Royal Borough of Kingston upon Thames

Pension Fund Annual Report 2019/20

THE ROYAL BOROUGH OF
KINGSTON
UPON THAMES

Contents

1. INTRODUCTION

I am pleased to present the Pension Fund Annual Report for 2019/20. This report brings together the Fund's financial statements with a review of financial and investment performance and the work of the shared pensions administration service. It also contains the Fund's key policy documents.

Over the past year the Fund's value has decreased by £21m to £814m, representing a decrease of 2.5%. This decrease occurred primarily in the final quarter of the year, due to the impact of the Covid-19 pandemic on financial markets. The Fund's investment managers delivered an overall annual return on investment assets of -3.1%, reflecting the significant fall in the prices of most risk assets, offset to some extent by stability in some lower risk investments such as government bonds. However, returns over a 3 and 5 year period remain positive. The Fund is still heavily weighted towards equity investments at 60% of the portfolio which can provide higher potential returns but at a higher risk than other asset classes. It is worth noting that the value of the Fund's investments recovered significantly after the 31 March 2020 reporting date, though the longer term outlook remains uncertain.

At the last triennial valuation in 2019 the Fund was assessed at 95% funded, although the estimated funding level at 31 March 2020 fell to 84%, due to the fall in investment values during March 2020 noted above. The valuation forms a key part of the Fund's management and directly impacts on the contributions paid by employers, including the council. The valuation will not, however, affect the benefits or contribution rates of individual members, which are set nationally.

Following investment reviews in 2017 and 2018 the Fund had in 2019 put on hold any major changes as a consequence of the volatile financial markets together with uncertainties over Brexit. However, the Fund intends to review its investment strategy again during 2020, following the finalisation of the 2019 triennial valuation process. The Fund continues to work closely with the London Collective Investment Vehicle to ensure that it provides investment strategies that meet the Fund's needs.

The shared pensions administration services provides the administration of Local Government Pension Scheme (LGPS) for both Sutton Council and Kingston Council, and has continued to operate normally throughout the pandemic. The Fund's membership stands at just over 15,600 across 29 scheme employers, with no significant transfers in or out during the year.

Councillor Mark Beynon
Chair of the Pension Fund Panel

2. OVERALL FUND MANAGEMENT

Scheme management and advisers

Administering Authority		
Royal Borough of Kingston upon Thames		
Supporting Officers		
Sarah Ireland, Executive Director of Corporate and Communities		
Rachel Howard, Assistant Director of Finance		
Andrien Meyers, Head of Pension Fund Investments		
Bradley Peyton, Head of Insurance and Pensions Administration		
Paul Godfrey, Senior Pensions Finance and Investment Officer		
Scheme Administrators		
Shared pensions administration service for London Borough of Sutton and Royal Borough of Kingston upon Thames		
Asset Pool		
London Collective Investment Vehicle (LCIV)		

Investment Managers:		
Equities (Active - Segregated Mandate)	**Equities (Collective Investment Vehicles)**	**Pooled Multi Asset (LCIV)**
Fidelity	Columbia Threadneedle	Baillie Gifford (LCIV)
	Schroders	CQS (LCIV)
		Pyrford (LCIV)
		Ruffer (LCIV)
Property	**Fixed Income**	
UBS	Janus Henderson	
Investment Adviser	**Banker**	
Daniel Carpenter, Aon Solutions UK	Lloyds Bank	
Actuary	**Legal Advisor**	
Steven Law, Hymans Robertson	South West London Legal Partnership	
Auditor	**AVC Provider**	
Grant Thornton	Aviva	
Performance Monitoring	**Custodian**	
PIRC Ltd	J P Morgan Chase Bank	

3. FINANCIAL PERFORMANCE

Fund Income and Expenditure From 2015/16 to 2019/20

Income and expenditure of the Fund over the past five years is shown in the table below.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Contributions receivable	37.5	39.4	50.6	54.3	42.6
Benefits payable	(31.0)	(31.2)	(92.7)	(32.2)	(38.4)
Net payment to/(from) the Fund	**6.5**	**8.2**	**(42.1)**	**22.1**	**4.2**
Fund management expenses	(3.4)	(4.3)	(4.9)	(7.6)	(8.8)
Net returns on investment	4.0	7.2	14.7	9.1	9.5
Change in market value	(6.3)	133.5	10.9	45.0	(25.7)
Net increase/(decrease) in the Fund	**0.8**	**144.6**	**(21.4)**	**68.5**	**(20.8)**

The financial performance table above shows a net increase in the Fund's value of £172m over the past 5 years. This is largely attributed to the change in market value of £157m over this period. Net payments to/(from) the fund has been relatively neutral over the past 5 years. The Fund management expenses have been more than covered by net returns on investments and further details on these are also provided below.

Analysis of Contributions and Benefits of the Fund

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Contributions Receivable					
- Members	(7,554)	(7,776)	(7,238)	(7,608)	(7,794)
- Employers	(28,243)	(30,172)	(27,950)	(26,299)	(27,183)
- Transfers in	(1,651)	(1,540)	(15,405)	(20,438)	(7,648)
Total Contributions	**(37,448)**	**(39,488)**	**(50,593)**	**(54,345)**	**(42,625)**
Benefits Payable					
- Pensions	22,563	23,554	24,518	25,310	26,595
- Lump sum retirements and death benefits	6,143	5,167	5,268	5,831	5,274
- Transfers out	2,165	2,331	62,631	5,247	6,141
- Refunds	105	161	223	198	371
Total Benefits Payable	**30,976**	**31,213**	**92,640**	**36,586**	**38,381**
Net Payment (to) / from the Fund	(6,472)	(8,275)	42,047	(17,759)	(4,244)

Over the last two financial years, 'Net Payments to/(from) the Fund' have been particularly affected by group transfers as detailed below.

'Transfers In' during 2019/20 comprise several small individual transfers into the fund while 2018/19 included two large transfers from the London Borough of Sutton;

- £7.7m - in respect of the transfer of Human Resources from LB Sutton, and
- £8.9m - In respect of the transfer of Environment Services from LB Sutton.

Analysis of Fund Management Expenses

The costs of managing the Pension Fund are split into three areas; administration costs, investment management expenses and oversight and governance costs. These costs incurred over the last five years are shown in the table below.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Administration Cost					
Internal support costs	699	565	305	638	605
Sub-total Administration Costs	**699**	**565**	**305**	**638**	**605**
Investment Management Expenses					
Management fees	2,306	3,276	3,649	4,098	4,090
Transaction costs	133	186	346	2,464	3,697
Custodian	44	41	66	64	47
Sub-total Investment Management Expenses	**2,483**	**3,503**	**4,061**	**6,626**	**7,834**
Oversight and Governance Costs					
Actuarial fees	53	93	40	86	189
External audit	25	21	21	16	16

Investment advice	84	54	165	110	78
Other	51	59	263	108	119
Sub-total Oversight & Governance Costs	**213**	**227**	**489**	**320**	**402**
Total Fund Management Expenses	**3,395**	**4,295**	**4,855**	**7,584**	**8,841**

Administration costs and Oversight and Governance costs have been fairly stable over the past 5 years (average £600k and £270k). Investment management fees have been increasing, mainly due to the increase in the market value of assets under management and fee rebate/structure changes.

In particular, reported investment management expenses significantly increased from 2018/19. Following the publication of the Local Government Pension Scheme Advisory Board cost transparency code, the quality of reported information on investment fees has improved. The use of a standardised cost template has helped enable transaction costs and indirect management costs to be more easily identified. The Fund has always borne these costs, but where the Fund uses pooled investment vehicles - for which it does not receive separate fee invoices - the fees when either taken directly from the net asset value or from investment income have not been previously reported.

Overall, in 2019/20 the cost of managing the Fund represents approximately 1.11% (2018/19: 0.87%) of the value of the Fund.

Costs per member

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Membership number	**14,440**	**15,138**	**15,469**	**15,229**	**15,670**
Cost per member (£)	**£**	**£**	**£**	**£**	**£**
Administration costs	39	20	41	40	39

Investment Management costs	243	268	428	514	500
Oversight and Governance costs	16	32	21	26	26
Total Fund costs (£)	297	321	490	581	564

The table above shows the Fund cost for each member gradually increasing, from 2015/16 to 2017/18. The steeper increase in 2018/19 and plateau in 2019/20 reflecting the inclusion of additional costs from 2018/19 as explained for the previous table.

Current Assets / Liabilities

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Current Assets					
Contributions	1,085	1,228	1,121	1,247	1,117
Other debtors	186	244	12,352	7,046	7,055
Cash at Bank	11	2	486	5,169	7,535
Sub-total	**1,282**	**1,474**	**13,959**	**13,462**	**15,707**
Current Liabilities					
Benefits Payable	(575)	(212)	(663)	(325)	(11)
Transfer Values	(1,771)	(437)	(57,790)	(44,357)	(9)
Other Creditors	(2,042)	(4,091)	(3,338)	(2,364)	(1,910)
Sub-total	**(4,388)**	**(4,740)**	**(61,791)**	**(47,046)**	**(1,930)**

Net Current Assets / (Liabilities)	**(3,106)**	**(3,266)**	**(47,832)**	**(33,584)**	**13,777**

Current assets are made up of cash and income due to the Fund at the end of each year.

Current liabilities consist of fund expenses outstanding at year end which includes payments pending for group transfers.

4. INVESTMENT POLICY AND PERFORMANCE REPORT

The table below shows the approved target allocations of individual asset classes against the actual allocations for the two most recent years ending 31 March. The original strategic asset allocation of the Fund was approved by the Panel in December 2014. In June 2015, the Panel agreed the introduction of tolerance ranges around the strategic allocation with an appropriate rebalancing policy (excluding property – due to allocation size and illiquidity). The current policy mix was agreed by the Panel in February 2018. A review of asset allocation as at 31 March 2020 was conducted to see whether any rebalancing was needed as a result of the Covid-19 pandemic and associated market volatility, but the allocation remained within the agreed tolerance ranges and no action was found to be necessary.

Asset class	Asset Allocation 31.03.2019	Asset Allocation 31.03.2020	Strategic Asset Allocation	Variance from Strategic Asset Allocation 31.03.2020
Equities	61	63	60	3
Bonds	12	13	15	(2)
Diversified Growth Funds	21	18	20	(2)

Property	5	5	5	-
Cash	1	1	-	1
	100	**100**	**100**	

The market value of the investment assets under the management of each fund manager as at 31 March 2019 and 31 March 2020 is shown below.

	31 March 2019	31 March 2020
Fund Manager	**Market Value**	**Market Value**
	£'000	**£'000**
Investments managed by London Collective Investment Vehicle		
Pyrford International - Global Total Return Fund	80,347	78,528
Baillie Gifford - Diversified Growth Fund	35,738	32,585
Ruffer - Absolute Return Fund	34,599	35,712
CQS - Multi Asset Credit Fund	32,126	27,678
Investments managed outside of London Collective Investment Vehicle		
UBS Global Asset Management	45,254	41,366
Fidelity Pensions Management	219,609	203,778
Threadneedle Asset Management - Global Equity Fund	190,012	200,990
Schroder Investment Management - Global Active Value Fund	123,475	105,808
Janus Henderson Investors - Total Return Bond Fund	37,419	38,550
Aberdeen Standard Investments	35,536	0
Janus Henderson Investors - All Stocks Credit Fund	33,781	34,656
Total	**867,895**	**799,651**

Each fund manager has been set a specific benchmark (excluding the LCIV Ruffer and LCIV CQS absolute return funds), as well as a performance target against which they will be measured. This is shown in the table below.

Manager	Asset Pool	Mandate	Benchmark	Performance Target
Fidelity		Global equities	MSCI All Countries World Index	1.5% to 2.0% above benchmark over rolling 3 year period (gross-of-fees)
Columbia Threadneedle		Global equities	MSCI All Countries World Index	2.5% to 3.0% above benchmark over rolling 3 year period (gross-of-fees)
Schroders		Global equities	MSCI All Countries World Index	3% above benchmark over rolling 3 year period (gross-of-fees)
Janus Henderson Investors (ASC)		UK Bonds	iBoxx All Stocks Non-Gilts Index	0.5% above benchmark over rolling 3 year period (gross-of-fees)
Janus Henderson Investors (TRB)		UK Bonds	No Benchmark	+ 6.0% over rolling 3 year period (gross-of-fees)
UBS		Property	IPD UK All Balanced Funds MI	Outperform benchmark over rolling 3 year period (gross-of-fees)
London CIV - Pyrford	yes	Global Total Return Fund	RPI	RPI +5.0 % over rolling 3 year period (gross-of-fees)
Aberdeen Standard		Diversified Growth Fund	6 month LIBOR rate	6 month LIBOR rate + 5.0% over rolling 3 year period (gross-of-fees)
London CIV - Baillie Gifford	yes	Diversified Growth Fund	UK Base Rate + 3.5% p.a.	To outperform the benchmark
London CIV - Ruffer	yes	Absolute Return Fund	No Benchmark	No outperformance objective
London CIV - CQS	yes	Multi Asset Credit Fund	No Benchmark	No outperformance objective

The net asset value of the Fund over the last 10 years is shown below.

Total Fund Performance

The following table provides comparative analyses of manager's performance over 1 year, 3 years, 5 years and 10 years at total Fund level. In the year to 31 March 2020 the Fund made a negative return of -3.1% which is above the benchmark of -4.1%. This was due to the adverse impact of covid-19 on market valuations during the final quarter of the financial year, which have subsequently recovered significantly, although the outlook remains uncertain.

Performance (% p.a.)	1 year	3 years	5 years	10 years
Fund	(3.1)	2.0	5.0	7.3
Benchmark	(4.1)	1.9	5.1	7.1
Relative return	1.0	0.0	(0.1)	0.2

The Fund's performance has been broadly in line with the benchmark over the longer term periods. Over the last five years the Fund has suffered from its Diversified Growth allocation as this has produced a return below that of equities.

Fund Manager Performance

The following table provides comparative analyses over 1 year, 3 years and 5 years at fund manager level against the relevant Council benchmarks.

	1 year performance			3 year performance			5 year performance		
Fund Manager	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return
London Collective Investment Vehicle:									
Pyrford International - Global Total Return Fund	(2.3)	2.6	(4.9)	(0.4)	2.8	(3.2)	1.7	2.8	(0.9)
Baillie Gifford - Diversified Growth Fund	(8.8)	4.2	(13.0)	(3.0)	4.3	(7.2)	(3.0)	4.2	(7.2)
Ruffer - Absolute Return Fund	3.2	3.2	-	0.9	0.9	-	0.9	0.9	-
CQS - Multi Asset Credit Fund	(13.9)	-	-	(12.5)	-	-	(12.5)	-	-
Other Managers:									
UBS Global Asset Management	1.4	0.1	1.3	4.5	5.6	(1.1)	5.3	6.4	(1.1)
Fidelity Pensions Management	(5.3)	(6.7)	1.5	1.8	1.8	-	6.2	6.6	(0.4)
Threadneedle Asset Management - Global Equity Fund	5.8	(6.7)	12.5	8.7	1.8	7.0	11.5	6.6	4.9
Schroder Investment Management - Global Active Value Fund	(14.3)	(6.7)	(7.6)	(3.7)	1.8	(5.5)	3.2	6.6	(3.4)
Janus Henderson Investors - Total Return Bond Fund	3.0	-	3.0	2.0	-	2.0	2.1	0.1	2.1
Janus Henderson Investors - All Stocks Credit	2.1	1.4	0.7	2.4	2.1	0.3	3.3	3.0	0.3

5. ASSET POOLS

In 2015 the Government announced that the 89 LGPS funds nationally should pool their assets into 8 regional asset pools of at least £25bn each which would have the key objective of delivering management fee savings while maintaining investment performance. In addition, the benefits of scale would allow individual LGPS funds to access investments in illiquid assets such as infrastructure without an expensive management arrangement. In London the 32 boroughs and the City of London Corporation are shareholders of the London Collective Investment Vehicle (LCIV). LCIV is the asset pooling body set up originally by London Councils. Its objective is to provide funds that meet the investment strategies required by the different LGPS funds in London and to appoint and monitor fund managers to ensure that fee savings are achieved without impacting on performance. As well as appointing active managers, LCIV provides access to lower cost index-tracker funds managed by Blackrock and Legal and General Investment management. LCIV is also increasing its fund range in less liquid asset classes such as renewable energy infrastructure.

The reduction in the management fees of individual managers will also need to cover the running costs of LCIV. The table below shows that the Fund is making contributions to the running costs of LCIV by paying an annual subscription and a development charge. LCIV has been operating for 5 years and is not yet self-financing as many London funds have yet to move their assets over. LCIV currently has 14 funds with £7.6bn of assets under management. At the end of 2019/20, the Royal Borough of Kingston Pension Fund had 22% of its fund managed by LCIV.

	2015/16	2016/17	2017/18	2018/19	2019/20	Cumulative
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Set up Costs						
Share purchase	150	-	-	-		**150**
Annual subscription	30	30	30	30	30	**150**
Development Funding charge	-	-	90	65	65	**220**

Other	-	-	-	-	-	
Transition Costs						**-**
Fee Savings	-	(53)	(122)	(206)	**(222)**	**(603)**
Net (Savings) / Costs Realised	180	(23)	(2)	(111)	(127)	**(83)**

The table below shows how the management costs of the funds managed by LCIV compare with those of the Fund's existing managers. The Fund has 3 multi-asset fund managers and one multi-asset credit manager with LCIV which are more expensive asset classes than listed bonds or equities, although cheaper than property.

	Asset Pool	**Non-Asset Pool**	**Fund**
	Total	**Total**	**Total**
	£'000	**£'000**	**£'000**
Management fees	1,152	2,939	4,090
Transaction costs	903	2,794	3,697
Custody fees	19	28	47
Performance fees	-		-

Total	2,074	5,760	7,834

6. SCHEME ADMINISTRATION

The shared pensions administration service was formed on 1 April 2016 to provide the administration of Local Government Pension Scheme (LGPS) for the Funds of Sutton Council and Kingston Council. The service administers the LGPS on behalf of scheme employers, including Kingston University, non-teaching staff in schools and academies, and contractors who agree to become admitted bodies within the Scheme. Combined, the Funds have a total membership of circa 30,000 and in excess of 100 scheme employers.

The service has responsibility to

- Publish annual benefit statements to all active and deferred members via Pensions Online
- Publish pensions saving statements to scheme members that may have breached their annual and/or lifetime allowances
- Set up and amend admission agreements for admitted bodies
- Manage the internal dispute resolution procedure
- Apply the annual pensions increase as directed by HM Treasury
- Submit a quarterly tax return to HM Treasury and pay the required tax charges
- Maintain a membership database
- Undertake an annual data review and complete The Pension Regulator scheme return notice
- Process tasks (such as, retirements and transfers in and out) in accordance with the performance standards
- Maintain a 'breaches of law' register and notify The Pension Regulator of any materially significant breaches
- Provide information and manage the production of admission, cessation and FRS 102 (financial statement) reports via the fund actuary and share with those reports with scheme employers

<u>Main Work Streams Impacting Pension Administration in 2019/20</u>

GMP reconciliation: phase one

Between April 1978 and April 1997 the minimum level of benefit payable to those that were contracted-out of the State Earnings Related Pension Scheme was known as a Guaranteed Minimum Pension (GMP), which still forms part of many members' benefits. Contracting-out ended in April 2016 and since then, HM Revenue & Customs (HMRC) no longer tracks contracted-out rights. HMRC issued closure schedules to all affected schemes so they could compare the GMP amounts held by HMRC against the scheme records and challenge any differences. This is known as a GMP reconciliation.

If errors are found in the scheme records, members may be being over or underpaid because the annual cost of living pension increases would have been misapplied.

Phase one of the GMP reconciliation was to analyse and investigate the scheme records to reconcile the GMP amounts with HMRC. The outcome of this was that 24,050 (95%) of the member population was reconciled or descoped. The remaining 5% was in a stalemate or awaiting HMRC input.

Using HM Treasury's recommended tolerance of £2 per week, the number of member records that require amendment is 954. Phase two is underway and due to be completed in 2020/21 (see Key Activities planned in 2020/21).

Key Activities planned in 2020/21

In addition to the day-to-day scheme administration, the key activities planned include:

- Preparation for McCloud remedy: It is inevitable that any proposed remedy will result in significant work for the shared pensions administration service.
- Implementation of a drip tray method of work distribution: Once implemented officers will 'drip' the next most critical process according to their capability/experience, rather than rely on an alpha split. This will coincide with improvements to the process maps and deadlines contained in the administration system.
- GMP reconciliation phase two: Rectify any incorrect data identified during phase one and amend any pensions in payment subject to a £2 per week tolerance.
- Appoint a member data services provider: To provide address tracing, mortality screening and death certificates in order to progress a number of difficult overdue processes and to further protect the Fund from overpayments.

- Issue a revised pensions administration strategy pursuant to regulation 59 of the Local Government Pension Scheme Regulations 2013: The strategy sets out the responsibilities of the administering authority and scheme employers in administering the LGPS and must be reviewed at least every three years.

7. GOVERNANCE

Pension Fund Panel

The Council has delegated oversight of the Pension Fund to the Pension Fund Panel. The responsibilities of the Panel include:

- Setting the investment policy for the Fund;
- Appointing investment managers, advisers and custodians; and
- Reviewing the performance of the fund managers and the investments held by the Fund.

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

The Panel is made up of five Members of the Council each of whom has voting rights, plus Observers representing other stakeholder groups.

The Panel considers the views of the Executive Director Corporate and Communities (S151 Officer) and obtains, as necessary, advice from the Fund's appointed investment advisers, fund managers and actuary. The implementation of these decisions is delegated to the Executive Director Corporate and Communities (S151 Officer).

Council Members Serving on the Panel During 2019-2020

Cllr Mark Beynon (Chair)
Cllr Dennis Goodship (Vice-chair)
Cllr Roy Arora
Cllr Jaesung Ha

Cllr Alison Holt

Observer Members

Chris Coke	(Association of Retired Council Officers (ARCO))
Marc Cooper	(Royal Borough of Kingston Staff representative)
Lesley Diston	(Kingston University)

	Councillor Mark Beynon (Chair)	Councillor Dennis Goodship (Vice-chair)	Councillor Roy Arora	Councillor Jaesung Ha	Councillor Alison Holt
Committee					
13 June 2019	✔	✔	✔	✔	✔
12 September 2019	✔	✔	✔	✔	✔
19 December 2019	✔	✔	✔		✔
11 February 2020	✔	✔	✔	✔	✔
Training					
Bond Portfolio	✔	✔		✔	✔
London CIV	✔	✔	✔	✔	✔
Environmental, Social, Governance issues	✔			✔	✔
Equity Investments	✔	✔	✔	✔	✔

Conferences	
LGPS Governance	✔

Note: table includes voting members only

Pension Board

The Pension Board was set up in line with the requirements of the Public Service Pensions Act 2013, and the Local Government Pension Scheme (Amendment) Regulations 2014, and became operational from April 2015.

The Board is not a decision-making body - its remit is to assist RBK in carrying out its functions as the "administering authority" for the Fund, by scrutinising the approach and governance of the decision making processes. The Pension Board comprises 4 members, 2 from the employer side and 2 from the member side. It assists RBK as the Administering Authority in ensuring it complies with the various regulations for the administration and governance of the Local Government Pension Scheme (LGPS).

The Board met twice in the 2019/20 financial year. A planned meeting in March 2020 had to be cancelled due to the Covid-19 pandemic. Board members also have a standing invitation to attend meetings of the Pension Fund Panel and have attended various Panel training sessions and workshops, including on Responsible Investment.

During the year the Board reviewed the work of the Panel including the Pension Fund Medium Term Business Plan, Pensions Administration reviews, Investment Strategy and the Annual Report and Accounts.

RISK MANAGEMENT

Following a review of the Fund's governance arrangements during 2014/15, the Panel approved the development of a standalone Risk Register for the Fund to be reported regularly to the Panel.

The most important risk facing the Fund is that its assets will be insufficient to meet its liabilities in the long-term. The Royal Borough of Kingston upon Thames as Administering Authority for the Fund appreciates the importance of effective risk management and has taken appropriate steps to ensure that there is a clear process by which the risks implicit in the Fund are systematically identified, monitored and managed at the strategic and operational level. The Authority has a formal risk management strategy and risk register which is monitored and reviewed by the Executive Director Corporate and Communities (S151 Officer) on a regular basis, having regard to changes in the internal and external environment. Assurances on the robustness of the Authority's risk management arrangements are provided by officers and external advisers to the Pension Fund Panel.

Governance Risk
Responsibility for the Royal Borough of Kingston Pension Fund's investment strategy, performance, investment transactions and related matters is delegated to the Pension Fund Panel. The Panel is subject to the Council's Standing Orders and the Code of Conduct. The activities of the Panel are overseen by the Pensions Board to ensure that appropriate governance processes are followed. Internal controls and processes are in place to manage administrative and other financial risks. Risk management processes ensure that key risk exposure is identified and action plans put in place to manage and mitigate risk. The Administering Authority works collaboratively with the other employers in the Fund, fund managers, custodian and specialist advisers. All advice is delivered via formal meetings involving Elected Members, and recorded appropriately. The Administering Authority informs other employers of their obligations to the Fund and employers are required to notify the Administering Authority promptly of all changes to their circumstances, prospects or membership. The fund managers and custodian are required to report annually on internal control compliance, to demonstrate they comply with their risk controls.

Financial Risk
The Administering Authority shares a common financial management framework with the Council and uses the Council's financial accounting system. The Fund maintains its own separate bank account. Reconciliation processes and monitoring controls ensure all Council contributions are transferred to the Pension Fund bank account. The management of financial instruments risk is disclosed in the Statement of Accounts 2019/20 (Note 17).

Investment Risk
The Panel considers investment strategy options as an integral part of the funding strategy to avoid mismatch risk. All investments expose the Fund to varying levels of risk. The decision-making process used in the investment strategy review and the selection of fund managers is designed to ensure that the level of risk taken by managers and the custodian is kept to the minimum and consistently within the risk tolerance range necessary to achieve the Fund's investment objectives. The Fund invests on the basis of specialist advice and manages investment risk through diversification by asset class, geographies and use of external fund managers to manage investments. The Fund's assets are managed by ten managers across global equities, fixed income, property and diversified growth fund mandates. The Panel is supported by expert investment and legal advisers, external fund managers and a global custodian for safe custody of assets. The advisers provide specialist input to the Panel to facilitate informed decisions on investment matters. The Panel follows a due diligence process in the selection of fund managers and other service providers, to ensure the appointment of appropriate firms who demonstrate the ability to manage the Fund's assets within the investment risk parameters specified in the Investment Management Agreement (IMA). The Panel reviews activity and monitors performance and risk, at total Fund and individual manager level, against set targets and benchmarks, on a quarterly basis based on independently validated information.

Regulatory Risk
The LGPS is facing continuing reform. The funding strategy is exposed to changes in the Scheme benefits and tax status of the Fund's investments from a cost perspective. To mitigate this risk, the Administering Authority considers all consultation papers issued by the Government and comments where appropriate. In addition, the Authority takes professional advice from the Fund actuary and investment adviser as required. The Administering Authority continues to ensure that timely action is taken to implement any changes under new regulations and that it remains proactive and innovative in respect of the significant regulatory developments and challenge of more reforms in the coming years.

The Pension Board assists the Administering Authority by scrutinising the approach to, and governance around, the decision-making processes and ensuring that the Fund meets its regulatory requirements.

The Government has for a number of years been developing and implementing proposals to pool LGPS investment assets, with the aims of reducing costs, improving investment returns and offering access to a wider range of investment opportunities which might otherwise not be practical for individual Funds.

In response, the London LGPS Administering Authorities established a Collective Investment Vehicle - known as London CIV Limited (LCIV). The Panel approved the successful transfer of RBK's holding in the Pyrford Diversified Growth Fund to the LCIV in June 2016, and also invested in the Baillie Gifford and Ruffer Diversified Growth Funds via the LCIV in October 2017, followed by the MAC CQS Multi-asset Credit Fund in 2019. The Council's officers work closely with the LCIV on the monitoring of existing mandates and the development of new products.

The Council also utilises National LGPS Frameworks to procure specialist services for the Pension Fund.

Administration Risk

The Pension Fund Panel is responsible for the administration of the Fund, with oversight and scrutiny from the Pension Board. The Panel has met quarterly to consider various reports on matters in the programme of work for the period. The Panel receives reports and updates on pensions administration covering workload, staffing and systems. The Panel also monitors performance of the Scheme administration in respect of contributing, deferred and retired members. The risk of late payment of member benefits and miscalculation of benefits through manual error is managed through a workflow system and through use of system controls and internal checking.

The risk of incorrect payment, late payment and non-payment of contributions is mitigated by ensuring that an effective process is maintained to collect employer and employee contributions due to the Fund. The Administering Authority communicates and works closely with the other employers to ensure that they understand their obligations to the Fund.

The risk of monies not being promptly invested is mitigated by daily cash flow management and monitoring of the Pension Fund bank account to ensure that amounts not required for day-to-day commitments are invested with fund managers.

The Authority seeks to employ skilled and experienced officers and ensures that staff are trained and kept up-to-date on changes

to the LGPS.

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

8. ACTUARIAL REPORT

The Pension Fund is required by regulations to have an assessment every 3 years of its pension liabilities and the assets available to pay for them. The last triennial valuation took place in 2019 and in summary the Fund had a deficit of £42m which represents a funding level of 95.0%. This compares with a funding level of 82% at the previous valuation in 2016.

The full valuation report can be found here: https://www.kingston.gov.uk/downloads/download/226/actuarial_valuation .

The next full valuation is due in 2022, but the actuaries have provided an estimated funding level of 84% as at end March 2020. This reflects falls in market values during March 2020 due to the Covid-19 pandemic. The estimated funding level had risen to 88% by June 2020, due to the subsequent rebound in financial markets.

9. INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Royal Borough of Kingston upon Thames on the pension fund financial statements of Royal Borough of Kingston upon Thames.

We have audited the financial statements of the Royal Borough of Kingston upon Thames Pension Fund (the 'pension fund') administered by the Royal Borough of Kingston upon Thames (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Corporate and Communities and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Corporate and Communities 's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Executive Director of Corporate and Communities has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Executive Director of Corporate and Communities' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of pooled property funds

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's pooled property funds as at 31 March 2020. As, disclosed in note 5 to the financial statements, due to the Covid-19 pandemic, there was very limited observable or reliable market data relating to property asset transactions at 31 March 2020,
and there was significant uncertainty about revenue projections. Valuations are therefore reported on the basis of ' material valuation uncertainty'. Consequently, less certainty and a high degree of caution should be attached to the valuations than would normally be the case. Our opinion is not modified in respect of this matter.

Other information

The Executive, Director of Corporate and Communities is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's and group's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Executive Director of Corporate and Communities and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page(s) 15 to 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Corporate and Communities. The Executive Director of Corporate and Communities is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate and Communities determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director of Corporate and Communities is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit, Governance and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Iain Murray

Iain Murray, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

15 January 2021

10. FUND ACCOUNTS

Fund Account for the year ended 31 March 2020

2018/19			2019/20
£'000		**Note**	**£'000**
	Dealings with members, employers and others directly involved in the Fund		
(33,907)	Contributions	7	(34,977)
(20,438)	Transfers in from other pensions funds	8	(7,648)
(54,345)			(42,625)
31,141	Benefits	9	31,869
5,445	Payments to and on account of leavers:	10	6,512
36,586			38,381
(17,759)	Net (additions) / withdrawals from dealings with members		**(4,244)**
7,584	Management expenses	11	8,841
(10,175)	Net (additions)/withdrawals including fund management expenses		**4,597**
	Returns on Investments		
(9,068)	Investment income	12	(9,501)
80	Taxes on income	13	48
(45,020)	(Profit) loss on disposal of investments and changes in the market value of investments	16b	25,739
(54,008)	Net Return on Investments		**16,286**
(64,183)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		20,883
(770,278)	Opening Net Assets of the Scheme		**(834,461)**
(834,461)	Closing Net Assets of the Scheme		**(813,578)**

Net Assets Statement for the year as at 31 March 2020

2018/19		Note	2019/20
£'000			**£'000**
150	Long term assets		150
867,895	Investment Assets	14	799,651
868,045	Total Net Investments		**799,801**
13,462	Current Assets	20	15,707
(47,046)	Current Liabilities	21	(1,930)
834,461	Net Assets of the Fund available to fund benefits at the end of the reporting period		**813,578**

Notes to the Pension Fund Accounts

PF Note 1 - Description of the Fund

a). General

The Royal Borough of Kingston upon Thames Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Kingston upon Thames

The Fund is governed by the Public Service Pensions Act 2013 and is administered under the following regulations:

- the LGPS Regulations 2014 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018

The Scheme is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Royal Borough of Kingston upon Thames and the admitted and scheduled bodies in the Pension Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement.

b). Pension Fund Panel

The Council has delegated oversight of the Fund to the Pension Fund Panel who make recommendations on the investment policy most suitable to meet the liabilities of the Fund. The Panel is made up of five Members of the Council each of whom has voting rights.

The Panel considers the views of the Executive Director of Corporate & Communities (S151 Officer) and obtains, as necessary, advice from the Fund's appointed investment advisers, fund managers and actuary. The implementation of these decisions is delegated to the Executive Director of Corporate & Communities (S151 Officer)

c). Membership

Although Scheme employers are required to auto enrol employees into the LGPS, membership of the LGPS is voluntary and employees are free to choose whether to remain in the Scheme or to "opt out" and make their own personal arrangements outside the Scheme. Organisations participating in the Royal Borough of Kingston Pension Fund include:

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

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

Member bodies at 31 March 2020 were as follows:

Scheduled bodies		**Admitted bodies**
Royal Borough of Kingston upon Thames	Southborough High School	Balance CIC
Kingston University	St Agatha's School	London Grid for Learning
Castle Hill Primary School	Tiffin Girls School	Your Healthcare
Coombe Boys School	Tiffin School	Engie
Coombe Girls School	Tolworth Girls School	Alliance in Partnership
Hollyfield School	Kingston Academy	NSL
Holy Cross School	Kingston Community School	**Admitted bodies (Designated bodies)**
Knollmead Primary School	Bedelsford School	Achieving for Children CIC
Latchmere School	Dysart School	
Richard Challoner School	St Philip's School	
Green Lane Primary School	Robin Hood academy	

PF Note 1 - Description of the Fund - Continued

The following table summarises the membership numbers of the scheme:

2018/19		2019/20
No.		**No.**
27	Number of Employers with active members	29
	Active Members	
2,551	Royal Borough of Kingston upon Thames	2,657
1,976	Scheduled bodies	1,973
713	Admitted bodies	708
5,240		5,338
	Deferred Members	
3,514	Royal Borough of Kingston upon Thames	3,545
1,619	Scheduled bodies	1,748
221	Admitted bodies	266
5,354		5,559
	Pensioners (including Dependents)	
3,607	Royal Borough of Kingston upon Thames	3,675
911	Scheduled bodies	964
117	Admitted bodies	134
4,635		4,773
15,229	Total	**15,670**

PF Note 1 - Description of the Fund - Continued

d). Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Key details of the scheme's variants are shown in the table below. Accrued pension is uprated annually in line with the Consumer Prices Index.

	Service pre 1 April 2008	Service 1 March 2008 to 31 March 2014	Service post 31 March 2014
Pension	Accrual rate per annum of 1/80th of final pensionable pay	Accrual rate per annum of 1/60th of final pensionable pay	Accrual rate per annum of 1/49th of current year's pensionable pay
Lump sum	Automatic lump sum of 3 x pension. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot.	No automatic lump sum. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot.	

There are other benefits provided by the LGPS including early retirement, disability pensions and death benefits. Further information is available here https://www.kingston.gov.uk/info/200285/financial_information/748/pensions/6.

e). Funding

The Pension Fund is financed by contributions from employees, employers (including the Council, admitted and scheduled bodies) and from the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2019. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2019/20, employer contribution rates ranged from 15.0% to 26.2% of pensionable pay. Employer contribution rates payable from 1 April 2019 were set by the triennial valuation as at 31 March 2016, the results of which were published on 31 March 2017. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency. The Fund also excludes those contributing to the NHS Pensions Scheme.

PF Note 2 - Basis Of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020 .The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20' (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Accounts have been prepared on a going concern basis.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not provide 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. 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 2020 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.

PF Note 3 - Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution Income

Normal contributions, both from members and employers, 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.

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

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

c) Investment income

• Interest income

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

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

• Dividend income

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

• Distributions from pooled funds

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

• 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, Note 12, is shown gross of irrecoverable taxes deducted. The Fund is reimbursed VAT by HM Revenue and Customs, and the accounts are shown exclusive of VAT.

f) Management Expenses

Pension Fund management expenses are accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).*

• Administrative Expenses

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

• Oversight and Governance Costs

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

• 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 here.

Net Assets Statement

g) Financial assets

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

h) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (Note 19).

i) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund (see Note 22). AVCs are paid to the AVC providers by employers, specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement from the AVC provider company showing the amount held in their account and the movements in-year.

PF Note 4 - Critical Judgements in Applying Accounting Policies

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

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years**.** The methodology used is within accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised at Note 18.

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

PF Note 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:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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 Authority with expert advice about the assumptions to be applied.	The effects on the net pension fund liability for the Royal Borough of Kingston Pension Fund can be measured. For example a 0.5% decrease in the discount rate assumption would result in an approximate increase of £107m in the Fund's pension liability; a one year increase in member life expectancy would increase the liability by approximately £28m and a 0.5% increase in the salary increase rate would increase the liability by approximately £7m.
	There is further uncertainty arising from a legal challenge to the Government’s transitional arrangements following the public sector pension reforms in 2015. The McCloud case was upheld by the Court of Appeal in December 2018 which found the transitional arrangements to be discriminatory on the grounds of age and gender. The Government was refused appeal to the Supreme Court in June 2019 and now it is for the Scheme Advisory Body to determine how this matter is to be resolved.	The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of remedies and assumptions. The Council’s actuaries have applied the same assumptions as used to prepare the IAS26 report to the remedies in the GAD review which indicate a potential increase in pension liabilities of 0.3%, or £2.8m. This figure is based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report.
Pooled property funds	The assets held by the Pension Fund include property assets managed by Fund Managers on a pooled basis. As the assets are unquoted, values are estimated by Fund Managers using comparable market data, indices and data from third parties, as well as projected revenue streams associated with the assets. Due to the Covid-19 pandemic, there was very limited observable or reliable market data relating to property asset transactions at 31 March 2020, and there was significant uncertainty about revenue projections. Valuations are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.	The potential impact of this uncertainty cannot be measured accurately. Total property funds held by the Pension Fund are valued at £43.4m, and a 10% change in the valuation of property would therefore equate to a difference of £4.34m in Fund value.

PF Note 6 - Events After The Reporting Period End

The Statement of Accounts was authorised for issue by the Executive Director Corporate & Communities (S151 Officer) on 6 August 2020.

At this date there was one non-adjusting event to report:
The latest value of the investments of the Fund show an increase from £799.7m to £913.6 (as valued at 30 June 2020). This is an increase of £114m or 14.3%.

PF Note 7 - Contributions Receivable

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

Category:

2018/19		2019/20
£'000		**£'000**
(7,608)	Employees' contributions	(7,794)
	Employers' contributions	
(21,623)	Normal Contributions	(22,265)
(4,676)	Deficit Recovery Contributions	(4,918)
(33,907)		**(34,977)**

Authority:

2018/19		2019/20
£'000		**£'000**
(15,177)	Royal Borough of Kingston upon thames	(16,446)
(14,230)	Scheduled bodies	(14,146)
(4,500)	Admitted bodies	(4,385)
(33,907)		**(34,977)**

PF Note 8 - Transfers In From Other Pension Funds

The tables below show a breakdown of the total amount of benefits payable by category and by authority:

2018/19		2019/20
£'000		£'000
(7,913)	Individual transfers	(6,292)
(12,525)	Group transfers	(1,356)
(20,438)		**(7,648)**

PF Note 9 - Benefits Payable

The tables below show a breakdown of the total amount of benefits payable by category and by authority:

Category:

2018/19		2019/20
£'000		£'000
25,310	Pensions	26,595
4,804	Commutation and Lump sum retirement benefits	4,297
1,027	Lump sum death benefits	977
31,141		**31,869**

Authority:

2018/19		2019/20
£'000		**£'000**
22,656	Royal Borough of Kingston upon Thames	22,853
7,454	Scheduled bodies	7,937
1,031	Admitted bodies	1,079
31,141		**31,869**

PF Note 10 - Payments To And On Account Of Leavers

2018/19		2019/20
£'000		**£'000**
198	Refunds to members leaving service	371
877	Group transfers	1,305
4,370	Individual transfers	4,836
5,445		**6,512**

PF Note 11 - Management Expenses

2018/19		2019/20
£'000		**£'000**
638	Administration Expenses	605
6,626	Investment Management Expenses	7,834
320	Oversight and Governance	402
7,584		**8,841**

The above table includes audit costs within Oversight and Governance which total £16k in 2019/20 (£16k in 2018/19).

PF Note 11a - Investment Management Expenses

Investment Management Expenses are further analysed below in line with CIPFA Guidance on Accounting for Management Costs in the LGPS. Additional cost disclosures have been provided by fund managers following the publication of the LGPS cost transparency code in May 2017 by the Scheme Advisory Body. The use of a standardised cost template has enabled transaction costs and indirect management costs to be identified and accounted for. The Fund has always borne these costs but typically they were deducted either from the net asset value or from investment income so that they were hidden within the Fund.

2018/19		2019/20
£'000		**£'000**
4,008	Management Fees	4,090
90	Performance Fees	-
64	Custody Fees	47
2,464	Transaction Costs	3,697
6,626		**7,834**

PF Note 12 - Investment Income

2018/19		2019/20
£'000		**£'000**
(3,542)	Equity Dividends	(4,474)
	Pooled Investments:	
(1,725)	- Fixed Income	(822)
(864)	- Property	(1,054)
(2,774)	- Multi-Asset	(3,064)
-	- Credit	(74)
(20)	Interest on Cash Deposits	(12)
(143)	Other	(1)
(9,068)		**(9,501)**

PF Note 13 - Taxes On Income

2018/19		2019/20
£'000		**£'000**
70	Withholding tax - equities	48
10	Withholding tax - pooled	-
80		**48**

PF Note 14 - Investments

2018/19	Investment Assets	2019/20
£'000		**£'000**
	Equities - quoted:	
11,667	UK	8,271
179,606	Overseas	167,862
	Pooled Investment Vehicles - UK:	
391,722	Equities	384,503
101,463	Fixed Income - Public Sector	62,343
21,476	Fixed Income - Corporate	37,947
47,333	Property	43,465
32,126	Credit	27,678
3,724	Other	22,967
	Pooled Investment Vehicles - Overseas:	
37,419	Fixed Income - Corporate	38,550
	Other Investment Balances	
40,582	Cash deposits	5,327
988	Accrued income and recoverable taxes	824
(212)	Amount payable for purchases of investments	(86)
867,894	Total Net Investment Assets	**799,651**

PF Note 14a - Analysis of Pooled Investment Vehicles

Pooled Investment Vehicles:			Other managed funds:			
2019/20	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
- Equities	149,217	200,990	34,296	0	0	384,503
- Fixed Income	48,782	0	51,508	38,550	0	138,840
- Property	2,851	0	40,614	0	0	43,465
- Credit	0	0	27,678	0	0	27,678
- Other	16,071	0	6,896	0	0	22,967
	216,921	**200,990**	**160,992**	**38,550**	**0**	**617,453**

Pooled Investment Vehicles:			Other managed funds:			
2018/19	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
- Equities	157,630	185,110	41,609		7,374	391,723
- Fixed Income	69,068	988	46,689	34,126	9,488	160,358
- Property	43,876	3,458				47,335
- Infrastructure						0
- Credit			32126			32,126
- Other	14,240	456	4,146	3,293	18,674	40,809
	284,814	**190,012**	**124,570**	**37,419**	**35,536**	**672,351**

*OEIC - “Open-ended Investment Company: an investment company that will issue (or redeem) shares on a regular basis in response to investor demand.
*SICAV - “Société d'investissement à capital variable”, similar to an OEIC but used in Europe.

PF Note 14b - Reconciliation of Movements In Investments

2019/20	Value 31 March 2019	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Equities	191,273	118,857	(123,030)	(10,967)	176,133
Pooled Investment Vehicles:					
- Equities	337,551	1,599	(1,813)	(8,207)	329,130
- Fixed Income	71,200	157	473	1,376	73,206
- Property	41,027	-	(745)	332	40,614
- Multi-Asset	186,220	3,098	(38,121)	(4,372)	146,825
- Credit	32,126	74	(382)	(4,140)	27,678
Sub-total Investments	**859,397**	**123,785**	**(163,618)**	**(25,978)**	**793,586**
Other Investment Balances:					
Cash deposits*	7,723			196	5,327
Trade receivables / payables	(213)			44	(86)
Accrued income and recoverable taxes	988			-	824
Net Investment Assets	**867,895**			**(25,738)**	**799,651**

PF Note 14b - Reconciliation of Movements In Investments - Continued

2018/19	Value 31 March 2018	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Equities	175,789	107,202	(105,746)	14,028	191,273
Pooled Investment Vehicles:					
- Equities	309,464	1,522	(970)	27,535	337,551

- Fixed Income	101,542	1,917	(32,367)	108	71,200
- Property	40,497	-	(278)	809	41,027
- Multi-Asset	183,739	2,662	(2,441)	2,259	186,220
- Credit	-	32,000	(28)	154	32,126
- Other	150	-	(150)	-	-
Sub-total Investments	811,180	145,304	(141,981)	44,894	859,397
Other Investment Balances:					
Cash deposits*	6,099			107	7,723
Trade receivables / payables	(146)			19	(213)
Accrued income and recoverable taxes	976			-	988
Net Investment Assets	**818,110**			**45,020**	**867,895**

PF Note 14c - Investments Analysed By Fund Manager

31 March 2019			31 March 2020	
Market Value	**% of total**	**Fund Manager**	**Market Value**	**% of total**
£'000	**%**		**£'000**	**%**
		Investments managed by London Collective Investment Vehicle		
80,347	9.3%	Global Total Return Fund (Pyrford International)	78,528	9.8%
35,738	4.1%	Diversified Growth Fund (Baillie Gifford)	32,585	4.1%
34,599	4.0%	Absolute Return Fund (Ruffer)	35,712	4.5%
32,126	3.7%	Multi Asset Credit Fund (CQS)	27,678	3.5%
182,810	21.1%	Sub total	174,503	21.8%
		Investments managed outside of London Collective Investment Vehicle		
45,254	5.2%	UBS Global Asset Management	41,366	5.2%
219,609	25.3%	Fidelity Pensions Management	203,778	25.5%
190,012	21.9%	Threadneedle Asset Management - Global Equity Fund	200,990	25.1%

123,475	14.2%	Schroder Investment Management - Global Active Value Fund	105,808	13.2%
37,419	4.3%	Janus Henderson Investors - Total Return Bond Fund	38,550	4.8%
35,536	4.1%	Aberdeen Standard Investments	-	0.0%
33,781	3.9%	Janus Henderson Investors - All Stocks Credit Fund	34,656	4.3%
685,085	78.9%	Sub total	625,148	78.2%
867,895	**100.0%**	**Total**	**799,651**	**100.0%**

PF Note 15 - Fair value – basis of valuation

The basis of the valuation of each class of investment asset is in accordance with the guidance contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Asset and liability valuations are classified into three levels, according to the quality and reliability of information used to determine fair values. The investment assets of the Pension Fund are classed, as set out in the table below.

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

Level 1

Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. Cash and short term investment debtors and creditors are classified as level 1.

Level 2

Quoted prices are not available and valuation techniques use inputs that are based significantly on observable market data. Investment assets classified at level 2 are those where quoted market prices are not available; for example, where an investment is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

At least one input that could have a significant effect on valuation is not based on observable market data. Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data, and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. They include private equity and infrastructure investments. Assurances over the valuations are gained from the independent audit of the accounts.

31 March 2019					31 March 2020			
Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3	Total		Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3	Total
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
191,273	-	-	191,273	Equities	176,133	-	-	176,133
				Pooled Investment Vehicles:				
-	391,723	-	391,723	Equities	-	384,503	-	384,503
16,075	144,283	-	160,358	Fixed Income	-	138,840	-	138,840
-	47,335	-	47,335	Property	-	43,465	-	43,465
-	32,126	-	32,126	Credit	-	27,678	-	27,678
4,565	40,515	-	45,080	Other	6,065	22,967	-	29,032
211,913	**655,982**	**-**	**867,895**	**Financial Assets at fair value through profit and loss**	**182,198**	**617,453**	**-**	**799,651**

PF Note 16a - Classification of financial instruments

2018/19				2019/20		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
191,273			Equities	176,133		
			Pooled Investment Vehicles:			

391,723			Equities	384,503		
160,358			Fixed income	138,840		
47,335			Property	43,465		
32,126			Credit	27,678		
	3,724		Other*	29,032	150	
	46,675		Cash deposits		7,535	
	8,293		Sundry debtors		8,172	
822,815	**58,692**	**-**		**799,651**	**15,857**	**-**
			Financial Liabilities			
-	-	(47,046)	Creditors			(1,930)
-	**-**	**(47,046)**		**-**	**-**	**(1,930)**
822,815	**58,692**	**(47,046)**	**Total**	**799,651**	**15,857**	**(1,930)**

*Other includes absolute return, commodities, insurance linked securities and investment in the London CIV

PF Note 16b - Net gains and losses on financial instruments

2018/19		**2019/20**
£'000		**£'000**
	Financial Assets	
44,912	Designated at fair value through profit and loss	(25,935)
107	Financial assets at amortised cost	196
45,020		**(25,739)**

PF Note 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.

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 2013 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:

- Investment Strategy Statement;
- 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, bond 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.

In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of asset classes, 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.

<u>Other price risk – sensitivity analysis</u>

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 last 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:

Value as at 31/03/2019	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2020	Change +/-	Value on increase	Value on decrease
£'000	%	£'000	£'000		£'000	%	£'000	£'000
582,996	16.9	681,522	484,470	Equities	560,636	28.0	717,614	403,658
160,358	10.1	176,554	144,162	Fixed income	138,840	9.8	152,446	125,234
47,335	14.3	54,104	40,566	Property	43,465	14.2	49,637	37,293
32,126	0.5	32,287	31,965	Credit	27,678	9.8	30,390	24,966
40,582	0.5	40,784	40,379	Cash	5,327	0.3	5,343	5,311
4,500	9.1	4,909	4,090	Other	23,705	0.3	23,776	23,634
867,896		**990,160**	**745,632**	**Total**	**799,651**		**979,206**	**620,096**

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 (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisers 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, the council considers the likely volatility associated with foreign exchange rate movements to be 10.0%.

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 2020 along with the impact that a 10.0% strengthening / weakening of the pound against the various currencies in which the Fund holds investments would have on the values.

Value as at 31/03/2019	Value on 10% price increase	Value on 10% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2020	Value on 10% price increase	Value on 10% price decrease
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
527,361	580,097	474,625	Overseas Equities	167,862	184,648	151,076
48,572	53,429	43,715	Overseas Fixed Income		-	-
4,548	5,003	4,093	Overseas Property		-	-
24,666	27,133	22,200	Overseas Credit		-	-
605,148	**665,662**	**544,633**	**Total assets available to pay benefits**	**167,862**	**184,648**	**151,076**

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 2020. 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.

a) 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 collateralised 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.

b) 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 Pension Fund currently remains cash flow positive with contributions exceeding payable pensions, 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.

PF Note 18 - Funding arrangements

Rates of contributions paid by the participating Employers during 2019/20 were based on the actuarial valuation carried out as at 31 March 2016 by the Fund's actuary, Hymans Robertson. The following table shows a summary of the results of the valuation:

Past Service Position		**31/03/2016**
		£m
Past Service Liabilities		(794)
Market Value of Assets		649
Surplus (Deficit)		(145)
Funding Level		81.70%

Financial Assumptions		**31/03/2016**
	Nominal	**Real**
Discount Rate	4.00%	1.9%
Salary Increases*	2.60%	0.5%
Pension Increases	2.10%	-

Contribution Rates		
Employer Future Service Rate *		20.5%
Past service adjustment (21 year spread) **		10.9%
Total Employer Contribution Rate		**31.4%**

A further actuarial valuation was carried out by the actuary as at 31sth March 2019, which will be used to set contribution rates from 2020/21 to 2022/23.

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

The rates of contributions payable by each participating employer over the period 1 April 2020 to 31 March 2023 are set out in a certificate dated 31 March 2019 which is appended to the actuary's report on the actuarial valuation. For those bodies which have become separate employers within the Fund since the valuation date, their contribution rates have been calculated individually and certified by the Fund's actuary.

PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2020, 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.

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 International Financial Reporting Standards (IFRS).

31 March 2019		31 March 2020
£m		**£m**
(1,294)	Actuarial Fair Value of Promised retirement benefits	(1,120)
834	Net Fund Assets available to fund benefits	814
(460)	Net Liability	**(306)**

PF Note 20 - Current assets

31 March 2019		31 March 2020
£'000		**£'000**
1,247	Contributions	1,117
7,046	Other debtors	7,055
5,169	Cash at Bank	7,535
13,462	Total Current Assets	**15,707**

PF Note 21 - Current liabilities

31 March 2019		31 March 2020
£'000		**£'000**
(325)	Benefits Payable	(11)
(44,357)	Transfer Values	(9)
(2,364)	Other Creditors	(1,910)
(47,046)	Total Current Liabilities	**(1,930)**

PF Note 22 - Additional voluntary contributions

A number of active Fund members have elected to pay additional voluntary contributions to increase their personal benefits. Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that these are not paid into the Pension Fund. The total AVCs paid by members in 2019/20 were £89,419 (89,419 in 2018/19).

Market Value 31 March 2019		Market Value 31 March 2020
£'000		**£'000**
0.1	Equitable Life	-
-	Utmost Life and Pensions	142
89.3	Aviva	858
89.4		**1,000**

These are invested with the Council's approved AVC providers and are a money purchase arrangement.
**Note that Equitable Life was taken over by Utmost Life and Pensions on 1 January 2020 and its assets transferred to them.

PF Note 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 2019/20 was £605,072 (£637,685 in 2018/19)

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. Extra disclosure can be seen in the Authority's accounts under the notes related to Senior Officers remuneration and Related Party Transactions.

The Council has a significant interest in one designated body (Achieving for Children Ltd) which is within the Fund and received £2.543m in employer contributions, deficit and early retirement costs from this body in 2019/20 (£2.446m in 2018/19).

PF Note 23a - Key Management Personnel Remuneration

The key management personnel for the Pension Fund are the Head of Investment, Risk and Commercial Finance and the Assistant Director, Resources Directorate (Shared Finance Service for the London Borough of Sutton and the Royal Borough of Kingston upon Thames). Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's Accounts, and are within scheme administration expenses as above in Note 11. Extra disclosure can be seen in the Authority's accounts under the notes related to Senior Officers remuneration and Related Party Transactions.

PF Note 24 - Contingent liabilities and contingent assets

The Fund has a contingent liability in respect of a guarantee provided to the City of London Pension Fund for the pension liabilities of the London CIV. There are no known material contingent assets as at 31 March 2020. There are no outstanding contractual commitments and no material items relating to non-adjusting events occurring subsequent to the period end.

PF - Glossary of terms

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

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

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

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

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

Actuarial Valuation
Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

Actuary
An adviser on financial information and assumptions relating to the 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

Balance Sheet
A Statement of the Council's assets and liabilities at 31 March (Balance Sheet date).

Cash & Cash Equivalents
Cash is represented by money held by the Council and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Chartered Institute of Public Finance and Accountancy (CIPFA)
This is the accountancy body that produces standards and codes of practice for accounting and financial functions in the public sector. It is one of the bodies responsible for the two principal codes of practice that determine how the Council presents its accounts.

The Code
The Local Authority Accounting Code of Practice provides guidance to all Local Authorities on applying accounting standards for the production of the Statement of Accounts and outlines information that must be included. The Code of Practice is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

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

Contingent Liabilities
These are potential losses for which a future event will establish whether a liability exists. As it is not appropriate to establish provisions for such amounts, they are not accrued in the financial

statements, but disclosed separately in a note to the Comprehensive Income and Expenditure Statement.

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

Current Assets
These are assets that will be consumed within the next accounting period (i.e. less than one year).

Current Liabilities
Those amounts which become payable or could be called upon in the next accounting period (i.e. less than one year).

Current Service Cost (Pensions)
The increase in the present value of the pension scheme's liabilities expected to arise from employee service in the current period.

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

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

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

Defined Contribution Scheme
A retirement benefit scheme into which an employee pays regular fixed contributions as an amount or percentage of pay and has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to the employee service in the current and prior periods.

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

Events after the Balance sheet date
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

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

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

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

General Fund
The Council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

Going Concern
The Council's financial statements are prepared on a going concern basis; that is, the accounts are prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

IAS19
Accounting Standard requiring the recognition by an authority of the attributable share of the assets and liabilities of pension funds with which it is associated showing the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme, even though the fund retains title to the assets and the responsibility to pay pensions.

Impairment
A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

International Financial Reporting Standards (IFRS)
The accounting standards adopted by the International Accounting Standards Board (IASB).

Intangible Assets
These are assets of value that do not have physical substance, for example software licences, franchises and patents. Expenditure incurred on these assets is capitalised at cost and charged to the Balance Sheet.

Interest Cost (Pensions)

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

Investment Properties
Property that is held solely to earn rentals or for capital appreciation.

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

Net Book Value (NBV)
An asset or liability's original book value net of any accounting adjustments such as depreciation.

Net Realisable Value
The open market value of the asset less the expenses to be incurred in realising the asset.

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

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

Prior Year Adjustments
These are material adjustments, which are applicable to prior years arising from the correction of fundamental errors or inaccuracies. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provision
This is an amount, which is set aside for a liability or loss in respect of a past event, which is likely to be incurred, but where the exact amount and date on which it will arise is uncertain.

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

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

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

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

Section 151 Officer
Section 151 of the Local Government Act 1972 requires each local authority to appoint a suitably qualified officer to be responsible for the proper administration of its financial affairs. This officer is sometimes referred to as the Section 151 Officer.

Security
Any kind of transferable certificate of ownership.

Termination Benefits
Amounts payable to employees as a result of a decision by the Council to terminate an officer's employment prior to normal retirement age or an officer's decision to accept voluntary redundancy.

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.

11. GOVERNANCE COMPLIANCE STATEMENT

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

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

	Governance Principle	Compliant			Comment
		NOT	PARTIALLY	FULLY	
1	**Structure**				
	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.			✓	The Pension Fund Panel consists of 5 elected members reflecting the political representation on the Council and 5 non-voting members. The Panel is responsible for the management of the administration of benefits and strategic management of the Fund's assets. The Panel has Terms of Reference.
	b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pension and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.			✓	Non-voting Panel members are representatives of key scheduled bodies, scheme members (including pensioner and deferred members), and one independent co-opted individual.
	c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.			✓	Not applicable as the Council does not have a secondary committee.

	d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.			✓	Not applicable as the Council does not have a secondary committee.
2	**Committee Membership and Representation**				
	a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure These include:- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers; and iv) expert advisors (on an ad-hoc basis)		✓		The main employers and scheme members are represented on the Pension Fund Panel. However not all individual employers are represented.
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.			✓	Non-voting members of the Pension Fund Panel have equal access to information, training, opportunity to contribute to Panel discussions and ability to influence the Panel's decisions.
3	**Selection and Role of Lay Members**				
	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.			✓	All new members of the Panel are given training as part of their induction to enable them to play a full role on the Panel. Additional training is tailored to enhance members' governance capacity as the pension fund environment changes.

	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda			✓	At the start of Pension Fund Panel meetings, members must declare if they have an interest in any of the items on the agenda. Interest may be personal or pecuniary. Depending on the interests declared, it might be necessary for the member(s) to leave the meeting. The detail on interests is in Part 5A of the Council's Constitution – Members' Code of Conduct.
4	**Voting**				
	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✓		Elected Members of the Pension Fund Panel have voting rights. Voting rights have not been extended to employer and member/pensioner/ co-opted representatives as they are not elected Members of the Council.
5	**Training/Facility Time/Expenses**				
	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.			✓	There is a clear policy on training. The Fund pays for approved training courses for all members. The training plan reflects the Panel's work programme as well as the individual and collective training needs identified.
	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.			✓	The Training Policy applies equally to all members of the Panel and the Pension Board.
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.			✓	A training plan is in place for the Pension Fund Panel and the Pension Board and a log of training undertaken is maintained.
6	**Meetings (Frequency/Quorum)**				

	a) That an administering authority's main committee or committees meet at least quarterly.			✓	The Treasury Committee meets five times a year.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.			✓	Formal meetings of the Pension Fund Panel are held quarterly. Panel meeting dates are synchronised with the dates of the Treasury Committee meetings and Pension Board meetings.
	c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented				Not applicable
7	**Access**				
	That subject to any rules in the Councils' constitution all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.			✓	All members of the Pension Fund Panel have equal access to meeting papers and advice considered at meetings.
8	**Scope**				
	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements			✓	The Panel's Terms of Reference covers investment management and the wider governance, administration and risk management matters. A review of Fund governance was carried out in 2013-14 ahead of the introduction of the Pension Board in 2015. The Pension Board Terms of Reference include oversight of administration issues as well as scrutiny of decision making processes.
9	**Publicity**				
	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in			✓	All statutory and other material relating to Scheme governance are published on the Council's website allowing stakeholders to follow up on any matter. Changes to Scheme governance and administration are circulated to

	which the scheme is governed, can express an interest in wanting to be part of those arrangements.				employers for cascade to their members.

12. FUNDING STRATEGY STATEMENT

ROYAL BOROUGH OF KINGSTON UPON THAMES PENSION FUND

FUNDING STRATEGY STATEMENT

March 2020

Contents

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Royal Borough of Kingston Upon Thames Pension Fund (“the Fund”), which is administered by Royal Borough of Kingston Upon Thames, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2020.

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

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

- affordability of employer contributions,

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

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

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

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

If you have any other queries please contact Rachel Howard, Assistant Director Finance, Shared Finance Service, in the first instance at e-mail address Rachel.Howard@sutton.gov.uk.

2 Basic Funding issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is the period over which the funding target is to be achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a funding level calculated?

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

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high-level risk measures, whereas contribution-setting is a longer-term issue.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer or its ability to make its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the fund establish a picture of the financial standing of the employer i.e. its ability to meet its long-term fund commitments.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

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

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing MHCLG has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required, and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates and has taken the following approach:

- increase the prudence in the funding strategy via a higher likelihood of meeting funding target for the Royal Borough of Kingston-Upon-Thames which makes up the majority of the Fund, and

- make no allowance for the smaller employers until the actual McCloud rectification is known except where there is a cessation valuation (see note (j) below)

As the majority of employers in the Fund are long term participants, the Fund will have time to make future adjustments as detail on the McCloud remedy emerges. The Fund reserves the right to adjust employer contribution rates between formal valuations if deemed appropriate and necessary once the remedy to McCloud is known.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;

- adjust the required likelihood of meeting the funding target;

- permit an employer to participate in the Fund's stabilisation mechanisms;

- permit extended phasing in of contribution rises or reductions;

- pool contributions amongst employers with similar characteristics; and/or

- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long-term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary. Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	**Local Authorities**	**Academies**	**Other**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation, but may move to "gilts basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No				
Maximum time horizon – Note (c)	20 Years					Outstanding contract term
Secondary rate – Note (d)	% of payroll or monetary amount					
Treatment of surplus	Covered by stabilisation arrangement		Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	70%	75%	80%	80%	75%
Phasing of contribution changes	Covered by stabilisation arrangement		Phased over a period to be agreed with the Administering Authority - Note (k)			None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis (depending on the reason for the contractor ceasing to participate). Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

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

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies to the Royal Borough of Kingston-Upon-Thames as the largest employer in the Fund, with tax-raising powers and an obligation to admit new members.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Local Authority
Max contribution increase per year	+0.5% of pay
Max contribution decrease per year	-0.5% of pay

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

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

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been, or there is an expectation there will be, a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

Each employer has its own funding target its own time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

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

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

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above

v. It is possible for an academy to leave one MAT and join another. If this happens, all active, deferred and pensioner members of the academy will transfer to the new MAT.

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

Note (h) (New Admission Bodies)

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected increase in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer. See also Note (i) below.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit or entitled to any surplus at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of surplus or deficit would be determined by the Administering Authority in accordance with the Regulations.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any exit debt or receive any exit credit. In other words, the pension risks “pass through” to the letting employer.

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

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

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. Where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is to add a loading of 0.6% to the active and deferred liabilities to protect against the risk of benefit cost increases in future. This adjustment will only be applied for cessations where no other employer is taking on responsibility for the ceasing employer's assets and liabilities.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

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

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

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply a guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee or look to the security itself as a means of full or partial payment.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis: secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the “gilts exit basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

3.4 Pooled contributions

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

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

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

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

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand, it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

3.5 **Additional flexibility in return for added security**

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

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

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

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

- the extent of the employer’s deficit;
- the amount and quality of the security offered;
- the employer’s financial security and business plan; and

- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill-health early retirement costs

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

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

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

3.7 Ill health early retirement costs

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

3.8 External Ill health insurance

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

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and

- there is no need for monitoring of allowances.

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

3.9 Employers with no remaining active members

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

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

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

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

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the Fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long-term view when assessing employer contribution rates and the methodology takes into account this potential variability.

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

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the overall level of employer contributions is set at an appropriate level to ensure both the solvency and the long-term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry for Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

"to establish a ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*

to support the regulatory framework to maintain ***as nearly constant employer contribution rates as possible****; and*

to take a ***prudent longer-term view*** *of funding those liabilities."*

These objectives are desirable individually but may be mutually conflicting.

The requirement to maintain and publish an FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate" and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in January for comment;

b) Comments were requested within 21 days;

c) Following the end of the consultation period the FSS was updated where required and then published, on 31 March 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the Council's website;

A copy sent by e-mail to each participating employer in the Fund;

A full copy included in/linked from the annual report and accounts of the Fund;

Copies sent to investment managers and independent advisers;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least at every formal valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the intervaluation period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pension Fund Panel and would be included in the relevant Panel meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the Council's website.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

3. collect employer and employee contributions, and investment income and other amounts due to the Fund;

4. ensure that cash is available to meet benefit payments as and when they fall due;

5. pay from the Fund the relevant benefits and entitlements that are due;

6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;

7. communicate appropriately with employers so that they fully understand their obligations to the Fund;

8. take appropriate measures to safeguard the Fund against the consequences of employer default;

9. manage the valuation process in consultation with the Fund's actuary;

10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

11. prepare and maintain an FSS and an ISS, after consultation;

12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should

1. deduct contributions from employees' pay correctly;

2. pay all contributions, including their own as determined by the actuary, promptly by the due date;

3. have a policy and exercise discretions within the regulatory framework;

4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6. advise on the termination of employers' participation in the Fund; and

7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;

3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- Governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change	The Fund considers Environmental, Social and Governance (ESG) factors in its Investment Strategy Statement which is currently under review.

C3 Demographic risks

Risk	Summary of Control Mechanisms

Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long-term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee	The Administering Authority has a close relationship with employing bodies and

members, large number of retirements) or not advised of an employer closing to new entrants.	communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and is recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).

	Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation. The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the “Primary contribution rate” (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the “Secondary contribution rate” (see D3 below).

The contribution rate for each employer is calculated based on each employer’s own assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at the whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years’ accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, as set by the Fund’s strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic model (the “Economic Scenario Service”) developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for each employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding horizon based on its funding target assumption (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic model (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The contributions are calculated such that the proportion of outcomes meeting the employer's funding target at the end of the time horizon is equal to the required likelihood.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. It cannot therefore account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2019 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund allows for any individual members transferring from one employer in the Fund to another via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is calculated at each formal valuation based on membership data from the valuation date.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, likelihoods of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

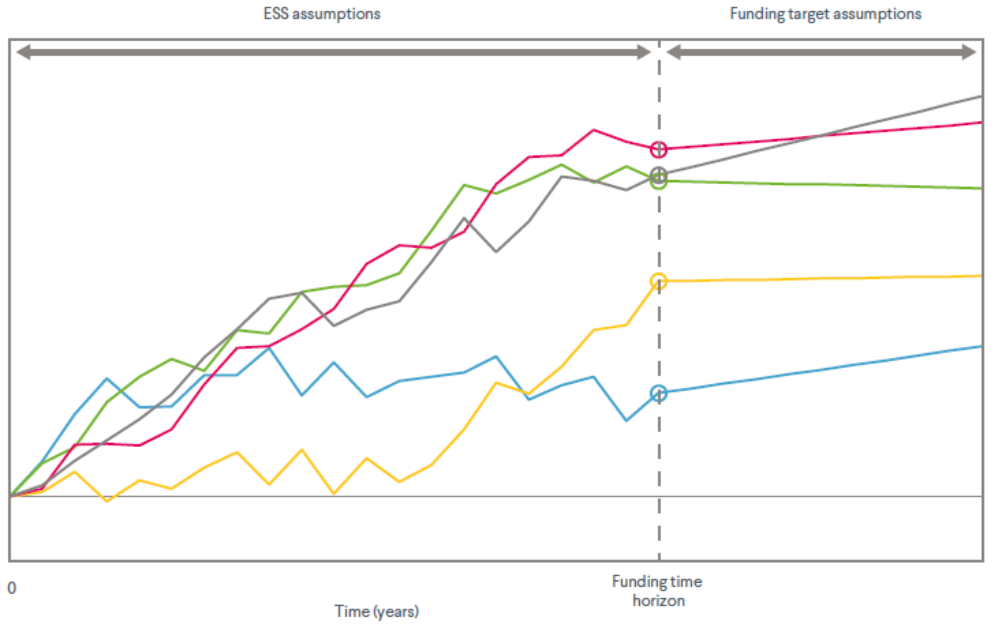
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk-free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Gilts exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

a) Salary growth

After discussion with fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 4% p.a. in 2019/20 then 1% p.a. until 31 March 2023, followed by

2. 0.5% below the retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.6% p.a.. This is the same overall assumption as the previous valuation, although it has been derived based on a different pattern of short and long-term increases.

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government and is not under the control of the Fund or any employers.

At this valuation we have continued to assume that CPI inflation will be 1% p.a. lower than RPI inflation. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a fund-level set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund.

It is acknowledged that life expectancy and, in particular, future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members’ benefits.

d) General

Apart from the assumption on future investment returns, the same financial assumptions are adopted for all employers when deriving the funding target underpinning the Primary and Secondary rates described in (3.3). The parameters used in setting contributions reflect each employer’s circumstances.

The demographic assumptions in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer’s time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
Admission Bodies	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund and are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s **covenant** to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for

Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds across the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependents of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different

	public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

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13. INVESTMENT STRATEGY STATEMENT

Royal Borough of Kingston Upon Thames Investment Strategy Statement April 2018

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) of the Royal Borough of Kingston Pension Fund adopted by Kingston Council (the Council) in its capacity as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

1.2 The Council has delegated to its Pension Fund Panel (“the Panel”) “all the powers and duties of the Council in relation to its functions as Administering Authority except for those matters delegated to other committees of the Council or to an officer.”

1.3 The ISS has been prepared by the Panel having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Panel has consulted on the contents of the Strategy with each of its employers and the Pension Board. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.

2. Statutory background

2.1 Regulation 7(1) of the Regulations requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

3. Directions by the Secretary of State

3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Ministry of Housing, Communities and Communities and Local Government.

3.2 The Secretary of State’s power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

4. Advisers

4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Fund Panel and Council officers such advice is taken from:

- Aon Hewitt Ltd – investment consultancy

4.2 Actuarial advice, which can have implications for investment strategy, is provided by Hymans Robertson LLP.

5. Objective of the Fund

5.1 The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (i.e. the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

5.2 The target investment strategy is designed to have an expected return in excess of the discount rate while achieving a level of risk the Panel considers to be appropriate. The aim is to ensure contribution rates are set at a level to attain 100% funding as agreed with the Fund Actuary.

6 Investment beliefs

6.1 The Fund’s fundamental investment beliefs which inform its strategy and guide its decision making are:

- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk

- A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term

- Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long term reward will be realised

- Asset allocation structure should be strongly influenced by the quantum and nature of the Fund's liabilities and the Funding Strategy Statement

- Since the lifetime of the liabilities is very long the time horizon of the investment strategy should be similarly long term

- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund's assets to other asset classes

- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies

- Costs need to be properly managed and transparent

7 The suitability of particular investments and types of investments

7.1 The Panel decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.

7.2 The Panel has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Fund's projected cash flow requirements.

7.4 Following the triennial valuation in 2016 the Panel, as advised by Aon Hewitt, considered its investment strategy alongside its funding objective and agreed the following structure:

ASSET CLASS	MANAGEMENT APPROACH	ALLOCATION	RANGE
		%	**%**
Equities	Active	60.0	55.0 – 65.0
Diversified Growth Funds	Active	20.0	15.0 – 25.0
Property	Active	5.0	n/a
Bonds	Active	15.0	5.0 – 15.0
TOTAL		**100.0**	

7.5 The most significant rationale of the structure is to invest the majority of the Fund assets in “growth assets” i.e. those expected to generate ‘excess’ returns over the long term. The structure also includes an allocation to “matching” assets, mainly corporate bonds. The investments in property and diversified growth funds provide both diversification and expected returns in excess of the discount rate used to value the liabilities in the triennial valuation.

7.6 The Panel monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability and diversification given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

7.7 The Panel also monitors the Fund’s actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, a re-balancing exercise is carried out to ensure that the allocation remains within the range set.

7.8 It is intended that the Fund's investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Panel, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future. This approach was adopted following the 2013 triennial valuation.

7.9 An Asset Liability Modelling exercise was undertaken and the strategy reviewed in 2017 following the results of the 2016 actuarial valuation. As at 31 December 2016, modelling the current investment strategy relative to a proxy for the Fund's liabilities, the 10 year expected relative return was 5.2% p.a. with an expected volatility of 18.8%. As a result of the investment strategy review, the Panel has decided to consider ways to further diversify the bond and property portfolios.

7.10 The Panel decided to commit £25m (c.3.0% of total Fund assets) to a residential property fund. This commitment is expected to be drawn down over a period of two years. The impact of this commitment on the structure detailed in paragraph 7.4 above is shown below.

ASSET CLASS	MANAGEMENT APPROACH	ALLOCATION	RANGE
		%	**%**
Equities	Active	57.0	55.0 – 65.0
Diversified Growth Funds	Active	20.0	15.0 – 25.0
Property	Active	8.0	n/a
Bonds	Active	15.0	5.0 – 15.0
TOTAL		**100.0**	

8 Asset classes

8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest, index linked and corporate bonds, cash and property either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

8.3 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. property. The majority of the Fund's assets are highly liquid i.e. can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, as a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

8.4 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets. The Fund retains sufficient cash to meet its liquidity requirements, and cash balances are invested in appropriate interest earning investments pending their use. The investment of these cash balances is managed internally.

9 Fund Managers

9.1 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Panel is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.

9.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management.

9.3 The managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

9.4 The investment management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets.

9.5 As at the date of this ISS the details of the managers appointed by the Panel are as follows:

9.5.1 Fidelity Investments

Asset class – Global equities

Benchmark – MSCI All-World Index

Performance objective – Outperform the benchmark by 1.5 to 2.0% p.a.

9.5.2 Columbia Threadneedle Investments

Asset class – Global equities

Benchmark – MSCI All-World Index

Performance objective – Outperform the benchmark by 2.5 to 3.0% p.a.

9.5.3 Schroder Investment Management

Asset class – Global equities

Benchmark – MSCI All-World Index

Performance objective – Outperform the benchmark by 3.0% p.a.

9.5.4 Janus Henderson Investors

Asset class – Corporate bonds

Benchmark – iBoxx Sterling Non-Gilts Index

Performance objective – Outperform the benchmark by 0.5% p.a.

9.5.5 Janus Henderson Investors

Asset class – Bonds

Benchmark – n/a

Performance objective – An absolute return of 6.0% p.a.

9.5.6 Pyrford International Limited

Asset class – Diversified Growth Fund
Benchmark – RPI
Performance objective – RPI + 5% p.a.

9.5.7 Aberdeen Standard

Asset class – Diversified Growth Fund
Benchmark – 3 Month GBP LIBOR
Performance objective – LIBOR (6 month) +5% p.a. over rolling 3 year periods (gross of fees)

9.5.8 Baillie Gifford

Asset class – Diversified Growth Fund
Benchmark – UK base rate
Performance objective – Outperform the benchmark by 3.5% p.a. (net of fees) over rolling 5 year periods

9.5.9 Ruffer LLP

Asset class – Diversified Growth Fund
Benchmark – UK base rate
Performance objective – To achieve a consistent return significantly greater than the Bank of England base rate

9.5.10 UBS Global Asset Management

Asset class – Property
Benchmark – IPD UK All Balanced Funds Median Index
Performance objective – To outperform the benchmark by maximising total returns through a combination of capital growth and income return.

9.5.11 M&G Residential Property

Asset class – Property
Benchmark – n/a
Performance objective – A total return of 6-8% p.a. (net of fees) over the long term, targeting an income return of 3-4% p.a.

9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.

9.7 Performance targets are generally set on a three-year rolling basis and the Panel monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisory member. In addition, the Panel requires managers to attend a separate manager day meeting twice a year, and officers meet each of the managers in the "alternate quarters" (i.e. when there is no "manager day" meeting) to review and scrutinise performance.

9.8 The Council also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.

10 Stock lending

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

11 Approach to risk

11.1 The Panel recognises a number of risks involved in the investment of the assets of the Fund.

11.2 Funding risks

11.2.1 As described by the investment objectives, the Fund invests 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.

11.2.2 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.

11.3 Manager risks

11.3.1 The Panel monitors the managers' performance on a quarterly basis, and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. The Panel also examines 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.

11.4 Liquidity risk

11.4.1 The Panel has adopted a strategy that makes due allowance of the need for liquidity of the Fund's assets.

11.5 Concentration risk

11.5.1 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, Diversified Growth Funds, Fixed Interest and Property)
- by region (UK, overseas)
- within asset classes, by the use of a range of products with different risk/return profiles

11.6 Market risk

11.6.1 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.

11.7 Operational risk

11.7.1 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.

12 Approach to pooling

12.1 The Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government’s pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

12.2 The Fund has already transitioned assets into the London CIV with a value of £148.150.6m or 187.18% (as at 31 March 20182017) of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

12.3 The Fund holds £43.2m or 5.1% (as at 31 December 2017) of the Fund held in illiquid assets, with a further planned investment of £25m or 3%, and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

13 Social, environmental and governance considerations

13.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

13.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

13.3 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

13.4 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

13.5 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

13.6 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

[Note that as of September 2020, the Fund has agreed a more detailed Responsible Investment Policy, which is available on the Council's website.]

14 Exercise of the rights (including voting rights) attaching to investments

14.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

14.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

14.3 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

15 Stewardship

15.1 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

15.2 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

15.3 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests. In addition, the Fund gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest.

16 Compliance with “Myners” Principles

16.1 In Appendix 1 are set out the details of the extent to which the Fund complies with the six updated “Myners” principles set out in the CIPFA publication “Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”.

Appendix 1

Compliance with “Myners” Principles”

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, Corporate and Commercial on investment and administration issues. 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 Pensions and Investments Research Consultants 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 Investment Strategy Statement, 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.

14. COMMUNICATIONS POLICY STATEMENT

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

This statement confirms the procedures used for communication and information sharing between the various LGPS parties, including scheme members and their representatives, prospective members, and scheme members. It is required by regulation 61.

There are certain key principles that form the basis of the approach to communication. They are:

- Digital first communication but alternative methods as required
- Self service when appropriate
- Using plain language to help parties to make informed decisions

Provision of information and publicity about the scheme

The policy will set out the channels of communication that will be communicated and their frequency. It will include an engagement plan that will include events for employers, members of the scheme and prospective members of the scheme.

We are committed to using technology to enhance services, improve accessibility and broaden inclusion. We are developing our use of digital communication through our secure member portal, Pensions Online, and email. Wherever possible, we will use a digital first means of communication, however, we recognise that individuals may have specific needs with regards to the format or language of our communication. As such, reasonable alternative material will always be made available on request.

Annual benefit statements are digitally published on Pensions Online and unless requested, a scheme member will not receive a paper copy. Using Pensions Online, active and deferred scheme members can view their statements, other documents and membership information.

We shall maintain the service's web pages on Kingston Council's website to provide information about the LGPS. The contents shall be reviewed at least twice per year. This is where we will publish the key scheme documents, such as the annual report. The web pages will not duplicate the core scheme information found on the LGPS website but rather link to it where possible and only add information that is specific to the Fund.

When it is prudent to share scheme updates with scheme members, these messages will be added to the council website. In addition, we will ask every scheme employer to cascade such messages to its active scheme members. If it is relevant to share the message with deferred or retired scheme members, we will circulate it using the principle of digital first, where possible. These updates may include changes to the scheme regulations.

During an actuarial valuation year, we shall hold meetings with scheme employers and the fund actuary to discuss the results and implications of the valuation and other actuarial matters.

The LGPS and other pension schemes can prove confusing to its members. As such, all communication sent by us will be written using plain language where possible and where not, will include suitable definitions. We will also utilise 'drop-in' sessions for scheme members after the publication of key annual documents like the annual benefit statements and pensions savings statements. This will give active members an opportunity to discuss their options in person, without offering them any financial advice.

The Fund's governance arrangements include a panel and a board, which receive reports from the administering authority at their regular meetings. These reports are presented by officers and will include general updates and specific recommendations for decisions where the power to decide them has not been delegated to officers. Minutes and (non-exempt) papers of these meetings will be published on the Council's website.

Forms and templates for scheme employers

Forms

Scheme employers need to submit information in accordance with specific requirements to support the efficient administration of the LGPS. The following forms must be used and can be found on the council websites:

- Notification of joining employee (LG2)
- Notification of leaving employee (LG3)
- Notification of an employment change (LG4)
- Notification of changes to multiple post employee (LG5)

Templates

In some situations, often due to a scheme employer's payroll provider, it is not always possible to use specific templates. As such, our templates are optional and scheme employers can choose to use their own format. However, the returns must still contain all of the fields found in our template. The following templates can be found on the council websites:

- Monthly contributions return (LG1)
- Annual return
- BDI return for bulk notification of joining employees

Sharing information with external bodies

From time to time the administering authority shall share scheme member and scheme employer information with the following external bodies:

- Cabinet Office
- Ministry of Housing, Communities & Local Government
- Department for Work & Pensions
- Government Actuary's Department
- HM Revenue & Customs
- Local Government Association
- The fund actuary
- The external auditor
- The member data service provider (Accurate Data Services)