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# **Royal Borough of Kingston upon Thames Pension Fund Annual Report 2022/23**



THE ROYAL BOROUGH OF  
**KINGSTON**  
UPON THAMES

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# 1. INTRODUCTIONS

## PENSION FUND PANEL CHAIR'S INTRODUCTION



I am pleased to present the Pension Fund Annual Report for 2022/23. 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.

Along with those of most other pension funds in the country, the Fund's investments witnessed a volatile 2022 with large falls in equity and bond values, the latter caused mainly by the markets' negative reaction to the fiscally liberal budget presented by then prime minister Liz Truss's government in September 2022. The Fund's investments rebounded considerably in the first quarter of 2023 but not enough to recoup earlier investment losses. Net market movements over the year 2022/23 resulted in a drop in the value of the Fund's investments by £39.5m. However the fall in gilt values and resultant increase in gilt yields also meant that the Fund's actuarial liabilities fell by a similar amount. This and other factors meant that overall the Fund ended the year in a better funding position than at the start of the year with the funding level as at 31 March 2023 standing at 137% and a surplus of £300m as compared to a funding level of 111% and a surplus of £110m at 31 March 2022.

Following completion of the Fund's triennial actuarial valuation as at 31 March 2022, the Panel reviewed and approved a revised investment strategy. This took into account the Fund's strong funding position, the current market outlook, the likelihood that the Fund would move to a cashflow negative position as it matures, and the Fund's commitment to reducing impact on climate change. Under the revised strategy, the Fund continues to de-risk and will increase allocation to more income generating assets such as property, impact investments and multi-asset credit. The revised strategy would result in a decrease in the Fund's carbon intensity by more than 73 tCO<sub>2</sub>e/£m to 559.7 tCO<sub>2</sub>e/£m, resulting in the Fund becoming 'Paris Aligned'.

The shared pensions administration service continues to provide the administration of the schemes for both the London Borough of Sutton Pension Fund and the Royal Borough of Kingston Pension Fund. The fund's membership stands at 18,736 across 36 active scheme employers. 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 Fund continues to see benefits in the form of lower costs and efficiency gains by having joint appointments with Sutton Council for actuarial, benefits, governance and investment advisors as well as the same custodian for investment assets.

The Fund is beginning to reap the benefits of major investment strategy review, a new approach to the triennial valuation, a major focus on responsible investing and climate change, an in depth governance review and new accounting systems. This has resulted in the The Fund winning awards nationally - 'LGPS Investment Fund of the Year' award at the LAPF investment awards and the Sutton and Kingston Pension Teams won the 'Organisation of the Year' award granted by "Institutional Investor", an international business publishing house, after assessing major pension organisations across Europe.

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**

## PENSION BOARD CHAIR'S INTRODUCTION



I am pleased to join Councillor Beynon in presenting the Pension Fund Annual Report for 2022/23.

The Pension Board helps the pension fund comply with the LGPS rules, pensions legislation and guidance from The Pensions Regulator. In its operation, the Board provides oversight to the fund and complements the Pension Fund Panel and aims to add value to the Fund. The ways in which it has done this in 2022/23 includes:

- A detailed review of the administration performance and the recommendation of potential amendments to the reports to enable greater understanding and future challenge by Board and Panel members. In addition, the scrutiny of the performance reports led to officers querying the base data of the service and identifying issues that were impacting on the information provided.
- Recommending to officers to clarify the increasing challenges of administering the Fund due to the volume of extra legislative requirements and significantly expanded number of admitted bodies.
- Providing scrutiny of Fund investment performance and, more specifically, the asset allocation and compliance with the responsible investment strategy leading to clearer reporting and explanation of the transition arrangements.

Robert Ewing  
**Chair of the Pension Board**

## 2. OVERALL FUND MANAGEMENT

### Scheme management and advisers

#### Administering Authority

Royal Borough of Kingston upon Thames

#### Supporting Officers

Sarah Ireland, Chief Executive (s151 officer up till 31 January 2023)

Rachel Howard, Interim Director of Finance (s151 officer with effect from 1 February 2023)

Andrien Meyers, Head of Pension Fund Investments

Bradley Peyton, Head of Insurance and Pensions Administration

Hassan Shirwani, Interim Pensions Finance and Investments Manager

Paul Godfrey, Senior Finance Lead - Pensions Investments and Reporting

#### Scheme Administrators

Sutton and Kingston Shared Pensions Admin Service

#### Asset Pool

London Collective Investment Vehicle (LCIV)

**Investment Managers:**

**Equities**

Columbia Threadneedle

Fidelity

Legal & General

**Property**

UBS

M&G

**Asset Pool portfolio managers**

London CIV - Baillie Gifford (Diversified Growth)

London CIV - Pyrford (Diversified Growth)

London CIV Ruffer (Diversified Growth)

London CIV CQS & PIMCO (Multi-Asset Credit)

London CIV PIMCO (Global Bonds)

London CIV Churchill & Pemberton (Private Debt)

London CIV Blackrock, Stonepeak, Quinbrook, Foresight (Renewable Infrastructure)

**Bonds**

Janus Henderson

<b>Bank</b>	
Lloyds Bank	
<b>Actuary</b>	<b>Auditor</b>
Hymans Robertson	Grant Thornton
<b>AVC Providers</b>	<b>Benefits Consultant</b>
Aviva and Utmost	Aon
<b>Custodian</b>	
J P Morgan Chase Bank (up to 31 March 2023) Northern Trust (from 1 April 2023)	
<b>Investment Consultant</b>	<b>Legal Advisor</b>
Mercer	South London Legal Partnership
<b>Performance Monitoring</b>	
Mercer and Pirc Ltd	

### 3. FINANCIAL PERFORMANCE

#### Fund Income and Expenditure From 2018/19 to 2022/23

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

	2018/19	2019/20	2020/21	2021/22	2022/3
	£'m	£'m	£'m	£'m	£'m
Contributions receivable & Transfers In	54.3	42.6	44.1	40.4	43.7
Benefits payable & Transfers Out	(32.2)	(38.4)	(34.6)	(38.2)	(41.3)
<b>Net payment to/(from) the Fund</b>	<b>22.1</b>	<b>4.2</b>	<b>9.5</b>	<b>2.2</b>	<b>2.4</b>
Fund management expenses	(7.6)	(8.8)	(9.3)	(9.2)	(10.1)
Net investment income	9.1	9.5	9.3	10.6	12.9
Change in market value	45.0	(25.7)	224.6	76.2	(39.6)
<b>Net increase/(decrease) in the Fund</b>	<b>68.5</b>	<b>(20.8)</b>	<b>234.2</b>	<b>79.8</b>	<b>(34.4)</b>

The financial performance table above shows a net increase in the Fund's value of £327.3m over the past 5 years. This is attributed to the net change in market value and investment income (after fund management expenses) of £286.9m combined with net payments to the fund of £40.4m over this period. Contributions to the fund have exceeded benefits payable on an annual basis thus far, a position that could soon reverse as the number of retirees increase. The Fund's management expenses have annually been covered by net investment income over the period. Further details are provided later.

## Analysis of Contributions and Benefits of the Fund

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
<b>Contributions and Transfers in</b>					
- Members' contributions	(7,608)	(7,794)	(8,394)	(9,313)	(9,468)
- Employers' contributions	(26,299)	(27,183)	(32,355)	(27,475)	(29,597)
- Transfers in	(20,438)	(7,648)	(3,360)	(3,597)	(4,655)
<b>Total Contributions and Transfers in</b>	<b>(54,345)</b>	<b>(42,625)</b>	<b>(44,108)</b>	<b>(40,385)</b>	<b>(43,720)</b>
<b>Benefits and Leaver payments</b>					
- Pensions	25,310	26,595	27,078	29,098	30,423
- Lump sum retirements and death benefits	5,831	5,274	4,619	4,823	5,663
- Transfers out	5,247	6,141	2,785	4,200	5,100
- Refunds	198	371	112	83	152
<b>Total Benefits and Leaver payments</b>	<b>36,586</b>	<b>38,381</b>	<b>34,594</b>	<b>38,205</b>	<b>41,338</b>
<b>Net Payment (to) / from the Fund</b>	<b>(17,759)</b>	<b>(4,244)</b>	<b>(9,514)</b>	<b>(2,180)</b>	<b>(2,382)</b>

Employer and member contributions during the year were similar to 2021/22. Contributions have continued to be slightly higher than pensions and lump sum payments. The transfers in included the remaining of a bulk transfer from the Royal County of Berkshire Pension Fund in respect of employees transferred from the Royal Borough of Windsor and Maidenhead to Achieving for Children CIC (Community Interest Company) which is a participating employer in the Fund.

## 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.

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
<b>Administration Cost</b>					
Internal support costs	638	605	857	1,005	1,116
<b>Sub-total Administration Costs</b>	<b>638</b>	<b>605</b>	<b>857</b>	<b>1,005</b>	<b>1,116</b>
<b>Investment Management Expenses</b>					
Management fees	4,098	4,090	4,897	5,707	5,613
Transaction costs	2,464	3,697	3,240	2,304	3,187
Custodian	64	47	59	58	58
<b>Sub-total Investment Management Expenses</b>	<b>6,626</b>	<b>7,834</b>	<b>8,196</b>	<b>8,069</b>	<b>8,858</b>
<b>Oversight and Governance Costs</b>					
Actuarial fees	86	189	23	7	69
External audit	16	16	33	40	41
Investment advice	110	78	63	44	45
Other	108	119	144	10	21
<b>Sub-total Oversight &amp; Governance Costs</b>	<b>320</b>	<b>402</b>	<b>263</b>	<b>101</b>	<b>176</b>
<b>Total Fund Management Expenses</b>	<b>7,584</b>	<b>8,841</b>	<b>9,317</b>	<b>9,175</b>	<b>10,150</b>

Overall fund management expenses increased during the year mainly due to higher transaction costs caused by re-structuring of investments, higher actuarial fees due to completion of the triennial valuation and slightly higher administration costs due to net staff increases.

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.

Overall, in 2022/23 the cost of managing the Fund represents approximately 0.92% (2021/22: 0.81% ) of the value of the Fund. This percentage increase was caused by the drop in investment values over the year.

## Costs per member

	2018/19	2019/20	2020/21	2021/22	2022/23
Membership number	15,229	15,670	15,980	16,546	16,994
<b>Cost per member (£)</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Administration costs	40	39	54	61	66
Investment Management costs	514	500	513	488	521
Oversight and Governance costs	26	26	16	6	10
<b>Total Fund costs (£)</b>	<b>581</b>	<b>564</b>	<b>583</b>	<b>555</b>	<b>597</b>

Please note that the membership numbers exclude members with frozen refunds. The increase from 2021/22 to 2022/23 is 7.6% per member and reflects additional costs for the triennial actuarial valuation and higher investment transaction costs due to changes in investment strategy.

## Current Assets / Liabilities

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
<b>Current Assets</b>					
Contributions	1,247	1,117	1,129	1,665	1,249
Other debtors	7,046	7,055	6,843	7,397	1,072
Cash at Bank	5,169	7,535	17,846	14,532	15,412
<b>Sub-total</b>	<b>13,462</b>	<b>15,707</b>	<b>25,818</b>	<b>23,595</b>	<b>17,733</b>
<b>Current Liabilities</b>					
Benefits Payable	(325)	(11)	(80)	(525)	(665)
Transfer Values	(44,357)	(9)	(127)	(0)	(0)
Other Creditors	(2,364)	(1,910)	(5,498)	(1,848)	(1,882)
<b>Sub-total</b>	<b>(47,046)</b>	<b>(1,930)</b>	<b>(5,705)</b>	<b>(2,373)</b>	<b>(2,547)</b>
<b>Net Current Assets / (Liabilities)</b>	<b>(33,584)</b>	<b>13,777</b>	<b>20,113</b>	<b>21,222</b>	<b>15,186</b>

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.

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 2022-23

#### *Macro*

The second calendar quarter of 2022 saw a continuation of the broad macro trends seen since the beginning of 2022. Surging commodity prices, to some degree the result of the ongoing conflict in Ukraine and associated sanctions against Russia, alongside the enormous monetary and fiscal stimulus of the last two years led to new multi-decade inflation records. Central banks in major regions doubled down on monetary tightening as a consequence, resulting in elevated market volatility and a sell-off in pretty much all asset classes except commodities. Growth expectations were dialled down over the quarter, with a growing number of investors seeing a recession as an increasingly plausible scenario. On the brighter side, there was evidence of supply chains gradually beginning to improve.

Inflation and central bank policy continued to drive markets in the third quarter of 2022. Inflation readings in most major regions remained high and rising. Central banks therefore continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility. Risk assets rose in July on the back of hopes of inflation peaking and the hiking cycle ending, but these hopes were quashed later in the quarter. Furthermore, markets priced in the increasing risk of a recession resulting from the monetary tightening. Therefore most major asset classes ended the quarter with negative returns. Significant continued weakening in sterling mitigated the drawdown for unhedged UK investors. The conflict in Ukraine added to negative sentiment as Russia stepped up its anti-west rhetoric and further restricted natural gas supplies to Europe which exacerbated pressure on energy prices. Volatility spiked in UK markets at the end of Q3 2022 as an unfunded fiscal budget led to a sell-off in government bond markets.

In Q4, developed market central banks continued tightening monetary policy but at a slowing pace. Inflation remained on a downward trend from high levels. In China, an end to all Covid-related restrictions boosted sentiment as investors priced in an economic rebound. The narrative of peaking inflation and resilient economic growth drove positive equity returns during October and November, but hawkish messaging from central banks in December led to a premature end of the “Santa rally” even though the quarter as a whole ended with positive equity returns for the first time in a year.

The first quarter of 2023 started with optimism over declining inflation and a hope of an end to monetary tightening. The demise of Silicon Valley Bank (SVB), the second largest US bank failure in history, and UBS’s shotgun takeover of Credit Suisse in March were the major events of the

quarter that briefly rattled markets until calm returned towards quarter end. Developed market central banks continued raising rates through the quarter as overall growth momentum remained robust. Headline inflation continued to slow in major developed economies, except for the UK, but core inflation remained more elevated than expected.

Overall, the 12-month period to March 2023 saw tightening of financial conditions by major central banks, with the notable exception of China and to some extent Japan, who changed their yield curve control in Q4 2022 by widening the permitted range of the 10-year yield. Inflation remained elevated and peaked in 2022Q4.

### ***Equities***

On a year-on-year basis to 31 March 2023, Sterling returns for developed market equities were marginally negative, -0.7%. Sterling depreciation mitigated negative equity performance for unhedged UK investors. Emerging market equities also posted negative returns. Markets sold off for the first three quarters of 2022 as inflationary pressures, exacerbated by Russia's invasion of Ukraine, accelerated monetary tightening from developed market central banks and heightened recessionary risks. Markets attempted to stage a mini-rally in July 2022 but this proved short lived as the Federal Reserve reiterated its hawkish outlook for monetary policy. A similar rally took place in October and November following some softer than expected US inflation data but positive momentum came once again to an end in December after major central banks retained their hawkish forward guidance. Q1 was a volatile quarter once again as a speculative rally in January characterised by short selling gave way to a risk off environment driven by distress in the banking system with investor expectations pivoting between monetary tightening ending and having to continue for longer. The quarter ended with positive returns for most equity sub sectors, in particular technology which benefited from falling real yields.

At a global level, developed markets as measured by the FTSE World index, returned -0.7%. Meanwhile, a return of -3.9% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 8.7% 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 2.9%. The FTSE USA index returned -2.4% while the FTSE Japan index returned 2.0%. The considerable outperformance of UK equities is attributed 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 2023.

## **Bonds**

On a year-on-year basis to 31 March 2023, UK government bond returns were deeply negative, -16.3%, as were returns for UK corporate bonds, -10.3%. Inflation-linked bonds also performed poorly over the year, -26.7%.

In 2022, inflation pressures in the UK showed little signs of receding until very late in the year. The Bank of England had started its hiking cycle as early as late 2021. By the end of Q2 2022 the UK base rate reached 1.25%. In September 2022, the UK went through a major government bond (gilt) sell-off after the government announced a mini budget that markets deemed fiscally unsound. In the immediate aftermath following the mini-budget, 10-year yields spiked ~70 bps higher. Two weeks following the announcement despite volatility falling, 10-year yields remained 40 bps higher than where they were prior to the announcement, this said over this period gilts did not perform considerably different to other government bonds globally. For context, over the 12-month period to March 2023, 10-year UK gilts yields rose 188bps. Markets positioned for the Bank of England having to double down on tightening in order to offset the expansionary mini budget. Soaring yields led to a scramble for collateral by UK pension plans who were exposed to leveraged liability hedging strategies. This ultimately led to the Bank of England providing liquidity support at the longer end of the yield curve. However, the Bank of England also continued to raise rates in the third and fourth quarter of 2022, ending the year at a base rate of 3.5%. Bond yields fell slightly through Q1 2023 despite the BOE continued raising rates, with the base rate increasing 0.75%, finishing March 2023 at 4.25%.

UK real yields rose over the 12 months to March 2023, with most of the increase in yields occurring in Q3 2022, in particular September. 10-year real yields rose 247bps over the 1-year period to 31 March 2023. Market-based measures of inflation, as measured by the 10-year break-even inflation rate fell by 57bps over the 12-month period reaching 3.7% as at the end of March 2023 – lower than the recent peak of 4.5% reached in May 2022. For context, the 5-year high for 10-year UK breakeven inflation was in March 2022 when market-based measures of inflation expectations were 4.64%.

Both investment grade and high yield credit spreads widened over the 12-month period to March 2023, leading to a negative performance for spread based assets, albeit most of the negative impact was led by rising gilt yields. The negative return impact of rising government bond yields was exacerbated by rising credit spreads. Non-gilt credit spreads widened by 39 basis points over the 12-months to March 2023. Credit marginally underperformed equivalent duration government bonds. However, given most bond indices were down in double digit figures over the 12-month period to March 2023 this relative underperformance was not a headline.

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -16.3%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -29.7% over the year. Yields at the longer end of the nominal yield curve rose less than the

shorter end but this was offset by the duration impact on the longer-dated gilt returns. The yield for the FTSE Gilts All Stocks index rose over the year from 1.7% to 3.7% while the Over 15 Year index yield rose from 1.7% to 3.8%.

The FTSE All Stocks Index-Linked Gilts index returned -26.7% with the corresponding over 15-year index exhibiting a return of -39.1%. The combination of falling inflation expectations and increasing nominal yields led to a sharp rise in real yields and underperformance 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 -10.3%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 March 2023.

### ***Property***

The UK property market is going through a period of correction driven by the unprecedented rises in interest rates which are yet to come to an end. While higher interest rates are negatively affecting the yield side of the returns equation, strong inflation is having a broadly positive impact on rental growth as part of returns. The UK, due to its tradition of monthly valuations and deep investor base, tends to be the fastest correcting property market in the world, which means that during downturns pricing opacity and low market transparency are deemed to be less problematic than elsewhere.

After reaching a low point of gross asset-level returns at -14.5% for the 3-months to December, the MSCI UK Monthly Property Index shows the negative return trend improving over the first quarter, with the 3-months to February 2023 recording a negative total return of -3.7%. All property types continued to record negative but moderating returns. In the 3-months to February 2023 capital growth ranged between -1.4% in residential to -6.4% in industrial.

Over the 12-month period to 31 March 2023, the MSCI UK All Property Index returned -14.5% in Sterling terms.

### ***Commodities***

The price of Brent Crude Oil fell 25.8% from \$107.46 to \$79.76 per barrel over the one-year period. Over the same period, the price of Gold rose 1.8% from \$1941.15 per troy ounce to \$1976.50.

The S&P GSCI Commodity Spot Index returned -15.6% over the one-year period to 31 March 2023 in Sterling terms.

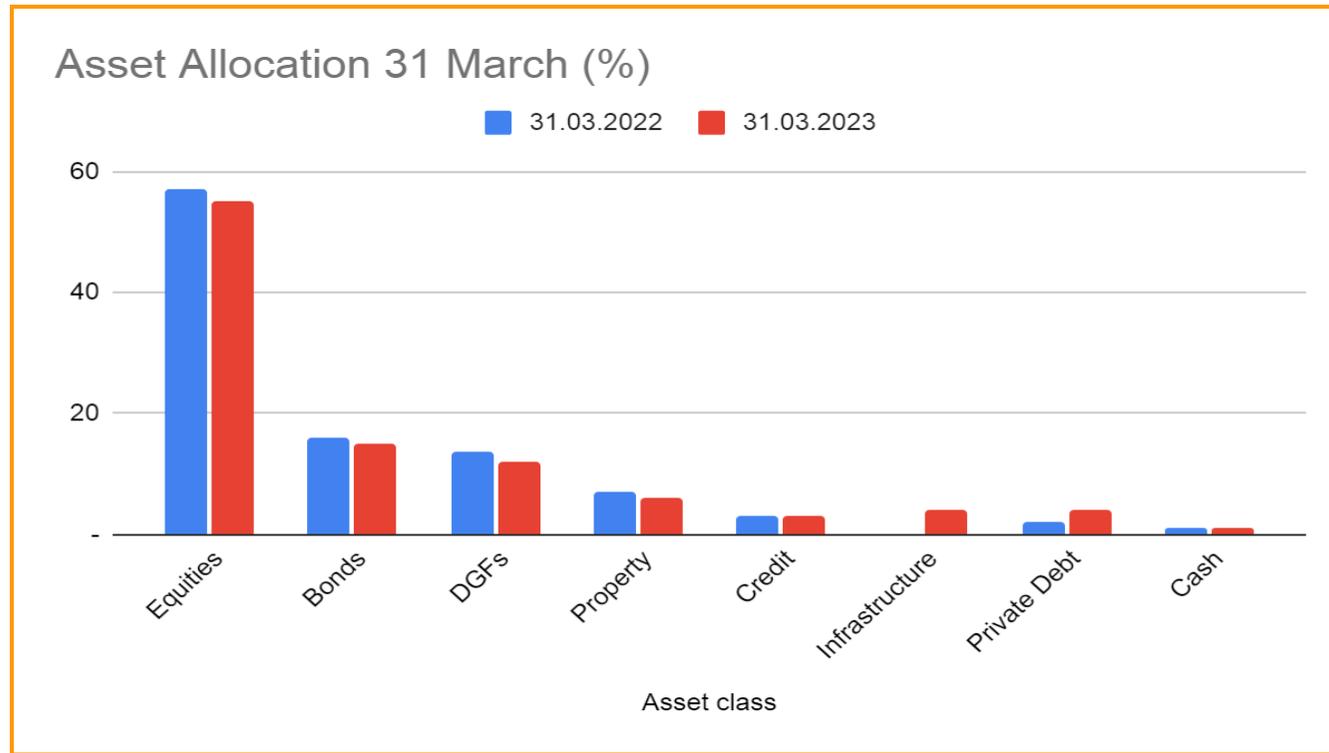
## **Currencies**

Over the 12-month period to 31 March 2023, Sterling depreciated by 6.1% against the US Dollar from \$1.32 to \$1.24. Sterling appreciated by 3.0% against the Yen from ¥159.81 to ¥164.56. Sterling depreciated against the Euro by 6.1% from €1.32 to €1.24 over the same period.

## **Total Fund Performance**

The table overleaf 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 a revised asset allocation for 2023/24 onwards at the March 2023 Panel meeting, enabling the Fund to continue its de-risking approach as the Fund had in excess of a 100% Funding level. The revised allocation also reflects the need for more income generating assets, such as impact investments, property, infrastructure and multi asset credit, as the fund matures. The revised allocation should offer the closest match to the desired target return, with the lowest predicted volatility and Value at Risk whilst incorporating Responsible Investment objectives. It also decreases the Fund's carbon footprint as laid out in the Chair's introduction. 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 %	Asset Allocation %	Strategic Asset Allocation %	Variance from Strategic Asset Allocation %	Strategic Asset Allocation %
	31.03.2022	31.03.2023	31.03.2023	31.03.2023	2023/24
Equities	57	55	42	13	40
Bonds	16	15	20	(5)	15
Diversified Growth Funds	14	12	12.5	(0.5)	6
Property	7	6	8	(2)	8
Credit	3	3	5	(2)	10
Infrastructure	-	4	7.5	(3.5)	7.5
Private Debt	2	4	5	(1)	5
Impact	-	-	-	-	8.5
Cash	1	1	0	1	-
	<b>100</b>	<b>100</b>	<b>100</b>	<b>-</b>	<b>100</b>



The market value of the investment assets under the management of each fund manager as at 31 March 2022 and 31 March 2023 is shown overleaf.

The main change during the year was a new allocation to the LCIV renewable infrastructure fund and an increase in allocation to the LCIV Private Debt Fund. The latter is in line with the previous year's investment strategy to commit £55m eventually to the Private Debt Fund.

Both these allocations were made with disinvestments from the Pырford International Global Total Return Fund and the Columbia Threadneedle Global Equity Fund.

	31 March 2022	31 March 2023
Fund Manager	Market Value	Market Value
	£'000	£'000
<b>Investments managed by London Collective Investment Vehicle</b>		
Pyrford International - Global Total Return Fund	66,192	50,093
Baillie Gifford - Diversified Growth Fund	39,748	36,387
Ruffer - Absolute Return Fund	46,241	46,826
Private Debt (Pemberton & Churchill)	23,504	37,858
PIMCO - Global Bond Fund	102,178	95,187
CQS & PIMCO - Multi Asset Credit Fund	35,509	33,940
Renewable Infrastructure Fund (Blackrock, Stonepeak, Quinbrook, Foresight)	-	38,068
<b>Investments managed outside of London Collective Investment Vehicle</b>		
UBS Global Asset Management	51,326	43,430
Fidelity Pensions Management	186,199	184,410
Columbia Threadneedle Investments - Global Equity Fund	292,510	256,356
M&G Investments	25,408	25,557
Legal & General - Future World Global Equity Index Fund	160,517	158,906
Janus Henderson Investors - Total Return Bond Fund	41,334	38,937
Janus Henderson Investors - All Stocks Credit Fund	35,507	31,801
<b>Total</b>	<b>1,106,172</b>	<b>1,077,757</b>

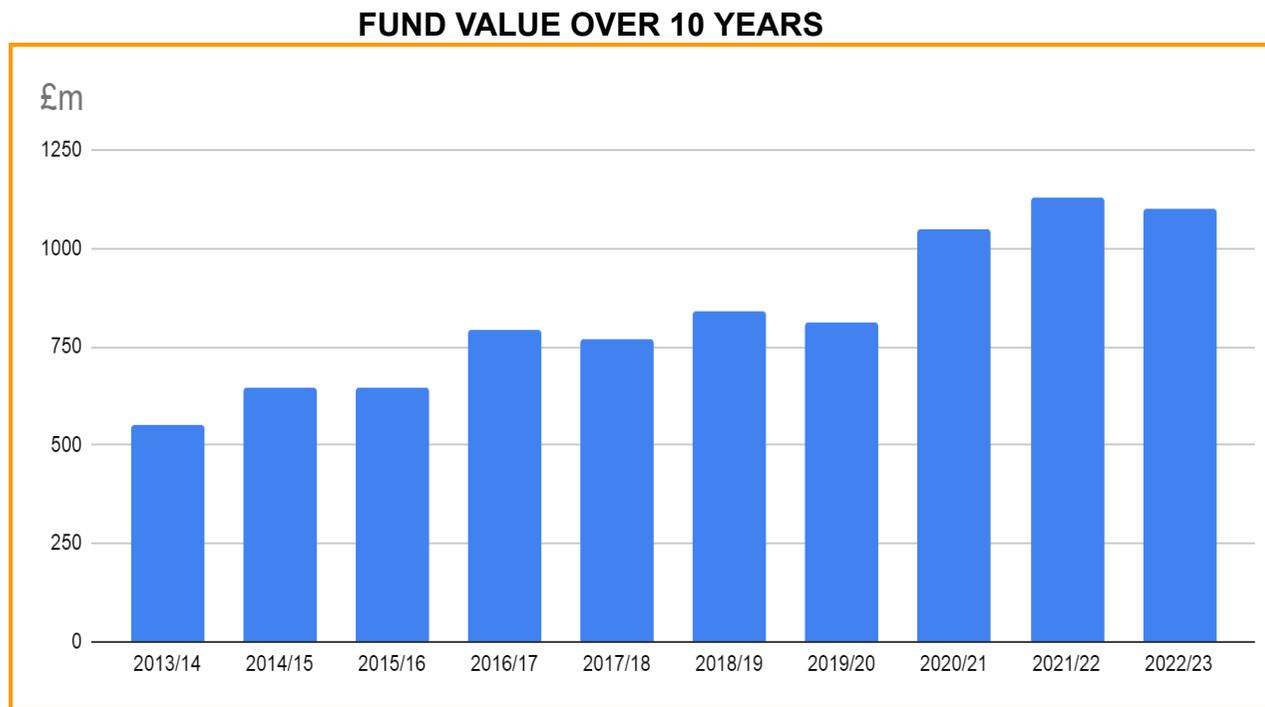
Each fund manager has been set a specific benchmark (excluding LCIV Infrastructure Fund and LCIV Private Debt Fund), as well as a performance target against which they will be measured. This is shown in the table below:

Manager	Asset Pool	Mandate	Benchmark	Performance Target
Fidelity		Global equities	MSCI All Countries World Index	1.5% above benchmark over rolling 3 year period (net-of-fees)
Columbia Threadneedle		Global equities	MSCI All Countries World Index	3.0% above benchmark over rolling 3 year period (gross-of-fees)
LGIM		Global equities	Solactive L&G ESG Global Markets Index	Match benchmark
London CIV - Pyrford	yes	Global Total Return Fund	RPI +5.0 % above benchmark over rolling 3 year period (net-of-fees)	To outperform the benchmark
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	UK Base Rate	No outperformance objective
UBS		Property	MSCI All Pooled Property Funds Median	Outperform benchmark over rolling 3 year period (gross-of-fees)
M&G		Property	None	+6% p.a. on long-term basis*
London CIV - Infrastructure	yes	Infrastructure	No benchmark	No outperformance target

Manager	Asset Pool	Mandate	Benchmark	Performance Target
London CIV – Private Debt	yes	Private debt	No benchmark	No outperformance target
London CIV – CQS & PIMCO	yes	Multi Asset Credit Fund	SONIA +4.5% p.a. (Net of fees)	To outperform the benchmark

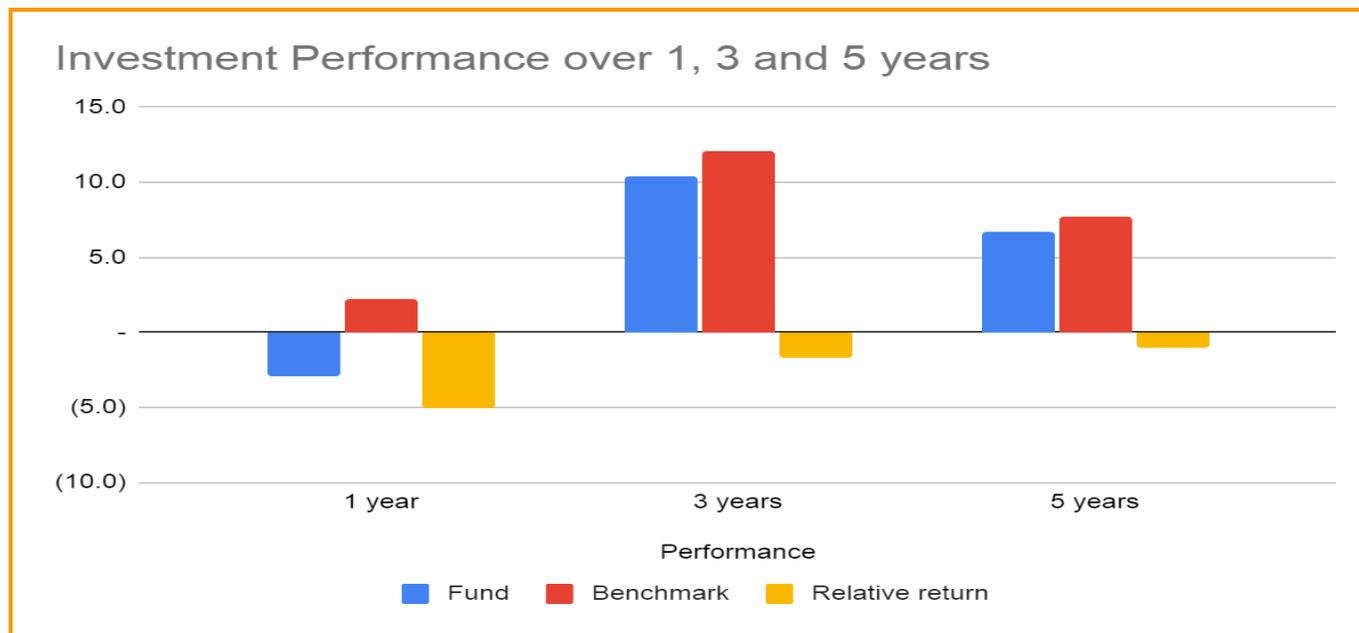
\*self-imposed target

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



The following table provides comparative analysis of manager's performance over 1 year, 3 year and 5 years at total Fund level. In the year to 31 March 2023 the Fund made a negative return of 2.9% while the benchmark return was positive 2.2%. The Fund's performance has been positive and also broadly in line with the benchmark over the longer term periods.

Performance	1 year	3 years	5 years
Fund	(2.9)	10.4	6.7
Benchmark	2.2	12.1	7.7
Relative return	(5.1)	(1.7)	(1.0)



Analysis of the Universe of LGPS funds carried out by the Performance Monitoring Consultants (PIRC), has shown that average fund returns delivered -1.6% (1 year), 9.5% (3 years), and 5.9% (5 years). Detailed analysis shows that the Royal Borough of Kingston Pension Fund was in the 48th, 18th, and 13th percentile respectively.

### **Fund Manager Performance**

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

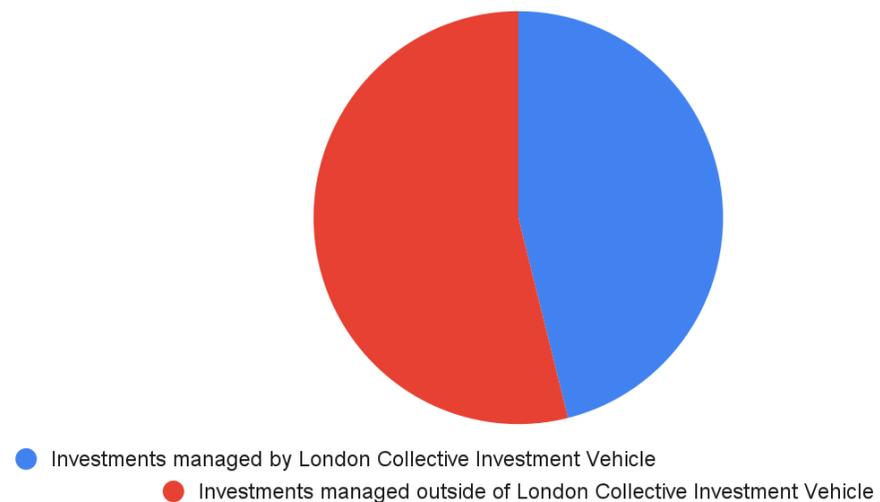
Fund Manager	1 year performance			3 year performance			5 year performance		
	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return	Fund Return	Benchmark Return	Relative return
<b>London Collective Investment Vehicle:</b>									
Pyrford - Global Total Return Fund	1.5	18.5	(17.0)	4.8	12.9	(8.1)	3.1	10.7	(7.6)
Baillie Gifford - Diversified Growth Fund	(8.4)	5.8	(14.2)	3.8	4.4	(0.6)	0.4	4.3	(3.9)
Ruffer - Absolute Return Fund	1.2	2.3	(1.1)	9.5	0.9	8.6	6.1	0.8	5.3
CQS & PIMCO - Multi Asset Credit Fund	(4.3)	6.8	(11.1)	7.1	5.4	1.7	-	-	-
PIMCO - Global Bonds	(6.9)	(6.6)	(0.3)						
Renewable Infrastructure	39.2	39.2	-						
Private Debt	8.4	8.4	-						
<b>Other Managers:</b>									
UBS Global Asset Management	(15.2)	(13.3)	(1.9)	3.7	2.2	1.5	3.4	2.5	0.9
M&G	0.7	6.0	(5.3)	-	-	-	-	-	-
Fidelity Pensions Management	(1.1)	(0.9)	(0.2)	16.8	16.0	0.8	10.3	10.2	0.1
Columbia Threadneedle - Global Equity Fund	(3.8)	(0.9)	(2.9)	11.9	16.0	(4.1)	10.1	10.2	(0.1)
LGIM - Future World Equity	(1.1)	(1.2)	0.1	-	-	-	-	-	-
Janus Henderson - Total Return Bond Fund	(6.0)	4.8	(10.8)	0.0	3.3	(3.3)	0.4	3.3	(2.9)
Janus Henderson - All Stocks Credit	(10.5)	(10.2)	(0.3)	(2.9)	(3.1)	0.2	(0.5)	(0.9)	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

Royal Borough of Kingston Investments in London CIV and External Managers at 31/03/2023



for 9 years and is not yet self-financing as some London boroughs have yet to move their assets over. LCIV currently has 23 funds with £48bn of assets under management. Over the course of 2021/22 and 2022/23, the Royal Borough of Kingston Pension Fund has increased its investments managed by LCIV from 19.6% to 46.1% of total investments by market value, 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	2022/23	Cumulative
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Set up Costs</b>									
Share purchase	150	-	-	-	-	-	-	-	<b>150</b>
Annual subscription	30	30	30	30	30	25	25	25	<b>225</b>
Development Funding charge	-	-	90	65	65	85	85	85	<b>475</b>
Management fees	-	-	-	-	-	-	53	111	<b>164</b>
<b>Fee Savings</b>	-	(53)	(122)	(206)	(222)	(231)	(495)	(382)	<b>(1,711)</b>
<b>Net (Savings) / Costs Realised</b>	180	(23)	(2)	(111)	(127)	(121)	(332)	(161)	<b>(697)</b>

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, two multi-asset credit managers, one global bond manager, two private debt managers and four renewable infrastructure managers 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.

	<b>Asset Pool</b>	<b>Non-Asset Pool</b>	<b>Fund</b>
	<b>Total</b>	<b>Total</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Management fees	2,086	3,492	<b>5,578</b>
Transaction costs	1,557	1,630	<b>3,187</b>
Custody fees	0	58	<b>58</b>
Performance fees	0	35	<b>35</b>
<b>Total</b>	<b>3,643</b>	<b>5,216</b>	<b>8,858</b>

## 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 Pension Fund and the Kingston 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 internal dispute resolution procedure 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](https://pensions.sutton.gov.uk). For more information, please search 'LGPS' on [www.kingston.gov.uk](https://www.kingston.gov.uk).

### Summary of activities

During the year the Fund has managed the following key projects/major pieces of work alongside its annual tasks (such as publishing annual benefit statements, applying pension increase, etc):

### 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.

At a fund level, administering authorities are in the process of: identifying those in scope of the proposed extended underpin; obtaining the data needed to calculate final salary benefits from employers; updating scheme member records; calculating retrospective benefits; communicating with members and employers; paying any underpayments identified; and making changes to systems and administrative processes to carry out ongoing administration under the new regime.

During the financial year 2022 to 2023, the fund has made good progress on the data collection element of the project and has started the process of validating the employer returns prior to loading them onto its membership database. The project is on-track and suitable governance resources have been assigned to manage it.

### 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 were identified, members may have been 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, which analysed and investigated the scheme records to reconcile the fund's GMP amounts with HMRC.

The final phase was on hold whilst the fund's software provider developed its system to deal with the rectifications processes required. The project restarted during the financial year 2022 to 2023 and the fund began the processes necessary to rectify the required benefits. This project is expected to be completed by the Winter of 2023.

#### Pensions Dashboards project

The government's Pensions Dashboards 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 was September 2024, however, this may be pushed back following the government's decision to replace staging deadlines with a single connection deadline of October 2026.

The fund's software provider has a working party for their local government clients to scope the requirements. The fund has implemented a data improvement policy and plan to prepare for this project and to achieve wider improvements.

#### Independent structure and efficiency review

The fund's benefits consultant completed a structure and efficiency review of the service in early 2022. Their review noted that the existing team is knowledgeable and dedicated but the structure was lacking resource in some key areas. The number of scheme employers and scheme members in the shared service had risen by 500 and 50 per cent respectively over a 10 year period. In addition, the LGPS has rapidly evolved and has become more complex to administer.

The review made 36 recommendations, which were considered and implemented by the fund during the financial year 2022 to 2023. Alongside various efficiency actions, the fund also undertook a reorganisation process to implement the structural actions. The new structure went into effect in late October 2022 and included six new positions to be filled.

This work demonstrates the fund's ambitions to provide a quality service to its scheme members and other stakeholders. With dedicated employer liaison and governance roles in place, the fund is best positioned to adapt to the changing LGPS landscape.

### **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, as demonstrated by the independent review it commissioned and the resulting reorganisation.

At the end of the financial year 2022 to 2023 there was a benefits processing, data and systems and employer liaison and governance structure with 25.2 FTE positions serving the two funds in the shared service (12.6 FTE per fund). This total includes vacant positions the shared service is attempting to fill.

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 the fund has a data improvement policy and plan in place. Common and scheme-specific data scores are calculated and submitted to The Pensions Regulator annually. The 2022 scores were 91% and 61% respectively. In accordance with the data improvement policy, the fund engages a data services provider to undertake monthly mortality screening and lost contact address tracing. The data improvement plan includes actions to identify bulk data solutions to resolve certain validation issues.

## Data analysis

### Membership data

Active	Deferred (inc. frozen refunds)	Pensioner	Undecided leaver	Total
5,576	7,972	5,188	Contained in active	18,736

### New pensioners

Normal retirement	Early retirement	Ill-health	Total
147	95	2	244

### Active employer numbers

Scheduled (inc. Kingston Council)	Admitted	Total
23	13	36

## 7. GOVERNANCE

### Role of the Pension Fund Panel

The Pension Fund Panel is responsible for all matters relating to the Pension Fund administered by Kingston Council on behalf of participating employers. The functions of the Panel, as set out in the Council's Constitution, are below:

#### Function

To consider reports from the Fund Manager(s) on investment strategy, fund performance, investment transactions and related matters and to give instructions to the Fund Manager(s) as necessary from time to time.

The Panel consists of five elected members of the Council and three non-voting scheme representatives. It meets four times per year. The membership of the Panel at the start of the 2023 municipal year was:

Councillor Mark Beynon (Chair)  
Councillor Patrick Hall  
Councillor Alison Holt (Vice-Chair)  
Councillor Farshid Sadr-Hashemi  
Councillor Richard Thorpe  
Chris Coke  
Lesley Diston  
Marshall Keane (as alternate to Majid Mafi - Unison representative)

The below table summarises the Panel attendance and training during the 2022 municipal year:

	<b>Councillor Mark Beynon</b>	<b>Councillor Patrick Hall</b>	<b>Councillor Alison Holt</b>	<b>Councillor Farshid Sadr-Hashe mi</b>	<b>Councillor Richard Thorpe</b>	<b>Leslie Diston</b>	<b>Chris Coke</b>	<b>Marshall Keane</b>
<b>Panel attendance</b>								
22 June 2022	✓	✓	N/A	✓	✓	N/A	N/A	N/A
21 September 2022	✓	N/A	✓	✓	N/A	✓	N/A	N/A
30 November 2022	✓	✓	✓	✓	✓	✓	✓	N/A
8 March 2023	✓	✓	✓	✓	✓	✓	✓	N/A

The training to provided to the Panel during the 2022 municipal year consisted of the following modules/topics:

- Induction
- Triennial valuation
- Responsible investment and climate change
- Strategic asset allocation and setting an investment strategy
- Administration

## Role of Pension Board

The pension fund must operate a Local Pension Board. The Pension Board helps the pension fund comply with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives. The Board's current terms of reference are:

### Function

The role of the Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- Assist the Royal Borough of Kingston upon Thames (the Administering Authority) as the Scheme Manager; –
  - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
  - in such other matters as the LGPS regulations may specify
- Secure the effective and efficient governance and administration of the LGPS for the Royal Borough of Kingston upon Thames Pension Fund
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will also help ensure that the RBK Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Board consists of three scheme employer representatives and three scheme member representatives. It meets four times per year. The membership of the Board during the 2022 municipal year was:

Sam Burgess - Member representative

Councillor Peter Herlinger - Employer representative  
 Robert Ewing (Chair) - Employer representative  
 Alexandra Harris - Employer representative (first meeting 14 December 2022)  
 Raymond Harte - Member representative (first meeting 14 December 2022)  
 Pauline Lyseight-Jones - Member representative (first meeting 14 December 2022)

The below table summarises the Board attendance during the 2022 municipal year:

	Sam Burgess	Robert Ewing	Alexandra Harris	Raymond Harte	Councillor Peter Herlinger	Pauline Lyseight-Jones
<b>Board attendance</b>						
6 July 2022	✓	✓	N/A	N/A	✓	N/A
5 October 2022	✓	✓	N/A	N/A	✓	N/A
14 December 2022	✓	✓	✓	✓	✓	✓
22 March 2023	✓	✓	✓	✓	✓	✓

The training provided to the Board during the 2022 municipal year consisted of the following modules/topics:

- Induction
- Triennial valuation
- Responsible investment and climate change
- Strategic asset allocation and setting an investment strategy
- Administration

## **Governance Compliance Statement**

The Local Government Pension Scheme Regulations 2013 (as amended) require Funds to prepare, publish and maintain a Governance Compliance Statement and to measure their governance arrangements against a set of best practice principles. The assessment should provide a statement of “full”, “partial” or “non-compliance”, with further explanation provided for any non or partial compliance. The key issues covered by the best practice principles are:

- Formal committee structure
- Committee membership and representation
- Selection and role of lay members
- Voting rights
- Training, facility time and expenses

The Governance Compliance Statement is shown at Section 11.

## **Risk Management**

Responsibility for the Fund’s risk management strategy sits with the Pension Fund Panel. Significant emerging and persistent risks are recorded in the Pension Fund Risk Register, which is reviewed at each meeting of the committee. The register is also reviewed by the Pension Board in its role of assisting the Council with securing compliance with control arrangements.

Risks are identified from relevant sources of information, such as management reports and from reviews undertaken by independent advisers. The actual scores are recorded in the risk register, along with gross and net risk scores (likelihood x impact) that determine the RAG ratings. The net score indicates the exposure arising from a risk after mitigation measures have been applied.

The Fund’s key long-term risk is that assets fall short of liabilities such that there are insufficient assets to pay the pensions to members. Investment objectives are set by the Pension Fund Panel with the aim of maximising long-term investment returns within an agreed risk tolerance level to mitigate this risk.

Investment risk and performance are monitored and reviewed regularly by Council officers. The Pension Fund Panel reviews investment performance on a quarterly basis supported by its investment adviser, Mercer.

Third party risks, such as non or late payment of contributions, are monitored and managed by the Council.

Assurance over the systems operated by the Fund's investment managers and custodian is secured by obtaining relevant documentation, including reports about their internal control environment.

## 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 2022 and in summary the Fund had a surplus of £110m which represents a funding level of 111%. This compares with a funding level of 95% at the previous valuation in 2019.

The full valuation report can be found here: <https://www.kingston.gov.uk/finance-budgets/pensions>.

The next full valuation is due as at 31 March 2025.

## 9. EXTERNAL AUDIT REPORT

### **Independent auditor's statement to the members of The Royal Borough of Kingston upon Thames on the pension fund financial statements of the Royal Borough of Kingston upon Thames Local Government Pension Fund included within the pension fund annual report**

#### **Opinion**

We have examined the pension fund financial statements of the Royal Borough of Kingston upon Thames Local Government Pension Fund (the 'pension fund') for the year ended 31 March 2023 included within the pension fund annual report, which comprise the Fund Account, the Net Assets Statement, and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the pension fund financial statements are consistent, in all material respects, with the audited financial statements of the Royal Borough of Kingston upon Thames for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

We have not considered the effects of any events between the date the auditor's report on the financial statements of the administering

authority was signed, being the date, we signed our report on the audited financial statements of Royal Borough of Kingston Upon Thames and the date of this statement.

#### **Respective responsibilities of the Executive Director of Corporate Services**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Corporate Services is responsible for the preparation of the pension fund's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Our responsibility is to state to the members of the Royal Borough of Kingston upon Thames our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the financial statements of The Royal Borough of Kingston upon Thames.

We also read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information comprises the information included in the pension fund annual report, other than the pension fund

financial statements and our auditor's statement thereon.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the financial statements of The Royal Borough of Kingston upon Thames describes the basis of our opinion on those financial statements.

#### **Use of this auditor's statement**

This statement is made solely to the members of The Royal Borough of Kingston upon Thames, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of The Royal Borough of Kingston upon Thames those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than The Royal Borough of Kingston upon Thames and the members of The Royal Borough of Kingston upon Thames. as a body, for our work, for this statement, or for the opinions we have formed.

*John Paul Cuttle*

John Paul Cuttle, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London  
3 September 2024

# 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 2023

2021/22			2022/23
£'000		Note	£'000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(36,788)	Contributions	7	(39,065)
(3,597)	Transfers in from other pensions funds	8	(4,655)
<b>(40,385)</b>			<b>(43,720)</b>
33,922	Benefits	9	36,086
4,283	Payments to and on account of leavers:	10	5,252
<b>38,205</b>			<b>41,338</b>
<b>(2,180)</b>	<b>Net (additions) / withdrawals from dealings with members</b>		<b>(2,382)</b>
9,175	Management expenses	11	10,150
<b>6,995</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>7,768</b>
	<b>Returns on Investments</b>		
(10,617)	Investment income	12	(12,921)
76	Taxes on income	13	52

(76,245)	(Profit) loss on disposal of investments and changes in the market value of investments	16b	39,552
<b>(86,787)</b>	<b>Net Return on Investments</b>		<b>26,683</b>
(79,792)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		34,451
<b>(1,047,752)</b>	<b>Opening Net Assets of the Scheme</b>		<b>(1,127,544)</b>
<b>(1,127,544)</b>	<b>Closing Net Assets of the Scheme</b>		<b>(1,093,093)</b>

## Net Assets Statement for the year as at 31 March 2023

2021/22		Note	2022/23
£'000			£'000
150	Long-term assets		150
1,106,172	Investment assets	14	1,077,925
-	Investment liabilities	14	(168)
<b>1,106,322</b>	<b>Total Net Investments</b>		<b>1,077,907</b>
23,595	Current assets	20	17,733
(2,373)	Current liabilities	21	(2,547)
<b>1,127,544</b>	<b>Net Assets of the Fund available to fund benefits at the end of the reporting period</b>		<b>1,093,093</b>

# 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
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014
- the LGPS (Management and Investment of Funds) Regulations 2016

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 Fund.

These benefits include retirement pensions, 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 all matters relating to the Fund to the Pension Fund Panel. Its core functions include deciding upon the investment strategy, approving policy statements, and monitoring performance. The Panel is made up of five Members of the Council each of whom has voting rights and three other non-voting representatives.

The Panel considers the views of the 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 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-upon-Thames 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.

## PF Note 1 - Description of the Fund (continued)

Active Scheme employers at 31 March 2023 were as follows:

Scheduled bodies	Scheduled bodies (cont.)	Admission bodies
Bedelsford School	Southborough High School	Achieving for Children pool:
Castle Hill Primary School	St Agatha's Catholic Primary School	<ul style="list-style-type: none"> <li><i>Achieving for Children</i></li> </ul>
Chessington School	St Philip's School	<ul style="list-style-type: none"> <li><i>Achieving for Children - Windsor and Maidenhead</i></li> </ul>
Coombe Academy Trust pool:	The Hollyfield School and Sixth Form Centre	Balance Support CIC
<ul style="list-style-type: none"> <li><i>Coombe Boys' School</i></li> </ul>	The Holy Cross School	London Grid for Learning
<ul style="list-style-type: none"> <li><i>Coombe Girls' School</i></li> </ul>	The Kingston Academy	Your Healthcare CIC
<ul style="list-style-type: none"> <li><i>Green Lane Primary and Nursery School</i></li> </ul>	The Tiffin Girls' School	Alliance in Partnership - Southborough
<ul style="list-style-type: none"> <li><i>Knollmead Primary School</i></li> </ul>	Tiffin School	Brayborne Facilities Services - The Tiffin Girls'
<ul style="list-style-type: none"> <li><i>Robin Hood Primary and Nursery School</i></li> </ul>	Tolworth Girls' School and Sixth Form	Busy Bee Cleaning Services - Malden Manor
Dysart School	<b>Administering Authority</b>	Duradiamond Healthcare
Fern Hill Primary School	Royal Borough of Kingston-Upon-Thames	Equans
Kingston University		GCH (Amy Woodgate)
Latchmere School		Hayward Services - Tolworth Girls'
Richard Challoner School		Independent Catering - Coombe Academy Trust

## PF Note 1 - Description of the Fund (continued)

The following table summarises the membership numbers of the scheme:

<b>2021/22 (restated)</b>		<b>2022/23</b>
<b>No.</b>		<b>No.</b>
30	Number of Employers with active members	36
<b>Active Members</b>		
2,513	Royal Borough of Kingston-upon-Thames	2,499
2,259	Scheduled bodies	2,327
734	Admitted bodies	750
5,506		5,576
<b>Deferred Members</b>		
4,699	Royal Borough of Kingston-upon-Thames	4,674
2,511	Scheduled bodies	2,809
491	Admitted bodies	489
7,701		7,972
<b>Pensioner Members</b>		
3,789	Royal Borough of Kingston-upon-Thames	3,894
1,031	Scheduled bodies	1,099
181	Admitted bodies	195
5,001		5,188
<b>18,208</b>	<b>Total</b>	<b>18,736</b>

Deferred membership figures now include frozen refunds. Those are members that left their employment or opted out and did not meet the vesting period. They are eligible for a refund or they can transfer their benefits to another scheme within five years. The 2021/22 figures have been restated to allow a comparison of the numbers reported.

## 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
<b>Pension</b>	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
<b>Lump sum</b>	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. Further information is available at <https://www.lgpsmember.org/>

### e) Funding

The Pension Fund is financed by contributions from employees, employers 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. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2022/23, employer contribution rates ranged from 10.4% to 36.7% of pensionable pay. Employer contribution rates payable from 1 April 2022 were set by the triennial valuation as at 31 March 2019, the results of which were published on 31 March 2020.

## PF Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2022/23 financial year and its position as at 31 March 2023. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2020/21' (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 2023 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.

## PF Note 3 - Summary of significant accounting policies (continued)

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

### f) Management Expenses

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

- Administrative Expenses

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

- Oversight and Governance Costs

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

overheads are apportioned to this activity and charged as expenses to the Fund.

- Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included here.

### Net Assets Statement

#### g) Financial assets

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

#### h) Actuarial present value of promised retirement benefits

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

#### i) Additional Voluntary Contributions

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

## PF Note 4 - Critical judgements in applying accounting policies

In applying the accounting policies as set out in Note 3 above, the Council has had to make certain critical judgments about complex transactions or those involving uncertainty about future events. There were no such critical judgements in 2022/23.

## 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:

## PF Note 5 - Assumptions made about the future and other major sources of estimation uncertainty (continued)

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Actuarial present value of promised retirement benefits	<p>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.</p> <p>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension fund liability for the Royal Borough of Kingston Pension Fund can be measured. For example a 0.1% decrease in the discount rate assumption would result in an approximate increase of £19m in the Fund's pension liability; a one year increase in member life expectancy would increase the liability by approximately £42m; a 0.1% increase in the Pension Increase Rate (CPI) would increase the liability by approximately £18m and a 0.1% increase in the salary rate would increase the liability by approximately £1m.</p>
McCloud	<p>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 October 2023.</p>	<p>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.</p>
Pooled property, infrastructure and private debt funds	<p>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. The property, infrastructure 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.</p>	<p>The potential impact of this uncertainty cannot be measured accurately. The total of level 3 funds held by the Pension Fund are valued at £142.9m, and the variation around this value is estimated to be +/- 10%, which equates to +/- £14.3m.</p>

## 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

2021/22		2022/23
£'000		£'000
(9,313)	Employees' contributions	(9,468)
	Employers' contributions	
(23,857)	Normal Contributions	(26,323)
(3,215)	Deficit Recovery Contributions	(2,895)
(402)	Augmentation Contributions	(379)
<b>(36,788)</b>		<b>(39,065)</b>

### Authority

2021/22		2022/23
£'000		£'000
(16,082)	Royal Borough of Kingston Upon Thames	(16,662)
(15,049)	Scheduled bodies	(16,209)
(5,657)	Admitted bodies	(6,194)
<b>(36,788)</b>		<b>(39,065)</b>

## 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:

2021/22		2022/23
£'000		£'000
(3,597)	Individual transfers	(4,270)
-	Group transfers	(385)
<b>(3,597)</b>		<b>(4,655)</b>

## PF Note 9 - Benefits payable

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

### Category:

2021/22		2022/23
£'000		£'000
29,098	Pensions	30,423
4,040	Commutation and Lump sum retirement benefits	4,826
783	Lump sum death benefits	837
<b>33,922</b>		<b>36,086</b>

### Authority:

2021/22		2022/23
£'000		£'000
23,977	Royal Borough of Kingston Upon Thames	25,712
8,277	Scheduled bodies	8,644
1,668	Admitted bodies	1,730
<b>33,922</b>		<b>36,086</b>

## PF Note 10 - Payments to and on account of leavers

2021/22		2022/23
£'000		£'000
82	Refunds to members leaving service	152
4,200	Individual transfers	5,100
<b>4,283</b>		<b>5,252</b>

## PF Note 11 - Management expenses

2021/22		2022/23
£'000		£'000
1,005	Administration Expenses	1,116
8,069	Investment Management Expenses	8,858
102	Oversight and Governance	176
<b>9,175</b>		<b>10,150</b>

## 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. The figures below include indirect management costs and embedded transaction costs deducted from the net asset value or from investment income.

2021/22		2022/23
£'000		£'000
5,688	Management Fees	5,578
19	Performance Fees	35
58	Custody Fees	58
2,304	Transaction Costs	3,187
<b>8,069</b>		<b>8,858</b>

## PF Note 11b - External audit costs

2021/22		2022/23
£'000		£'000
33	External Audit Costs	41
<b>33</b>		<b>41</b>

## PF Note 12 - Investment income

2021/22		2022/23
£'000		£'000
(3,553)	Equity Dividends	(3,263)
	Pooled Investments:	
(1,472)	- Fixed Income	(3,749)
(1,671)	- Property	(1,282)
(2,726)	- Diversified Growth Funds	(2,924)
(1,198)	- Credit	(1,311)
-	- Private Debt	(153)
3	Interest on Cash Deposits	(239)
<b>(10,617)</b>		<b>(12,921)</b>

## PF Note 13 - Taxes on income

2021/22		2022/23
£'000		£'000
76	Withholding tax - equities	52
<b>76</b>		<b>52</b>

## PF Note 14 - Investments

2021/22		2022/23
£'000		£'000
	<b>Investment assets</b>	
163,326	Equities	162,217
	<b>Pooled Investment Vehicles</b>	
472,499	Equities	434,803
179,019	Fixed Income	165,926
75,622	Property	66,989
35,509	Credit	33,940
152,181	Diversified Growth Funds	133,306
23,504	Private Debt	37,858
-	Infrastructure	38,068
<b>938,333</b>		<b>910,889</b>
	<b>Other Investment Balances</b>	
3,138	Cash deposits	3,917
923	Accrued income and recoverable taxes	902
452	Amounts receivable for sales of investments	-
<b>1,106,172</b>	<b>Total Investment assets</b>	<b>1,077,925</b>
	<b>Investment liabilities</b>	
-	Amounts payable for purchases of investments	(168)
<b>1,106,172</b>	<b>Total Net Investments</b>	<b>1,077,757</b>

## PF Note 14a - Analysis of Pooled Investment Vehicles

2022/23	ACS	FCP-FIS Mutual Fund	Unit trusts	Unitised insurance policies	OEIC	SICAV	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
- Equities				415,262	19,541		434,803
- Fixed Income	95,187				31,801	38,937	165,925
- Property		25,557	41,432				66,989
- Credit	33,940						33,940
- Diversified Growth Funds	133,306						133,306
- Private Debt			37,858				37,858
- Infrastructure			38,068				38,068
	<b>262,433</b>	<b>25,557</b>	<b>117,357</b>	<b>415,262</b>	<b>51,342</b>	<b>38,937</b>	<b>910,888</b>

ACS is a UK tax transparent collective investment scheme used by the LCIV. FCP-FIS - "Fonds Commun de Placement- Fonds d'Investissement Spécialisé" is a Luxembourg open-ended mutual fund. OEIC - "Open-ended Investment Company: an investment company that will issue (or redeem) shares on a regular basis in response to investor demand. SICAV - "Société d'investissement à capital variable", similar to an OEIC but used in Europe.

## PF Note 14a - Analysis of Pooled Investment Vehicles (continued)

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	152,181						152,181
- Private Debt			23,504				23,504
	<b>289,868</b>	<b>25,408</b>	<b>73,718</b>	<b>453,026</b>	<b>54,979</b>	<b>41,334</b>	<b>938,333</b>

## PF Note 14b - Reconciliation of movements in investments

2022/23	Value 31 March 2022	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Equities	163,326	88,067	(86,285)	(2,891)	162,217
Pooled Investment Vehicles:					
- Equities	472,499	1,262	(20,452)	(18,506)	434,803
- Fixed Income	179,019	3,749	(531)	(16,311)	165,926
- Property	75,622	416	(1,685)	(7,364)	66,989
- Credit	35,509	1,311	(317)	(2,563)	33,940
- Multi-Asset	152,181	2,924	(18,238)	(3,561)	133,306
- Private Debt	23,504	15,904	(3,942)	2,392	37,858
- Infrastructure	-	29,302	(488)	9,254	38,068
<b>Sub-total Investments</b>	<b>1,101,659</b>	<b>142,935</b>	<b>(131,938)</b>	<b>(39,550)</b>	<b>1,073,106</b>
Other Investment Balances:					
Cash deposits*	3,138	1,026	(251)	4	3,917
Trade receivables / payables	452	-	(614)	(6)	(168)
Accrued income and recoverable taxes	923	85	(106)	-	902
<b>Net Investment Assets</b>	<b>1,106,172</b>	<b>144,046</b>	<b>(132,909)</b>	<b>(39,552)</b>	<b>1,077,757</b>

\*Excludes cash held by Multi Asset Funds

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

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	158,956	(170,341)	33,700	472,499
- Fixed Income	79,317	110,724	(345)	(10,677)	179,019
- Property	65,266	277	(1,412)	11,490	75,622
- Credit	34,668	1,198	(333)	(24)	35,509
- Multi-Asset	166,948	2,726	(24,161)	6,668	152,181
- Private Debt	-	22,379	(166)	1,290	23,504
<b>Sub-total Investments</b>	<b>1,022,235</b>	<b>409,617</b>	<b>(406,997)</b>	<b>76,804</b>	<b>1,101,659</b>
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
<b>Net Investment Assets</b>	<b>1,027,489</b>	<b>409,941</b>	<b>(407,054)</b>	<b>76,928</b>	<b>1,106,172</b>

\*Excludes cash held by Multi Asset Funds

## PF Note 14c - Investments analysed by fund manager

31 March 2022			31 March 2023	
Market Value	% of total	Fund Manager	Market Value	% of total
£'000	%		£'000	%
<b>Investments managed by London Collective Investment Vehicle</b>				
66,192	6.0%	Global Total Return Fund (Pyrford International)	50,093	4.6%
39,748	3.6%	Diversified Growth Fund (Baillie Gifford)	36,387	3.4%
46,241	4.2%	Absolute Return Fund (Ruffer)	46,826	4.3%
23,504	2.1%	Private Debt (Pemberton & Churchill)	37,858	3.5%
102,178	9.2%	Global Bond Fund (PIMCO)	95,187	8.8%
35,509	3.2%	Multi Asset Credit Fund (CQS & PIMCO)	33,940	3.1%
-	0.0%	Renewable Infrastructure Fund (Blackrock, Stonepeak, Quinbrook, Foresight)	38,068	3.5%
313,372	28.3%	Sub total	338,359	31.4%
<b>Investments managed outside of London Collective Investment Vehicle</b>				
51,326	4.6%	UBS Global Asset Management	43,430	4.0%
186,199	16.8%	Fidelity Pensions Management	184,410	17.1%
292,510	26.4%	Columbia Threadneedle Investments - Global Equity Fund	256,356	23.8%
25,408	2.3%	M&G Investments	25,557	2.4%
160,517	14.5%	Legal & General - Future World Global Equity Index Fund	158,906	14.7%
41,334	3.7%	Janus Henderson Investors - Total Return Bond Fund	38,937	3.6%
35,507	3.2%	Janus Henderson Investors - All Stocks Credit Fund	31,801	3.0%
792,801	71.7%	Sub total	739,398	68.6%
<b>1,106,172</b>	<b>100.0%</b>	<b>Total</b>	<b>1,077,757</b>	<b>100.0%</b>

## 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.

## PF Note 15 - Fair value – basis of valuation (continued)

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
Pooled Infrastructure Investments	Level 3	EBITDA multiples, discounted cashflows, market comparable companies, replacement costs and adjusted net asset values	Discount factors, recent transaction prices, reported net asset values and fair value adjustments	Valuations could be affected by a range of variables , such as changes to expected cashflows, or the difference between audited and unaudited accounts

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
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## PF Note 15a - Fair value hierarchy

31 March 2022				31 March 2023			
Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
163,326			163,326	162,217			162,217
			-				-
	472,499		472,499		434,803		434,803
	179,018		179,018		165,926		165,926
		75,622	75,622			66,989	66,989
	35,509		35,509		33,940		33,940
	152,181		152,181		133,306		133,306
		23,504	23,504			37,858	37,858
						38,068	38,068

3,138			3,138	Cash Deposits	3,917			3,917
923			923	Accrued income and recoverable taxes	902			902
452			452	Receivables/payables for investments	(168)			(168)
<b>167,839</b>	<b>839,206</b>	<b>99,126</b>	<b>1,106,172</b>	<b>Financial Assets at fair value through profit and loss</b>	<b>166,868</b>	<b>767,975</b>	<b>142,914</b>	<b>1,077,757</b>

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

2022/23	Value 31 March 2022	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2023
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	75,622	-	-	416	(1,685)	(7,364)	66,989
- Private Debt	23,504	-	-	15,904	(3,942)	2,392	37,858
- Infrastructure	-	-	-	29,302	(488)	9,254	38,068
<b>Total</b>	<b>99,125</b>	<b>-</b>	<b>-</b>	<b>45,622</b>	<b>(6,115)</b>	<b>4,282</b>	<b>142,914</b>

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
<b>Total</b>	<b>65,266</b>	<b>-</b>	<b>-</b>	<b>22,657</b>	<b>(1,578)</b>	<b>12,780</b>	<b>99,126</b>

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

	Potential variation in fair value	Value at 31 March 2023	Potential Value on Increase	Potential Value on Decrease
Property	" +/- " 10%	66,989	73,688	60,290
Private Debt	" +/- " 10%	37,858	41,643	34,072
Infrastructure	+/- 10%	38,068	41,875	34,261
<b>Total</b>		<b>142,914</b>	<b>157,206</b>	<b>128,623</b>

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
<b>Total</b>		<b>99,126</b>	<b>109,038</b>	<b>89,213</b>

The uncertainty around property values is estimated to be as much as 10% and is caused by uncertainty over key inputs to property valuations, such as rents varying by 10%, yields varying by up to 25%, and gross to net leakage varying by up to 30%.

Private debt and infrastructure has been excluded from this note as the fund managers were not able to provide the necessary information.

## PF Note 16a - Classification of financial instruments

2021/22			2022/23		
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
<b>Financial Assets</b>					
163,326			Equities	162,217	
Pooled Investment Vehicles:					
472,499			Equities	434,803	
179,018			Fixed Income	165,926	
75,622			Property	66,989	
35,509			Credit	33,940	
152,181			Diversified Growth Fund	133,306	
23,504			Private Debt	37,858	
			Infrastructure	38,068	
4,513			Other	4,651	
	14,532		Cash deposits		15,412
	9,062		Sundry debtors		2,321
<b>1,106,171</b>	<b>23,595</b>	<b>-</b>		<b>1,077,757</b>	<b>17,733</b>
<b>Long Term Assets</b>					
	150		London CIV share capital		150
<b>1,106,171</b>	<b>23,745</b>	<b>-</b>		<b>1,077,757</b>	<b>17,883</b>
<b>Financial Liabilities</b>					
-	-	(2,373)	Creditors		(2,547)
-	-	(2,373)		-	(2,547)
<b>1,106,171</b>	<b>23,595</b>	<b>(2,373)</b>	<b>Total</b>	<b>1,077,757</b>	<b>17,733</b>
					<b>(2,547)</b>

\*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

2021/22		2022/23
£'000		£'000
	Financial Assets	
76,479	Designated at fair value through profit and loss	(39,556)
(234)	Financial assets at amortised cost	4
<b>76,245</b>		<b>(39,552)</b>

## 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.

## PF Note 17 - Nature and extent of risks arising from financial instruments (continued)

### a) Market risk (continued)

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:

## PF Note 17 - Nature and extent of risks arising from financial instruments (continued)

Value as at 31/03/2022	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2023	Change +/-	Value on increase	Value on decrease
£'000	%	£'000	£'000		£'000	%	£'000	£'000
635,825	18.0	750,274	521,377	Equities	597,020	18.1	705,081	488,959
179,019	7.6	192,624	165,414	Fixed income	165,926	5.6	175,218	156,634
75,622	15.1	87,041	64,203	Property	66,989	14.1	76,434	57,543
35,509	9.6	38,918	32,100	Credit	33,940	10.9	37,639	30,241
152,181	10.3	167,855	136,506	Diversified Growth Fund	133,306	10.2	146,903	119,709
23,504	10.6	25,995	21,012	Private Debt	37,858	11.5	42,211	33,504
-	-	-	-	Infrastructure	38,068	15.4	43,930	32,206
3,138	5.5	3,311	2,965	Cash	3,917	0.0	3,917	3,917
1,375	-	1,375	1,375	Other	734	-	734	734
<b>1,106,173</b>		<b>1,267,393</b>	<b>944,952</b>	<b>Total</b>	<b>1,077,757</b>		<b>1,232,067</b>	<b>923,447</b>

### 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.

## PF Note 17 - Nature and extent of risks arising from financial instruments (continued)

<b>Assets exposed to interest rate risk</b>	<b>Value as at 31 March 2023</b>	<b>Potential Movement on 1% Change in Interest Rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash deposits	3,917	-	3,917	3,917
Fixed income	165,926	9,514	156,411	175,440
Credit	33,940	384	33,556	34,323
<b>Total</b>	<b>203,783</b>	<b>9,898</b>	<b>193,884</b>	<b>213,680</b>

<b>Assets exposed to interest rate risk</b>	<b>Value as at 31 March 2022</b>	<b>Potential Movement on 1% Change in Interest Rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash deposits	3,138	-	3,138	3,138
Fixed income	179,019	10,295	168,725	189,314
Credit	35,509	401	35,107	35,910
<b>Total</b>	<b>217,666</b>	<b>10,696</b>	<b>206,970</b>	<b>228,362</b>

### 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 2023 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 31/03/2022	Value on 10% price increase	Value on 10% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2023	Value on 10% price increase	Value on 10% price decrease
£'000	£'000	£'000		£'000	£'000	£'000
156,337	171,971	140,704	Overseas Equities	155,027	170,530	139,525
<b>156,337</b>	<b>171,971</b>	<b>140,704</b>	<b>Total assets available to pay benefits</b>	<b>155,027</b>	<b>170,530</b>	<b>139,525</b>

## PF Note 17 - Nature and extent of risks arising from financial instruments (continued)

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 2023. Because currency changes are not necessarily correlated it is not appropriate to sum the outputs from each currency. In calculating the increase and decrease at a total fund level, it is necessary to establish the change in value of the aggregate of currencies held. It is this change that is applied to the overall currency exposure.

a) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation

and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund has selected bond managers who have an investment strategy which requires investment only in high

investment grade and collateralised products and who use research and market knowledge to minimise exposure to credit risk. The Pension Fund uses a custodian to ensure that all money due is paid in full and on time. Internally invested cash is placed in a interest bearing account with the Council's bankers.

b) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case to meet the pensioner payroll costs; and also cash to meet investment commitments. The

Pension Fund currently remains cash flow positive with contributions exceeding payable pensions, though this is regularly monitored.

The Council has immediate access to a proportion of its Pension Fund cash holdings, as these are held in an instant access interest

bearing account. 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 2022/23 were based on the actuarial valuation carried out as at 31 March 2019 by the Fund's actuary, Hymans Robertson. A more recent valuation was undertaken as at 31 March 2022, and the employer contribution rates resulting from this exercise will apply from 1 April 2023. 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 2023 are set out in a certificate dated 31 March 2019 which is appended to the actuary's report on the actuarial valuation. For those bodies which have become separate employers within the Fund since the valuation date, their contribution rates have been calculated individually and certified by the Fund's actuary.

At the 2022 actuarial valuation, the fund was assessed as 111% funded (95% at the March 2019 valuation). This corresponded to a surplus of £113m (2019 valuation: £42m deficit) at that time. Contribution increases were phased in over the three-year period ending 31 March 2023 for both scheme employers and admitted bodies.

### Commutation assumption

As at March 2022, it is assumed that future retirees will take 45% of the maximum additional tax-free lump sum up to HMRC limits. (50% as at March 2019 for pre April 2008 service and 75% for post April 2008 service)

### 50:50 option

As at March 2022 1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option, it is assumed (0.0% as at March 2019).

The following table shows a summary of the results of the most recent valuation:

## PF Note 18 - Funding arrangements (continued)

### Summary of results of triennial valuation at 31 March 2022

<b>Past Service Position</b>	<b>31/03/2019</b>	<b>31/03/2022</b>
	<b>£m</b>	<b>£m</b>
Past Service Liabilities	(882)	(1,014)
Market Value of Assets	839	1,126
Surplus (Deficit)	(43)	113
Funding Level	95.0%	111.0%

<b>Financial Assumptions</b>	<b>31/03/2019</b>	<b>31/03/2022</b>
	<b>Nominal</b>	<b>Nominal</b>
CPI Inflation	2.3%	2.7%
Discount Rate	3.9%	4.2%
Salary Increases*	2.7%	3.2%
Pension Increases	2.3%	2.7%

<b>Life Expectancy from Age 65</b>	<b>31/03/2019</b>	<b>31/03/2022</b>
Male Pensioners	21.7	22.4
Male Non-Pensioners	22.6	23.4
Female Pensioners	23.9	25.1
Female Non-Pensioners	25.5	26.4

<b>Contribution Rates</b>	<b>2022/23</b>
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Employer Future Service Rate *	18.3%
Past service adjustment (21 year spread) **	3.2%
<b>Total Employer Contribution Rate</b>	<b>21.5%</b>

<b>Projected Annualised Returns over 20 Years (50th % ile)</b>	<b>2022</b>
Property	5.00%
Unlisted Infrastructure Equity	6.50%
Diversified Growth	3.80%
Multi Asset Credit	4.40%
Absolute Return Bonds	2.90%
All World ex UK Equity	6.30%
Direct Lending (Private Debt)	6.80%

## PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2023, 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 under International Financial Reporting Standards (IFRS).

<b>31 March 2022 (revised)</b>		<b>31 March 2023</b>
<b>£m</b>		<b>£m</b>
(1,436)	Actuarial Fair Value of Promised retirement benefits	(1,046)
1,128	Net Fund Assets available to fund benefits	1,093
<b>(308)</b>	Net Liability	<b>47</b>

## PF Note 20 - Current assets

31 March 2022		31 March 2023	
£'000		£'000	
1,665	Contributions Due	1,249	
7,397	Other debtors	1,072	
14,532	Cash at Bank	15,412	
<b>23,595</b>	<b>Total Current Assets</b>	<b>17,733</b>	

## PF Note 21 - Current liabilities

31 March 2022		31 March 2023	
£'000		£'000	
(525)	Benefits Payable	(665)	
(1,848)	Other Creditors	(1,882)	
<b>(2,373)</b>	<b>Total Current Liabilities</b>	<b>(2,547)</b>	

## 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 2022/23 were £137,544 (£71,813 in 2021/22).

<b>Market Value</b> <b>31 March 2022</b>	<b>Contributions</b> <b>2021/22</b>	<b>Market Value</b> <b>31 March 2023</b>	<b>Contributions</b> <b>2022/23</b>
<b>£'000</b>		<b>£'000</b>	
81	- Utmost Life and Pensions	76	-
728	72 Aviva	751	138
<b>809</b>	<b>72</b>	<b>827</b>	<b>138</b>

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 2022/23 was £1,107,052 (£1,003,885 in 2021/22)

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 for which the Fund received £3.930m in employer contributions, deficit and early retirement costs from this body in 2022/23 (£3.577m in 2021/22).

## PF Note 23a - Key Management Personnel Remuneration

The key management personnel for the Pension Fund are the Chief Executive, the Head of Insurance and Pensions Administration, the Head of Pension Investments and the Interim Director of Finance / Section 151 Officer at the Royal

Borough of Kingston Upon Thames. Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's Accounts and are given in the table below. The short-term benefits shown below are also included within administration

expenses in Note 11. The post-employment benefits shown below are included in the calculation of the actuarial fair value of promised retirement benefits in Note 19.

<b>31 March 2022</b>		<b>31 March 2023</b>
<b>£'000</b>		<b>£'000</b>
102	Short-term benefits	115
242	Post-employment benefits	168
<b>344</b>		<b>283</b>

## PF Note 24 - Contingent liabilities and contingent assets

There are no contingent assets (2021/22: c.£500k) or contingent liabilities (2021/22: nil) at 31 March 2023. The contingent asset at 31 March 2022 of c.£500k was in relation to further funds expected from Berkshire Pension Fund, for Royal Borough of Windsor and Maidenhead staff that joined Achieving for Children. The exact amount, which was dependent on investment returns and on discussions between the Funds' actuaries on how to value the liabilities, was determined in 2022/23 at £384,683 and was received during the year.

As at 31 March 2023, there was an outstanding contractual commitment to the LCIV Private Debt Fund in the sum of £20.2m, and the LCIV Renewable Infrastructure Fund of £56.7m.

## 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.

### **Admission Bodies**

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.

## PF - Glossary of terms (continued)

### ***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.

## PF - Glossary of terms (continued)

### **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.

### **IAS26**

Accounting Standard on Accounting and Reporting by Retirement Benefit Plans. The Standard specifies the minimum contents of the financial statements of a pension fund. It requires that defined benefit pension funds should prepare a statement of net assets and include a note disclosing the actuarial present

value of promised vested and non-vested retirement benefits. It also requires that pension fund assets are carried at fair value.

### **Impairment**

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

### **International Financial Reporting Standards (IFRS)**

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

### **Intangible Assets**

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

### **Interest Cost (Pensions)**

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

### **Investment Properties**

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

### **Liability**

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

### **Net Book Value (NBV)**

An asset or liability's original book value net of any accounting adjustments such as depreciation

### **Net Realisable Value**

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

### **Past Service Costs (Pensions)**

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

### **Post Balance Sheet events**

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

## PF - Glossary of terms (continued)

### ***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
<b>Administering authority</b>	
<b>Shared Finance Service</b>	
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 <a href="#">regulation 62</a>	Every three years and annually
Publish the audited fund annual accounts pursuant to <a href="#">regulation 56</a>	Annually
Publish a pension fund annual report pursuant to <a href="#">regulation 57</a>	Annually
Publish a funding strategy statement pursuant to <a href="#">regulation 58</a>	At least every three years

Role	Deadline
Publish an investment strategy statement pursuant to <a href="#">regulation 7</a> 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 <a href="#">regulation 55</a>	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
<b>Shared Pensions Administration Service</b>	

Role	Deadline
Publish annual benefit statements to all active and deferred members via <a href="#">Pensions Online</a>	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:	As soon as practicable

Role	Deadline
<ul style="list-style-type: none"> <li>• A failure to issue annual benefit statements or pension savings statements in time</li> <li>• Errors and omissions identified by the internal dispute resolution procedure</li> <li>• Scheme employers failing to pay contributions on time or accurately</li> <li>• Other breaches of a legal requirement</li> </ul>	
<p>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</p>	<p>As required</p>
<b>Shared HR Service</b>	
<p>Pay pensioners their monthly LGPS benefits</p>	<p>29th day of the month for Kingston pensioners and the last Thursday of the month for Sutton pensioners.</p>
<p>Issue pension payslips in March, April and if the net monthly pension changes by £5 or more</p>	<p>Issued on the relevant pay date.</p>
<b>Scheme employers</b>	
<p>Submit the monthly contributions return in the <a href="#">required format</a></p>	<p>19th day of the month after which the deductions are made</p>

Role	Deadline
Pay the monthly contributions to the fund pursuant to the <a href="#">Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014</a>	Payment received by 19th day of the month after which the deductions are made
Submit an annual return in the <a href="#">required format</a>	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 <a href="#">regulation 60</a>	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 <a href="#">required form or template</a>	20 working days after their starting date, leaving date or date of the change

Role	Deadline
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 <a href="#">recoverable additional costs</a>	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
<b>Scheme members</b>	
Use <a href="#">Pensions Online</a> to: <ul style="list-style-type: none"> <li>● calculate a retirement quotation (over 55s only)</li> <li>● update your personal details</li> <li>● view your service, earnings and contributions information</li> <li>● view your annual benefit statements</li> </ul>	Not applicable
Complete an expression of wish form for any potential death grant payment	Not applicable

Role	Deadline
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	30 working days	40 working days from	No more than two months from date of initial

Process	Service target	Overall process target	Legal deadline
of their deferred benefits or contribution refund	from receipt of all information	date of leaving	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 all information	40 working days from date of death	No more than two months from date of becoming aware of 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

Unsatisfactory performance	Threshold	Charge
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.

## 12. GOVERNANCE COMPLIANCE STATEMENT

# 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
<b>Structure</b>		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The Council Constitution clearly sets out that responsibility for the management of the Pension Fund which is discharged through a 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
<b>Representation</b>		
All key stakeholders are afforded the	Compliant	The Panel approved representatives of both employers and scheme

<p>opportunity to be represented within the main or secondary Panel structure. These include:</p> <ul style="list-style-type: none"> <li>• employing authorities (e.g. scheme employers),</li> <li>• scheme members (including deferred and pensioner scheme members),</li> <li>• independent professional observers, expert advisors (on an ad-hoc basis).</li> </ul>		<p>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.</p>
<p>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.</p>	<p>Compliant</p>	<p>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.</p>
<p>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.</p>	<p>Compliant</p>	<p>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.</p>
<p><b>Voting</b></p>		
<p>The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body</p>	<p>Compliant</p>	<p>The policy on voting rights is clear and transparent. All elected members and stakeholder representatives on the Pension Fund Panel have equal voting rights.</p>

or group represented on main LGPS committees.		
<b>Training / Facility Time / Expenses</b>		
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 equally to all members of Panels, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The Fund's Training Policy applies equally to all members of the Pension Fund Panel and Pension Board
<b>Meetings (Frequency / Quorum)</b>		
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	Compliant	There are stakeholder representatives on the Panel. Consultation with key stakeholders takes place

formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		
<b>Access</b>		
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.
<b>Scope</b>		
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
<b>Publicity</b>		
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
<b>Functions of the Board</b>		
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
<b>Membership</b>		
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	<p>The Pension Board consists of 6 members and is constituted as follows:</p> <ul style="list-style-type: none"> <li>• 3 Scheme employer representatives</li> <li>• 3 scheme member representatives</li> </ul> <p>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.</p>

<b>Code of Conduct</b>		
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.
<b>Voting Rights</b>		
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.
<b>Conflicts of Interest</b>		
The terms should refer to the requirement for the Board to always act within the 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.	Compliant	The terms provides the purpose, scope and administrative procedures for the Board and requires the Board at all times to act 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.

<b>Appointment of a Chair / Vice Chair</b>		
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
<b>Role of Advisers</b>		
The terms should set out the role of professional advisers, or other advisers to the Board and the process for their appointment and agreeing their fees. In addition the process for the Board accessing existing advisers 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 advisers to the Pensions Panel or of the intention to consult with other advisers.
<b>Role of Officers</b>		
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 providing pension fund information to the Board.	Compliant	The role of officers is to provide support to the Board. This support includes finance, pension administration and secretarial support.
<b>Administration of meetings including data protection</b>		
The terms should include the notice period	Compliant	The Board meets a minimum 4 times each year. The chair of the

<p>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.</p>		<p>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.</p>
<p><b>Quorum</b></p>		
<p>The terms should specify a quorum for meetings and in particular whether the quorum should include a minimum number of employer and member representatives.</p>	<p>Compliant</p>	<p>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.</p>
<p><b>Attendance Requirements</b></p>		
<p>The terms should specify the requirements for attending meetings and the consequences of continued failure to attend Board meetings.</p>	<p>Compliant</p>	<p>Representatives should endeavour to attend all meetings and are required to attend at least 2 out of 4 meetings each year. Board 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</p>

		required training.
<b>Role of Substitutes</b>		
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.
<b>Creation of Working Groups / Sub-Panels</b>		
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.
<b>Allowances / Expenses</b>		
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.
<b>Budget</b>		
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
<b>Knowledge &amp; Understanding</b>		
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

<p>framework to meet the knowledge and understanding requirements of the 2004 Act.</p>		<p>Policy covers Board members.</p>
<p><b>Reporting</b></p>		
<p>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.</p>	<p>Compliant</p>	<p>The Board is required to report its requests, recommendations or concerns to the Pension Panel.</p> <p>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.</p> <p>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.</p> <p>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].</p> <p>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</p>

		<p>the Fund's annual report.</p> <p>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.</p>
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# 13. FUNDING STRATEGY STATEMENT

## ROYAL BOROUGH OF KINGSTON UPON THAMES PENSION FUND

### FUNDING STRATEGY STATEMENT

March 2020

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# 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](mailto: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)
<b>Funding Target Basis used</b>	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)
<b>Primary rate approach</b>	(see Appendix D – D.2)					
<b>Stabilised contribution rate?</b>	Yes - see Note (b)			No		
<b>Maximum time horizon – Note (c)</b>	20 Years			Outstanding contract term		
<b>Secondary rate – Note (d)</b>	% of payroll or monetary amount					
<b>Treatment of surplus</b>	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	
<b>Likelihood of achieving target – Note (e)</b>	70%	70%	75%	80%	80%	75%
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement		Phased over a period to be agreed with the Administering Authority - Note (k)			None
<b>Review of rates – Note (f)</b>	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	
<b>New employer</b>	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
<b>Cessation of participation: exit debt/credit payable</b>	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 <u>further details.</u>

\* 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.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
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.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>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.</p>
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	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>
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.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>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.</p>
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	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>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:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>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.</p>

#### C4 Regulatory risks

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>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.</p> <p>The government's long-term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
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,	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.

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

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

## 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?

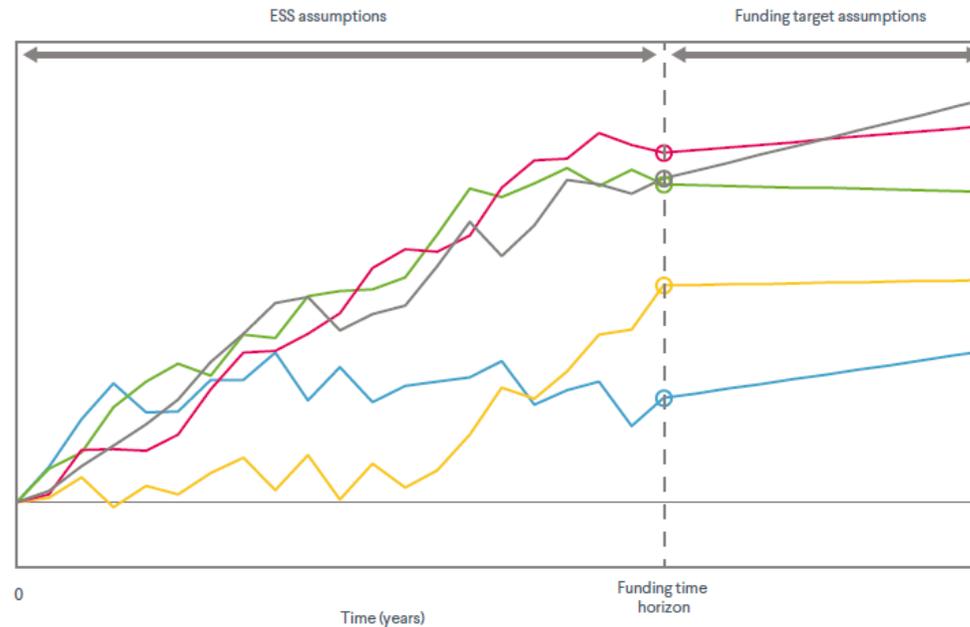
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
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%
	<b>Volatility (Disp) (1 yr)</b>	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.

<b>Funding basis</b>	<b>Ongoing participation basis</b>	<b>Contractor exit basis</b>	<b>Gilts exit basis</b>
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer’s funding target (at the end of its time horizon)</b>	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

<b>Funding basis</b>	The combined set of assumptions made by the actuary, regarding the future, target at the end of the employer’s time horizon. The main assumptions will be investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target whereas more optimistic assumptions will give a lower funding target.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	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).

<b>Covenant</b>	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.
<b>Designating Employer</b>	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.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	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 <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	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.

<b>LGPS</b>	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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Primary contribution rate</b>	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.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . 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
<b>TOTAL</b>		<b>100.0</b>	

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
- Reducing 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](mailto: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)