Royal Borough of
Kingston upon Thames

Pension Fund Annual Report

2012/13

Contents

INTRODUCTION AND OVERVIEW

Report of the Chair of the Pension Fund Panel

The Pension Fund Panel ("The Panel") is responsible for overseeing the investment management of the Royal Borough of Kingston upon Thames Pension Fund. I am pleased to introduce the Annual Report for the financial year 2012/13.

During the year, the Panel's key task was to review its investment strategy. The last review was implemented in September 2009, and none of the various investment managers had met the targets set at that time. The review also reflected the need to address a number of other factors (including changes in the benefits structure of the Local Government Pension Scheme, the forthcoming triennial valuation and changes in the way in which services are delivered which could impact on the maturity level of the Fund). The Panel was supported in this work by its Investment Advisors, Aon Hewitt. The review included two training sessions for Panel members to improve their understanding of the principles of strategic asset allocation. This review continued at each of the Panel's meetings through the year. In July 2012, the Panel updated its Statement of Investment Principles (SIP), at the beginning of this process, and agreed to retain surplus cash balances for allocation to a manager once the review process had been completed.

Following the review, the Panel decided to revise its asset allocation, reducing its exposure to equities, and investing up to 10% of its assets in a diversified growth fund (DGF). A procurement exercise is underway to appoint a DGF investment manager. It is anticipated that the transfer of funds will begin in the autumn of 2013. The Panel also agreed to modify its fixed income (bonds) portfolio, moving up to one third of that portfolio to an absolute return bond fund, to reduce the Fund's exposure to falling asset prices. This has been achieved by transferring funds to an absolute return bond fund managed by the same investment manager (Henderson Investments), and was fully implemented in June 2013.

The panel continued to challenge the performance of the investment fund managers who have been managing mandates in accordance with the revised investment strategy since September 2009. The Panel met four times during the year and reviewed the quarterly performance of each fund manager. Each manager was required to present to the Panel twice during the year 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.

At the April 2012 meeting, the Panel received presentations from global equity managers Fidelity and Threadneedle who at year-end held 36% and 24% of the Fund's investments respectively.

In July 2012, the Panel reviewed the performance of global equity manager, Schroders and bond mandate manager, Henderson who at year-end held 19.2 % and 13.9% of the Fund's investments respectively, and noted the Fund's draft accounts and annual report for 2011/12 as submitted for audit.

At its November 2012 meeting, the Panel considered the position of its property holdings with UBS, in the light of some changes in the management of the Triton Property fund. It kept that position under review at subsequent meetings. It also noted the outcome of the audit of the 2011/12 accounts, and reviewed the latest performance figures for Fidelity and Threadneedle.

At the February 2013 meeting the Panel received updated performance reports from Schroder and Henderson, and also reviewed its Custody arrangements. Officers from JP Morgan attended and updated the panel on their approach to ensuring that the Fund's assets are kept securely, and the associated internal control and reporting activity.

The Panel has received investment training both as a group at Panel meetings and received reports and feedback from the individual panel members who attended training courses during the year.

In addition to continuing to review the current managers' performance against the benchmarks they have been set, the Panel's work programme for 2013/14 includes:

- the appointment of a DGF manager
- consideration of the approach to and results from the 2013 triennial valuation (which our actuaries, Hymans Robertson will carry out)
- a review of the Fund's governance arrangements in anticipation of new regulations under the 2013 Public Sector Pensions Act
- a review of the independent assurance reports from its custodian, JP Morgan.

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

Councillor Rolson Davies
Lead Member – Finance and Resources

Report from the Director of Finance

Although there remained a level of volatility in global stock markets, driven by a range of economic factors, 2012/13 was a much better year for Fund, with the value of its assets increasing by £69.8 million (16.9%), to £503.0 million as at 31 March 2013. This increase was largely due to the strong performance of global equities in the last quarter of the year. Approximately 80% of the Fund's assets are allocated to this asset class and in that quarter, the benchmark MSCI All Countries World Index rose by 14%.

Against the UK Local Authority pension fund peer group (the WM Local Authority Universe) the Fund's one year performance return was 14.9%, compared with the benchmark of 13.8%. However, the annualised three year return annualised performance was 7.9%, compared with the benchmark of 8.1%. These differences reflect the Fund's high weighting in equities.

Despite the significant full year gain, there were again significant bouts of volatility and market weakness during the period. In the first quarter the Fund's value fell by £12.8 million to £418 million, rising gradually to £446 million by 31 December, before the significant increase in value during the final quarter. Some of the volatility was driven by continuing uncertainty in Europe - the position improved when the European Central Bank announced that it would do whatever was necessary to stabilise the Eurozone. Markets also responded positively to a further round of quantitative easing in the US and the measures introduced by the new president in Japan to stimulate that country's economy.

Equity markets remained volatile during the early part of 2012/13, before a gradual increase in the second and third quarters was followed by significant increase in the last quarter of the year. Overall, the MSCI AC World index, which is used as the benchmark against which the performances of the Fund's Equity investments are measured, rose by 16.3% in the year. The areas of strongest growth were the USA, Japan and the Pacific Rim (exc. Japan).

The volatility of equity markets meant that bonds again produced positive returns for the average pension fund. The iBoxx All Stocks Non-Gilts index, which is used as the benchmark for the Fund's bonds portfolio, increased by 12% during the year.

UK Property continued to perform strongly as an asset class and the IPD UK All Balanced Funds index, which is used as the benchmark for the Fund's property portfolio, increased by 5.2% in 2012/13.

The funding level and market volatility remains a cause for concern in spite of the market recovery since 2009. The latest actuarial valuation assessed a funding level of 73% as at 31 March 2010. The actuary's recommendations set the required level of employers' contribution for the period to 2013/14 and the period over which the fund is expected to become fully funded. This in turn shapes the long term investment strategy required to achieve the fully funded target. The next actuarial review will take place during 2013. Preparatory work on the valuation is underway and officers are working closely with the Fund's actuary, Hymans Robertson, to ensure that this is completed in the required timescale.

As more schools opt for academy status and the Council implements new methods of service delivery rather than employing staff directly, the number of employers within the scheme (admitted and scheduled bodies) is increasing. This fragmentation of the scheme makes the actuarial review more complex than normal, as funding levels and employer contribution rates have to be set for each employer individually and communicated to them.

2012/13 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 will be implemented in April 2014. The main elements of the new scheme are:

- The scheme will be based upon career average revalued earnings (CARE)
- The benefits accrual rate for will be $1/49^{th*}$ per year of service
- Confirmation of the revaluation rate as Consumer Price Index (CPI)*
  (*this combination of accrual and revaluation rate has been costed by the Government Actuary's Department as being broadly equivalent to the current combination of $1/60^{th}$ accrual with final salary revaluation).
- Confirmation of 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 to include non contractual over time and additional hours for part time staff
- 2 year Vesting Period

The new arrangements will still provide excellent value for money for scheme members. At RBK we will be doing our best to make sure 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 will require 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, RBK (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 employing bodies, contributors and beneficiaries. This report summarises financial and management performance. The production of an annual report in accordance with regulatory guidance is a requirement of the Local Government Pension Scheme (LGPS) regulations**.**

The Pension Fund Panel completed a major review of the pension fund investment arrangements in 2008. By changing to a more diversified and active strategy over time, the Fund aimed to achieve higher investment returns over the longer term, without taking greater risk.

In May 2009 following a rigorous selection procedure, the Pension Fund Panel recommended the appointment of four new investment fund managers - one for a bond mandate and three for active global equity mandates - each with targeted performance benchmarks, set to deliver the out-performance required to improve investment returns. The funds were transitioned to the new managers successfully in September 2009. UBS Global Asset Management retained the property portfolio, pending further review of alternative asset classes.

Fund managers' performance is reviewed quarterly by the Pension Fund Panel to ensure that the investment strategy objectives and performance targets are being met by the Pension Fund Panel.

The Pension Fund Panel has 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. The Panel also appointed an independent advisory member, Matthew Lambe, who joined the panel in July 2011.

The Panel appointed two new expert advisers in 2011/12. Hymans Robertson was appointed as Consultant Actuaries and Aon Hewitt as Independent Investment Advisers. Both were appointed following collaborative procurement exercises with other London Boroughs under the "Croydon Framework".

In 2012/13, Aon Hewitt supported the Panel in undertaking a review of its strategic asset allocation. Following that review, a proportion of the Council's bonds portfolio has been transferred to an "absolute return" bond fund, and procurement of a Diversified Growth Fund manager is underway.

During the year Hymans Robertson advised on a range of issues, undertook valuations for new admitted bodies (schools which converted to academies) and began preparatory work for the 2013 actuarial valuation.

The Pension Fund bank account has been operational since 2010. This enables pension fund monies to be clearly ring-fenced from other monies of the local authority. LGPS regulations made operation of a separate pension fund bank account mandatory from 1 April 2011.

The annual report and its appendices are published on the Council's web site. This report contains links to the web site and to the Financial Statements of the Pension Fund for 2012/13. The Pension Funds' statement of accounts has been prepared in accordance with CIPFA's latest Statement of Recommended Practice (SoRP).

Risk Management

Governance

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 Policy and Resources Committee for decision making. The Pension Fund Panel is subject to the Council's Standing Orders and the Code of Conduct.

The Panel is aware that changes in this arrangement may be required as regulations are introduced under the Pensions Act 2013, and has accordingly authorised a review of the Fund's governance arrangements to be carried out during 2013/14.

As part of the review of the Fund's governance arrangements, a stand alone risk register for the fund will be developed and this document will be reported regularly to the Pension Fund 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 Fund's 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 in 2009, was designed to measure the level of risk taken by managers and the custodian, to ensure risk is kept to the minimum 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 reduce risk. 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.

Investment Risk

The Fund manages investment risk through diversification by asset class and use of external fund managers to manage investments. Funds are invested by five managers using global equities, fixed income bonds, property and cash to diversify between asset classes.

The provision of expert investment and legal advice, use of external fund management and a global custodian for secure custody of assets is critical to effective risk management. An independent advisory member has been appointed as a non-voting observer on the Pension Fund Panel. They provide advice to the Panel to help them make informed decisions on strategic asset allocation.

A due diligence process was followed in the selection of the fund and transition managers and in the review of the custodian, to ensure the appointment of appropriate fund managers who demonstrated the ability to manage investment risk within the agreed parameters.

The Pension Fund Panel reviews the performance of individual managers and monitors and benchmarks overall fund performance quarterly.

Financial Risk

The Fund's financial management framework is the same as the Council's and uses the Council's financial accounting system, although a separate bank account was set up in 2009 and became operational in 2010. Late payment of contributions by employers and admitted bodies is regulated through a sanction for late payment. Reconciliation processes and monitoring controls ensure all contributions are paid on time.

Administrative risk

The risks 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 and ensuring that staff are trained and keep up to date on changes to the LGPS scheme.

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.

Financial Performance

Fund Accounts and Net Assets Statement

The Auditors Report and the Pension Fund Statement of Accounts for 2012-13 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	**2009**	**2010**	**2011**	**2012**	**2013**
Revenue Account	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Income					
Contributions	28.3	29.8	30.8	29.2	29.5
Investment Income	8.4	4.9	6.7	6.8	7.2
Cash Transfer Values	-	0.9	2.8	2.3	6.7
	36.7	35.6	40.3	38.3	43.4
Expenditure					
Pension & Benefits	17.8	20.6	21.0	22.8	23.5
Management Expenses	1.1	1.8	1.9	1.9	2.2
Cash Transfer Values	0.4	-	3.3	3.0	3.7
	19.3	22.4	23.4	27.7	29.4
Surplus for the Year	17.4	13.2	14.1	10.6	14.0
Revaluation of Investments	(61.1)	92.4	26.0	(3.8)	55.8
Change in Fund Value	(43.7)	105.6	40.1	6.8	69.8
Total Fund Value	279.1	384.7	424.8	431.6	501.4

The fund continues to be a maturing fund, as contributions from members and employers exceed the cost of pensions and benefits payable.

Investment Expenses	**31-Mar-11 £'000**	**31-Mar-12 £'000**	**31-Mar-13 £'000**
Portfolio Management	1,044	1,057	1,142
Global Custody	58	54	54
Investment Advisers	21	0	57
Performance Measurement	17	13	18
Investment Accounting	91	86	51
TOTAL	**1,231**	**1,210**	**1,322**

The reported Portfolio Management fees indicate an increase on last year and this can be attributed to a change in the way fees are paid to one of the Fund Managers. Overall, the level of management costs has actually fallen due to a number of fee reductions which were agreed and implemented during the year.

Aon Hewitt, who were appointed through the Croydon Framework as the Pension Fund's Investment Advisers carried out work on the Investment Strategy. There were no costs incurred for investment advice in the previous year.

Changes to the staffing and structure within the Finance Department has enabled all costs attributable to the Pension Fund for investment accounting to be identified, thus the figure is lower than for preceding years.

An analysis of amounts due to the fund from Employers is set out on pages 20 to 22**.**

INVESTMENT POLICY AND PERFORMANCE

The strategic asset allocation benchmark for the Fund was set following a review of investment strategy which was implemented in 2009. In 2011/12 the Panel began to develop its approach to a further strategic review of the Fund's investment strategy and appointed Aon Hewitt as Investment Advisers to assist in this work. During 2012/13, a high level review of the Fund's investment strategy was be carried out in preparation for the 2013 actuarial valuation and the changes to the Local Government Pension scheme which will come into effect in 2014. Through this review, the Panel agreed to modify its strategic asset allocation as follows:

Asset class	**Current allocation**	**Proposed allocation**
	%	**%**
Equities	80	70 to 80
Bonds	15	15
Property	5	5
Diversified Growth fund (DGF)	0	0 to 10
Total	100	100
Cash – liquidity only	-	-

The current investment managers are measured against benchmark indices, against which they have been set "outperformance" targets. The benchmark indices and individual Fund Manager targets are shown in the table below.

Portfolio	**Mandate**	**Benchmark**	**Target (over Rolling 3 Years)**
Fidelity	Global Equities	MSCI AC World Index NDR	+1.5% to +2.0% pa
Threadneedle	Global Equities	MSCI AC World Index NDR	+2.5% to +3.0% pa
Schroder	Global Equities	MSCI AC World Index NDR	+3.0% to +4.0% pa
Henderson	Bonds	iBoxx All Stocks Non Gilts Index	+0.5% pa
UBS	Property	IPD UK All Balanced Funds WA	Outperform

A procurement process to identify a suitable DGF manager is underway and it is expected that initial funds will be allocated in the autumn of 2012. A transition plan will be developed to ensure that existing assets are liquidated in a cost effective way.

To mitigate against the impact of falling asset values, a proportion of the Fund's bonds portfolio has been transferred to an absolute return bond fund, also managed by Henderson. This change was implemented in June 2013. That Fund's performance target is to deliver a return of 6% per annum over a 3 to 5 year period, while retaining a similar level of risk / volatility to the existing bond portfolio.

The Pension Fund Panel reviewed and updated the Statement of Investment Principles (SIP) in July 2012. The details of the fund managers are set out in the SIP and all managers complied with the voting policy, which is set out therein.

Compliance with the Myners Principles is set out in the Governance Compliance Statement (Appendix 4).

Summary of Investment Assets at 31 March 2013

Manager	Asset Class	Market Value £'000	Percentage Total Assets by Market Value (%)
Fidelity	UK Equities	12,736	2.5
	Overseas Equities	141,788	28.2
	Other Managed Funds (Emerging market equities)	21,714	4.3
	Cash and other investment balances	4,346	0.9
Threadneedle	Unitised Insurance Policy (Global equities)	119,293	23.7
Schroders	Other Managed Funds (Global equities)	96,767	19.2
Henderson	Other Managed Funds (Bonds)	69,737	13.9
UBS	Property Unit Trusts	18,497	3.7
	Cash and other investment balances	591	0.1
In house	Cash	17,499	3.5
TOTAL		**502,967**	**100**

Asset Allocation

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

Name	Value as at 31 March 2013 £'000	% of Total Net Assets as at 31 March 2013
Threadneedle TPN Global Equity Fund	119,293	23.7
Schroder Life QEP Global Active Value Fund	96,767	19.2
Henderson All Stocks Credit Fund	69,737	13.9
Fidelity Select Emerging Markets Fund	21,714	4.3
UBS Triton Property Unit Trust	9,567	1.9
Standard Life Inv Plan Property Fund	6,007	1.2
Citigroup Inc	2,017	0.4
Apple Inc	1,993	0.4
General Electric Co	1,931	0.4
Pfizer Inc	1,910	0.4

The six largest holdings are in the pooled funds of the five fund managers.

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

Name	Value as at 31 March 2013 £000	% Total Net Assets as at 31 March 2013 %
Citigroup Inc	2,017	0.40
Apple Inc	1,993	0.40
General Electric Co	1,931	0.38
Pfizer	1,910	0.38
Nestle SA	1,862	0.37
Google Inc	1,682	0.33
Wells Fargo & Co	1,630	0.32
Coca-Cola Co	1,619	0.32
Home Depot Inc	1,553	0.31
Berkshire Hathaway	1,446	0.29

Investment diversification means that the largest direct equity holding represented less than one per cent of the total value of the Fund as at 31 March 2013.

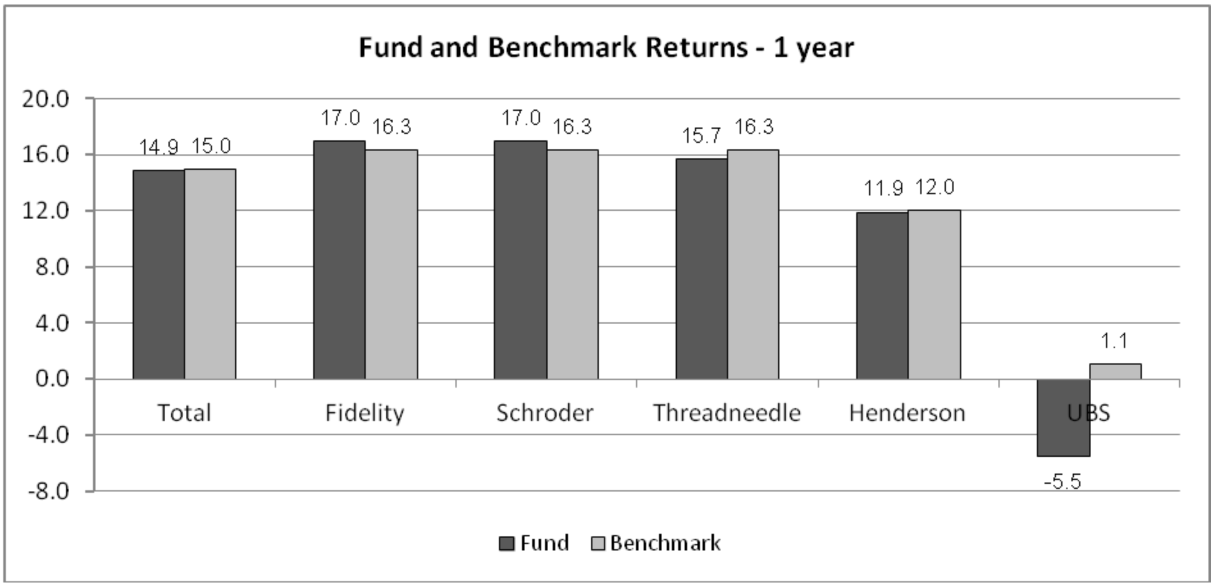
Pension Fund Performance 2012 - 2013

The benchmark set for the Fund since September 2009 is a strategic allocation benchmark of 80% Equities and 15% Bonds and 5% property. Each of the fund managers is required to outperform their respective index over a three year rolling period.

The table below sets out the quarter by quarter results for the Fund in 2012-13. The one year total fund return was +14.9%, whereas the benchmark return was +15.0%. The relative return of the Fund was an underperformance of -0.1%.

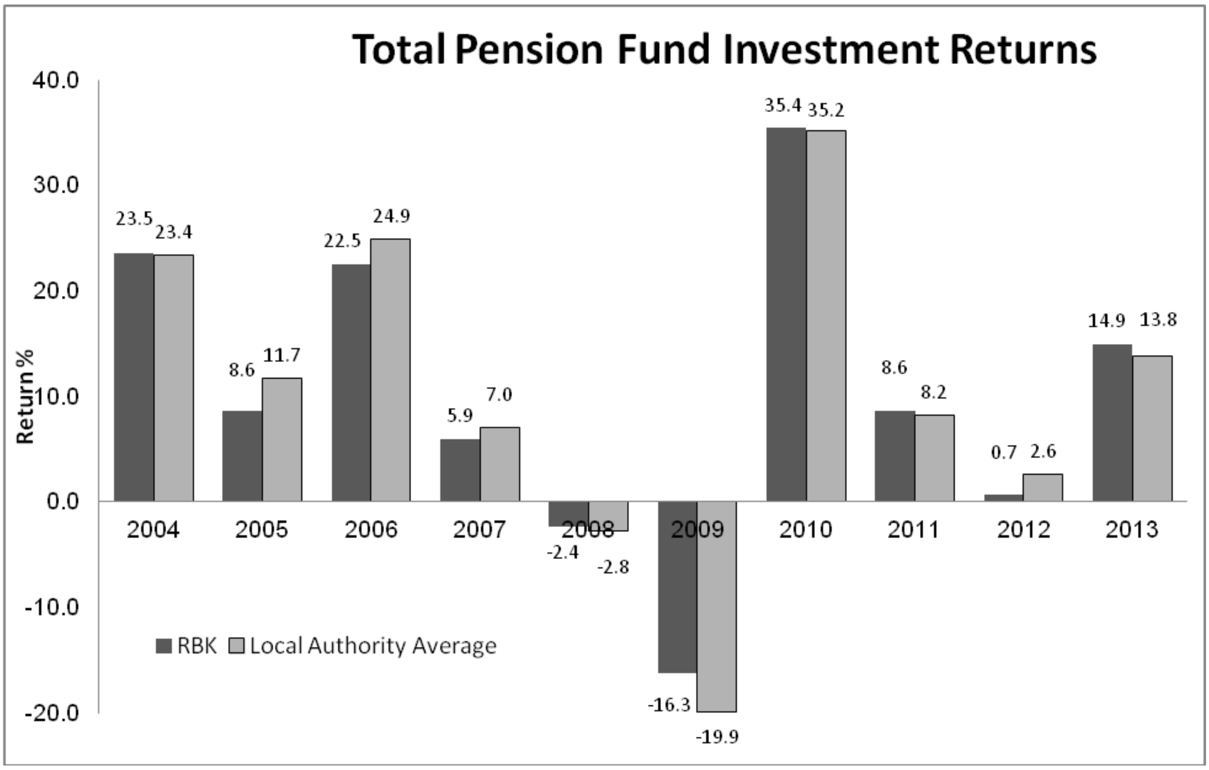
2012-13	First Quarter April to June 2012 %	Second Quarter July to September 2012 %	Third Quarter October to December 2012 %	Fourth Quarter January to March 2013 %	Total Annual Performance 2012-13 %
Fund Return	-3.2	4.0	1.9	12.0	14.9
Benchmark Return	-2.7	3.9	2.0	11.5	15.0
Relative Return	-0.5	0.1	-0.1	0.5	-0.1

The performance against benchmark for each individual manager for the year 2012 - 2013 is shown in the graph below.

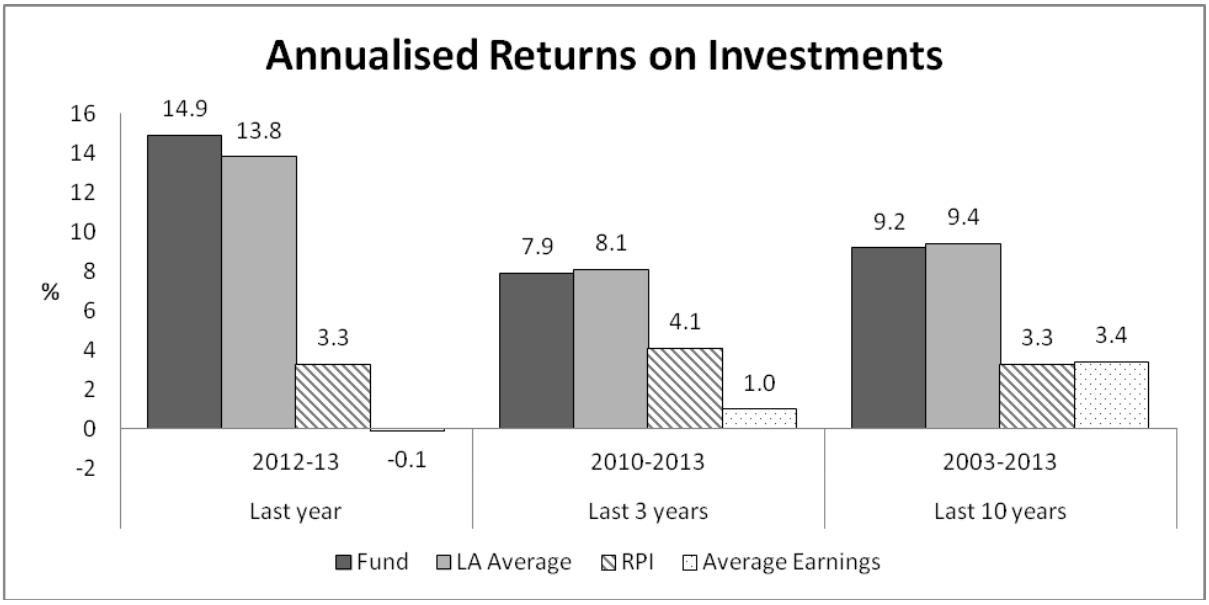


Asset Returns

The chart below provides a comparison between the performances of Kingston's Fund and that of the average of 85 local authority funds with total assets valued at £165.537 billion, as at 31 March 2013. 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 seven staff in Pension Services. The performance table below shows the range of work dealt with. 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 web site http://www.kingston.gov.uk/pensions. They contain a range of useful documents including the Scheme booklet, which is broken down into 13 leaflets covering various aspects of the Scheme. Among the information available is the payment of Additional Regular Contributions (ARCs) including an application form, information about paying additional voluntary contributions (AVCs) to Aviva, together with recent newsletters for both active members and pensioners. Forms can be downloaded for changing your "Expression of Wish" for the death grant or to nominate a co-habiting partner to receive a pension if you die. There are also links to related web sites.

From 1 October 2012 the Government introduced auto-enrolment requiring all employers to enrol "Eligible Jobholders" into a "qualifying pension scheme". The Council's date for implementing auto-enrolment was 1 April 2013. Both schemes provided by the Council (the Teacher's Pension Scheme and the Local Government Pension Scheme) satisfy the criteria to be a qualifying scheme. An "Eligible Jobholder" is an employee who is aged between 22 and State Pension Age, earning at least £8,105 per year. The Council decided to make use of "Transitional Delay" which meant that current employees, as at 1 April 2013, do not have to be auto-enrolled until 1 October 2017. In preparation for the auto-enrolment of new employees, when employers reached their "staging date", the opt-out form was made available from our web pages and employers ceased to issue it.

We have received draft regulations for the 2014 Scheme which are expected to be in place by the autumn. This will allow the Pension Fund actuary to take the provisions into account when assessing employer contribution rates following the 2013 valuation of the Pension Fund.

The Annual Pension Fund Meeting, which is open to all members, was held on 8 October 2012 and as usual, was well attended. We were pleased to welcome Terry Edwards, Senior Pensions Advisor at the Local Government Association. The slides from the speakers at the meeting can be found on our web pages. The next Annual meeting will be held on Monday 14 October 2013, at 5.15 pm in the Guildhall. The keynote speaker 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	145*	74
Letter detailing transfer in quote	10	91	47
Letter detailing transfer out quote	15	57	37
Letter providing details of Add Regular Contributions *	10	Not applicable	Information on website
Transfer in actual	10	106	55
Transfer out payment	12	113	85
Calculate and notify deferred benefits	15	342	52
Letter notifying retirement benefits amount –estimate	10	224	39
Letter notifying retirement benefits – actual	5	224	90
Letter acknowledging death of pensioner	5	105	90

This is the number of records created manually. RBK starters are normally created electronically and are not included here due to problems with the interface.

We continue to review members' records to ensure that they are accurate. However discrepancies often don't become apparent until a member leaves or retires. We are striving to overcome these problems and improve performance.

Fund Membership 5 year analysis

Year	2008/09	2009/10	2010/11	2011/12	2012/13
Active	4,332	4,383	4,233	4,143	4056
Deferred	3,284	3,459	3,635	4,054	4169
Pensioners	2,496	2,623	2,745	2,929	3030
Dependents	467	471	475	481	483
Early Retirement (Efficiency/Redundancy)	29	25	29	62	32
Ill Health Retirement	8	2	7	3	2

Membership by 5 year age bands

16 - 20	21 - 25	26 – 30	31 – 35	36 – 40	41 – 45	46 – 50	51 – 55	56 – 60	61 – 65	66 – 70	71 - 75
20	116	238	351	458	599	792	691	504	242	39	8

Membership Note

Please note that the opening figures for membership shown above differ from those reported in last year's Pension Fund Accounts and Annual Report. This is due in part to timing differences from information received after the accounts were submitted and also due to an ongoing data cleansing exercise. These differences have no impact on the calculation of the cost of the Scheme.

Membership Movement Analysis

Employees

Number at 31 March 2012			**4,106**
Add	Employees joining during the year		382
			4,488
Less	Members leaving during year:		
	Normal retirements (including redundancies etc)	93	
	Ill-health retirements	2	
	Deaths in service	2	
	Refunds of contributions	3	
	Deferred pensions	330	430
Number at 31 March 2013			**4,058**

Pensioners

Number at 31 March 2012			**3411**
Add	New pensioners during year:		
	Normal retirements (including redundancies etc)	93	
	Ill-health retirements	3	
	Dependants' pensions	36	
	Deferred pensions becoming payable	94	226
			3,637
Less	Deaths/dependants ceasing to be eligible		124
Number at 31 March 2013			**3,513**

Deferred Pensioners

Number at 31 March 2012			**4,040**
Add	New deferred pensioners during year		330
			4,370
Less	Normal retirements (including redundancies etc)	94	
	Ill-health retirements	1	
	Transferred	106	
	Back to active status	15	
	Deaths	6	222
Number at 31 March 2013			**4,148**

Total Membership at 31 March 2013	**11,719**

Communications

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

- A full scheme booklet broken down into easy to read leaflets. There is also a brief guide which is made available to new employees through the employers.
- Recent newsletters both to active members and pensioner members.
- Information on Additional Regular Contributions together with an application form
- Information about Additional Voluntary Contributions with Aviva and an application form.
- Forms for Expression of Wish and nominating a co-habiting partner
- Pensions Charter containing details of timescales for various tasks
- Opt in and opt out forms
- Links to other relevant websites

Technology

Pension Services makes good use of technology within the team. The computerised administration system used is AXIS provided by Aquilaheywood Ltd. In addition to record keeping and performing calculations, there is an integrated work flow and document management system. There is an electronic exchange of data from RBK's payroll system although there were problems during 2012-13 following the move to iTrent. These have now been resolved.

The Council has recently purchased an add-on to AXIS from i-Connect who are part of the Aquilaheywood Group. Data is downloaded from payroll monthly onto the i-Connect secure website. A comparison is made with the previous month's data and an output file of new starters and amendments is produced. This is loaded directly into AXIS. The intention is that all employers within the RBK Pension Fund will use this facility. This is vital now that there are more employers participating in the Fund.

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 has two stages. In the first stage, the matter is considered by a person nominated by the employer. At RBK 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 – Scheduled Bodies

RBK						
Employer Contributions			13,188,155 481,303 (cost of early retirements)			
Employee Contributions			3,424,774			
Employee Additional Contributions			176,549			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
47,291	239,948	434,442	1,303,326	860,491	434,927	104,349

Kingston University						
Employer Contributions			6,498,377 184,522 (cost of augmentation)			
Employee Contributions			81,882			
Employee Additional Contributions			75,573			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
729	3295	8736	589,014	712,118	494,077	30,510
Kingston College						
Employer Contributions			366,063			
Employee Contributions			168,736			
Employee Additional Contributions			2,041			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
5,239	1,744	25,273	108,897	26,194	1,387	0
Tiffin Girls School – Academy from 1 April 2011						
Employer Contributions			115,567			
Employee Contributions			29,173			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
61	582	11,042	10,405	7,083	0	0
Tiffin School – Academy from 1 July 2011						
Employer Contributions			174,224			
Employee Contributions			45,266			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
542	1,187	11,476	18,351	8,369	3,549	0
Tolworth Girls School – Academy from 1 August 2011						
Employer Contributions			220,953			
Employee Contributions			54,369			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
867	3,583	22,447	20,913	6,559	0	0
Richard Challoner School– Academy from 17 August 2011						
Employer Contributions			129,034			
Employee Contributions			31,653			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
3,604	3,982	7,473	16,594	0	0	0

Hollyfield School – Academy from 1 November 2011						
Employer Contributions			175,372			
Employee Contributions			43,739			
Employee Additional Contributions			416			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
105	9,168	11,107	18,818	638	3,903	0
St Agatha's Primary School – Academy from 1 February 2012						
Employer Contributions			81,413			
Employee Contributions			19,269			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
581	1,068	1,480	41	0	0	0
Coombe Boys School – Academy from 1 February 2012						
Employer Contributions			125,359			
Employee Contributions			29,525			
Employee Additional Contributions			893			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
0	4,071	8,168	12,311	4,975	0	0
Coombe Girls School – Academy from 1 February 2012						
Employer Contributions			158,839			
Employee Contributions			39,054			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
0	8,715	12,839	16,111	401	988	
Southborough School – Academy from 1 March 2012						
Employer Contributions			114,717			
Employee Contributions			28,969			
Employee Additional Contributions			2,632			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
2,196	2,582	3,624	15,537	5,030	0	0
Holy Cross School – Academy from 1 August 2012						
Employer Contributions			78,617			
Employee Contributions			18,635			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
1,118	770	6,753	6,121	799	3,074	
Latchmere Primary School – Academy from 1 September 2012						
Employer Contributions			103,918			
Employee Contributions			25,728			
Employee Additional Contributions			10709			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
1,136	7,783	3,672	10,638	285	2,214	0

Admitted Bodies

Kingston Grammar School						
Employer Contributions			74,825			
Employee Contributions			1,328			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
0	0	0	1,328	0	0	0
Hillcroft College						
Employer Contributions			60,334			
Employee Contributions			26,668			
Employee Additional Contributions			3,885			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
507	0	4,716	6,941	5,192	9,312	0
Kingston Town Centre Management Ltd						
Employer Contributions			36,006 3,133 (cost of early retirement)			
Employee Contributions			13,946			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
0	0	0	3,143	5,834	4,969	0
London Grid for Learning						
Employer Contributions			83460			
Employee Contributions			40,999			
Employee Additional Contributions			11,410			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
0	0	0	6,271	7,944	17,275	9,509
Kingston and Sutton Educational Partnership						
Employer Contributions			322,008			
Employee Contributions			158,935			
Employee Additional Contributions			3,477			
5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%
909	0	4,924	42,420	48,824	53,911	7947

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
All payments were received on time.

Pension Fund Panel

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

- Setting the investment policy for the Scheme;
- Appointing investment managers, advisers and custodians;
- Reviewing the performance of the investment managers and the investments held in the Scheme; 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 2012-2013:

Councillor Rolson Davies (Chair)
Councillor Barry O'Mahony (Vice Chair)
Councillor Derek Osbourne
Councillor Julie Pickering
Councillor Michael Burden (until 16 December 2012)
Councillor Eric Humphrey (from 16 December 2012)

Observer members:

Dennis Spratling	(Kingston College)
Robert Ewing	(Kingston University)
Majid Mafi	(Staff Representative)
Chris Coke	(Association of Retired Council Officers (ARCO))

Co-opted member for independent advice:

Matthew Lambe

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@rbk.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:

New Members and Contribution Returns from External Payrolls
Telephone: 020 8547 5725

Teachers' Pensions and Deferred Benefits
Telephone 020 8547 5724/5609

Transfers of Pension Rights In/Out and Retirement Benefits
Telephone: 020 8547 5721/5

Divorce, Redundancy payments, Retirement and Death Benefits
Telephone: 020 8547 5615/0

Redundancy Payments, Retirement and Death Benefit
Telephone: 020 8547 5722

External Bodies
Telephone: 020 8546 5616

Overall Pensions Service and Policy
Telephone: 020 8547 5614

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
Threadneedle Investments	60 St Mary's Axe London, EC3A 8JQ	www.threadneedle.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.aviva.co.uk

Legal Services

Royal Borough of Kingston upon Thames	Guildhall Kingston upon Thames Surrey, KT1 1EU

Bankers

National Westminster Bank	5 Market Place Kingston upon Thames Surrey, KT1 1JX

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 2012-13
- Pension Fund Statement of Accounts 2012-13
- Actuarial Valuation Report as at 31 March 2010
  (Extract only appended. Full report available via the link)
- Statement of Investment Principles
- Funding Strategy Statement
- Governance Compliance Statement
- Communications Policy Statement

APPENDIX 1: Auditors Report 2012-13

To Follow

APPENDIX 2: Pension Fund Statement of Accounts 2012-13 - FINAL

Presented to Audit Committee on 27 June 2013

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 6 to 26 present a true and fair view of the financial position of the Pension Fund as at 31 March 2013 and its income and expenditure for the year then ended.

Leigh Whitehouse
Director of Finance
28 June 2013

NET ASSETS STATEMENT

31 March 2012 *£'000*			**31 March 2013** *£'000*
419,632	Investment Assets	15	481,476
10,560	Cash deposits	15	21,491
1,900	Current Assets	20	1,138
(505)	Current Liabilities	21	(2,748)
431,587	Net fund assets available to fund benefits at the year end		501,357

FUND ACCOUNT

2011/12 *£'000*		Note	2012/13 *£'000*
	Dealings with members, employers and others directly involved in the scheme		
29,182	Contributions In	7	29,475
2,300	Transfers In	8	6,683
31,482			36,158
(22,782)	Benefits	9	(23,507)
(2,978)	Payments to and on account of leavers	10	(3,669)
(716)	Administrative expenses	11	(737)
(26,476)			(27,913)
5,006	Net additions (withdrawals) from dealings with members		8,245
	Returns on Investments		
6,839	Investment Income	12	7,156
(98)	Taxes on Income	13	(132)
(3,774)	Change in market value of investments	15c	55,823
(1,210)	Investment management expenses	14	(1,322)
1,757	Net return on investments		61,525
6,763	Net increase/(decrease) in the fund during the year		69,770
424,824	Opening Net Assets of the Scheme		431,587
431,587	Closing Net Assets of the Scheme		501,357

NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

The Royal Borough of Kingston upon Thames Pension Fund is part of the Local Government Pension Scheme and is administered by the Royal Borough of Kingston upon Thames. The following description of the fund is a summary only. For more detail, reference should be made to the Pension Fund Annual Report and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972, and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972, and is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007(as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

b) 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 pension arrangements outside of the scheme. Organisations participating in the scheme include:

- Scheduled Bodies, which are the local authority and similar bodies whose staff are automatically entitled to be members of the fund.The number of such bodies has increased as more schools have reverted to Academy status
- Admitted Bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation.

Member Bodies

Scheduled Bodies	Royal Borough of Kingston upon Thames (RBK)
	Kingston College
	Kingston University
	Coombe Boys School
	Coombe Girls School
	Richard Challoner School
	Tiffin Girls School
	Tiffin Boys School
	Hollyfield School
	Tolworth Girls School
	St Agatha’s School
	Southborough School
	Latchmere School
	Holy Cross (from 01/08/2012)

The following schools operate individual payroll contracts separate from those of RBK. They are regarded as separate employers by HMRC but in terms of the Pension Fund, they form part of RBK’s total membership.

	Bedelsford School
	Malden Manor School
	St Lukes School
Admitted Bodies	Hillcroft College
	Kingston Grammar School
	Kingston Town Centre Management Ltd
	London Grid for Learning
	Kingston & Sutton Educational Partnership

The member numbers of the scheme were as follows:

31 March 2012			**31 March 2013**
17	Number of Employers with active members		19
	Active Members (Employees)		
2,542	Royal Borough of Kingston upon Thames	2,564	
1,565	Other scheduled bodies	1,384	
36	Admitted bodies	110	
4,143			4,058
	Deferred Members		
2,776	Royal Borough of Kingston upon Thames	3,046	
1,236	Other scheduled bodies	1,050	
42	Admitted bodies	52	
4,054			4,148
	Retired Members		
2,278	Royal Borough of Kingston upon Thames	2,411	
639	Other scheduled bodies	604	
12	Admitted bodies	15	
2,929			3,030
	Dependents		
394	Royal Borough of Kingston upon Thames	403	
85	Other scheduled bodies	79	
2	Admitted bodies	1	
481			483
11,607	Total		11,719

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% and 7.5% of pensionable pay for the financial year ended 31 March 2013. Employee contributions are matched by employer contributions which are set following triennial actuarial funding valuations .Currently, employer contribution rates range from 14.7% to 25.3% of pensionable pay. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency.

d) Benefits

Pension benefits under LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 01 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary In addition,part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked to match inflation, the method of calculating this changing from the Retail Prices Index to the Consumer Prices Index with effect from 1 April 2011.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2012/13 financial year and its position as at 31 March 2013 .The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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 19 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 2013 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 a combination of group and individual transfers. Note 8 shows the totals for each category. Of the transfer values received, £3,373,996 was a group transfer in respect of staff from the London Borough of Richmond Upon Thames.

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 (£91,599 in 2012/13, £184,253 in 2011/12).

b) Transfers to and from other schemes

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

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 8)

c) Investment income

i) 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.

ii) 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

iii) 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.

iv) 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.

v) 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, and which in 2012/13 totalled £132,289.Further detail of this expense is at Note 13. The Fund is reimbursed VAT by HM Customs and Excise and the accounts are shown exclusive of VAT.

f) 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.
Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

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

Net Assets Statement

h) 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.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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 18.
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.

6. EVENTS AFTER THE REPORTING PERIOD END

The Statement of Accounts was authorised for issue by the Director of Finance on 28th June 2013. At this date there were no post balance sheet events to report. The only non-adjusting event that is reported is the latest value of the investments of the Fund which have increased from £481.48m to £506.51m (as valued at 31 July 2013). This represents a change of £25.03m or 5.20%.

7. CONTRIBUTIONS IN

2011/12 *£'000*		2012/13 *£'000*
	Contributions from Employers	
	Royal Borough of Kingston:	
14,657	Normal Contributions	14,965
372	Capitalised cost of early retirements	585
6,611	Kingston University	6,594
973	Kingston College	725
170	Admitted Bodies	257
22,783		23,126
	Contributions from Members	
	Royal Borough of Kingston:	
3,843	Normal Contributions	3,956
149	Additional Contributions	294
2,016	Kingston University	1,842
271	Kingston College	171
120	Admitted Bodies	86
6,399		6,349
29,182		29,475

8. TRANSFERS IN

2011/12 *£'000*		2012/13 *£'000*
0	Group transfers	3,374
2,300	Individual transfers	3,309
2,300		6,683

9. BENEFITS

2011/12 *£'000*		2012/13 *£'000*
17,177	Pensions	18,656
4,908	Commutation and lump sum retirement benefits	4,120
697	Lump Sum death benefits	731
22,782		23,507

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2011/12 *£'000*		2012/13 *£'000*
2	Refunds to members leaving service	2
0	Group Transfers	1,274
2,976	Individual Transfers	2,393
2,978		3,669

11. ADMINISTRATIVE EXPENSES

2011/12 *£'000*		2012/13 *£'000*
452	Employee costs	495
183	Support Services	136
32	Audit Fee	21
49	Actuarial fees	85
716		737

12. INVESTMENT INCOME

2011/12 *£'000*		2012/13 *£'000*
3,273	Equity dividends	3,404
3,515	Pooled investments	3,654
51	Interest on cash deposits	98
6,839		7,156

13. TAXES ON INCOME

Investment income in note 12 is reported gross of recoverable taxes which are accrued in line with the associated income. This income is shown net of irrecoverable tax, as below.

2011/12 *£'000*		2012/13 *£'000*
85	Witholding tax - equities	84
13	Witholding tax - pooled investments	48
98		132

14. INVESTMENT MANAGEMENT EXPENSES

2011/12 *£'000*		2012/13 *£'000*
1,143	Management fees	1,251
54	Custody fees	54
13	Performance Monitoring service	17
1,210		1,322

15. INVESTMENTS

15a. Analysis of investments

Market Value at 31 March 2012 *£'000*			Market Value at 31 March 2013 *£'000*
	Equities		
11,499	UK Quoted	12,736	
-	UK Unquoted	-	
120,408	Overseas Quoted	141,788	154,524
	Pooled Investment Vehicles		
19,279	Property	18,497	
103,066	Unitised Insurance Policies	119,293	
164,648	Other Managed Funds	188,217	326,007
	Cash held by Fund Managers		
852	sterling	514	
2,615	foreign currency	3,479	
7,093	Cash held internally by Kingston Pension Fund	17,498	21,491
	Other Investment Balances		
897	Accrued Income	898	
(165)	Outstanding transactions	47	945
430,192			502,967

15b. Major investments

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

31 March 2012 *Value* *£'000*	as % of investment assets		31 March 2013 *Value* *£'000*	as % of investment assets
103,066	24.00%	Threadneedle Asset Management Ltd TPN Global Equity Fund	119,293	23.70%
82,507	19.20%	Schroder Inv. Management Ltd QEP Global Active Value Fund	96,767	19.20%
62,452	14.50%	Henderson Global Investors Ltd All Stocks Credit Fund	69,737	13.90%

15c. Reconciliation of movements in investment values

	Value at 31/03/2012 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Value at 31/03/2013 £'000
Equities	131,906	86,039	(84,975)	21,555	154,525
Managed and unitised Funds	286,994	108,383	(103,513)	34,143	326,007
Currency contracts/Futures	-1	12	(11)	(1)	-1
	418,899	194,434	(188,499)	55,697	480,531
Net cash movement	12,688			9,748	22,436
Totals	431,587	194,434	(188,499)	65,445	502,967

The transaction cost of the above investment purchases and sales was £179,266 (2011/12 £162,169)

15d. Value of assets

The majority of the fund continues to be managed by the four investment managers to whom the assets were transitioned in September 2009. UBS retains 5% of the total fund in a property portfolio.

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 2013 is shown below. A small part of the fund is invested internally – this is cash held for short term cash flow reasons or pending allocation to one of the investment managers.

2011/12 *£'000*	%		2012/13 *£'000*	%
7,093	1.65	Internally invested funds	17,499	3.48
20,525	4.77	UBS Global Asset Management	19,088	3.79
154,550	35.93	Fidelity Pensions Management	180,584	35.90
103,065	23.96	Threadneedle Asset Management Ltd	119,292	23.72
82,507	19.17	Schroder Investment Management Ltd	96,767	19.24
62,452	14.52	Henderson Global Investors Ltd	69,737	13.87
430,192	100.00		502,967	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. For 2012/13, the Pension Fund's one year return was 14.9% compared with the WM Local Authority Universe return of 13.8% which represents a relative over-performance of 1.1%.In the longer term, over three years per annum the fund returned 7.9%, a relative underperformance of 0.2% against the LA Universe return of 8.1%.

16. FINANCIAL INSTRUMENTS

16a. 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, (excluding cash) by category and net assets statement heading.

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

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
Year ended 31 March 2012				Year ended 31 March 2013		
£'000	*£'000*	*£'000*		*£'000*	*£'000*	*£'000*
			Financial Assets			
131,907			Equities	154,524		
267,714			Pooled Investments	307,510		
19,279			Pooled property investments	18,497		
	10,560		Cash deposits		21,491	
			Investment income due			
	1,900		Debtors		1,138	
732			Other investment balances	945		
			Financial liabilities			
		(505)	Creditors			(2,748)
419,632	12,460	(505)		481,476	22,629	(2,748)

16b. Net gains and losses on financial instruments

31 March 2012		**31 March 2013**
£'000		*£'000*
	Financial Assets	
(3,624)	Fair value through profit and loss	55,697
(150)	Loans and receivables	126
(3,774)		55,823

16c. Fair value of financial instruments and liabilities

31 March 2012 Carrying value £'000	31 March 2012 Fair value £'000		31 March 2013 Carrying value £'000	31 March 2013 Fair value £'000
		Financial Assets		
419,632	419,632	Fair value through profit and loss	481,476	481,476
12,460	12,460	Loans and receivables	22,629	22,629
		Financial liabilities		
(505)	(505)	Financial liabilities at amortised cost	(2,748)	(2,748)
431,587	431,587		501,357	501,357

16d. 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 2013 and 31 March 2012.

	Quoted market price	Total
Values as at 31 March 2013	*Level 1*	
	£'000	*£'000*
Financial Assets		
At fair value through profit and loss	481,476	481,476
Loans and receivables	22,629	22,629
Total	504,105	504,105
Financial liabilities		
Financial liabilities at amortised cost	(2,748)	(2,748)
Total	(2,748)	(2,748)
Net financial assets	501,357	501,357

	Quoted market price	Total
Values as at 31 March 2012	*Level 1*	
	£'000	*£'000*
Financial Assets		
At fair value through profit and loss	419,632	419,632
Loans and receivables	12,460	12,460
Total	432,092	432,092
Financial liabilities		
Financial liabilities at amortised cost	(505)	(505)
Total	(505)	(505)
Net financial assets	431,587	431,587

17. 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) <u>Market risk</u>

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.

<u>Other price risk</u>

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 2013 £'000	Change +/- %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents				
Investment portfolio assets:				
Total Equities	390,688	13.7%	444,134	337,242
UK Bonds	67,296	4.6%	70,405	64,187
Cash	26,500	0.0%	26,503	26,497
Property	18,497	3.1%	19,078	17,916
Total	502,981		557,906	448,055

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 5.9% (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 2013 along with the impact that an 5.9% 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 2013 £'000	Change +/- %	Value on increase £'000	Value on decrease £'000
Overseas Equities	353,262	5.9%	374,104	332,420
Overseas Corporate Bonds	628	5.9%	665	591
Overseas Cash	3,476	5.9%	3,681	3,271
Total	357,366		378,473	336,258

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 2013. 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. In March 2013 a small proportion of the internally held cash was invested in a fixed term deposit with a high quality counterparty in accordance with the investment criteria as set out in the Council's Investment Strategy.

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.

18. FUNDING ARRANGEMENTS

Actuarial Position

Rates of contributions paid by the participating Employers during 2012/13 were based on the actuarial valuation carried out as at 31 March 2010.

The valuation as at 31 March 2010 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £384.7m) covering 73% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:

- 14.7% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 7.5% of pensionable pay 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 1 April 2011, 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.

The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to the actuary's report on the actuarial valuation.

The contribution rates were 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 main actuarial assumptions were as follows:

Discount rate:

Scheduled Bodies	6.8% p.a.
Admitted Bodies	
In service:	6.25% p.a.
Left service:	4.75% p.a.
Rate of general pay increases	5.3% p.a.
Rate of increase to pensions in payment	3.3% p.a.
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

This statement was prepared by the former Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Royal Borough of Kingston upon Thames. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

For those bodies which became separate employers within the fund since that date, their contributions rates have been calculated individually and certified by the funds actuary.

Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

CIPFA’s Code of Practice requires the disclosure for the year ending 31 March 2013, 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.

Actuarial present value of the promised retirement benefits as at 31 March 2013 is £898.0m.
Actuarial present value of the promised retirement benefits as at 31 March 2012 is £794.0m.

20. CURRENT ASSETS

31 March 2012 £'000			31 March 2013 £'000
86	HMRC tax		86
	Debtors:		
206	- Contributions due - employees	208	
649	-Contributions due - employers	690	
0	-Transfers in	24	922
938	-Other debtors		115
21	Cash		15
1,900			1,138

21. CURRENT LIABILITIES

31 March 2012 £'000		31 March 2013 £'000
(5)	Fund Custodian fees	(8)
(345)	Fund Managers' fees	(497)
(155)	Benefits payable	(126)
0	Other creditors	(2,117)
(505)		(2,748)

22. 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 2012/13 were £67,619 (£74,957 in 2011/12), as below:

31 March 2012 £'000		31 March 2013 £'000
0.7	Equitable Life	0.3
74.2	Aviva	67.3
74.9		67.6

These are invested with the Council's approved AVC providers and are a money purchase arrangement. At 31 March 2013, the total value of the AVC fund with Aviva was £649,426 (£681,033 at 31 March 2012) and with Equitable Life was £144,269 (£158,733 at 31 March 2012).

23. 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 2012/13 was £725,659 (£683,723 in 2011/12)

During the financial year, the Pension Fund received interest of £4,268 (£54 in 2011/12) on its cash deposits from the Council.

Total fees of £1,321,726 were paid in 2012/13 in respect of investment management fees (£1,209,329 in 2011/12).

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.

24 & 25.CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no known contingent liabilities or contingent assets as at 31 March 2013. There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

26. IMPAIRMENT LOSSES

There were no impairment losses in the year.

27. STATEMENT OF INVESTMENT PRINCIPLES

In compliance with the LGPS Regulations, the Pension Fund Panel has prepared a Statement of Investment Principles (SIP). This statement sets out the principles governing decisions about investment management. The statement has been supplied to the investment managers and is available on the Council's website.

http://www.kingston.gov.uk/info/200285/financial_information/748/pensions/4

The Pension Fund Panel reviewed its SIP during the 2012/13 financial year.

APPENDIX 3: Statement of Investment Principles

Approved at Pension Fund Panel meeting on 19 July 2012

Background

This statement sets out the principles governing decisions about investment for the Royal Borough of Kingston upon Thames Pension Fund (the 'Fund') and has been prepared by the Pension Fund Panel (the 'Panel'). It is made for the purposes of and meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, details of which can be found in Statutory Instrument 2009 No. 3093.

During the review of this Statement of Investment Principles, the Panel has consulted the investment practice of Aon Hewitt, and will do so on any revision. The Panel agrees to supply the Statement to the Investment Managers appointed to manage the assets of the Fund.

The Fund covers employees of the Council, other than teachers, 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 Policy and Resources Committee.

Investment Objectives

As at April 2010, the Panel's primary objective for the Fund's investment strategy was to increase the likelihood of the Fund being fully funded on an ongoing basis from 65% to 75% over a period of 18 years from 31 March 2007. 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 paid to maintaining an appropriate level of diversification and aiming for long term stability in employer contribution rates.

The investment strategy initially adopted by the Panel was 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 has since been reduced, leading to the current investment strategy of 80% global equities, 15% bonds and 5% property.

The Panel is due to carry out an investment strategy review towards the end of 2012 following which the strategic allocations set out above may change. As part of this review, the Panel will explore the possibility of investing in alternative asset classes. Following the review, the Panel will also consider incorporating tolerance ranges around the Fund's strategic allocation with an appropriate rebalancing policy.

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 Statement 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, advisors and custodians exercise their powers of investment and other duties with a view to following the principles contained in this Statement so far as practical.

Expert Advice
As well as the support provided by the authority's finance officer, the Panel has appointed an independent advisory member to help the Panel. 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.
Separately, a firm of actuaries is employed to carry out the statutory valuations of the Fund.

Management of Investments
The Panel is responsible for the investment of the Fund and agreeing the investment policy within the regulations covering local authority pension schemes.
Having reviewed the Fund's investment strategy in mid-2008, the Panel decided to delegate the responsibility of the day to day management of the assets to four investment managers, with effect from 1 July 2009, the start date of the contract.
The strategic asset allocation benchmark for the Fund is 80% equities (MSCI All Countries World Index), 15% bonds (iBoxx All Stocks Non-Gilts Index) and 5% property (IPD All Balanced Funds Median Index).
For each of the four investment mandates, two investment managers were appointed within a framework agreement, whereby one investment manager for each mandate was called off from the framework to manage the Fund's assets from the start date of the contract (1 July 2009) (shown in **bold** in the table below), whilst the other manager's services were not required from the start date of the contract until further notice (shown in (*italics)* in the table overleaf). In addition to these four investment managers, UBS Global Asset Management holds a portfolio of Property Unit Trust investments. This mandate began in August 2007.

The table below summarises the Fund's investment management structure:

Mandate	Benchmark	Net of fees performance objective (% p.a.)	Investment Managers
Global equities – Core	MSCI All Countries World Index	+ 1.5 - 2.0	**Fidelity Investments** (*AXA Rosenberg)*
Global equities – High Alpha	MSCI All Countries World Index	+ 2.5 - 3.0	**Threadneedle Asset Management** *(Edinburgh Partners)*
Global equities – Unconstrained	MSCI All Countries World Index	+ 3.0	**Schroder Investment Management** (*Martin Currie Investment Management)*
UK Bonds	iBoxx All Stocks Non-Gilts Index	+ 0.5	**Henderson Global Investors** *(Standard Life Investments)*
UK Property	IPD UK All Balanced Funds Median Index	outperform index	**UBS Global Asset Management**

The Investment Managers have agreements with the Council in respect of the services they provide. The Investment Managers are regulated in carrying out investment management business by the Financial Services Authority. The Investment Managers are entitled, at their discretion, to manage the assets of the Fund by buying and selling investments in order to try to achieve their respective investment objectives within the agreed investment guidelines and regulations. In choosing investments, the Investment Managers must have regard to the need for diversification of investments and the overall suitability of those investments to the Fund.

The Types of Investment to be Held

As previously stated, the Investment Managers have certain responsibilities in respect of the Fund's investments. There are restrictions and limits applying to some types of investment which are imposed on the Scheme by The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended. The agreements with the Investment Managers define the restrictions on investments so that the Regulations are complied with and there is control over the risk in the Fund.

The Panel has decided that the limit for all investments in units or other shares of the investments subject to the trust of unit trust schemes and all investment in open-ended investment companies that are managed by any one body and in any single insurance contract should be 35%. The reason for this decision is that it should help manage the investment arrangements more efficiently and cost effectively. This statement is included in the SIP as required by The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

In the past, exposure to UK Investments was likely to be greater than overseas investments with the Fund predominately invested in equities. Today, the equity investments are more globally spread in order to achieve diversification.

Investment policy is reviewed by the Panel to ensure that the balance between investments is suitable for the Fund's liability structure.

Stock lending

The Panel's current policy is not to engage in stock lending.

Risk

The Panel recognise a number of risks involved in the investment of the assets of the Fund:

- Funding level and mismatching risk – As described by the investment objectives, the Fund invest in asset classes which are expected to demonstrate volatility when compared to the development of the Fund's liabilities. This policy is adopted in anticipation of achieving 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 a deterioration in the funding level as a result of taking risk.
  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 monitor 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.
  c) The probability of the Fund achieving its long-term funding objectives.

- Manager risk – The Panel monitor the managers' performance on a quarterly basis, and compare the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. The Panel also examine the risk being run by each of the investment managers. In particular, the performance reporting reviewed by the Panel considers the achieved variation in returns between each manager's portfolio and its benchmark and compares the level of active manager risk and excess return of each manager against a universe of similar mandates and the benchmark.

- Liquidity risk – The Panel have adopted a strategy that makes due allowance of the need for liquidity of the Fund's assets.

- Concentration risk – The Panel have 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 is reduced by diversification of the assets:

  - by asset class (Global Equities, Fixed Interest and Property)
  - by region (UK, overseas)
  - within asset classes, by the use of a range of products with different risk/return profiles

- 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 advisors 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 continue 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.

Realisation of Investments
The majority of the Fund's investments are quoted on major stock markets and may be realised within days if required.

The Expected Return on Investments
The aim is to ensure contribution rates are set at a level to attain 100% funding as agreed with the Fund Actuary.

When the Fund's investment strategy was last reviewed, the Panel decided to adopt 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). This risk/return profile is consistent with the Panel's investment objectives set out in the 'Investment Objectives' section.

Corporate Governance
The Council wishes to be an active shareholder and exercise its voting rights to promote and support 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 investment managers to vote in accordance with Council's voting policies. These are set out in the investment Management Agreements with each Investment Manager.
Each Agreement with the Investment Managers outlines the way the Panel wish the Investment Managers to act in respect of Corporate Governance. The Investment Managers should vote on behalf of the Panel on all resolutions at all company meetings.
If the Investment Managers believe the resolution would not be in accordance with best practice on corporate governance, the investment manager concerned will vote against the resolution. Should the National Association of Pension Funds (NAPF) identify a contentious resolution (other than best practice on corporate governance) the relevant Investment Manager should consult the Director of Finance of the Council. The Investment Managers, taking into account the above, will normally vote with the board of the company concerned. The Investment Managers are instructed to vote against political donations. Any investments in the Investment Manager's In-

House Funds will be subject to the Investment Manager's policy on Corporate Governance. The Panel will discuss this policy with the individual Investment Managers where they feel necessary.

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 scheme. The Panel will ensure through annual review that each investment 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 currently appointed custodian is JPMorgan Chase Bank.

Monitoring

The Panel, with assistance from their independent investment advisor, review the performance of the Investment Managers and their continued appointment. They meet with the Investment Managers on a regular basis to review performance and discuss investment policy.

The Panel also receives regular updates from the WM Local Authority Universe, which represents the aggregate of all participating Local Authorities pension schemes on investments and performance. The Panel uses this 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.

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 latest guidance is contained in the CIPFA publication "Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles". The Royal Borough of Kingston upon Thames as administering authority is required to report on its compliance with the six new principles for pension fund investment, scheme governance, disclosure and consultation, as listed below.

Principle 1: Effective Decision Making

Compliant: The Royal Borough of Kingston upon Thames has an appointed Pension Fund Panel consisting of elected members and other non-voting representatives and there is a clearly defined decision-making process. The Panel is supported by the Director of Finance and the Head of Finance Strategy and Accounting on investment and administration issues. The Panel has appointed an independent advisory member with experience in investment advice. It also employs an investment consultant and actuary. Training on investment issues is provided by the Investment Managers at the regular meetings of the Panel. Members of the Panel are also encouraged to attend training sessions offered from time to time by other external bodies.

Principle 2: Clear Objectives

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. The Panel had as its starting point the latest actuarial valuation when reviewing the investment arrangements to adopt the risk budget and set the investment strategy. The independent investment adviser gave comprehensive training and advice throughout this exercise. The Investment Managers have been advised of the strategy and have clearly defined investment performance targets. The objectives will be reconsidered following the next actuarial valuation and investment strategy review to ensure they remain appropriate.

Principle 3: Risk and Liabilities

Compliant: The Panel has given due consideration to risks and liabilities as explained in the 'Risk' section above. A strategic asset allocation benchmark has been set for the Fund. The Fund also subscribes to the WM Local Authority Universe as a broad comparison with other local authority schemes.

Principle 4: Performance Assessment

Compliant: The returns of the Investment Managers are measured independently against their performance objectives and they are required to report on investment performance each quarter.

Principle 5: Responsible Ownership

Compliant: The Panel's policy on Sustainability is detailed in an earlier section of this document. The Investment Managers have been asked to adopt the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents, and to report to the Panel on related activity at the regular meetings.

Principle 6: Transparency and Reporting

Compliant: Documents relating to the management of the Pension Fund investments are published on the Council's website – these include the Statement of Investment Principles, the Annual Report and Accounts, the Funding Strategy Statement and the Governance Compliance Statement. The 'Pensions Charter' is published on the website and this details the information which is provided to scheme members. An annual meeting is held for scheme members.

APPENDIX 4: Governance Compliance Statement

Principle	**Compliance Status**	**Comment**
Governance structure	Compliant	The decision-making structure is clearly defined.
Representation	Partial Compliance	Main employers and scheme members are represented on the Pension Fund Panel. However not all of individual employers are represented.
Selection/ role of lay members	Compliant	Lay members play a full role and receive same training as Members. Additional Observer: Pensioner representative appointed to Panel. Investment Advisory member appointed as Co-opted Panel Member
Voting	Partial Compliance	Voting rights have not been extended to employer and member/pensioner/ co-opted representatives.
Training/Facility time/ Expenses	Compliant	There is a clear policy on training. The Fund pays for approved training courses for all members. The training plan reflects the needs of the committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Partially Compliant	Although the Pension Fund Panel's terms of reference are mainly investment related, the Panel's activity covers a wider remit. A review of Fund Governance in 2013-14 will ensure full compliance going forward.
Publicity	Compliant	All statutory documents are made available to members. Minutes of Pension Fund Panel available on Council website.

APPENDIX 5: Actuarial Valuation Report 2010 – Summary and Conclusion

Presented to the Pension Fund Panel meeting on 6 July 2011

Actuarial Valuation at 31 March 2010

Royal Borough of Kingston upon Thames Pension Fund

30 March 2011

This report and any attachments and enclosures were prepared under the terms of our Agreement with Royal Borough of Kingston upon Thames dated 16 January 2004 and on the understanding that it is solely for the benefit of Royal Borough of Kingston upon Thames. Unless we provide express prior written consent no part of this report may be reproduced, distributed or communicated to anyone else and, in providing this report we do not accept or assume any responsibility for any other purpose other than that described therein or to anyone other than the addressee (s) of the report.

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No decisions should be taken on the basis of this report by any party other than our client, the Royal Borough of Kingston upon Thames, and nothing in this report removes the need for readers to take proper advice in relation to their specific circumstances.

AON Hewitt

Prepared for

Royal Borough of Kingston upon Thames
The Administering Authority of the Royal Borough of Kingston upon Thames Pension Fund

Prepared by

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About Aon Hewitt

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1. Introduction

Formal valuation

We have carried out an actuarial valuation of the Royal Borough of Kingston upon Thames Pension Fund at 31 March 2010, as required by Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

The main purpose of the valuation exercise is to review the financial position of the Fund and to recommend the contribution rates payable to the Fund in the future (which is essentially a **planning exercise**).

The valuation process includes setting assumptions. Such matters were considered before this report was produced and are only discussed briefly in this report.

Defined contribution benefits

Throughout the body of this report we have excluded the assets for defined contribution ('DC') AVC accounts from both the assets and from the liability measures, because in our view this provides a clearer picture. If they were to be included it would make no difference to the absolute level of **shortfall**, but it would increase slightly the percentage **funding ratios** from those shown in the main body of this report. Similarly we have excluded **AVCs** from the contribution rates given in this report.

A snapshot view

The report concentrates on the Fund's financial position at the Valuation Date. As time moves on, the Fund's finances will fluctuate. If you are reading this report some time after it was produced, the Fund's financial position could have changed significantly.

Words used

Our report includes some technical pension terms. The words shown in bold print are explained further in the glossary and in section 4.

For brevity, we have also used the following shorthand:

Shorthand	What it means
Authority	Royal Borough of Kingston upon Thames, in its role as the Administering Authority
Pensionable Pay	As defined in the Benefits Regulations
Pensionable Service	Periods of membership, as defined in the Benefits Regulations
Benefits Regulations	The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as subsequently amended)
1997 Regulations	The Local Government Pension Scheme Regulations 1997 (as subsequently amended)
Administration Regulations	The Local Government Pension Scheme (Administration) Regulations 2008 (as subsequently amended)
Transitional Regulations	The Local Government Pension Scheme (Transitional Provisions) regulations 2008 (as subsequently amended)
Regulations	The 1997 Regulations, Benefits Regulations or Administration Regulations as appropriate
Fund	Royal Borough of Kingston upon Thames Pension Fund
Employers	All bodies with employees participating in the Fund
Valuation Date	31 March 2010

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9. Summary and Conclusions

Headline results

Here are the headlines at the Valuation Date:

- There is a **shortfall** of £145.4M relative to the Fund's **funding target**. This corresponds to a **funding ratio** of 73%.
- The aggregate cost to the Employers of new benefits for members (including lump sums payable on death in service and administration expenses) is 14.7% of Pensionable Pay.
- The low risk **funding ratio** is 49%.

Developments since the Valuation Date

- As mentioned earlier in this report, in the Emergency Budget in June 2010, the Chancellor announced that Public Sector pensions will be linked to increases in the Consumer Prices Index (CPI). We have allowed for this change in this valuation.
- Since the Valuation Date, equity markets have risen slightly, but gilt and index-linked gilt yields are broadly unchanged. These developments will have had little impact overall on the financial position of the Fund under both the **funding target** and low risk funding measures (calculated with financial assumptions updated in line with market movements).
- The Independent Public Service Pensions Commission, chaired by Lord Hutton, has been established to review all aspects of pension provision in the Public Sector. The Commission's final report was issued on 10 March 2011 and proposes a number of changes for all public service pensions, including an increase in normal retirement age and a move from final salary to a career average revalued earnings framework. However no specific changes to the Local Government Pension Scheme have as yet been announced or incorporated in the Regulations. We have not therefore made explicit allowance for any changes in this valuation. Any changes will be reflected in future valuations once these have been incorporated in the Regulations.
- In the 2010 Spending Review HM Treasury set out the Government's intention to increase employee contributions into public sector pension schemes. The stated aim was to phase in the increases from April 2012, with the objective of collecting an extra £1.8bn by 2014/15. This would, on average, lead to employee contributions increasing by 3% of Pensionable Pay. It is not yet clear how this will be implemented. Any changes will be reflected in future valuations once these have been incorporated in the Regulations.

Addressing the shortfall

Based on the agreed approach set out in section 5, the overall additional **shortfall** contributions payable to the Fund from 1 April 2011 required to eliminate the **shortfall** over around 21 years would be approximately equivalent to about 7.5% of Pensionable Pay if membership numbers remain broadly stable and pay increases in line with our assumptions. This would give an aggregate contribution rate of 22.2% of Pensionable Pay.

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Contributions paid by individual Employers and their **recovery periods** will reflect their own circumstances (see below).

Individual Employer rates set by the Actuary

The Employer contribution rates are set by the Actuary taking into account a number of factors including:

- Administration Regulation 36 – which requires the Actuary to have regard to
  - The existing and prospective liabilities
  - The desirability of maintaining as nearly constant a rate as possible and
  - The Authority's **Funding Strategy Statement.**
- The results of the valuation.
- Developments since the Valuation Date.
- Discussions between the Actuary, the Authority and Employers.

Contribution rates for Employers who contribute to the Fund are set out in the **Rates and Adjustments Certificate** in Appendix L.

Rates of contribution payable by individual Employers, or groups of Employers, differ because they take into account their particular membership profiles and **funding ratios** and, in some cases, the assumptions and **recovery periods** are specific to their circumstances.

More details are given in section 5 and Appendix H.

Aggregate Employer contribution rate

The aggregate Employer contribution applicable from 1 April 2011 can be summarised as follows:

Aggregate Employer contribution from 1 April 2011

Year	Future service contribution rate (% Pensionable Pay)	Annual shortfall contribution (£M)
2011/12	14.7	9.3
2012/13	14.7	9.5
2013/14	14.7	9.6

Notes:

- The annual **shortfall** contributions above are the aggregate of the **shortfall** contributions for individual Employers in each year. Some employers have a contribution rate expressed as a percentage of pay in line with anticipated payroll figures they provided. Details of the contributions payable by individual Employers are set out in Appendix L. **Strain** payments as a result of early retirements are payable in addition.
- At the end of the period shown above, annual **shortfall** contributions payable by employers are anticipated to increase by approximately 5.3% p.a., and be payable until 1 April 2035. Thereafter contributions are anticipated to be in line with the **future service contribution rate**. These contributions will be subject to review at future actuarial valuations.

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- At the end of each Employer's **recovery period**, if cessation of participation does not occur, contributions for that Employer are anticipated to be in line with the Employer's **future service contribution rate**. These contributions will be subject to review at future actuarial valuations.
- Member contributions are payable in addition to the Employer rates set out above and in Appendix L, at the rates set out in the Benefits Regulations. **AVCs** are payable in addition.
- Contributions by active members and Employers should be paid to the Fund at such time and at such frequency as required by the Administration Regulations. Any monetary **shortfall** contributions have been calculated on the basis that they are payable uniformly (monthly) over the relevant year.

Monitoring the Fund

In the light of the volatility inherent where investments do not match liabilities, we suggest the Authority monitors the financial position in an appropriate manner on a quarterly basis.

The next formal actuarial valuation under Administration Regulation 36 is due to take place as at 31 March 2013.

Signed on behalf of Aon Hewitt Limited

D. Marsh. Christine Rice

David Marsh FIA	**Christine Rice FIA**

APPENDIX 6: Funding Strategy Statement

Approved at Pension Fund Panel meeting on 10 February 2011

SECTION 1 Introduction

Overview

This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997, has been prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the LGPS Regulations). The Statement describes Royal Borough of Kingston-Upon-Thames's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Royal Borough of Kingston-Upon-Thames Pension Fund (the Fund).

As required by Administration Regulation 35(3)(a), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Administration Regulation 35(3)(b), all employers participating within the Royal Borough of Kingston-Upon-Thames Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

The Fund Actuary, Aon Hewitt, has also been consulted on the contents of this Statement.

Policy purpose

The three main purposes of this Funding Strategy Statement are:

1. To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
2. To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
3. To take a prudent longer-term view of funding the Fund's liabilities.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding strategy set out in this Statement.

The assets that most closely match the liabilities of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the Statement of Investment Principles invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher expected return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected average return, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, the use of asset liability modelling or other analysis techniques.

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in between January and March 2011.

The Administering Authority will formally review this Statement as part of the triennial valuation as at 31 March 2013 unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

SECTION 2
Aims and Purpose of the Fund

The Purpose of the Fund

The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

The Aims of the Fund

The main aims of the Fund are:

4. **To comply with regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant employer contribution rates as possible.**

The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

5. the regulatory requirement to secure solvency,
6. the requirement that the costs should be reasonable, and
7. maximising income from investments within reasonable cost parameters (see later)

Producing low volatility in employer contribution rates requires material investment in assets which ‘match’ the employer’s liabilities. In this context, ‘match’ means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as stocks and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

2. **To ensure that sufficient resources are available to meet all liabilities as they fall due.**

   The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. **To manage employers' liabilities effectively.**

   The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers are properly informed, and through regular monitoring of the funding position.

4. **To maximise the income from investments within reasonable risk parameters.**

   The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

   8. restricting investment to the levels permitted by the Investment Regulations.
   9. restricting investment to asset classes generally recognised as appropriate for UK pension funds.
   10. analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

SECTION 3
Responsibilities of the Key Parties

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are set out below.

Administering Authority

The Administering Authority's key responsibilities are:

1. **Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.**

   Individual employers must pay contributions in accordance with Regulations 39 to 44 of the Administration Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. The Administering Authority may charge interest on late contributions in accordance with Regulation 44 of the Administration Regulations.

   The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by

   - requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement
   - notifying the Admission Body that it must meet any deficit at the cessation of the Agreement .

2. **Invest surplus monies in accordance with the Regulations.**

   The Administering Authority will comply with Regulation 11 of the Investment Regulations.

3. **Ensure that cash is available to meet liabilities as and when they fall due.**

   The Administering Authority recognises this duty and discharges it in the manner set out in the Aims and Purpose of the Fund above.

4. **Manage the valuation process in consultation with the Fund's Actuary**

   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by relevant Guidance and Regulation

5. **Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.**

   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. **Monitor all aspects of the Fund's performance and funding and amend these two documents if required.**

   The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a quarterly basis. The Statement of Investment Principles will be formally reviewed following any material change in policy or strategy, and the Funding Strategy Statement every three years as part of the valuation cycle, unless circumstances dictate earlier amendment.

Individual Employers

Individual Employers will:

11. Deduct contributions from employees' pay.
12. Pay all contributions, including their employer contribution as determined by the Fund Actuary, promptly by the due date.
13. Exercise discretions within the regulatory framework.
14. Pay for added years in accordance with agreed arrangements.
15. Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding

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Fund Actuary

The Fund Actuary will:

16. Prepare valuations including the setting of employers' contribution rates having regard to the Funding Strategy Statement.
17. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

SECTION 4
Funding Target, Solvency and Notional Sub-Funds

Funding Principle

The Fund is financed on the principle that it seeks to provide funds sufficient to enable payment of 100% of the benefits promised.

Funding Targets and assumptions regarding future investment strategy

The Funding Target is the amount of assets which the Fund needs to hold at any point in time such that the funds held, plus future anticipated investment returns on those funds, and taking into account the anticipated future experience of the membership and contributions due from the membership, meet the funding principle.

Some comments on the principles used to derive the Funding Target for different bodies in the Fund are set out below.

Scheduled Bodies and certain other bodies open to new entrants

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.

Admission Bodies and bodies closed to new entrants

For Admission Bodies the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such cessation, and any likely change in notional or actual investment strategy as regards the assets held in respect of the Admission Body's liabilities at the date of cessation (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Orphan liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund the assets notionally related to these liabilities will be assumed to be invested in low risk investments. This is described in more detail later in this document.

Full Funding

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency

Solvency and 'Funding Success'

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Funding Target.

A further Aspirational Funding Target is set by reference to a similar level of prudence as used for the actuarial valuation of the Fund carried out as at 31 March 2007.

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Recovery Period, has achieved solvency on the Aspirational Funding Target.

Other Aspects of Funding Strategy

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employer contribution rates will be adjusted to target restoration of full funding over a period of years (the Recovery Period). The Recovery Period applicable for each participating employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to Recovery Periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 30 years. The Administering Authority's policy is to agree Recovery Periods with each employer which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

Grouping

In some circumstances it is may be desirable to group employers within the Fund together for funding purposes (ie to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

Where employers are grouped together entirely for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Stepping

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Inter-valuation funding calculations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

Notional Sub-Funds for individual employers

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of sub-funds

The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.

Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.

An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used

Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers.

Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

SECTION 5
Special Circumstances related to Admission Bodies

Interim reviews for Admission Bodies

Regulation 38(4) of the Administration Regulations provides the Administering Authority with a power to carry out valuations in respect of Admission Bodies, and for the Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times in relation to Admission Bodies is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of cessation of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

Where the date of cessation is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.

For Transferee Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

A material change in circumstances, such as the date of cessation becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

For admissions due to cease within the next 3 years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any Admission Body at any time in accordance with Regulation 38(4).

Guarantors

Some Admission Bodies may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

If an Admission Body ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.

If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the Admission Body a Guarantor can at any time agree to the future subsumption of any residual liabilities of an Admission Body. The effect of that action would be to reduce the Funding Target for the Admission Body, which would probably lead to reduced contribution requirements.

Bonds and other securitization

Regulation 6 of the Administration Regulations creates a requirement for provision of risk reviews and bonds in certain circumstances. The Administering Authority's approach in this area is as follows:

In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, and so long as the Administering Authority judges the relevant Scheme Employer to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.

In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

In the case of Transferee Admission Bodies admitted under Regulation 6(2)(b) of the Administration Regulations, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will review the required cover regularly, at least once a year.

Subsumed liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any cessation valuation, carried out in accordance with Administration Regulation 38, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

Smoothing of contribution rates for admission bodies

The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of admission bodies. On the one hand, the Administering Authority requires all admission bodies to be fully self funding, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those admission bodies. On the other hand, in extreme circumstances, requiring full funding may precipitate failure of the body in question, leading to significant costs for other participating employers.

In circumstances which the Administering Authority judges to be extreme, the Administering Authority will engage with the Royal Borough of Kingston upon Thames, as the dominant employer in the Fund, with a view to seeking agreement that the requirement that contribution rates target Full Funding can be temporarily relaxed.

Additionally, the Administering Authority may seek agreement from the Royal Borough of Kingston upon Thames that, should an admission body cease participation in the Fund during the relaxation period, it would provide a source of future funding for any deficiency developing in the Fund in respect of residual liabilities of the admission body (this process is called 'Subsumption' for the purposes of this document).

Such action has three implications:

- During any period when the requirement for targeting Full Funding has been relaxed, contribution rates for admission bodies can if necessary be set at a level lower than full funding would require.
- Should an admission body leave the Fund during a period when contribution rates do not target Full Funding, the funding requirement in any cessation valuation carried out under Regulation 38 will be reduced to the extent that contributions, on a cumulative basis, have fallen short of what continued targeting of Full Funding would require. Where the admission body has a deficiency, relative to the Full Funding requirement, and also a deficiency relative to this reduced cessation valuation requirement, the admission body will only be required to make the position good up to the reduced cessation valuation requirement. Any consequent shortfall in the Fund relative to the Full Funding requirement will fall as a liability to the Royal Borough of Kingston upon Thames, to be met through adjustments to

its contribution rate as part of future actuarial valuation exercises.

- Should an admission body leave the Fund during a period where the Royal Borough of Kingston upon Thames has agreed to subsumption of residual liabilities, the cessation funding requirement will be reduced to reflect the Fund's continuing access to funding, should a deficiency emerge in the future in respect of those liabilities.

At subsequent valuations the position will be reassessed with a view to returning admission bodies to paying contributions which target Full Funding.

Cessation of participation

Where an Admission Body ceases participation, a cessation valuation will be carried out in accordance with Administration Regulation 38. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the cessation valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the cessation valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the cessation valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of a cessation payment being required.

SECTION 6
Identification of risks and counter measures

Approach

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are considered below.

Choice of Funding Target

The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Funding Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor an underlying 'low risk' position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic

Demographic risk

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

Regulatory risk

The risks relate to changes to Regulations, National pension requirements or HM Revenue and Customs' rules. The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify employers of the possible impact and the timing of any change.

Governance risk

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Particular examples are set out below:

Early retirement strain payments

No allowance is made for the additional value of the benefits when a member is made redundant or leaves on the grounds of efficiency. To counter the potential 'strain' (or cost) emerging at the next valuation early retirement strain payments are required from the employer to the Fund to meet this additional cost over a period of no longer than 3 years.

Employers with small and declining number of contributing members

A recent legal judgement indicates that under the current Administration Regulations employers with no contributing members cannot be charged contributions under Regulation 36. This ruling, however, does not affect the ability to collect contributions following a cessation valuation for Admission Bodies under Regulation 38. The Regulations may alter in the future but in the meantime there is a risk of a non Admission Body

	ceasing to pay contributions with a deficit in the Fund. The Administering Authority will monitor employers with declining membership to ensure that funding is close to 100% on the solvency measure by the time the last member leaves service and this may affect the funding strategy accordingly. **Bodies ceasing to exist with unpaid deficiency** Some employers can cease to exist and become insolvent leaving the employers in the Fund open to the risk of an unpaid deficit. For Transferee Admission Bodies, any such deficit will be met by the relevant Scheme Employer and there is therefore little risk to other employers in the Fund (provided of course that the relevant Scheme Employer is itself regarded to be of good covenant). Other employers are more problematic and the Administering Authority will as far as practicable look to reduce risks by use of bond arrangements or ensuring there is a guarantor to back the liabilities of the body.
Statistical/Financial risk	This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority will regularly assess such aspects to ensure that all assumptions used are still justified.
Smoothing risk	The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. Where such an adjustment is used, the Administering Authority's policy is to review the impact of the adjustment at each valuation to ensure that it remains within acceptable limits.
Recovery Period risk	The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a Recovery Period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and limit the Recovery Period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.
Stepping risk	The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this Statement

APPENDIX 7: Communications Policy Statement

STATEMENT OF POLICY CONCERNING COMMUNICATION AS REQUIRED BY REGULATION 106B

Prospective Member

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

New Member

A new member will be issued with a comprehensive booklet about the Scheme, together with a copy of the latest Annual Report and a letter about Combined Annual Benefit Statements, 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. A copy of the Annual Report will be issued to each member together with an invitation to the Annual Pension Fund Meeting. This is held in October each year. There will be a presentation from the Assistant Director - Treasury Services on the performance of Pension Fund investments, the Chief Pensions Administrator 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 twice each year. The April newsletter will advise of the percentage of pensions increase. The September newsletter will include an invitation to the Annual Pension Fund Meeting and enclose a copy of the Annual Report.

Representatives of Employees

For RBK, 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 RBK 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

Recent newsletters will be accessible from the web pages, as will all policy statements. The latest news about changes to the Scheme will be available together with links to other web sites 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.

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.

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

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

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.

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

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

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 a number of unit-holders are pooled and the total amount is then used to purchase assets such as shares, bonds property and cash.