



Royal Borough of

Kingston upon Thames Pension Fund

Statement of Accounts 2009/10

Draft submitted to Executive, 30th June 2010

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Explanatory Foreword

Introduction

This publication sets out the annual statutory accounts of the Royal Borough of Kingston upon Thames Pension Fund and covers the period that runs from 1st April 2009 to 31st March 2010. The objective of the pensions fund's financial statements is to provide information about the financial position and performance and financial adaptability of the fund. The accounts for the Pension Fund now have to be published and audited separately.

The various financial statements that make up the Council's Pension Fund accounts have been prepared on an accrual basis. This means that every statement contains all items of expenditure and income that relate to the period of account and not just cash transactions that have actually been incurred (with the exception of transfer values). Each financial statement includes comparative figures that relate to the previous financial year.

The accounts of the Pension Fund are maintained separately from the Council's main accounts, and consist of its own revenue account and balance sheet. The Pension Fund has been built up over many years by contributions from the member employers and participating employees to provide pensions and lump sum payments for members of the fund upon reaching retirement age, and other benefits as specified. Every three years the appointed Actuary values the Fund's assets to assess whether there are sufficient monies available to meet its current pension liabilities. Each employer's contribution to the Fund is based on these triennial valuations, whilst members pay a fixed percentage dependent on their earnings.

The arrangements regarding teacher's pensions, however, are different, as they do not belong to the RBK Pension Fund. A separate external body, the Teachers Pensions Agency, is responsible for administering and paying teachers' pensions.

Statement of Responsibilities

The Council's Responsibilities to the Pension Fund

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

In this Council, the responsible officer was Tracie Evans, Strategic Director of Finance, until 31st July 2009 when Jeremy Randall, Head of Financial Services, took on the responsibility of the statutory Chief Finance Officer. On 17th May 2010, Leigh Whitehouse commenced his appointment as Director of Finance and was designated as the Council's statutory Chief Finance Officer.

The Responsibilities of the Chief Finance Officer

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

In preparing this Pension Fund Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority SORP.

The Chief Finance Officer has also:

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

Certificate of the Chief Finance Officer and the Leader of the Council

I certify that the Pension Fund Statement of Accounts presents a true and fair view of the financial position of the Pension Fund at the 31st March 2010 and its income and expenditure for the year then ended.

.....
Leigh Whitehouse
Director of Finance
30th June 2010

As authorised by the Executive of the Council on 30th June 2010

.....
Councillor Derek Osbourne
Leader of the Council and Chair of the Executive
30th June 2010

Accounting Statements

Fund Account

2008/09 Net Expenditure £'000		2009/10 Net Expenditure £'000
Dealings with members, employers and others directly involved in the scheme		
(28,322)	Contributions	(29,785)
(2,357)	Transfers in	(3,519)
<u>(30,679)</u>		<u>(33,304)</u>
17,808	Benefits	20,642
2,714	Payments to and on account of leavers	2,660
561	Administrative expenses	597
<u>21,083</u>		<u>23,899</u>
(9,596)	Net additions(withdrawals) from dealings with members	(9,405)
Returns on investments		
(8,403)	Investment income	(4,913)
61,143	Change in market value of investments	(92,419)
582	Investment management expenses	1,185
<u>53,322</u>	Net returns on investments	<u>(96,147)</u>
43,726	Net increase (decrease) in the fund during the year	(105,552)
(322,868)	Opening net assets of the scheme	(279,142)
<u>(279,142)</u>	Closing net assets of the scheme	<u>(384,694)</u>

Net Assets Statement

31 Mar 2009 £'000		31 Mar 2010 £'000
274,099	Investment Assets	382,890
5,147	Current Assets	2,259
(104)	Current Liabilities	(455)
<u>279,142</u>		<u>384,694</u>

Notes to the Accounts

Fund operation and membership

The Royal Borough of Kingston upon Thames Pension Fund is governed by the Local Government Pension Scheme Regulations 1997 (LGPS). The scheme is a defined benefit scheme and provides its members with a retirement pension (including spouses' and children's pensions and death gratuities) related to pay and length of membership and a possible initial lump sum payment. The benefits payable are legally protected and regulations govern the contribution rates paid into the fund by both employers and members. Members will contribute between 5.5% and 7.5% of their pensionable pay, whilst the Fund's appointed independent actuary recommends the employers' rates. The Fund excludes teachers, who have a separate Teachers Pension Scheme managed by the Department for Children, Schools and Families.

Membership

31 Mar 2009		31 Mar 2010
<i>nos</i>		<i>nos</i>
4,388	Active members (employees)	4,500
3,116	Deferred members	3,390
2,492	Retired members	2,618
470	Dependents - adults	478
10,466		10,986

Member bodies

Schedule bodies:

Royal Borough of Kingston upon Thames
Kingston College
Kingston University

Admitted bodies:

Coombe Oak
Glencross Cleaning Limited
Hillcroft College
Kingston Grammar School
Kingston Town Centre Management limited
London Grid for Learning

The Council is responsible for the investment of the assets of the Fund and agreeing the investment policy within the regulations covering local authority pension schemes. These duties are carried out by a panel of councillors, the "Pension Fund Panel", who are advised by the Strategic Director of Finance and the Head of Treasury Services. They are also advised by a specialist firm of consultants.

Statement of Accounting Policies

a) *basis of preparation*

The accounts of the Royal Borough of Kingston upon Thames Pension Fund have been prepared on a going concern basis and in accordance with the provisions of chapter 2 of the Pensions SORP 2007 and the Code of Practice on Local Authority Accounting in Great Britain 2007.

b) *accruals concept*

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

c) *valuation of investments*

Investments are stated at their market values as at 31st March 2010 and are determined as follows;

- i) 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.
- ii) Securities which are not covered by the above are valued on the Custodian's assessment of their estimated realisable value. Suspended securities are valued initially at the suspended price but are subject to constant review.
- iii) 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.

d) Treatment of interest on property developments

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

e) Taxation

Investment income has been stated net of irrecoverable tax. UK tax deducted from the income on managed and unitised funds is recoverable and the gross figure is quoted in the accounts. The total recoverable tax included for 2009/10 was £132,395.

f) Transfer Values

The transfer values received and paid are for individual members. There have not been any group transfers.

Pensions SORP

The various statements conform to the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (ACOP - SORP) and the Best Value Accounting Code of Practice (BVACOP), both published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with the Pensions SORP The Financial Reports of Pension Schemes –A Statement of Recommended Practice 2007.

Future Liabilities

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.

Actuarial position of the fund

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Royal Borough of Kingston upon Thames Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997. Rates of contributions paid by the participating Employers during 2009/10 were based on the actuarial valuation carried out as at 31 March 2007.

The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £321.4M) covering 70% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 are higher than expected investment returns on the Fund's assets, along with additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These have been partially offset by the impact of changes in the actuarial assumptions used to reflect higher price inflation expectations and longevity improvements.

The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 was as set out below:

16.3% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

plus

- 9.4% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 18 years from 1 April 2008;

less

- 1.8% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage;
- Changes were made consistent with the Finance Act 2004;
- A new scheme has been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

The cost of future benefit promises had increased compared with the costs identified in the previous valuation. This was due to the combined impact of benefit changes, changes in economic conditions and increased life expectancy.

The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008 which is appended to our report of the same date on the actuarial valuation.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010.

The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

The main actuarial assumptions were as follows:

Discount rate for periods	
In service	
Admitted Bodies	6.2% a year
Scheduled Bodies	6.2% a year
Left service	
Admitted Bodies:	5.2% a year
Scheduled Bodies:	6.2% a year
Short term investment returns until 1 April 2011	
Equity/property assets	7.1% a year
Other investments	5.2% a year
Rate of general pay increases	4.7% a year
Rate of increases to pensions in payment	3.2% a year
Valuation of assets	market value

Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31st March 2010 which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1st April 2011 to 31st March 2014 are required by the Regulations to be signed off by 31st March 2011.

This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited, for inclusion in the accounts of the Royal Borough of Kingston upon Thames. It provides a summary of the results of the actuarial valuation which was carried out as at 31st March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, the Royal Borough of Kingston upon Thames, in respect of this statement.

Value of Assets

In September 2009, following the appointment of a transition manager, £319 million was transitioned from UBS Global Asset Management to four of the investment managers appointed to the framework agreement to deliver the revised investment strategy. UBS retained 5% of the total fund in the legacy property portfolio.

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

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

The market value of the assets under the management of each fund manager as at 31st March 2010 is shown below. The portfolio of the fund managers will also include elements of accrued income and outstanding traded securities. A small part of the Fund is invested internally and two liquidated stocks remain on the transition account.

2008/09		2009/10
£'000		£'000
4,000	Internally invested funds	2,453
270,641	UBS Global Asset Management	17,164
	Fidelity Pensions Management	143,863
	Threadneedle Asset Management Ltd	93,652
	Schroder Investment Management Ltd	74,789
	Henderson Global Investors Ltd	50,923
	State Street Global Markets (transition account)	46
<u>274,641</u>		<u>382,890</u>

In addition to individual performance benchmarks for each fund manager, the Pension Fund's overall performance is analysed relative to the WM Local Authority Universe which is representative of the UK Local Authority Pension Fund peer group. During 2009/10 the market value of the Fund made a significant recovery from the 2008/09 low but market volatility persisted. For 2009/10, the Pension Fund's one year return was 35.4% against a WM benchmark of 39.1% which represents a relative underperformance of 2.7%. In the longer term, over three years per annum the fund returned 3.4%, a relative outperformance of 1.3% against a benchmark return of 2.1%.

Analysis of investments

2008/09			2009/10
£'000			£'000
	Fixed Interest Securities		
40,289	UK Public Sector quoted	0	
9,407	Overseas Public Sector	0	
4,583	Overseas Corporate quoted	0	0
	Equities		
79,070	UK Quoted	11,634	
4	UK Unquoted	0	
0	Overseas Quoted	111,950	123,584
	Index-linked Securities		
16,662	UK Public Sector		
	Managed and Unitised Funds		
15,674	Property unit trusts	14,144	
0	Unit trusts	144,575	
83,546	Managed Funds	92,945	251,664
	Cash Deposits		
20,605	sterling	3,000	
259	foreign currency	480	
4,000	sterling RBK BQ502	2,453	5,933
0	Cash held by fund manager		1,709
<u>274,099</u>			<u>382,890</u>

Investment transactions during the year were as follows:

2008/09		2009/10
£'000		£'000
22,161	Purchases	303,107
11,435	Sales	(270,711)
37	Total transaction costs	1,433

The large volume and cost of transactions during 2009/10 is due to the transition of the majority of the Fund's assets from UBS to four new managers during September 2009. Transaction costs include broker commissions, taxes and F/X fees. For the transition between managers they also include Bid-Ask spreads, Opportunity and Market impact costs.

Reconciliation between opening and closing value of investments:

	Value at 31 Mar 2009	Purchases at cost	Sale proceeds	Change in market value	Value at 31 Mar 2010
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	54,279	9,105	(62,044)	(1,340)	0
Equities	79,074	180,403	(183,450)	47,557	123,584
Index-linked Securities	16,662	1,729	(19,210)	819	0
Managed and Unitised Funds	99,220	111,870	(4,590)	45,164	251,664
Currency contracts/Futures	0	0	(1,417)	1,417	0
Cash and current assets/liabilities	29,907	0	0	(1,198)	
				92,419	9,446
Net cash movement				(19,263)	
Totals	279,142	303,107	(270,711)	73,156	384,694

Investments exceeding 5% of total net assets.

	Value £'000	2009/10 %age of net Assets
Threadneedle Asset Management Ltd TPN Global Equity Fund	93,652	24.5%
Schroder Investment Management Ltd QEP Global Active Value Fund	74,789	19.5%
Henderson Global Investors Ltd All Stocks Credit Fund	50,923	13.3%

Analysis of borrowing

The Pension Fund did not undertake any borrowing during 2009/10.

Contributions and benefits

2008/09 £'000		2009/10 £'000
Contributions from Employers		
	Royal Borough of Kingston	
(14,006)	Normal contributions	(15,059)
(754)	Capitalised cost of early retirements	(54)
(6,017)	Kingston University	(6,499)
(829)	Kingston College	(924)
(216)	Admitted bodies	(317)
<u>(21,822)</u>		<u>(22,853)</u>
Contributions from Members		
	Royal Borough of Kingston	
(4,001)	Normal contributions	(4,129)
(259)	Additional contributions	(296)
(1,889)	Kingston University	(2,098)
(269)	Kingston College	(301)
(82)	Admitted bodies	(108)
<u>(6,500)</u>		<u>(6,932)</u>
<u>(28,322)</u>		<u>(29,785)</u>

Material transactions with related parties

During the financial year, the Pension Fund received interest of £5,491 on its cash deposits from the Council and paid £597,000 to the Council for expenses incurred in administering the Fund.

Stock

The Pension Funds has not released any stock to a third party.

Contingent

There are no known contingent liabilities nor contingent assets as at 31st March 2010. There are no outstanding contractual commitments and no material non-adjusting events occurring subsequent to the period end.

Statement of Investment Principles

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

www.kingston.gov.uk/information/your_council/council_structure/finance/treasuryservices/fundinvestment.htm

Additional voluntary contributions

A number of active Fund members have elected to pay additional voluntary contributions to increase their personal benefits. Section 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulation 1998 require that these are not paid into the Pension Fund. The total AVC's paid by members in 2009/10 was £93,000 (£125,000 in 2008/09). These are invested with the Council's approved AVC providers and are a money purchase arrangement. At 31st March 2010, the total value of the AVC fund with Aviva was £674,010.89 (£617,000 at 31st March 2009) and with Equitable Life was £239,000 (£237,000 at 31st March 2009).

Glossary of Terms

Active Member

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

Actuarial Valuation

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

Actuary

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

Admitted Body

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

Assets

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

Deferred Member

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

Equity

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

Fixed Interest Security

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

Liability

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

Scheduled Body

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

Security

Any kind of transferable certificate of ownership.

Statement of Investment Principles (SIP)

Trustees of Pension Funds are required to prepare and keep up to date this written statement to show the governance decisions on the investment of scheme's assets.

Unitised fund

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