Pension Fund Annual Report and Accounts

For the year ended 31 March 2022

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

Contents

1. Preface

Report from Chair of the Investment Committee

On behalf of the RBKC Investment Committee, I am delighted to present The Royal Borough of Kensington and Chelsea Pension Fund Annual Report and Financial Statements for the year ending 31 March 2022.

The Fund has continued to sustain excellent investment returns for the year, with assets increasing by over £149m (an increase of over 10%) and valued at £1.631bn at 31 March 2022. The Fund's positive performance has seen it remain as one of the best performing Pension Funds in the LGPS.

Maintaining a large exposure to global equities underpinned this impressive performance. However, it is the job of the Investment Committee to look through short term volatility and to maintain an investment strategy that will secure the fund, and its beneficiaries' pensions, for the long term. I am confident we are fulfilling this mandate.

The Fund continued to diversify its investment assets with new direct properties added to the portfolio during the year and prospective acquisitions being explored. The Fund continues to work with property advisor, CBRE Global Advisors, to build a direct property portfolio that will diversify away from equities and create a sustainable income stream, offering us a chance to generate strong returns over the long term.

We remain alert to new complex mechanisms to part investors from their money and will always seek to cut out unnecessary fees as well as avoiding 'black box'

solutions. Our fund will be invested in real assets that we, the Investment Committee, and our stakeholders can fully comprehend.

I am delighted to report that fund fees have reduced by 10% during the year, whilst bringing pension administration services in-house, which has seen a positive increase in performance of processing member data and ensuring we are providing an excellent service to our members in a cost-effective manner.

After the pleasing actuarial findings in the 2019 triennial actuarial valuation which indicated the Fund was 125% funded, amongst the very top tier of all pension funds, we continue to work with our actuary for the upcoming 2022 triennial valuation, which will set the contribution rates from 1 April 2023.

I would like to take this opportunity to welcome new Members of the Investment Committee and to thank Members who resigned after years of service to the Fund. A thank you to my colleagues on the Investment Committee, the Local Pension Board, our advisers, employer organisations and the Tri-Borough Pension Fund team, involved in the management of the Pension Fund during 2021/22.

Councillor Quentin Marshall

Chairman of the Investment Committee

Introduction

The Royal Borough of Kensington and Chelsea Pension Fund is part of the national Local Government Pension Scheme (LGPS), administered by the Royal Borough of Kensington and Chelsea Council (The Council). It is a contributory defined benefit pension scheme established under statute, which provides for the payment of benefits to employees and former employees of the Borough and a number of admitted and scheduled bodies who are also members of the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and by returns from Fund investments. Contributions rates for employees are set in accordance with the Local Government Pension Scheme Regulations 2013. Employer contributions are set based on the triennial actuarial funding valuation, for the 2021/22 funding year this was the 2019 valuation.

A new LGPS scheme was introduced with effect from 1st April 2014. One of the main changes is that a scheme member's pension is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Everything built up in the Scheme before 1st April 2014 is protected so benefits up to that date will be based on the scheme member's final year's pay.

Benefits payable from the Fund are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- A pension based on career average earnings (revalued in line with the Consumer Prices Index)
- Pensionable pay to include non-contractual overtime and additional hours
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health
- The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

The annual report brings together a number of separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund.

Introduction (continued)

This annual report comprises the following sections:

- Management and Financial Performance which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- Investment Policy and Performance detailing the Fund's investment strategy, arrangements and performance.
- Scheme Administration which sets out how the Scheme's benefits and membership are administered.
- Actuarial Information which includes the funding position of the Fund with a statement from the Fund's actuary.
- The Pension Fund annual accounts for the year ended 31 March 2022.
- A glossary of some of the more technical terms
- Appendices setting out the various regulatory policy statements of the Fund:
    - Governance Compliance Statement
    - Investment Strategy Statement
    - Communication Policy
    - Funding Strategy Statement

Information about the Local Government Pension Scheme in general can be found at

www.lgpsmember.org

Information about the Kensington and Chelsea Local Government Pension Fund can be found at:

www.rbkcpensionfund.org

CONTACT DETAILS

For further information please contact the Tri-Borough Pensions Team based at Westminster City Council:

The Pensions Team

Westminster City Council
City Hall
64 Victoria Street
London
SW1E 6QP

Telephone: 020 7641 6925

Email: pensioninvestment@rbkc.gov.uk

2.

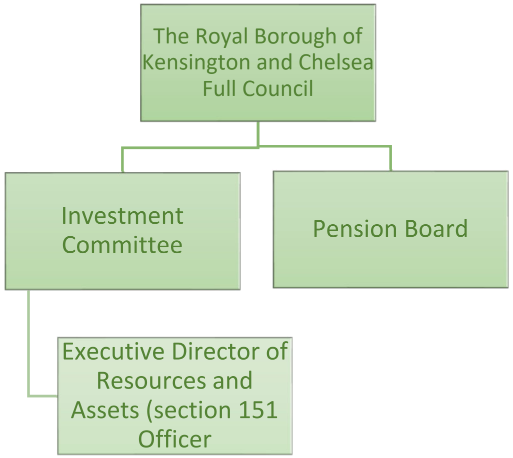
Management and Financial Performance

Governance Arrangements

COUNCIL STRUCTURES

The Royal Borough of Kensington and Chelsea has delegated its decision making in relation to the Pension Fund to the Investment Committee.

The diagram below sets out the governance structure in place for the Fund.



The Committee obtains and considers advice from the Executive Director of Resources, in his capacity of Section 151 Officer and also from the Fund's appointed actuary, and investment advisor.

INVESTMENT COMMITTEE

The Council has delegated decision making powers in respect of pensions to the Investment Committee (the Committee). Resigned co-opted non-voting members were superseded during the year, membership of the Committee in 2021/22 was 6 elected councillors plus 6 co-opted non-voting members. Attendance was as follows:

Committee Members	Committee Attendance
Cllr Q Marshall (Chairman)	4/4
Cllr I Wason (Vice Chairman)	2/4
Cllr M Elnaghi	3/4
Cllr S Lari	2/4
Cllr E Will	1/4
Cllr T Bennett	4/4

Co-opted Members	Committee Attendance
Mr R Broadhurst	1/4
Henry Cooke	3/4
Robert Davy	4/4
Hugo Dias	4/4
Richard Hubbard	3/4
Graeme Bunn	2/2
Ross Owen	1/2

The Committee meets at least four times a year, "To consider and decide all matters appertaining to the Council's Superannuation Fund and to report annually, or otherwise as may be necessary, to the Council." The terms of reference for the Investment Committee are contained in Appendix 1.

LOCAL PENSION BOARD

The role of the Board is to assist the administering authority (the Royal Borough of Kensington and Chelsea) with:

- Meeting any requirements imposed by legislation and the pensions regulator
- Ensuring the effective and efficient governance and administration of the Fund.

The Board does not have a decision making role but is able to make recommendations to the Investment Committee or, if needs be, Full Council.

The Board comprises two employer representatives plus two scheme members representatives and a non voting member. The Pension Board met four times in 2021/22. Attendance information is set out below:

Board Members	Board Attendance
Cllr C Williams (chair)	4/4
Ms L Myers (vice chair)	3/4
Cllr M Spalding	4/4
Mr K Davison	4/4
Mr A Almond	1/4

GOVERNANCE (CONTINUED)

A core requirement of pension board membership is that members are adequately trained in accordance with the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. To meet this requirement, Board members have:

- Attended induction training and a presentation on actuarial valuations
- Completed a self-assessment which will be used as the basis for further training provision.

CODES OF CONDUCT

The Pension Fund is governed by Council members acting as trustees and the Code of Conduct includes provisions on ethics and standards of behaviour which require members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of Council decisions.

The Code sets out the action an elected member must take when they have "pecuniary interests" in Council business, for instance withdrawing from the room whilst the matter is being discussed and not taking part in the voting process unless special permission has been obtained. The Code also requires elected members to register disclosable pecuniary interests.

A copy of the Council's Code of Conduct is available from:

Legal and Democratic Services

The Royal Borough of Kensington and Chelsea
Town Hall
Hornton Street
LONDON
W8 7NX

Telephone: 020 7361 3000.

COMPLIANCE STATEMENT

The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place against a set of best practice principles.

This measurement should result in a statement of full, partial or non-compliance with explanations provided for any areas of 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 Fund's Governance Compliance statement can be found at Appendix 1.

Scheme Management and Advisors

OFFICERS

The Royal Borough of Kensington and Chelsea, The City of Westminster, and London Borough of Hammersmith & Fulham have combined to provide a more efficient service and greater resilience in areas of scarce and specialist expertise. This includes the Pensions and Treasury teams and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at Westminster City Hall.

Similarly, for pension benefit administration, Hammersmith & Fulham and The Royal Borough of Kensington and Chelsea have a combined Human Resources (HR) and payroll service based at Kensington Town Hall.

The three Pension Funds continue to be managed separately in accordance with their own Investment Strategy Statement and Funding Strategy Statement so that each retains sovereignty over decision making.

EXTERNAL ADVISORS

External advisors are appointed on fixed term contracts are procured through the LGPS Framework designed to meet the requirements of both the Council's own procurement policies and financial regulations, and EEC tendering and procurement regulations.

Section 151 Officer	Mike Curtis, Executive Director of Resources	
Tri-Borough Pensions Team	Phil Triggs	Billie Emery
	Matt Hopson	Julia Stevens
	Mat Dawson	Patrick Rowe
	Alastair Paton	
Director of Human Resources	Debbie Morris	
Pensions Manager	Maria Bailey	

Investment Adviser	Mercer	
Investment Managers	Adams Street Partners	BlackRock
	Baillie Gifford	Kames Capital
	CBRE Global Investors	
	Legal & General	
Custodian	Northern Trust	
Banker	NATWEST	
Actuary	Hymans Robertson	
Auditor	Grant Thornton LLP	
Legal Adviser	Eversheds Sutherland (Intl) LLP	
Scheme Administrators	Royal Borough of Kensington and Chelsea	
AVC Providers	Prudential	

Risk Management

Risk management is an issue for all those involved in the management of the Local Government Pension Scheme (LGPS), including members of the Investment Committee, Council officers, Fund Managers and the Fund administrator.

In line with the best practice and the Pension Regulator's Code of Practice, the Pension Fund maintains a risk register to ensure that:

- risks are properly understood, and
- appropriate action is taken to mitigate them.

The Risk Register is updated regularly by officers and has been reclassified to bring risk type in line with CIPFA's Managing risk in the Local Government Pension Scheme framework. The Register is subject to annual review by the Pension Board and Investment Committee.

The table opposite summarises the medium risk areas identified, mitigating actions in place and officer responsibilities.

Risk area identified	Mitigating action in place
Uncertainty surrounding illiquid asset values including property and infrastructure.	The Fund holds a diversified portfolio, asset allocation is regularly reported with asset rebalancing taking place when necessary. Officers regularly engage with Fund Managers and the Pension Fund's investment advisor.
Scheme members live longer than expected leading to higher-than-expected liabilities.	The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.
Price inflation is significantly more than anticipated in the actuarial assumptions. An increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 2.0%.	Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices. CPI was 7% as at 31 March 2022. The fund holds real assets including a growing portfolio of direct property, to mitigate CPI risk. Global equities also provide a degree of inflation protection. Officers continue to monitor the increases in CPI inflation.
Significant volatility and negative sentiment in global investment markets following economic uncertainty. On 24 February 2022, Russia invaded Ukraine marking an escalation in the conflict which has been ongoing since 2014.	Officers continue to communicate with investment fund managers regularly, alongside the investment advisors who review and advise on the investment strategy in different asset classes. The Fund has no direct investments to Russia or Ukraine. The Fund's investment strategy involves portfolio diversification and risk control.
Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	Officers consult and engage with DLUHC, LGPS Scheme Advisory Board, advisors, consultants, peers various seminars and conferences.
Increased scrutiny to sustainability and environmental, social and governance (ESG) issues. Leading to reputational damage and investment at risk. TCFD regulations impact on LGPS schemes are currently unknown but expected to come into force during 2023. The council declared a Climate Emergency with an aim of becoming net zero by 2030 and carbon neutral by 2040	The Fund became a member of the Local Authority Pension Fund Forum. The Forum engages directly with company chairs and boards to affect change at investee companies. The Fund has published and reviews its Investment Strategy Statement in relation to published best practice (e.g. Stewardship Code), and published a Responsible Investment Strategy. Managers provide updates on engagement with investee companies. Progress has been made on collecting climate data in preparation for TCFD climate-related disclosures.

Risk Management (continued)

THIRD PARTY RISKS

Fund manager	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Adams Street	SOC1	Reasonable assurance	Reasonable assurance	KPMG LLP
Baillie Gifford	ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
BlackRock	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte & Touche LLP
CBRE	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Aegon (formerly Kames)	ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
L&G	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Custodian				
Northern Trust	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP

Third party assurances received and summarised above represent cover 96% of investment holdings at 31 March 2022. No significant weaknesses in internal control were highlighted by these reports.

The Fund's assets are managed by external investment managers. A range of different managers and fund mandates are used to diversify investment risk.

All the Fund's segregated assets are held for safekeeping by the Fund's custodian, who is independent of all the investment managers. The pooled assets held by the Fund are also held by custodians independent of the investment managers responsible for investment decisions.

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the investment managers and fund custodian. These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported as necessary to the Pension Fund Committee.

Further details of investment performance are provided in section 3.

Financial Performance

FUND VALUE

	2018/19	2019/20	2020/21	2021/22
Net Asset Statement	**£'000**	**£'000**	**£'000**	**£'000**
Equities	225,752	199,859	150	746,261
Pooled Investment Vehicles	945,110	905,797	1,421,004	777,305
Directly held property	0	25,000	41,925	73,080
Cash and other assets	14,420	3,996	13,787	30,303
Total Investment Assets	1,185,282	1,134,652	1,476,866	1,626,949
Current assets	6,404	5,690	6,182	6,290
Current Liabilities	-3,102	-2,014	-1,797	-2,325
Long-term Liabilities				-70
Total Fund Assets	1,188,585	1,138,328	1,481,251	1,630,844
Net increase/(decrease) in Fund	**106,811**	**-50,257**	**342,923**	**149,593**

INVESTMENT RETURNS

	2018/19	2019/20	2020/21	2021/22
Gross investment returns	7,354	6,954	5,236	4,671
Change in market value of investments	108,052	-42,388	346,506	157,151
Taxes on income	-195	-110	-96	0
Total investment income	115,211	-35,544	351,646	161,822

FUNDING LEVEL

	2018/19	2019/20	2020/21	2021/22
Overall funding level assessed by actuary	125%	125%	128%	135%

Total Fund asset values increased by £442m over the three-year period (£399m over previous 3 years) and increased by £150m over the past 12 months (£343m increase over previous 12 months). Investment returns in 2021/22 were £162m (£352m increase in 2020/21). The higher returns in the prior year were primarily due market recovery following the pandemic's impact on investment income.

The Fund continues to perform well and is in the top quartile of performing LGPS funds across the long- and short-term. Further details are given in the Investment Policy and Performance Section.

Both officers and the Investment Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.

Independent actuaries have assessed the Fund to be "fully funded" following a full revaluation as at 31 March 2019, with no shortfall between the assessed level of future pension liabilities and expected income from contribution and investments. See section 5 for the actuary's report.

Financial Performance (continued)

DEALINGS WITH SCHEME MEMBERS

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	6,936	7,505	8,211	8,811
- Employers	16,837	19,072	18,978	20,292
- Transfers in and other income	7,917	4,661	8,703	6,532
Total Income	31,690	31,238	35,892	35,635
Benefits				
- Pensions	25,744	27,142	28,559	29,329
- Lump sum retirements and death benefits	5,807	5,038	5,288	5,446
- Transfers out	5,612	5,400	3,806	6,809
- Refunds	28	86	46	107
- Payments in respect of tax		505	91	
Other expenditure		436	135	163
Total Expenditure	37,191	38,607	37,925	41,854
Net Dealings with Members	**-5,501**	**-7,369**	**-2,033**	**-6,219**

OPERATING COSTS

The costs of running the pension fund are shown below.

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
Administration	490	579	869	1,323
Governance and Oversight	240	458	373	355
Investment Management	3,189	6,311	5,448	4,332
Total	**3,919**	**7,348**	**6,690**	**6,010**

Benefits paid over the years continue to exceed contributions received. This is mainly due the 'full funding' status achieved by the fund as a whole at the 2019 valuation. This has resulted in fewer employers paying a 'top up' on contributions. The "gap" between income from contributions and benefits paid is filled by cash distributions received from returns on investments.

Administration fees increased in 2021/22 due to bringing the pension administration services in-house. One off costs including, licensing, systems and training were incurred during the year, but it is anticipated that these fees will reduce annually.

As a result of bringing administration services in-house, there has been significant improvements to the quality of member data and member query responses. The team has resolved historic data errors and successfully rolled out the new online member self-service portal.

Total operating costs as a percentage of total net assets was 0.37% (0.45% in 2020/21). The aim is to reduce the costs of running the pension fund. The administration cost per member was up from £72.47 in 2020/21 to £102.91 in 2021/22, this was a result of the increased administration costs.

Oversight and Governance and Investment Management fees reduce. Overall, the Fund saw a 10% reduction in management expenses compared to 2020/21.

All fund managers are signed up to the Local Government Pension Scheme Advisory Board Code of Transparency and submit a Cost Transparency Initiative report to ensure a standardised and comparable approach to investment management expenses.

Administration and Membership

The administration of the Fund is undertaken by Royal Borough of Kensington and Chelsea, the service was bought in house on 1st April 2021. These costs are reimbursed by the Pension Fund. Costs for providing the services are forecast and reported to the Investment Committee as part of the Fund's forecasted expenses.

PERFORMANCE INDICATORS

Performance indicators ensure that service to members of the pension fund is effective. The targets and actual performance for the current and prior year and detailed below

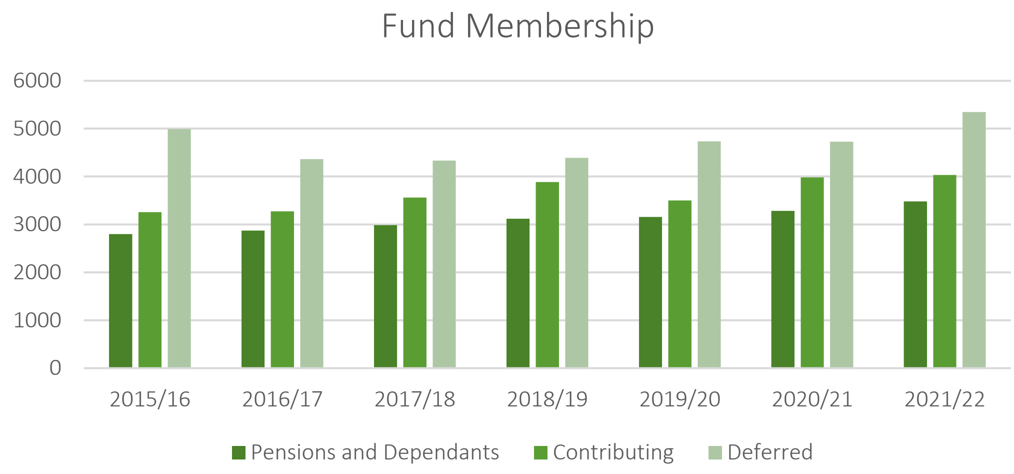
Performance Indicators	Target	2020/21 Performance	2021/22 Performance
Payment of retirement benefits Payments processed on next available payroll run following receipt of all correct information from the member	100%	74%	91%
Death Benefits Payment to eligible persons following receipt of all correct information from beneficiary or their representative.	100%	68%	90%
Benefits Estimates Estimate sent to employer and/or scheme member following receipt of correct pay data from the employer	100%	71%	83%
New starters processed New starters put on the pension system and sent a letter within one calendar month of receiving the correct data from the employer	100%	92%	87%
Refund of benefits Benefits paid on the next available payroll run following receipt of the correct claim from the member	100%	79%	86%
Transfers-in Processed within 20 working days of receipt of all correct data from relevant former employer	100%	83%	88%
Transfers-out Payment processed on next available payment run following receipt of all correct data	100%	84%	89%
Monthly payroll Monthly payroll is run on time and payslips issued to pensioners	100%	100%	100%
Monthly payroll Incorrect payments	Nil	2	Not available
P60 Issued To all pensions by 31 May after the end of the tax year	100%	100%	100%
Annual Benefits Statements issued to all active and deferred members by 31 August			

Administration and Membership (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 22% since 2016/17, from 10,508 to 12,856.

The number of contributing members to the Pension Fund has increased to 4,030 in 21/22 from 3,980 in 2020/21. The number of pensioners increased by 198 and deferred members increased by 617.



EARLY AND ILL HEALTH RETIREMENTS

The total number of pensioners in receipt of enhanced benefits due to ill health or early retirement on the grounds of redundancy or efficiency of the service is given opposite as at each year on 31 March.

Reason for Leaving	2018/19	2019/20	2020/21	2021/22
Ill Health Retirement	3	1	1	1
Early Retirement	18	21	15	16
Total	**21**	**22**	**16**	**20**

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

The Fund provides pensions not only for employees of The Royal Borough of Kensington and Chelsea, but also for a number of scheduled and admitted bodies:

- Scheduled bodies such as academy schools have a statutory right to belong to the LGPS
- Admitted bodies participate by way of an admission agreement and include not for profit organisations or contractors who have taken on Council staff.

The following tables analyse contributions received for 2021/22.

	Employers Contributions	Employees Contributions	Total Contributions
Administering Authority	**£'000**	**£'000**	**£'000**
Royal Borough of Kensington and Chelsea	15,785	7,204	23,323
St Charles Primary	76	27	103
St Thomas Primary	74	28	102
Park Walk Primary	62	24	86
Barlby Primary School	122	47	169
Maxilla and Golborne Nursery School	72	28	99
Oratory Roman Catholic Primary School	46	17	63
Oxford Gardens Primary School	85	33	118
Holy Trinity Primary School	81	30	111
St Joseph RC Primary School	52	20	71
St Clement and St James CoE Primary School	38	15	53
All Saints Catholic College	119	48	167
St Cuthbert with St Matthias CoE Primary	53	20	72
Chelsea Open Air Nursery and Children's Centre	28	10	38
Christ Church CoE Primary School	80	31	111
Colville Primary School	144	55	199
Avondale Park Primary School	93	36	128
St Francis of Assisi RC Primary School	57	22	79
Servite RC Primary School	61	24	85
Ashburnham Community Primary School	52	20	72
Bevington Primary School	59	22	81
Bousfield Primary School	92	33	124
Chelsea Community Hospital School	68	30	97
FOX Primary School	122	45	167
St Anne's Nursery School	28	11	39
St Mary RC Primary School	80	29	109
St Thomas More Language College	104	44	148
Thomas Jones Primary School	50	18	68
Marlborough Primary	119	45	165
Our Lady of Victories Primary School	39	15	54
St. Barnabas' & St. Philip's Primary School	107	10	117
St. Mary Abbot's Primary	37	13	50
Total contributions from Administering authority	**18,084**	**8,051**	**26,454**

	Employers Contributions	Employees Contributions	Total Contributions
Scheduled Bodies			
Chelsea Academy	195	79	275
Kensington and Chelsea College	233	98	331
St Charles Sixth Form College	175	79	254
Ark Brunel Primary Academy	59	21	80
Holland Park Academy	175	73	248
Kensington Aldridge Academy	262	120	382
TBAP Trust - Latimer AP Academy	68	29	98
Cardinal Vaughan Academy	135	58	193
Parkwood Hall Academy	361	133	494
Knowledge Kensington Primary Academy	23	9	94
Queensmill Kensington Academy	68	26	94
Total Contributions from Scheduled Bodies	1,754	725	2,479

	Employers Contributions	Employees Contributions	Total Contributions
Admitted Bodies			
Hestia	17	5	21
Octavia Housing	28	7	34
Opera Holland Park Friends	31	12	42
RBKC - Fit for Sport	11	2	14
Atlas FM Services	22	6	28
Bellrock Group	12	3	16
HATS Group	13	4	17
Total Contributions from Admitted Bodies	**133**	**39**	**172**

3.

Investment Policy and Performance

Investment Policy

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk.

The Investment Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS)

The ISS addresses each of the 6 objectives required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, as set out below:

• A requirement to invest fund money in a wide range of instruments;

• The authority's assessment of the suitability of particular investments and types of investment;

• The authority's approach to risk, including the ways in which risks are to be measured and managed;

• The authority's approach to pooling investments, including the use of collective investment vehicles;

• The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

• The exercise of rights (including voting rights) attaching to investments.

The ISS also sets out in Appendix 1 and 2 respectively, how the Fund complies with:

• CIPFA Pensions Panel principle for investment decision making in the LGPS;

• The Stewardship Code;

Identification and management of risks is addressed in the Pension Fund Risk Register, which is maintained and reviewed at Investment Committee and Pension Board. The risks identified have been reduced through agreed mitigating actions. The risk objective areas have been updated to reflect the CIPFA managing risk framework. The Risk Register is included alongside the ISS in Appendix 2 of this annual report.

A strategic asset allocation is agreed and regularly reviewed and can be found within the ISS.

The Tri-Borough Pensions Fund Team

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City Hall
64 Victoria Street
London
SW1E 6QP

Telephone: 020 7641 6925

Email: pensioninvestment@rbkc.gov.uk

Asset Allocation

The strategic asset allocation is agreed by the Investment Committee and the Fund's advisers. The target allocation at the end of March is as follows:

Asset Class	Target allocation	Current Fund Managers
Global Equities	70%	Baillie Gifford BlackRock
Liquidity Fund	5%	Legal and General
Private Equity	5%	Adams Street
Property	20%	CBRE (pooled) KAMES (pooled) Directly managed
Total	**100%**	

The Investment Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate that they operate under. In order to follow the Myners' Committee recommendation, Fund Managers are challenged deliberately and formally about asset allocation proposals.

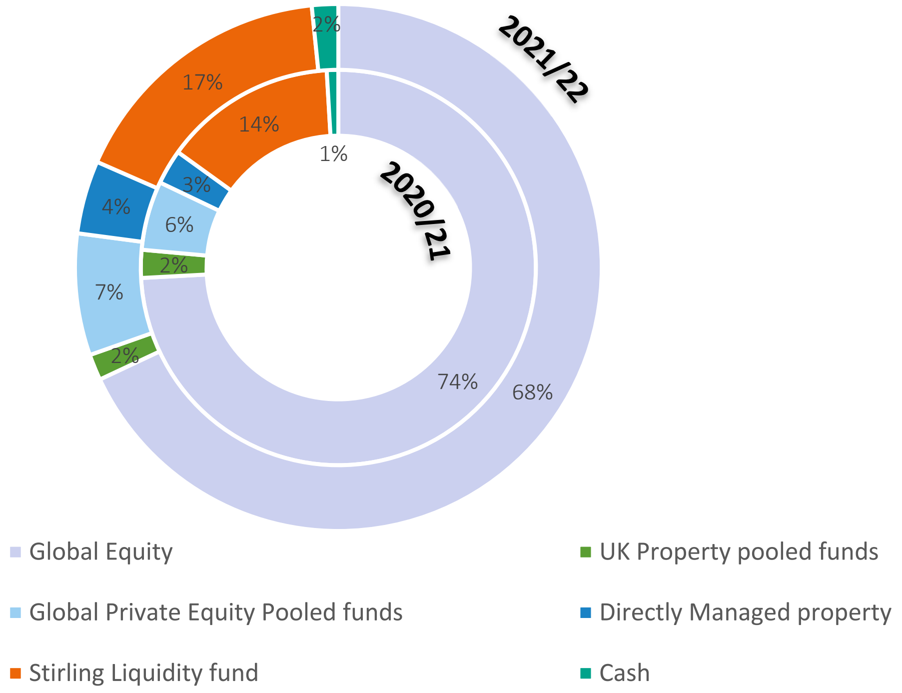
Investment portfolios are reviewed quarterly at each Committee meeting in discussion with the Independent Investment Adviser and Officers.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy is set out in the ISS.

The actual asset allocation of the Pension Fund at the start and end of the financial year are set out below.

These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Investments Committee.

The Fund is committed to purchasing high quality, commercial properties to meet the 20% strategic direct property allocation. Two properties were acquired during the year with further opportunities in discussion. Property purchases are being funded by the capital repayments from pooled property as funds wind down, and as necessary withdrawal of cash from the liquidity fund.



Increase in rental income and distributions have assisted the Fund in being cashflow positive for the year.

The Investment Committee elected to transition the Legal and General equity funds into a BlackRock equity fund.

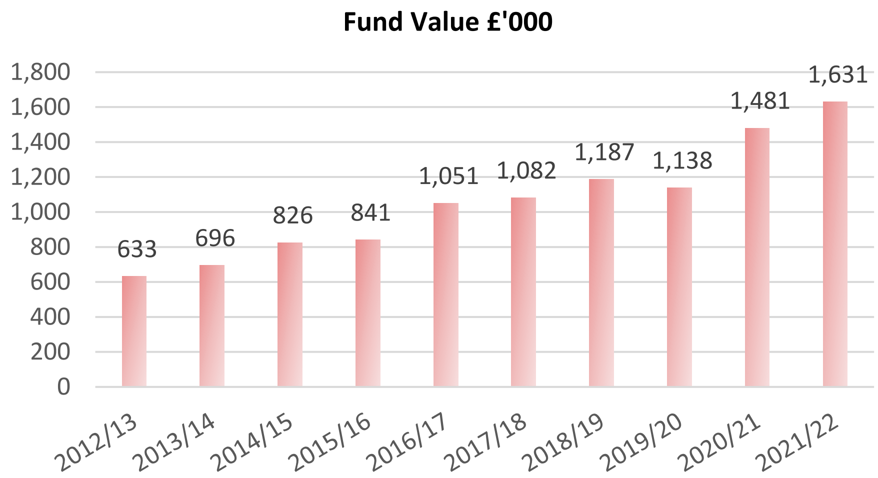
Investment Performance

FUND VALUE

The value of the Fund has more than doubled over the past ten years and increased by 10% in the last 12 months, to 31 March 2022. The increase reflects the positive performance from equity managers and 5% gain on the Fund's property portfolio, following the annual valuation.

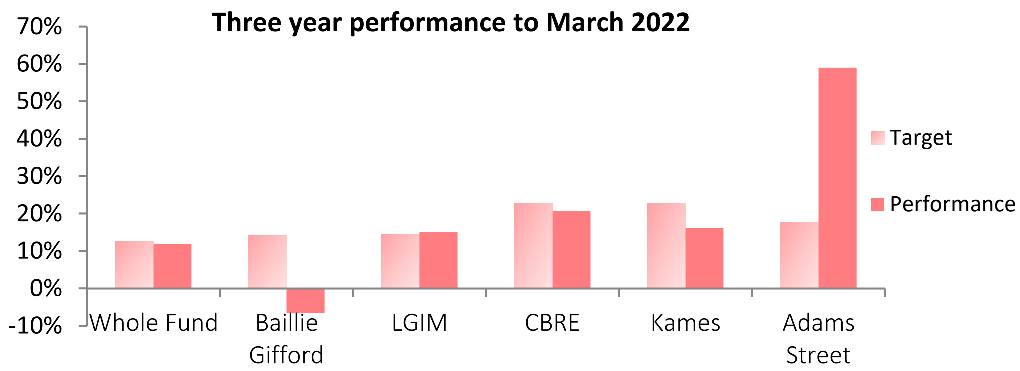
During 2020/21 the Fund value had increased by 30%, as major economies reopened, equities recovered and performed strongly. The COVID-19 global pandemic had resulted in a fall in the Fund's value for 2019/20.

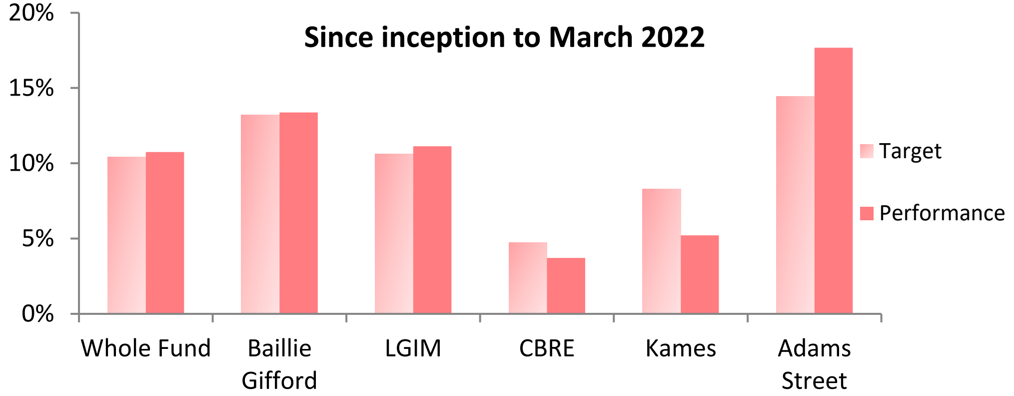
The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.



Performance of the Fund is measured against an overall strategic benchmark. Each Fund Manager is given individual performance targets which are linked to index returns for the assets they manage. Performance of Fund Managers is reviewed quarterly by the Investment Committee, supported by the Fund's independent investment advisor, Mercer.

The graphs below show how the Fund and individual managers have performed against target over the past three years and since inception. The Fund has outperformed against its benchmark targets overall, mainly due to excellent returns from pooled overseas equities. Pooled property funds are in the process of winding down with distributions being invested in the directly managed property mandate.





Corporate Governance

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 4) sets out the aims and purpose of the pension fund, namely:

- To identify how pension liabilities are best met going forward; taking a prudent long-term view;
- To maintain contribution rate stability.

PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds. CIPFA staff and the network generally are able to advise on all aspects of pension and related legislation. Training events and seminars are also available.

The Fund is also a member of the Pensions Lifetime and Savings Association and Local Authority Pension Fund Forum.

COLLABORATIVE VENTURES

In the July 2015 budget, the Government announced that it wanted to see LGPS funds pool investments to reduce costs and facilitate improved governance while maintaining overall investment performance. The Royal Borough of Kensington and Chelsea has actively supported the establishment of the London Collective Investment Vehicle (CIV) through an initial investment of £150,000.

SEPARATION OF RESPONSIBILITIES

The Fund has appointed a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with NatWest. Funds not immediately required to pay benefits are held in interest bearing accounts.

The actuary is responsible for assessing the long term financial position of the pension fund and issues a Rates and Adjustments statement following each triennial valuation of the Fund, setting out the minimum contributions which each employer in the Scheme is obliged to pay over the next three years.

RESPONSIBLE INVESTMENT POLICY

The Council believes that following good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of a company and will ultimately improve investment returns to its shareholders.

Fund investment managers are therefore expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

STEWARDSHIP CODE

The Investment Committee believes that investor stewardship is a key component of good governance and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all the Council's equity investment managers are signatories to the UK Stewardship Code.

The UK Stewardship Code encourages Fund Managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

The Investment Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The ultimate aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

VOTING

Fund Managers have the delegated authority to vote at shareholder meetings in accordance with the above guidelines, which have been discussed and agreed with the Investment Committee.

4. Scheme Administration

Scheme Administration

SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. The Royal Borough of Kensington and Chelsea has legal responsibility for:

- collecting pension contributions
- maintaining membership records
- paying pension benefits to eligible members and their dependants

From 1 April 2021, the Council has provided pension administration services to the Pension Fund. The service was bought in house following termination of the contract with Surrey County Council in order to improve performance.

The Pension Administration Strategy, (see Appendix 5) aims to ensure that the nature of the relationship and respective roles and responsibilities under the Local Government Pension Scheme are clearly understood between:

- the Administering Authority,
- Admitted and Scheduled body employers
- Outsourcing partners

Performance is measured against targets set out in the Pensions Administration Strategy and contract agreement, as discussed in section 2.

The Director of Human Resources at the Royal Borough of Kensington and Chelsea provides day to day oversight of the administration service and reports performance to the local pension board.

EMPLOYER ANALYSIS

The Fund provides pension services not just to the Council but also to a number of other organisations with employers belonging to the LGPS.

No employer bodies were admitted during 2021/22, 1 scheduled body was admitted. The table below summarises the current number of employers in the Fund.

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Body	11	0	11
Admitted Body	7	0	7
Total	**19**	**0**	**19**

Further details of admitted and scheduled bodies are provided in section 2.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found at Appendix 3.

The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which can be accessed via the following link:

http://www.rbkcpensionfund.org/

COMPLAINTS PROCEDURE

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. In the first instance a complaint must be sent in writing to:

Maria Bailey
Bi-Borough Pensions Manager
The Royal Borough of Kensington and Chelsea,
Town Hall,
Hornton Street,
London, W8 7NX

A complaint must be submitted within six months of the original decision or non-decision and the Appointed Person must respond within two months of receiving the complaint.

The Pensions Advisory Service (TPAS) and then the Pensions Ombudsman can assist if the Internal Disputes Resolution Procedure has failed to resolve the matter satisfactorily. TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB

5.

Actuarial Information

Report by Actuary

INTRODUCTION

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

DESCRIPTION OF FUNDING POLICY

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated May 2020. In summary, the key funding principles are as follows:

- 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/ dependents 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 (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 FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

FUNDING POSITION AS AT THE LAST FORMAL FUNDING VALUATION

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £1,187 million, were sufficient to meet 125% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £236 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

PRINCIPAL ACTUARIAL ASSUMPTIONS AND METHOD USED TO VALUE THE LIABILITIES

Full details of the methods and assumptions used are described in the 2019 valuation report.

METHOD

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

ASSUMPTIONS

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets which were valued at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial Assumptions	Assumptions used for the 2019 valuation
CPI inflation	2.6% p.a.
Salary increases	3.6% p.a.
Discount Rate	4.3% p.a.

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the S3PA tables with a multiplier of 110% for males and 105% for females. Future improvements in life expectancy are based on the CMI 2018 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a for males and females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

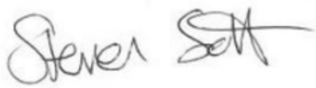
	Males	Females
Current pensioners	21.7 years	24.3 years
Future pensioners*	23.1 years	25.8 years
*Aged 45 at the 2019 Valuation.		

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

EXPERIENCE OVER THE PERIOD SINCE 31 MARCH 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March

2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019. It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.



Steven Scott FFA

20 May 2022 For and on behalf of Hymans Robertson LLP

A copy of the Actuary's full triennial valuation report for 2019 can be obtained from the Tri-Borough Pensions Team, see page 6 for contact details

6. Pension Fund Accounts

Statement of Responsibilities

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

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

THE CHIEF FINANCIAL OFFICER'S RESPONSIBILITIES

The CFO is responsible for the preparation of the Council's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the UK (the Code).

In preparing this Statement of Accounts, the CFO has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records that were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- used the going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

!

I certify that the Statement of Accounts for 2021/22 (set out on pages 20 to 130) gives a true and fair view of the financial position of the Council as at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Mike Curtis
Executive Director of Resources (CFO)
8 June 2022

Independent Auditors Report

Independent auditor's report to the members of the Royal Borough of Kensington and Chelsea's Pension Fund on the pension fund financial statements published with the pension fund annual report.

OPINION

The pension fund financial statements of Kensington and Chelsea Pension Fund (the 'pension fund') administered by the Royal Borough of Kensington and Chelsea (the "Authority") for the year ended 31 March 2020, which comprise the Fund Account, the Net Asset Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies, are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements, in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 and applicable law.

PENSION FUND FINANCIAL STATEMENTS

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 30 September 2021.

EXECUTIVE DIRECTOR OF RESOURCES' RESPONSIBILITIES FOR THE PENSION FUND FINANCIAL STATEMENTS IN THE PENSION FUND ANNUAL REPORT

Under the Local Government Pension Scheme Regulations 2013 the Executive Director of Resources of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 20120/21.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Paul Grady

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

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2020/21		Notes	2021/22
£'000			**£'000**
	Dealings with members, employers and others directly involved in the fund		
(27,189)	Contributions	7	(29,103)
(8,703)	Individual transfers in from other pension funds		(6,532)
(35,892)			(35,635)
33,847	Benefits	8	34,775
3,806	Individual Transfers Out to Other Pension Funds		6,809
91	Payments in respect of tax		0
46	Refunds to Members Leaving Service		107
135	Other expenditure		163
37,925			41,854
2,033	Net (Additions)/Withdrawals from Dealings with Members		6,219
6,690	Management Expenses	9	6,010
8,723	Net additions/withdrawals including fund management expenses		12,229
	Returns on Investments		
(5,226)	Investment income	10	(4,433)
(10)	Other Investment Income		(238)
(346,506)	Profit and Loss on disposal of investments and change in the market value of investments	11	(157,151)
96	Taxes on income		0
(351,646)	Net return on investments		(161,822)
(342,923)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(149,593)
1,138,328	Opening Net Assets of the Scheme		1,481,251
1,481,251	Closing Net Assets of the Scheme		1,630,844

NET ASSET STATEMENT

2020/21		Notes	2021/22
£'000			**£'000**
1,476,866	Investment assets	12	1,626,949
0	Investment Liabilities		0
1,476,866	Total net investments		1,626,949
6,182	Current assets	21	6,290
(1,797)	Current liabilities	22	(2,325)
0	Long term liabilities		(70)
1,481,251	Net Assets of the Fund Available to Fund Benefits at the Period End		1,630,844

The disclosure notes set out in the statement of accounts form part of the financial statements

Notes 1 Description of Kensington and Chelsea Pension Fund

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by The Royal Borough of Kensington and Chelsea. It 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 Kensington and Chelsea and the admitted and scheduled bodies in the Fund.

These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement.

The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1st April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provision, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Fund include:

- Scheduled bodies, these are statutorily defined bodies listed within the LGPS Regulations, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, these 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.

The following table summarises the membership numbers of the scheme:

	2020/21	2021/22
Active members	3,980	4030
Pensioners receiving benefits	3,283	3481
Deferred pensioners*	4,728	5345
Total	**11,991**	**12,856**

* in 2021/22 there were an additional 58 leavers (781 in 2020/21) who had not yet decided whether to defer their pension or to obtain a refund.

c) Funding

The Fund is financed by contributions and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation and the current contribution rates range from 16.1% to 25.2% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

Note 1 Description of Kensington and Chelsea Pension Fund (continued)

d) Benefits

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. The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final pensionable pay and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

e) Governance

Investment Committee

The Council has delegated the investment arrangements of the scheme to the Investment Committee (the Committee), which decides on the investment policy most suitable to meet the liabilities of the Fund and has ultimate responsibility for the investment policy.

The Committee is made up of six elected representatives of the Council, including two opposition party representatives, each of whom has voting rights. In addition, there are up to six co-opted members who may attend committee meetings, but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Town Clerk and, as necessary, from the Fund's appointed investment advisers, managers and actuary.

Pension Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Investment Committee

f) Investment Policy

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Committee approved an Investment Strategy on 10 February 2020 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Committee has delegated the management of the Fund's investments to eight professional investment managers (see Note 12) appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Northern Trust act as the Fund's global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions.

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarises the Fund's transactions for 2021/22 and its position at the year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Assets Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Council has opted to disclose this information in a note to the accounts (note 20).

It is recognised that the current environment gives rise to a risk of uncertainty and volatility in investment markets and the Fund has reviewed fund managers assessments and no material uncertainty has been identified. The Fund continues to monitor cashflows and invests in a diverse range of investment vehicles including availability to liquid assets.

Going Concern

The LGPS is a statutory, state back scheme that is 135% funded on a conservative basis and backed by an administering authority with tax raising powers. As such, the Pension Fund Accounts have been prepared on a going concern basis, with the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

The Royal Borough of Kensington and Chelsea Pension Fund remains a statutory open scheme, with a strong covenant from the active employers and is therefore able to take a long-term outlook when considering the general investment and funding implications of external events

Note 3 Summary of significant accounting policies

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

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 LGPS Regulations. Individual transfers in and out are accounted for when received or paid, which is normally when the member liability is accepted or discharged. 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

Dividends from quoted securities are accounted for when the security is declared ex-dividend.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

FUND ACCOUNT – EXPENSE ITEMS

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due, but unpaid, are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is an exempt approved fund 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. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income 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.

Note 3 Summary of significant accounting policies (continued)

f) Management Expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs 2016".

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

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

All investment management expenses are accounted for on an accruals basis. The Investment Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager's fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

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 asset 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 value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

h) Foreign Currency Transactions

Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into sterling at the rates of exchange ruling at the reporting date.

i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions that are repayable on demand without penalty.

j) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS26 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits in Note 20.

l) Additional Voluntary Contributions

Members of the Fund may choose to make Additional Voluntary Contributions (AVCs) into a separate scheme run by Prudential Assurance in order to obtain additional pensions benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year. AVCs are not included within the accounts in accordance with Regulation 4 (2)(b) of the LGPS (Management and Investment of Funds) Regulations 2016. They are disclosed in Note 23.

Notes 4 to 6

NOTE 4 - ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

The items in the Net Asset Statement at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, • a 0.1% decrease in the discount rate assumption would result in a increase in the pension liability of £31 million • a 0.1% increase in assumed earnings would increase the liabilities by approximately £5 million. • a one-year increase in assumed life expectancy would increase the liability by approximately £3million.
Unquoted Private Equity Investments	The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgments involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.	There is a risk that these investments, totalling £121.4m (£83.393 million on 31 March 2021)., may be under or overstated in the accounts. If these assets are under or over valued by 14%, this would affect the overall value of the fund by £16.9m.
Pension Fund Liability	The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS19.	These assumptions are summarised in note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.
Property Investments	The result in the global property market of volatility in global stock markets and the consequences of conflict in Western Europe, are current unknown. There is no evidence that transaction activity and the sentiment of buyers or sellers has changed. The market can therefore still be described as functioning, albeit still in the aftermath of the COVID-19 crisis.	The carrying value as at 31 March 2022 of the directly held property investments is £73.08m. It is estimated that a change in valuation of the order of 20.3% would be likely to be considered material to the Fund's accounts.

NOTE 5 - EVENTS AFTER THE BALANCE SHEET DATE

Following Committee approval and successful bidding, the Fund is progressing with the acquisition of a commercial property, costing £28.9 million.

Following Committee approval the Fund is progressing with the acquisition of a Hotel ground rent property, costing £9.1 million.

NOTE 6 - ACCOUNTING STANDARDS NOT YET ADOPTED

At the Balance Sheet date, there were no new standards or amendments yet to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom which affected the Pension Fund.

Note 7 Contributions receivable

BY CATEGORY

2020/21		2021/22
£'000		£'000
(8,211)	Employees' normal contributions	(8,811)
	Employer's contributions:	
(18,102)	Normal contributions	(19,439)
(6)	Deficit recovery contributions	(6)
(870)	Augmentation contributions	(847)
(18,978)	Total employers' contributions	(20,292)
(27,189)	**Total**	**(29,103)**

BY AUTHORITY

2020/21		2021/22
£'000		£'000
(24,403)	Administering Authority	(26,453)
(2,355)	Scheduled bodies	(2,479)
(431)	Admitted bodies	(171)
(27,189)		**(29,103)**

Note 8 Benefits Payable

BY CATEGORY

2020/21		2021/22
£'000		£'000
28,559	Pensions	29,329
4,476	Commutation and lump sum retirement benefits	4,229
812	Lump sum death benefits	1,217
33,847	**Total**	**34,775**

The Fund paid benefits to members who were previously employed by the bodies set out below.

BY AUTHORITY

2020/21		2021/22
£'000		£'000
30,313	Administering Authority	31,356
670	Scheduled Bodies	637
2,864	Admitted Bodies	2,782
33,847		**34,775**

Note 9 Management expenses

2020/21		2021/22
£'000		£'000
869	Administration Expenses	1,323
	Investment Management expenses	
4,566	Management fees	3,503
560	Transaction costs	557
52	Custody fees	40
270	Performance fees	232
373	Oversight and Governance	355
6,690	**Total**	**6,010**

Note 10 Investment income

2020/21		2021/22
£'000		£'000
(2,212)	Equity Dividends	0
(1,272)	Pooled property investments	(1,285)
(1,733)	Rental income	(3,143)
(0)	Other Investment Income	(0)
0	Private equity income	0
(9)	Interest on cash deposits	(5)
(5,226)	Total	(4,433)
96	Taxes on income	0
(5,130)	**Total**	**(4,433)**

Note 11 Movements in investments

2021/22	1 April 2022	Purchases	Sales	Change in market value	31 March 2022
	£'000	£'000	£'000	£'000	£'000
Equities	150	0	(10)	746,121	746,261
Pooled Investments	1,304,129	70,112	(99,861)	(644,297)	630,083
Pooled Property Investments	33,482	0	(11,735)	4,097	25,844
Private Equity	83,393	15,265	(24,846)	47,566	121,378
Directly Managed	41,925	27,903	0	3,252	73,080
Sub total	1,463,079	113,280	(136,452)	156,739	1,596,646
Investment income due	273			0	276
Amounts receivable for sales of investments	0			0	0
Spot FX contracts	0			(31)	0
Cash deposits	13,514			443	30,027
Amounts Payable for purchases of investments	0			0	0
Net investment assets	**1,476,866**			**157,151**	**1,626,949**

Note 11 Movement in Investments (continued)

2020/21	1 April 2020	Purchases	Sales	Change in market value	31 March 2021
	£'000	£'000	£'000	£'000	£'000
Equities	199,860	25,131	(30,484)	(194,357)	150
Pooled Investments	793,267	116,986	(130,360)	524,236	1,304,129
Pooled Property Investments	42,061	0	(8,343)	(236)	33,482
Private Equity/Infrastructure	70,468	9,373	(15,507)	19,059	83,393
Directly Managed	25,000	18,579	0	1,654	41,925
Sub total	1,130,656	170,069	(184,694)	347,048	1,463,079
Investment income due	462			0	273
Amounts receivable for sales of investments	914			1	0
Spot FX contracts	0			58	0
Cash deposits	3,232			(601)	13,514
Amounts Payable for purchases of investments	(612)			0	0
Net investment assets	**1,1134,652**	**170,069**	**(184,694)**	**346,506**	**1,476,866**

Note 12 Investments by Fund Manager

31 March 2021 Market Value	%	Fund Manager	31 March 2022 Market Value	%
£'000			£'000	
0	0.0	BlackRock	750,131	46.8
208,931	14.3	L & G Liquidity	273,580	17.1
363,316	24.8	Baillie Gifford	268,707	16.8
83,393	5.7	Adams Street	121,377	7.6
76,289	5.2	L & G Rafi Multi Factor Dev Fund	87,794	5.5
41,925	2.9	Directly Managed	73,080	4.6
13,073	0.9	KAMES	13,105	0.8
20,409	1.4	CBRE	12,739	0.8
150	-	London CIV	150	0.0
655,593	44.8	L & G Equities	1	0.0
1,463,079	100	Total held by Fund Managers	1,600,664	100
13,787		Cash held at Custody	26,285	
1,476,866		**Total Investments**	**1,626,949**	

Note 13 Investments exceeding 5%

31 March 2021 Market Value		Holding	31 March 2022 Market Value	
£'000	**% Holding**		**£'000**	**% Holding**
208,931	14.3	L & G Liquidity	273,580	17.1
363,316	24.8	Baillie Gifford	268,707	16.8
83,393	5.7	Adam Street	121,377	7.6
655,640	44.8	Total Top Holdings	663,664	41.5
1,476,866		**Total Value of Investments**	**1,626,949**	

Although several investments by Fund Manager exceed 5% of the Fund's value, the allocations to pooled funds are made up of underlying investments and each of these represents substantially less than 5%.

Note 14 Investment Property

	31 March 2021	31 March 2022
	£'000	£'000
Opening Balance	25,000	41,925
Purchases	18,579	27,903
Disposals	0	0
Net increase/ (decrease) in market value	(1,654)	3,252
Total	**41,925**	**73,080**

The future minimum lease payments are as follows:

	31 March 2021	31 March 2022
	£'000	£'000
Within one year	1,928	3,516
Between one and five years	7,652	13,347
Later than five years	5,384	12,513
Total	**14,964**	**29,376**

Note 15 Classification of Financial Instruments

Financial liabilities (creditors) at amortised cost totalled £2.395 million (£1.797 million at 31 March 2021). There were none designated as fair value through profit and loss (FVPL) at 31 March 2022 OR 31 March 2021.

The following table shows the classification of the Fund's financial assets, split between UK and overseas. All investments are quoted unless otherwise stated. The carrying value is the same as the fair value for all financial instruments held by the Fund.

Financial assets at 31 March 2021	Designated as fair value through profit and loss	Amortised Cost	**Total**	Financial assets at 31 March 2022	Designated as fair value through profit and loss	Amortised Cost	**Total**
	£'000	£'000	£'000		£'000	£'000	£'000
- UK quoted	0	-	0	- UK quoted	31,230	-	31,230
- UK unquoted	150	-	150	- UK unquoted	150	-	150
- Overseas	0	-	0	- Overseas	714,881		714,881
Sub-total	**150**	**-**	**150**	**Sub-total**	**746,261**	**-**	**746,261**
Pooled funds - investment vehicles				Pooled funds - investment vehicles			
-UK pooled liquidity fund	208,931	-	208,391	-UK pooled liquidity fund	273,580	-	273,580
-Pooled global equities	1,095,198	-	1,095,198	-Pooled global equities	356,502	-	356,502
-Pooled property investments	33,482	-	33,482	-Pooled property investments	25,844	-	25,844
-Pooled private equity funds (unquoted)	83,393	-	83,393	-Pooled private equity funds (unquoted)	121,377	-	121,377
-Investment income due		273	273	-Investment income due		-	-
-Cash with investment managers		13,514	13,514	-Cash with investment managers		30,027	30,027
-Cash with administering authority		2,618	2,618	-Cash with administering authority		2,026	2,026
-Debtors		3,565	3,564	-Debtors		4,264	4,264
Total financial assets	**1,421,154**	**19,969**	**1,441,123**	**Total financial assets**	**1,523,564**	**36,317**	**1,559,881**

Note 16 Valuation of Financial Instruments carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The definitions of the levels are detailed below and the table showing the analysis is overleaf.

Level 1 – Quoted market price

Fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – Using observable inputs

Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

The observable inputs to the Pooled Funds that are valued in this way are the evaluated price feeds, with the exception of property which is in house evaluation of market data.

Level 3 – With significant unobservable inputs

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, for example, private equity investments.

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken annually at the end of December and cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

2021/22	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
-at fair value through profit and loss	746,111	655,926	121,527	1,523,564
Total Financial Assets		**655,926**	**121,527**	**1,523,564**
Non-financial assets				
-at fair value through profit and loss	-	-	73,080	73,080
Total non-financial assets	**746,101**	**655,926**	**194,607**	**1,596,644**
Financial liabilities				
-at fair value through profit and loss	-	-	-	-
Total financial liabilities	-	-	-	-
Net financial assets	**746,101**	**655,926**	**194,607**	**1,596,644**

2020/21	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
-at fair value through profit and loss	-	1,337,611	83,543	1,421,154
Total Financial Assets		**1,337,611**	**83,543**	**1,421,154**
Non-financial Assets				
-at fair value through profit and loss	-	-	41,925	41,925
Total non-financial assets	-	-	**41,925**	**41,925**
Financial liabilities				
-at fair value through profit and loss	-	-	-	-
Total financial liabilities	-	-	-	-
Net financial assets		**1,337,611**	**125,468**	**1,463,079**

Note 16 continued

Reconciliation of Movements in Level 3

The following table provides a reconciliation of movements in level 3:

	MV 31 March 2021	Purchases	Sales	Change in MV	MV 31 March 2022
	£'000	£'000	£'000	£'000	£'000
London LGPS CIV	150	-	-	-	150
Overseas Venture Capital	83,393	15,265	(24,846)	47,566	121,378
Directly held property	41,925	27,903	0	3,252	73,080
Total	**125,468**	**43,168**	**(24,846)**	**50,818**	**194,608**

Sensitivity of Assets at Level 3

	Valuation Range	Value 31 March	Value on increase	Value on Decrease
	%	£'000	£'000	£'000
Overseas Venture Capital	2.42	121,378	124,316	118,441
Total		**121,378**	**124,316**	**118,441**

If the valuation of the underlying companies within the private equity portfolio was out by 2.42% this would alter the value of the Fund's investment assets in this class by £2.9 million. The % valuation sensitivity represents the estimate for movement in valuation from the audited accounts as at 31 December 2021 to an estimated value as at 31 March 2022. This valuation is carried out by the Fund's global custodian, who adjusts for all capital calls and distributions and provide a market value adjustment based on market movements over the period. For the private equity movement to be considered material the valuation would have to change by 12.19%

Description of asset	Valuation hierarchy 21/22	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Segregated UK Equities	Level 1	Equity Live Prices close of business 31st March	Equity bid prices	Not Required
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
Pooled Property Funds	Level 2	The Pension Fund's Property Funds are priced on a Single Swinging Price.	In house evaluation of market data	Not required
Private Equity	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue Multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts
Directly managed property	Level 3	Independent valuations conducted by external RICS valuer	Rental values, yields, vacancy rates	Valuations can be impacted by global events outside of the property area.

Note 17 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities and will be unable to pay pensions due. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

In response to the escalating conflict in Europe, the UK government and other international agencies imposed a variety of sanctions on Russia. The Fund engaged with fund managers as events unfolded and can confirm only private equity manager, Adam Street, hold a small exposure to Russian investments, totalling approximately 0.014% (£225,000) of total fund value. Given the private/illiquid nature of the investments it is inherently more difficult to extricate from private equity funds than any other type of investment asset. Officers continue to monitor the situation with fund managers.

Responsibility for the Fund's investment strategy rests with the Committee and is reviewed on a regular basis, along with the Pension Fund Risk Register. The Fund had achieved fully funded status by the 2016 valuation, and this has been maintained as at the 2019 valuation.

a) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. 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 on risk.

Price risk

Price risk arises from the potential for the value of financial instruments to 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 price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

All assets with the exception of cash, unquoted equities, debtors and creditors are exposed to price risk. The value of the assets exposed to price movements along with what the value would have been if prices had been higher or lower in accordance with a single spread of variance for the relevant asset class is shown below.

Assets exposed to price risk	Value	Volatility	Value on price increase	Value on price decrease
	£'000	%	£'000	£'000
Equity	1,102,612	14.0	1,256,979	948,247
Private Equity	121,377	14.0	138,370	104,384
Property	98,924	2.3	101,199	96,649
Total Assets	1,322,914		1,496,548	1,149,280

Note 17 Nature and extent of risks arising from Financial Instruments (continued)

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash 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 Committee recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

Elements of the pooled investment vehicles (e.g. fixed interest securities and cash) are exposed to interest rate risk. The value of the assets exposed to interest rate movements along with sensitivity analysis is presented below. The table demonstrates the movement in asset value if the interest rate increased or decreased by 1%, used as a prudent value based on historical Bank of England rate movements

Assets exposed to interest rate risk	Value	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2022	303,607	306,643	300,571
As at 31 March 2021	222,445	224,669	220,220

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 pounds sterling.

Overseas equities, overseas index linked securities, cash in foreign currencies, and some elements of the pooled investment vehicles are exposed to currency risk. The table below shows the value of these assets at the Balance Sheet date and what the value would have been, in accordance with volatility advised by an external consultant.

Assets exposed to currency risk	Volatility	Value	Value on increase	Value on decrease
	%	£'000	£'000	£'000
Australian Dollar	8.2	15,853	17,146	14,561
Canadian Dollar	6.2	26,138	27,764	24,512
EURO	5.6	61,154	64,575	57,733
Japanese Yen	9.2	44,106	48,176	40,033
US Dollar	8.3	720,415	780,246	660,584
As 31 March 2022		867,666	937,909	797,423
As 31 March 2021	7.7	1,144,077	1,232,170	1,055,983

b) 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 fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur.

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings and majority of its assets are liquid assets. The only assets in the Fund which cannot be liquidated within a month are the private equity assets.

NOTE 18 CONTRACTUAL COMMITMENTS

As at 31 March 2022, the Fund has outstanding commitments of $71.2 million / £54.1 million (31 March 2021: $91.2m / £66.1m), to a variety of Adams Street private equity funds of funds. It is anticipated that these commitments will be spread over the next ten years and will be largely offset by cash distributions from the investments made since 2007.

Note 19 Funding Arrangements

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The last such valuation for the Fund was carried out by Barnett Waddingham, as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund and Regulation 62 of the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report which can be found on the Council's website. The next valuation will take place as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026.

The funding policy is set out in the Funding Strategy Statement. The key elements of the funding policy are to:

- Set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund, and
- Build up the required assets in such a way that employer contribution rates are kept as low and as stable as possible.

During 2021/22, the common contribution rate was 21.3% (17.5% at previous valuation 2016) of pensionable pay to be paid by each employing body participating in the Fund. In addition, each employing body must pay an individual adjustment to reflect its own circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuarial valuation, done using the projected unit method, is based on financial and statistical assumptions, the main ones being:

Financial assumptions	March 2013 %	March 2016 %	March 2019 %
Consumer Price Index (CPI) increases	2.7	2.4	2.6
Salary increases	4.5	3.9	3.6
Pension increases	2.7	2.4	2.6
Discount rate	5.9	4.9	4.3

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the full valuation of the scheme as at 31 March 2016; the latest valuation as at 31 March 2019 will be reflected in the 2020/21 accounts. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026.

Other assumptions:

- Commutation – an allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits
- 50/50 scheme allowances – it is assumed that 5% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme
- Mortality projections – long term rate of improvement of 1.25% per annum

The actuary's smoothed market value of the scheme's assets at 31 March 2019 was £1,189m and the Actuary assessed the present value of the funded obligation at £951m. This indicates a net surplus of £236m, which equates to a funding position of 125% (2016: £26m and 103%).

Note 20 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2022. The figures have been prepared by the Fund's actuary, only for the purposes of providing the information required by IAS 26 (Accounting and Reporting by Retirement Benefit Plans). In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the below net liability, the actuary adopted methods and assumptions that are consistent with IAS 19. In conducting the 2019 actuarial valuation referred to in Note 19, the Actuary will take into account the investment policy when determining the assumptions to be used.

31 March 2021		31 March 2022
£m		£m
(1,614)	Present Value of Promised Retirement Benefits	(1,569)
1,477	Fair Value of scheme assets (bid value)	1,627
(137)	**Net Liability**	**58**

FINANCIAL ASSUMPTIONS

	31 March 2021 %	31 March 2022 %
Consumer Price Index (CPI) increases	2.85	3.20
Salary increases	3.85	4.20
Pension increases	2.85	3.20
Discount rate	2.00	2.70

DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S3PMA tables with a multiplier of 110% for males and 105% for females. Improvements are in line with CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing, initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a. for both males and females.

Life expectancy from age 65 years		31 March 2021	31 March 2022
Retiring today	Males	21.6	21.4
	Females	24.3	24.1
Retiring in 20 years	Males	22.9	22.9
	Females	25.7	26.1

OTHER ASSUMPTIONS

- Members will exchange half of their commutable pension for cash at retirement
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits

Note 21 Current Assets

31 March 2021		31 March 2022
£'000		£'000
	Debtors:	
2,259	Contributions due - employers	2,562
612	Contributions due - employees	833
693	Sundry debtors	869
3,564	Sub-total	4,264
2,618	Cash balances	2,026
6,182	**Total**	**6,290**

ANALYSIS OF DEBTORS

31 March 2021		31 March 2022
£'000		£'000
0	Central Government Bodies	0
978	Other entities and individuals	1,047
2,586	Administering Authority	3,217
0	Other local authorities	0
3,564	**Total**	**4,264**

Note 22 Current Liabilities

31 March 2021		31 March 2022
£'000		£'000
	Creditors:	
(62)	Benefits payable	(129)
(1,735)	Sundry creditors	(2,196)
(1,797)	Sub-total	(2,325)
0	Cash overdrawn	0
(1,797)	**Total**	**(2,325)**

ANALYSIS OF CREDITORS

31 March 2021		31 March 2022
£'000		£'000
(392)	Central Government Bodies	(147)
(253)	Other entities and individuals	(832)
(613)	Administering Authority	(1,346)
(539)	Other local authorities	(0)
(1,797)	**Total**	**(2,325)**

Notes 23 to 27

NOTE 23 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Council has arranged for current members to make additional payments through its payroll into a variety of funds operated by Prudential Assurance according to individuals' preferences. These funds are invested in equities, bonds, property and cash. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, do not permit AVC to be paid into the Fund, so they are not included in these accounts.

During 2021/22, AVC of £0.446 were paid to the provider, Prudential (£0.496 million during 2020/21). The market value of these funds at 31 March 2022 is £4.258million (£4.134million at 31 March 2021).

NOTE 24 RELATED PARTY TRANSACTIONS

The Fund is administered by RBKC who also provide the pension administration services. The Council also has a shared service arrangement with Westminster City Council for oversight and governance services. Costs incurred and reimbursed for RBKC Council and Westminster City Council totalled £1.439 million and £0.110 million respectively in the financial year 2021/22 (£0.599 million & £0.097 million respectively in 2020/21). The increase in RBKC costs is due to the Council providing pension administration services since 1 April 2021, taking over from Surrey County Council.

In year, and in total, the Council contributed £15.352 to the Fund compared to £14.129 million in 2020/21. At 31 March 2022 the Council owed the Pension Fund a net amount of £3.217 million (£2.586 million at 31 March 2021).

They key management personnel of the Fund are the Members of the Committee, the Executive Director of Resources and the Tri-Borough Director of Pensions and Treasury. During the year, £0.003m was payable to key management personnel, however there was as reduction in costs to the pension fund of post-employment benefits due to a significant fall in the discount rate of future pension payments. £0.126 million in 2020/21 was payable to key management personnel by the Pension Fund. Total remuneration payable to key management personnel from the Pension Fund is set out below:

31 March 2021		31 March 2020
£'000		£'000
47	Short-term benefits	35
78	Post-employment benefits	(32)
126	**Total**	**3**

NOTE 25 AGENCY SERVICES

The Fund pays discretionary awards to the former employees of the Council. The amounts are not included within the Fund Account as they are not expenses or income related to the Pension Fund but are provided as a service and fully reclaimed from the Council. During 2021/22, the Fund paid the gross sum of £0.223 million (£0.226 million in 2020/21) on behalf of RBKC.

NOTE 26 EXTERNAL AUDIT COSTS

The external audit fee payable to the Fund's external auditors, Grant Thornton, was £0.050 million (£0.045 million in 2020/21).

NOTE 27 CONTINGENT LIABILITIES

The Pension Fund had no contingent liabilities for 2021/22.

7.

Glossary

Glossary of Terms

ACCOUNTING POLICIES

The rules and practices adopted by the Authority that determine how the transactions and events are reflected in the accounts.

ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

ACTUARY

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

ADMITTED BODY

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

ASSET ALLOCATION

The apportionment of a Fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

BENCHMARK

A measure against which the investment policy or performance of an investment manager can be compared.

BONDS

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code of Accounting Practice for Local Authorities, see "The Code" below.

CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

DEFINED BENEFIT SCHEME

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

EMPLOYER CONTRIBUTION RATES

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

EQUITIES

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (eg shares) or a contractual right to receive cash or another asset from another entity (eg debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (eg derivatives).

FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (eg creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (eg derivatives).

FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

INDEX

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and the accrued benefits for members in service on the valuation date.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- 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 interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

RETURN

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

SCHEDULED BODY

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they ‘present fairly’ the financial position of the Council. The Code has statutory status via the provisions of the Local Government Act 2003.

UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

8. Appendices

Appendix 1 - Governance Compliance Statement

BACKGROUND

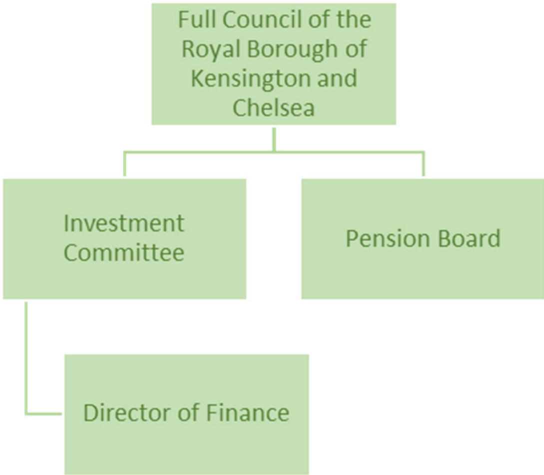
The Royal Borough of Kensington and Chelsea is the administering authority for the Royal Borough of Kensington and Chelsea Pension Fund ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

The Full Council has delegated its functions in relation to the Pension Fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.

The diagram below shows the governance structure in place for the Fund.



NB: The Town Clerk carried out the role of section 151 officer up to March 2017. Since then s151 responsibilities, and hence the Town Clerk's role in pension fund governance and administration, have been carried out by the Executive Director of Resources

Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Investment Committee. The role of the Investment Committee is to take responsibility for all aspects of the investment and other management activity of the Fund.

The Committee is made up of six elected members - four administration councillors and two opposition councillors. The Chairman is appointed by the Full Council. There are also four co-opted non-voting independent members to provide additional advice to the Committee.

All Councillors on the Committee have voting rights. In the event of an equality of votes, the Chairman shall have a second casting vote. Where the Chairman is not in attendance, the Vice-Chairman has the casting vote.

The Committee meets four times a year and may convene additional meetings as required. Three members of the Committee are required to attend for a meeting to be quorate.

The terms of reference for the Committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of officers and that of any investment advisers.
2. To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.

Governance Compliance Statement (continued)

5. To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review admission policies relating to admission agreements with admission bodies where there is not an automatic transfer under TUPE regulations.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To receive and consider the Auditor's report on the governance of the Pension Fund.
11. To determine any other investment or pension fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies.

PENSIONS BOARD

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pensions Board to assist them. The Royal Borough of Kensington and Chelsea Pensions Board was established by full Council on 4 March 2015.

The role of the Pensions Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Investment Committee. The membership of the Board is as follows:

- Two employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Two scheme members representatives from the Council or an admitted or scheduled body.

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year.

COMPLIANCE WITH STATUTORY GUIDANCE

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in the pages below.

REVIEW OF STATEMENT

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

Governance Compliance Statement (continued)

Appendix to Governance Compliance Statement

Compliance Requirement	Compliance	Notes
Structure		
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	As set out in terms of reference of the Investment Committee and the Administration Committee.
That representatives of participating LGPS employers, admitted bodies 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.	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Investment Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Investment Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an *ad hoc* basis).	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Investment Committee. Expert advisers attend the Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Investment Committee, on which co-optees are treated in the same way as Members.
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Investment Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Investment Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Investment Committee

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Compliant	As set out in the Council's allowances and training policies.
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Compliant	As set out in the Council's constitution
Meetings		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	As set out in terms of reference of the Investment Committee
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	All Pension Fund matters are considered by the Investment Committee.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Compliant	Represented on the Pensions Board
Access		
That 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	As set out in the Council's constitution
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	as set out in terms of reference of the Investment Committee
Publicity		
That 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	All meeting minutes, reports and Pension Fund policies are published on the Council's website

Appendix 2 – Royal Borough of Kensington and Chelsea Investment Strategy Statement

1. INTRODUCTION

1.1 This is the Investment Strategy Statement (ISS) adopted by the Royal Borough of Kensington and Chelsea Pension Fund ("the Fund"), which is administered by the Royal Borough of Kensington and Chelsea ("the Administering Authority").

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund is required to publish this ISS. The Regulations require administering authorities to outline how they meet each of the six objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

• A requirement to invest fund money in a wide range of instruments;

• The authority's assessment of the suitability of particular investments and types of investment;

• The authority's approach to risk, including the ways in which risks are to be measured and managed;

• The authority's approach to pooling investments, including the use of collective investment vehicles;

• The authority's policy on how social, environmental and governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

• The authority's policy on the exercise of rights (including voting rights) attaching to investments.

We deal with each of these in turn below.

1.3 The Investment Committee of the Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Investment Committee owe a fiduciary duty similar to that of trustees to the council tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Committee within the Council's Constitution are:

The Committee's responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council's Pension Fund, including, but not limited to, the following matters:

• decide the overall investment strategy and strategic asset allocation of the pension fund, reporting to Council as necessary;

• decide how the Pension Fund is invested and to appoint investment managers, global custodians, actuaries and any other professional independent external advisors necessary for the good stewardship of the Pension Fund;

• monitor performance of the Pension Fund, the individual fund managers and other external advisors;

• authorise the acquisition and sale of investment properties which are or to be held within the direct property portfolio in the Pension Fund;

• prepare, publish and ensure compliance with the ISS, the Funding Strategy Statement (FSS), the Business Plan, the Governance Compliance Statement and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy;

• approve policy on environmental, social and governance (ESG) considerations and on the exercise of share voting rights;

• approve any other investment or pension policies that may be required to comply with regulations or good practice in the management of pension funds and to make any decisions in accordance with those policies;

• approve and publish the Pension Fund Annual Report and Accounts, reporting it to Council for information;

• receive actuarial valuations of the Pension Fund regarding the overall funding level and the level of employers' contributions necessary to maintain the Pension Fund and to make recommendations to the Council about the level of contributions required;

• consider any proposed legislative changes in respect of the pension fund and to respond to government consultations;

• receive and consider the external auditor's report on the governance of the pension fund;

• decide on the admission to and cessation of bodies to the pension fund.

The Investment Committee has responsibility for:

• Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;

• Monitoring compliance with this Investment Strategy Statement and reviewing its contents;

• Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment consultants;

• Setting performance benchmarks and reviewing investment manager performance against these benchmarks on a regular basis

• Reviewing the managers' expertise and the quality and sustainability of their investment processes, procedures, risk management, internal controls and key personnel;

• Reviewing policy on environmental, social, governance and ethical matters and on the exercise of rights, including voting rights;

• Reviewing the investments over which they retain control and obtaining advice about them regularly from the Investment Consultant. The Investment Committee will also obtain written advice from the Investment Consultant when deciding whether or not to make any new investments.

The Executive Director for Resources and Assets, along with the Tri-Borough Director, appointed consultants and actuaries to support the Investment Committee. The day-to-day management of the Fund's assets is delegated to investment managers..

1.5 This ISS will be reviewed at least once a year, or more frequently as required, in particular, following valuations, future asset/liability studies and investment performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations, the Investment Strategy Statement was required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Investment Regulations, this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Investment Committee discharges its stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk are discussed in more detail later in this ISS. However, at this stage it is important to state that the Investment Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Investment Committee recognises that the Fund should have an investment strategy that has:

•Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.

•Diversity in the asset classes used

•Diversity in the approaches to the management of the underlying assets.

2.3 This approach to diversification has seen the Fund dividing its assets into four broad categories: global equities, fixed Income, property and alternatives. The size of the assets invested in each category will vary depending on investment conditions, the strategic asset allocation can be found within appendix C. However, it is important to note that each category is itself diversified. A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.4 The main risk that the Investment Committee is concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result, the Investment Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Investment Committee considers excessive.

At all times, the Investment Committee takes the view that its investment decisions, including those involving diversification, should be in the best long-term interest of Fund beneficiaries and minimise calls on the Council's resources.

2.5 To mitigate these risks the Investment Committee regularly reviews both the performance and expected returns of the Fund's investments to measure whether it has met and is likely to meet in future its return objectives. In addition to keeping its investment strategy and policy under regular review, the Investment Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments, The Royal Borough of Kensington and Chelsea Pension Fund takes into account a number of factors:

• The prospective return;
• Risk;
• Concentration in a particular asset-type;
• Risk management qualities of the asset type and relative to the portfolio as a whole;
• Geographic and currency exposures;

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark against which reported performance is measured.

3.3 The Investment Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end it monitors the investment returns and the volatility of the individual investments, together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available, the Investment Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Investment Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Investment Committee recognises that there are a number of risks involved in the investment of the assets of the Fund, amongst which are the following:

4.2 Geopolitical and currency risks:

• are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and

• are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

• is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and

• is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

• are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and

• are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

• is measured by the level of cash flow required over a specified period; and

• is managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

4.6 Custodial risk:

• is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement. The risks to the Fund are controlled in the following ways:

• The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach, while permitting the flexibility for managers to enhance returns.

• The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk.

4.8 The investment management agreements (IMA) constrain the managers' actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Investment Committee is aware that investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact that this has on contributions.

4.10 The Fund and the Investment Committee are of the view that the diversification of the Fund's assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy, the Investment Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

4.11 Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets, it is much more difficult. The Investment Committee is also mindful that correlations change over time and, at times of stress, can be significantly different from when they are in more benign market conditions.

4.11 To help manage risk, the Investment Committee uses an external investment adviser to monitor the risk. In addition, when carrying out their investment strategy review, the Investment Committee also have different investment advisers assessing the level of risk involved.

4.12 The Fund targets a prudent long-term return of 4.3 per cent per annum and the Fund's investment strategy is considered to have a degree of volatility.

4.13 When reviewing the investment strategy, the Investment Committee considers advice from its advisers and the need to take additional steps to protect the value of the assets or to realise capital gains should the opportunity arise.

4.14 At each review of the Investment Strategy Statement, the assumptions on risk and return and their impact on asset allocation will be reviewed.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles

5.1 The Fund recognises the Government's wish for LGPS funds to pool their investments and is committed to pursuing pooling solutions if they benefit the fund.

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

5.3 At each review of the investment strategy, which will happen at least every three years, the investment of the Fund's assets will be actively considered by the Fund and, in particular, whether a collective investment option is available or appropriate

6 Objective 7.2(e): How social, environmental or corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 The Investment Committee has considered socially responsible investment (SRI) in the context of its legal and fiduciary duties and obligations. The Committee takes the view that non-financial factors should not drive the investment process at the cost of financial return on the Fund.

6.2 The Fund does not actively disinvest in companies for ethical, social or environmental reasons as this may impact on fund returns and would not accord with its principal objectives. The Investment Committee does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Investment Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

6.3 As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved performance in the managers through which it invests. It is clear that adverse publicity relating to low corporate, environmental or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers.

6.4 All of the managers through which the Fund invests comply with the United Nations Principles for Responsible Investment (UNPRI). The Investment Committee is reassured by this that its assets are being invested responsibly.

6.5 Committee members are also keen to engage with managers on their active voting records, particularly where, with policies such as remuneration, this could have an impact on shareholder value

6.6 The Committee considers climate change risk on its risk register (appendix D) along with other ESG risks.

7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

7.1 The Fund is committed to making full use of its shareholder rights, and this is covered in 6.4 and 6.5. The Investment Committee has delegated the Fund's voting rights to the investment managers who are required, where practical, to make considered use of voting in the interests of the Fund. The Investment Committee expects the investment managers to vote in the best interests of the Fund.

7.2 The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports. The exercise of shareholders' rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service (ISS), Pensions and Lifetime Savings Association (PLSA) and the Association of British Insurers (ABI).

8 Feedback on this statement

Any feedback on this Investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues, then please contact:

Tri-Borough Treasury and Pensions Team

pensioninvestment@rbkc.gov.uk

Appendix A of the Investment Strategy Statement

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012".

The Fund aims to comply with all of the Myners Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hopwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Full Compliance

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS. The Investment Committee is made up of elected members of the Council who each have voting rights, as well as co-opted members recruited for their experience and skill in the governance of pension funds.

The Investment Committee obtains and considers advice from the Executive Director for Resources and Assets, Tri-Borough Director, Corporate Finance, and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Investment Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually and progress is monitored on a quarterly basis.

Several of the Investment Committee members have extensive experience of dealing with Investment matters and training is made available to new Investment Committee members.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis. The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial actuarial valuation taking place in 2019. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in appendix C

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The Investment Committee has appointed investment managers with clear index strategic benchmarks within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Mercer, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover, portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Investment Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition, the Investment Committee receives quarterly reports as to how the Fund has performed against their investment objective.

Principle 5 – Responsible Ownership

Administering authorities should:

• Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.
• Include a statement of their policy on responsible ownership in the statement of investment principles.
• Report periodically to scheme members on the discharge of such responsibilities.

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 6 of the ISS and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's SRI Policy.

Principle 6 – Transparency and reporting

Administering authorities should:

• Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.
• Provide regular communications to scheme members in the form they consider most appropriate.

Full Compliance

Appendix A of the Investment Strategy Statement (continued)

Links to the Governance Compliance Statement, the ISS, the FSS, the SRI Policy and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

Appendix B (of the Investment Strategy Statement)

Compliance with the Stewardship Code

The Stewardship Code is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC), directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

The seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities

The Stewardship responsibilities are outlined in section 1.4 of the ISS, which outlines the terms of reference of the Investment Committee. Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The Investment Committee actively monitors the Fund Managers through quarterly performance analysis, periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- Fund manager performance;
- Investment Process compliance and changes;
- Changes in personnel (joiners and leavers);
- Significant portfolio developments;
- Breaches of the IMA;
- Business wins and losses; and
- Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to Investment Committee members via the Council's intranet site. All the Fund's managers, listed below, have signed up to the United Nations Principles for Responsible investment. The investment managers used by the Fund are: Adams Street (private equity), Baillie Gifford (active global equity), CBRE (property), Kames (property), Legal and General (passive global equity and cash), Longview (active global equity) and Pyrford (absolute return).

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Investment Committee encourages its fund managers to have effective policies addressing potential conflicts of interest. Investment Committee members are also required to make declarations of interest prior to all Investment Committee meetings.

3. Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy. Reports from fund managers on voting and engagement activity are received and will be reported to the Investment Committee members on a quarterly basis. Concerns are raised directly with the fund managers and issues raised are reported back to the Investment Committee at the subsequent Investment Committee meeting. Fund manager Internal Control reports are monitored, with breaches reported back to the Investment Committee.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy. The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. Willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies. Where possible, the Fund seeks to exercise its voting rights attached to its non- UK equity holdings by delegation through Power of Attorneys. On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues.

Appendix B (of the Investment Strategy Statement)

6. Have a clear policy on voting and disclosure of voting activity.

The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the ISS.

7. Report periodically on their stewardship and voting activities.

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.

The Fund's annual report includes information about the Fund's voting and engagement work.

Appendix C (of the Investment Strategy Statement)

The strategic asset allocation as at 31 March 2022:

	Strategic Target	Review Range
Listed Equity	**70%**	**+/- 5%**
Baillie Gifford – Global Active	20%	+/-3%
BlackRock Global Passive	50%	+/-3%
Private Equity	**5%**	**+/-2%**
Adam Street	5%	+/-2%
Property	**20%**	**+5/-2%**
Directly managed	20%	+5/-2%
Cash	**5%**	**n/a**
LGIM Stirling Liquidity Fund		
Cash held with custodian		
Total	**100.0%**	

Appendix D (of the Investment Strategy Statement) - Pension Fund risk register

Risk Group	Risk Ref.	Risk Description	Impact				Likelihood	Current risk score	Mitigation actions	Revised likelihood	Total risk score	Updated on
			Fund	Employers	Reputation	Total						
Administrative and Communicative Risk	1	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	**22**	**TREAT** 1) Levels of accuracy measured and monitoring reports prepared and presented to Pension Board. 2) Dedicated staff on in-house Data Recovery team are reviewing all historical cases 3) Systems provider has provided training to in-house system users.	1	**11**	March 2022
Administrative and Communicative Risk	2	Failure of fund manager/service provider without notice, resulting in a period of time without service, or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	**18**	**TREAT** 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Actuarial services procured through the national LGPS Frameworks.	1	**9**	March 2022
Administrative and Communicative Risk	3	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	2	**18**	**TREAT** 1) The Pensions Administration team are set up to work from home. 2) Staff have necessary hardware and software to enable secure, collaborative working across teams. The team have continued to operate throughout.	1	**9**	March 2022
Administrative and Communicative Risk	4	Failure of financial system causing disruption of payments to suppliers	1	3	4	8	2	**16**	**TRANSFER** 1) Contract in place with Hampshire CC to provide payment service	1	**8**	March 2022

Administrative and Communicative Risk	5	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	**16**	**TREAT** 1) System security and data security is in place 2) Business continuity plans regularly reviewed, communicated and tested 3) Internal control mechanisms ensure safe custody and security of LGPS assets. 4) Assurance from the Fund's custodian regarding their cyber security compliance.	1	**8**	March 2022
Administrative and Communicative Risk	6	Individuals transferring out without financial advice or understanding of repercussions, or potentially falling victim to scams.	2	2	4	8	2	**16**	**TREAT** 1) Information is circulated with pension newsletters to raise awareness of scams and highlight that individuals should seek independent advice before making any decisions.	1	**8**	March 2022
Administrative and Communicative Risk	7	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	**14**	**TREAT** 1) Option to submit prior month BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators / software suppliers.	1	**7**	March 2022
Administrative and Communicative Risk	8	Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	**12**	**TREAT** 1) Regular reconciliations are undertaken of pension benefits. 2) If an underpayments occurs, arrears are paid as soon as possible, usually in the next monthly	1	**6**	March 2022
Administrative and Communicative Risk	9	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	**9**	**TREAT** 1) Pension administration records are stored on servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue. All files are backed up daily.	2	**6**	March 2022
Asset and Investment Risk	10	The global outbreak of COVID-19 impacting stock markets worldwide, as well uncertainty surrounding illiquid asset values including property and infrastructure.	5	4	2	11	3	**33**	**TREAT** 1) Officers will continue to monitor the impact on an ongoing basis and are in frequent contact with Fund Managers and the Funds investment advisor. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation is consistently reviewed. *Pension Board expressed concerns that reoccurrence of restrictions due to COVID could result in the risk trending upwards. Officers believe that as at February 2022 the outlook looks positive as the Government announces relaxing of remaining restrictions, but will continue to monitor the risk.*	3	**33**	March 2022

Asset and Investment Risk	11	Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and the economic after effects.	4	4	1	9	2	**18**	**TOLERATE/TREAT** 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements.	3	**27**	March 2022
Asset and Investment Risk	12	That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious	5	4	3	12	2	**24**	**TOLERATE** 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. 2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives. 3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director. 4) RBKC does not currently hold any assets with LCIV.	2	**24**	March 2022
Liability Risk	33	Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	**TREAT** 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. *The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.*	2	**22**	March 2022
Asset and Investment Risk	13	Significant volatility and negative sentiment in global investment markets following disruptive events. *The situation in Eastern Europe and the uncertainties around the impact of rising inflation has surged volatility.*	5	4	1	10	3	**30**	**TREAT** 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Review of investment strategy involving continuing portfolio diversification and risk control. 3) Full investment strategy review has followed the actuarial 2019 valuation	2	**20**	March 2022
Asset and Investment Risk	16	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. Recognition of continued growth of the of BRIC economies and their reliance on fossil fuels	3	2	5	10	2	**20**	**TREAT** 1) Review ISS in relation to published best practice (e.g. Stewardship Code) and publish first RI statement. 2) Ensure fund managers are encouraged to engage with investee companies. 3) The Fund may give future consideration to investing in lower carbon assets. The Council declared a Climate Emergency with an aim of becoming net zero by 2030 and carbon neutral by 2040 4) The Fund is a member of LAPFF *Risk continues to trend upwards as companies face increased scrutiny on ESG issues.*	2	**20**	March 2022

Liability Risk	34	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by approx. 0.1%	5	3	2	10	3	**30**	**TREAT** 1) The fund holds real assets including a growing portfolio of direct property, to mitigate CPI risk. 2) Global equities also provide a degree of inflation protection. 3) Officers continue to monitor the increases in CPI inflation.	2	**20**	March 2022
liability Risk	35	Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	**20**	**TOLERATE** 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014). *Employee pay rises currently remain below inflation.*	2	**20**	March 2022
Asset and Investment Risk	14	Investment managers fail to achieve benchmark/ outperformance targets over the longer term	5	3	1	9	3	**27**	**TREAT** 1) The Investment Management Agreements (IMAs) clearly state RBKC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Investment Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Investment Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	**18**	March 2022
Asset and Investment Risk	15	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	3	2	1	6	3	**18**	**TREAT** 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	**18**	March 2022
Asset and Investment Risk	20	There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	2	11	2	**22**	**TREAT** 1) Cashflow forecast maintained and monitored. Cashflow requirement is a factor in current investment strategy review. *The Fund is holding liquid assets in anticipation of property purchases*	1	**11**	March 2022

Asset and Investment Risk	21	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	**22**	**TREAT** 1) Active investment strategy and asset allocation monitoring from Investment Committee, officers and consultants. 2) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	**11**	March 2022
Asset and Investment Risk	22	Financial loss of cash investments from fraudulent activity	3	3	5	11	2	**22**	**TREAT** 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. 2) Strong governance arrangements; Internal Audit assist in the implementation of strong internal controls. 3) All Fund Managers to provide annual internal control reports.	1	**11**	March 2022
Asset and Investment Risk	23	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	**22**	**TREAT** 1) Data encryption technology is in place which allows the secure transmission of data to external service providers. 2) RBKC IT data security policy adhered to. 3) Implementation of GDPR and online training for officers.	1	**11**	March 2022
Asset and Investment Risk	24	A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	**22**	**TREAT** 1) Maintain links with central government and national bodies to keep abreast of national issues. 2) Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**11**	March 2022
Asset and Investment Risk	25	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	**TREAT** 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. 2) Committee and officers scrutinise and challenge advice provided.	1	**10**	March 2022
Asset and Investment Risk	26	Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	**20**	**TREAT** 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	March 2022

Asset and Investment Risk	27	Failure of global custodian or counterparty.	5	3	2	10	2	**20**	**TREAT** 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Procurement team continue to review credit rating.	1	**10**	March 2022
Asset and Investment Risk	28	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	**TREAT** 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	**10**	March 2022
Asset and Investment Risk	29	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements.	5	3	2	10	2	**20**	**TREAT** 1) Proportion of total asset allocation made up of: equities, property and cash, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	**10**	March 2022
Asset and Investment Risk	30	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	3	4	2	9	2	**18**	**TREAT** 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	**9**	March 2022

Employer Risk	31	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	**27**	**TREAT** 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Within the commercial contract it is RBKC policy that Admitted Bodies are required to buy bonds to cover situations such as if they are unable to meet their financial liabilities to the pension fund. The purchasing of the bonds is monitored by the Retained Pensions Team	2	**18**	March 2022
Employer Risk	32	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	**22**	**TREAT** 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. 2) Regular monitoring of employers and follow up of expiring bonds.	1	**11**	March 2022
Asset and Investment Risk	17	Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with volatility in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	**24**	**TREAT** 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy review, involving portfolio diversification and risk control.	2	**16**	March 2022
Asset and Investment Risk	18	London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	**24**	**TREAT** 1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) LCIV recently appointed a new CEO and CIO	2	**16**	March 2022
Liability Risk	19	Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	**16**	**TREAT** 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. 2) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures.	2	**16**	March 2022
Liability Risk	36	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	1	**10**	**TOLERATE** 1) Political power required to effect the change. *No evidence of increase in requests*	1	**10**	March 2022

Liability Risk	37	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	**14**	**TOLERATE** 1) Review "budgets" at each triennial valuation and challenge actuary as required. 2)Charge capital cost of ill health retirements to admitted bodies at the time of occurring. 3) Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	**14**	March 2022
Liability Risk	38	Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	**26**	**TREAT** 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	**13**	March 2022
Liability Risk	39	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	**TREAT** 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes.	1	**10**	March 2022
Liability Risk	40	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	**TREAT** 1) Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 2) Cashflow position monitored monthly.	1	**9**	March 2022
Liability Risk	41	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	**10**	**TREAT** 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**	March 2022
Liability Risk	42	Failure to identify Guaranteed Minimum Payment (GMP) liability leads to ongoing costs for the pension fund.	1	2	1	4	2	**8**	**TREAT** 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	**4**	March 2022
Regulatory and Compliance Risk	43	Failure of securely send sensitive data and any unidentified data flows being sent insecurely	4	3	5	12	2	**24**	**TREAT** 1) Introduction of IConnect system forces employers to submit securely through the portal.	1	**12**	March 2022
Regulatory and Compliance Risk	44	Changes to LGPS Regulations	3	2	1	6	3	**18**	**TREAT** 1) Future impacts on employer contributions and cash flows will considered during the actuarial valuation process. 2) Fund will respond to consultation processes. 3) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored.	2	**12**	March 2022

								4) Impact of Regulations 8 (compulsory pooling) to be monitored.			
Regulatory and Compliance Risk	45	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	**20**	**TREAT** 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	**10**	March 2022
Regulatory and Compliance Risk	46	Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	**18**	**TREAT** 1) Ensure that a cooperative, effective and transparent dialogue exists between the Investment Committee and Local Pension Board.	1	**9**	March 2022
Regulatory and Compliance Risk	47	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	**16**	**TREAT** 1) Good internal management controls that are assessed on an annual basis by internal and external audit as well as council officers. 2) Strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff complete GDPR training	1	**8**	March 2022
Regulatory and Compliance Risk	48	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	**TREAT** 1) Maintain links with central government and national bodies to keep abreast of national issues. 2) Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**	March 2022
Reputational Risk	49	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	**15**	**TREAT** 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review has followed the actuarial 2019 valuation.	3	**15**	March 2022
Reputational Risk	50	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	**22**	**TREAT** 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	**11**	March 2022

Reputational Risk	51	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	**20**	**TREAT** 1) Third parties are regulated by the FCA and separation of duties are in place. 2) Annual review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) External audit 2019/20 showed satisfactory assurance with recommendations implemented during the year.	1	**10**	March 2022
Reputational Risk	52	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	2	2	3	7	2	**14**	**TREAT** 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. 2) Actuarial and investment management services procured through the national LGPS Frameworks. 3) Pooled funds are not subject to OJEU rules.	1	**7**	March 2022
Resource and Skill Risk	53	Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	TREAT 1) Process notes shared amongst team members 2) Continuous development of team members 3) Officers and members of the Investment Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**	March 2022
Resource and Skill Risk	54	Change in membership of Investment Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	**20**	TREAT 1) Succession planning process in place. 2) Ongoing training of Investment Committee members and inductions for new members. 3) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer. *IC have appointed 2 new experienced Members*	2	**10**	March 2022
Resource and Skill Risk	55	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	**20**	TREAT 1) Person specifications used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. Officers maintain their CPD by attending training events and conferences. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge.	1	**10**	March 2022
Resource and Skill Risk	56	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	**18**	**TREAT** 1) External professional advice is sought where required.	1	**9**	March 2022

									Knowledge and skills policy in place (subject to Committee Approval)			
Resource and Skill Risk	57	Loss of 'Elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	4	2	2	8	2	**16**	**TREAT** 1) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2) Training programme and log in place to ensure knowledge and understanding is kept up to date. 3) Existing and new Officer appointments subject to requirements for professional qualifications and CPD. Tri-Borough Staff undertake CFA Qualification	1	**8**	March 2022
Resource and Skill Risk	58	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	2	3	6	2	**12**	**TREAT** 1) Pension Administration service moved in house as of April 2021, a 5 year forecast provisions for additional staff and continued training. 2) Ongoing monitoring of KPIs	1	**6**	March 2022
Resource and Skill Risk	59	Failure to detect material errors in the bank reconciliation process.	2	2	2	6	2	**12**	**TREAT** 1) Bank reconciliation carried out in-house by the pensions team and submitted to auditors at year end.	1	**6**	March 2022
Resource and Skill Risk	60	Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	**12**	**TREAT** 1) Officers regularly attend training seminars and conferences 2) Designated officer in place to record and organise training sessions for officers and members	1	**6**	March 2022
Resource and Skill Risk	61	Lack of productivity leads to impaired performance.	2	2	1	5	2	**10**	**TREAT** 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**	March 2022
Resource and Skill Risk	62	Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	**12**	**TREAT** 1) Reconciliation process notes are reviewed and shared by the Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is regularly undertaken.	1	**4**	March 2022

Appendix 3 - Communication Policy

1. Background

1.1. The Local Government Pension Scheme Regulations 2013, Regulation 61 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

1.2. This is the Local Government Pension Scheme (LGPS) Communications Policy Statement for The Royal Borough of Kensington & Chelsea (RBKC) Pension Fund.

1.3. RBKC in its capacity as the Administering Authority engages with other employers (in the form of Admitted bodies and Scheduled Bodies) and has approximately 3671 active members, 4723 deferred members, and 3208 pensioners including widows/widowers/children.

1.4. This policy document sets out the mechanisms that RBKC uses to meet its communication responsibilities.

2. Roles and Responsibilities Overview

RBKC Pensions team

2.1. The Pensions Team is responsible for setting the pensions administration management strategy which includes the drafting of this document and the allocation of communication responsibilities, including those to all third parties.

2.2. It is also responsible for the day-to-day transaction pension administration service for the RBKC Pension Scheme. This includes producing high quality, timely and accurate pensions communications to scheme memes and employers.

2.3. The Retained Pensions Team will devise and approve significant communications prior to them being issued, including any drafted by third parties such as Hampshire County Council (HCC) and other third-party outsourced payroll providers.

Hampshire County Council (HCC) and other third-party payroll providers for RBKC scheme members

2.4. HCC is responsible for the day to day transactional HR and payroll services for RBKC non-school's staff. Other third-party payroll providers will provide transactional HR and payroll services for RBKC schools staff and other employers within the RBKC pension fund. Within the context of this policy all third-party HR and payroll transactional services providers are responsible for the quality, timeliness and accuracy of communications within their normal business activities.

2.5. They are also responsible for communicating specific pension-related projects and tasks agreed and allocated to them by the RBKC Pensions Team.

3. How information is communicated

3.1. Information about the RBKC LGPS is communicated in a variety of ways to scheme members and prospective scheme members, primarily as follows:

Type of information	How it is communicated
General information about the RBKC LGPS, policies, practices, standard forms, for scheme members and employers	Via the RBKC LGPS website: www.rbkcpensionfund.org
Scheme member pension portal to securely access personal pension record, view benefit statements, run pension projections, complete nominated beneficiary data, etc.	Via the RBKC pension portal: www.mypension.rbkc.gov.uk Passwords are issued by RBKC pensions from 1.4.2021
Member-specific notifications	Annual Benefit Statement for active and deferred members (each August) Annual Pensions Increase notification to RBKC pensioners (each April) Newsletters and emails from RBKC Pensions, as required
Generic LGPS policies	Via the LGPS member website: www.lgpsmember.org
RBKC employer-specific guidance	Via email from RBKC Pensions to all scheme employers, as required. This supplements information on the RBKC Pension Fund website.

3.2. A full list of the communication types is given below:

Communication type	Paper Based	Portal	Intranet	Face to Face	Electric	Frequency of issue	Communication method	Active member	Deferred Members	Pensioner	Prospective Members	Employers	Union Reps	Pension Fund Committee	Pension Board	Residents and taxpayer	Media	Other stakeholders
Joiner information with Scheme details	✓	✓				During the recruitment process and on request	Sent to home address/via employers				✓	✓	✓					
Newsletters	✓	✓				Annually and/or when the scheme changes	Sent to home address/via employers	✓	✓	✓	✓	✓	✓					
Fund reports and accounts			✓			Continually available	Link publicised	✓										
Annual Benefits Statements		✓				Annually and on request	Sent to home address and/or via employers for active members. Sent to home address for deferred members	✓	✓									
Factsheets	✓	✓				On request	On request	✓	✓	✓	✓	✓						
Roadshows				✓		When major scheme changes occur	Advertised in newsletters, via posters	✓										
Face to face personal discussion				✓		On request to Surrey County Council	Advertised in newsletters, via posters	✓	✓	✓	✓							
Posters	✓					When requested	Displayed in the workplace				✓							
Employers Guide		✓				Continually available	On request					✓						
Employers meetings				✓		Annually	Notifications sent					✓						
Briefing papers					✓	When required	With Committee papers dispatch							✓	✓			
Committee reports	✓					With committee cycle	With Committee papers dispatch							✓	✓			
Training and development				✓	✓	Available and/or as requested	On request	✓			✓			✓	✓			
Press releases					✓	As required	Email										✓	
Other employers joining the fund					✓	As required	Email											✓
Pensions disputes IDRP					✓	As required	Email											✓
Statutory returns and questionnaires					✓	As required								✓	✓			✓

Appendix 3 – Communication Policy (continued)

4. Further details about what is communicated

Joiner information with Scheme details
A document providing an overview of the LGPS, including who can join, the contribution rates, the retirement and death benefits and how to increase the value of benefits.

Newsletters
An annual newsletter which provides updates on changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming roadshows and contact details.

Fund Report and Accounts
Details of the value of the Pension Fund during the financial year, income and expenditure etc. These documents can be accessed using the following link: *http://www.rbkcpensionfund.org/*

Annual Benefit Statements
For active members these include the value of current and projected benefits. The associated death benefits are also shown along with details of any individuals nominated to receive the lump sum death grant. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets
Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pensions increases.

Roadshows
As required a representative from the RBKC Pensions Team will visit a work location in the borough to provide a presentation on a pension topic of interest.

Face to face/personal discussions.
Face to face discussions with a representative from the RBKC Pensions Team to discuss personal circumstances.

Posters and intranet
These are to engage with staff who are not in the LGPS to support them to understand the benefits of participating in the scheme and provide guidance on how to join.

Employers' Guide
A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications.

Employers meeting
A formal seminar style event with various speakers covering topical LGPS issues.

Briefing papers
Formal briefings that highlight key issues or developments relating to the LGPS and the Fund, these are used by senior managers when attending committee meetings.

Committee papers
Formal documents setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Training and Development.
Pension issues are included in appropriate training and development events – specific pension training and development events are run at significant times such as when the scheme changes.

Press releases
Bulletins providing briefing commentary on RBKC's opinion on various matters relating to the Pension Fund, for example. the actuarial valuation results.

Other employers joining the fund
A legal requirement to notify both organisations of the name and type of employer entering the Fund (i.e. following the admission of third-party service providers into the scheme).

Pension disputes IDRP
Formal notification of pension dispute resolutions to the complainant, together with any additional correspondence relating to the dispute.

Statutory returns and questionnaires
Statutory and various questionnaires that are received, requesting specific information in relation to the structure of the LGPS or the composition of the Fund.

Statutory returns and questionnaires
Statutory and various questionnaires that are received, requesting specific information in relation to the structure of the LGPS or the composition of the Fund.

5. Further information

More information about the RBKC LGPS is available from:

RBKC Pensions Team
Maria Bailey
Pensions Operational Manager
3rd Floor Green Zone
Royal Borough of Kensington and Chelsea
Town Hall
Hornton Street
London
W8 7NX

Email maria.bailey@rbkc.gov.uk or pensions@rbkc.gov.uk
Website www.rbkcpensionfund.org
Phone 0207 361 2323

Appendix 4 - Funding Strategy Statement

1. Purpose of the Funding Strategy Statement

1.1 The purpose of this Funding Strategy Statement (FSS) is to:

• Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;

• Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;

• Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and

• Take a prudent longer-term view of funding those liabilities.

2. Purpose of the Fund

2.1 The aims of the Fund are to:

• Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;

• Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and

• Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

• Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;

• Meet the costs associated in administering the Fund; and

• Receive and invest contributions, transfer values and investment income.

3. Funding Objectives

3.1 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

• Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;

• Ensure the solvency of the Fund;

• Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;

• Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and

• Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

3.2 In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

4. Key Parties

4.1 The key parties involved in the funding process and their responsibilities are set out below.

The Administering Authority

4.2 The administering authority for the Fund is the Royal Borough of Kensington and Chelsea. The main responsibilities of the administering authority are to:

• Operate the Fund in accordance with the LGPS Regulations;

• Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;

• Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;

Appendix 4 – Funding Strategy Statement (continued)

• Pay the benefits due to Scheme members as stipulated in the Regulations;

• Ensure that cash is available to meet liabilities as and when they fall due;

• Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;

• Manage the actuarial valuation process in conjunction with the Fund Actuary;

• Prepare and maintain this FSS and also the ISS after consultation with other interested parties;

• Monitor all aspects of the Fund's performance;

• Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and

• Enable the Local Pension Board to review the valuation process as they see fit.

Scheme Employers

4.3 In addition to the administering authority, a number of other Scheme employers participate in the Fund.

4.4 The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

• Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;

• Notify the administering authority of any new Scheme members and any other membership changes promptly;

• Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;

• Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and

• Pay any exit payments due on ceasing participation in the Fund.

Scheme Members

4.5 Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

4.6 The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

• Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;

• Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;

• Provide advice and valuations on the exiting of employers from the Fund;

• Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;

• Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;

• Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and

• Advise on other actuarial matters affecting the financial position of the Fund..

5. Funding Strategy

5.1 The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

5.2 The most recent actuarial valuation of the Fund was carried out as at 31 March 2019.

5.3 The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

5.4 The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

6. Funding Method

6.1 The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

6.2 The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

6.3 For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

• The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and

• The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

6.4 The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

6.5 The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

6.6 For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

6.7 For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

6.8 The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

7. Valuation Assumptions and Funding Model

7.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

7.2 The assumptions adopted at the valuation can therefore be considered as:

• The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and

• The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future Price Inflation

7.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future Pension Increases

7.4 Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future Pay Increases

7.5 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future Investment Returns/Discount Rate

7.6 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

7.7 The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

7.8 A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.3% p.a.

Asset Valuation

7.9 For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

7.10 The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic Assumptions

7.11 The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

7.12 Further details of the assumptions adopted are included in the Fund's 2019 valuation report

McCloud/Sargeant judgements

7.13 The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

7.14 In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

7.15 Further details of this can be found below in the Regulatory risks section.

7.16 At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

7.17 As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

7.18 On 22 January 2018, the government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

7.19 The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

8. Deficit Recovery/Surplus Amortisation Periods

8.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

8.2 Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment will usually be set as a fixed monetary amount.

8.3 Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise a proportion of the surplus.

8.4 The deficit recovery period or amortisation period that is adopted, and the proportion of any surplus that is amortised, for any particular employer will depend on:

• The significance of the surplus or deficit relative to that employer's liabilities;

• The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;

• The remaining contract length of an employer in the Fund (if applicable); and

• The implications in terms of stability of future levels of employers' contribution.

8.5 In general, the proportion of surplus that was amortised at the 2019 valuation was limited to one third to protect the Fund's funding position against adverse market conditions and other uncertainties and risks.

9. Pooling of Individual Employers

9.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

9.2 However, academy employers are pooled for the purposes of determining contribution rates to recognise the common characteristics of these employers.

9.3 The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

9.4 Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

Forming/disbanding a funding pool

9.5 Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

9.6 Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

9.7 Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

10. New employers joining the Fund

10.1 When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

11. Admission bodies

11.1 New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

11.2 Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

11.3 However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

11.4 The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only.

11.5 Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

11.6 To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

10.7 If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

12. New academies

12.1 When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

12.2 On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

12.3 The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

13. Cessation Valuations

13.1 When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

13.2 Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

• It may be agreed with the administering authority that the exit payment can be spread over some agreed period;

• the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or

• the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

13.3 Amendments to the LGPS Regulations which came into effect from May 2018 allow flexibility over the payment of exit credits to employers where there is a surplus at the exit date. Given that the Fund will retain the long term risks associated with the residual liabilities of ceasing employers, it is possible that adverse future experience may lead to a deficit arising at some point after the date of exit and this would need to be funded by the other employers in the Fund. Therefore, in order to protect the Fund and the remaining active employers, the policy of the Fund is that no exit credit shall be paid to an employer on exit where a surplus is calculated as part of the cessation valuation and the employer's exit payment in this scenario shall be certified as nil.

13.4 In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

13.5 For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

13.6 If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position.

14. Bulk Transfers

14.1 Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

14.2 The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

14.3 A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

15 Links with the Investment Strategy Statement (ISS)

15.1 The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

15.2 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

16. Risks and Counter Measures

16.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

16.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

17. Financial Risks

17.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

17.2 The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 2%, and decrease/increase the required employer contribution by around 0.8% of payroll p.a.

17.3 However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

17.4 The Committee may also seek advice from the Fund Actuary on valuation related matters.

17.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

18. Demographic Risks

18.1 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

18.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

18.3 The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

18.4 The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

19. Maturity risk

19.1 The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

19.2 The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

19.3 The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

20. Regulatory Risks

20.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

20.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

20.3 However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

20.4 There are a number of general risks to the Fund and the LGPS, including:

•If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.

•The potential effects of GMP equalisation between males and females, if implemented, are not yet known.

•More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.

•The State Pension Age is due to be reviewed by the government in the next few years.

20.5 At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

20.6 The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

20.7 The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

20.8 However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

20.9 The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the

Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

20.10 At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

20.11 On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

• amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;

• a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;

• proposals for flexibility on exit payments;

• proposals for further policy changes to exit credits; and

• proposals for changes to the employers required to offer LGPS membership.

20.12 The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019. A partial government response was issued in February 2020 concerning flexibility around the payment of exit credits only, which has been reflected in this FSS and discussed in the "Cessation valuations" section above. We await the outcome of the consultation regarding the other proposals.

Timing of future actuarial valuations

20.13 LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Changes to employers required to offer LGPS membership

20.14 At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

20.15 With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile for these employers. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

20.16 This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

20.17 There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

21. Employer risks

21.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

• Structural changes in an individual employer's membership;

• An individual employer deciding to close the Scheme to new employees; and

• An employer ceasing to exist without having fully funded their pension liabilities.

21.2 However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

21.3 In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

22. Governance risks

22.1 Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

23. Monitoring and Review

23.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

23.2 The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

23.3 The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

23.4 The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

APPROVED BY THE INVESTMENT COMMITTEE 10 FEBRUARY 2020

Appendix 5 - Pensions Administration Strategy

1. Introduction

The delivery of a high quality, cost effective local government pensions administration service is not just the responsibility of the Administering Authority (Royal Borough of Kensington & Chelsea [RBKC]), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pensions Administration Strategy (PAS) is to ensure that the Administering Authority along with its Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance with the terms set out in the schedule of charging in Section 6.

2. PAS Policy Statement

Pensions Administration Strategy Policy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from a scheme Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions and/or complying with its obligations under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administrating Authority is to have in place a pension management system that meets the needs of the stakeholders by:

• clarifying the roles and responsibilities of all the major stakeholders.

• ensuring the services provided by all the major stakeholders are accessible, equitable and transparent

• assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

• the standard of expected service between the Administrating Authority and Employers

• a schedule of charges that may apply when standards of service fall below expectations

• a strategy in place to develop web enabled services for Employers and employees.

Other documents which make up the overall strategy

• Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

The main responsibilities of the Administering Authority are:

- To monitor scheme employer compliance with their responsibilities under the LGPS regulations and elsewhere.
- To decide how any previous service or the employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
- To notify each member regarding the counting of membership in the scheme.
- To set up and maintain a record for each member of the scheme which contains all the information

Appendix 5 – Pension Administration Strategy (continued)

necessary to produce an accurate pension benefit calculation following the employer providing useable, accurate and timely financial data.

- To calculate and pay the appropriate pension benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.
- To supply beneficiaries with details of their entitlements including the method of calculation.
- To set up and maintain a record for each pensioner member.
- To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.
- To pay benefits to the correct beneficiaries only, and to take steps to reduce the possibility of fraud taking place.
- To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013 (statements of policy concerning communications with members and Scheme employers).
- To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP)
- To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.
- To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and provide periodical actuarial advice and any other valuations when required.
- To arrange and manage the triennial valuation of the pension fund.
- To ensure compliance with the Data Protection Act 2018.

Scheme Employers

The main responsibilities of a Scheme Employer are:

- To decide who is eligible to become a member of the Scheme, in accordance with LGPS eligibility requirements.
- To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion which the employees' contractual hours relate to the hours of a comparable full time employee.
- To determine the pensionable pay of employees for the purposes of calculating employee and employer pension contributions, in accordance with LGPS regulations.
- To determine final pay for the purposes of calculating benefits due from the Scheme, in accordance with LGPS regulations.
- To issue a notification to any employee who cannot become members of the Scheme, explaining the reason(s) why.
- Where, after reasonable efforts, an employee fails to provide information relating to previous service, to provide basic information to the Administrating Authority as required by the Administering Authority.
- At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit, and to notify the Administrating Authority and the Scheme member of the decision.
- To supply timely and accurate information each month (and at financial year-end) to the Administering Authority (or during any other additional periods as may be required by the Administrating Authority) to ensure the correct calculation of benefits payable from the Scheme. The submission format(s) and submission date(s) of such data must meet the requirements of the Administering Authority.
- To deduct Additional Voluntary Contributions (AVCs) from a member's pay and to pay over to the AVC provider within the statutory deadlines.
- To be responsible for exercising the discretionary powers given to Employers by the LGPS regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.
- To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.
- To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the

Administrating Authority in determining ill health retirement.

- To repay to the Scheme member any incorrectly deducted employee's contributions.
- To provide the Administrating Authority with an audited copy of the final annual statement for the financial year, which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested by the Administering Authority. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.
- To be responsible for complying with the requirements for funding early retirement for whatever reason as set out in the rates and adjustments certificate issued by the Actuary following the triennial valuation of the fund, or any other interim valuation of the fund by the Actuary.
- Pay the Administrating Authority interest on payments due from the Employer which are overdue by more than one month.
- Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Administrating Authority.
- To ensure compliance with Data Protection Act 2018.

4. Liaison, engagement and communication strategy

The Administrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy. The policy will include a strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

This policy document will set out the mechanisms that the Administrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

The Administrating Authority will annually issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

Appendix 5 – Pension Administration Strategy (continued)

5. Standards of expected service between the Administration Authority and Scheme employer

AA = Administration authority E = Employer

Who	Administration Description	Performance Targets	Acceptable performance
	New Starters and Transfers in		
E	New Starter The Employer to give potential new members the pensions information contained in the most recent starter pack.	Within 20 working days before the new employee's first day of employment.	100% compliance within the target
E	New scheme member Employer to send to the Administrating Authority the details of the new member.	Within 25 working days after the scheme membership start date.	100% compliance within the target
AA	New scheme member Administrating Authority to create a new pension record from the completed notification from the Employer	Within 20 working days from the date of notification	100% compliance within the target
AA	New scheme member: Administrating Authority to request a transfer quote from the new member's previous scheme.	Within 20 working days of receipt of authorisation from the employee	100% compliance within the target
AA	New scheme member: Administrating Authority to credit member record with membership due from transfer of previous pension benefits.	Within 20 working days of receipt of payment from previous pension scheme.	100% compliance within the target
AA	New Scheme member: Notification of service purchased by an incoming transfer to be provided to the scheme new member.	Within 20 working days of receipt of the all the information.	100% compliance within the target
	Existing members and schemes		
AA	Changes to data which materially affect actual or potential benefit calculations to be processed.	Within 20 working days of occurrence or receipt of all necessary information, whichever is later.	100% compliance within the target
AA	Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.	Within 20 working days of receipt of all necessary information.	100% compliance within the target
AA	Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.	Within 20 working days of receipt of all necessary information.	100% compliance within the target
AA	The terms of purchasing additional pension to be notified to the member concerned.	Within 10 working days of receipt of all necessary information.	100% compliance within the target
AA or E	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 20 working days of receipt of all necessary information following the elapse of any period before which the contributions can be refunded.	100% compliance within the target

AA	Upon receipt of a death notification from an Employer of a pensioner; arrangements put in place for pension payments to cease immediately	Within 1 working day of receipt of all necessary information.	100% compliance within the target
AA	Upon receipt of a death notification from an Employer of a pensioner, letters will be sent to next of kin or other relevant party. Setting up of any dependents pension.	Within 10 working days of receipt of notification of a death. Within 10 working days of receipt of all necessary information.	100% compliance within the target
	Leavers and Transfers out		
E	Leaver: Employer to send the Administrating Authority a completed leaver notification	Within 25 working days from the employee's last day in the Scheme.	100% compliance within the target
AA	Leaver: Administrating Authority to issue a statement of deferred benefits as appropriate.	Within 20 working days of receiving the correctly completed leaver form from the Employer.	100% compliance within the target
AA	Leaver: Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV).	Within 20 working days of receipt of request.	100% compliance within the target
E	Retirements: Employer to send the Administrating Authority a completed retirement notification.	Within 5 working days of the employee's retirement date.	100% compliance within the target
AA	Retirements: Administrating Authority to send benefit options to member together with relevant forms required for payment of retirement benefits.	Within 7 working days of receiving notification from the Employer.	100% compliance within the target
AA	Retirements: Administrating Authority to arrange the payment of Lump Sum if due,	Retirements: Administrating Authority to arrange the payment of Lump Sum if due.	100% compliance within the target
AA	Retirements: Administrating Authority to arrange payment of Annual Pension (paid monthly)	On the next available monthly pensioner payroll run, provided the cut-off date for input has not already passed, and provided the Administering Authority has received the correctly completed Pension Options Form and any other required data from the Member.	100% compliance within the target
	Deductions		
E	Employee contribution rate: To apply the appropriate LGPS employee banding tier to the scheme member, based on their actual pensionable pay in each pay period x 12, to arrive at the appropriate annual banding tier defined in the regulations.	In each pay period.	100% compliance within the target
E	Monthly deductions: Employer to send a monthly payment for all contributions, a monthly schedule of deductions from each scheme member's salary, and a monthly remittance summary, to the Administering Authority. Payments of contributions by cheque are not acceptable, only by BACS or CHAPS will be accepted.	By the 19th day of the month following the month in which contributions were deducted, or the working day immediately prior to this if the 19th falls on a weekend or bank holiday.	100% compliance within the target

	The monthly schedule of member deductions and the monthly remittance must be in a format specified by the Administering Authority. Only one payment of contributions, one schedule of deductions, and one monthly remittance will be accepted from each employer for each month. An employer running multiple payrolls for the same employer or weekly / fortnightly payrolls will be required to combine all data and all payments onto a single return and single payment for the month. Where the Administering Authority requires data to be returned in an electronic format (e.g. for iConnect), the Employer must comply with the formatting and submission requirements as specified by the Administering Authority.		
E	Year-End Provide the Administering Authority with a year-end schedule of all scheme member deductions and any other required information for the financial year, in a format determined by the Administering Authority.	By 30 April annually	100% compliance within the target
	Pensioners		
AA	Payslips: Every pensioner to receive a monthly pension advice payslip in the months of March and April. Thereafter, a hard copy payslip will be generated only where the net pension alters by ten pounds (£10) or more from the previous month.	March and April	100% compliance within the target
AA	Increases or decreases: Notify the pensioners of the increase or decrease and its effect on their pension by standard letter.	In the month of the payment increase or decrease	100% compliance within the target
	Advisory & Communications		
AA	Contact centre Answer phone calls and deal with queries from members and employers.	On working days between the hours of 9.00 am and 5.00 pm	100% compliance within the target
	Complaints		
AA	All complaints to be acknowledged. A full written response to a complaint must be sent to the complainant	Within 5 working days. Within 20 working days of its receipt by the Administering Authority, subject to all necessary information being available to enable a full response to be given. If all necessary information is not available a holding reply will be sent to the complainant which indicates when a full response will be provided.	100% compliance within the target

6. Pensions Administration Strategy - Schedule of Charging

The Administering Authority has the right to recover from the Employer any additional costs that it may incur because of an Employer's poor performance in respect of its obligations to the LGPS, which includes the Employer's inability to provide data in an accurate and timely manner to the Administering Authority.

It is expected that the Administering Authority will have constructive dialogue with any employer that is failing to meet any of its obligations under the LGPS. The final decision on whether to impose costs or charges rests with the Administering Authority. Employers have a duty to seek advice from the Administering Authority if they experience any difficulties in meeting their obligations. In accordance with the regulations the Administrating Authority will give the reasons for imposing any charges or recovering any additional costs in incurs.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employer in respect of compliance with the LGPS regulations has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.
- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services.
- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administrating Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

The following schedule identifies the standard charges that the Administering Authority may apply in cases associated with the administration of starters, transfers-in, leavers, transfers-out and the monthly submission of employee and employer pension contributions and schedule of deductions to the Administering Authority.

7. Further Information

Maria Bailey, Pensions Manager, Retained HR team
Email: Maria.Bailey@rbkc.gov.uk
Phone: 020 7361 2323

Administration Description	Performance Targets	Charge
New Starters and Transfers in		
New Scheme Member: Employer to send to the Administrating Authority the details of the new member	Within 25 working days after the start date	£50 per case
Leavers and Transfers out		
Scheme Leaver: Employer to send the Administrating Authority a completed leaver notification	Within 25 days from the employee's last day in the Scheme	£50 per case
Retirements: Employer to send the Administrating Authority a completed notification	Within 5 working days of the employee's retirement date.	£50 per case
Deductions		
Monthly deductions: Employer to send funds and a fully compliant remittance and schedule of deductions from salary to the Administering Authority, and an iConnect electronic submission (where required by the Administering Authority).	By the 19th day of the month following the month in which contributions were deducted	£100 per instance of late delivery per month £100 per instance of failure to provide a fully compliant remittance and/or schedule
Year-End Provide the Administering Authority with a year-end schedule of all scheme member deductions and any other required information for the financial year, in a format determined by the Administering Authority.	By 30 April annually	£100 per instance of late delivery £100 per instance of failure to provide a fully compliant year-end return.

Appendix 6 – Annual Report of the Local Pension Board 21/22

The role of the Local Pension Board is to assist the scheme manager (the administering authority) in securing compliance with:

- The scheme regulations
- Other governance and administration legislation
- Any requirements of the Pensions Regulator (tPR)
- Additional matters, if specified by scheme regulations

The Local Pension Board is required to have an equal number of representatives from employers and scheme members. Other types of members such as independent experts are not precluded but will not have a vote.

The law requires Local Pension Board members to have knowledge and understanding of relevant pension laws and to have a working knowledge of the LGPS, its governance and documentation. Members' focus should be on governance processes involved in running the fund, including regular review of policies and strategies to ensure compliance with the Pensions Regulator and best practice requirements are met. This is in distinct from the role of the Investment Committee which involves carrying out a decision-making function.

The Pension Board now typically meet just ahead Investment Committee's quarterly meeting in order that the Board can, where appropriate, review papers to be considered and give their observations to the Investment Committee.

At a national level, the LGPS Scheme Advisory Board (SAB) consists of representatives from across a broad spectrum of LGPS stakeholders. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues by being reactive and proactive. Separate SABs exist for the schemes in England and Wales, Scotland and Northern Ireland.

Elected Members

- Councillor Charles Williams (Chairman)
- Councillor Malcolm Spalding

Appointees

- Ms Lynn Myers
- Mr Kenneth Davison
- Mr Andrew Almond

During the year 2021/22 the Board met four times:

- 29 June 2021
- 29 September 2021
- 6 December 2021
- 22 December 2021

During the year, the Board had a varied and extensive work programme covering the following areas:

- The monitoring of quarterly fund investment performance
- Reports detailing the Fund's financial management, including cash flow and scrutiny of the fund risk register
- Pensions administration key performance indicators
- Business planning and Pension fund costs

The Board underwent the following training in the year:

- The Board attended two half-day bespoke training events that took place in November 2022, and July 2022, and covered the following topics
  - Introduction to the roles of committee and boards
  - The macro-economic outlook and long- term global outlook for markets
  - Review of different asset classes and portfolio construction
  - Diversity in the asset management industry
  - Responsible investment and carbon net zero
  - LGPS current developments
  - Physical climate risk management
  - Responsible investment
  - How asset managers approach risk management
  - Environmental risk
  - 2022 actuarial valuation perspective and funding updates
  - Development of government requirements for carbon reporting
  - Pension administration admission agreement overview

Councillor Charles Williams

Chairman of RBKC Local Pension Board