

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

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

Analysis of Employers' Contributions

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

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

Note :

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

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

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

	KCC	Scheduled	Admitted	2010	2009
	£000	Bodies	Bodies	£000	£000
	£000	£000	£000	£000	£000
Pensions					
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)
	<hr/> 59,553	<hr/> 59,104	<hr/> 5,146	<hr/> 123,803	<hr/> 114,119
Lump Sums					
Retirement Lump Sums	12,903	14,688	2,778	30,369	29,858
Death Benefits	959	1,884	141	2,984	3,066
	<hr/> 13,862	<hr/> 16,572	<hr/> 2,919	<hr/> 33,353	<hr/> 32,924

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

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

	2010	2009
	£000	£000
7) Administrative and Other Expenses borne by the Scheme		
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
	<hr/> 3,211	<hr/> 2,833

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

	2010		2009	
	£000	%	£000	%
<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
Total Income From Investments	63,671	97.26	67,817	88.61
<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
Total	65,462	100.00	76,533	100.00

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
Investments managed by Investment Managers United Kingdom					
<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
Total	1,895,169	931,739	(775,278)	693,571	2,745,201
<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
	1,944,671			689,461	2,810,919

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.

10) Current Assets & Liabilities	2010	2010	2009	2009
	£000	£000	£000	£000
Investment Liabilities				
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>
Current Assets				
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>
Current Liabilities				
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.

	2010	2010	2009	2009
	£000	%	£000	%
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>
UK					
<i>FTSE 100 IDX</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	224	(11)	213
US					
<i>S&P 500 Future</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	768	40	808
<i>S&P 500 EMINI Future</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	1,114	83	1,197
JAPAN					
<i>TOPIX INDX FUTR</i>	<i>Alliance Bernstein</i>	<i>June 2010</i>	276	(3)	273
EUROPE					
<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

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

14) Other Expenses

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

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.

	Prudential 2008/09 £000	Prudential 2009/10 £000	Standard Life 2008/09 £000	Standard Life 2009/10 £000	Equitable Life 2008/09 £000	Equitable Life 2009/10 £000
Value at 1 April	2,777	3,265	2,002	1,586	1,483	1,195
Income						
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
Total	921	830	207	163	5	150
Expenditure						
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
Total	(373)	(304)	(302)	(113)	(291)	(122)
Change in Market Value	(60)	115	(321)	446	(2)	(1)
Value at 31 March	3,265	3,906	1,586	2,082	1,195	1,222

	2010	2009
	£000	£000
18) Related Party Transactions		
<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.