



Royal Borough of  
Kingston upon Thames

Pension Fund Annual Report  
2010/11

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## **INTRODUCTION AND OVERVIEW**

### **REPORT OF THE CHAIR OF THE PENSION FUND PANEL**

#### **Councillor Derek Osbourne: Leader of the Council.**

The Pension Fund Panel ("The Panel") is responsible for overseeing the investment management of the Royal Borough of Kingston upon Thames Pension Fund. I am pleased to introduce the Annual Report for the financial year 2010/2011.

This was a busy year for the Panel with the focus on challenging the performance of the five investment fund managers who have been managing mandates in accordance with the revised investment strategy since September 2009. The Panel met five times during the year and reviewed the quarterly performance of each fund manager. Each manager was required to present to the Panel twice during the year to account for their performance against the mandate benchmark they had been set

At the July 2010 meeting, the Panel received presentations from global equity managers Fidelity and Threadneedle who at year-end held 37% and 24% of the Fund's investments respectively, The Panel also received a presentation from State Street Global Services (WM Company) which compared the RBK fund performance to the local authority universe over one, three and five years.

In September 2010, the Panel met and reviewed the performance of global equity manager, Schroders and bond mandate manager, Henderson who held 20% and 14% of the Fund's investments respectively. The Panel also received the Audit Commission's Annual Governance Report on the Pension Fund Accounts and the Pension Fund Annual Report for 2009/2010. The final reports were submitted to Audit Committee and Executive on 28<sup>th</sup> and 29<sup>th</sup> September 2010.

In October 2010, an additional Panel meeting was arranged to further review the place of alternative asset classes within the investment strategy. (Alternative assets are investments other than the traditional asset classes of equities, bonds and cash) The Panel considered the current performance of the property fund (5% held with UBS Global Asset Management) compared to potentially investing in another more diversified property portfolio or another alternative investment class.

After meeting with the UBS Property portfolio management team in November 2010, The Panel decided to retain the property portfolio as the UBS property team had achieved their objectives to strengthen their management team and reviewed asset holdings to improve overall performance. The Panel also reviewed the performance of Fidelity and Threadneedle.

Further consideration was given at the November meeting to options for local investment of Pension Fund assets but concluded that the possibility of local investment should not be pursued because of the risks involved.

The Panel discussed its requirements for independent investment advice over several meetings and commissioned a report on the process for selecting an adviser. At the November 2010 meeting the Panel resolved to terminate the contract with the

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large consultancy firm Mercer to seek to appoint a suitably qualified independent with a local interest and to co-opt them to the Panel to advise, preferably on a voluntary basis. At the April 2011 meeting the Panel recommended the appointment of a suitable volunteer adviser, Matthew Lambe, a qualified professional investment adviser, who will join the Panel from July 2011.

At the February meeting the Panel received performance reports from Schroder and Henderson and reviewed the funding strategy statement which was updated as a part of the actuarial review and valuation of the Fund by the Fund Actuary Aon Hewitt. As a part of the valuation exercise the actuary recommends the required employer contribution rates which will be effective from 1 April 2011 to 31 March 2014. We have worked closely with the Actuary to ensure the contribution rate balances affordability and stability for both scheduled and admitted bodies

The Panel has required fund managers to disclose any changes to their internal control systems and procedures to give assurance that reported exceptions and control weaknesses do not impact on the Pension Fund assets and have reviewed independent assurance reports from the fund manager and the custodian.

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

Looking forward, following the recent actuarial valuation the Panel will be reviewing the investment strategy to ensure that it will deliver the future funding requirements of the Pension Fund. The Panel will continue to review the performance of the current managers to ensure that they are delivering against the benchmarks they have been set.

I would like to thank the Members of the Pension Fund Panel and the officers involved with the Pension Fund for their work during the year.

## **REPORT FROM THE DIRECTOR OF FINANCE**

With continuing volatility in global stock markets this was a second good year for Pension Fund investment performance. The market value of the Fund's total investments rose by £40.6 million during the twelve months to 31 March 2011 ending the financial year at £425.3 million. The one year performance return was 8.6% and the three year return performance return rose to 7.2%. (see page 13 investment performance).

Most world equity markets continued their strong performance with emerging markets and the Pacific Rim producing the best returns for the second successive year.

Despite the full-year gains there were bouts of volatility and market weakness during the period. Some of these were driven by sovereign debt crises in Europe with Greece and Ireland having to seek support from the IMF and the EU. Markets also suffered from concerns about the sustainability of the global economic recovery given the austerity measures that were introduced in some countries and from fears that rising inflationary pressures would feed through to higher interest rates.

The Fund benefited from the equity market recovery because of its heavy weighting to global equities but its diversification strategy limited its risk exposure.

The sterling government corporate bond market produced positive returns of about 6% for the average fund with most of this return due to rising government bond prices.

Property performance saw a continuation of the positive performance that began in the second half of 2009 with the average WM fund achieving returns of about 10% for the year.

The funding level and market volatility remains a cause for concern in spite of the market recovery since 2009. The latest actuarial valuation assessed a funding level of 73% as at 31 March 2010. The actuary's recommendations determine the required level of employers' contribution and the period over which the fund is expected to become fully funded and shapes the long term investment strategy required to achieve the fully funded target.

2010-11 has been a very busy year for Local Government Pension Scheme (LGPS) administrators. Soon after they came to power, the Coalition Government commissioned Lord Hutton to review public sector pension provision. There were concerns over the affordability and sustainability of public sector schemes. The LGPS is the only public sector scheme which is funded. The other schemes are "Pay as you go" which means that if expenditure exceeds income, the taxpayer has to meet the shortfall.

In the emergency budget the Chancellor announced that from April 2011, public sector pensions would increase by the rise in the Consumer Price Index rather than the Retail Price Index.

Lord Hutton issued his interim report at the beginning of October. He had gathered together a lot of research, much of it provided by the pension schemes themselves. One of his conclusions was that the schemes favoured “high flyers”. He suggested a number of model schemes and called for further evidence prior to publishing his full report in March 2011.

Meantime the Government announced their intention in the public sector Spending Review statement in the autumn to increase member contributions by 3% in steps over 3 years from 1 April 2012. Communities and Local Government (CLG) who are responsible for the LGPS have been told by the Treasury that there needs to be savings of £900 million made over that period. CLG are currently considering ways of raising £900 million without increasing member contributions significantly. This could be done by amending the benefits payable from the Scheme for future membership.

There were 27 recommendations in Lord Hutton’s final report and the Government have accepted all these and confirmed that they will not “cherry pick” from them. Accrued benefits will be protected and calculated using salary at date of leaving. Lord Hutton recommended that public sector schemes move to career average schemes but he did not specify the accrual rate. He expected that the new schemes would be in place by the end of the current parliament. CLG intend to start the consultation process in the autumn 2013 with legislation being in place by 1 April 2014 and the new scheme going “live” from 1 April 2015.

The new arrangements, whatever they are, will still provide excellent value for money for scheme members. At RBK we will be doing our best to make sure that all eligible employees are fully briefed about the new arrangements so they can make an informed decision about membership of the scheme.

## **MANAGEMENT AND FINANCIAL PERFORMANCE**

### **INTRODUCTION**

This annual report sets out key information about how the Royal Borough of Kingston upon Thames Pension Fund is managed for the benefit of all employing bodies, contributors and beneficiaries. This report summarises financial and management performance. The production of an annual report in accordance with regulatory guidance is a requirement of the Local Government Pension Scheme (LGPS) regulations.

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

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

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

An additional Observer Member has been appointed to the Pension Fund Panel to represent the Association of Retired Council Officers. This promotes good governance and increases stakeholder involvement in the management of the Fund's investments.

The Panel reviewed its investment adviser arrangements during the year resulting in the recommendations to terminate the contract with Mercer who had completed their brief to assist in the review of the investment strategy and to appoint a local independent adviser as a co opted member of the Panel.

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

The annual report and its appendices are published on the Pension Fund webpage. This report contains links to the webpage and to the Financial Statements of the Pension Fund for 2010-2011. The format of the Pension Fund statement of accounts has been amended following a review of the Council's accounting policies to ensure compliance with the Statement of Recommended Practice (SoRP).

## **RISK MANAGEMENT**

### **Governance**

Responsibility for the Royal Borough of Kingston Pension Fund's investment strategy, fund performance, investment transactions and related matters is delegated to the Pension Fund Panel which reports to Policy and resources Committee for decision making. The Pension Fund Panel is subject to the Council's Standing orders and the Code of Conduct.

The Fund's approach to risk management is to manage risk because it cannot be eliminated entirely. All investments expose the fund to varying levels of risk. The decision making process used in investment strategy review in 2008 and the selection of new fund managers to was designed to measure the level of risk taken by managers and the custodian ensure risk is kept to the minimum necessary to achieve the Fund's investment objectives.

Internal controls and processes are in place to manage administrative and other financial risks. Risk management processes ensure that key risk exposure is identified and action plans put in place to manage and reduce risk. The fund managers and custodian are required to report annually on internal control compliance (SAS 70 reports) to demonstrate they comply with their risk controls.

### **Investment Risk**

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

The provision of expert investment advice and legal advice, use of external fund management, a specialist transition manager and a global custodian for secure custody of assets is critical to effective risk management. During the strategic investment review members received training from investment consultant to help them understand the risk process and to help them make informed decisions on strategic asset allocation.

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

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

### **Financial Risk**

The Fund's financial management framework is the same as the Council's and uses the Council's financial accounting system though a separate bank account was set



up in 2009. Late payment of contributions by employers and admitted bodies is regulated through a sanction for late payment. Reconciliation processes and monitoring controls ensure all contributions are paid on time.

### **Administrative risk**

The risks of late payment of member benefits and miscalculation of benefits through manual error is managed through a workflow system and through use of system controls and internal checking and ensuring that staff are trained and keep up to date on changes to the LGPS scheme.

### **Business Continuity**

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

## FINANCIAL PERFORMANCE

### FUND ACCOUNTS AND NET ASSETS STATEMENT AND ACTUARIAL REPORT

The Annual Pension Fund Accounts are attached as a separate document and will be made accessible via the link below

[http://www.kingston.gov.uk/information/your\\_council/financial\\_information](http://www.kingston.gov.uk/information/your_council/financial_information)

#### Five Year Summary of Financial Statistics

| Year Ended 31 March      | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------|------|------|------|------|------|
| Revenue Account          | £'m  | £'m  | £'m  | £'m  | £'m  |
| <b>Income</b>            |      |      |      |      |      |
| Net Contributions        | 24.0 | 25.9 | 25.9 | 29.8 | 30.8 |
| Investment Income        | 7.5  | 9.3  | 9.3  | 4.9  | 6.7  |
| Net Cash Transfer Values | 3.0  | 1.5  | 1.5  | 0.9  | -    |
|                          | 34.5 | 36.7 | 36.7 | 35.6 | 37.5 |

|                          |      |      |      |      |      |
|--------------------------|------|------|------|------|------|
| <b>Expenditure</b>       |      |      |      |      |      |
| Pension & Benefits       | 14.1 | 16.9 | 16.9 | 20.6 | 20.6 |
| Management Expenses      | 1.3  | 1.1  | 1.1  | 1.8  | 1.8  |
| Net Cash Transfer Values | -    | -    | -    | -    | 0.5  |
|                          | 15.4 | 18.0 | 18.0 | 22.4 | 22.9 |

|                            |      |        |        |      |      |
|----------------------------|------|--------|--------|------|------|
| Surplus for the Year       | 19.1 | 18.7   | 18.7   | 13.2 | 14.6 |
| Revaluation of Investments | 10.3 | (17.3) | (17.3) | 92.4 | 26.0 |

|                         |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|
| Change in Fund Value    | 29.4  | 1.4   | 1.4   | 105.6 | 40.6  |
| <b>Total Fund Value</b> | 321.4 | 322.9 | 322.9 | 384.7 | 425.3 |

The net contributions indicate that the fund continues to be a maturing fund, as contributions exceed the cost of pensions and benefits payable.

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| <b>Investment Expenses</b>     | <b>31-Mar-09<br/>£'000</b> | <b>31-Mar-10<br/>£'000</b> | <b>31-Mar-11<br/>£'000</b> |
|--------------------------------|----------------------------|----------------------------|----------------------------|
| <b>Portfolio management</b>    | 284                        | 837                        | 1,044                      |
| <b>Global custody</b>          | 11                         | 68                         | 58                         |
| <b>Investment advisors</b>     | 178                        | 133                        | 21                         |
| <b>Performance measurement</b> | 15                         | 53                         | 23                         |
| <b>Investment accounting</b>   | 95                         | 94                         | 91                         |
| <b>TOTAL</b>                   | 583                        | 1,185                      | 1,237                      |

Financial performance remained within budget. Portfolio management expenses were higher in 2011 because the Fund's four active investment managers were in place for the full 12 month period.

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

### **Employers Contributions**

All contributions from employers were received on or before the due date each month and it was not necessary to levy interest.

## **INVESTMENT POLICY AND PERFORMANCE**

The current strategic asset allocation benchmark for the Fund is 80% equities (MSCI All Countries World Index) 15% bonds (iBoxx All Stocks Non-Gilts Index) and 5% Property (IPD All Properties Index). The individual Fund Manager targets are shown in the table below.

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

In 2010/2011 the Pension Fund Panel gave further consideration to using alternative asset classes to provide further diversification to the portfolio. The Panel agreed to continue holding part of the property portfolio with UBS Global Asset Management because of current market uncertainty and because of the high transition costs involved in moving from property funds.

Following the results of the 2010 actuarial valuation, there will be further consideration of asset allocation by the Pension Fund Panel in 2011-2012 as a part of a programmed review of the fund investment strategy.

The details of the new fund managers are set out in the Statement of Investment Principles (SIP). All managers complied with the voting policy set out in the SIP.

The Pension Fund Panel reviewed and updated the Statement of Investment Principles .It also reviewed the Funding Strategy Statement as part of the triennial actuarial valuation undertaken by the Fund Actuaries, Aon Hewitt

Compliance with the Myners Principles is set out in Annex 3. During 2010-2011 Panel Members also reviewed the performance of the Fund's investment consultant, Mercer.

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**SUMMARY OF FUND ASSETS AS AT 31st MARCH 2011**

| <b>Manager</b>      | <b>Asset Class</b>                                | <b>Market Value<br/>£'000</b> | <b>Percentage Total<br/>Assets by<br/>Market Value<br/>(%)</b> |
|---------------------|---|-------------------------------|--|
| <b>Fidelity</b>     | UK Equities                                       | 11,822                        | 2.8  |
|                     | Overseas Equities                                 | 122,131                       | 28.8   |
|                     | Other Managed Funds<br>(Emerging market equities) | 20,730                        | 4.9  |
|                     | Cash and other investment balances                | 2,221                         | 0.5  |
| <b>Threadneedle</b> | Unitised Insurance Policy<br>(Global equities)    | 101,271                       | 23.9   |
| <b>Schroders</b>    | Other Managed Funds<br>(Global equities)          | 85,532                        | 20.2   |
| <b>Henderson</b>    | Other Managed Funds (Bonds)                       | 57,091                        | 13.5   |
| <b>UBS</b>          | Property Unit Trusts                              | 18,856                        | 4.4  |
|                     | Cash and other investment balances                | 636                           | 0.1  |
| <b>In house</b>     | Cash  | 4,106                         | 1.0  |
| <b>TOTAL</b>        |   | <b>424,396</b>                | <b>100</b>   |

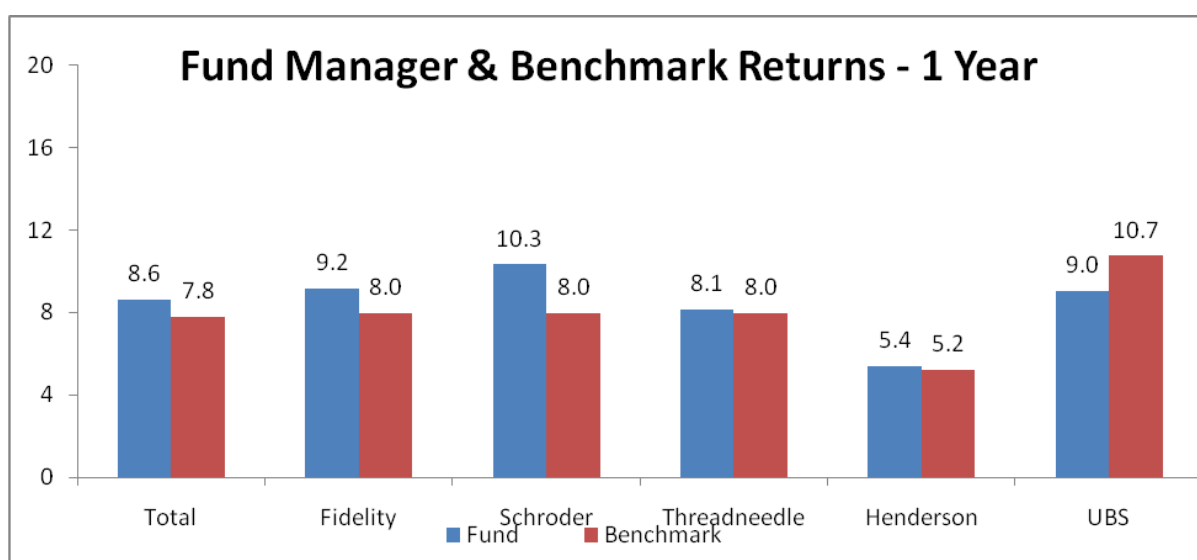
**PENSION FUND PERFORMANCE 2010 - 2011**

The benchmark set for the Fund since September 2009 is a strategic allocation benchmark of 85% Equities and 15% Bonds. 5% of the Fund remains in property with UBS Global Asset Management pending review at a future date. Each of the new fund managers is required to outperform their respective index over a three year rolling period.

The Table below sets out the quarter by quarter results for the Fund in 2010-2011. The one year total Fund return was +8.6%, whereas the benchmark return was +7.8%, the Fund thus showed relative outperformance of +0.8%.

| <b>2010-11</b>              | <b>First Quarter<br/>April to<br/>June<br/>2010</b> | <b>Second<br/>Quarter<br/>July to<br/>September<br/>2010</b> | <b>Third<br/>Quarter<br/>October to<br/>December<br/>2010</b> | <b>Fourth<br/>Quarter<br/>January<br/>to March<br/>2011</b> | <b>Total Annual<br/>Performance<br/><br/>2010-2011</b> |
|-----------------------------|---|--|---|---|--|
|                             | %   | %  | %   | %   | %  |
| <b>Fund Return</b>          | -7.9  | 7.5  | 7.9   | 1.7   | 8.6  |
| <b>Benchmark<br/>Return</b> | -9.0  | 8.0  | 7.7   | 1.8   | 7.8  |
| <b>Relative<br/>Return</b>  | 1.2   | -0.5   | 0.2   | -0.1  | 0.8  |

The performance against benchmark for each individual manager for the year 2010 - 2011 is shown in the graph below.



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**ASSET ALLOCATION**

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

| <b>Name</b>                                       | <b>Value as at 31st<br/>March 2011<br/>£000</b> | <b>% Total Net<br/>Assets as at 31st<br/>March 2011</b> |
|---|---|---|
| <b>Threadneedle TPN Global Equity Fund</b>        | 101,271   | 23.9  |
| <b>Schroder Life QEP Global Active Value Fund</b> | 85,532  | 20.2  |
| <b>Henderson All Stocks Credit Fund</b>           | 57,091  | 13.5  |
| <b>Fidelity Select Emerging Markets Fund</b>      | 20,730  | 4.9   |
| <b>UBS Triton Property Unit Trust</b>             | 10,271  | 2.4   |
| <b>Standard Life Inv Plan Property Fund</b>       | 5,717   | 1.4   |
| <b>Apple Inc</b>                                  | 2,139   | 0.5   |
| <b>Chevron Corp</b>                               | 1,743   | 0.4   |
| <b>Nestle SA</b>                                  | 1,487   | 0.4   |
| <b>Rockspring Property</b>                        | 1,425   | 0.3   |

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

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

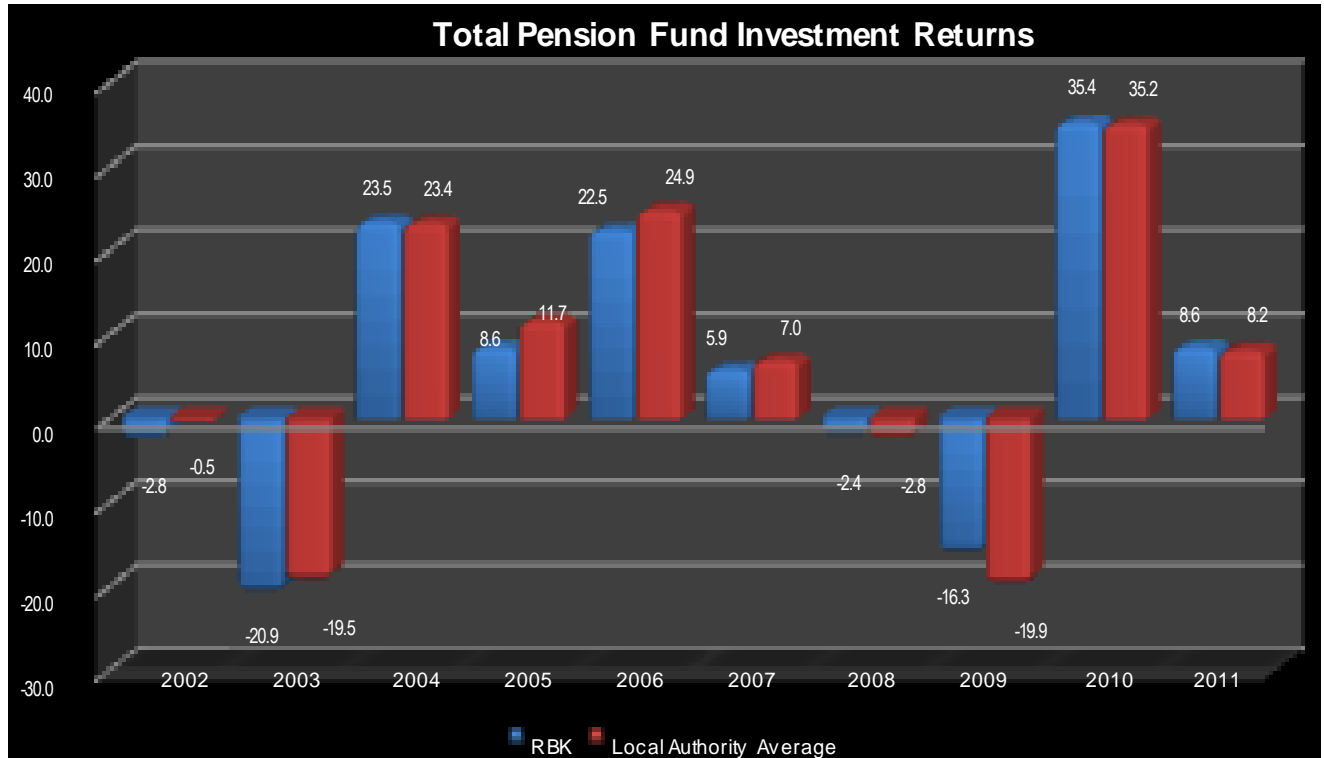
| <b>Name</b>                 | <b>Value<br/>as at 31st March 2011<br/>£000</b> | <b>% Total Net Assets<br/>as at 31st March 2011<br/>%</b> |
|-----------------------------|---|---|
| <b>Apple Inc</b>            | 2,139   | 0.5   |
| <b>Chevron Corp</b>         | 1,743   | 0.4   |
| <b>Nestle SA</b>            | 1,487   | 0.4   |
| <b>Exxon Mobil</b>          | 1,417   | 0.3   |
| <b>Pfizer Inc</b>           | 1,406   | 0.3   |
| <b>JP Morgan Chase</b>      | 1,391   | 0.3   |
| <b>Occidental Petroleum</b> | 1,329   | 0.3   |
| <b>Marathon Oil Corp</b>    | 1,310   | 0.3   |
| <b>Coca-Cola Co</b>         | 1,292   | 0.3   |
| <b>Wells Fargo</b>          | 1,172   | 0.3   |

Investment diversification means that the largest direct equity holding represented half of one per cent of the total value of the Fund as at 31 March 2011.

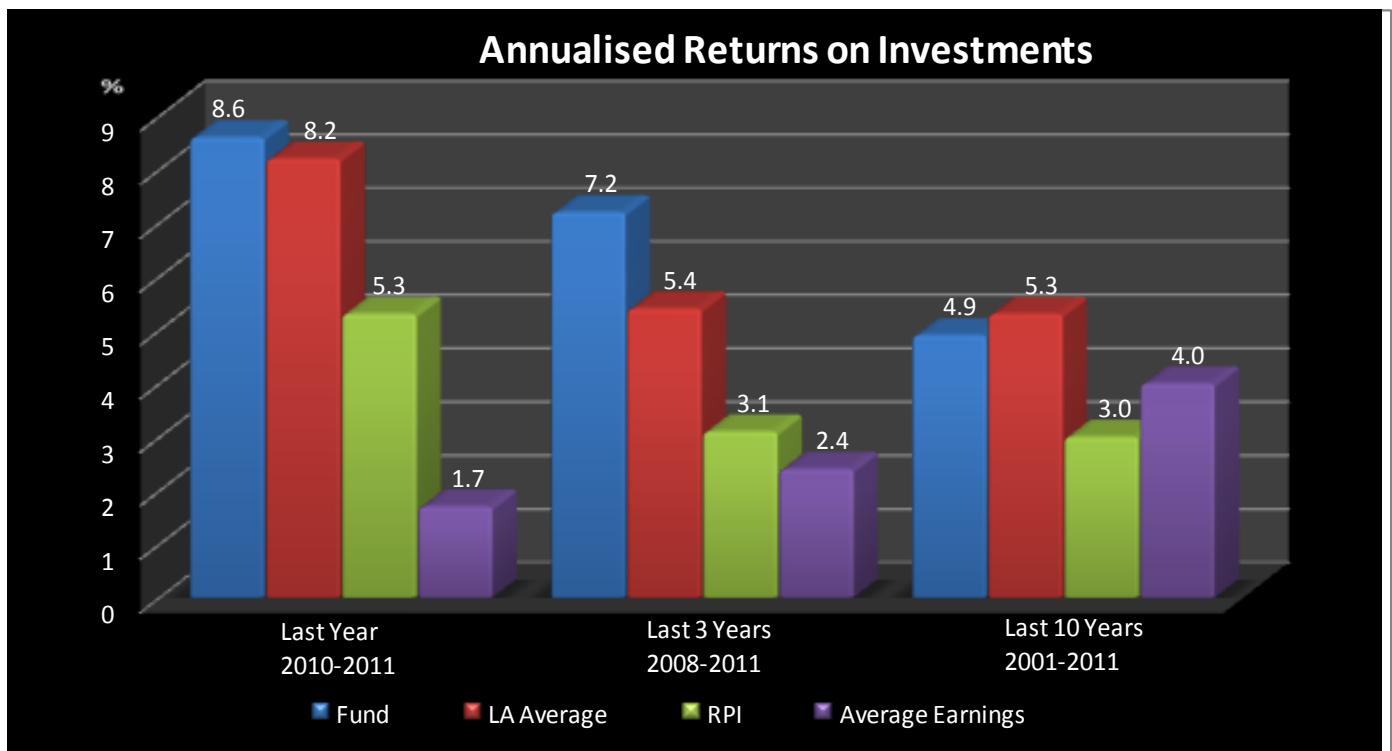


**ASSET RETURNS**

The chart below provides a comparison between the performances of Kingston's Fund and that of the average of 86 local authority funds with total assets valued at £142.95 billion as at 31 March 2011. The annual returns take into account the change in market value of the Fund's investments together with the income they have earned over the period.



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



## ADMINISTRATION & BENEFITS

### SCHEME ADMINISTRATION

The administration of the Pension Scheme is dealt with by a team of seven staff in Pension Services. You will see from the performance table below the range of work we deal with. We are also responsible for the administration of the Council's additional voluntary contribution (AVC) arrangement with Aviva.

The data for the March 2010 triennial valuation of the Pension Fund was sent to the Actuary, Aon Hewitt, in the autumn. The provisional report and employer contribution rates were received in November and after some discussion the new rate for each employer was agreed and has been implemented from 1 April 2011.

Our web pages can be found on the RBK web site <http://www.kingston.gov.uk/pensions> and we continue to add to it. You can find the Scheme booklet which is broken down into 13 leaflets covering various aspects of the Scheme. There is information about the payment of Additional Regular Contributions (ARCS) including a ready reckoned and an application form. You can also find information about paying additional voluntary contributions AVCs to Aviva. Recent newsletters for both active members and pensioners are available. You can download forms for changing your "Expression of Wish" for the death grant or to nominate a co-habiting partner to receive a pension if you die. There are also links to related web sites.

We expect to hold briefing sessions later in the year to keep members up to date with the changes in pension legislation. We also have a slot on Induction Courses and Pre Retirement Courses giving information to members at the start and end of the membership of the LGPS.

The Annual Pension Fund Meeting open to all members was held on 11 October 2010 and, as usual, was well attended. The next Annual meeting will be held on Wednesday 19<sup>th</sup> October 2011, 5.15 pm Guildhall.

Sue Grimstead, Pensions Manager.

## MANAGEMENT PERFORMANCE

| Performance Indicator                                   | London Standard Target | Number of cases | Percentage within target |
|---|------------------------|-----------------|--------------------------|
| Issue Starter's pack                                    | 10                     | 393             | 100                      |
| Letter detailing transfer in quote                      | 10                     | 106             | 47                       |
| Letter detailing transfer out quote                     | 15                     | 107             | 83                       |
| Letter providing details of Add Regular Contributions * | 10                     | *               |                          |
| Transfer in actual                                      | 10                     | 98              | 62                       |
| Transfer out payment                                    | 12                     | 97              | 93                       |
| Calculate and notify deferred benefits                  | 15                     | 366             | 53                       |
| Letter notifying retirement benefits amount – estimate  | 10                     | 144             | 90                       |
| Letter notifying retirement benefits – actual           | 5                      | 195             | 79                       |
| Letter acknowledging death of pensioner                 | 5                      | 85              | 50                       |

\*As this information is now available on our web pages, we do not issue letters.

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

### Fund Membership 5 year analysis

| Year                                     | 06/07 | 07/08 | 08/09 | 09/10 | 10/11 |
|--|-------|-------|-------|-------|-------|
| Active                                   | 4438  | 4217  | 4332  | 4383  | 4233  |
| Deferred                                 | 2565  | 3086  | 3284  | 3459  | 3635  |
| Pensioners                               | 2291  | 2404  | 2496  | 2623  | 2745  |
| Dependents                               | 448   | 456   | 467   | 471   | 475   |
| Early Retirement (Efficiency/Redundancy) | 24    | 23    | 29    | 25    | 29    |
| Ill Health Retirement                    | 8     | 13    | 8     | 2     | 7     |

### Membership by 5 year age bands

|         |         |         |         |         |         |         |         |         |         |         |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 16 - 20 | 21 - 25 | 26 - 30 | 31 - 35 | 36 - 40 | 41 - 45 | 46 - 50 | 51 - 55 | 56 - 60 | 61 - 65 | 66 - 70 | 71 - 75 |
| 12      | 91      | 242     | 404     | 452     | 659     | 767     | 677     | 615     | 255     | 56      | 3       |

### Membership Note

Please note that the opening figures for membership shown above differ from those reported in the Pension Fund Accounts and Annual Report for 2009-2010. This is due in part to timing differences from information received after the accounts were submitted and also due to an ongoing data cleansing exercise. These differences have no impact on the calculation of the cost of the Scheme.

**Royal Borough of Kingston upon Thames Pension Fund  
Annual Report 2010-2011**

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**MEMBERSHIP MOVEMENT ANALYSIS**

**Employees**

**Number at 31 March 2010** **4,383**

Add Employees joining during the year 393

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4,776

Less Members leaving during year:

Normal retirements (including redundancies etc) 105

Ill-health retirements 7

Deaths in service 4

Refunds of contributions 2

Deferred pensions 425 543

---

**Number at 31 March 2011** **4,233**

**Pensioners**

**Number at 31 March 2010** **3,094**

Add New pensioners during year:

Normal retirements (including redundancies etc) 111

Ill-health retirements 7

Dependants' pensions 35

Deferred pensions becoming payable 75 228

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3,322

Less Deaths/dependants ceasing to be eligible 102

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**Number at 31 March 2011** **3,220**

**Deferred Pensioners**

**Number at 31 March 2010** **3,459**

Add New deferred pensioners during year 308

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3,767

Less Normal retirements (including redundancies etc) 72

Ill-health retirements 3

Transferred 46

Back to active status 9

Deaths 2 132

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**Number at 31 March 2011** **3,635**

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**Total Membership at 31 March 2011** **11,088**

## **Communications**

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

- A full scheme booklet broken down into easy to read leaflets.
- Recent newsletters both to active members and pensioner members.
- Information on Additional Regular Contributions together with a ready reckoner and an application form
- Forms for Expression of Wish and nominating a co-habiting partner
- Pensions Charter containing details of timescales for various tasks
- Links to other relevant websites

## **Technology**

Pension Services makes good use of technology within the team. The computerised administration system used is AXIS provided by Heywood Ltd. In addition to record keeping and performing calculations, there is an integrated work flow and document management system. There is an electronic exchange of data from RBK's payroll system and it is hoped to extend this to other employers within the Fund.

## **Dispute Resolution**

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

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

The Internal Dispute Resolution Procedure has two stages. In the first stage the matter is considered by a person nominated by the employer. At RBK this is the Chief Pensions Administrator who, after reviewing the matter, will write formally to the member giving the reasons for overturning the original decision or for upholding it. If the member is still dissatisfied, he can refer the matter to the Strategic Director of Finance for consideration under Stage 2 of the Procedure.

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

**CONTRIBUTIONS - SCHEDULED BODIES**

*To Follow*

**Financial Performance**

All contributions from employers were received on or before the due date each month apart from one school whose payroll provider misunderstood an instruction to pay the contributions by the end of the month i.e. the end of the month in which the contributions were paid and paid them at the end of the following month. This was rectified when it was pointed out to the school.

## **PENSION FUND PANEL**

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

- Setting the investment policy for the Scheme;
- Appointing Investment Managers, advisors and custodians;
- Reviewing the performance of the Investment Managers and the Investments held in the Scheme; and
- Corporate governance policy.

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

### **The Council members serving on the Panel are:**

Councillor Derek Osbourne (Chair)  
Councillor Barry O'Mahony (Vice Chair)  
Councillor Rolson Davies  
Councillor Frank Thompson  
Councillor James White

### **Observer members are:**

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

### **Co-opted member for independent advice:**

Matthew Lambe

## **MANAGEMENT**

Management and administration of the Pension Fund is delegated to the Director of Finance. The Treasury Services Group within the Council's Finance Department has responsibility for day-to-day management. The head of Treasury Services is responsible for the production of the annual report.

|                                  |                  |
|----------------------------------|------------------|
| <b>Director of Finance</b>       | Leigh Whitehouse |
| <b>Head of Treasury Services</b> | Iain Millar      |
| <b>Pensions Manager</b>          | Sue Grimstead    |

## ADMINISTRATION CONTACTS

If you have any questions about Scheme Administration you should contact the Pensions Team. They can also supply you with copies of any of the Scheme's official documents (for example, Pensions Charter, or Scheme booklet)

## HOW TO CONTACT US

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

Pension Services  
Royal Borough of Kingston upon Thames  
Guildhall 2  
Kingston upon Thames  
Surrey  
KT1 1EU

Fax us on: 020 8547 5611

Email us: [pensions@rbk.kingston.gov.uk](mailto:pensions@rbk.kingston.gov.uk)

[www.kingston.gov.uk/pensions](http://www.kingston.gov.uk/pensions)

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

Sharan Virk - Pensions Assistant  
Deals with new members, contribution returns from external payrolls  
Telephone: 020 8547 5724

Monica Harries/Kuljit Kalra - Pensions Officer  
Transfers of pension rights from and to other local authorities, deferred benefits.  
Telephone: 020 8547 5721/5

Imran Ahmed/Gary Stephenson - Senior Pensions Officer  
Transfers of pension rights from and to external schemes, retirement and death benefits.  
Telephone: 020 8547 5615/0

Geraldine Wells - Senior Pensions Officer/Assistant Pensions Manager  
Day to day running of team, transfers, retirement and death benefit.  
Telephone: 020 8547 5722

Veronica Gravatt - Assistant Pensions Manager  
Day to day running of team, external bodies.  
Telephone: 020 8546 5616

Pensions Manager - Sue Grimstead  
Overall responsibility for service, policy.  
Email: [Sue.Grimstead@rbk.kingston.gov.uk](mailto:Sue.Grimstead@rbk.kingston.gov.uk)  
Telephone: 020 8547 5614





**FUND ACTUARY:**

AON HEWITT LIMITED     *Prospect House*  
                                      *St Albans*  
                                      *AL1 2QU*

**SCHEME ADMINISTRATORS:**

PENSION SERVICES     Royal Borough of Kingston  
                                      Guildhall 2  
                                      Kingston upon Thames  
                                      KT1 1EU

LEGAL SERVICES         Royal Borough of Kingston  
                                      Guildhall 2  
                                      Kingston upon Thames  
                                      KT1 1EU

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

## APPENDICES

### ANNEX 1: Pension Fund Statement of Accounts 2010-2011 (separate report)

The Annual Pension Fund Accounts and Statement of the Actuary are shown as a separate attachment and will be made accessible on this link:

[http://www.kingston.gov.uk/information/your\\_council/financial\\_information/](http://www.kingston.gov.uk/information/your_council/financial_information/)

The following documents can be found on our website by clicking the link below:

- Statement of Investment Principles
- Funding Strategy Statement
- Statement of Governance Policy
- Governance Compliance Statement

[www.kingston.gov.uk/council\\_and\\_democracy/treasuryservices/pensions/fund\\_investment.htm](http://www.kingston.gov.uk/council_and_democracy/treasuryservices/pensions/fund_investment.htm)

**ANNEX 2: Statement of Investment Principles Compliance**

| <b>Principle</b>             | <b>Compliance Status</b> | <b>Comment</b>  |
|------------------------------|--------------------------|---|
| 1: Effective Decision-Making | Compliant                | Clearly defined decision-making process. Members have sufficient skills and training  |
| 2: Clear Objectives          | Compliant                | Members have set investment strategy taking account of scheme liabilities and risk appetite and advised new investment managers.      |
| 3: Risk and Liabilities      | Compliant                | As above  |
| 4: Performance Assessment    | Compliant                | External quarterly performance measurement of investment managers and custodian. Investment adviser arrangements reviewed during year |
| 5: Responsible Ownership     | Compliant                | Statement on responsible ownership in Statement of Investment Principles.   |
| 6: Transparency of Reporting | Compliant                | Statement of Investment Principles updated and published. Annual meeting held for members   |

**ANNEX 3: Governance Compliance Statement**

| <b>Principle</b>                 | <b>Compliance Status</b> | <b>Comment</b>   |
|----------------------------------|--------------------------|--|
| Governance structure             | Compliant                | The decision-making structure is clearly defined.  |
| Representation                   | Partial Compliance       | Main employers and scheme members represented on the committee. However no individual representation for admitted bodies.  |
| Selection/ role of lay members   | Compliant                | Lay members play full role and receive same training as Members. Additional Observer: Pensioner representative appointed to Panel. Investment Advisor appointed as Co opted Panel Member |
| Voting                           | Partial Compliance       | Voting rights have not been extended to employer and member/pensioner/co opted representatives.  |
| Training/Facility time/ Expenses | Compliant                | There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.                          |
| Meetings                         | Compliant                | Formal meetings are held quarterly and lay members are included in the formal arrangements.  |
| Access                           | Compliant                | All members have equal access to meeting papers and advice.  |
| Scope                            | Compliant                | Pension Investment Panel terms of reference investment related   |
| Publicity                        | Compliant                | All statutory documents are made available to members. Minutes of Pension Fund Panel available on Council website.   |

## **GLOSSARY**

**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.