Royal Borough of Kingston upon Thames

Pension Fund Annual Report 2021/22

THE ROYAL BOROUGH OF
KINGSTON
UPON THAMES

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

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1. INTRODUCTION

PENSION COMMITTEE CHAIR'S INTRODUCTION

I am pleased to present the Pension Fund Annual Report for 2021/22. 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 overall value has increased by £79m to £1,126m, representing an increase of 8%. Whilst this is considerably less than the growth experienced the year before (at 29%), this is still considerably above the growth assumed in the last Triennial Valuation (i.e. 3.9% per annum). Annual gains in equities, property and commodities uplifted the Fund's investment assets as the global economy opened-up from the pandemic. However, investment values fell in the final quarter of 2021/22 (by 3.2%) as global inflationary pressures grew, caused by supply chain bottlenecks created from previous lockdowns as well as the war in Ukraine affecting energy prices. Interest rates have been gradually rising in response to inflation and that has particularly impacted growth stocks. Following the investment strategy review in 2020/21, which has been fully implemented over the past year, the Fund is well braced for inflation risks and the subsequent volatility in equity markets. This has been brought about by the reduction in the allocation to equities, from 65% to 57% at 31 March 2022. Secondly, the exposure to bonds has increased from 10.9% to 19.2% over the year which are typically less volatile than equities in the long-run. Thirdly, commitments to private investments (private debt and renewable infrastructure) have been signed which, in time, should deliver a steady income stream necessary for paying the higher pension benefit payments that are linked to inflation. As the Fund undergoes the calculations for the next Triennial Valuation, then these higher short-term inflation expectations will be built into the resulting contributions.

The investment strategy change has increased the amount pooled with the London CIV (LCIV) to over 40% of the portfolio value, when including commitments, from 19% before the changes were implemented. This has brought about savings for the Fund and in 2021/22 the fee savings by going with the LCIV were estimated at £417k.

The shared pensions administration service continues to provide the administration of the schemes for both Sutton Council and Kingston Council. The fund's membership stands at 16,546 across 30 active scheme employers, with no significant transfers in or out during the year. The Fund continues to invest in providing a service to its members, via consultations with employers and access to the self-service portal for individual members. The appointment of a pensions benefits consultant has been critical to helping the Fund make progress on a number of key items in pensions administration, including the development of a plan to manage the McCloud remedy project. In addition, the benefits adviser has supported a review of resourcing requirements to ensure that the Fund is able to meet increasingly complex regulatory requirements.

At the start of the year, procurements were undertaken for actuarial, benefits, governance and investment consultancy using a robust evaluation process. This led to the appointment of Hymans as a joint actuary across the shared service, AON as governance and benefits consultant and Mercer as investment consultant. Working across the shared service meant that efficiency savings were made, not just on the procurement process, but also cost savings on all appointments.

A governance review was carried out during the year with most of the recommendations being implemented. The Fund is keen to ensure that it is at the forefront of best practice and prepared for expected focus on this area, as a result of the LGPS Scheme Advisory Board Good Governance Review and also the anticipated Pensions Regulatory Single Code of Practice.

With best in class governance and robust policies in place, the Fund is fully equipped to deal with the coming changes that will affect the LGPS over the medium term.

I'd like to thank my colleagues on the Pension Fund Panel, Pensions Board and Officers of the Fund for all the hard work over the last 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
Jill Davys, Pensions Finance and Investments Manager
Paul Godfrey, Senior Finance Lead - Pensions Investments and Reporting

Scheme Administrators
Sutton and Kingston Shared Service
Asset Pool
London Collective Investment Vehicle (LCIV)
Investment Managers:

Equities	Asset Pool portfolio managers
Columbia Threadneedle	London CIV - Baillie Gifford (Diversified Growth)
Fidelity	London CIV - Pyrford (Diversified Growth)
Legal & General	London CIV Ruffer (Diversified Growth)
	London CIV CQS & PIMCO (Multi-Asset Credit)
Property	London CIV PIMCO (Global Bonds)
UBS	London CIV Churchill & Pemberton (Private Debt)
M&G	London CIV Blackrock, Stonepeak, Quinbrook, Foresight (Renewable Infrastructure)
Bonds	
Janus Henderson	
Bank	
Lloyds Bank	
Actuary	**Auditor**
Hymans Robertson	Grant Thornton
AVC Providers	**Benefits Consultant**
Aviva and Utmost	Aon
Custodian	**Governance Consultant**

J P Morgan Chase Bank	Aon
Investment Consultant	**Legal Advisor**
Mercer	South London Legal Partnership
Performance Monitoring	
Pirc Ltd	

3. FINANCIAL PERFORMANCE

Fund Income and Expenditure From 2017/18 to 2021/22

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

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Contributions receivable & Transfers In	50.6	54.3	42.6	44.1	40.4
Benefits payable & Transfers Out	(92.7)	(32.2)	(38.4)	(34.6)	(38.2)
Net payment to/(from) the Fund	**(42.1)**	**22.1**	**4.2**	**9.5**	**2.2**
Fund management expenses	(4.9)	(7.6)	(8.8)	(9.3)	(9.2)
Net returns on investment	14.7	9.1	9.5	9.3	10.6
Change in market value	10.9	45.0	(25.7)	224.6	76.2
Net increase/(decrease) in the Fund	**(21.4)**	**68.5**	**(20.8)**	**234.2**	**79.8**

The financial performance table above shows a net increase in the Fund's value of £339.2m over the past 5 years. This is largely attributed to the change in market value of £329.9m over this period. Net payments to/(from) the fund has been relatively neutral when examined over the past 5 years as a whole. Over the past year, the net payments are positive. The Fund management expenses have been covered by net returns on investments and further details are provided later.

Analysis of Contributions and Benefits of the Fund

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Contributions Receivable					
- Members	(7,238)	(7,608)	(7,794)	(8,394)	(9,313)
- Employers	(27,950)	(26,299)	(27,183)	(32,355)	(27,475)
- Transfers in	(15,405)	(20,438)	(7,648)	(3,360)	(3,597)
Total Contributions	**(50,593)**	**(54,345)**	**(42,625)**	**(44,108)**	**(40,385)**
Benefits Payable					
- Pensions	24,518	25,310	26,595	27,078	29,098
- Lump sum retirements and death benefits	5,268	5,831	5,274	4,619	4,823
- Transfers out	62,631	5,247	6,141	2,785	4,200
- Refunds	223	198	371	112	83
Total Benefits Payable	**92,640**	**36,586**	**38,381**	**34,594**	**38,205**
Net Payment (to) / from the Fund	42,047	(17,759)	(4,244)	(9,514)	(2,180)

Employer contributions were lower in 2021/22, compared to 2020/21 when the Royal Borough of Kingston Council made a prepayment of contributions following the 2019 valuation. Transfers out were higher, they had been markedly lower the previous financial year, returning to more normal levels post the pandemic.

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.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Administration Cost					
Internal support costs	305	638	605	857	1,005
Sub-total Administration Costs	**305**	**638**	**605**	**857**	**1,005**
Investment Management Expenses					
Management fees	3,649	4,098	4,090	4,897	5,707
Transaction costs	346	2,464	3,697	3,240	2,304
Custodian	66	64	47	59	58
Sub-total Investment Management Expenses	**4,061**	**6,626**	**7,834**	**8,196**	**8,069**
Oversight and Governance Costs					
Actuarial fees	40	86	189	23	7
External audit	21	16	16	33	40

Investment advice	165	110	78	63	44
Other	263	108	119	144	10
Sub-total Oversight & Governance Costs	**489**	**320**	**402**	**263**	**101**
Total Fund Management Expenses	**4,855**	**7,584**	**8,841**	**9,317**	**9,175**

Administration costs have increased since 2021/21 due to the introduction and on-going implementation of a new organisational structure, recognising the increased regulatory burden on the scheme giving rise to higher cost of administering the scheme.

Following the publication of the Local Government Pension Scheme Advisory Board cost transparency code in May 2017, 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 had not been previously reported. This contributes to the increase in fees after 2017/18. Investment management fees have also increased as AUM (assets under management) have increased, because fees are mostly percentage based upon these values. However, in 2021/22, the increase in fund management expenses (£810m) were more than offset by a decrease in transaction costs (£936m).

The decrease in Oversight and Governance costs was mainly due to a change in accounting for asset pool costs. Actuarial fees were lower, as it was the last year before the next actuarial valuation, and also due to the timing of recoveries from employers of previous actuarial costs.

Overall, in 2021/22 the cost of managing the Fund represents approximately 0.81% (2020/21: 0.89%) of the value of the Fund: a decrease from the prior year aided by the growth of the Fund’s value .

Costs per member

	2017/18	2018/19	2019/20	2020/21	2021/22
Membership number	**15,469**	**15,229**	**15,670**	**15,980**	**16,546**

Cost per member (£)	**£**	**£**	**£**	**£**	**£**
Administration costs	41	40	39	54	61
Investment Management costs	428	514	500	513	488
Oversight and Governance costs	21	26	26	16	6
Total Fund costs (£)	490	581	564	583	555

The relatively steep increase in 2018/19 and relative plateau from 2019/20 onwards reflects the inclusion of additional costs from 2018/19, as explained in the previous table. The decrease from 2020/21 to 2021/22 is 4.9% per member.

Current Assets / Liabilities

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Current Assets					
Contributions	1,121	1,247	1,117	1,129	1,665
Other debtors	12,352	7,046	7,055	6,843	7397
Cash at Bank	486	5,169	7,535	17,846	14,532
Sub-total	**13,959**	**13,462**	**15,707**	**25,818**	**23,595**

Current Liabilities					
Benefits Payable	(663)	(325)	(11)	(80)	(525)
Transfer Values	(57,790)	(44,357)	(9)	(127)	(0)
Other Creditors	(3,338)	(2,364)	(1,910)	(5,498)	(1,848)
Sub-total	**(61,791)**	**(47,046)**	**(1,930)**	**(5,705)**	**(2,373)**
Net Current Assets / (Liabilities)	**(47,832)**	**(33,584)**	**13,777**	**20,113**	**21,222**

Current assets are made up of cash and income due to the Fund at the end of each year from admitted body contributions, or transfers in pending, from other pension funds.. Cash increased in 2020/21 due to the prepayment of secondary contributions by the Royal Borough of Kingston.

Current liabilities consist of fund expenses outstanding at year end which includes cash owed to the Royal Borough of Kingston Council for previous transactions.

4. INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Background 2021-22

Macro

The world entered the second quarter of 2021 with heavy Covid-19 related restrictions in place but the successful roll-out of vaccinations in developed countries created optimism over imminent reopenings that would be more sustainable this time than a year before. The reopening rebound in July and August 2021 in developed countries did indeed materialise and drove risk-on sentiment initially. However, some emerging economies re-imposed restrictions, which added to already existing supply chain pressures. The supply impact was felt with increasing intensity in September with bottlenecks in a large number of areas. One major event was a run on UK petrol stations at the end of September after rumours of fuel shortages became a self-fulfilling prophecy. Soaring energy future prices in the UK and Europe led to a further deterioration in sentiment. In the emerging world, China's attempt to deflate its property market by tightening credit increased financial distress and led to the bankruptcy of some large property developers, most notably Evergrande. This came in addition to its disruptive regulatory campaign that created enormous uncertainty for Chinese companies and led to a sharp deterioration in business sentiment.

The fourth quarter did not bring much better news for investors. Persistently high inflation in both developed and emerging countries prompted central banks to become more hawkish. Tightening in emerging markets that had already started reacting earlier in the year continued. The Federal Reserve began to taper asset purchases, setting the stage for interest rate rises as early as in 2022. The Bank of England increased rates by 15 bps to 0.25% in December. Only the European Central Bank and Bank of Japan remained on the fence. There was a further Covid-19 variant scare from late November onwards but with a more limited impact this time. International travel restrictions were somewhat tightened and only few countries in Europe re-imposed meaningful domestic restrictions. The US and UK opted instead for a more pragmatic approach of keeping their economies open and focusing on making booster vaccinations more widely available. Some optimism returned late in the year as existing vaccines proved to still be sufficiently effective against severe symptoms whilst the new variant also appeared to be less severe than feared, although more contagious.

At first, 2022 started on a positive note. The continued absence of far-reaching Covid restrictions in developed countries supported demand. Although inflation came in at elevated levels, a combination of improving supply chains and moderate monetary tightening was expected to bring it under control. The invasion of Ukraine and subsequent spike in commodity markets completely changed this narrative, however. Central banks were forced to accelerate this pace of tightening even as growth expectations were dialled down. The recovery in supply chains was nipped in the bud both due to the conflict, sanctions on Russia and China locking down large manufacturing hubs.

Overall, the 12-month period was shaped by a strong global economic recovery supported by economies reopening, higher increased household savings and loose monetary policy. This position fell under pressure in 2022 amid rising inflation, tightening monetary policy, the conflict in Ukraine and renewed lockdowns in China, just when there was hope that supply chains would improve and Covid-19 would cease to cause major economic disruptions.

Equities

On a year-on-year basis to 31 March 2022, Sterling returns for developed market equities were strong, with the exception of Japan. Emerging market equities had negative returns. Equity markets contracted over the first quarter of 2022. Markets sold off through the quarter due to monetary tightening, the Ukraine conflict and associated spikes in commodity prices. Global Equities were down c.10% intra-quarter in sterling terms. However, markets then rebounded strongly towards the end of the quarter led by strength in US Large Cap Equities.

Throughout the second half of 2021, developed market returns remained strong, while small cap equity returns flattened due to growing list of concerns including: a potential global slowdown, intensifying supply chain stresses and other inflationary pressures, another Covid-19 variant scare and monetary policy turning less expansive increased volatility for developed markets. Meanwhile, headlines relating to a less market friendly regulatory stance from the Chinese government negatively impacted emerging market equities in the second half of 2021.

At a global level, developed markets as measured by the FTSE World index, returned 14.9%. Meanwhile, a return of -3.3% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 6.5% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 13.0%. The FTSE USA index returned 19.3% while the FTSE Japan index returned -2.3%. UK equities caught up considerably with global equities in the first quarter of 2022 due to the index’s large exposure to oil, gas and basic materials.

Equity market total return figures are in Sterling terms over the 12-month period to 31 March 2022.

Bonds

On a year-on-year basis to 31 March 2022, UK government bond returns were negative as were returns for UK corporate bonds whilst returr for inflation-linked bonds were positive.

Over the second half of 2021, however, inflation fears were strong, exacerbated by the intensifying supply bottlenecks. This led the Bank of England to become more hawkish and increase the base rate to 0.25% at their December meeting. Inflation pressures only increased from there and the BoE subsequently increased rates a further two times with the base rate reaching 0.7%% by the end of March 2022. The market brought forward their expectations of the timing of rate increases and caused yields at the short and medium end of the curve to rise considerably over the year. For the year to 31 March 2022, the 10-year UK gilt yield rose 77 basis points and ended the year at 1.6%. The sharp increase in yields over the year explains the poor performance of duration assets across the board.

UK real yields still fell over the year to March 2022 as rising inflation expectations more than offset the increase in nominal rates. Market-based measures of inflation, as measured by the 10-year break-even inflation rate rose by 80bps over the year reaching 4.4% as at the end of March 2022. This is the highest level since the 2008 financial crisis.

Both investment grade and high yield credit spreads widened over the year. Most of this widening materialised in December 2021 through to March 2022. This exacerbated the negative duration impact. However, credit still performed in line with government bonds in spite of the dual impact of rising yields and spreads. This is because duration for credit tends to be lower than for government bonds.

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -5.1%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -7.2% over the year. The yield for the FTSE Gilts All Stocks index rose over the year from 1.2% to 1.7% while the Over 15 Year index yield rose from 0.7% to 1.1%.

The FTSE All Stocks Index-Linked Gilts index returned 5.1% with the corresponding over 15-year index exhibiting a return of 3.9%. Rising inflation expectations offset rising nominal yields to an extent, cushioning the fall of real yields somewhat which explains the outperformance of index-linked gilts relative to nominal gilts.

Corporate debt as measured by the ICE Bank of America Merrill Lynch Sterling Non-Gilts index returned -5.1%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 March 2022.

Property

UK commercial real estate continued to rebound strongly towards the end of 2021, with Q4 investment returns being among the strongest on record and investment volumes returning to pre-pandemic norms. Strong performance was driven by both yield compression and rising rental values, which were particularly pronounced for industrial and warehouse assets. The retail sector, which has endured a torrid few years, continued its tentative recovery, led by growing demand for out-of-town retail warehouses and Central London high street shops. Offices lagged the industrial and retail sectors in Q4, but still performed reasonably well despite uncertainties about the post pandemic return of office workers.

Over the 12-month period to 31 March 2022, the MSCI UK All Property Index returned 20.9% in Sterling terms.

Commodities

The price of Brent Crude Oil rose 69.2% from $63.52 to $107.46 per barrel over the one-year period. Over the same period, the price of Gold increased 13.9% from $1704.74 per troy ounce to $1941.15. Commodities rallied significantly in the first quarter of 2022, as Russia invaded Ukraine. As Russia was sanctioned by large parts of the world, energy markets spiked due to the uncertainty of supply given Russia being such a large supplier of oil and gas to Europe.

The S&P GSCI Commodity Spot Index returned 62.4% over the one-year period to 31 March 2022 in Sterling terms.

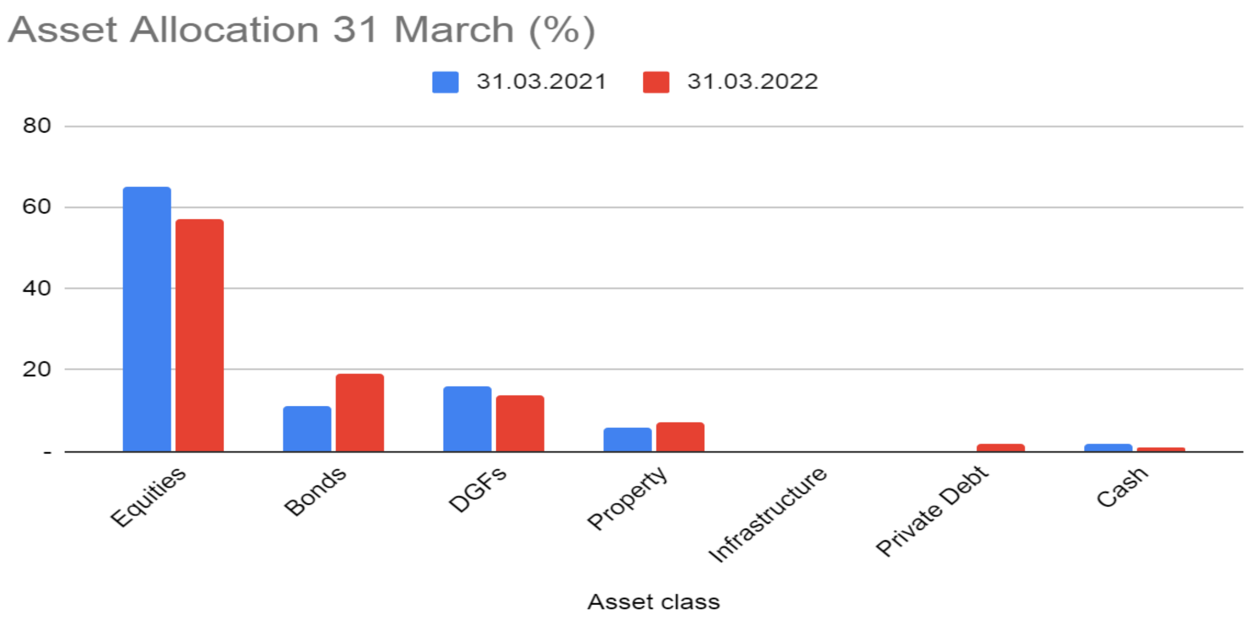
Currencies

Over the 12-month period to 31 March 2022, Sterling depreciated by 4.6% against the US Dollar from $1.38 to $1.32. Sterling appreciated by 4.8% against the Yen from ¥152.46 to ¥159.81. Sterling appreciated against the Euro by 0.8% from €1.17 to €1.18 over the same period.

Total Fund Performance

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 Panel agreed the asset allocation as shown below at December 2020 Panel meeting, enabling the Fund to follow a de-risking approach as the Fund approached a 100% Funding level. This should offer the closest match to the desired target return, with the lowest predicted volatility and Value at Risk whilst incorporating Responsible Investment objectives. In addition, wherever possible, the preference is to select pooled funds available via the London CIV unless there is a strong reason not to.

Asset class	Asset Allocation 31.03.2021	Asset Allocation 31.03.2022	Strategic Asset Allocation	Variance from Strategic Asset Allocation 31.03.2022
Equities	65	57	42	15
Bonds	11	19	25	(6)
Diversified Growth Funds	16	14	12.5	1.5
Property	6	7	8	(1)
Infrastructure	0	0	7.5	(7.5)
Private Debt	0	2	5	(3)
Cash	2	1	0	1
	100	**100**	**100**	



The market value of the investment assets under the management of each fund manager as at 31 March 2021 and 31 March 2022 is shown below.

Changes in year, were the first phase of the RBK Investment Strategy Implementation Plan agreed at the March 2021 Panel meeting. That was a shift from actively managed equities, to passively managed equities, in order to help de-risk the Fund, given its improved funding levels at the March 2019 valuation. The Panel approved full disinvestment (£157m) from the Fund's active equity mandate with Schroders and transferring into Legal and General's Future World Global Equity Index Fund (L&G FW Index Fund) - completed 1 October 2021.

The second phase was also completed in October 2021 - £110m transferred out from RBK Pension Fund (RBK PF) core equity mandate with Fidelity, into LCIV's Global Bond Fund (LGBF) mandate managed by PIMCO.

At the Pension Fund Panel meeting, held in October 2021, the Panel approved a £55m commitment with LCIV's Private Debt Fund (LPDF) managed by Churchill and Pemberton. Redemptions from LCIV DGF (Pyrford) Fund were used to fund the LPDF drawdowns. As at 31 March 2022, the total value invested with LPDF was £22.4m, leaving an outstanding commitment of £32.6m

	31 March 2021	31 March 2022
Fund Manager	**Market Value**	**Market Value**
	£'000	**£'000**
Investments managed by London Collective Investment Vehicle		
Pyrford International - Global Total Return Fund	85,402	66,192
Baillie Gifford - Diversified Growth Fund	38,438	39,748
Ruffer - Absolute Return Fund	43,108	46,241
Private Debt (Pemberton & Churchill)		23,504
Global Bond Fund (PIMCO)		102,178
CQS - Multi Asset Credit Fund	34,668	35,509
Investments managed outside of London Collective Investment Vehicle		
UBS Global Asset Management	42,586	51,326
Fidelity Pensions Management	261,987	186,199
Threadneedle Asset Management - Global Equity Fund	267,976	292,510
Schroder Investment Management - Global Active Value Fund	149,583	-
M&G Investments	24,423	25,408
Legal & General - Future World Global Equity Index Fund		160,517
Janus Henderson Investors - Total Return Bond Fund	41,955	41,334
Janus Henderson Investors - All Stocks Credit Fund	37,363	35,507
Total	**1,027,489**	**1,106,172**

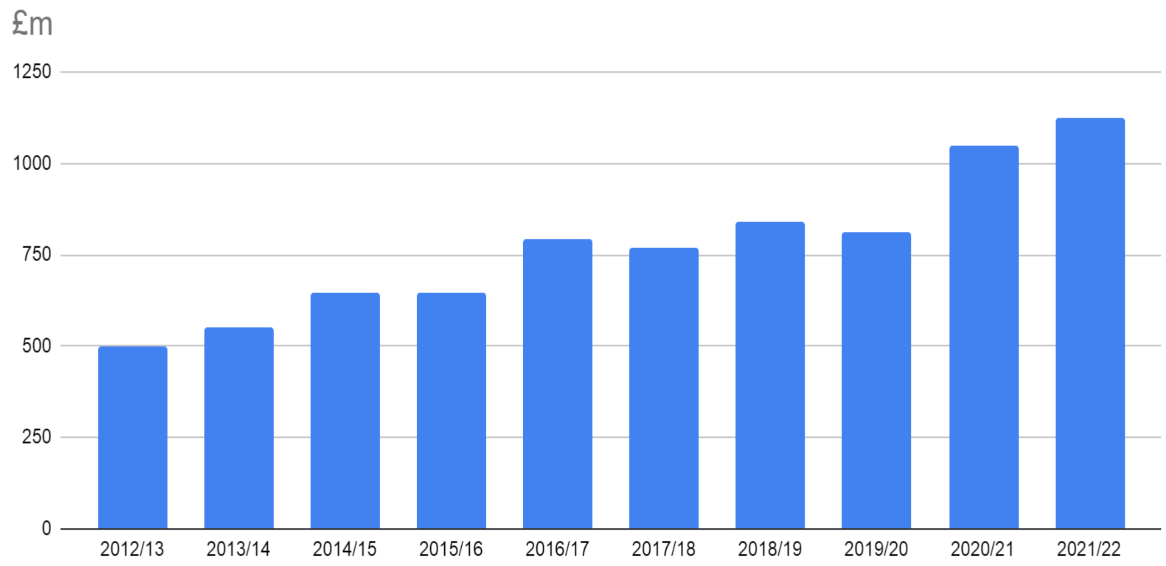
Each fund manager has been set a specific benchmark (excluding LCIV Ruffer absolute return fund and LCIV CQS multi-asset credit fund), as well as a performance target against which they will be measured. This is shown in the table below.

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)
Legal & General		Global equities	Solactive L&G ESG Global Markets Index	Match benchmark
Janus Henderson Investors (ASC)		Bonds	iBoxx Sterling Non-Gilts Index	0.5% above benchmark over rolling 3 year period (gross-of-fees)
Janus Henderson Investors (TRB)		Bonds	SONIA +2.5% p.a. (gross of fees)	+ 6.0% over rolling 3 year period (gross-of-fees)
UBS		Property	MSCI All Pooled Property Funds Median	Outperform benchmark over rolling 3 year period (gross-of-fees)
M&G		Property	None	+6% on long-term basis *
London CIV - Pyrford	yes	Global Total Return Fund	RPI	RPI +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

*self-imposed target

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

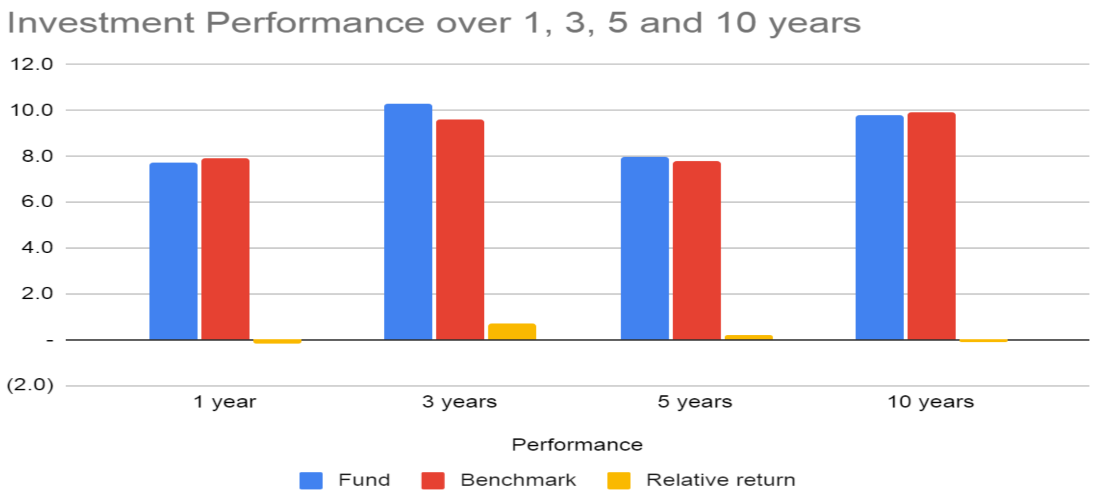
FUND VALUE OVER 10 YEARS



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 2022 the Fund made a positive return of 7.7% which is just below the benchmark of 7.9%. The Fund's performance has been positive and also broadly in line with the benchmark over the longer term periods.

Performance (% p.a.)	1 year	3 years	5 years	10 years
Fund	7.7	10.3	8.0	9.8
Benchmark	7.9	9.6	7.8	9.9
Relative return	-0.2	0.7	0.2	-0.1

Analysis of the Universe of LGPS funds carried out by the Performance Monitoring Consultants (PIRC), showed that average fund returns delivered 8.6% (1 year). 8.3% (3 years), 7.1% (5 years) and 8.9% (10 years). Detailed analysis shows that the Royal Borough of Kingston Pension Fund was in the 54th, 3rd, 13th and 12th percentile respectively.



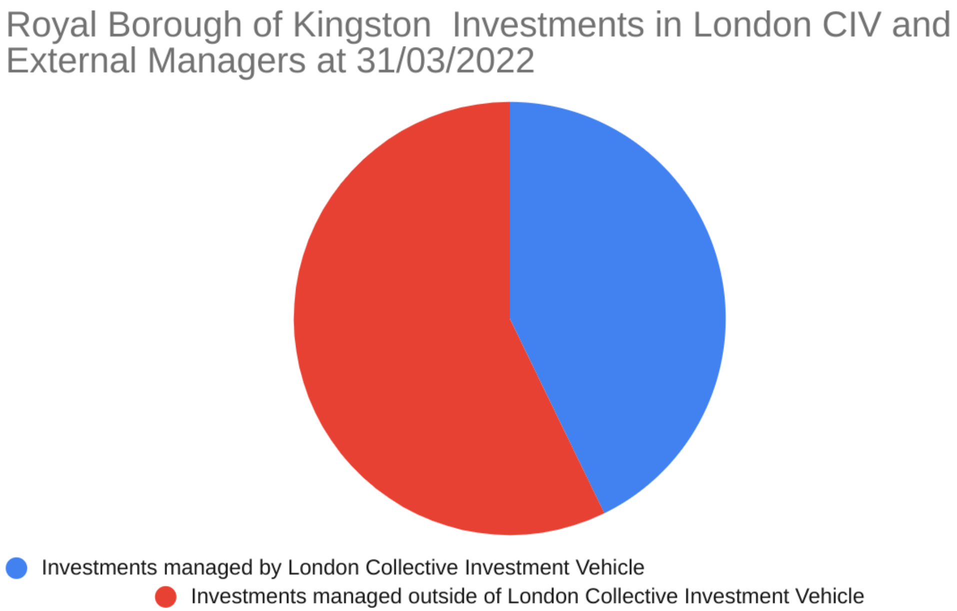
Fund Manager Performance

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	4.2	14.0	(9.8)	3.5	9.3	(4.8)	2.2	8.7	(6.5)
Baillie Gifford - Diversified Growth Fund	3.4	3.7	(0.3)	3.6	3.8	(0.2)	-	-	-
Ruffer - Absolute Return Fund	7.3	0.2	7.1	10.2	0.3	9.9	-	-	-
CQS - Multi Asset Credit Fund	2.4	4.6	(2.2)	3.4	4.9	(1.5)	-	-	-
Other Managers:									
UBS Global Asset Management	26.3	21.0	5.3	9.8	7.7	2.1	8.8	7.5	1.3
M&G	4.3	6.1	(1.7)	-	-	-	-	-	-
Fidelity Pensions Management	13.5	12.9	0.6	15.1	13.9	1.2	11.0	11.0	-
Threadneedle Asset Management - Global Equity Fund	7.6	12.9	(5.3)	14.7	13.9	0.8	13.1	11.0	2.1
Janus Henderson Investors - Total Return Bond Fund	(1.8)	-	-	3.0	-	-	2.3	-	-
Janus Henderson Investors - All Stocks Credit	(5.1)	(5.2)	0.1	1.6	1.0	0.6	2.0	1.6	0.4

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 has also been increasing its fund range in less liquid asset classes such as renewable energy infrastructure and private debt over the last year.



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 8 years and is not yet self-financing as many London funds have yet to move their assets over. LCIV currently has 19 funds with £14 bn of assets under management. Over the course of 2021/22, the Royal Borough of Kingston Pension Fund had increased from 19% of its fund managed by LCIV to 42%, including both direct investments through London CIV and indirectly managed through passive investments.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Cumulative
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Set up Costs								
Share purchase	150	-	-	-				**150**
Annual subscription	30	30	30	30	30	25	25	**200**
Development Funding charge	-	-	90	65	65	85	85	**390**
Other	-	-	-	-			53	**53**
Fee Savings	-	(53)	(122)	(206)	(222)	(231)	(495)	**(1329)**
Net (Savings) / Costs Realised	180	(23)	(2)	(111)	(127)	(121)	(332)	**(536)**

The table below shows how the management costs of the funds managed by LCIV compare with those of the Fund's other managers. The Fund has three multi-asset fund managers, one multi-asset credit manager, one global bond manager and one private debt manager with LCIV. The Fund's other managers are three global equity managers, one absolute return bonds manager, one corporate bonds manager and two property managers.

	Asset Pool	Non-Asset Pool	Fund
	Total	Total	Total
	£'000	£'000	£'000

Management fees	1,736	3,952	5,688
Transaction costs	559	1,745	2,304
Custody fees	0	58	58
Performance fees	0	19	19
Total	**2,295**	**5,774**	**8,069**

6. SCHEME ADMINISTRATION

Service arrangements

The shared pensions administration service was formed on 1 April 2016 to provide the Local Government Pension Scheme (LGPS) administration function for both the Sutton Council Pension Fund and the Kingston Council Pension Fund. The team is hosted by Sutton Council and delivers its services to a total membership of circa 30,000 and 100 employers across the two funds.

The service has the responsibility to:

- Publish annual benefit statements to active and deferred members
- Publish pension savings statements to affected members
- Apply the annual pensions increase as directed by HM Treasury
- Maintain a membership database
- 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
- Ensure that any IDRP and corporate complaint cases are dealt with in a timely manner

The member self-service portal (Pensions Online) can be accessed at pensions.sutton.gov.uk. For more information, please search 'LGPS' on www.kingston.gov.uk.

Summary of activities

During the year the Fund has managed the following key projects/major pieces of work:

McCloud remedy project

In 2014 and 2015 the Government introduced changes to public service pension schemes, including the LGPS, for future service, moving from final salary to career average revalued earnings (CARE) benefits and increasing the normal pension age to be in line with state pension age. The changes applied to existing members as well as new joiners, but older members were given protection against the changes. The Court of Appeal ruled that, in the Judges and Firefighters' Schemes, these changes were discriminatory against younger members and so the Government gave a commitment to make changes to all public service pension schemes to remove discrimination. The Department for Levelling Up, Housing and Communities (DLUHC) plans to remedy this by levelling up benefits for the affected members using a form of final salary underpin. Final regulations are expected to be effective from 1 October 2023.

The proposed changes will be extremely complex to administer and to communicate to members. At a fund level, administering authorities will need to identify those in scope of the proposed extended underpin, obtain the data needed to calculate final salary benefits from employers, update all scheme member records, calculate retrospective benefits, pay any underpayments, communicate with members and employers and make changes to systems and administrative processes to carry out ongoing administration under the new regime from the effective date. The fund has suitable project management arrangements in place and the project is on-track to meet the effective date of the changes.

Guaranteed Minimum Pensions (GMP) reconciliation project

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 exercise was completed in the Autumn of 2019 and analysed and investigated the scheme records to reconcile the fund's 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.

The final phase has been on hold whilst the fund's software provider developed its system to deal with the rectifications processes required. The project is now restarting and the fund will begin the process of rectifying benefits, starting with those already in payment.

Pensions Dashboard project

The government's Pensions Dashboard programme plans to enable individuals to access their pensions information online (including State Pension), securely and all in one place, thereby supporting better planning for retirement and growing financial wellbeing. The LGPS staging date - the date by which our software needs to link to the dashboard - is currently September 2024.

The fund's software provider has created a working party for their local government clients to scope the requirements and this project has been added to the Pension Fund Business Plan.

Value for money statement

The Fund remains committed to enhancing value for money through its shared service arrangements and keeps the level of resources on the team under constant review. At the end of the year there was an administration team structure of 17.6 FTE serving both Funds (8.8 FTE per Fund). Following recommendations in an independent structure and efficiency review, it was agreed to grow the structure to 23.4 FTE (11.7 FTE per Fund) to reflect the growing and more complex workload that the Fund is responsible for. In a ten-year period, the number of scheme employers has increased from 14 to 89 across both Funds and membership has risen by approximately 50%.

Improving data quality is vital to providing value for money services because poor data can impact the Fund's valuation of liabilities and also lead to overpayments in individual cases. To mitigate this, pension membership data is reviewed at least annually and a scheme return that includes Common and Scheme Specific Data scores is submitted to The Pensions Regulator. This year the scores were 90% and 61% respectively. In order to improve these scores and the underlying data quality, the Fund engages a data services provider to undertake monthly mortality screening and lost contact address tracing. The Fund is also working with its software provider to identify bulk solutions to certain validation issues and is in the process of implementing a data improvement policy and plan.

Data analysis

Membership data

Active	Deferred	Pensioner	Undecided leaver	Total
5,506	6,039	5,001	0	16,546

New pensioners

Normal retirement	Early retirement	Ill-health	Total
132	111	0	243

Employer numbers

	With active members	No active members but with some outstanding liabilities	Total
Scheduled body	22	0	22
Admitted body	8	4	12
Total	30	4	34

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 2021-2022

Cllr Mark Beynon (Chair)
Cllr Alison Holt (Vice-Chair)
Cllr Mark Durrant
Cllr Dennis Goodship
Cllr Roy Arora

Non-voting Members of the Panel

Chris Coke	(Association of Retired Council Officers (ARCO))
Louise Gallagher	(RBK Staff Side)
Lesley Diston	(Kingston University)

	Councillor Mark Beynon (Chair)	Councillor Dennis Goodship	Councillor Roy Arora	Councillor Mark Durrant	Councillor Alison Holt (Vice-Chair)
Committee					
28 June 2021	✓	x	✓	x	✓
5 October 2021	✓	✓	✓	x	✓
9 December 2021	✓	✓	X	x	✓
8 February 2022	✓	✓	✓	✓	✓
Training					
Private Debt	✓	X	✓	X	✓
Infrastructure Investing	✓	✓	✓	X	✓

LGPS Governance	✓	X	✓	X	✓
Cyber Security	✓	X	✓	X	✓
Pensions Administration	✓	X	✓	X	✓

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 during the 2021/22 financial year. 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 LGPS Governance and Cyber Security.

During the year the Board reviewed the work of the Panel including the Pensions Administration reviews, Investment Strategy, Risk Register, Governance Review and updated policy documentation.

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 (including any investments undertaken through the Fund's Investment Pool, London CIV) 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 ongoing regulatory reform, on both the investment and administration front, all of which requires additional reporting and has implications for the management and resourcing of the Fund. The Fund continues to monitor closely the regulatory horizon and where possible will look to adapt its management approach to forthcoming changes.

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 Fund continues to increase the proportion of assets managed through the London CIV to gain the benefits from economies of scale and access to a more diverse range of asset classes. 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 LGPS 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.

The Fund recognises there are significant risks from the threats around cyber security and has developed policies and procedures for monitoring threats on an ongoing basis including its use of external providers and their controls around cyber security.

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 as at 31 March 2022, with formal approval from Pensions Panel by 31 March 2023 at the latest.

9. EXTERNAL AUDIT REPORT

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

The Audit Findings for Royal Borough of Kingston upon Thames Pension Fund

Year ended 31 March 2022

March 2024

Commercial in confidence

Contents

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Appendices

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Royal Borough of Kingston upon Thames Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work is now completed and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements. Our findings are summarised on pages 16 - 18.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statement included therein are consistent

2. Financial Statements

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit & Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have substantially completed our audit of your financial statements, we anticipate issuing an unqualified audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff throughout the audit process.

2. Financial Statements

	Pension Fund Amount (£)
Materiality for the financial statements	11,000,000

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised our determination of the materiality thresholds upon receipt of the draft financial statements. We detail in the table below our determination of materiality for Royal Borough of Kingston upon Thames Pension Fund.

Performance materiality 8,250,000 Trivial matters 600,000

5

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit

risks communicated in the Audit Plan.

Risks identified in our Audit Plan Commentary

Management override of controls - ISA (UK) 240

Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.

The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- Evaluated the design effectiveness of management controls over journals;
- Analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- Gained an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Findings

We have not identified any significant issues in respect of management override of controls.

Presumed risk of fraud in revenue recognition - ISA (UK) 240 (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of the Pension Fund, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of public sector bodies, including Royal Borough of Kingston upon Thames Pension Fund, mean that all forms of fraud are seen as unacceptable.

Findings

We have not identified any significant issues in respect of revenue recognition.

2. Financial Statements - Significant risks

Valuation of Level 3 Investments

The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£99 million as at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

• Evaluated management's processes for valuing Level 3 investments;

• Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;

• Independently requested year-end confirmations from investment managers and the custodian;

• For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period;

• In the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert; and

• Where available reviewed investment manager service auditor report on design and operating effectiveness of internal controls.

Findings

We have not identified any significant issues relating to valuation of Level 3 investments.

2. Financial Statements - Other risks

Risks identified in our Audit Plan Commentary

Valuation of Level 2 Investments

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We therefore identified the valuation of the Fund's Level 2 investments as other risk of material misstatement.

We have:

• Gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;

• Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these investments;

• Reviewed the reconciliation of information provided by the individual fund managers, custodian and Pension Scheme's own records and seek explanations for variances;

• independently requested year-end confirmations from investment fund managers and custodian; and • Reviewed investment fund managers service auditor report on design effectiveness of internal controls.

Findings

We have not identified any significant issues in respect of valuation of level 2 Investments.

Actuarial Present Value of Promised Retirement Benefits disclosure – IAS 26

The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The Pension Fund engage the services of Hymans Robertson as a qualified actuary to develop an IAS 26 compliant estimate of the disclosure.

We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as an other risk of material misstatement.

We have:

• Updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated;

• Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;

• Assessed the competence, capabilities and objectivity of the actuary who carried out the Fund’s valuation; • Assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • Tested the consistency of disclosures with the actuarial report from the actuary; and

• Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report.

Findings

The latest triennial valuation for the Pension Fund as of 31 March 2022 provided updated information for the Pension Fund’s actuarial present value or promised retirement benefits, particularly in respect of membership data and demographic assumptions.

The actuary report included in the draft accounts did not incorporate the triennial valuation and therefore, we requested a revised report from their actuary, detailing the updated information. This revised report showed that the impact was material and so management have adjusted the disclosures in the financial statement accordingly. Our work has not identified any issues in respect of these.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate Summary of management's approach Audit Comments Assessment

Level 3 Investments – £99m The Pension Fund has material investments in pooled property, pooled infrastructure and private debt that in total are valued on the balance sheet as at 31 March 2022 at £99m.

These investments are not traded/quoted on an open exchange/market and the valuation of the investments are highly subjective due to a lack of observable inputs. In order to determine the value, management relied on valuation derived by respective fund managers that are overseen by the custodian for the investments. The value of the investments have increased by £34m in 2021/22 (2020/21: £65m), largely due to new private debt investment made in 2021/22 amounting to £24m and fair value gain increase for pooled property and infrastructure totalling £10m.

Assessment

We have completed the following work in relation to this estimate:

- Reviewed your assessment of the estimate considering the fund managers latest audited accounts for each fund comparing against the value of investments as at 31/3/2022. Where the audited financial statements are for a period ending other than 31/3/2022, we have verified any drawdowns or contribution from the fund, thereby assessing the reasonableness of estimates used;
- Assessed appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports;
- Assessed the fund manager as experts and reviewed their internal control reports where these are prepared;
- Assessed reasonableness of the sensitivities disclosed in the estimates section of the accounting policy; and
- Reviewed the adequacy of disclosure of estimate in the financial statements.

We have not identified any material issues from our work.

Light purple

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements

and estimates

Significant judgement or estimate Summary of management's approach Audit Comments Assessment

Level 2 Investments – £839m The Pension Fund has investments in pooled equities, pooled fixed Income, pooled property and others on the Net Asset Statement valued at £839m as at 31 March 2022.

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

The value of the investment has increased by £108m in 2021/22 (2020/21: £731m) due to combination of additions of investments and changes in the market value of investments.

Assessment

We have completed the following work in relation to this estimate:

• Gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls

• Assessed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments

• Assessed appropriateness of the underlying information used to determine the estimate

• Requested year-end confirmations from investment managers and custodian; and

• Reviewed the adequacy of disclosure of estimate in the financial statements Our audit work has not identified any issues in respect of Level 2 Investments.

Light purple

● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.

Written representations A letter of representation has been requested from the Pension Fund.

Confirmation requests from third parties

We requested from management permission to send confirmation requests to the custodian, fund managers and the banks. This permission was granted and the requests were sent.

Accounting practices We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures.

Audit evidence and explanations/ significant difficulties

All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material

Issue Commentary

Going concern In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:

- the nature of the Pension Fund and the environment in which it operates
- the Pension Fund's financial reporting framework
- the Pension Fund's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:

- a material uncertainty related to going concern has not been identified
- management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other

responsibilities under the Code

Issue Commentary

Disclosures and other information

Matters on which we report by exception

No material inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. This work is now complete and we will issue the opinion on the same date as the financial statement audit opinion.

3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

Relationships and Investments held by individuals We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.

Employment of Grant Thornton staff We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.

Business relationships We have not identified any business relationships between Grant Thornton and the Pension Fund. Contingent fees in relation to

non-audit services N/A – no non-audit services were provided to the Pension Fund.

Gifts and hospitality We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

Following this consideration, we can confirm that we are independent and are able to express an objective opinion on the financial statements.

A. Action plan – Audit of Financial Statements

We have not identified any deficiencies during the course of our audit of financial statements that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit as at report date which have been made in the final set of financial statements, review of the final set of financial statements are in progress.

Disclosure issue/omission	Management response	Adjusted?
<u>PF Note 3</u> No accounting policy has been disclosed for cash and cash equivalents but the Code requires for an accounting policy to be disclosed since this is material.	Management have agreed to adjust for the financial statements. ✔ Management have agreed	
<u>PF Note 4</u> Removal of the critical judgements related to pension liability since there are no critical judgements employed in 2021/22.	to adjust for the financial statements. ✔ Management have agreed to adjust for the financial	
<u>PF Note 5</u> The Code requires disclosure of major sources of estimation uncertainty in the financial statements. However, the disclosure did not include the Pension Fund's private debt fund, a material Level 3 investment where estimation uncertainty exists.	statements. ✔	
<u>Various Investment Notes</u> The Pension Fund have opted to aggregate some of its investments into "Diversified Growth Funds" line in the notes to the financial statements. This presentational change resulted in the restatement of comparative information for some investment notes. Management have included a footnote on Note 14 to explain the presentational change.	Management have agreed to adjust for the financial statements. ✔ Management have agreed	
<u>PF Note 14b</u> We have noted that an income of £682k has been received during the year related to Janus Henderson investments in the form of interest accumulation caused the market value of the investments with no corresponding increase in the units held. The client have considered this to be a purchase transaction in Note 14b. However, since there are no additional units acquired and only an increase in the market value of the investment, we deem that the transaction be treated as "Change in Market Value" and not "Purchases".		

to adjust for the financial statements. ✔

B. Audit Adjustments

Disclosure issue/omission Management response Adjusted?

Disclosure issue/omission	Management response	Adjusted?
PF Note 19 An updated IAS 26 report has been issued by the Actuary following the completion of 31 March 2022 triennial valuation report. We have asked the management to update the disclosure with the updated IAS 26 present value of promised retirement benefits.	Management have agreed to adjust for the financial statements.	✔
PF Note 23 Following review of PF Note 23 Related party transactions and Key Management Personnel, PF management had enhanced the note disclosure to specify the key management personnel and their specific cost to the Pension Fund as per CIPFA code 3.9.4.2 requirement. Related Party Transactions disclosure has been moved to PF Note 24 as a results.	Management have agreed to adjust for the financial statements.	✔
Other presentational and disclosure misstatement	The financial statements have been amended for other minor presentational issues highlighted and identified during the audit.	

Impact of unadjusted misstatements in the current and prior years

There were no unadjusted misstatements reported in the current and prior year to be evaluated for their continuing impact as at report date.

✔

C. Fees

We confirm below our proposed final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Fee per Audit Plan	Proposed Final fee
Pension Fund Audit, representing total fees (excluding VAT)	£33,000	£33,000

The fee disclosed in the financial statements of the Pension Fund – Note 11b is £33k.

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10. Pension Fund Accounts

These show the income and expenditure of the Royal Borough of Kingston upon Thames Local Government Pension Fund in relation to current employees and pensioners, investment transactions and the position of the Fund at year end including future liabilities.

Fund Account for the year ended 31 March 2022

2020/21			2021/22
£'000		**Note**	**£'000**
	Dealings with members, employers and others directly involved in the Fund		
(40,748)	Contributions	7	(36,788)

(3,360)	Transfers in from other pensions funds	8	(3,597)
(44,108)			**(40,385)**
31,697	Benefits	9	33,922
2,897	Payments to and on account of leavers:	10	4,283
34,594			**38,205**
(9,514)	**Net (additions) / withdrawals from dealings with members**		**(2,180)**
9,317	Management expenses	11	9,175
(197)	**Net (additions)/withdrawals including fund management expenses**		**6,995**
	Returns on Investments		
(9,426)	Investment income	12	(10,617)
91	Taxes on income	13	76
(224,641)	(Profit) loss on disposal of investments and changes in the market value of investments	16b	(76,245)
(233,977)	**Net Return on Investments**		**(86,787)**
(234,174)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(79,792)
(813,578)	**Opening Net Assets of the Scheme**		**(1,047,752)**
(1,047,752)	**Closing Net Assets of the Scheme**		**(1,127,544)**

Net Assets Statement for the year as at 31 March 2022

2020/21		Note	2021/22
£'000			**£'000**
150	Long term assets		150

1,027,489	Investment assets	14	1,106,172
1,027,639	**Total Net Investments**		**1,106,322**
25,818	Current assets	20	23,595
(5,705)	Current liabilities	21	(2,373)
1,047,752	**Net Assets of the Fund available to fund benefits at the end of the reporting period**		**1,127,544**

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 2013 (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 2022 were as follows:

PF Note 1 - Description of the Fund (continued)

Scheduled bodies	Scheduled bodies	Admitted bodies
Kingston University	Southborough High School	Balance CIC

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

PF Note 1 - Description of the Fund (continued)

The following table summarises the membership numbers of the scheme:

2020/21		2021/22
No.		**No.**
29	Number of Employers with active members	30

	Active Members	
2,598	Royal Borough of Kingston upon Thames	2,513
2,094	Scheduled bodies	2,259
742	Admitted bodies	734
5,434		5,506
	Deferred Members	
3,594	Royal Borough of Kingston upon Thames	3,724
1,784	Scheduled bodies	1,923
301	Admitted bodies	392
5,679		6,039
	Pensioners (including Dependents)	
3,737	Royal Borough of Kingston upon Thames	3,789
973	Scheduled bodies	1,031
157	Admitted bodies	181
4,867	-	5,001
15,980	**Total**	**16,546**

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 2021. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2021/22, employer contribution rates ranged from 10.4% to 36.7% of pensionable pay. Employer contribution rates payable from 1 April 2020 were set by the triennial valuation as at 31 March 2019, the results of which were published on 31 March 2020. 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 2021/22 financial year and its position as at 31 March 2022 .The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2021/22' (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 as the pension fund is a statutory backed scheme and also backed by an administering authority with tax raising powers.

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 2022 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) Cash and Cash Equivalents

Cash and cash equivalents are included in the Net Assets Statement on an amortised cost basis.

h) Financial assets

Financial assets excluding cash and cash equivalents 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.

i) 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).

j) 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 critical judgments about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2021-22.

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 £150m in the Fund's pension liability; a one year increase in member life expectancy would increase the liability by approximately £60m and a 0.5% increase in the salary increase rate would increase the liability by approximately £9m.
McCloud	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. Following consultation by government, the key features of the proposed remedy include levelling up benefits for the younger members who suffered discrimination using a form of final salary underpin. Final regulations are expected to be effective from 1 April 2023.	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%. 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 and private debt funds	The assets held by the Pension Fund include properties and 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. Both the property and private debt funds do not have published prices, are not regularly traded and have many unobservable inputs feeding into their valuations and so will be treated as level 3.	The potential impact of this uncertainty cannot be measured accurately. The total of level 3 funds held by the Pension Fund are valued at £99.1m, and the variation around this value is estimated to be +/- 10%, which equates to +/- £9.91m..

PF Note 6 - Events after the reporting period end

There are no material adjusting or non-adjusting events after the reporting period end

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:

2020/21		2021/22
£'000		**£'000**
(8,394)	Employees' contributions	(9,313)
	Employers' contributions	
(23,793)	Normal Contributions	(23,857)
(8,019)	Deficit Recovery Contributions	(3,215)
(543)	Augmentation Contributions	(402)
(40,748)		**(36,788)**

Authority:

2020/21		2021/22
£'000		**£'000**
(20,944)	Royal Borough of Kingston Upon Thames	(16,082)
(14,488)	Scheduled bodies	(15,049)
(5,317)	Admitted bodies	(5,657)
(40,748)		**(36,788)**

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:

2020/21		2021/22
£'000		**£'000**
(3,263)	Individual transfers	(3,597)
(97)	Group transfers	-
(3,360)		**(3,597)**

PF Note 9 - Benefits payable

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

Category:

2020/21		2021/22
£'000		**£'000**
27,078	Pensions	29,098
3,822	Commutation and Lump sum retirement benefits	4,040
797	Lump sum death benefits	783
31,697		**33,922**

Authority:

2020/21		2021/22
£'000		£'000
21,999	Royal Borough of Kingston Upon Thames	23,977
8,088	Scheduled bodies	8,277
1,610	Admitted bodies	1,668
31,697		**33,922**

PF Note 10 - Payments to and on account of leavers

2020/21		2021/22
£'000		£'000
112	Refunds to members leaving service	82
-	Group transfers	-
2,785	Individual transfers	4,200
2,897		**4,283**

PF Note 11 - Management expenses

2020/21		2021/22
£'000		**£'000**
857	Administration Expenses	1,005
8,196	Investment Management Expenses	8,069
263	Oversight and Governance	102
9,317		**9,175**

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.

2020/21		2021/22
£'000		**£'000**
4,830	Management Fees	5,688
68	Performance Fees	19
59	Custody Fees	58
3,240	Transaction Costs	2,304
8,196		**8,069**

PF Note 11b - External audit costs

2020/21		2021/22
£'000		**£'000**
33	External Audit Costs	33
33		**33**

PF Note 12 - Investment income

2020/21		2021/22
£'000		**£'000**
(3,755)	Equity Dividends	(3,553)
	Pooled Investments:	
(596)	- Fixed Income	(1,472)
(1,082)	- Property	(1,671)
(2,835)	- Diversified Growth Funds	(2,726)
(1,170)	- Credit	(1,198)
12	Interest on Cash Deposits	3
-	Other	-
(9,426)		**(10,617)**

PF Note 13 - Taxes on income

2020/21		2021/22
£'000		£'000
91	Withholding tax - equities	76
91		**76**

PF Note 14 - Investments

2020/21 (re-stated)	Investment Assets	2021/22
£'000		£'000
225,851	Equities	163,326
	Pooled Investment Vehicles	
450,185	Equities	472,499
79,317	Fixed Income	179,019
65,266	Property	75,622
34,668	Credit	35,509
166,948	Diversified Growth Funds	152,180
-	Private Debt	23,504
	Other Investment Balances	
4,632	Cash deposits	3,138
814	Accrued income and recoverable taxes	923
(192)	Amount receivable/payable for sales/purchases of investments	452
1,027,489	**Total Net Investment Assets**	**1,106,172**

As an asset class in its own right, “Diversified Growth Funds” have been shown separately in 2021/22. The following three investments: (a) Global Total Return Fund (Pyrford International); (b) Diversified Growth Fund (Baillie Gifford); and (c) Absolute Return Fund (Ruffer) were previously presented on various lines in Note 14, and split across equities, fixed income, property and other.

In the prior year accounts, income earned from these three investments were presented under the heading of "Multi-Asset" in Note 12. To be consistent with other investment notes, the heading has been changed to "Diversified Growth Funds". The identification of “Diversified Growth Funds” and “Multi Asset Credit” as individual asset categories has been applied to the following notes;

PF Note 12 - Investment income
PF Note 14 - Investments
PF Note 14a - Analysis of pooled investment vehicles
PF Note 14b - Reconciliation of movements in investments
PF Note 15 - Fair value – basis of valuation
PF Note 15a - Fair value hierarchy
PF Note 16a - Classification of financial instruments
PF Note 17 - Nature and extent of risks arising from financial instruments

PF Note 14a - Analysis of Pooled Investment Vehicles

2021/22	ACS	FCP-FIS Mutual Fund	Unit trusts	Unitised insurance policies	OEIC	SICAV	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
- Equities				453,026	19,473		472,499
- Fixed Income	102,178				35,507	41,334	179,019
- Property		25,408	50,214				75,622
- Credit	35,509						35,509
- Diversified Growth Funds	152,180						152,180
- Private Debt			23,504				23,504
	289,867	**25,408**	**73,718**	**453,026**	**54,980**	**41,334**	**938,333**

*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.
***ACS is a UK tax transparent collective investment scheme used by the LCIV and the 20/21 table below has been restated to more accurately use this category of fund

Pooled Investment Vehicles:

2020/21 (re-stated)	ACS	FCP-FIS Mutual Fund	Unit trusts	Unitised insurance policies	OEIC	SICAV	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
- Equities			149,583	267,976	32,626		450,185
- Fixed Income					37,362	41,955	79,317
- Property		24,423	40,843				65,266
- Credit	34,668						34,668
- Diversified Growth Funds	166,948						166,948
- Private Debt			0				0
	201,616	**24,423**	**190,426**	**267,976**	**69,988**	**41,955**	**796,384**

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

PF Note 14b - Reconciliation of movements in investments

2021/22	Value 31 March 2021	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Equities	225,851	113,357	(210,239)	34,357	163,326
Pooled Investment Vehicles:					
- Equities	450,185	158,955	(170,341)	33,700	472,499
- Fixed Income	79,317	110,724	(345)	(10,677)	179,019
- Property	65,266	278	(1,412)	11,490	75,622
- Diversified Growth Funds	166,948	2,725	(24,161)	6,668	152,180
- Credit	34,668	1,198	(333)	(24)	35,509
- Private Debt	-	22,380	(166)	1,290	23,504
Sub-total Investments	**1,022,235**	**409,617**	**(406,997)**	**76,804**	**1,101,659**
Other Investment Balances:					
Cash deposits*	4,632	324	(57)	(234)	3,138
Trade receivables / payables	(192)	-	-	358	452
Accrued income and recoverable taxes	814			-	923
Net Investment Assets	**1,027,489**	**409,941**	**(407,054)**	**76,928**	**1,106,172**

*Excludes cash held by Multi Asset Funds

PF Note 14b - Reconciliation of movements in investments (continued)

2020/21 (re-stated)	Value 31 March 2020	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Equities	176,133	133,925	(153,774)	69,567	225,851
Pooled Investment Vehicles:		-	-	-	
- Equities	329,130	810	(3,505)	123,750	450,185
- Fixed Income	73,206	63	210	5,838	79,317
- Property	40,614	25,082	(1,018)	588	65,266
- Diversified Growth Funds	146,825	2,835	(1,523)	18,811	166,948
- Credit	27,678	1,170	(391)	6,211	34,668
Sub-total Investments	**793,586**	**163,885**	**(160,001)**	**224,765**	**1,022,235**
Other Investment Balances:					
Cash deposits*	5,327	109	(208)	(28)	4,632
Trade receivables / payables	(86)	-	-	(96)	(192)
Accrued income and recoverable taxes	824	-	-	-	814
Net Investment Assets	**799,651**	**163,994**	**(160,209)**	**224,641**	**1,027,489**

PF Note 14c - Investments analysed by fund manager

31 March 2021			31 March 2022	
Market Value	**% of total**	**Fund Manager**	**Market Value**	**% of total**
£'000	**%**		**£'000**	**%**
		Investments managed by London Collective Investment Vehicle		
85,402	8.3%	Global Total Return Fund (Pyrford International)	66,192	6.0%
38,438	3.7%	Diversified Growth Fund (Baillie Gifford)	39,747	3.6%
43,108	4.2%	Absolute Return Fund (Ruffer)	46,241	4.2%
-		Private Debt (Pemberton & Churchill)	23,504	2.1%
-		Global Bond Fund (PIMCO)	102,178	9.2%
34,668	3.4%	Multi Asset Credit Fund (CQS)	35,509	3.2%
201,616	19.6%	Sub total	313,371	28.3%
		Investments managed outside of London Collective Investment Vehicle		
42,586	4.1%	UBS Global Asset Management	51,326	4.6%
261,987	25.5%	Fidelity Pensions Management	186,199	16.8%
267,976	26.1%	Threadneedle Asset Management - Global Equity Fund	292,510	26.4%
149,583	14.6%	Schroder Investment Management - Global Active Value Fund	-	0.0%
24,423	2.4%	M&G Investments	25,408	2.3%
-		Legal & General - Future World Global Equity Index Fund	160,517	14.5%
41,955	4.1%	Janus Henderson Investors - Total Return Bond Fund	41,334	3.7%
37,363	3.6%	Janus Henderson Investors - All Stocks Credit Fund	35,507	3.2%
825,873	80.4%	Sub total	792,801	71.7%
1,027,489	**100.0%**	**Total**	**1,106,172**	**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/debt and infrastructure investments. Assurances over the valuations are gained from the independent audit of their accounts by their auditors.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Recognised at market value	Not required	Not required
Pooled investments - excluding pooled property funds	Level 2	Closing bid price where bid price published. Closing single price where single price published	NAV based pricing set on a forward pricing basis. Evaluated price feeds	Not required

Pooled investments - UK property funds where regular trading does not take place	Level 3	Valued by investment managers on a periodical basis using PRAG guidance	NAV based pricing set on a forward pricing basis with many unobservable inputs feeding into their calculations	Valuations could be affected by any changes to the values of the underlying properties, caused by changes to discount rate, estimated rental growth, vacancy levels etc
Private Debt	Level 3	Valued by underlying investment managers	NAV based pricing with many unobservable inputs feeding into their calculations	Valuations could be affected by a range of variables such as the quality of underlying collateral, varying degree of liquidity & many other unobservable factors

PF Note 15a - Fair value hierarchy

31 March 2021 (re-stated)								31 March 2022
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
225,851			225,851	Equities	163,326			163,326
			-	Pooled Investment Vehicles:				-
	450,185		450,185	Equities		472,499		472,499
	79,317		79,317	Fixed Income		179,019		179,019
		65,266	65,266	Property			75,622	75,622
	34,668		34,668	Credit		35,509		35,509
	166,948		166,948	Diversified Growth Funds		152,180		152,180
	-		-	Private Debt			23,504	23,504
5,253			5,253	Other Investment Balances	4,513			4,513
231,105	**731,118**	**65,266**	**1,027,489**	**Financial Assets at fair value through profit and loss**	**167,839**	**839,207**	**99,126**	**1,106,172**

PF Note 15b: Reconciliation of fair value measurements within Level 3

2021/22	Value 31 March 2021	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2022
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	65,266			277	(1,412)	11,490	75,622
- Private Debt	-			22,380	(166)	1,290	23,504
Total	**65,266**	**-**	**-**	**22,658**	**(1,577)**	**12,780**	**99,126**

2020/21	Value 31 March 2020	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2021
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	-	40,614	-	25,082	-	(430)	65,266
Total	**-**	**40,614**	**-**	**25,082**	**-**	**(430)**	**65,266**

PF Note 15c: Sensitivity of assets valued within Level 3

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022 and 31 March 2021.

2021/22	Potential variation in fair value	Value at 31 March 2022	Potential Value on Increase	Potential Value on Decrease
Property	"+/-" 10%	75,622	83,184	68,060
Private Debt	+/- 10%	23,504	25,854	21,153
Total		**99,126**	**109,038**	**89,213**

2020/21	Potential variation in fair value	Value at 31 March 2021	Potential Value on Increase	Potential Value on Decrease
Property	"+/-" 10%	65,266	71,793	58,740
Total		**65,266**	**71,793**	**58,740**

All movements in the assessed valuation range derive from changes in the net asset value of the underlying property and private debt assets. The range in potential movement of 10% is caused by how this value is measured.

PF Note 16a - Classification of financial instruments

2020/21 (re-stated)				2021/22		
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			
225,851			Equities	163,326		
			Pooled Investment Vehicles:			
450,185			Equities	472,499		
79,317			Fixed Income	179,019		
65,266			Property	75,622		
34,668			Credit	35,509		
166,948			Diversified Growth Funds	152,180		
-			Private Debt	23,504		
5,254			Other	4,513		
	17,846		Cash deposits		14,532	
	7,972		Sundry debtors		9,062	
1,027,489	**25,818**	**-**		**1,106,172**	**23,595**	**-**
			Long Term Assets			
	150		London CIV share capital		150	
1,027,489	**25,968**			**1,106,172**	**23,745**	
			Financial Liabilities			
-	-	(5,705)	Creditors			(2,373)
-	**-**	**(5,705)**		**-**	**-**	**(2,373)**
1,027,489	**25,968**	**(5,705)**	**Total**	**1,106,172**	**23,745**	**(2,373)**

*Other includes accrued income, currency contracts, irrecoverable withholding taxes and cash deposits in the investment portfolio (not within working capital - row below).

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

2020/21		2021/22
£'000		£'000
	Financial Assets	
224,669	Designated at fair value through profit and loss	76,479
(28)	Financial assets at amortised cost	(234)
224,641		**76,245**

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) Market risk

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.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short, is unlimited.

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

Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the 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 31/03/2021 (re-stated)	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2022	Change +/-	Value on increase	Value on decrease
£'000	%	£'000	£'000		£'000	%	£'000	£'000
676,036	17.9	797,047	555,026	Equities	635,825	18.0	750,273	521,376
79,317	7.8	85,504	73,130	Fixed income	179,019	7.6	192,625	165,414
65,266	15.0	75,056	55,476	Property	75,622	15.1	87,041	64,203
34,668	8.4	37,580	31,756	Credit	35,509	9.6	38,918	32,100
166,948	10.2	183,977	149,919	Diversified Growth Fund	152,180	10.3	167,855	136,505
-	10.4	-	-	Private Debt	23,504	10.6	25,995	21,012
4,632	5.3	4,877	4,387	Cash	3,138	5.5	3,311	2,965
622	-	622	622	Other	1,375	-	1,375	1,375
1,027,489		**1,184,663**	**870,316**	**Total**	**1,106,172**		**1,267,393**	**944,951**

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. The table below shows the sensitivity of the investments to interest rate changes.

Assets exposed to interest rate risk	Value as at 31 March 2022	Potential Movement on 1% Change in Interest Rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash deposits	3,138	-	3,138	3,138
Fixed income	179,019	10,295	168,724	189,314
Credit	35,509	401	35,107	35,910
Total	**217,666**	**10,696**	**206,970**	**228,362**

Assets exposed to interest rate risk	Value as at 31 March 2021	Potential Movement on 1% Change in Interest Rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash deposits	4,633	-	4,633	4,633
Fixed income	157,893	7,124	150,769	165,018
Credit	34,668	419	34,248	35,087
Total	**197,194**	**7,544**	**189,650**	**204,738**

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 is exposed to direct currency risks on its segregated overseas equity holdings.

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 2022 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 31/03/2021 (re-stated)	Value on 10% price increase	Value on 10% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2022	Value on 10% price increase	Value on 10% price decrease
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
217,295	239,024	195,565	Overseas Equities	156,337	171,971	140,704
217,295	**239,024**	**195,565**	**Total assets available to pay benefits**	**156,337**	**171,971**	**140,704**

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 an interest bearing account with the Council's bankers. Money market funds have a published AAA credit rating from a leading ratings agency.

Assets exposed to credit risk	Balances as at 31 March 2022	Balances as at 31 March 2021
	£'000	**£'000**
Money Market Fund	-	6,868
Bank current account	14,532	10,978
Total	**14,532**	**17,846**

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

Actuarial Position
Rates of contributions paid by the participating Employers during 2021/22 were based on the actuarial valuation carried out as at 31 March 2019 by the Fund's actuary, Hymans Robertson. The objectives of the Fund's funding strategy is:

- 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.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of three years. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

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 2019 to 31 March 2022 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.

At the 2019 actuarial valuation, the fund was assessed as 95% funded (82% at the March 2016 valuation). This corresponded to a deficit of £42m (2016 valuation: £145m) at that time. Contribution increases will be phased in over the three-year period ending 31 March 2023 for both scheme employers and admitted bodies.

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 option
0.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option, it is assumed.

The following table shows a summary of the results of the 2019 valuation:

Past Service Position	31/03/2019
	£m
Past Service Liabilities	(882)
Market Value of Assets	839
Surplus (Deficit)	**(43)**
Funding Level	**95.0%**

Financial Assumptions				31/03/2019
				Nominal
CPI Inflation				2.3%
Discount Rate				3.9%
Salary Increases*				2.7%
Pension Increases				2.3%

Life Expectancy from Age 65	31/03/2016			31/03/2019
Male Pensioners	22.5			21.7
Male Non-Pensioners	24.2			22.6
Female Pensioners	24.8			23.9
Female Non-Pensioners	26.7			25.5

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

Contribution Rates			
Employer Future Service Rate *	18.3%		
Past service adjustment (21 year spread) **	3.5%		
Total Employer Contribution Rate	**22.0%**		

Projected Annualised Returns over 20 Years (50th % ile)			
Cash	2.40%		
Index Linked Gilts	0.30%		
Fixed Interest Gilts	1.00%		
UK Equity	5.70%		
Overseas Equity	5.80%		
Property	4.30%		
Corporate Bonds	1.90%		

PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2022, 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 2021		31 March 2022
£m		**£m**
(1,477)	Actuarial Fair Value of Promised retirement benefits	(1,436)
1,048	Net Fund Assets available to fund benefits	1,128
(429)	**Net Liability**	**(308)**

PF Note 20 - Current assets

31 March 2021		31 March 2022
£'000		**£'000**
1,129	Contributions Due	1,665
6,843	Other debtors	7,397
17,846	Cash at Bank	14,532
25,818	**Total Current Assets**	**23,595**

PF Note 21 - Current liabilities

31 March 2021		31 March 2022
£'000		**£'000**
(80)	Benefits Payable	(525)
(127)	Transfer Values	-
(5,498)	Other Creditors	(1,848)
(5,705)	Total Current Liabilities	**(2,373)**

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 2021/22 were £71,813 (£71,608 in 2020/21).

Market Value 31 March 2021	Contributions 2020/21		Market Value 31 March 2022	Contributions 2021/22
£'000			**£'000**	
79	0	Utmost Life and Pensions	81	0
959	72	Aviva	728	72
1,038	**72**		**809**	**72**

These are invested with the Council's approved AVC providers and are a money purchase arrangement.

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 2021/22 was £1,003,885 (£857,482 in 2020/21)

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 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 £3.577m in employer contributions, deficit and early retirement costs from this body in 2021/22 (£3.259m in 2020/21).

PF Note 23a - Key Management Personnel Remuneration

The key management personnel for the Pension Fund are the Pensions Finance and Investments Manager, the Governance Lead, the Head of Pensions Investments, the Head of Pensions Administration and the Assistant Director of Finance at the Royal Borough of Kingston. 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, with a more detailed breakdown as set out in the table below:

31 March 2021			31 March 2022
£'000			**£'000**
48		Short-term benefits	102
214		Post-employment benefits	242
262			**344**

PF Note 24 - Contingent liabilities and contingent assets

There are no contingent liabilities. The only contingent asset is an extra c.£500k (over and above the £6,789,000 debtor in relation to this) for a bulk transfer-in to the RBK Pension Fund, due from Berkshire Pension Fund, for Royal Borough of Windsor and Maidenhead staff that joined AfC. The exact amount is dependent on investment returns and on discussions between the Funds' actuaries on how to value the liabilities..

There are outstanding contractual commitments at period end, as the RBK Pension Fund committed £86m to the LCIV Renewable Infrastructure Fund on 28 March 2022. As at 31 March 2022, there was also an outstanding contractual commitment to the LCIV Private Debt Fund of £32.6m

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 how 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 potent 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. Pensions administration strategy

Sutton Council Pension Fund and Kingston Council Pension Fund

January 2021

Introduction

The pensions administration strategy (“the strategy”) sets out the responsibilities of the administering authority and scheme employers in administering the LGPS.

The role of administering authority for Sutton Council and Kingston Council is discharged by the shared pensions administration service and the shared finance service. Both of these services are hosted by Sutton Council. The shared HR service, hosted by Kingston Council, provides the pensioner payroll.

The strategy has been created pursuant to regulation 59 of the Local Government Pension Scheme Regulations 2013 and shall be reviewed at least every three years.

There are four sections of the strategy and those are:

- Roles and deadlines of all parties
- Administering authority’s performance standards
- A statement about scheme communications
- Scope of additional costs that will be recovered from scheme employers

Roles and deadlines

Each of the parties to the LGPS has specific roles and responsibilities. It is important that this is clear to ensure we all discharge them fully.

If a stated deadline falls on a weekend or bank holiday then the deadline is the working day immediately prior.

Role	Deadline
Administering authority	
Shared Finance Service	
Appoint a fund actuary, investment advisors, custodians and fund managers	As required
Lead and publish the triennial valuation (as at 31st March 2016 and on 31st March in every third year afterwards) and annual summary valuation pursuant to regulation 62	Every three years and annually
Publish the audited fund annual accounts pursuant to regulation 56	Annually
Publish a pension fund annual report pursuant to regulation 57	Annually
Publish a funding strategy statement pursuant to regulation 58	At least every three years

Publish an investment strategy statement pursuant to regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016	At least every three years
Publish a governance compliance statement pursuant to regulation 55	At least every three years
Produce the business strategy for the fund	Every three years
Support the Pensions Committee/Panel and the Pension Board	Quarterly
Maintain the fund risk register	Quarterly
Manage fund cash and bank accounts	As required
Monitor fund investments and performance reporting	At least quarterly
Complete the SF3 and other investment returns	Annually and as required
Complete the quarterly Office for National Statistics financial survey of pension schemes	Quarterly
Monitor the financial strength of scheme employers	Annually
Sign off admission agreement terms regarding the financial arrangements between the parties	As required
Shared Pensions Administration Service	
Publish annual benefit statements to all active and deferred members via Pensions Online	31st August

Publish pensions saving statements to scheme members that may have breached their annual and/or lifetime allowances	6th October
Set up and amend admission agreements for admitted bodies	As soon as practicable
Manage the internal dispute resolution procedure	In accordance with the procedure
Apply the annual pensions increase as directed by HM Treasury	April pensioner payroll cut-off
Submit a quarterly tax return to HM Treasury and pay the required tax charges	14th day of the second month following the end of the relevant period
Maintain a membership database	Not applicable
Undertake an annual data review and complete The Pension Regulator scheme return notice	November, as directed by The Pension Regulator
Process tasks in accordance with the performance standards	See table below
Maintain a 'breaches of law' register and notify The Pension Regulator of any materially significant breaches, which may result from: ● A failure to issue annual benefit statements or pension savings statements in time ● Errors and omissions identified by the internal dispute resolution procedure ● Scheme employers failing to pay contributions on time or accurately ● Other breaches of a legal requirement	As soon as practicable

Provide information and manage the production of admission, cessation and IAS19/FRS102 (financial statement) reports via the fund actuary and share with those reports with scheme employers	As required
Shared HR Service	
Pay pensioners their monthly LGPS benefits	29th day of the month for Kingston pensioners and the last Thursday of the month for Sutton pensioners.
Issue pension payslips in March, April and if the net monthly pension changes by £5 or more	Issued on the relevant pay date.
Scheme employers	
Submit the monthly contributions return in the required format	19th day of the month after which the deductions are made
Pay the monthly contributions to the fund pursuant to the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Payment received by 19th day of the month after which the deductions are made
Submit an annual return in the required format	7th May
Calculate and pay redundancy and/or severance payments	As soon as practicable
Provide the data required for FRS17 (retirement benefits) calculations if requested	20 working days prior to the accounting date (ie 31st March, 31st July, 31st August etc).
Provide any additional data required for interim and/or cessation valuations	As soon as practicable

Publish a statement of policy about the exercise of discretionary functions pursuant to regulation 60	Within six months of becoming a scheme employer
Calculate pensionable pay and determine a scheme member's final pay, when required	As required
Admit its employees into LGPS	By their starting date or auto enrollment date
Inform us about new scheme members, members leaving the scheme, or changes to employment (working hours, unpaid leave, unauthorised absences, reductions in pay and 50/50 scheme elections) using the required form or template	20 working days after their starting date, leaving date or date of the change
Give notice of a scheme member's intention to retire	20 working days prior to the intended retirement date
Make the first instance decision about an ill-health retirement following receipt of the independent registered medical practitioner's report	As soon as practicable
Respond to general queries from the administering authority	10 working days
Respond to errors or missing information identified by the administering authority	20 working days or sooner if required
Pay invoices for any recoverable additional costs	30 calendar days from the invoice date
Commence the deduction of additional contributions (APCs or AVCs) following an election from the scheme member or instruction from the administering authority	As soon as practicable

Scheme members	
Use Pensions Online to: ● calculate a retirement quotation (over 55s only) ● update your personal details ● view your service, earnings and contributions information ● view your annual benefit statements	Not applicable
Complete an expression of wish form for any potential death grant payment	Not applicable
Give notice to their scheme employer of an intention to retire	60 working days prior to the intended retirement date
When joining, complete a previous service form to notify the administering authority about any existing LGPS pension benefits	1 year from date of joining
Fund actuary	
Undertake the triennial valuation (including the recommended contribution schedules) and annual summary valuations	Every 3 years (next due 2022) and annually
Produce admission, cessation, conversion and IAS19/FRS102 (financial statement) reports	As required

Performance standards for processing tasks

The service target is the shared pensions administration service's target but in order to meet the overall process targets it will need to rely on other parties acting promptly. The targets have been set after accounting for any legal requirements and to achieve a suitable service level for scheme members.

Process	Service target	Overall process target	Legal deadline
Send a notification of joining to new scheme member	20 working days from receipt of all information	40 working days from date of joining	Two months from date of joining the scheme
Inform leaving scheme member of their deferred benefits or contribution refund	30 working days from receipt of all information	40 working days from date of leaving	No more than two months from date of initial notification
Provide transfer in quote to scheme member	15 working days from receipt of all information	40 working days from member's initial request	Two months from the date of request
Provide transfer value for transfer out or divorce proceedings	20 working days from receipt of all information	60 working days from date of request	Three months from date of request
Notify scheme member of their final retirement benefits	10 working days from receipt of all information	20 working days from date of retirement	One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age
Provide retirement quotation to scheme member	20 working days from receipt of all information	40 working days from date of request	No more than two months from date of request unless there has already been a request in the last 12 months
Notify dependants of their death benefits	10 working days from receipt of	40 working days from date of	No more than two months from date of becoming aware of death

	all information	death	
Answer general query correspondence	10 working days from receipt of correspondence	Not applicable	Not applicable

Recoverable additional costs

The standard cost of administering the fund is factored into the contribution rates but there are circumstances that will require the recovery of additional costs.

Any such costs will be monitored by the administering authority and the relevant party will be invoiced for payment, either annually or on an ad-hoc basis depending on the type of cost.

Performance penalties

This type of recovery is dealt with according to regulation 70, which allows the administering authority to levy such charges on account of a scheme employer's unsatisfactory performance in carrying out its functions. These recoveries are required as a penalty to ensure the smooth running of the LGPS.

Any such recovery should be avoided where possible and scheme employers should seek advice from the administering authority if they experience any difficulties. The administering authority will not seek a recovery if there has been early engagement and suitable effort to comply. In the event that a recovery is required, the administering authority will provide the scheme employer with a written notice.

The penalties will be calculated as follows:

Unsatisfactory performance	Threshold	Charge
Late submission of joiner or leaver form	According to the roles and deadlines section	£50
High quantity of starters and leavers notified in annual return	More than 5% of scheme employer's active membership	£250 plus any other applicable charges

Late submission of annual return	According to the roles and deadlines section	£250 plus £50 per working day
Late submission of monthly contributions return	According to the roles and deadlines section	£125 plus £25 per working day
Poor quality of data in annual return or failure to provide information in the required format	More than 5% of data lines requiring amendment or deletion	Additional time spent to resolve at £125 per half day
Regulator fines as a result of scheme employer	Not applicable	The fine amount plus £100

Actuarial and other fees

Any requests for advice or work that is outside of the requirements of an administering authority as defined by the LGPS regulations will be recoverable from the relevant scheme employer or scheme member. This may include:

- Legal advice concerning admission or cessation
- Accounting valuation reports (FRS102, etc)
- Site visits or seminars

Such recoveries will recharge the cost incurred from the third party provider with no uplift or administration fee. If the work is to be undertaken by the administering authority itself, the fees will be agreed with the scheme employer or scheme member before work commences.

Interest on late payments

According to regulation 71, scheme employers are liable for interest on late payments including contributions and performance penalties. Interest will be charged according to this regulation on any overdue amounts. In addition, there will be a £100 charge for the administration of such action.

Divorce proceedings

Scheme members shall be liable for the administration costs of implementing a pension sharing order or other order related to divorce proceedings. The charge for this work is fixed at £500.

Strain costs

Pension strain costs or capital costs can occur in a number of situations. Depending on the situation, the scheme employer may be liable for the costs or the costs will be paid from the pension fund (the employer contribution rates include an element to cover these risks). The typical situations are as follows:

- Death - costs paid from pension fund
- Ill-health retirement - costs paid from pension fund
- Redundancy of an employee over the age of 55 - costs paid by scheme employer
- Retirement of an employee over the age of 55 on grounds of efficiency or where the scheme employer chooses to waive the actuarial reduction that would otherwise apply - costs paid by scheme employer

Essentially, if the scheme employer controls when the costs occur (i.e. it chooses to do something) then they are liable for the costs. If it is out of their control/fortuitous, the pension fund pays.

Royal Borough of Kingston Pension Fund

Governance Compliance Statement

(Approved Pensions Panel - 21 September 2022)

Pension Fund Governance Compliance Statement

Introduction

Regulation 55(1) of the Local Government Pension Scheme Regulations 2013 (SI2014-1146) requires the Administering Authority (Royal Borough of Kingston) to maintain a statement, which assesses the pension fund governance arrangements against guidance from the Secretary of State, and to make revisions to the statement following a material change in the arrangements:

- Part 1 of this statement relates to the arrangements for pension fund administration.
- Part 2 relates to the arrangements for the Local Pension Board, a stand-alone body.

By producing such a statement the Administering Authority is fully compliant with the legislation from the Secretary of State.

Governance Framework

Royal Borough of Kingston ("the Council") is the Administering Authority for Royal Borough of Kingston Pension Fund. The Council has delegated responsibility for the management and administration of the Pension fund to the Pension Fund Panel which is assisted by the Pension Board. The governance framework for the Fund is set out in the chart below:

The Pension Board has been established under regulation 106 of the Local Government Pension Scheme Regulations 2013. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

- secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
- to ensure the effective and efficient governance and administration of the Scheme.

Governance Compliance - Pension Fund Panel

In accordance with Statutory Guidance, the following table sets out the extent to which the Royal Borough of Kingston Pension Fund is compliant with the statutory guidance.

Requirement	Compliance	Comment
Structure		
The management of the administration of benefits and strategic management of fund	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund which is discharged through a

assets clearly rests with the main committee established by the appointing council.		formal decision-making Panel: The RBK Pension Fund Panel. The Panel also have a separate governance working document which contains great details on the roles and responsibilities of the Panel
Representatives of participating LGPS employers, and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Panel approved representatives of both employers and scheme members to be members of the Pension Panel
Where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Council does not have a secondary Committee or panel
Where a secondary Panel or panel has been established, at least one seat on the main Panel is allocated for a member from the secondary Panel or panel.	Compliant	The Council does not have a secondary committee or panel
Representation		
All key stakeholders are afforded the opportunity to be represented within the main or secondary Panel structure. These include: ● employing authorities (e.g. scheme employers), ● scheme members (including deferred and pensioner scheme members), ● independent professional observers, expert advisors (on an ad-hoc basis).	Compliant	The Panel approved representatives of both employers and scheme members to be members of the Pension Panel. The Panel has appointed an independent professional observer and has appointed expert advisors who can attend Panel meetings when required.

Where lay members sit on a main or secondary Panel, 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.	Compliant	All members are treated equally regarding access to papers, meetings and training. They are given full opportunity and encouragement to contribute to the decision making process.
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 Panel.	Compliant	Members receive induction training and further training to enable them to fulfil their roles and responsibilities. An annual training plan ensures that any knowledge and skill gaps are filled.
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.	Compliant	The policy on voting rights is clear and transparent. All elected members and stakeholder representatives on the Pension Fund Panel have equal voting rights.
Training / Facility Time / Expenses		
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.	Compliant	The Panel and the Board have adopted the CIPFA Knowledge and Skills Framework and an annual training plan for each body exists. Members have equal access to training and reimbursement of expenses to enable them to fulfil their roles and responsibilities.
Where such a policy exists, it applies	Compliant	The Fund's Training Policy applies equally to all members of the Pension Fund Panel and Pension Board

equally to all members of Panels, sub-committees, advisory panels or any other form of secondary forum.		
Meetings (Frequency / Quorum)		
An administering authority's main committee or panels meet at least quarterly.	Compliant	The Pension Fund Panel meets with a quorum at quarterly intervals as required by its terms of reference.
An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main Panel sits.	Compliant	The Council does not have a secondary committee I
An administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	There are stakeholder representatives on the Panel. Consultation with key stakeholders takes place
Access		
Subject to any rules in the Council's 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.	Compliant	All members have equal access to papers, documents and advice.
Scope		

That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Panel's terms of reference enable it to consider any matter relevant to the Pension Fund. Wider scheme issues are evident in policy statements
Publicity		
Administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Compliant	The Governance Policy and Communications Policy are published on the Council's website along with details of planned meetings of the Pension Fund Panel that are open to stakeholders

Governance Compliance - Pension Board

Requirement	Compliance	Comment
Functions of the Board		
The terms should set out the function of the Board i.e. to assist the Administering Authority to secure compliance and ensure the effective and efficient governance and administration of the LGPS.	Compliant	This is clearly set out in the Pension Board Terms of Reference within the Council's Constitution. The Board also has a separate governance working document which contains great details on the roles and responsibilities of the Panel
Membership		
The terms should include the number of each category of Board member (including other representatives), the appointment and selection process, term of office and procedures for termination of office.	Compliant	The Pension Board consists of 6 members and is constituted as follows: ● 3 Scheme employer representatives ● 3 scheme member representatives Vacancies are publicised. Officers from the Administering Authority assess each candidate's statement against the Person Specification

		and form a shortlist of suitable candidates. If there are more than 3 suitable candidates for each vacancy then a ballot will be held. Representatives serve for a fixed two year term which can be extended subject to re-nomination. Termination occurs automatically at the expiry of a term. Other than ceasing to be eligible a Board member may only be removed from office during a term by the unanimous agreement of all of the other Board members. The removal of the independent member requires the consent of the Scheme Manager.
Code of Conduct		
The terms should refer to the requirement for the Local Pension Board to have a code of conduct for its members and that members of the Board should abide by the code	Compliant	Board members are subject to the code of conduct for Board members.
Voting Rights		
The terms should set out that employer and member representatives of the Board have equal voting rights; indicate where the Chair is from either the employer or member representatives whether the Chair has a casting vote; and note that other member do not have voting rights on the Board	Compliant	The Board consists of 6 voting members, (3 employer and 3 scheme member representatives) and an independent Chair who is not entitled to vote. Other members do not have voting rights on the Board.
Conflicts of Interest		
The terms should refer to the requirement for the Board to always act within the	Compliant	The terms provides the purpose, scope and administrative procedures for the Board and requires the Board at all times to act

terms of reference. The Local Pension Board should have a conflicts policy for its members and that members should abide by the policy and provide information that the Administering Authority may reasonably require from time to time to ensure that members do not have a conflict of interest.		in a reasonable manner in the conduct of its purpose and abide by the conflicts policy and code of conduct. All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.
Appointment of a Chair / Vice Chair		
The terms should specify whether the Board is to have a chair and/or vice-chair and if so specify the roles, including administrative and leadership responsibilities, and how they are appointed.	Compliant	The terms cover the appointment of an independent chair and a vice chair and their responsibilities
Role of Advisers		
The terms should set out the role of professional advisers, or other advisors to the Board and the process for their appointment and agreeing their fees. In addition the process for the Board accessing existing advisors to the Administering Authority should also be set out.	Compliant	The Board may be supported through the appointment of advisers and can consult with such advisers to the Board and on such terms as it shall see fit within the budget for the Board that is met from the Fund. The Chair is required to notify the Administering Authority of any proposed use of the existing advisors to the Pensions Panel or of the intention to consult with other advisers.
Role of Officers		
The terms should set out the role of officers of the Administering Authority to the Board, for example in the provision of secretariat services to the Board or	Compliant	The role of officers is to provide support to the Board. This support includes finance, pension administration and secretarial support.

providing pension fund information to the Board.		
Administration of meetings including data protection		
The terms should include the notice period of Board meetings, the circulation of papers in advance of meetings, the decision making process, recording minutes of meetings, a procedure for dealing with urgent items of business and the publication of information.	Compliant	The Board meets a minimum 4 times each year. The chair of the Board with the consent of the Board membership may call additional meetings. The agenda notice and supporting papers must be issued at least 5 clear working days in advance of a meeting except in the case of matters of urgency. Any urgent items of business must be agreed by the Chair and be of such matter that cannot wait until the next ordinary meeting. The Board seeks to reach consensus and decisions are put to a vote when it cannot be reached. Draft minutes of each meeting must be circulated to all Board members within 10 working days after the meeting. Draft minutes are then subject to formal agreement by the Board at their next meeting. The minutes may, with the agreement of the Board, be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.
Quorum		
The terms should specify a quorum for meetings and in particular whether the quorum should include a minimum number of employer and member representatives.	Compliant	A meeting is only quorate when at least one employer member representative and one employer representative are present. Substitute members are included within the quorum. A meeting that becomes inquorate may continue but any decisions will be non-binding.
Attendance Requirements		
The terms should specify the requirements for attending meetings and the	Compliant	Representatives should endeavour to attend all meetings and are required to attend at least 2 out of 4 meetings each year. Board

consequences of continued failure to attend Board meetings.		membership may be terminated prior to the end of the term of office due to a Board member no longer being able to demonstrate their capacity to attend and prepare for meetings or to participate in required training.
Role of Substitutes		
The terms should specify whether members are allowed to send substitutes to meetings where they are unable to attend themselves. Training requirements should also be considered where substitutes are permitted.	Compliant	Substitutes can be appointed by Member representatives. Where appointed, substitutes should be named and must undertake the same training as full members. Substitutes are allowed to attend on behalf of absent representatives if sufficient notice is given.
Creation of Working Groups / Sub-Panels		
The terms should specify whether the Board has the power to set up working groups or sub-Panels	Compliant	The Board may establish sub-Panels.
Allowances / Expenses		
The terms should specify the policy in relation to the payment of allowances and expenses to Board members.	Compliant	The Administering Authority does not pay allowances for Board members. Expenses are paid to Board members in line with the Administering Authority's policy on expenses.
Budget		
The terms should set out a process for the Board to have access to a budget for specified purposes.	Compliant	The Board is to be provided with adequate resources to fulfil its role set out in the terms. The budget is met from the Fund and determined by the Executive Director, Corporate & Communities
Knowledge & Understanding		
The terms should refer to the requirement for the Board to have a policy and	Compliant	The Board has adopted the CIPFA Knowledge and Skills Framework and has an annual training plan for the Board. The Fund's Training

framework to meet the knowledge and understanding requirements of the 2004 Act.		Policy covers Board members.
Reporting		
The terms should include arrangements for the reporting of information to the Administering Authority including direct reporting arrangements where the Board has material concern. In addition the methods used to communicate to scheme members and employers should be included.	Compliant	The Board is required to report its requests, recommendations or concerns to the Pension Panel. The Board should report any concerns over a decision made by the Pension Fund Panel to the Panel subject to the agreement of at least 50% of voting Board members provided that all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Panel and has not been rectified within a for a reasonable period of time it is under an obligation to escalate the breach. The appropriate internal route for escalation is to the Monitoring Officer and / or the Section 151 Officer. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation. Board members are also subject to requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistleblowing policy]. Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report. Board agendas and minutes and training and attendance logs may

		be published using the following means: on the Fund's website, as part of the Fund's own annual report; as part of the Governance Compliance Statement.

13. 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 Andrien Meyers, Head of Investments, Shared Finance Service, in the first instance at e-mail address andrien.meyers@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 members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and 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.

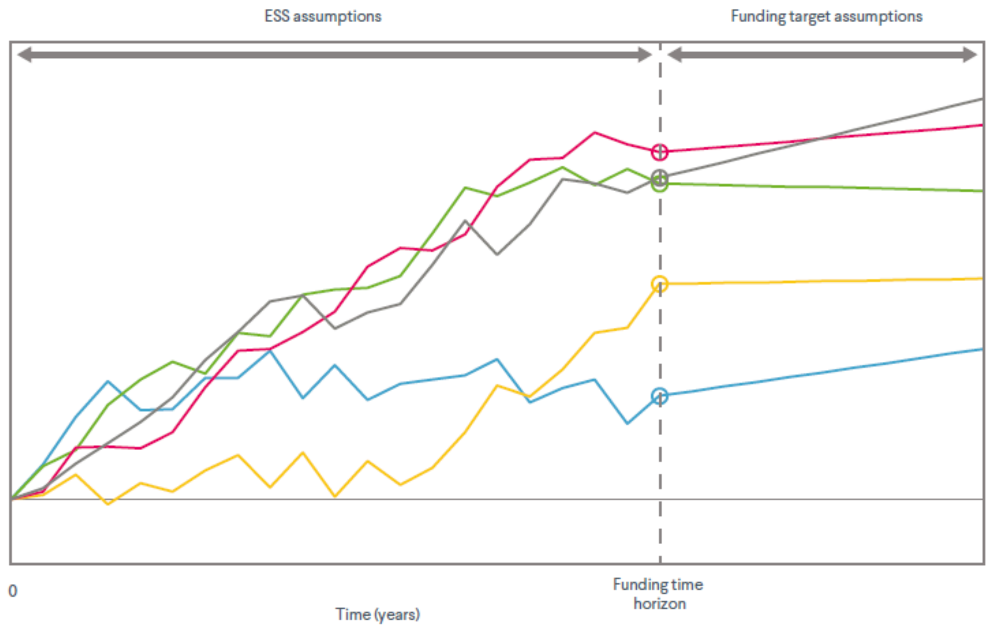
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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, t target at the end of the employer’s time horizon. The main assumptions will r returns, salary growth, pension increases and longevity. More prudent assum 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.

14. INVESTMENT STRATEGY STATEMENT

Royal Borough of Kingston Upon Thames Investment Strategy Statement March 2021

1. Introduction

1.1 The Investment Strategy Statement (ISS) of the Royal Borough of Kingston Pension Fund has been 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 s/he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department of 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 currently taken from:

- Aon UK 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 over a rolling 20 year time horizon, 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:

- **Investment approaches** - the Fund believes in a mix of passive and active management. Active management can add value (net of fees) over the long term. Careful consideration of the additional governance, risks and costs associated with active management is important.

- **Responsible investment** - responsible investment issues should be a consideration within the Fund's investment strategy.

- **Illiquidity** - the Fund has a long term time horizon and as such is able to invest in illiquid assets and benefit from any liquidity premium.

- **Growth focus** - the Fund will focus on return rather than matching assets.

- **Diversification of assets and managers** - the Fund believes that diversification of assets and managers adds value.

- **Cashflow requirements** - the Fund believes that a level of liquidity sufficient to meet any cash needs must be maintained.

- In addition, the following principles underpin the Fund's approach to investment:

  - 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

  - Costs need to be properly managed and transparent

7 Asset allocation to meet investment objectives

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 its liability profile, together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Fund's projected cash flow requirements.

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.

In 2018, the Panel had agreed the following investment allocation:

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**	

7.9 In 2020, an Asset Liability Modelling exercise was undertaken and the strategy reviewed, following the results of the 2019 actuarial valuation. As a result of the investment strategy review, the Panel has decided to consider ways to reduce risk within the Fund's investment strategy and target an expected level of return in the region of CPI+3.8-4.0%.

Risk reduction will be achieved in the following ways:

- Reducing overall exposure to global equities
- Reducting exposure to active equities and making an allocation to a passive equity fund with a Responsible Investment tilt
- Reducing indirect exposure to equities by reducing the allocation to Diversified Growth Funds
- Increasing the allocation to bonds
- Diversifying the bond allocation away from UK credit to include global bonds
- Making an allocation to private debt to reduce exposure to public markets and benefit from illiquidity premium
- Making an allocation to renewable energy infrastructure to increase exposure to assets uncorrelated with global equity markets

The Panel therefore approved the following changes to the Fund's asset allocation:

	Previous	March 2021
Diversified Growth Funds	20%	12.5%
Global Equities (active)	57%	28.5%
Global Equities (passive with RI tilt)	0%	13.5%
Bonds: Absolute Return Bond	5%	5%
Bonds: Multi-asset Credit	5%	5%
Bonds: UK Credit	5%	5%
Bonds: Global Credit	0%	10%
Real Estate	8%	8%
Infrastructure - renewable	0%	7.5%
Private Debt	0%	5%

8 Permitted assets

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 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.

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

9.5.7 M&G Investments

Asset class – Residential 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.

9.5.8 Baillie Gifford LCIV
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 LCIV
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.

9.6 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 and the Fund's custodian performs only reporting services.

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.

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 monitors on a regular basis:

a) The return on the assets, the benchmark and the liabilities.
b) Estimated funding level development and how it compares to the expected or targeted development in the funding level
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.

11.4 Liquidity risk

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

11.5 Concentration risk

11.5.1 The Panel has adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments 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 Market risk includes 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. Diversification by asset class reduces the risk associated with poor returns in any one particular market. Market risk also includes exposure to fluctuations in foreign currencies, where funds are invested in non-sterling assets. This risk is managed by each fund manager as part of their overall management of the portfolio. For illiquid assets, the Fund will look to invest on a hedged basis where possible, to mitigate the risk of volatility in expected cashflows due to currency fluctuations, though where this is not possible it will not necessarily preclude investment.

11.7 Operational risk

11.7.1 Operational risk includes 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 offers 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 and currently has approximately 20% of its assets with the London CIV. The Fund 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. In addition it will work with the London CIV on the development of private asset fund solutions that meet the investment objectives of the Fund.

12.3 The Fund holds approximately 8% in illiquid property assets outside the London CIV, 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. Proceeds will be re-invested 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 Further details of the Fund's approach to environmental, social and governance factors can be found in the Responsible Investment Policy at the end of this document.

14 Exercise of 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 corporate responsibility in the underlying companies in which it invests. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. Further details of the Fund's approach to stewardship and voting can be found in the Responsible Investment Policy at the end of this document.

14.2 The Fund's investments through the London CIV are covered by the voting policy of the CIV.

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 12 Principles of the 2020 Stewardship Code.

15.2 The Fund expects its external investment managers to be signatories of the Stewardship Code. 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 common concerns.

16 Compliance with "Myners" Principles

16.1 Appendix 1 sets 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 Section 151 Officer and other officers on investment and administration issues. It also employs an investment consultant and actuary. Training on investment issues is provided to the Panel as needed. 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 has as its starting point the latest actuarial valuation when reviewing the investment arrangements and setting the investment strategy. The Investment Managers are 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 Responsible Investment is outlined at the end of this document.

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.

15. Responsible Investment Policy

Royal Borough of Kingston Pension Fund

Responsible Investment Policy

(Approved by the Pension Panel - 21 September 2022)

RB Kingston Pension Fund Responsible Investment Policy

Purpose

The purpose of this policy is to document the agreed Responsible Investment policy applicable to the Royal Borough of Kingston Pension Fund (the "Fund") which informs the Fund's Investment Strategy. The Pension Fund Panel ("the Panel") is responsible for formulating and implementing the Fund's Investment Strategy. This policy will be kept under review and will be updated periodically.

Scope

This document sets out the beliefs and principles of the RB Kingston Pension Fund Panel's approach to Responsible Investment, alongside the ways in which these can be implemented, monitored, and communicated to relevant stakeholders. It is important to note that not every principle will necessarily be applicable to all types of investment in the same way, and therefore it may not be possible to apply the same practices across the entire portfolio consistently.

Aims and objectives

This Responsible Investment Policy complements the Fund's Investment Strategy Statement (ISS) which is a statutory requirement of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The policy explains the Fund's approach to the oversight and monitoring of the Fund's activities from a Responsible Investment and Stewardship perspective.

Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions to better manage risk and to generate sustainable, long-term returns. Stewardship is the responsible allocation and management of capital to create sustainable value for beneficiaries, the economy and society.

The aims and objectives of RB Kingston Pension Fund RI policy are to:

- Reduce the likelihood that ESG issues and Climate Risk will negatively impact asset values and returns;

- Inform stakeholders on the action RBK Pension Fund is taking to address and manage ESG and Climate Risk issues.

Responsible Investment Beliefs

The Fund is a long-term investor, with liabilities stretching out for decades to come, and seeks to deliver long-term sustainable returns. The Fund believes there is an opportunity to generate better expected returns by making decisions with a long-term outlook.

- The Fund will express this belief to their appointed investment managers (including its investment pool, London CIV) and expects that investment decisions made on behalf of the Fund have primary regard for long-term sustainability alongside tactical factors.

- In appointing and monitoring the Fund's appointed investment managers, the Fund will consider long-term performance track records and will seek explanation and attribution from the Fund's managers regarding long-term out- or under-performance, to better understand the drivers and sustainability of this.

The Fund recognises sustainability considerations are relevant to the setting of investment objectives, ongoing monitoring, and assessment of future risks. The identification and management of Environmental, Social and Governance ("ESG") risks that may be financially material is consistent with our fiduciary duty to scheme members.

- The Fund expects that its appointed fund managers will provide evidence on an annual basis of the assessment, presence, and materiality of ESG issues across their respective portfolios. This should include how the assessment impacts on the investment thesis of relevant assets.

- The Fund will seek to integrate ESG issues throughout the investment decision-making process, from setting investment strategy to monitoring the Fund’s investment managers.

- The Fund will seek a view from its appointed investment adviser regarding the capabilities of any prospective or incumbent investment managers with regard to the integration of ESG matters throughout the investment process and continue to monitor the position during its investment holding period.

- The Fund will seek advice from its appointed investment adviser regarding any changes to its investment strategy and will consider how ESG matters and the Fund's identified priorities and beliefs may influence this.

- The Fund believes that ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc. Where successful, such companies might be expected to exhibit above average long-term growth characteristics.

- The Fund believes that having a diverse and inclusive workforce and governance structures leads to better outcomes for businesses and organisations. The Fund expects all its stakeholders and in particular suppliers, contractors, fund managers/consultants to include Diversity and Inclusion as key aspects of running their business and will ask for policies and evidence of their approach.

- The Fund will also look to capture and monitor ESG policies and practices from its wider supplier base.

- The Fund believes that engagement is an important component of being a responsible asset owner and will work with its Fund managers (including London CIV) and collaboratively with other assets on engaging to deliver positive change. The Fund will only consider divestment as a last resort once all avenues of engagement have been undertaken and shown not to be effective.

The Panel's beliefs and principles relating to the SDGs and wider Responsible Investment perspectives form the basis of the Fund's approach.

Climate Change

Considering the implications of, and seeking to mitigate, climate change related risks as well as take advantage of opportunities is consistent with the Fund's fiduciary duty and is fundamental to the ability to continue to generate long-term sustainable returns within the Fund's investment portfolio. Accordingly, the Fund recognises that climate change is one of the material ESG factors that pose a potential financial risk over the Fund's investment timescale.

- The Fund will communicate its view of the importance of climate change as a key risk to the Fund's appointed investment managers (including London CIV). The Panel will also communicate its view that there is the potential for investment opportunities to arise as a result of the transition to a low-carbon economy.

- The Fund expects its appointed investment managers (including London CIV) to provide evidence of their consideration of climate change as a factor which affects portfolio construction on an ongoing basis.

- The Panel expects that its appointed investment managers (including London CIV) will actively support the transition to a low-carbon economy by supporting low-carbon energy investment, resolutions regarding carbon target reduction, and corporate disclosures in line with the Taskforce for Climate-related Financial Disclosures ("TCFD") framework.

- The Fund will communicate to its appointed fund managers its belief that corporate disclosures under the TCFD framework assist in understanding carbon exposure across the production and supply chain, and expects that they will support motions to introduce TCFD reporting.

The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks and acknowledges the importance of considering climate change risk holistically.

- The Fund will undertake climate risk analysis across the Fund's portfolio to establish the Fund's exposure over time to climate risk.

- The Fund will seek to adopt and report on the recommendations of TCFD within a 12 month period of it becoming a requirement from the Government.

- The Fund will set an ambition to achieve net zero by 2050.

UN Social Development Goals (SDGs)

The Sustainable Development Goals ("SDGs") are a global framework adopted by all United Nations member states, which serves to address global challenges of social, economic and environmental sustainability.

The Fund has identified a number of SDGs as relevant to the Fund, and supportive of the Fund’s responsible investment ambitions. The core principle underpinning the Fund’s agreed approach is the desire for the Fund to be a long-term, sustainable investor.The following SDGs have been selected as the Fund's priorities:

- SDG 3 – Good Health and Wellbeing – the recent COVID-19 pandemic reinforces the need for communities to invest in the health and wellbeing of their populations.

- SDG 7 – Energy – intrinsically linked to climate change and to biodiversity, the Panel agree that the energy sector is transforming to meet the needs of a low-carbon world: as such, there is an opportunity to support this transition.

- SDG 8 – Economic Growth – economic growth can lead to positive investment opportunities along with an opportunity to reduce inequalities and poverty. This has both local and global relevance.

- SDG 9 – Infrastructure – participating in infrastructure development is an opportunity to improve economic connections and assist in reducing inequalities. Strong local infrastructure is fundamental to the Fund's local community, and there are global opportunities which connect to investment for a low-carbon future.

- SDG 10 - Reduced Inequalities - reducing inequality, and ensuring no-one is left behind, are integral to achieving the sustainable development goals. It is not sufficient for countries to record positive economic growth: the resultant benefits and opportunities must be available to all, regardless of gender, ethnicity or any other characteristic. The Fund takes a proactive approach to human rights and diversity and inclusion across all aspects of the Fund's business.

- SDG 11 - Sustainable Cities and Communities - The Fund supports the ambition of making cities inclusive, safe, resilient and sustainable and will consider opportunities to invest in such themes (including the levelling up agenda) in accordance with the Fund's wider objectives of being able to deliver sustainable financial returns to meet its pension promises.

- SDG 13 – Climate Action – this is reflected as an overarching theme relevant to the Fund and has a dedicated section within the responsible investment policy.

The Fund notes that there is both local and global relevance to the SDGs, and that it is important to be mindful of the context in which investment opportunities are selected and the necessity of balancing the risk, return, and diversification characteristics of any decisions made.

The Fund will communicate the agreed priority SDGs to its appointed fund managers (including London CIV), and will request that they have regard for, and provide evidence of having considered, the SDGs in their selection, retention, and realisation of underlying investments.

Stewardship - Voting & Engagement

The Fund recognises the importance of responsible and active ownership and has a duty to exercise its stewardship and active ownership responsibilities (such as use of proxy voting rights and encouraging its appointed investment managers to actively engage with investee companies) effectively by using its influence as a long-term investor to encourage positive behaviour.

- The Fund supports the Local Authority Pension Fund Forum ("LAPFF") stance regarding engagement with investee companies, rather than divestment from certain sectors. The Panel considers that pursuing an engagement-led approach is consistent with its fiduciary duty to members, and allows the Fund, through the actions of its appointed investment managers, to be an active participant in encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world, including supporting the transition to a low carbon economy.

- In the first instance, the Fund expects its appointed fund managers (including London CIV) will use engagement tools to improve standards and long-term sustainability characteristics of investee companies. Where this proves unsuccessful, the Fund would support a decision to divest. The Fund will communicate its beliefs to its appointed fund managers and expects that they will provide evidence of their engagement activity, including case studies, on an annual basis.

- Besides exclusions made purely on the basis of investment characteristics (i.e., investment in sectors which, in the view of the appointed investment managers, do not have a sustainable future or attractive potential), the Fund do not support maintaining an 'exclusions list' of sectors or stocks, and will avoid selecting investment managers which make exclusionary decisions based on ethical or moral principles.

- The Fund will monitor the stewardship activity of its appointed fund managers (including London CIV) and expects that they will highlight examples of thematic voting (for example, on matters such as climate change, human rights, and strong standards of corporate governance) and outcomes.

- In the event that voting rights are not used, the Fund will ask that their appointed fund managers explain why this is the case.

- The Fund will request details from their appointed fund managers (including London CIV) regarding how voting decisions are made (e.g. whether based on recommendations of proxy voting agencies), and seek explanation of voting activity which conflicts with the Panel's agreed priorities (e.g. where votes are cast against introduction of TCFD, formal carbon target reductions, best practice in corporate governance standards; etc).

The Fund believes that collaboration via the London CIV gives rise to stewardship and engagement opportunities, as does the Fund's continued membership of LAPFF as well as broader collaboration with other investors.

- The Fund will engage with the London CIV regarding prioritisation of engagement themes, and use collective weight of institutional capital to impress upon their appointed investment managers the importance of these.

- The Fund will continue to participate in LAPFF to actively shape their agenda and priorities on stewardship matters.

- The Fund may consider joining other investment industry collaboration initiatives in future to work with other investors to achieve greater traction on sustainability issues.

Transparency, Disclosure and Reporting

The Fund believes that reporting – both from its appointed investment managers, and from the Fund to its members and the wider public – is an important aspect of their Responsible Investment approach.

- The Fund will publish its Responsible Investment Policy and keep under regular review.

- The Fund believes regular monitoring and reporting of actions and progress is important, given that this is closely linked to good governance and transparency.

- As the Panel continues to discuss and refine their approach to Responsible Investment, their approach to reporting and disclosure will develop.

Memberships & Affiliations

The Fund believes that it will improve its effectiveness by acting collectively with other like minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. The

Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Further Information

If you require further information about anything in or related to this Policy, please contact:

rbkpensioninvestments@sutton.gov.uk

16. 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)

THE ROYAL BOROUGH OF KINGSTON UPON THAMES