THE ROYAL BOROUGH OF
KINGSTON
UPON THAMES

Royal Borough of
Kingston upon Thames

Pension Fund Annual Report

2014/15

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INTRODUCTION AND OVERVIEW

Report of the Director of Finance

I am pleased to introduce the Annual Report for the financial year 2014/15.

The Pension Fund Panel

The Pension Fund Panel ("The Panel") is responsible for overseeing the management of the Royal Borough of Kingston upon Thames Pension Fund, including investments, actuarial work, administration and fund governance.
Following the local elections in May 2014 a number of new members joined the Panel for the first time. Consequently, the June meeting included some training for Panel members covering the key aspects of the Panel's remit.

In 2014/15, reflecting that it now has seven investment managers, the Panel implemented new arrangements for reviewing and challenging the performance of the various investment fund managers who have been managing mandates in accordance with the investment strategy. The Panel introduced two additional "all day" meetings, at which it reviewed in detail the performance of the investment managers. At these two meetings, each manager was required to present to the Panel to account for their performance against the mandate benchmark they had been set. Managers continued to be required to disclose any changes to their internal control systems and procedures to give assurance that reported exceptions and control weaknesses do not impact on the Pension Fund assets. Also, any changes to the managers' investment teams were discussed.

In addition to the detailed questioning of the managers, at its four quarterly meetings the Panel monitored the activity and performance of the investment managers and also considered the following matters:

The final report on the actuarial valuation at 31 March 2013 (including individual employer results) and a revised Funding Strategy Statement were approved by the Panel at its meeting in early May 2014. The Funding Strategy Statement was designed to restore the Fund to being 100% funded in 21 years on an ongoing basis. The Panel endorsed initial work on the investment strategy review.

Work on the investment strategy progressed during the year, with consideration of an asset-liability study, and subsequently options to reduce the Fund's volatility and increase diversification of the investment assets. It was agreed at the February 2015 meeting that the Fund's strategic allocation to equities would be reduced from 70% to 60%, and that the allocation to Diversified Growth Funds (DGF) would be increased from 10% to 20%. These changes were implemented in late March 2015. The Statement of Investment principles was updated accordingly.

Following the Panel's recommendation that the Fund collaborate with the Pension Funds of other London authorities to establish a Collective Investment Vehicle (CIV), in April 2014 the Council approved these proposals and the Fund became a shareholder in London LGPS CIV Limited operated by London Councils for all

London Boroughs' Pension Funds. During the year the Panel received regular updates on the progress of this initiative. It is currently anticipated that the CIV will be operational (i.e. managing investment assets) during the 4th quarter of 2015.

The Panel considered revised Governance arrangements to meet the requirements of the Public Service Pensions Act 2013, in particular the requirement to establish a local Pension Board from April 2015. The Council adopted the Panel's recommendations, and the new Board is now operational.

At its meeting in September 2014, the Panel received a presentation from Hymans Robertson, the Fund's actuary. This provided further training for the new Panel members. That Panel noted the half yearly updates in the actuarial valuation of the Fund and an improvement in the funding level from the March 2013 triennial valuation.

The Panel has been concerned about the performance of the Pensions Administration team, and has received regular updates on this matter – noting in particular the impact of work required to implement a new pensions system.

The Panel's work programme for 2015/16 includes:

- monitoring of the Fund's governance arrangements as the local Pension Board is bedded down
- ongoing review of the Fund's investment strategy, in consultation with the Fund's investment advisers, Aon Hewitt and access to the London CIV; and
- preparation for the statutory actuarial valuation at 31 March 2016

I would like to thank the Members of the Pension Fund Panel and our volunteer advisory member Matthew Lambe, for their work during the year.

Investment Summary

In 2014/15, the Fund performed strongly despite there being some volatility in the global investment markets. All asset classes performed well during the year, with equities performing particularly strongly. As at 31 March 2015, the total market value of the Fund appreciated by £97.6 million to £640.9million.

Over the year, the total Fund achieved a return of 16.4% compared to the combined customised benchmark return of 15.7%. Also, the Fund outperformed the WM Local Authority Universe – a peer group of 85 UK Local Authority pension funds, which gained 13.2%.

Longer-term, the Fund's three-year annualised performance was 12.9% compared with the Local Authority Universe return of 11.0%. The significant difference in results reflects differences in the Fund's asset mix and weighting relative to the Universe – over the period the Fund's exposure to equities was higher than many of its peers.
The significant full year gain reflected the consistent growth in quarterly market value

trend with growth in all four quarters. There was some volatility in the markets partly driven by uncertainty in the Eurozone as evident in the Europe ex UK market which performed poorly in the first three quarters and then rallied in the fourth as political sentiment grew that a solution to Greece's Euro crisis could be found.

Generally, equity markets produced respectable results during 2014/15 albeit with regional differences. There was consistent positive quarterly performance from North America helped by the strong US Dollar. Also, Japan (despite a weak Yen) and the Pacific markets performed well particularly in the first and fourth quarter. Europe ex UK market made the leader board only in the fourth quarter. Investors' concern about the prospect of another hung parliament in the general election undermined the fortunes of the domestic UK market during the year. However, in the final quarter markets were buoyed by improved investor confidence and this contributed to the Fund's biggest quarterly increase in market value. Overall, the Fund gained 19.5% on equities during the year. This compares favourably with MSCI AC World Index, the benchmark against which the performance of the Fund's equity investments is measured, which rose by 18.4% in the year.

Bond markets enjoyed mixed fortune during the year with UK bonds performing exceptionally well unlike in the previous year. The strong performance was due largely to return on longer dated bonds being pushed up by historic low yields and caused some investors to develop an insatiable appetite for liability matching gilts and index-linked instruments which gained 30% and 20% respectively. By contrast, short-dated bonds produced anaemic return. The Fund's total bond portfolio achieved 10.2% during the year compared to the benchmark (iBoxx All Stocks Non-Gilts Index) return of 13.1%.

UK Property continued to perform strongly as an asset class. The Fund gained 18.2% on its property investments compared to the benchmark (IPD UK All Balanced Funds Index) result of16.6% in 2014/15.

The two DGFs, which were introduced to provide some diversification and reduce the Fund's volatility, both outperformed their benchmark return targets in the year.

Actuarial Valuation

The Fund receives half yearly updates from its actuary, calculated on a rolled forward basis using the 2013 valuation data and assumptions. The funding update as at 31 March 2015 indicates that the funding level has increased to 75.0% from the position of 70.5% at the last formal valuation at 31 March 2013. The change is largely attributed to better than expected investment return since 2013. The result is that although investment performance exceeded the assumptions made at the 2013 valuation, the Fund's liabilities have increased significantly from £712m to £845m over the same period on an ongoing funding basis. The actuary's recommendations set the required level of employers' contribution for the three year period from 2014/15 and the period over which the Fund is expected to become fully funded. This was one of the key inputs into the review of the Fund's long-term investment strategy during 2014/15. The next actuarial review will take place at 31 March 2016.

Scheme Administration

2014/15 was again a busy year for Local Government Pension Scheme (LGPS) administrators. The team's workload included analysis of the changes to the LGPS which was implemented in April 2014. The main elements of the new scheme are:

- The scheme is based upon Career Average Revalued Earnings (CARE)
- The benefits accrual rate is 1/49th* per year of service
- the revaluation rate is the Consumer Price Index (CPI)*
  (*this combination of accrual and revaluation rate has been costed by the Government Actuary's Department (GAD) as being broadly equivalent to the current combination of 1/60th accrual with final salary revaluation).
- the Normal Pension Age being equal to the individual member's State Pension Age (minimum 65)
- Contribution flexibility to pay 50% contributions for 50% of the pension benefits
- 3 x Death in Service Lump Sum
- Definition of pensionable pay includes non contractual over time and additional hours for part time staff
- 2 year Vesting Period

The new arrangements still provide excellent value for money for scheme members. At Royal Borough of Kingston we have ensured that all eligible employees are fully briefed about the new arrangements so they can make an informed decision about membership of the scheme.

Another challenge has been the preparation for auto-enrolment – this requires scheme administrators to confirm at regular intervals that employees who are eligible to be members of the scheme but have chosen to opt out do not wish to change that decision (previously the onus has been on the employee to notify the employer should he /she wish to change the decision). Whilst this is now in place for new employees, Royal Borough of Kingston (as an employer) has opted to delay full implementation for existing employees until 2017.

Leigh Whitehouse
Director of Finance

MANAGEMENT AND FINANCIAL PERFORMANCE

Introduction

This annual report sets out key information about how the Royal Borough of Kingston upon Thames Pension Fund is managed for the benefit of all employers, contributors and beneficiaries. This report summarises the financial and management performance in 2014/15 and it is produced in accordance with guidance contained in the Local Government Pension Scheme (LGPS) regulations**.**

During 2014/15, the Pension Fund Panel carried out a review of the Pension Fund investment strategy and arrangements, following earlier work on the strategic asset allocation initiated in 2012/13. The Panel acted on specialist advice and introduced more diversification to broaden the sources of investment returns over the longer term and mitigate risk taking into account the changing pattern of market volatility. The Fund's exposure to Diversified Growth Funds increased and the allocation to equities was reduced. As part of the realignment, the Panel approved the introduction of a systematic rebalancing process to support the new strategic asset allocation ranges.

The Panel reviews fund managers' activity and results quarterly to ensure that the investment strategy remains consistent with the objectives and performance targets are being met.

The Panel is made up of five elected members of Royal Borough of Kingston upon Thames, four non-voting members representing Kingston University, Kingston College (the two largest scheduled bodies), the RBK staff side and the Association of Retired Council Officers. This promotes good governance and increases stakeholder involvement in the management of the Fund's investments. Also, an independent advisory member serves on the Panel.

This annual report and its appendices are published on the Council's website. The report contains links to the website and to the financial statements of the Pension Fund for 2014/15. The Pension Fund's statement of accounts has been prepared in accordance with CIPFA's latest Statement of Recommended Practice (SoRP).

RISK MANAGEMENT

The most important risk facing the Fund is that its assets will be insufficient to meet its liabilities in the long-term. The Royal Borough of Kingston upon Thames as Administering Authority for the Royal Borough of Kingston Pension Fund appreciates the importance of effective risk management and have taken appropriate steps to ensure that there is a clear process by which the risks implicit in the Pension Fund are systematically identified, monitored and managed at the strategic and operational level. The Authority has a formal risk management strategy and risk register which is monitored and reviewed by the Director of Finance on a regular basis giving regard to changes in the internal and external environment. Assurances on the robustness of the Authority's risk management arrangements are provided by officers and external advisers to the Pension Fund Panel.

Governance Risk
Responsibility for the Royal Borough of Kingston Pension Fund's investment strategy, fund performance, investment transactions and related matters is delegated to the Pension Fund Panel which reports to The Treasury Committee for decision-making. The Panel is subject to the Council's Standing Orders and the Code of Conduct. The Panel is aware of the new and proposed changes in the LGPS under the Public Sector Pensions Act 2013, and conducted a review of the Fund's governance arrangements during 2014/15, following the publication of new Regulations in June 2014. Following the review of the Fund's governance arrangements, the Panel approved the development of a standalone Risk Register for the Fund to be reported regularly to the Panel. Currently, these risks are monitored within the Finance Directorate's Risk Register and are addressed as appropriate within reports to the Panel, rather than being reported separately. The Panel considers investment strategy options as an integral part of the funding strategy to avoid mismatch risk. Broadly, the approach to risk management is to minimise risk which cannot be eliminated entirely. All investments expose the Fund to varying levels of risk. The decision-making process used in the investment strategy review and the selection of fund managers is designed to ensure that the level of risk taken by managers and the custodian is kept to the minimum and consistently within the risk tolerance range necessary to achieve the Fund's investment objectives. Internal controls and processes are in place to manage administrative and other financial risks. Risk management processes ensure that key risk exposure is identified and action plans put in place to manage and mitigate risk. The Administering Authority works collaboratively with the other employers in the Fund, fund managers, custodian and specialist advisers. All advice is delivered via formal meetings involving Elected Members, and recorded appropriately. The Administering Authority informs other employers of their obligations to the Fund and employers are required to notify the Administering Authority promptly of all changes to their circumstances, prospects or membership. The fund managers and custodian are required to report annually on internal control compliance (ISAE 3402 reports) to demonstrate they comply with their risk controls.

Financial Risk
The Administering Authority shares common financial management framework with the Council and uses the Council's financial accounting system. The Pension Fund maintains its own separate bank account. Late payment of contributions by employers and admitted bodies is monitored and regulated through a sanction for late payment. Reconciliation processes and monitoring controls ensure all contributions are paid on time.

Investment Risk
The Fund invests on the basis of specialist advice and manages investment risk through diversification by asset class, geographies and use of external fund managers to manage investments. During 2014/15, based on the investment strategy review undertaken by Aon Hewitt (Appendix 4), the strategic allocation was modified by reducing exposure to equities in favour of Diversified Growth Funds. The Fund's assets are managed by seven managers across global equities, fixed income (corporate and absolute return) bonds, property and diversified growth funds mandates. The Panel is supported by expert investment and legal advisers, external fund managers and a global custodian for safe custody of assets. Also, an independent advisory member has been appointed to support the work of the Panel. The advisers provide specialist input to the Panel to facilitate informed decisions on investment matters. The Panel follows a due diligence process in the selection of the fund managers and other service providers, to ensure the appointment of appropriate firms who demonstrate the ability to manage the Fund's assets within the investment risk parameters specified in the Investment Management Agreement (IMA). The Panel reviews activity and monitors performance and risk, at total Fund and individual manager level, against set targets and benchmarks on a quarterly basis based on independently validated information.

Regulatory Risk
The LGPS is facing continuing reform. The funding strategy is exposed to changes in the Scheme benefits and tax status of the Fund's investments from a cost perspective. To mitigate this risk, the Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Also, the Authority takes professional advice from the Fund's actuary and investment adviser as required. During 2014-15, the government kept under consideration a number of options for further consultation regarding the ongoing reform of the LGPS and implication for the investment management arrangement of the Scheme. Although the government have ruled out compulsory mergers at the present time, they are in favour of greater collaboration amongst Funds. The Council met the new requirement to establish a local Pension Board, and this body will develop its work programme during 2015-16. The Administering Authority continues to ensure that timely action is taken to implement any changes under new regulations and that it remains proactive and innovative in respect of the significant regulatory developments and challenge of more reforms in the coming years. The Royal Borough of Kingston upon Thames is working collaboratively with other London LGPS Administering Authorities to establish a Collective Investment Vehicle (CIV). Also, it utilises frameworks set up by other Authorities to procure specialist services for the Pension Fund.

Administration Risk
The Pension Fund Panel is responsible for the administration of the Fund. The Panel meets quarterly to consider various reports on matters in the programme of work for the period. In addition the Panel meets twice a year to carry out comprehensive assessment of fund managers' performance. The Panel receives reports and updates on pensions administration covering workload, staffing and systems. Also, the Panel monitors performance of the Scheme administration in respect of active, deferred and retired members. The risk of late payment of member benefits and miscalculation of benefits through manual error is managed through a workflow system and through use of system controls and internal checking. The risk of incorrect payment, late payment and non-payment of contributions is mitigated by ensuring that an effective process is maintained to collect employer and employee contributions due to the Fund. The Administering Authority communicates and works closely with the other employers to ensure that they understand their obligations to the Fund. The risk of monies not being promptly invested is mitigated by daily cash flow management and monitoring of the Pension Fund bank account to ensure that amounts not required for day-to-day commitments are invested with fund managers. The Authority seeks to employ skilled and experienced officers and ensures that staff are trained and kept up to date on changes to the LGPS.

Business Continuity
Risk of system failure is managed through an externally managed pension benefits administration system with daily back up in addition to use of the Council's business continuity plans which are tested and updated annually.

The management of financial instruments risk is disclosed in the Statement of Accounts 2014/15 (Appendix 2 - Note 15).

Financial Performance

Fund Accounts and Net Assets Statement

The Auditors Report and the Pension Fund Statement of Accounts for 2014-15 are appended to this report (Appendices 1 and 2) and will be made accessible via the link below
http://www.kingston.gov.uk/downloads/200285/financial_information

Five Year Summary of Financial Statistics

Year Ended 31 March Revenue Account	**2011 £'m**	**2012 £'m**	**2013 £'m**	**2014 £'m**	**2015 £'m**
Income					
Contributions	30.8	29.2	29.5	31.4	33.7
Investment Income	6.7	6.8	7.2	6.9	5.9
Cash Transfer Values	2.8	2.3	6.7	9.6	3.6
	40.3	38.3	43.4	47.9	43.2
Expenditure					
Pension & Benefits	21.0	22.8	23.5	25.3	26.4
Management Expenses	1.9	1.9	2.2	3.4	3.7
Cash Transfer Values	3.3	3.0	3.7	3.0	1.8
	26.2	27.7	29.4	31.7	31.9
Surplus for the Year	14.1	10.6	14.0	16.2	11.3
Revaluation of Investments	26.0	(3.8)	55.8	31.1	86.3
Change in Fund Value	40.1	6.8	69.8	47.3	97.6
Total Fund Value	424.8	431.6	501.4	548.7	646.3

The Fund continues to be a growing Fund and cash flow positive, as contributions from members and employers exceed the cost of pensions and benefits payable.

Investment Management Expenses	**31-Mar-13 £'000**	**31-Mar-14 £'000**	**31-Mar-15 £'000**
Portfolio Management	1,142	2360	2,687
Global Custody	54	63	48
Investment Advisers	57	67	69
Performance Measurement	18	17	19
TOTAL	**1,271**	**2,507**	**2,822**

Investment Expenses Commentary	
Portfolio management fees indicate an increase on last year.	There has been a change in accounting practice to improve transparency regarding the level of managers' fees. This requires those fees which were previously "netted off" against returns in pooled investments to be shown gross. The 2013-14 figures have been re-stated to ensure year on year comparability. The increase in 2014-15 can be attributed to: • A change in the market value of assets under management. • New management fees incurred for the Henderson Total Return Bond since June 2013, and the two Diversified Growth Funds from January 2014.
Aon Hewitt the Pension Fund's investment advisers carried out advisory work throughout the year.	Aon Hewitt, appointed through the Croydon Framework as the Pension Fund's investment advisers, carried out work on the investment strategy and provided advice on a number of matters, and the drawdown of equities to fund the allocations to the two DGF managers.

An analysis of amounts due to the Fund from employers is set out on pages 22 to 23**.**

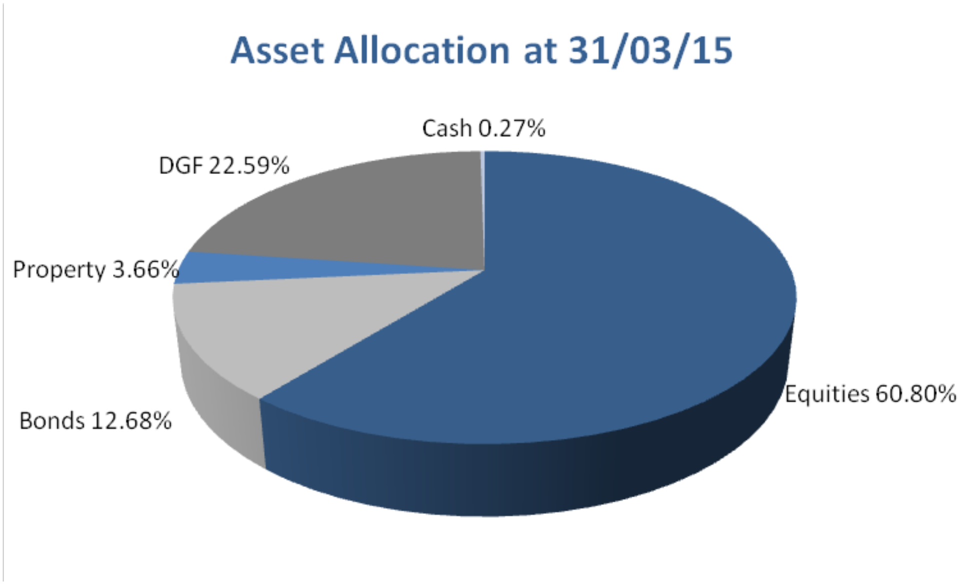
INVESTMENT POLICY AND PERFORMANCE

In the third quarter of 2014/15, the Pension Fund Panel agreed to reduce the Fund's exposure to Equity in favour of Diversified Growth Funds. This change was implemented in the fourth quarter and the current strategic asset allocation is as follows:

Asset class	**Previous allocation**	**Updated allocation** (Feb/March 2015)
	%	**%**
Equities	70 to 80	60
Bonds	15	15
Property	5	5
Diversified Growth Fund (DGF)	0 to 10	20
Total	**100**	**100**
Cash – liquidity only	-	-

In the fourth quarter of 2014/15, the two DGF managers, Standard Life and Pyrford each received additional funding of £42m sourced from partial divestment from Threadneedle – now Columbia Threadneedle (£36m), Schroders (£32m) and Fidelity (£16m).

Below is the asset allocation at 31st March 2015. It shows that the Fund's policy mix is consistent with the investment strategy agreed by the Pension Fund Panel with a small balance of cash held for liquidity purposes.



Fund managers' results are measured against specified benchmarks and each manager is set clear outperformance target. The current benchmarks and fund managers' targets are shown in the table below.

Portfolio	Mandate	Benchmark	Target (over Rolling 3 Years)
Fidelity	Global Equities	MSCI AC World Index	+1.5% to +2.0% pa
Threadneedle	Global Equities	MSCI AC World Index	+2.5% to +3.0% pa
Schroders	Global Equities	MSCI AC World Index	+3.0% pa
Henderson (ASC)[1]	UK Bonds	iBoxx All Stocks Non-Gilts Index	+0.5% pa
Henderson (TRB)[2]	UK Bonds	No Benchmark	+6.0% pa
UBS	UK Property	IPD UK All Balanced Funds MI	Outperform IPD Index
Pyrford	Diversified Growth Fund	RPI	+5% pa
Standard Life	Diversified Growth Fund	6 month LIBOR Rate	+5% pa

[1] All Stocks Credit [2] Total Returns Bond

The Pension Fund Panel reviewed and updated the Statement of Investment Principles (SIP) in February 2015. The details of the fund managers are set out in the SIP and managers concerned complied with the voting policy, which is set out therein. Compliance with Guidance from the Secretary of State is set out in the Statement of Investment Principles (Appendix 3).

Summary of Investment Assets at 31 March 2015

Manager	Asset Class	Market Value £'000	Total Assets by Market Value (%)
Fidelity	Global Equities Fund	158,576	24.7
	Other Managed Funds (Emerging Market equities)	18,299	2.9
	Cash and other investment balances	3,509	0.5
ColumbiaThreadneedle	Unitised Insurance Policy (Global equities)	119,025	18.6
Schroders	Other Managed Funds (Global equities)	90,231	14.1
Henderson	Other Managed Funds (Bonds)	81,281	12.7
UBS	Property Unit Trusts	22,461	3.5
	Cash and other investment balances	1,016	0.1
Pyrford	Other Managed Funds (DGF)	71,855	11.2
Standard Life	Other Managed Funds (DGF)	72,909	11.4
In house	Cash	1,700	0.3

TOTAL		**640,862**	**100.0**

Asset Allocation

The ten largest **holdings** of the Pension Fund were as follows:

Name	Value as at 31 March 2015 £'000	% of Total Net Assets as at 31 March 2015
ColumbiaThreadneedle TPN Global Equity Fund	119,025	18.6
Schroder Life QEP Global Active Value Fund	90,231	14.1
Standard Life Global Asset Return Strategies (GARS)	72,908	11.4
Pyrford Global Total Return (Sterling) Fund Class A	71,855	11.2
Henderson All Stocks Credit Fund	57,342	8.9
Henderson All Stocks Total Return Bond	23,939	3.7
Fidelity Select Emerging Markets Fund	18,299	2.9
UBS Triton Property Unit Trust	12,470	1.9
Standard Life Inv Plan Property Fund	7,817	1.2
Apple Inc	3,896	0.6

The nine largest holdings are in the managers' own vehicles - pooled funds of the seven fund managers.

The 10 largest directly held **equity holdings** of the Pension Fund were as follows:

Name	Value as at 31 March 2015 £000	% Total Net Assets as at 31 March 2015
Apple Inc	3,896	0.61
Johnson & Johnson	1,809	0.28
Wells Fargo & Co	1,773	0.28
JPMorgan Chase & Co	1,588	0.25
Medtronic PLC	1,477	0.23
Coca-Cola	1,450	0.23
United Technologies Corp	1,311	0.20
Comcast Corp	1,275	0.20
Walt Disney	1,272	0.20
Roche Holding	1,224	0.19

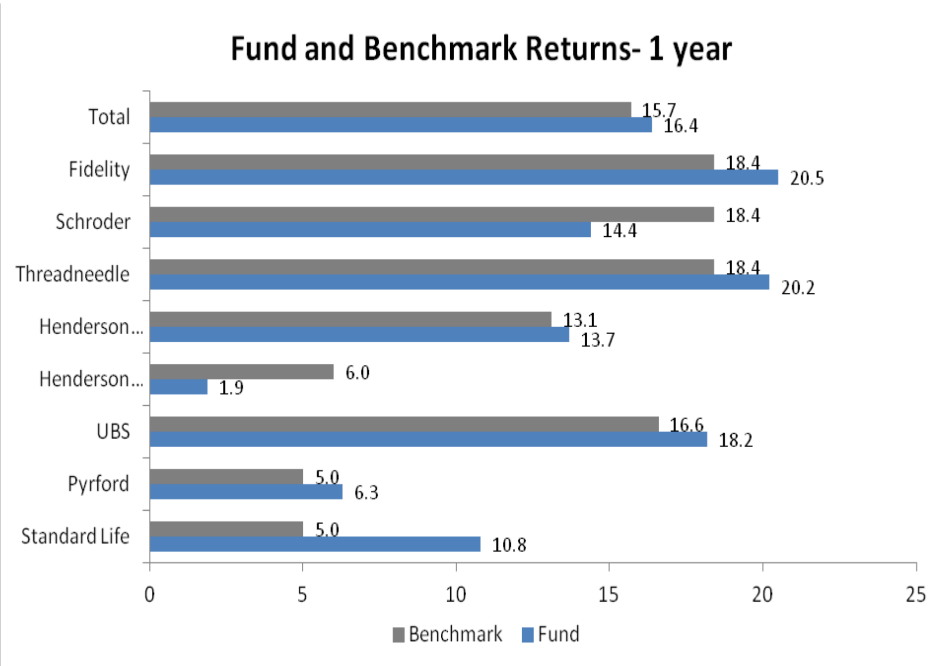
Pension Fund Performance 2014 - 2015

The investment strategy of the Fund was updated in 2015 to a strategic allocation of 60% Equities, 15% Bonds, 5% property and 20% Diversified Growth Fund. Each of the fund managers is required to outperform their respective benchmark over a rolling three year period.

The table below sets out the quarter by quarter results for the Fund in 2014-15. The total Fund return for the year was +16.4%, compared to the benchmark return of +15.7%. The relative return represents an outperformance of 0.7%.

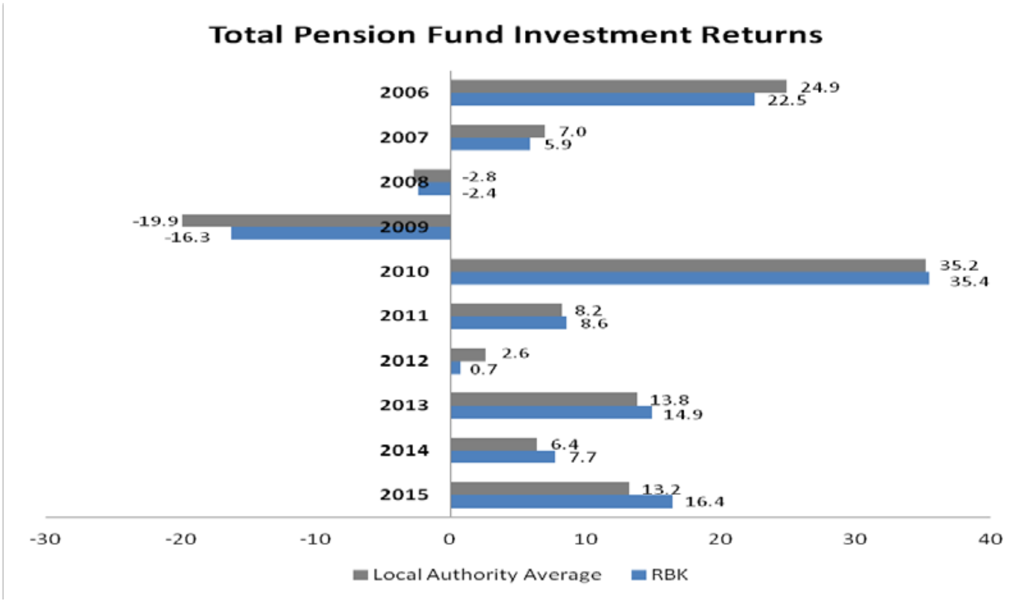
2014-15	First Quarter April to June 2014 %	Second Quarter July to September 2014 %	Third Quarter October to December 2014 %	Fourth Quarter January to March 2015 %	Total Annual Performance 2014-15 %
Fund Return	2.3	2.9	3.9	6.7	16.4
Benchmark Return	2.3	2.8	4.0	5.8	15.7
Relative Return	0.0	0.1	-0.1	0.9	0.7

Fund managers' performance against the benchmark for the year 2014 - 2015 is shown in the graph below. During July 2014, surplus cash of £9m was invested (£3m each in the Henderson Total Return Bond Fund, and the two diversified growth funds - Pyrford and Standard Life). The equity allocation was reduced by 10% in the 4th quarter of the financial year, with funds being withdrawn from Columbia Threadneedle, Schroders and Fidelity and invested with Standard Life and Pyrford.

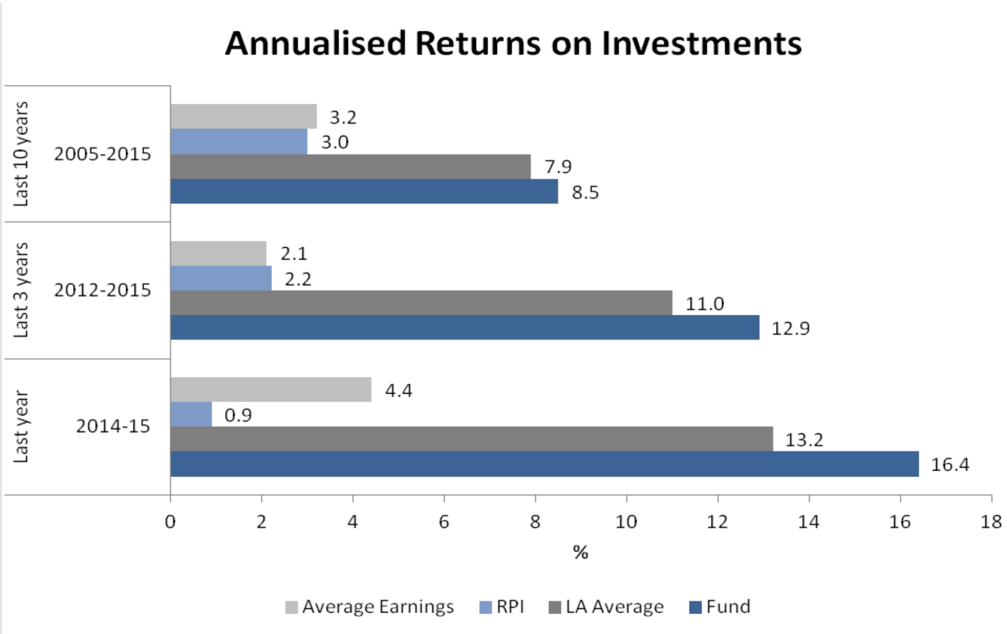


Asset Returns

The chart below provides a comparison between the Fund's performance and the WM Local Authority Peer Group Average of 85 local authority funds with total assets valued at £199.9 billion, as at 31 March 2015. The annual returns take into account the change in market value of the Fund's investments together with the income they have earned over the period.



The chart below shows the Fund's performance compared to the local authority average, price inflation (Retail Price Index - RPI) and wage inflation (national average earnings) over various durations



ADMINISTRATION AND BENEFITS

Scheme Administration

The administration of the Pension Scheme is dealt with by a team of nine staff, (7 full time equivalents) in Pension Services. The performance table below shows the range of work carried out. The team are also responsible for the administration of the Council's additional voluntary contribution (AVC) arrangement with Aviva.

The Team's web pages can be found on the RBK website http://www.kingston.gov.uk/pensions. There are also links to related websites including the 2014 Scheme.

The new LGPS came into force on 1 April 2014. This is operated on a Career Average Revalued Earnings (CARE) basis. This means that pension is accrued each year based on salary earned and then revalued. There is an underpin for members born before 1 April 1956 to ensure that their benefits are no less than they would have received under the 2008 Scheme. So far there has been one case where this applied when we used the average of an earlier three year period of salary because the member had subsequently suffered a reduction in pay. In line with the pensions increase for pensions both deferred and in payment, CARE pension accounts (as they are referred to in the Pension Regulations) have been revalued by 1.2%.

Much of 2014/15 has been spent working on the migration of data from AXIS to UPM, the new pension administration system. Although a small project team was formed with members of the Pensions Team who were covered by temporary staff, at various times the whole team was involved in various aspects of the transition. The go-live date was 8 December 2014 and the team quickly became familiar with UPM which is completely process driven system unlike the former one.

The Annual Pension Fund Meeting, which is open to all members, was held on 13 October 2014 and was not as well attended as usual. Jeremy Randall, Head of Finance – Strategy and Accounting, gave a presentation on Fund performance and related matters. Sue Grimstead gave a presentation on the 2014 Scheme and progress on the aforementioned change of pension administration systems. The next Annual meeting will be held on 19 October 2015, at 5.15 pm in the Guildhall. The agenda will be advised in due course and the details posted on our web pages.

Sue Grimstead
Team Leader - Pensions

Management Performance

Performance Indicator	London Standard Target	Number of cases	Percentage within target
Issue Starter's pack	10 days	314	89%
Letter detailing transfer in quote	10 days	84	55%
Letter detailing transfer out quote	15 days	32	41%
Letter providing details of Add Regular Contributions *		Not applicable	Information on website
Transfer in actual	10 days	78	100%
Transfer out payment	12 days	17	100%
Calculate and notify deferred benefits	15 days	567	95%
Letter notifying retirement benefits amount –estimate	10 days	88	86%
Letter notifying retirement benefits – actual	10 days	253	80%
Letter acknowledging death of pensioner	5 days	126	90%

The above indicators are for 2013/14 and remain the most meaningful performance data. The data for 2014/15 were not available at the time of producing this report due to change in pension administration system.

Fund Membership 5 Year Analysis

Year	2010/11	2011/12	2012/13	2013/14	2014/15
Active	4,233	4,143	4,056	4,385	4,479
Deferred	3,635	4,054	4,169	4,483	4.683
Pensioners	2,745	2,929	3,030	3,182	3,260
Dependents	475	481	483	491	471
Early Retirement (Efficiency/Redundancy)	29	62	32	11	30
Ill Health Retirement	7	3	2	3	4

Active Membership by 5 Year Age Bands

Age Band	Membership
16 - 20	11
21 - 25	194
26 - 30	330
31 - 35	372
36 - 40	466
41 - 45	569
46 - 50	769
51 - 55	769
56 - 60	603
61 - 65	306
66 - 70	90
71 - 75	0
Total	4,479

Communications

There is an extensive website for Scheme Administration which contains the following:

- A link to the 2014 Scheme website to calculate the cost of buying extra pension by paying Additional Pension Contributions and produce an application form.
- Information about Additional Voluntary Contributions with Aviva.
- Forms for Expression of Wish and nominating a co-habiting partner
- Opt in and opt out forms
- Links to other relevant websites

Technology

Pension Services makes good use of technology within the team. During 2014/15 a new pension administration system purchased from Civica, UPM, was implemented. More than 20,000 member records together with hundreds of thousands of documents were transferred from the existing system to UPM. This included historic records for members who may have left the Scheme over 30 years ago. The go-live date was 8 December 2014. There have been some issues which have taken Civica a little time to resolve but progress is being made. During 2015/16 the second stage of the project will be launched. This is self service for members and employers. This should create significant efficiencies within the Pensions Team.

Dispute Resolution

From the day a person starts a job with an employer, to the day when benefits or dependant's benefits are paid, the employer and the Pension Scheme administering authority have to make decisions under the Pension Scheme rules that affect the member and his/her dependents.

If the member is not satisfied with any decision affecting him/her, made in relation to the Scheme, he/she has the right to ask for it to be looked at again under the formal complaint procedure. He/she also has a right to use the procedure the employer or administering authority should have made a decision, but has not done so.

The Internal Dispute Resolution Procedure (IDRP) has two stages. In the first stage, the matter is considered by a person nominated by the employer. At Royal Borough of Kingston this is the Team Leader - Pensions who, after reviewing the matter, will write formally to the member giving the reasons for overturning the original decision or for upholding it. If the member is still dissatisfied, he/she can refer the matter to the Director of Finance for consideration under Stage 2 of the Procedure.

At any stage in the process, the member can contact The Pensions Advisory Service for assistance in making his/her case. If, after the two stage internal procedure, the member is still dissatisfied, he/she can take his/her case to the Pensions Ombudsman.

Contributions

Employer	**Contributions**		
Scheduled Bodies	**Employer**	**Employee**	**Employee Additional**
	£	**£**	**£**
RBK (including cheque book schools)	12,798,277	3,105,291	89,966
Kingston University	7,771,707	2,106,135	52,634
Kingston College	807,312	186,767	3,393
Academy Schools			
Tiffin Girls School	158,291	40,187	-
Tiffin School	204,761	50,932	-
Tolworth Girls School	275,077	67,126	-
Richard Challoner School	206,038	48,520	-
Hollyfield School	191,231	45,013	575
St Agatha’s Primary School	84,273	22,093	-
Coombe Boys School	153,382	39,150	270
Coombe Girls School	192,838	46,073	-
Southborough School	115,004	28,021	2,751
Holy Cross School	131,684	34,288	-
Latchmere Primary School	221,140	58,718	13,528
Castle Hill Primary School	11,296	2,635	-
Knollmead	111,297	25,299	100
Admitted Bodies			
Kingston Grammar School	6,277	1,466	-

Hillcroft College	80,929	25,879	-
Kingston Town Centre Management Ltd	57,569	22,010	7,421
London Grid for Learning	152,574	86,794	14,137
Kingston and Sutton Educational Partnership	560,417	184,343	5,222
Your Healthcare	478,818	127,267	1,765
Balance CIC	166,092	62,425	686
Compass (Cygnet)	-	-	-
Admitted (Designated) Bodies			
Achieving for Children	1,525,513	687,542	29,920

Employee additional contributions are not included in the bands.

There are two other admitted bodies detailed in the Statement of Accounts, Coombe Oak and Glencross Cleaning, neither of whom have active members. Glencross Cleaning was a Transferee Admission body. The contract has ended and the members transferred back to the RBK School, however both bodies continue to have liabilities in the form of deferred and pensioner members.

Financial Performance

There were some late payments of contributions at the beginning of the year for schools that moved their payroll provider from the Council's provider to Strictly Education. This was resolved from June 2014 onwards.

Pension Fund Panel

The Pension Fund Panel meets at six times a year. The responsibilities of the Panel include:

- Setting the investment policy for the Scheme;
- Appointing investment managers, advisers and the custodian;
- Reviewing the performance of the investment managers and the investments held by the Fund; and
- Corporate governance policy.

In addition, on a three yearly cycle the Panel formally reviews the Fund's investment management arrangements. However, if circumstances dictate, the arrangements may be reviewed at any time.

The Council Members Serving on the Panel during 2014-2015:
From May 2014:

Councillor Eric Humphrey (Chair)
Councillor Rowena Bass (Vice Chair)
Councillor Mike Head
Councillor John Ayles
Councillor Thay Thayalan

From April - May 2014:

Councillor Rolson Davies (Chair)
Councillor Trevor Heap (Vice Chair)
Councillor Barry O'Mahony
Councillor Julie Pickering
Councillor Eric Humphrey

Observer Members:

Janis Brumwell	(Kingston College)
Mark Butcher	(Kingston University)
Majid Mafi	(Staff Representative)
Chris Coke	(Association of Retired Council Officers (ARCO))

Co-opted Member for Independent Advice:

Matthew Lambe

The Panel's Terms of Reference will be modified in 2015-16 to reflect the proposed introduction of a local Pension Board required under section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013 (as amended).

Management Contacts

Management and administration of the Pension Fund is delegated to the Director of Finance. Pension Services is responsible for the day-to-day administration of the Pension Fund. The Strategy Team within the Council's Finance Department has responsibility for the investment of the Pension Fund. The Head of Finance - Strategy & Accounting is responsible for the production of the annual report.

Director of Finance	Leigh Whitehouse
Head of Finance - Strategy & Accounting	Jeremy Randall
Team Leader - Pensions	Sue Grimstead

Scheme Administration Contacts

If you have any questions about Scheme Administration you should contact the Pensions Team. They can also supply you with copies of any of the Scheme's official documents (for example, the Pensions Charter or Scheme booklet) if you do not have access to the internet.

How To Contact Us

If you want to write to us, this is our address

Pension Services
Royal Borough of Kingston upon Thames
Guildhall
Kingston upon Thames
Surrey KT1 1EU

Fax us on: 020 8547 5611
Email us: pensions@kingston.gov.uk www.kingston.gov.uk/pensions

We would prefer that you contact us by e-mail but if you do not have access to e-mail you can telephone a member of the Pensions Team:

	Telephone
New Members and Contribution Returns from External Payrolls	020 8547 5725
Teachers' Pensions and Deferred Benefits	020 8547 5721/4
Transfers of Pension Rights In/Out and Retirement Benefits	020 8547 5721/5
Divorce, Redundancy payments, Retirement and Death Benefits	020 8547 5615/0
Redundancy Payments, Retirement and Death Benefit	020 8547 5722

External Bodies	020 8546 5616
Overall Pensions Service and Policy	020 8547 5614

Fund Managers and Advisers Contacts

Name:	Address:	Website:
Investment Managers		
UBS Global Asset Management	21 Lombard Street London EC3V 9AH	www.ubs.com
Fidelity Investment Management	25 Cannon Street London EC4M 5TA	www.fil.com
Henderson Global Investors	201 Bishopsgate London ECM 3AE	www.henderson.com
Schroders Investment Management Ltd	31 Gresham Street London EC2V 7QA	www.schroders.com
ColumbiaThreadneedle Investments	60 St Mary's Axe London EC3A 8JQ	www.columbiathreadneedle.com
Standard Life Investments	30 St Mary's Axe London EC3A 8EP	www.standardlifeinvestments.com
Pyrford International Ltd	95 Wigmore Street London W1U 1HH	www.pyrford.co.uk
Custodian		
JP Morgan Chase Bank	25 Bank Street London E14 5JP	www.jpmorgan.com
Investment Consultant		
Aon Hewitt	10 Devonshire Square London EC2M 4YP	www.aonhewitt.com
Fund Actuary		
Hymans Robertson LLP	20 Waterloo Street Glasgow G2 6DB	www.hymans.co.uk
Auditor		
Grant Thornton UK LLP	Melton Street London NW1 2EP	www.grant-thornton.co.uk

AVC Providers		
Equitable Life Assurance Society	PO Box 177 Walton Street Aylesbury Buckinghamshire HP21 7YH	www.equitable.co.uk
Aviva	PO Box 520 Norwich NR1 3WG	www.equitable.co.uk
Legal Services		
South London Legal Partnership	DX 31515 Royal Borough of Kingston Upon Thames Guildhall 2 High Street Kingston Upon Thames Surrey KT1 1EU	
Bankers		
National Westminster Bank	5 Market Place Kingston upon Thames Surrey KT1 1JX	
Independent Performance Measurers		
State Street Global Services Performance Services	525 Ferry Road Edinburgh EH5 2AW	www.statestreet.com

APPENDICES

The following documents are appended to this report and will also be made accessible via the following link:

www.kingston.gov.uk/pensions

- Auditors Report 2014-15
- Pension Fund Statement of Accounts 2014-15
- Actuarial Valuation Report as at 31 March 2013
  (Extract only appended. Full report available via the link)
- Statement of Investment Principles
- Aon Hewitt Investment Strategy Review Summary
- Funding Strategy Statement
  (Extract only appended. Full report available via the link)
- Governance Compliance Statement
- Communications Policy Statement

APPENDIX 1: Auditors Report 2014-15

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF THE ROYAL BOROUGH OF KINGSTON UPON THAMES ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements of the Royal Borough of Kingston upon Thames for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Royal Borough of Kingston upon Thames, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Pension Fund's financial statements, in accordance with applicable United Kingdom law, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of the Royal Borough of Kingston upon Thames, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the Introduction and Overview, Risk Management and Financial Performance, Investment Policy and Performance, Administration and Benefits, Appendices 1 to 8 and Glossary..

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of the Royal Borough of Kingston upon Thames for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Grant Thornton UK LLP

Grant Thornton House
Melton Street
London
NW1 2EP

23 September 2015

APPENDIX 2: Pension Fund Statement of Accounts 2014-15

Presented to Audit, Governance and Standards Committee on 23 September 2015

Pension Fund – Explanatory Foreword 2014/15

The following sets out the statutory accounts of the Royal Borough of Kingston upon Thames Pension Fund and covers the period that runs from 1 April 2014 to 31 March 2015. The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the fund. The accounts for the Pension Fund are audited separately from the Council's main accounts.

The Pension Fund is administered according to the Local Government Pension Scheme (LGPS) Regulations and covers employees of the Council and a number of other bodies – these are listed in Note 1 to the accounts.

From 1 April 2014 the LGPS has been operating under some new provisions which include changes to the basis of pension; the accrual rate; the revaluation rate; the definition of pensionable pay and employee contribution rate. There are also minor changes to contribution flexibility; normal pension age; death in service survivor benefits; ill health provision; indexation of pension payment and vesting period.

It should be noted that from 1 April 2014, the Council set up a jointly owned company with London Borough of Richmond, called Achieving for Children (AfC), to deliver children's services to both boroughs. Under TUPE arrangements a large number of staff have transferred into AfC, however, AfC will remain an admitted body of the Pension Funds of both Councils, meaning that there is no effect on the membership of those Pension Funds from the AfC venture. This has come into effect for the 2014/15 financial year.

The accounts of the Pension Fund are maintained separately from the Council's main accounts and consist of the Fund Account, Net Assets Statement and notes. The Pension Fund has been built up over many years by contributions from the member employers and participating employees to provide pensions and lump sum payments for members of the fund upon reaching retirement age, and other benefits as specified. Every three years the appointed actuary values the fund's assets to assess whether there are sufficient monies available to meet its current pension's liabilities. Each employer's contribution to the fund is based on these triennial valuations, whilst members pay a fixed percentage dependent on their earnings. The latest triennial valuation was carried out as at 31 March 2013, and the results have been reflected in employer contributions from 1 April 2014. Details of this valuation used in this set of accounts can be seen in Note 16.

The Council is responsible for the investment of the assets of the Fund and agreeing the investment policy within the regulations covering Local Authority Pension schemes. These duties are carried out by a panel of Councillors, the Pension Fund Panel, who are advised by the Director of Finance and the Head of Finance (Strategy & Accounting). The Pension Fund Panel also took professional investment advice during the year.

The arrangements regarding Teacher's pensions and NHS Pensions, however, are different, as they do not belong to the RBK Pension Fund. Teachers' pensions are within a national scheme overseen by the Teachers Pensions Agency which is responsible for administering and paying teachers pensions. NHS Pensions are also within a national scheme overseen by the NHS Business Services Authority.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. The statutory Chief Finance Officer was the Director of Finance.
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets, and
- approve the Statement of Accounts.

Responsibilities of the Director of Finance

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

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

The Director of Finance has also:

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

CERTIFICATE OF THE DIRECTOR OF FINANCE

I certify that the Pension Fund Statement of Accounts set out on pages 36 to 57 present a true and fair view of the financial position of the Pension Fund as at 31 March 2015 and its income and expenditure for the year then ended.

Leigh Whitehouse LLB CPFA
Director of Finance
30 June 2015

NET ASSETS STATEMENT

31 March 2014 £000		Notes	31 March 2015 £000
	Investment Assets:		
142,761	Equities Quoted	12	158,577
4	UK Unquoted	12	0
392,519	Pooled Investment Vehicles	12	476,060
499	Other Investment Balances	12	790
7,350	Cash Deposits	12	5,435
543,133			640,862
0	**Investment Liabilities**		0
543,133	**Net Value of Investments Assets**		**640,862**
7,527	**Current Assets**	18	9,743
(1,991)	**Current Liabilities**	19	(4,294)
548,669	**Net Assets of the Fund Available to Fund benefits at the period end**		**646,311**

FUND ACCOUNT

2013/14 £000s		Note	2014/15 £000s
	Dealings with members, employers and others directly involved in the Fund		
	Contributions:		
(24,742)	From Employers	7	(26,470)
(6,652)	From Members	7	(7,326)
(3,312)	Individual Transfers in from Other Pensions Funds		(1,463)
(6,300)	Group Transfers in from Other Pensions Funds		(2,100)
(41,006)			(37,359)
	Benefits:		
19,938	Pensions	8	21,820
5,375	Commutation, Lump Sum Retirement & Death Benefits	8	4,636
	Payments to and on Account of Leavers:		
2,216	Individual Transfers		189
800	Bulk (Group) Transfers		1,601
4	Refunds to Members leaving service		27
28,333			28,273
(12,673)	**Net (Additions)/Withdrawals from Dealings with Members**		**(9,086)**
3,376	**Management Expenses**	9	3,729
	Returns on Investments		
(4,273)	Investment Income	10	(5,184)
0	Other Income		
12	Taxes on Income (Irrecoverable Withholding Tax)	10	211
(4,261)			(4,973)
(33,754)	**Profit and loss on disposal of investments and changes in the market value of investments**	13	**(87,312)**
(38,015)	**Net Return on Investments**		**(92,285)**
(47,312)	**Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year**		**(97,642)**
(501,357)	Opening Net Assets of the Scheme		**(548,669)**
(548,669)	Closing Net Assets of the Scheme		**(646,311)**

NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

a). General

The Royal Borough of Kingston upon Thames Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Kingston. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Royal Borough of Kingston upon Thames and the admitted and scheduled bodies in the Pension Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index (CPI).

The Fund is governed by:

- the Public Services Pensions Act 2013
- the LGPS Regulations 2013 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

b). Funding

The Pension Fund is finance by contributions from employees, the Council, admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year end 31 March 2015. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 13.9% to 32% of pensionable pay. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency. The Fund also excludes those contributing to the NHS Pensions Scheme.

c). Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Royal Borough of Kingston Pension Fund include:

• Scheduled bodies which are local authorities or other similar bodies whose staff are automatically entitled to be members of the fund

• Admitted bodies which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the public sector. This includes designated admitted bodies

Member Bodies are as follows:

Scheduled Bodies	
Royal Borough of Kingston upon Thames	Tiffin Boys School
Kingston College	Hollyfield School
Kingston University	Tolworth Girls School
Coombe Boys School	St Agatha's School
Coombe Girls School	Southborough School
Richard Challoner School	Latchmere School
Tiffin Girls School	Holy Cross
Knollmead School	Castlehill Primary
Admitted Bodies	
Hillcroft College	Kingston & Sutton Educational Partnership
Kingston Grammar School	Balance Community Interest Company
Kingston Town Centre Management Ltd	Your Healthcare
London Grid for Learning	Compass (Cygnet)
Admitted Bodies (Designated Bodies)	
Achieving for Children Ltd	

The following table summarises the membership numbers of the scheme:

31 March 2014		31 March 2015
21	Number of Employers with active members	21
	Active Members (Employees)	
2,635	Royal Borough of Kingston upon Thames	2,234
1,530	Other scheduled bodies	1,611
220	Admitted bodies	634
4,385		4,479
	Deferred Members	
3,200	Royal Borough of Kingston upon Thames	3,230
1,204	Other scheduled bodies	1,359
79	Admitted bodies	94
4,483		4,683
	Retired Members	
2,525	Royal Borough of Kingston upon Thames	2,560
639	Other scheduled bodies	666
18	Admitted bodies	34
3,182		3,260
	Dependents	
406	Royal Borough of Kingston upon Thames	387
84	Other scheduled bodies	82
1	Admitted bodies	2
491		471
12,541	Total	12,893

d). Pension Fund Panel

The Council has delegated management of the Fund to the Pension Fund Panel who decide on the investment policy most suitable to meet the liabilities of the Fund and have the ultimate responsibility for the investment policy. The Panel is made up of five Members of the Council each of whom has voting rights.

The Panel has full delegated authority to make investment decisions. The Panel considers the views of the Director of Finance and the Head of Strategy and Accounting and obtains, as necessary, advice from the Fund's appointed investment advisors, fund managers and actuary.

e). Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2009 requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the Pension Fund. The Panel approved a Statement of Investment Principles in 2014/15 which can be seen on the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

http://moderngov.kingston.gov.uk/ieListDocuments.aspx?CId=408&MId=7227&Ver=4

The Panel has delegated the management of the Fund's investments to external investment managers (see note 11) appointed in accordance with regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position as at 31 March 2015 .The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2014/15' (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on a going concern basis.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not account for obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 17 of these accounts.

Accruals Concept

Income and expenditure has been included in the accounts on an accruals basis excluding transfer values to or from other schemes. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The adequacy of the Fund to pay future pensions and other benefits is reported upon separately in these accounts.

Valuation of Investments

Investments are stated at their market values as at 31 March 2015 and are determined as follows:

• all investments priced within the Stock Exchange Electronic Trading Service (SETS), a Recognised or Designated Investment Exchange or Over-The-Counter market, are valued at the bid-market prices at close of business on the exchange or market on which the investment trades, or at the last trading price recorded.

• Securities which are not covered by the above are valued at their estimated realisable value. Suspended securities are valued initially at the suspended price but are subject to constant review.

• Investments held in foreign currency have been valued on the relevant basis and translated into sterling at the rate ruling at the balance sheet date.

• Transactions in foreign currency are translated into sterling at the exchange rate ruling at the time of transaction.

Treatment of interest on property developments

The Fund was not involved in any property developments during the year.

Transfer Values

The transfer values received and paid are all individual transfers. An estimate of bulk transfers due but not received at 31 March of £8.4m is included in the Fund Account, and an estimate of transfer values payable of £1.6m is included in the Fund Account

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

Normal contributions, both from members and the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer's augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Augmentation is the cost of additional membership awarded by an employer. This was applied only by Kingston University who awarded up to two additional years membership to employees who leave under their early retirement scheme (£176,856 in 2014/15, £316,699 in 2013/14.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid which is normally when the member liability is accepted or discharged except when they are significant and material. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis.

c) Investment income

• Interest income

Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination.

Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

• Dividend Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset

• Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the financial year is disclosed in the net assets statement as a current financial asset.

• Property related income

Property related income consists primarily of rental income. Rental income from operating leases is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time are only recognised when contractually due.

• Movement in the net market value of investments

Changes in the net market value of investments (including investments properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump sum benefits include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Interest from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Investment income is shown gross of irrecoverable taxes deducted, which in 2014/15 totalled £211,347. Further detail of this expense is at Note 10. The Fund is reimbursed VAT by HM Customs and Excise and the accounts are shown exclusive of VAT.

f) Management Expenses

Pension Fund management expenses are accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.* The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance. Consequently management expenses reported in the Fund Account for 2013/14 have been increased by £0.552m to £3.376m and Profit and loss on disposal of investments and changes in the market value of investments has similarly been increased by £0.552m to £31.1m to reflect the fees which had been deducted at source.

- Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund

- Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management and accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from external consultants is included in investment management expenses

- Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.

Net Assets Statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset .From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

h) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (note 17).

i) Additional Voluntary Contributions

The Royal Borough of Kingston upon Thames Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund. AVCs are paid to the AVC providers by employers and specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in year. (Note 20)

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies as set out in Note 3 above, the council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years**.** The methodology used is within accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised at Note 16.

This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statement of accounts contains estimated figures that are based on assumptions made by the council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year, as follows:

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied.

The actuarial assumptions are largely prescribed at any point and reflect the market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment); can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is place on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude.

There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions as year ended 31 March 2015	Approximate % increase to Employer liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	9%	58,641
1 year increase in member life expectancy	3%	19,144
0.5% increase in the Salary Increase Rate	2%	14,419
0.5% increase in the Pension Increase Rate	7%	43,225

6. EVENTS AFTER THE REPORTING PERIOD END

The Statement of Accounts was authorised for issue by the Director of Finance on 30 June 2015. At this date there was one non-adjusting event to report:

• The latest value of the investments of the Fund which have decreased from £640.86m to £613.32m (as valued at 31 August 2015). This represents a change of (£27.54m) or (0.0430%).

7. CONTRIBUTIONS RECEIVABLE

Employees contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund’s actuary to maintain solvency of the Fund. The table below shows a breakdown of the total amount of employers’ and employees contributions.

2013/14 £000s		2014/15 £000s
	From Employers:	
	Royal Borough of Kingston	
(15,085)	- Normal Contributions	(12,125)
(620)	- Capitalised Cost of early retirements	(604)
(8,115)	Scheduled Bodies	(10,759)
(922)	Admitted Bodies	(1,457)
0	Admitted Bodies (Designated Bodies)	(1,525)
(24,742)		(26,470)
	Contributions from Members:	
	Royal Borough of Kingston	
(3,890)	- Normal Contributions	(2,846)
(246)	- Additional Contributions	(191)
(2,136)	Scheduled Bodies	(3,061)
(380)	Admitted Bodies	(510)
0	Admitted Bodies (Designated Bodies)	(718)
(6,652)		(7,326)
(31,394)		**(33,796)**

8. BENEFITS PAYABLE

The table below shows a breakdown of the total amount of benefits payable by category

2013/14 £000s		2014/15 £000s
19,938	Pensions	21,820
4,908	Commutation and Lump sum retirement benefits	4,345
467	Lump sum death benefits	291
25,313		26,456

9. MANAGEMENT EXPENSES

2013/14 £000s		2014/15 £000s
603	Administration Expenses	801
245	Oversight and Governance	85
21	Audit fees	21
2,507	Investment Management Expenses	2,822
3,376		**3,729**

The increase in administration costs in 2014/15, relates to the implementation costs of a new Pensions Administration IT system. Investment Management expenses contain transaction costs of £0.168m (£0.215m in 2013/14)

10. INVESTMENT INCOME

2013/14 £000s		2014/15 £000s
(3,473)	Equity Dividends	(3,530)
(705)	Pooled Investments	(1,608)
(95)	Interest on Cash Deposits	(46)
(4,273)	**Total before Taxes**	**(5,184)**
12	Taxes on Income	211
(4,261)	**Total**	**(4,973)**

Investment income is lower than reported in previous years due to the proper recognition of a change in market value of re-invested assets with Henderson Global Investors, which was previously treated incorrectly as income. The above table has been restated for 2013/14. The correct recognition has no overall impact on the net assets of the fund.

11. INVESTMENT MANAGEMENT ARRANGEMENTS

The Fund is managed by seven investment managers. The Fund's longest standing manager is UBS who retain approximately 5% of the Fund in a property portfolio. In September 2009, four additional managers were appointed who manage the Fund's equity and bond portfolios. In January 2014, a further two managers were appointed to manage Diversified Growth Funds in line with a revised investment strategy.

All of the investment managers have written agreement with the Council in respect of the services they provide. The Financial Services Authority also regulates them in carrying on investment management business. They are entitled, at their discretion, to manage the assets of the Scheme by buying and selling investments in order to seek to achieve their specific objectives within the agreed investment guidelines and regulations. When choosing investments, they must have regard to the need for diversification of investments and the overall suitability of those investments to the Scheme. In managing the portfolio, they aim to attain a level of performance based on a benchmark return.

The management fees charged by the fund managers are calculated on a sliding scale, based on the value of the funds managed at the end of each quarterly period.

The market value of the assets under the management of each fund manager as at 31 March 2015 is shown below. A small part of the fund is invested internally – this is cash held for short term cash flow reason or pending allocation to one of the investment managers.

2013/14 £000s	2013/14 %		2014/15 £000s	2014/15 %
4,364	0.80	Internally Invested Funds	1,700	0.27
20,205	3.72	UBS Global Asset Management	23,477	3.66
162,457	29.91	Fidelity Pensions Management	180,384	28.15
129,099	23.77	Threadneedle Asset Management	119,025	18.57
106,124	19.54	Schroder Investment Management	90,231	14.08
70,953	13.06	Henderson Global Investors	81,281	12.68
25,089	4.62	Pyrford International	71,855	11.21
24,842	4.58	Standard Life	72,909	11.38
543,133	**100.00**		**640,862**	**100.00**

In addition to individual performance benchmarks for each fund manager, the Pension Fund's overall performance is analysed relative to the WM Local Authority Universe which is representative of the UK Local Authority Pension Fund peer group. During 2014/15, the Pension Fund Panel met quarterly and received reports on the performance of the various fund managers. Fund investments performance showed a one year return of 16.4% compared with the average return for the WM Local Authority Universe of 13.2%. The annualised return over three years for the fund was 12.9%, a relative outperformance of 1.9% against the WM Local Authority Universe average return of 11.0%. The market value of the Fund's investment assets rose from £543.1m as at 31 March 2014 to £640.9m as at 31 March 2015

12. ANALYSIS OF INVESTMENTS AND MAJOR INVESTMENTS

Analysis of investments

Market Value at 31 March 2014 £000	Analysis of Investments	Market Value at 31 March 2015 £000
	Equities Quoted:	
24346	Consumer	25,928
16,410	Manufacturing	17,579
15,453	Energy & Utilities	14,803
27,392	Financial Institutions	28,497
17,957	Health & Care	22,582
23,658	Information Technology	26,676
17,545	Other	22,512
142,761		158,577
	UK Unquoted:	
4	Finanical Institutions	0
4		0
	Pooled Investment Vehicles:	
19,708	Property	22,461
129,099	Unitised Insurance Policies	119,025
243,712	Other Managed Funds	334,574
392,519		476,060
	Other Investment Balances	
704	Accrued Income	777
(205)	Outstanding Transactions	13
499		790
535,783	**Total Investment Assets**	**635,427**
	Cash held by Fund Managers:	
582	Sterling	1,110
2,405	Foreign Currency	2,625
4,363	Cash held internally by Kingston Pension Fund	1,700
7,350	**Total Cash Deposits**	**5,435**
543,133		**640,862**

Major investments

The following investments represent more than 5% of the net assets of the scheme:

Market Value 31 March 2014 £000	as % of investment assets 31 March 2014	Major Investments	Market Value 31 March 2015 £000	as % of investment assets 31 March 2015
129,099	23.76%	Threadneedle Asset Management Ltd TPN Global Equity Fund	119,025	18.57
106,124	19.54%	Schoder Inv. Management Ltd QEP Global Active Value Fund	90,231	14.08
50,541	9.31%	Henderson Global Investors Ltd All Stocks Credit Fund	57,342	8.90
25,089	4.62%	Pyrford Global Total Return Fund	71,855	11.21
24,842	4.57%	Standard Life Global Absolute Return Strategies.	72,908	11.38

13. RECONCILIATION OF MOVEMENT IN INVESTMENT VALUES

	Value at 31 March 2014 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2015 £000
Equities	142,765	87,111	(99,134)	27,835	158,577
Managed and Unitised Funds	392,520	93,312	(69,407)	59,635	476,060
Currency Contracts/Futures	(1)	88	(80)	(9)	(2)
Outstanding Traded Securities	(221)			(149)	(370)
	535,063	180,511	(168,621)	87,312	634,265
Cash and cash equivalents	8,070				6,597
Totals	**543,133**				**640,862**

The reduction of cash balances was mainly attributable to reduced exposure to Royal Bank of Scotland and Natwest Bank, upon advice from the Authority's Treasury Management advisors. These funds were used to fund allocation to the two Diversified Growth Fund managers appointed in the year (Pyrford & Standard Life).

Transaction costs are reported separately in Note 9.

14. FINANCIAL INSTRUMENTS

14a. Classification of financial instruments

Accounting policies describe how different classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities, by category and net assets statement heading.

No financial assets were re-classified during the financial year.

At 31 March 2014: Designated as fair value through profit and loss £000	At 31 March 2014: Loans and Receivables £000	At 31 March 2014: Financial liabilities at amortised cost £000		At 31 March 2015: Designated as fair value through profit and loss £000	At 31 March 2015: Loans and Receivables £000	At 31 March 2015: Financial liabilities at amortised cost £000
			Financial Assets			
142,765			Equities	158,577		
372,811			Pooled Investments	453,599		
19,708			Pooled Property Investments	22,461		
	7,350		Cash Deposits		5,435	
	0		Investment Income due		0	
	7,527		Debtors		9,743	
499			Other Investment balances	790		
			Financial Liabilities			
		(1,991)	Creditors			(4,294)
535,783	**14,877**	**(1,991)**		**635,427**	**15,178**	**(4,294)**

14b. Net gains and losses on financial instruments

31 March 2014 £000		31 March 2015 £000
	Financial Assets	
34,022	Fair value through profit and loss	87,461
(268)	Loans and receivables	(149)
33,754		**87,312**

14c. Fair value of financial instruments and liabilities

31 March 2014: Carrying Value £000	31 March 2014: Fair Value £000		31 March 2015: Carrying Value £000	31 March 2015: Fair Value £000
		Financial Assets		
535,783	535,783	Fair Value through profit and loss	635,427	635,427
14,877	14,877	Loans & Receivables	15,178	15,178
		Financial Liabilities		
(1,991)	(1,991)	Financial Liabilities at amortised cost	(4,294)	(4,294)
548,669	**548,669**		**646,311**	**646,311**

14d. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

All the financial instruments of the fund are classified as level 1, where their fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Products classified as level one comprise quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The value of the investment is based on the bid market quotation of the relevant stock exchange. The following tables show the valuations at fair value for the years ended 31 March 2015 and 31 March 2014.

31 March 2014			31 March 2015	
Quoted Market Price Level 1 £000	Total £000		Quoted Market Price Level 1 £000	Total £000
		Financial Assets		
535,783	535,783	At Fair Value through profit and loss	635,427	635,427

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key risks

The Pension Fund's activities expose it to a variety of financial risks:

- market risk – the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.
- credit risk – the possibility that other parties might fail to pay amounts due to the Pension Fund.
- liquidity risk – the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.
- re-financing risk – the possibility that the Pension Fund might be requiring to sell a financial instrument below its purchase price.

Overall Procedures for Managing Risk

The Pension Fund's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and the associated regulations. These regulations set out permissible financial instruments, require the Administering Authority to maintain and invest on behalf of the, Pension Fund in accordance with its investment principles, to take professional advice, to review investment performance and to operate a separate Pension Fund bank account. Overall these procedures require the Administering Authority to manage Pension Fund risk by maintaining and investing in accordance with a:

- Statement of Investment principles;
- Funding Strategy Statement;
- Statement of Governance Policy;
- Governance Compliance Statement.

The Pension Fund Investment Strategy is reviewed at least triennially following actuarial valuation by the Pension Fund Panel who monitor investment performance and compliance quarterly, including the internal control arrangements of external fund managers and the custodian.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.
The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short, is unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Asset Type	Values as at 31 March 2015 £000	Change +/- £000	Value on Increase £000	Value on decrease £000
Global Equities	383,349	9.16%	418,464	348,234
Diversified Growth	144,763	4.00%	150,553	138,972
Total Bonds	77,186	4.88%	80,952	73,419
Cash	13,103	0.01%	13,104	13,101
Property	22,461	3.91%	23,340	21,583
Total	**640,862**		**686,413**	**595,310**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.
The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 6.0% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table summarises the fund's currency exposure as at 31 March 2015 along with the impact that a 6.0% strengthening / weakening of the pound against the various currencies in which the fund holds investments would have on the values.

Asset Type	Values as at 31 March 2015 £000	Change +/- £000	Value on Increase £000	Value on decrease £000
Overseas Equities	338,307	6.00%	358,618	317,997
Overseas Corporate Bonds	40,675	6.00%	43,117	38,233
Overseas Diversified Growth Funds	144,763	6.00%	153,454	136,072
Total	**523,746**		**555,189**	**492,302**

The 'Value on Increase' and 'Value on Decrease' for an individual currency exposure is calculated with reference to that currency's volatility, relative to GBP, over the three years to March 2015. Because currency changes are not necessarily correlated it is not appropriate to sum the outputs from each currency. In calculating the increase and decrease at a total fund level, it is necessary to establish the change in value of the aggregate of currencies held. It is this change that is applied to the overall currency exposure.

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund has selected bond managers who have an investment strategy which requires investment only in high investment grade and collaterised products and who use research and market knowledge to minimise exposure to credit risk. The Pension Fund uses a custodian to ensure that all money due is paid in full and on time. Internally invested cash is placed in a special interest bearing account with the Council's bankers.

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case to meet the pensioner payroll costs; and also cash to meet investment commitments. The RBK fund currently remains cash flow positive with contributions exceeding pensions payable, though this is regularly monitored.

The council has immediate access to a proportion of its pension fund cash holdings, as these are held in an instant access special interest bearing account maintained by Council officers. The remainder is invested in fixed term deposits taking into account likely future cash flows. Surplus funds are invested externally with fund managers. In the event of a funding shortfall the LGPS regulations permit the administering authority to borrow on behalf of the Pension Fund for up to 90 days. If required, funds can also be called back from investment managers to meet liabilities.

d) Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

16. FUNDING ARRANGEMENTS

Actuarial Position

Rates of contributions paid by the participating Employers during 2014/15 were based on the actuarial valuation carried out as at 31 March 2013, by the Fund's actuary, Hymans Robertson.

The following table shows a summary of the results of the valuation:

Past Service Position	31 March 2013 £m
Past Service Liabilities	712
Market Value of Assets	502
Surplus/ (Deficit)	(210)
Funding Level	**70.5%**

Financial Assumptions	31 March 2013 £m	
	Nominal	Real
Discount Rate	4.6%	2.1%
Salary Increases *	4.3%	1.8%
Pension Increases	2.5%	-

** Excluding promotional increases.*

As a result of these changes, the employer contribution rates which would be required from participating employers have increased as follows:

Contribution Rates	31 March 2013 (% of pay)
Employer Future Service Rate *	20.5%
Past Service Adjustment (21 year spread) **	10.9%
Total Employer Contribution Rate	31.4%

**rate required to meet the liabilities arising in respect of service after the valuation date*
*** rate required to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over an average recovery period of 21 years from the valuation date, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation.*

The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. Their contribution rates are calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

The rates of contributions payable by each participating Employer over the period 1 April 2014 to 31 March 2017 are set out in a certificate dated 31 March 2014 which is appended to the actuary's report on the actuarial valuation. For those bodies which became separate employers within the fund since the valuation date, their contributions rates have been calculated individually and certified by the Fund's actuary.

17. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2015, of the actuarial valuation of promised retirement benefits as set out in IAS26 and that the actuarial present value should be calculated on an IAS 19 basis. This is a change from the previous practice where the Pension Fund accounts only showed the value of the assets.

IAS26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the IFRS.

31 March 2014 £m		31 March 2015 £m
(833)	Actuarial Fair Value of Promised retirement benefits	(996)
549	Net Fund Assets available to fund benefits	646
(284)		**(350)**

Actuarial present value of the promised retirement benefits as at 31 March 2015 is £996.0m. Actuarial present value of the promised retirement benefits as at 31 March 2014 is £833.0m.

18. CURRENT ASSETS

31 March 2014 £000		31 March 2015 £000
86	HMRC Tax	86
218	Contributions due - employees	240
747	Contributions due - employers	781
6,341	Transfers In	8,465
116	Other debtors	160
19	Cash	11
7,527		**9,743**

19. CURRENT LIABILITIES

31 March 2014 £000		31 March 2015 £000
(7)	Fund Custodian Fees	(8)
(418)	Fund Managers' Fees	(462)
(362)	Benefits payable	(294)
(800)	Transfer Values	(1,658)
(404)	Other Creditors	(1,872)
(1,991)		**(4,294)**

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

A number of active Fund members have elected to pay additional voluntary contributions to increase their personal benefits. Regulation 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require that these are not paid into the Pension Fund.

The total AVCs paid by members in 2014/15 were £85,137 (£94,438 in 2013/14), as below:

2013/14 £000		2014/15 £000
0.3	Equitable Life	0.3
94.1	Aviva	84.8
94.4		**85.1**

These are invested with the Council's approved AVC providers and are a money purchase arrangement. At 31 March 2015, the total value of the AVC fund with Aviva was £844,001 (£778,700 at 31 March 2014) and with Equitable Life was £142,757 (£144,561 at 31 March 2014).

21. RELATED PARTY TRANSACTIONS

The Council is a related party to the Fund and in accordance with the regulations the Council's expenses in administering the scheme are charged to the Fund. The amount charged by the Council for 2014/15 was £933,874 (£684,075 in 2013/14)

None of the Councillors voting on the Pension Fund Panel are members of the Pension Fund.

The key management personnel for the Pension Fund are the same as for the Council as a whole. Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's accounts, and are within scheme administration and investment management expenses as above. The costs of the Director of Finance cannot reasonably be apportioned in this way. Extra disclosure can be seen in the Authority's accounts under the notes related to Senior Officer's remuneration and Related Party Transactions.

The Council has a significant interest in one designated body (Achieving for Children Ltd) which is within the Fund and it received £1.526m in employer contributions, deficit and early retirement costs from this body.

22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no known contingent liabilities or contingent assets as at 31 March 2015. There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

APPENDIX 3: Statement of Investment Principles

Approved at Pension Fund Panel meeting on 24 February 2015

Background

The Royal Borough of Kingston upon Thames Pension Fund (‘the Fund’) is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. The Statement sets out the principles governing the decisions about investment for the Fund and has been prepared by the Pension Fund Panel (‘the Panel’). The Statement is set out below and it is made for the purposes of and meets the requirement of the regulations.

In preparing and reviewing the SIP, the Panel has taken professional advice from its adviser, Aon Hewitt, and will supply the Statement to the investment managers appointed to manage the assets of the Fund.

The Fund covers employees of the Council (excluding teachers and employees in the NHS pension scheme), and certain other specified bodies including Kingston University and Kingston College. The Council has a duty to ensure that the Fund’s assets which are not needed immediately to pay pension benefits are suitably invested. The Council carries out this function through the Panel which reports to the Treasury Committee. The principal employers and trade unions are represented on the Panel and their views taken into account in Panel decisions.

Investment Objectives

As at April 2010, the funding level was 72.6%. The Panel’s primary funding objective for the Fund was to be fully funded on an ongoing basis over a period of 21 years from 1 April 2011.

The 2013 statutory actuarial valuation of the Fund was completed in March 2014 and it revealed a funding level of 70.5%. The Panel at its meeting in May 2014, agreed to amend the Funding Strategy Statement to restore the Fund to being 100% funded in 21 years from 1 April 2014.

In 2014-15, the Panel commissioned an Asset-Liability Study to evaluate the appropriateness of the current asset mix against the pattern of liabilities to inform the Panel’s decision. Various strategy options were explored with regard being paid to the efficiency of the strategies as well as the level of risk associated with each option. Due consideration was also given to maintaining an appropriate level of diversification and long term stability in employer contribution rates.

Originally, the Panel adopted an investment strategy of 85% global equities and 15% UK bonds (initially 100% corporate bonds). This did not reflect the retention of the existing investment in property. Consequently, the strategic allocation to global equities was reduced and the overall strategy changed to 80% global equities, 15% bonds and 5% property effective from 30 September 2009. Subsequently, the strategy was modified to 70% global equities, 15% bonds, 10% Diversified Growth Funds and 5% Property with effect from 15 January 2014 following a high level review in 2012-13.

During 2014-15, the Panel conducted a review of the investment strategy amongst other things to explore the possibility of diversifying into alternative asset classes. Following the review, the Panel at its meeting on 11 December 2014, agreed to change the investment strategy to 60% global equities, 20% Diversified Growth Funds, 15% bonds and 5% property from 1 March 2015. The change in asset allocation was aimed at reducing volatility and associated risk. The modelling supporting the Asset-Liability Study suggested a high (82%) probability of the current investment strategy meeting the stated funding objective within 10 years.

The Panel also endorsed the introduction of tolerance ranges around the Fund's strategic allocation with an appropriate rebalancing policy (excluding property – due to allocation size and illiquidity) and a pragmatic process to ensure that the Fund's asset allocation is consistently within the agreed investment strategy.

Below is a breakdown of the current strategic asset allocation of the Fund and the permitted ranges for the rebalancing policy:

Asset Class	**Strategic Allocation (%)**	**Permitted Range (%)**
Equities	60%	55 – 65%
Diversified Growth Funds	20%	15 – 25%
Bonds	15%	10 – 20%
Property	5%	No rebalancing – current strategic weight of 5%

Investment Responsibilities

The Panel's investment responsibilities are set out below:

- To set the investment policy for the Fund.

- To appoint investment managers, advisers and custodians.

- To review:
  - the performance of the investment managers and factors that may impact their ability to meet performance targets
  - investments held in the Fund
  - performance of the overall Fund

- To review and approve the content of this SIP at least every three years and immediately following any material change in investment policy

- In addition to the system of regular monitoring, to formally review every three years the Fund's investment management arrangements. However, if necessary, the arrangements may be reviewed at any time.

- To monitor the extent that the investment managers, advisers and custodians exercise their powers of investment and other duties with a view to following the principles contained in this SIP so far as practical; and

- To monitor the Fund's asset allocation on a regular basis to determine whether rebalancing is required in line with the agreed ranges, subject to the Panel's views on the direction of future strategy, funding level and medium term outlook for the asset class.

Expert Advice
The Panel is supported by the Authority's finance officers. Also the Panel has appointed an independent advisory member. In addition, Aon Hewitt has been appointed for investment consultancy services under a Framework Agreement and Hymans Robertson for actuarial services under a Framework Agreement to carry out the statutory triennial actuarial valuation of the Fund.

Management of Investments
The Panel is responsible for the investment of the Fund and agreeing the investment policy in line with the regulations.

The Panel has delegated the responsibility for the day-to-day management of the assets to seven investment managers, all authorised and regulated in the UK by the Financial Conduct Authority (FCA) in the conduct of investment business. The external managers may only delegate their duties under the IMA to third parties with the prior written consent of the Panel and all third parties employed by the investment managers must adhere to this SIP.

The Panel has taken professional advice and believes that the Fund's investment portfolio is sufficiently diversified and proper balance between the different categories of investments maintained at all times to safeguard its policy towards risk.

The Royal Borough of Kingston upon Thames is one of the founding authorities of the London Collective Investment Vehicle (CIV) and a shareholder of London LGPS CIV Limited established to foster collaboration amongst LGPS Funds and promote greater efficiencies in investment management. The CIV is currently in the advanced stage of obtaining the required FCA approval and it is anticipated that the Panel would utilise the vehicle to manage some of the Fund's investments.

The table below shows the Fund's current management structure, benchmarks and performance targets:

Fund Manager/ Mandate	Inception date	Benchmark	Performance target above benchmark
Fidelity Worldwide Investment Global Equities - Core	Sep 2009	MSCI All Countries World Index	1.5 – 2.0% pa
Columbia Threadneedle Investments Global Equities – High Alpha	Sep 2009	MSCI All Countries World Index	2.5 – 3.0% pa
Schroder Investment Management Global Equities - Unconstrained	Sep 2009	MSCI All Countries World Index	3.0% pa
Henderson Global Investors UK Bonds - All Stocks Credit	Sep 2009	iBoxx All Stocks Non-Gilts Index	0.5% pa
Henderson Global Investors UK Bonds - Total Return Bond	Jun 2013	No Benchmark	6.0% pa
UBS Global Asset Management UK Property	Aug 2007	IPD UK All Balanced Funds Median Index	Outperform IPD Index
Pyrford Diversified Growth Fund – Global Absolute Return Strategy	Jan 2014	RPI	5.0% pa
Standard Life Investments Diversified Growth Fund – Global Absolute Return Strategy	Jan 2014	6 Month LIBOR Rate	5.0% pa

The investment managers have agreements with the Council in respect of the services they provide and are regulated in the UK by the FCA. The managers have full discretion but in choosing investments, they must have regard to the need for diversification of investments and the overall suitability of those investments to the Fund.

Fund Rebalancing

This SIP will be revised in 2015/16 following professional investment advice and the Panel's decision on its preferred approach to rebalancing.

The Types of Investment to be Held

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) impose restrictions and limits to different types of investment to be held by the Scheme. These restrictions and limits are reflected in the Investment Management Agreements (IMAs) with fund managers and managers are required to comply with the exposure limits specified in the IMAs to control risk.

The Pension Fund Panel adheres to the statutory restrictions and limits on different types of investment applicable to all LGPS Funds and the current provision (within set parameters in the schedule to the regulations) for exercising discretion. The Panel has decided that the limit for all investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body should be 35%. The Panel has also elected to increase exposure to any single insurance contract to 35%. The Panel believes that this would help manage the investment arrangement more efficiently and cost effectively.

The table below shows the election for increased exposure limit made by the Panel in 2014-15, based on expert advice, and the position will be reviewed at the next investment strategy review to ensure that the balance between investments remain appropriate for the Fund's liability structure.

TYPE OF INVESTMENT	**REGULATORY LIMIT %**	**ELECTION FOR INCREASED LIMITS %**
Any single sub-underwriting contract	1%	-
All contributions to any single partnership	2%	-
All contributions to partnerships	5%	-
All loans and any deposits with local authorities or their preceptors	10%	-
All investments in unlisted securities of companies	10%	-
Any single holding unless guaranteed by Her Majesty's Government	10%	-
All deposits with any single bank, institution or person, (other than the National Savings Bank)	10%	-
All sub-underwriting contracts	15%	-
All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body	25%	-
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by any one body	25%	-
All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25%	35%
Any single insurance contract	25%	35%
All securities transferred (or agreed to be	25%	-

transferred) by the authority under stock lending arrangements		

The Fund's investment policy prohibits employer-related investment and the restriction includes investments in stock, assets, land and property of the principal and other employers participating in the Fund.

Stock Lending
The Fund's current policy is not to engage in stock lending.

Risk
The Panel recognises that there are risks involved in the investment of the assets of the Fund, including;

- Funding level and mismatch risk – In line with the investment objectives, the Fund invest in asset classes which are expected to demonstrate volatility relative to the Fund's liabilities. The aim of this policy is to achieve returns above those assumed in the actuarial valuation. The Panel considered a number of investment strategies with varying degrees of risk relative to the Fund's liabilities. In determining an appropriate level of risk (or expected volatility) the Panel considered:

  a) the strength of the employer's covenant and attitude to risk
  b) contribution rate volatility
  c) likely fluctuations in funding level
  d) the required return to restore the funding level over a set period in conjunction with the funding policy
  e) the tolerance to deterioration in the funding level as a result of taking risk; and
  f) the term and nature of the Fund's liabilities

- To monitor the volatility of the Fund's funding level and the success or otherwise of the investment decisions the Panel monitors on a regular basis:

  a) the return on the assets, the benchmark and the liabilities
  b) estimated funding level development and how it compares to the expected or targeted development in the funding level; and
  c) the probability of the Fund achieving its long-term funding objectives

  The Panel carry out periodic actuarial and investment reviews of the Fund. The next statutory triennial actuarial valuation will take place at 31 March 2016.

- Manager risk – In considering the management arrangement of the Fund, the Panel gives regard to the need to diversify investment managers. The Panel monitors the managers' performance on a quarterly basis, and examines the risk being run by each manager relative to the benchmark and compares the level of active manager risk and excess return of each manager against a universe of similar mandates and the benchmark. In addition, the Panel carries out comprehensive assessment of managers at the bi-annual Manager Day – the arrangement under which the Panel interviews/scrutinises the performance of the fund managers in detail at two all-day meetings in late April and late October/early November.

- Liquidity risk – The Panel has adopted a strategy that makes due allowance for the need for liquidity of the Fund's assets. The Fund maintains significant exposure to investments which in normal circumstances can be realised at short notice. Also, the Panel monitors cash flows regularly and act to ensure that there is sufficient cash to meet the Fund's commitments. The Fund has its own bank account and has immediate access to its internal cash holdings.

- Concentration risk – The Panel has adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments or fund manager is reduced by diversification of the assets and managers:

  a) by asset class (Global Equities, Bonds and other Fixed Interest, Diversified Growth Fund and other Managed Funds and Property)

  b) by region (UK, Overseas – North America, Asia Pacific, Europe, Latin America and Emerging Markets)

  c) within asset classes, by the use of a range of products and strategies with different risk/return profiles

  d) by fund manager – there are seven fund managers with separate mandates

- Market risk - The failure of investment markets to achieve the rate of investment return assumed by the Panel. This risk is considered by the Panel and its advisers when setting the Fund's investment strategy and on an ongoing basis.

- Operational risk – The risk of fraud, poor advice or acts of negligence. The Panel has sought to minimise such risks by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

  The Panel continues to monitor these risks. Additionally, the investment managers must have internal risk controls to reduce the probability of the portfolio they each manage underperforming their investment objective. The Panel may review these controls from time to time and the Panel is provided with a copy of each investment manager's AAF 01\06\SAS 70 (or equivalent) document which covers controls in place at each investment manager.

- Governance risk – The risk of insufficient capacity by the Pension Fund Panel to provide adequate stewardship and oversight over the Fund's investment arrangement. Members of the Panel receive regular briefing by officers, external professional advice and undertake regular training to inform their decision-making and support the Panel in monitoring fund managers' activity and performance. The Panel's governance capacity is enhanced by the aforementioned bi-annual Manager Day events in late April and late October/early November.

The Fund maintains key documents including Statement of Investment Principles and Funding Strategy Statement in compliance with the regulations and the Panel, in making investment decisions, give regard to the link between funding and investment.

Realisation of Investments
The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required. Ordinarily, fund managers exercise discretion in the timing and size of investments realised.

The Expected Return on Investments
The aim is to ensure that employer contribution rates are set at levels that support the Panel's aspiration to attain 100% funding over the period agreed with the Fund actuary.

Historically, the Panel adopted a risk budget of 12.0% p.a. (relative to the Fund's liabilities) which implied an expected return of 4.9% p.a. over the liabilities (including an expected return of c.2% from active management). At the 31 March 2010 actuarial valuation, the funding level was assessed to be 72.6% and the Panel agreed a deficit recovery period of 21 years with a funding strategy based on contributions and investment returns. In determining employer contribution rates, the actuary assumed a long-term investment return (the discount rate) of 2.3% pa above gilts.

At the 2013 actuarial valuation, the actuary assumed that the future investment return earned by the Fund over the long term will be 1.6% per annum above gilt yield at the time of the valuation. This results in a discount rate of 4.6% per annum. The current strategy is focused on return generation driven by allocation to equity. The Panel has diversified the sources of return from growth assets to ensure that the risk/return profile is consistent with the investment objectives set out above in the 'Investment Objectives' section. In the opinion of the actuary, based on the current strategy, this asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

Corporate Governance
The Royal Borough of Kingston upon Thames, as Administering Authority, wishes to be an active shareholder and exercise its voting rights to promote and support corporate social responsibility and good corporate governance principles in particular with regard to management and reporting. In practice, investment managers have delegated authority to exercise the Funds' voting rights in this respect, subject to the Council's prerogative to give specific instructions to the managers to vote in accordance with Council's voting policies. These are set out in the IMA with each investment manager.

The IMA with each manager outlines the guidelines the Panel wishes the investment managers to follow in respect of corporate governance. The managers are required to vote on behalf of the Panel on all resolutions at all company meetings if possible.

If the resolution is deemed not be in accordance with best practice on corporate governance, the fund manager concerned is required to vote against the resolution. Should the National Association of Pension Funds (NAPF) identify a contentious resolution (other than best practice on corporate governance) the fund manager concerned should consult the Director of Finance of the Council. For non-contentious resolutions, managers would normally vote with the board of the investee company. The managers are instructed to vote against political donations. Any investments in the investment manager's in-house funds will be subject to the manager's policy on corporate governance. The Panel will discuss this policy and activity with the managers periodically.

Sustainability

The Panel recognises that social, environmental and ethical considerations are among the factors that can affect the financial return on investments. The Panel expects each investment manager to give due consideration to these factors with particular reference to business and environmental sustainability and reputational risk when deciding on the selection, retention and realisation of individual investments. The Panel believes that adherence to this standard will not undermine the long term objectives of the Fund. The Panel will ensure through annual review that each fund manager is following this policy.

Custody

An independent custodian is appointed to arrange for the safekeeping of the Fund's assets. The relationship with the custodian is covered by a separate agreement. The current custodian is JPMorgan Chase Bank.

Monitoring

The Panel, with assistance from its independent investment adviser, reviews the performance of the investment managers and their continued appointment. The Panel meets with the investment managers on a regular basis to review performance and discuss investment policy.

The Panel also receives regular updates from State Street Global Services Performance Services on the WM Local Authority Universe, which represents the aggregate of all participating Local Authority Pension Funds on investment activity and performance. The Panel uses this Universe average as a broad comparison but acknowledge that the universe of local authorities comprises pension funds with a range of different characteristics in terms of their liability profiles, risk budgets, investment objectives and investment strategies.

The Fund's performance is therefore expected to be different from the average local authority pension fund.

The Panel will monitor the extent to which the investment managers follow the policies set out in this Statement and their compliance with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

An annual report is published on the website and a copy is offered to all members of the Fund. The report includes information on the investment performance of the Fund and the Pension Fund accounts as well as other items of interest.

Compliance with Guidance from the Secretary of State

The CIPFA publication "Investment Decision-Making and Disclosure in the Local Government Pension Scheme in the United Kingdom: A Guide to the Application of the Myners' Principles" sets out six governance principles. The Royal Borough of Kingston upon Thames as administering authority is required to report on its compliance with the principles as follows:

Principle	R.B. Kingston's Position	Evidence
1. Effective Decision Making Administering authorities should ensure that: • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	**Compliant**	• Decisions are made by the Pension Fund Panel. The Panel is supported by council officers and professional advisers. Panel discussions and decisions are recorded, implemented and monitored. • Panel members attend various training events by bodies such as CIPFA and NAPF and have sufficient expertise to scrutinise professional advice. 'Conflicts of interest' is a standing item on the agenda of all Panel meetings and members are aware of their duty to manage any conflicts of interest.
2. Clear Objectives An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers	**Compliant**	The overall objective for the Fund is to keep the employers' contribution rates as low and stable as possible while achieving full funding on an ongoing basis. In consultation with advisers, the Panel sets the objectives giving regard to the latest actuarial valuation and reviews the investment arrangements to determine the risk budget and investment strategy. The advisers also support the Panel with comprehensive training during the process. The investment managers have been advised of the objectives, current strategy and clearly defined investment performance targets for their mandate. The objectives will be reviewed following the next triennial actuarial valuation as at 31 March 2016 and investment strategy review to ensure they

		remain appropriate.
3. Risk and Liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant**	• The Panel has given due consideration to risks and liabilities as explained in the 'Risk' section above. Discussions take place between the Fund actuary and employers. • The investment strategy has been developed taking into account the liabilities profile of the Fund. Following the review of investment strategy and advice in 2014/15, the Panel modified the policy mix to further diversify the sources of return and help to mitigate some of the risks that increase liabilities.
4. Performance Assessment • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Compliant**	• Investment managers' returns are measured independently against the agreed performance targets and benchmarks. Managers are required to report on their investment activity and results to the Pension Fund Panel each quarter. In addition, the Panel conducts a comprehensive assessment of service delivery, portfolio activity and results at two 'Manager Day' events every year. Appraisal of the custodian and advisers is conducted less frequently. • The Panel checks its own performance by developing and delivering an annual work programme. Key actions are reported at the Annual Pension Fund Meeting and in the Annual Report.
5. Responsible Ownership Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities	**Compliant**	• The Panel, via the Investment Management Agreement, has instructed investment managers to adopt the Institutional Shareholders' Committee (ISC) Statement of Principles on the

of shareholders and agents, • include a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities		responsibilities of shareholders and agents. • The authority's policy on Sustainability and approach to responsible ownership is detailed in this SIP. • Fund managers are required to report voting and other activity periodically to the Panel. Shareholder responsibility matters are discussed with scheme members at the Annual Pension Fund Meeting.
6. Transparency and Reporting Administering authorities should: • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and • provide regular communication to scheme members in the form they consider most appropriate	**Compliant**	• Agendas, reports and minutes of the Pension Fund Panel meetings are available on the council's website. Audio recordings of Panel meetings are available on the website to listen to and to download/stream. Also, tailored communication to scheme members and other scheme-related material are published on the website. In addition, key documents about the management of the Pension Fund are published on the council's website – these include Statement of Investment Principles, Annual Report and Accounts, Funding Strategy Statement and Governance Compliance Statement. • The 'Pensions Charter' is published on the website. It provides current information to scheme members. Also, an Annual Benefit Statement is sent to all members together with high-level newsletter. In addition, an annual meeting is held for scheme members.

Compliance and Monitoring of the SIP

The Panel requires all fund managers to comply with the principles set out in this Statement of Investment Principles and to provide written confirmation of compliance annually. This SIP is reviewed annually by the Panel.

APPENDIX 4: Investment Strategy Review Summary

Presented to the Pension Fund Panel meeting on 28 February 2013

AON Hewitt

Royal Borough of Kingston upon Thames Pension Fund

Date:	15 February 2013
Prepared for:	The Panel
Prepared by:	Daniel Carpenter James Moore Steven Peake

Investment Strategy Review Summary

Introduction

The Royal Borough of Kingston upon Thames Pension Fund engaged Aon Hewitt to conduct a review of its strategic asset allocation in the latter half of 2012. This incorporated training sessions for the Panel in addition to a detailed modelling exercise as part of a high level review of investment strategy as set out in a paper entitled "Investment Strategy Review" dated 6 November 2012.

The Fund's investment strategy had last been looked at in detail in 2008/09. However, since that date market conditions have proved challenging for pension funds with few pension schemes keeping pace with their liabilities over this period.

The purpose of this paper is to provide an overview of the high level review of investment strategy carried out on behalf of the Fund and to set out a proposal for a new strategy for consideration by the Panel at the Pension Fund meeting on 28 February 2013.

Experience since last strategy review

In the most recent actuarial review at 31 March 2010 the funding level of the Pension Fund was calculated to be 73%. A period of 18 years was set as the deficit recovery period. The funding strategy achieves this through a combination of contributions and prospective investment returns. When undertaking the valuation and determining the current level of employer contributions, the Actuary has assumed the Pension Fund can generate a long-term investment return (the discount rate) of 2.3% pa above gilts.

Most pension schemes have seen their funding levels decline in recent years as gilt yields have fallen sharply. Whilst the market value of assets has risen in absolute terms, the value placed on the liabilities has generally risen further.

Characteristics of the current investment strategy

The current strategy is focused on return generation. The primary driver of this is the 80% allocation to equities. As a result of this high allocation to equities, the single biggest determinant of the success or failure of the Pension Fund's funding strategy is whether or not equity markets return more than gilts +2.3% pa.

To have a sufficiently high probability of achieving the discount rate, the Pension Fund has to take a high level of investment risk. This in turn means there is a high potential volatility in the funding level.

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Authorised and regulated by the Financial Services Authority.

The main scope for improvement is to broaden the sources of return so that the Fund's ability to achieve its long term funding target is less dependent on the direction of equity markets.

Scope of the review

When undertaking the high level review of investment strategy, we have used the current strategic asset allocation as a starting point. We have then investigated to what extent the Fund could benefit from reducing the Fund's dependence on highly volatile equity markets through greater asset allocation diversification. We have considered a range of alternative investment strategies and looked for portfolios which offer a better risk and reward balance than the existing portfolio relative to a proxy for the liabilities.

We presented to the Panel a range of potential investment strategies designed to achieve this. When looking at alternative investment strategies we focused on broadly maintaining the expected return of the current strategy but with reduced volatility. As the majority of the volatility in the current strategy comes from the equity holding, our focus was on strategies which reduce the volatility of returns through strategic diversification.

Alternative strategies

In the alternative strategies considered, we have looked to improve the strategic diversification of the portfolio by reducing the weight in equities and replacing it with other asset types. These alternative strategies were considered in conjunction with a number of practical considerations such as liquidity and the management fees involved for managing these new asset classes. In addition, the views of the Panel were considered alongside the governance requirements involved when introducing any new asset classes to the Fund's investment structure.

The most effective asset types considered were absolute return strategies such as diversified growth funds ("DGFs"). A number of other alternative asset classes were also considered. However, given the Panel's concerns around high investment management fees and governance, DGFs were favoured by the Panel. The Panel also expressed appetite for small changes to the existing strategic asset allocation. The main objective of these types of funds is to produce "equity-like" returns with lower volatility by constructing a portfolio of assets, which includes equities, but are not dependent on a single source of returns. Another main objective of these funds is to attempt to mitigate downside risk associated with purely investing in equities.

In the appendix to this report we have provided further information on DGFs which builds on the information provided to the Panel at previous investment strategy training meetings in November 2012 and February 2013.

Different Strategic Asset Allocations

In the table below we show the current strategic asset allocation in comparison to two alternative portfolios from those considered as part of the modelling exercise. For a complete table of all the strategies modelled, please refer to our presentation entitled "High Level Strategy Review" which was presented to the Panel in February 2013.

Asset Class	Current	A	B
	%	%	%
Equities	80	70	65
Corporate Bonds	15	15	15
UK Property	5	5	10
Alternatives			
DGFs	0	10	0
Hedge Funds	0	0	10
Infrastructure	0	0	0
Total	**100**	**100**	**100**

Modelling Results

In the table below we compare various metrics of the current strategic asset allocation in comparison to the two alternative portfolios set out previously.

	Current	A	B
	% p.a.	% p.a.	% p.a.
Relative to liability proxy			
Expected Return (% p.a.)	7.4	7.2	7.0
Expected Risk (% p.a.)	22.1	21.1	20.1
Return/Risk Ratio	0.33	0.34	0.35
Range of outcomes			
Best 5% outcome	18.8	18.1	17.2
Worst 5% outcome	-4.0	-3.6	-3.2
Downside (worst 1%)			
% change improvement versus current	-	6.2	13.2

- The current investment strategy is capable of meeting your long term objectives. However, it has a considerable reliance on equity markets and therefore a relatively high expected volatility of returns.
- The alternative strategies modelled are expected to exhibit less volatility and less severe downside potential compared to the current strategy.
- Strategy B has a lower expected return and a corresponding lower expected risk compared to Strategy A. Both strategies have a better risk and reward balance than the current strategy.

AON Hewitt

- By slightly reducing the strategic weight to equities and replacing it with an allocation to an asset type such as diversified growth funds, there is an improvement in the strategic diversification of the portfolio. In addition, this portfolio broadly maintains the expected return of the current strategy while serving to reduce the associated volatility profile.

Summary

The current investment strategy is capable of meeting your long term objectives albeit with a heavy reliance on equity markets and therefore a relatively high expected volatility of returns. We have considered alternative investment strategies that could achieve the Fund's long term objectives using investment risk more efficiently, i.e. lower risk per unit of return (efficiency) and less downside potential compared to the current strategy being followed.

From the modelling analysis, we can conclude there is significant benefit from reducing the reliance on equities within the portfolio and diversifying into alternative asset classes. However, the additional governance required would need to be considered when introducing any new asset classes to the Fund's investment structure.

This high level review of strategy has focused on improving the efficiency of the growth part of the Fund's portfolio. However, as the Fund matures the Fund will need to become more liability focussed in the future.

Next steps

We propose that the Panel consider incorporating a 10% allocation to an absolute return type strategy such as Diversified Growth Funds as part of the Fund's strategic asset allocation. This strategy represents a reduced risk profile from the Fund's current investment strategy through greater strategic diversification. We recognise that the Panel will need to consider governance resources, in particular the time available to implement changes and monitor progress.

We look forward to assisting the Panel in agreeing a final investment strategy at the next Pension Fund meeting on 28 February 2013.

The full Investment Statement Review Summary by Aon Hewitt can be accessed from the RBK website via the following link: http://moderngov.kingston.gov.uk/documents/s45859/Investment%20Strategy%20Review%20Annex.%20pdf.pdf

APPENDIX 5: Governance Compliance Statement

With effect from 1 April 2008, the Local Government Pension Scheme Regulations 1997 (as amended) require administering authorities to prepare, maintain and publish a written statement of compliance with a set of best practice governance principles, and where an authority is non-compliant, to state the reasons.

The table below sets out the extent to which Royal Borough of Kingston upon Thames, as administering authority, comply with the governance principles.

	Governance Principle	Not Compliant	Partially Compliant	Fully Compliant	Comment
1	**Structure**				
	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.			✓	The Pension Fund Panel consists of 5 elected members reflecting the political representation on the Council and 5 non-voting members. The Panel is responsible for the management of the administration of benefits and strategic management of the Fund's assets. The Panel has Terms of Reference.
	b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.			✓	Non-voting Panel members are representatives of key scheduled bodies, scheme members (including pensioner and deferred), and one independent co-opted individual.
	c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.			✓	The Pension Fund Panel reports to the Council's Treasury Committee.
	d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.			✓	Three of the five elected Members of the Panel also sit on the Treasury Committee.

2	**Committee Membership and Representation**				
	a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure These include:- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers; and iv) expert advisors (on an ad-hoc basis)		✓		The main employers and scheme members are represented on the Pension Fund Panel. However not all individual employers are represented.
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.			✓	Non-voting members of the Pension Fund Panel have equal access to information, training, opportunity to contribute to Panel discussions and ability to influence the Panel's decisions.
3	**Selection and Role of Lay Members**				
	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.			✓	All new members of the Panel are given training as part of their induction to enable them to play a full role on the Panel. Additional training is tailored to enhance members' governance capacity as the pension fund environment change.
	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda			✓	At the start of Pension Fund Panel meetings, members must declare if they have an interest in any of the items on the agenda. Interest may be personal or pecuniary. Depending on the interests declared, it might be necessary for the member(s) to leave the meeting. The detail on interests is in Part 5A of the Council's Constitution –

					Members' Code of Conduct.
4	**Voting**				
	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✓		Elected Members of the Pension Fund Panel have voting rights. Voting rights have not been extended to employer and member/pensioner/ co-opted representatives as they are not elected Members of the Council.
5	**Training/Facility Time/Expenses**				
	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.			✓	There is a clear policy on training. The Fund pays for approved training courses for all members. The training plan reflects the Panel's work programme and the needs of the committee agenda.
	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.			✓	
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.			✓	A training plan is in place for the Pension Fund Panel and a log of training undertaken is maintained.
6	**Meetings (Frequency/Quorum)**				
	a) That an administering authority's main committee or committees meet at least quarterly.			✓	The Treasury Committee meets five times a year.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.			✓	Formal meetings of the Pension Fund Panel are held quarterly. In addition, a "Manager Day" meeting is held twice a year. Panel meeting dates are synchronised with the dates of the Treasury Committee meetings.

	c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented				N/A
7	**Access**				
	That subject to any rules in the Councils' constitution all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.			✓	All members of the Pension Fund Panel have equal access to meeting papers and advice considered at meetings.
8	**Scope**				
	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements			✓	The Pension Fund Panel's terms of reference covers investment management and the wider pension administration matters. A review of Fund governance was carried out in 2013-14 ahead of the introduction of the Pension Board in 2015.
9	**Publicity**				
	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.			✓	All statutory and other material relating to the Scheme governance are published on the Council's website allowing stakeholders to follow up on any matter.

Note: A review of Fund Governance arrangements was undertaken in 2014/15, to ensure that the new requirements (in particular that for a local Pension Board) was in place from 1 April 2015.

APPENDIX 6: Actuarial Valuation Report 2013 – Introduction, Executive Summary and Reliances & Limitations

Presented to the Pension Fund Panel meeting on 8 May 2014

Hymans Robertson LLP has carried out an actuarial valuation of the Royal Borough of Kingston Upon Thames Pension Fund ("the Fund") as at 31 March 2013, details of which are set out in the report dated 31 March 2014 ("the Report"), addressed to Royal Borough of Kingston Upon Thames ("the Client"). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2013 and employer contribution rates from 1 April 2014, and should not be considered a substitute for specific advice in relation to other individual circumstances.

As this Report has not been prepared for a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the named Client. Hymans Robertson LLP therefore disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

The Report must not be used for any commercial purposes unless Hymans Robertson LLP agrees in advance.

March 2014

Royal Borough of Kingston Upon Thames Pension Fund
2013 Actuarial Valuation
Valuation Report

HYMANS ROBERTSON

March 2014

1 Executive summary

We have carried out an actuarial valuation of the Royal Borough of Kingston Upon Thames Pension Fund ('the Fund') as at 31 March 2013. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

Past Service Position	31 March 2010 (£m)	31 March 2013 (£m)
Past Service Liabilities	530	712
Market Value of Assets	385	502
Surplus / (Deficit)	(145)	(210)
Funding Level	72.6%	70.5%

The results show that the Fund has not met its objective of holding sufficient assets to meet the estimated current cost of past service benefits at 31 March 2013. The deficit has increased from £145m at 31 March 2010 to £210m at 31 March 2013. The funding level has dropped from 72.6% to 70.5% over the same period.

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	31 March 2010 (% of pay)	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	14.7%	20.5%
Past Service Adjustment (21 year spread)	7.5%	10.9%
Total employer contribution rate (incl. expenses)	22.2%	31.4%
Employee contribution rate	6.7%	6.7%
Expenses	0.6%	0.7%

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate in **Appendix G**.

2 Introduction

Purpose

We have carried out an actuarial valuation of the Royal Borough of Kingston Upon Thames Pension Fund as at 31 March 2013.

The main purposes of this valuation are:

- to assess the extent to which the Administering Authority's funding objectives were met at 31 March 2013;
- to identify the future contributions payable by the employers that participate in the Fund in order to meet the Administering Authority's funding objectives;
- to enable completion of all relevant certificates and statements in connection with all relevant regulations;
- to comment on the main risks to the Fund that may result in future volatility in the funding position or to employers' contributions.

Component reports

This document is an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- The data report (mentioned in **section 7**);
- The Initial Results document dated 24 October 2013 which outlined the preliminary assumption proposals and whole Fund results;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, at a meeting on 20 November 2013;
- The stabilisation modelling carried out, as detailed in our report and presentation to the Administering Authority of 20 November 2013;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.

Note that not all of these documents may be in the public domain.

7 Reliances and limitations

Scope

This document has been requested by and is provided to Royal Borough of Kingston Upon Thames in its capacity as Administering Authority to the Royal Borough of Kingston Upon Thames Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 36 of the Administration Regulations. None of the figures should be used for accounting purposes (e.g. under FRS17 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38(1)).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of March 2014.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

Geoffrey Nathan

Fellow of the Institute and Faculty of Actuaries

31 March 2014

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

The full 2013 Actuarial Valuation Report can be accessed from the RBK website via the following link:
http://moderngov.kingston.gov.uk/documents/s51853/RBK%202013%20Actuarial%20Valuation%20Report.pdf

APPENDIX 7: Funding Strategy Statement

Approved at Pension Fund Panel meeting on 8 May 2014

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Royal Borough of Kingston upon Thames Pension Fund ("the Fund"), which is administered by Royal Borough of Kingston upon Thames Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 18th April 2014

1.2 What is the Royal Borough of Kingston upon Thames Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Royal Borough of Kingston upon Thames Pension Fund, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes the LGPS Regulations;

- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions ;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Sue Grimstead, Team Leader - Pensions, in the first instance at e-mail address (sue.grimstead@kingston.gov.uk) or on telephone number 020 8547 5614.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014 including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The

Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer. This will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Local Authority**	**Academies**	**Other**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)		No			
Maximum deficit recovery period – Note (c)	30 years					Outstanding contract term
Deficit recovery payments – Note (d)	% of payroll or monetary amount					
Treatment of surplus	Covered by stabilisation arrangement		Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement		Phased over a period to be agreed with the Administering Authority - Note (e)			None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	Note (h)			Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Local Authority	Academy
Max cont increase	+0.5% of pay	+0.5% of pay
Max cont decrease	-0.5% of pay	-0.5% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation may be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be set equal to that of all other academies in the Fund as at the day of conversion. This will not alter its asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change particularly in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility may include a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;

- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

- Major Employing bodies - up to 5 years
- Community Admission Bodies and Designating Employers - up to 3 years
- Academies - up to 3 years
- Transferee Admission Bodies - payable immediately.

3.7 Ill health early retirement costs

The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;

- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pension Fund Panel meetings, and also periodically to employers through newsletters and Employers Forums.

The full Funding Statement Strategy can be accessed from the RBK website via the following link:
http://moderngov.kingston.gov.uk/documents/s51887/B%20Annex%201%20Funding%20Strategy%20statement.pdf

APPENDIX 8: Communications Policy Statement

STATEMENT OF POLICY CONCERNING COMMUNICATION AS REQUIRED BY REGULATION 61
The Local Government Pension Scheme Regulations 2013

Prospective Member

A prospective member will be provided with a brief guide to the Scheme to assist him/her in his/her decision regarding membership of the Scheme.

New Member

A new member will be issued with a statutory notice, a letter about Combined Annual Benefit Statements, and details of where information about the Pension Scheme can be found, within the timescale detailed in the Pension Charter. This will normally be sent to the member's home address where it is available but otherwise will be sent to the employer to distribute. A copy of the Pensions Charter is available on the web pages at www.kingston.gov.uk\pensions. A senior member of Pension Services will be available to provide a PowerPoint presentation on the advantages of joining the Scheme as required by the employer.

Active Member

A newsletter will be issued at least twice each year. This will be sent to the employer to distribute. All members are invited to the Annual Pension Fund Meeting which is held in October each year. There will be a presentation from the Head of Finance - Strategy and Accounting on the performance of Pension Fund investments, the Pensions Manager on Scheme administration and another presenter on a topical issue.

Briefing sessions on changes to the Scheme will be held when necessary.

Deferred Members

Changes to the Scheme affecting a deferred member will be notified when annual benefit statements are issued unless earlier communication is necessary. A deferred member will be advised that a copy of the Annual Report can be viewed on the web pages together with information about the Annual Pension Fund Meeting.

Pensioner Members

A newsletter will be issued once each year. Issued in April the newsletter will give a breakdown of payments made over the previous year and advise of the percentage of pensions increase.

Representatives of Employees

For R.B Kingston, information will be provided through Staff Consultative Committee as necessary. For other employers this will be provided on request.

Employers

All appropriate information received by R.B Kingston will be forwarded on to the named contact at each active employer within 5 days of receipt unless not required to do so by the employer.

Web Pages

All policy statements are on the web pages. A range of forms will be available together with links to other websites with the most up to date information.

GLOSSARY

Absolute Return - an investment strategy that tries to achieve a given level of long-term return, often related to cash, rather than related to a benchmark.

Accounting Period -The timescale during which accounts are prepared. Local Authority accounts have an overall accounting period of one year from 1 April to 31 March.

Accounting Policies - Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting policies define the process whereby transactions and other events are reflected in the financial statements.

Accounting Standards - A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament and in professional codes and statements of recommended practice.

Accruals - This is the concept that income and expenditure are recognised as they are earned or incurred and not as money is received or paid.

Active Member – A member of an occupational pension scheme, who is building up pension benefits in either a defined benefit, or a defined contribution scheme from their current job.

Actuarial Valuation – An investigation by the Scheme actuary into the ability of a pension scheme to meet its liabilities.

Actuary – An adviser on financial information and assumptions relating to a pension scheme.

Admitted Body – A body which can be admitted to the LGPS with the agreement of the Administering Authority. It must be non profit-making and will normally be in receipt of a grant from either central or local government.

Agency Services - Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

Assets – Any item of economic value owned by an individual or corporation, especially that which could be converted to cash.

Contingent Assets - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future event not wholly within the Council's control.

Contingent Liabilities - These are potential losses for which a future event will establish whether a liability exists. As it is not appropriate to establish provisions for such amounts, they are not accrued in the financial statements, but disclosed separately in a note to the Comprehensive Income and Expenditure Statement.

Creditors - These are amounts owed by the Council for goods and services supplied, but for which payment has not been made at the end of the financial year.

Debtors - These are amounts owed to the Council but not received at the end of the financial year.

Deferred Member – A member who is no longer active in the Scheme but is not yet in receipt of a pension.

Defined Benefits Pension Scheme - Retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. The scheme may be funded or unfunded.

Diversified Growth Fund – A fund that invests in a wide variety of asset classes in order to deliver real capital appreciation over the medium to long term.

Equity – The capital of a company belonging to the ordinary shareholders who have voting rights allowing them to influence the management of the company.

Fair Value - Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial Instruments - A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Fixed Interest Security – A security which yields fixed and regular income (interest).

International Financial Reporting Standards (IFRS) - The accounting standards adopted by the International Accounting Standards Board (IASB). Local authorities are required to produce 2014/15 accounts using IFRS.

Interest Cost (Pensions) - For a defined benefit scheme, the expected increase during the period, in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Liability – A financial obligation, debt, claim, or potential loss.

Past Service Costs - For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events - Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

Related Parties - Two or more parties are defined to be related parties when at any time during the financial period concerned, one party has direct or indirect control or influence on the other party, for example;

- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; **or**
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Related Party Transaction - A related party transaction is the transfer of assets or performance of services by to or for a related party irrespective of whether a charge is made.

Scheduled Body – There are a number of employers who are required to provide membership of the Local Government Pension Scheme to all their employees. These employers are listed in a schedule that appears at the back of the Local Government Pension Scheme Regulations. Unlike admitted bodies, scheduled bodies cannot refuse membership of the Scheme to their employees.

Security – Any kind of transferable certificate of ownership.

Statement of Investment Principles (SIP) – Trustees of Pension Funds are required to prepare and keep up to date this written statement to show the governance decisions on the investment of scheme's assets.

Unitised Fund – An investment vehicle whereby the contributions of unit-holders are pooled and the total amount is then used to purchase assets such as shares, bonds, property and cash.