WORLD EQUITY INVESTMENT FUND	178,014
SCHRODER GAV UNIT TST	136,121
GOLDMAN SACHS STERLING CREDIT FUND	128,221
GOLDMAN SACHS GLOBAL CORPORATE FUND	67,320
MPF INTERNATIONAL EQUITY	57,129
ITAU UNIBANCO	8,402
OGX PETROLEO ON	8,395
TKI GARANTI BANK	8,212
VALE SA	8,194
SAMSUNG ELECTRONICS	6,775

**Property Valuation as at 31 March 2010**

<b>Location</b>	<b>Market Value £</b>	<b>Type of Property</b>
Unti 1/13 Boyatt Wood Industrial Estate, Parham Drive, Eastleigh	3,580,326	Industrial
Otterspool Way, Watford	2,915,437	Industrial
Units 1/10 Stuart Close, Penarth Road, Cardiff	4,273,479	Industrial
Units 6/13 Hawksworth Trading Estate, Bridgewater Close, Swindon	4,578,728	Industrial
Capital Interchange, Brentford	5,293,820	Industrial
Kings Park, Trafford Park, Manchester	6,257,595	Industrial
49/59 Battersea Park Road, London SW8	14,832,925	Industrial
Hertsmere Industrial Estate, Borehamwood	12,787,005	Industrial
42-50 Grey Street, Newcastle	4,885,688	Office
The Tramshed, Walcot Street, Bath	4,364,215	Office
1 Castle Terrace, Edinburgh	6,340,948	Office
14-15 Conduit Street, London W1	13,827,450	Office
3-5 Charing Cross Road, London W1	17,070,001	Office
22 St Ann's Road, Harrow	1,189,727	Retail Store
24 St Ann's Road, Harrow	1,810,455	Retail Store
17-19 Cornhill & 1 Tavern St, Ipswich	3,362,273	Retail Store
21-23 Bridlesmith Gate, Nottingham	7,199,962	Retail Store
National House, 34/36 St Ann's Street and 42/46 Cross Street, Manchester	7,894,244	Retail Store
Queens Drive, Nottingham	4,200,518	Retail/Warehouse
Burton Road, Kendal, Cumbria	6,300,777	Retail/Warehouse
Barker Road, Maidstone, Kent	5,513,180	Retail/Warehouse
217a Bath Road, Slough	9,713,698	Retail/Warehouse
Wenvoe Retail Park, Culverhouse Cross, Cardiff	10,763,828	Retail/Warehouse
102 - 114 Wardour Street London	9,221,186	Retail/Office/Residenti
Henderson UK Shopping Centre Fund	3,848,753	Property Fund
Legal & General Leisure Fund	6,537,317	Property Fund
ING Central London Fund	1,470,218	Property Fund
Unite Student Accommodation Fund	7,996,556	Property Fund
Falcon Unit Trust	6,901,650	Property Fund
Hercules Property Unit Trust	10,205,964	Property Fund
Lothbury	7,233,596	Property Fund
Quercus	2,608,389	Property Fund
Pradera/Aurora European Property Fund	17,532,089	Property Fund
<b>Total Market Value</b>	<b>232,511,996</b>	

During the year the following transactions were carried out within the property portfolio

Acquisitions

102 - 114 Wardour Street London	£9,318,003	Retail/Office/Residential
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Disposals

36 Dover Street, London W1	£10,515,266	Office
Unit A, Wyvern Link Road, Pride Park, Derby	£1,709,019	Industrial

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# Annual Governance Report

Kent Superannuation Fund

Audit 2009/10

August 2010

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# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>8</b>

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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-

Ladies and Gentlemen

**Superannuation Fund accounts 2009/10**

I am pleased to present the final version of my report on the results of my audit work on the Superannuation Fund's accounts for 2009/10.

An Annual Governance Report covering the audit of the Council's financial statements including the Superannuation Fund's accounts was discussed with the Governance & Audit Committee on 30 June 2010. This noted that some audit work remained to be completed.

That work has now been completed and this report summarises all the key findings from the Superannuation Fund audit.

Yours faithfully

Darren Wells  
District Auditor  
9 August 2010

# Key messages

This report summarises the findings from the 2009/10 audit of the Superannuation Fund.

Financial statements	Results	Page
Unqualified audit opinion	Yes	4
Financial statements free from material error	Yes	4
Adequate internal control environment	Yes	7

## Audit opinion

- 1 An unqualified opinion was given on the Superannuation Fund accounts on 30 July 2010.

## Financial statements

- 2 I set the materiality level for the audit at £14.4 million for the Superannuation Fund and a threshold of £144,000 below which I judge any errors to be 'trivial' and do not seek any amendments to the accounts.
- 3 The Superannuation Fund accounts were submitted for audit on 10 June 2010 and were of a good quality. I concluded that they were free from material error.
- 4 I was satisfied with the qualitative aspects of the Council's processes for preparing the accounts and supporting working papers subject to the arrangements for related party transactions. This matter is one of eight reported in Table 1 below that include updates on four risks that I had identified before the audit.

**Table 1 Superannuation Fund accounts 2009/10- key areas of judgement and audit risks**

Issue	Finding
<b>Matters arising at the 2009/10 audit</b>	
<p>Pooled investment rebated fees: Rebated fees received for pooled investments are treated inconsistently in the Superannuation Fund accounts. Where a lower fee has been agreed with a unit trust manager, the fees are rebated by way of additional units. However, in the case of Invesco Perpetual the rebated fees are being treated as income resulting in a £2.7million overstatement of income and a similar understatement of the market value. There was no impact on net worth of the Fund.</p>	<p>The notes to the Fund accounts were amended to ensure consistent treatment of pooled investment rebated fees.</p>
<p>Freehold property portfolio: The list of deeds held by the Council on behalf of the Superannuation Fund included several properties that are no longer owned by the Fund and some where descriptions were inconsistent. Further investigation was required to ensure that the legal department held deeds for all properties owned by the Fund.</p>	<p>A six-monthly reconciliation between legal department and Fund records should be completed to ensure that accurate records of Fund deeds are held and that they are named consistently. A recommendation will be included in an updated Annual Governance Report that will be presented to the Governance &amp; Audit Committee in September 2010.</p>
<p>Related party transactions: Under International Standard of Auditing (United Kingdom &amp; Ireland) 550 'Related Parties' I am required to consider the adequacy of control activities over the authorisation and recording of related party transactions.</p>	<p>A recommendation to improve the process for obtaining related party transaction declarations from members and senior officers was reported at the last audit. At this audit, Superannuation Fund declarations were not sought from the three local authority representatives of the Superannuation Fund Committee. A recommendation will be included in</p>

Issue	Finding
<b>Matters arising at the 2009/10 audit</b>	
	an updated Annual Governance Report that will be presented to the Governance & Audit Committee in September 2010.
<p>Related party disclosures: The cash held in Kent County Council's bank account on behalf of the Superannuation Fund totals £55m at year end. This amount should have been included as a related party balance in both the Council's and Superannuation Fund's accounts related party transactions note.</p>	Amended disclosures were made in the Council's and Fund's accounts.

<b>Risks identified in advance of the post-statement audit</b>	
<p>Contributions: With effect from 1 April 2008 employees' contributions to the Local Government Pension Scheme are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be paid to the Superannuation Fund at the right rates and that this could result in a material misstatement to the financial statements.</p>	I did not find any errors or weaknesses in the systems and processes to ensure that the right rates were being used in calculating contributions.
<p>Internal controls at fund managers and custodians: The Superannuation Fund out-sources services to fund managers and custodians. Procedures are needed to ensure that reliance can be placed on the accuracy and completeness of the information provided such that where it is used to produce the Fund's financial statements it supports a true and fair view of the financial position of the Fund at year end.</p>	I have assessed the actions taken by the Council to place reliance on the Statement on Auditing Standards (SAS) 70 reports. I confirm that officers review the internal control reports provided by fund managers. Officers will report on an exception basis to the Superannuation Fund Committee if weaknesses are identified.

## Key messages

<b>Risks identified in advance of the audit</b>	
Derivatives: The accounting for derivatives can be complex and is driven by the details of each contract.	The accounting treatment adopted is appropriate.
Valuation of unquoted and private equity investments: There are no formally quoted prices so the valuation needs to be based on appropriate techniques relevant to the individual investments held.	The basis of valuation is reasonable.

---

### Internal control environment

- 5** Based on the work undertaken at the audit, I have concluded that the Superannuation Fund's internal control environment is sound.

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### Independence

- 6** I have informed you of any relationships between the auditor and Kent County Council and its senior management that might affect the auditor's objectivity and independence and any safeguards put in place. I confirm that we have complied with the Accounting Practice Board's ethical standards and that we are independent and that our objectivity is not compromised.

---

## Next steps

**This report identifies the key findings from the 2009/10 audit of the Superannuation Fund to assist you undertake your governance responsibilities. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**7** I ask the Superannuation Fund Committee to consider the contents in the report.



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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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By: Chairman Superannuation Fund Committee  
Director of Finance

To: Superannuation Fund Committee – 20 August 2010

Subject: **FUND POSITION STATEMENT**

Clarification: Unrestricted

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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.

**Katherine Gray**  
**Senior Accountant (Investments)**  
**Ext: 4642**

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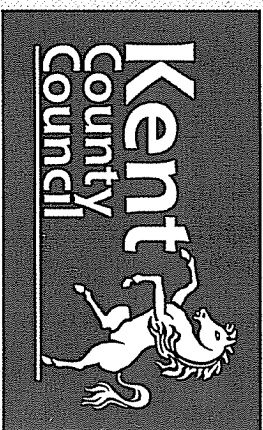
# FUND POSITION STATEMENT

Classification: Unrestricted  
Item: D2 refers

## Summary of Fund Asset Allocation and Performance

### Superannuation Fund Committee 20th August 2010

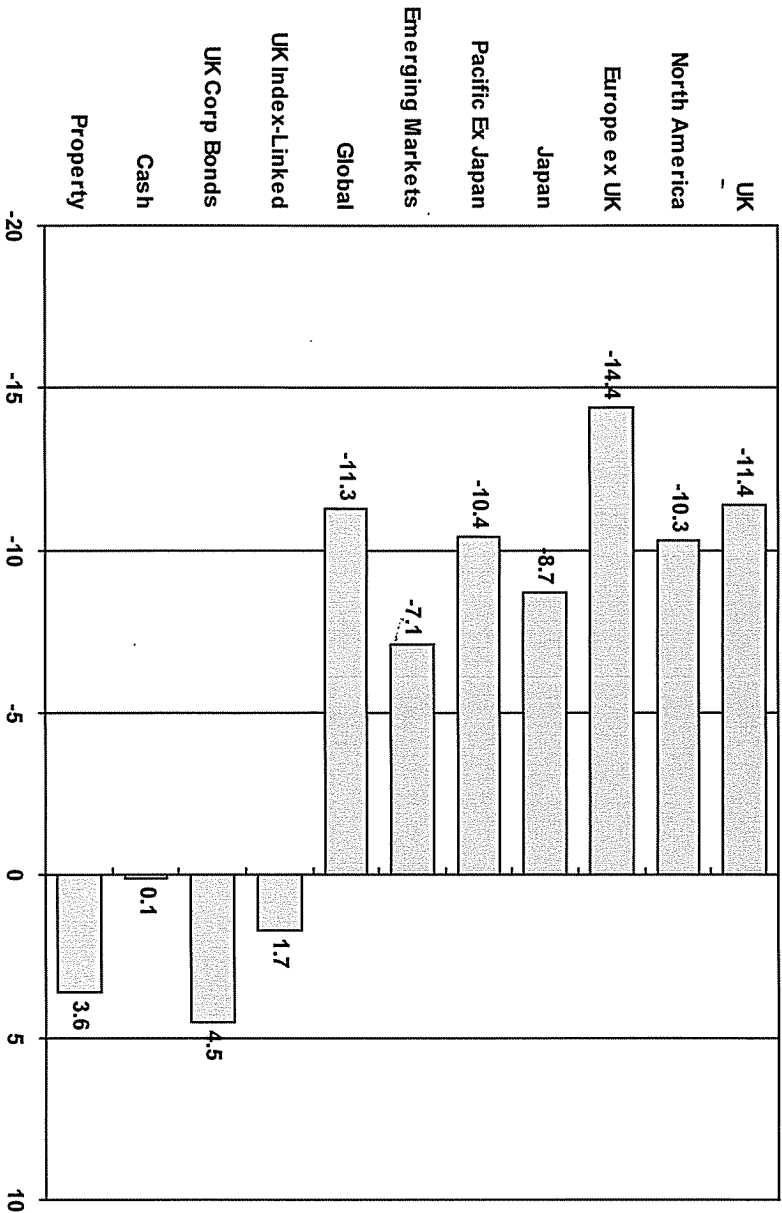
By: **Chairman Superannuation Fund Committee**  
**Director of Finance**



Kent County Council  
Superannuation Fund 2010

Nick Vickers—Head of Financial Services

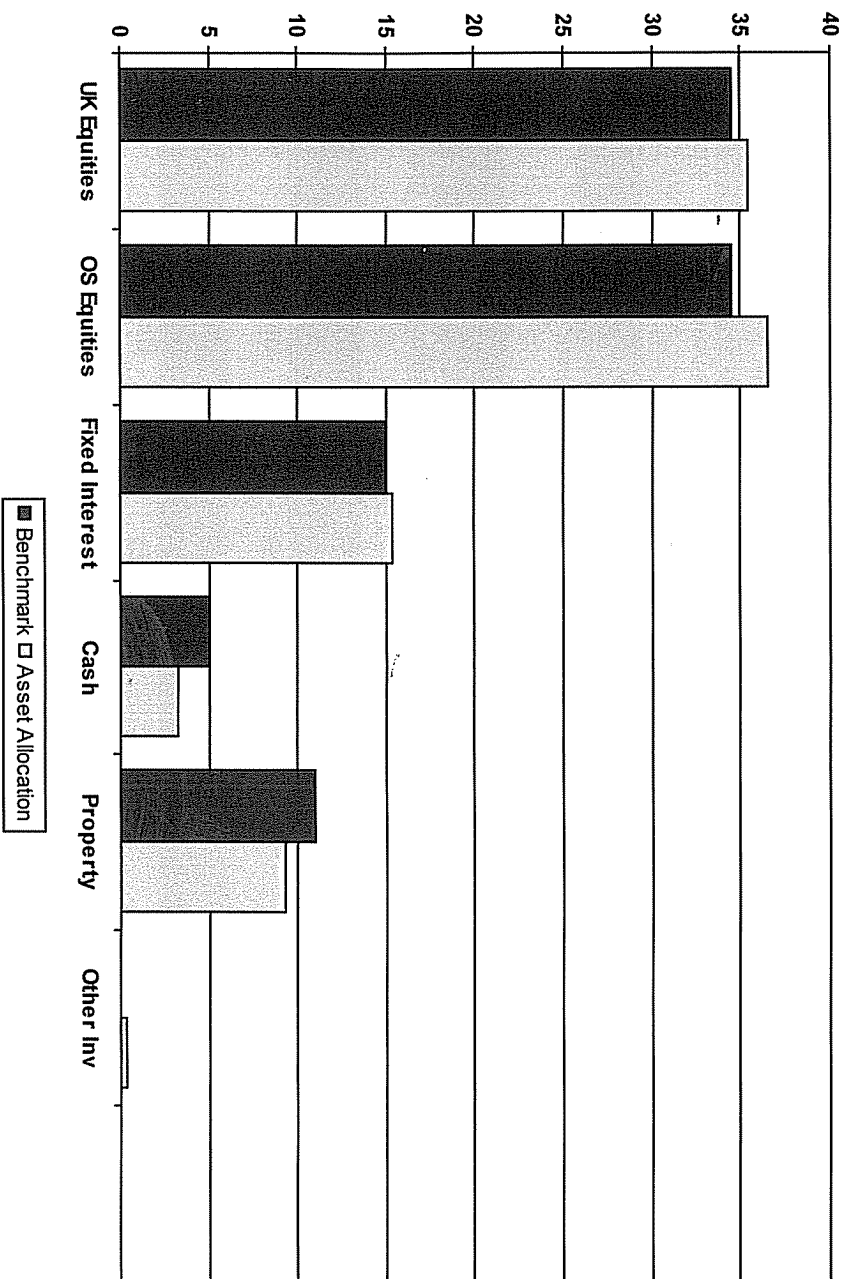
## Market Returns-3 months to 30 June 2010



- Despite some encouraging company results over the quarter, Equity Markets across the globe fell over the period amidst continuing fears over debt burdens in western economies.
- Europe ex UK saw the biggest falls, where the focus of concerns over sovereign debt lie.
- The UK Bond market showed to best returns over the quarter of 4.5%
- Property values continued to rise this quarter by 3.6%

# Kent Fund Asset Allocation vs Fund Benchmark

Classification: Unrestricted  
Item: D2 refers



Asset Class	£m	%	%
UK Equities	949	35.4	34.5
Overseas Equities	979	36.5	34.5
Fixed Interest	411	15.3	15
UK Property	233	8.7	10
European Property	17	0.6	1
Cash	86	3.2	5
Other Inv	8	0.3	-
Total Value	2683	100	100

# Asset Distribution Fund Manager

Classification: Unrestricted  
Item: D2 refers

Values (GBP)'000	Mandate	31/03/2010	Transactions	Gain / loss	Income	30/06/2010	Fund %	Benchmark
Schroders	UK Equity	479,250	4,216	-47,280	4262	436,185	16	Customised
Invesco	UK Equity	326,931		-15,857		311,074	12	Customised
State Street	UK Equity	194,175		-22,896		171,680	6	FTSE 100 All Share
State Street	Global Equity	57,215		-6,364		50,851	2	FTSE All World ex UK
Alliance Bernstein	Global Equity	254,187	1,990	-36,402	1,921	219,775	8	MSCI World
Baillie Gifford	Global Equity	511,315	4,557	-48,873	4,353	466,998	17	Customised
GMO	Global Quantitative	179,826		-20,227		159,599	6	MSCI World
Schroders	Global Quantitative	136,121		-12,957		123,163	5	MSCI World
Goldman Sachs	Fixed Interest	227,360	111	3,164	117	230,635	9	ML £ Broad Market
Schroders	Fixed Interest	181,312	669	1,254	669	183,236	7	ML £ Broad Market
Impax	Environmental	0	25,000	-2,325		22,674	1	MSCI World
DTZ	Property UK	215,402	17,186	3,326	2,823	235,914	9	IPD All Properties Index
DTZ	Property Europe	17,689	20	-1,035	145	16,674	1	IPD All Properties Index
Internally Managed	Cash	89,665	-37,035	2,291	81	54,921	2	LIBID 7 Day Rate
Total Fund		2,870,849	16,714	-204,181	14,371	2,683,381	100	Kent Combined Fund



# Performance Returns to 30 June 2010

Classification:  
Unrestricted  
Item: D2 refers

Fund	Quarter		1 year		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %	Fund %	Benchmark %

<b>Total Fund</b>	-6.6	-7.0	20.5	19.7	-2.3	-1.8
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## UK Equity

Schroders UK	-9.0	-11.6	25.1	20.8	-2.6	-5.5
State Street	-11.8	-11.8	20.9	21.1		
Invesco	-4.9	-11.8	17.7	21.1	-3.7	-5.7

## Overseas Equity

Alliance Bernstein	-13.5	-11.5	18.4	21.7	-9.7	-1.9
Baillie Gifford	-8.7	-11.1	29.9	21.2	2.8	-1.0
GMO	-11.2	-11.5	19.6	21.7	-3.3	-1.9
Schroders GAV	-9.5	-11.5	27.1	21.7	-1.4	-1.9
State Street	-11.8	-11.8	20.9	21.1		
Impax Environmental Fund	-9.3	-11.5				

## Fixed Interest

Goldman Sachs Fixed Interest	1.4	3.6	14.9	10.9	6.8	6.8
Schroders Fixed Interest	1.1	1.9	12.1	9.1	8.1	6.3

## Property

UK Property	2.8	3.6	35.2	23.9	-3.1	-7.7
Overseas Property	-5.0	3.6	-15.0	23.9	-10.0	-7.7

Data Source: The WM Company

- returns subject to rounding differences

- The Fund outperformed the benchmark for the quarter posting a negative return of 6.6% against a benchmark negative return of 7.0%.

- The fund decreased in value by just under £200m during the quarter, which cancelled out most of the gains seen last quarter.

- The 1 year performance of the fund produced a return of 20.5%.

- Our 3 year performance is a -2.3% against a benchmark return of -1.8%

- Most equity fund managers outperformed their benchmarks for the quarter with Invesco being the top performer.

- Alliance Bernstein underperformed again this quarter, bringing their 3 year performance figures to a negative return of 9.7% against a benchmark negative return of just 1.9%

Note: WM Local Authority rankings not available at time of publication

# Fund Structure

## UK Equities

Schroders  
+1.5%  
£436m

State Street  
+0.0%  
£172m

Invesco  
Unconstrained  
£311m

## Global Equities

Baillie Gifford  
+1.5%  
£467m

Alliance Bernstein  
+3.0%  
£220m

GMO  
+3.0%  
£160m

Schroders  
+3.0 - +4.0%  
£123m

State Street  
+0.0%  
£51m

Impax  
£23m

## Fixed Interest

Goldman Sachs  
+0.75%  
£231m

Schroders  
+1.0%  
£183m

## Alternative

DTZ  
UK Property  
£236m

DTZ  
Europe Property  
€19m (£16.6m)

Kent Cash  
£48m

Henderson  
Secondary PFI  
£6m

YFM Private  
Equity £2m

Market Value £2.7bn  
as at 30 June 2010.

By: Chairman Superannuation Fund Committee  
Director of Finance

To: Superannuation Fund Committee – 20 August 2010

Subject: **CASH MANAGEMENT**

Classification: Unrestricted

---

Summary: Update on the treasury management for the internally managed cash

**FOR INFORMATION**

---

**INTRODUCTION**

1. At the beginning of July £23.8m was transferred from the KCC group to the Pension Fund and subsequently this cash has been invested in accordance with the Treasury Management Strategy agreed by the Superannuation Committee on 18 June 2010.

**CASH BALANCE**

2. During July £10.7m has been invested in 63 – 65 George Street, Edinburgh, £4.8m in 2 units at Trafford Park, Manchester (£5m) and £0.6m in a 2<sup>nd</sup> instalment in the Quercus Property Fund. The Fund is committed to make a 3<sup>rd</sup> instalment in the Quercus Fund in August of £1.3m
3. As at 31 July the total internally managed cash balance was £14.5m. This balance was in line with the agreed minimum amount required to cover the Fund's ongoing payments.
4. Of the total balance £14.1m was on deposit in the RBS call account earning a return of 1.15% pa, and the remainder was invested in the JP Morgan Sterling Liquidity Account on which the return was 0.4% pa.

**RECOMMENDATION**

5. Members are asked to note the Treasury Management report.

**Alison Mings**  
**Treasury and Investments Manager**

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By: Chairman Superannuation Fund Committee  
Director of Finance

To: Superannuation Fund Committee – 20 August 2010

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

Classification: Unrestricted

---

Summary: To report on applications to join the Pension Fund and to set a policy on employer contribution rates for academies.

## **FOR DECISION**

---

### **INTRODUCTION**

1. This report sets out information on applications from organisations to become admitted bodies within the Pension Fund and seeks committee approval to enter into an admission agreement with these organisations. It also sets out a policy on employer contribution rates for schools which become academies on or after 1 September 2010.

### **EAST KENT JOINT WASTE PROJECT**

2. The East Kent Joint Waste Project is seeking to develop a single cost effective collection and processing methodology across four East Kent Districts and enable KCC to provide strategic processing capacity up to 2020. The first phase of the project provides for the tendering of refuse/recycling/street cleansing services for Dover and Shepway and the provision of processing facilities from 2010 to 2020. Refuse, recycling and street cleansing services in Dover are currently provided by SITA and in Shepway refuse and recycling services are provided by VEOLIA, with the street cleansing services undertaken by in house staff. There are four tenderers in contention for the contract who are seeking admission to the Pension Fund. The names of the tenderers have been excluded from this report.
3. There are approximately 19 employees who would need to transfer from Shepway District Council to the successful contractor in November 2010. To ensure the continuity of pension arrangements for these employees, all four tenderers have made an application for admission to join the Pension Fund. The employees of SITA and VEOLIA are not eligible to join the Pension Fund.

4. The applications have all been made under Regulation 6(2)(a)(i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond required as £229,000 and three bidders have agreed to provide a bond.
5. One of the four bidders however has requested that they be allowed to provide a Parent Company Guarantee rather than a bond. The Parent Company Guarantee would provide assurance that the contractor's undertakings and liabilities as specified within the Pension Fund admission agreement would be met. If this option was acceptable to the Committee and this bidder won the contract then officers of KCC would expect to review the financial appraisal of this contractor which the District Councils and East Kent Joint Waste Project team had undertaken in arriving at their contract award decision.
6. The completed questionnaires and Memorandum and Articles of Association provided by all four bidders have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have given a favourable opinion.

#### **MAIDSTONE HOUSING TRUST/GOLDING HOMES**

7. Maidstone Housing Trust is an admitted body participating within the Pension Fund. At 22 March 2010, Maidstone Housing Trust changed its name to Golding Homes Limited.
8. As the Local Government Scheme Pension Regulations have been re-issued since the original admission agreement was entered into, it is proposed that an admission agreement which would reflect both the changes in Regulations and the name change should be drafted by Legal Services.

#### **POLICY ON ACADEMY EMPLOYER CONTRIBUTION RATES**

9. Eleven academies have joined the Pension Fund since 1 September 2005 and all have been given an individual employer contribution rate (including a share of the pension scheme deficit attributable to the transferring employees) assessed by the Fund Actuary.
10. There are six academies in the process of being set up in the Pension Fund from 1 September 2010, and another academy due to commence 1 November 2011.
11. The announcement by the Government that schools can be fast tracked to achieve academy status has resulted in a further eight academies to commence from 1 September; one from 1 November; three academies from 1 January 2011 and a further four schools which have applied for academy status but which have not yet been approved.

12. Given the number of academies which will participate in the Pension Fund it is now proposed that they have a group employer contribution rate rather than individual rates. The actuary will soon begin work on the 31 March 2010 actuarial valuation and it would seem appropriate to set a group rate for academies as part of this review.
13. The proposal which has been agreed in principle with the Fund Actuary is that:
  - academies already in the Pension Fund with an individual employer contribution rate will continue to have an individual employer contribution rate;
  - all schools becoming academies from 1 September 2010 will remain on the appropriate Council rate (ie KCC or Medway Council) until 31 March 2011;
  - as part of the 31 March 2010 actuarial valuation, the Fund Actuary will set two group rates for academies which would include those schools becoming an academy from 1 September 2010; from 1 April 2011 there would be a group rate for ex KCC schools and a group rate for ex Medway schools;
  - any academy which joins the Pension Fund on or after 1 September 2010 which is not ex KCC or ex Medway would have to have a separate employer contribution rate e.g. the Duke of York Royal Military School Dover (currently a Ministry of Defence school).

### **RECOMMENDATION**

14. Members are asked to agree:
  - (1) to the admission to the Kent County Council Pension Fund of the successful contractor from the four companies tendering for the East Kent Joint Waste Shepway District Council Street Cleansing Contract, and
  - (2) that a legal agreement can be entered into in respect of Golding Homes Limited, and
  - (3) in respect of both the above matters agree that once legal agreements or deeds have been prepared for all of the above matters, the Kent County Council seal can be affixed to the legal documents, and
  - (4) agree the policy on employer contribution rates in respect of Kent County Council schools and Medway Council schools which become academies on or after 1 September 2010.

**Jane Gibbons**  
**Principal Accountant (Investments)**  
**Ext. 4625**

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