Royal Borough of Kensington and Chelsea

Pension Fund Annual Report and Accounts

for the year ended 31 March 2018

Contents

Section 1

Preface and Introduction

Report from Chair of the Investment Committee

WELCOME TO THE ANNUAL REPORT OF THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA PENSION FUND

On behalf of the 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 2018.

Over the past year, the Fund's assets have increased by £30 million, (approximately 3%) and now stand at £1.082 billion. Investment returns were positive despite significant market volatility and the strengthening of sterling over the course of the year by 12% against the US dollar. The fund operates a global strategy, which means when the pound strengthens its assets fall in sterling terms and vice versa. Over the long term such fluctuations cancel out but by maintaining exposure to a highly diverse universe of opportunities we outperform versus a more narrowly UK-only focused strategy.

The fund continues to have a high weighting to equities. While this strategy has served us well over the last decade, we will begin to reduce our equity weighting over the coming year and will explore other asset classes, including direct property. We remain alert to new complex mechanisms to part investors from their funds and will always seek to cut out unnecessary fees as well as avoiding 'black box' solutions. Our fund will be invested in real assets we, and our stakeholders, can understand.

After the pleasing actuarial findings in the 2016 triennial actuarial valuation which indicated the Fund was 103% funded, the latest actuarial update shows a funding level of 123%. The excellent investment returns of over 30% since the 2016 valuation have contributed to this healthy funding level.

In July 2015, the Government announced that it wanted to see LGPS funds pool their investments to reduce costs and facilitate improved governance while maintaining overall investment performance. We share the Government's objective to reduce unnecessary costs.

Finally, I would like to take this opportunity to thank my colleagues on the Investment Committee, Local Pension Board, our advisers, employer organisations and the Pension Fund team involved in the management of the Pension Fund during 2017-18.

Cllr Quentin Marshall

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. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2016, was used to set contribution rates with effect from 1 April 2017 through to April 2020.

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.
- The **funding position**, with a statement from the Fund's actuary.
- **The Fund's annual accounts** for the year ended 31 March 2018.
- A **glossary** of some of the more technical terms.
- A number of **Appendices** setting out the various policy statements of the Fund.

Chris Buss
Director of Resources and Assets and s151 officer
Royal Borough of Kensington and Chelsea

- FURTHER INFORMATION

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
5 The Strand
London
WC2N 5HR

Telephone: 020 7641 6925

Email: pensionfund2@rbkc.gov.uk

Section 2

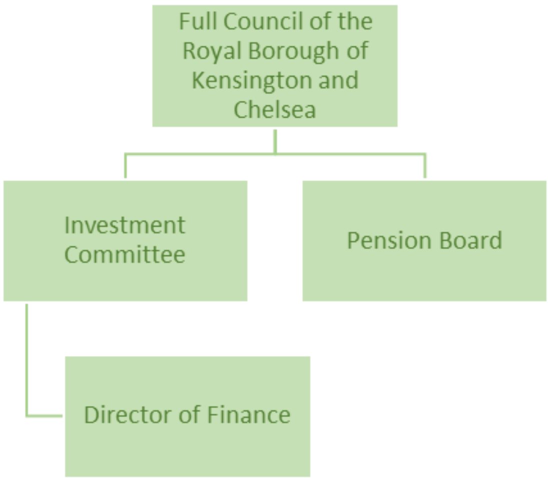
Management and Financial Performance

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 Director of Finance, 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). Membership of the Committee in 2017/18 was 6 elected councillors plus 4 co-opted non-voting members. Attendance was as follows:

	May 2017	Sept 2017	Nov 2017	Feb 2018
Cllr Marshall (Chairman)	YES	YES	YES	YES
Cllr Lightfoot (Vice Chair)	YES	YES	YES	YES
Cllr Littler	NO	NO	YES	YES
Cllr Rinker	YES	YES	YES	YES
Cllr Warrick	YES	YES	YES	YES
Cllr Weale	N/A	NO	YES	N/A
Sir M Craig Cooper	NO	NO	YES	YES
Hon Alderman J Cox	YES	YES	YES	NO
Mr J Read	NO	NO	YES	YES
Mr K Sternberg (appointed Nov 16)	YES	YES	YES	NO

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 three employer representatives plus three scheme members representatives. Attendance information is set out below:

	July 2017	Jan 2018
Mr T Aherne (Chair)	YES	YES
Mr J Williams (Vice Chair)	YES	NO
Mr M Spalding	YES	YES
Mr C Farrer (appointed Nov 16)	NO	YES
Mr K Davison	YES	YES
Ms L Myers	YES	YES

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 City of Westminster, London Borough of Hammersmith & Fulham and The Royal Borough of Kensington and Chelsea 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 Statements of Investment Principles and Funding Strategy Statements so that each retains sovereignty over decision making.

EXTERNAL ADVISORS

External advisors are appointed on fixed term contracts following a formal invitation to tender and appraisal process 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	Chris Buss, Director of Finance	
Tri-Borough Pensions Team	Tri-Borough Director of Treasury and Pensions: Pete Carpenter to July 2017 Phil Triggs from December 2017 Tri-Borough Pensions Team: Matt Hopson Miriam Adams Alex Robertson	 Yvonne Thompson-Hoyte Sue Hands Jaimina Shah
Director of Human Resources	Debbie Morris	
Pensions Manager	Maria Bailey	

Investment Adviser	Hymans Robertson to September 2017 - Mercer from October 2017	
Investment Managers	Adams Street Partners Baillie Gifford CBRE Global Investors Legal & General	Longview Asset Management Kames Capital Pyrford LLP
Custodian	Northern Trust	
Banker	Nat West	
Actuary	Barnett Waddingham	
Auditor	KPMG LLP	
Legal Adviser	Eversheds	
Scheme Administrators	Surrey County Council	
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 is maintained in a format compliant with that used for the Council's Corporate Risk Register. The Register is subject to annual review by the Pension Board.

This reflects the high level of funding achieved through successful investment strategies in prior years.

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

Risk area identified	Mitigating action in place	Responsibility
The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	Tri-Borough Director of Treasury and Pensions
Pension legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	Tri-Borough Director of Treasury and Pensions Director of Human Resources
Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	The fund has successfully opted up with all managers and third parties as required by the deadline. Monitoring in place to ensure the fund remains opted up, with training packages for new members and officers.	Tri-Borough Director of Treasury and Pensions
The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required to correctly administer the LGPS for scheme members.	A log of known data issues is being kept and a plan to address these will be developed and aligned to the outcome of the data analysis done by actuaries. Shortfalls in the range or quality of inherited data are being raised with Capita to determine the cause and identify what measures can be put in place to rectify the deficiency.	Director of Human Resources

Risk Management (continued)

THIRD PARTY RISKS

Fund manager /Custodian	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Pyrford	ISAE3402	Reasonable assurance	Reasonable Assurance	PWC LLP
L&G	ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
Longview	ISAE3402	Reasonable assurance	Reasonable assurance	Ernst and Young LLP
Baillie Gifford	ISAE3402	Reasonable assurance	Reasonable assurance	PWC LLP
Adams Street	SOC1	Reasonable assurance	Reasonable assurance	KPMG LLP
Northern Trust	SOC1	Reasonable assurance	Reasonable assurance	KPMG LLP
CBRE	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP

Third party assurances received and summarised above represent 96% of the total Fund value at 31 March 2018. 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

Further details of investment performance are provided in section 3.

Financial Performance

FUND VALUE

	2014/15	2015/16	2016/17	2017/18
Net Asset Statement	**£'000**	**£'000**	**£'000**	**£'000**
Equities	259,856	213,485	246,623	258,523
Pooled Investment Vehicles	548,255	608,659	786,542	816,030
Cash and other assets	9,469	10,724	11,394	4,613
Total Investment Assets	817,580	832,868	1,044,559	1,079,166
Current assets	9,530	10,417	7,817	4,156
Current Liabilities	-1,214	-2,270	-511	-1548
Total Fund Assets	825,896	841,015	1,051,865	1,081,774
Net increase/(decrease) in Fund	130,234	15,119	**210,850**	**29,909**

INVESTMENT RETURNS

	2014/15	2015/16	2016/17	2017/18
Net investment returns	8440	7,785	6,960	6,828
Change in market value of investments	128,086	14,245	212,617	36,897
Taxes on income	-102	-71	-109	-272
Total investment income	136,424	21,959	219,468	43,453

FUNDING LEVEL

	2014/15	2015/16	2016/17	2017/18
Overall funding level assessed by actuary	100%	102%	103%	123%

Total Fund asset values have increased by £256m over the four year period (£356m over previous 4 years) and by £30 million over the past 12 months (£211m over previous 12 months).

The overall value of pooled investment vehicles increased by £29m during the year. (£178m 2016/17)

The slowing rate of growth in comparison to 2016/17 is largely a reflection that 16/17 was a particularly good year for growth in equities. The weakening of the pound sterling also played a positive role as 84% of the Fund's assets are exposed to foreign currency.

Further details are given in the Investment Policy and Performance Section.

Investment returns in 2017/18 was £43million (£219m in 2016/17). The slower rate of growth is due to the same factors impacting on the investment assets, as a significant proportion of the investment returns is derived from the change in market value of the investment assets.

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 2016, 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

	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	6,374	6,523	6,540	6,636
- Employers	18,290	17,162	17,212	16,384
- Transfers in and other income	1,240	2,743	1,232	1,404
Total Income	25,904	26,428	24,984	24,424
Benefits				
- Pensions	21,391	22,150	23,027	24,332
- Lump sum retirements and death benefits	4,637	4,711	5,009	4,694
- Transfers out	2,279	1,689	2,110	5,425
- Refunds	54	26	52	20
Total Expenditure	28,361	28,576	30,198	34,471
Net Dealings with Members	**-2,457**	**-2,148**	**-5,214**	**-10,047**

OPERATING COSTS

The costs of running the pension fund are shown below.

	2014/15	2015/16	2016/17	2017/18
	£0	£'000	£'000	£'000
Administration	233	598	627	559
Governance and Oversight	223	209	211	181
Investment Management	3277	3885	2,566	2,757
Total	**3,733**	**4,692**	**3,404**	**3,497**

Over the four year period, benefits paid have exceeded contributions by £19.9 (£4.3m previously). This widening gap is attributable to the almost year on year reduction in employer contribution as a result of the 'full funding' status achieved by the fund as a whole at the 2016 valuation. This has resulted in fewer employers paying a 'top up' on contributions as only a small number of employers have a funding shortfall.

The total amount of pensions payable on the other hand has increased year on year.

The "gap" between income from contributions and benefits paid is filled by returns from investments.

Total operating costs as a percentage of total net assets remained steady on the previous year at 0.32% even though the operating costs have increased by £0.097m. the ratio has held steady due to increase in the asset value.

The administration cost per member was down from 59.7 in 2016/17 to 51.4 in 2017/18. This however is still above the London and UK LGPS average of £38.24 and £19.74 respectively.

Administration and Membership

The administration of the Fund is undertaken by Surrey County Council under a not-for-profit contractual arrangement operational from 1 September 2015.

PERFORMANCE INDICATORS

The contract with Surrey County Council includes a number performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, alongside current actual performance:

Performance Indicators	Target	Current performance (2017/18 Q4)
Retirements – new retirement benefits processed for payment following receipt of claim	7 days	100%
Death Benefits - set up any dependants benefits and confirm payments due	10 days	100%
ESTIMATES /PROJECTIONS • Process early retirement requests from employer • Early retirement estimates for employees	10 days	100%
New starters processed	30 days	100%
Refund paid following receipt of claim form	10 days	85%
Transfers in and out – payments processed	20 days	Transfers out 50%
Issue of monthly payslips	3 days before payday	100%
P60s issued to pensioners	31 May	100%
Annual benefit statements issued to active and deferred members	31 August	Issued by 31 August

Whilst not all of the key performance indicators are being achieved pensions administration performance in 2017/18 showed improvements on previous year's figures.

SCC allocated resources into addressing queries from pension fund members (currently running at 500 per month) – 90% of these are now being resolved at the first point of contact.

During the year member and employee self-serve portals were improved and these are now supporting the resolution of basic queries and pension projections.

Data inaccuracies inherited from Capita and late and/or inaccurate data input from Scheme Employers continue to impact upon SCC performance. These are referred back to the borough Retained Pensions Team for support as necessary when Scheme Employers fail to respond in an acceptable timeframe.

The extent and impact of all data issues have now been captured with monthly resolution targets set. A Data Improvement Plan is currently being written or approval.

It has been brought to the attention of SCC that pension fund Transfers In and Transfers Out performance needs to be a priority for improvement.

The borough Retained Pensions Team and SCC continued to meet bi-monthly to set and review priorities.

Administration and Membership (continued)

MEMBERSHIP NUMBERS AND TRENDS

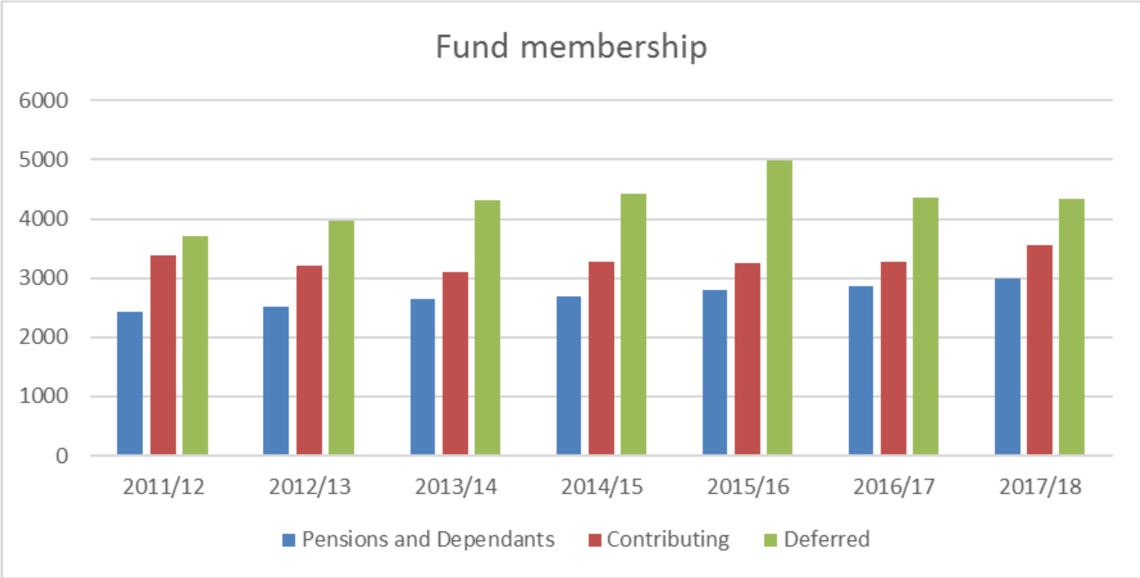
Overall membership has increased by 12% since 2011, from 9,521 to 10,878.

The number of contributing members to the Pension Fund has increased from 3,385 to 3,559. The pensioners and deferred members who are no longer contributing to the Fund but will be entitled to a pension at some point in the future, have increased during the same period by over 13%.

This position is common to most local government pension schemes and reflects the increasing maturity of the Fund.

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	2013/14	2014/15	2015/16	2016/17
Ill Health Retirement	4	8	9	9
Early Retirement	7	23	24	31
Total	**11**	**31**	**33**	**40**

Administration and Membership (continued)

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 2017/18:

	Employers Contributions	Employees Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority s			
Royal Borough of Kensington and Chelsea	12,449	5,209	17,658
St Charles Primary	77	27	104
St Thomas Primary	60	21	81
Park Walk Primary	56	21	77
Barlby Primary School	79	28	107
Maxilla and Golborne Nursery School	54	20	74
Oratory Roman Catholic Primary School	42	15	57
Oxford Gardens Primary School	67	24	91
Holy Trinity Primary School	54	19	73
St Joseph RC Primary School	51	18	69
St Clement and St James CoE Primary School	52	18	70
Sion Manning Girls' School	100	38	138
St Cuthbert with St Matthias CoE Primary	68	24	92
Total contributions from Administering authority	13,209	5,482	18,691

	Employers Contributions	Employees Contributions	Total Contributions
Scheduled Bodies			
Chelsea Academy	182	72	254
Kensington and Chelsea College	251	90	341
St Charles Sixth Form College	138	55	193
Brunel Academy	49	18	67
Holland Park Academy	191	73	264
Kensington Aldridge Academy	116	47	163
Latimer Academy	88	39	127
Cardinal Vaughan Academy	136	54	190
Parkwood Hall Academy	287	103	390
Kensington Primary Academy	18	6	24
Total Contributions from Scheduled Bodies	1,456	557	2,013
Admitted Bodies			
Amey	179	55	234
Hestia	29	9	38
Specialist Schools and Academies Trust			0
Tenant Management Organisation	1099	379	1478
Westway Development Trust	18	10	28
Epic CIC	111	42	153
Octavia Housing	46	11	57
Opera Holland Park	38	15	53
Action 4 Children	159	60	219
RBK Fit for Sport*	42	14	56
Total Contributions from Admitted Bodies	1,721	595	2,316

*new to the Pension Fund in 2017/18

Section 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;

The risk register is attached at appendix C to the ISS

The full version of the ISS is included in Appendix 2 of this annual report.

A copy of the ISS can also be obtained from:

The Tri-Borough Pensions Fund Team

5th Floor
City Hall
5 The Strand
London
WC2N 5HR

Telephone: 020 7641 6925

Email: pensionfund2@rbkc.gov.uk

Asset Allocation

The strategic asset allocation is agreed by the Investment Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2018 was as follows:

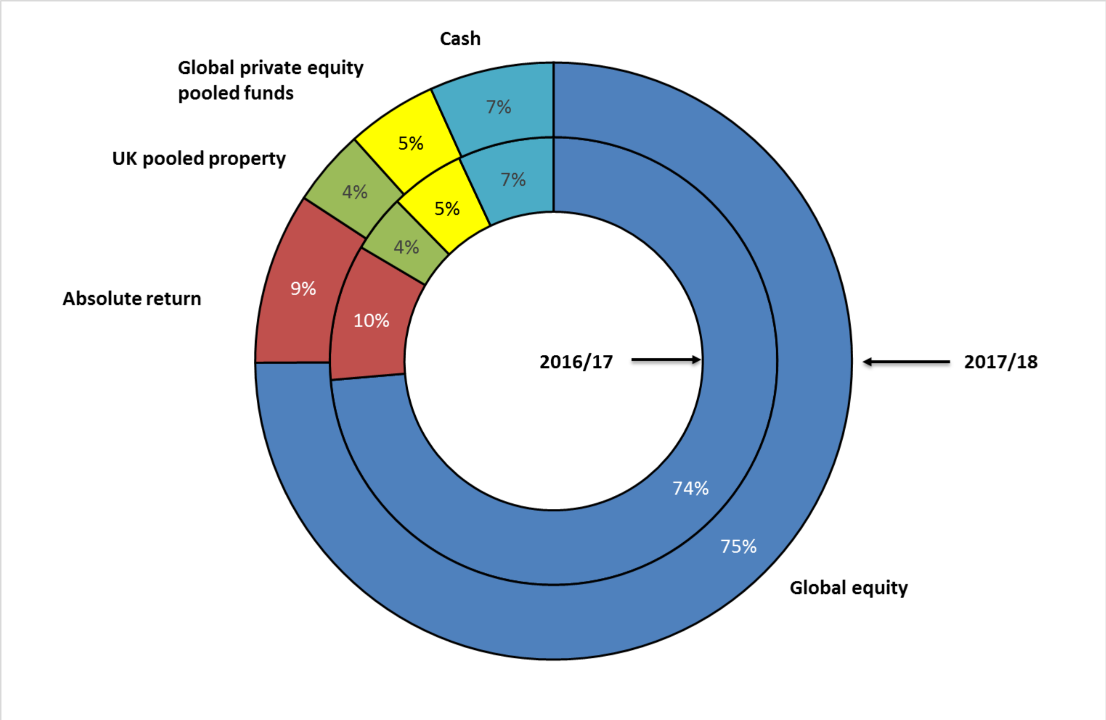
Asset Class	Target Allocation	Expected long term return	Fund Manager
Global Equities	60%	3.8%	Baillie Gifford Longview Legal and General
Absolute return fund Liquidity Fund	30%	3.8%	Pyrford Legal and General
Private Equity	5%	3.8%	Adams Street
Property	5%	2.1%	CBRE KAMES
Total	**100%**	**3.7%**	

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 SIP.

The 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.



Investment Performance

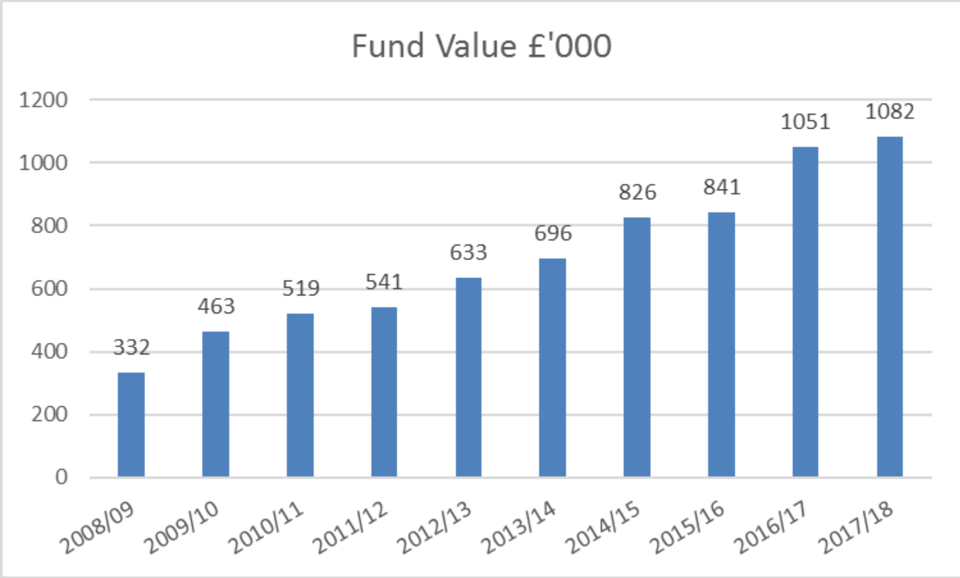
FUND VALUE

The value of the Fund has tripled over the past ten years. Relatively modest growth in 2015/16 reflected uncertainty around the strength of the global economy and emerging markets in particular, but the Fund recovered well in 2016/17 with a 25% increase in the value of investments but again slowed to a modest increase of 3% in 2017/18 due to uncertainty in the global markets toward the end of the period.

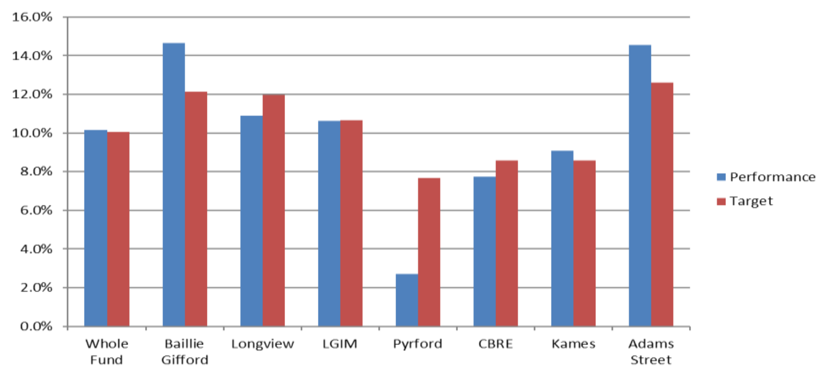
The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.

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.

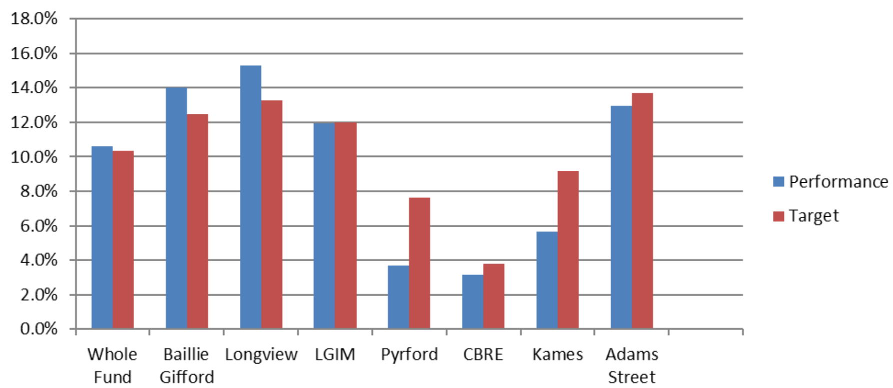
The graphs below show how the Fund and individual managers have performed against target over the past three years and since inception. The Fund has outperformed against its benchmark targets overall, mainly due to excellent returns from pooled overseas equities. Absolute return funds, and UK property funds, have fared less well but are being closely monitored.



Three year fund Performance to March 2018



Performance of fund since inception



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.

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 Nat West. 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 of 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.

Section 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 September 2015 the Council entered into a not for profit section 101 agreement with Surrey County Council for them to undertake pension administration on behalf of the Council, replacing Capita.

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.

Three new employer bodies were admitted during 2016/17, and the table below summarises the current number of employers in the Fund.

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Body	10	-	10
Admitted Body	9	-	9
Total	**20**	**-**	**20**

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

Only one complaint was received in 2016/17 and this was resolved internally. No new complaints were lodged with the Ombudsman.

Section 5

ACTUARIAL INFORMATION

Report by Actuary

INTRODUCTION

The last full triennial valuation of the Royal Borough of Kensington and Chelsea Pension Fund (“the Fund”) was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

This statement gives an update on the funding position as at 31 March 2017 and comments on the main factors that have led to a change since the full valuation.

A copy of the Actuary’s full triennial valuation report for 2016 can be obtained from the Tri-Borough Pensions Team, see page 6 for contact details

2016 VALUATION

The results for the Fund at 31 March 2016 were as follows

The Fund as a whole had a funding level of 103% i.e. the assets were 103% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £26m which is an improvement compared with the previous valuation in 2013.

To cover the cost of new benefits, a contribution rate of 17.5% of pensionable salaries would be needed.

The total contribution rate for each employer was set, based on the annual cost of new benefits plus any adjustment required to pay for any deficit in their section of the Fund.

Full details of all the assumptions underlying the valuation are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2016 valuation, we estimate that the funding position at 31 March 2018 has improved compared with the position as at 31 March 2016, although the primary rate has also increased due to changes in market conditions. .

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.

Graeme D Muir FFA
Partner, Barnett Waddingham LLP
20 April 2018

Barnett Waddingham
Public Sector Consulting

Section 6

PENSION FUND ACCOUNTS

Statement of Responsibilities

Responsibility for the Financial Statements, which form part of this Annual Report, is set out in the following declaration.

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 has the responsibility for the administration of those affairs, in line with statute this is the Executive Director Resources and Assets;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTOR RESOURCES AND ASSETS

The Executive Director Resources and Assets is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Statements of Accounts, the Executive Director Resources and Assets has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting.

The Executive Director Resources and Assets has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- Assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.
- Maintained such internal control as they determine is necessary to enable the preparation of financial statements free from material misstatement, whether due to fraud or error.

CERTIFICATION OF THE SECTION 151 OFFICER

I confirm that the Statement of Accounts 2017-18 (set out on pages 30 to 57) gives a true and fair view of the financial position of the Royal Borough of Kensington and Chelsea Pension Fund as at 31 March 2018 and income and expenditure for the year ended 31 March 2018.

Chris Buss
Executive Director Resources and Assets
Date: 30 July 2018

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

We have examined the pension fund financial statements for the year ended 31 March 2018 which comprise the Fund Account, Net Asset Statement and the related notes, including the accounting policies in note 3.

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the Royal Borough of Kensington and Chelsea for the year ended 31 March 2018 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

RESPECTIVE RESPONSIBILITIES OF THE EXECUTIVE DIRECTOR RESOURCES AND ASSETS AND THE AUDITOR

As explained more fully in the Statement of the Directors Responsibilities the Executive Director Resources and Assets is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of the Royal Borough of Kensington and Chelsea, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements, the purpose of our audit work and to whom we owe our responsibilities.

MATTERS WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

The Code of Audit Practice requires us to report to you if we have exercised our responsibilities in respect of the pension fund in the following areas:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Andrew Sayers
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London

31 July 2018

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2016/17		Notes	2017/18
£'000			£'000
	Dealings with members, employers and others directly involved in the fund		
-23,752	Contributions	8	-23,020
-1,232	Individual transfers in from other pension funds		-1,682
	Other income		278
-24,984			-24,424
28,036	Benefits	9	29,026
2,110	Individual Transfers Out to Other Pension Funds		5,085
0	Bulk Transfers Out to Other Pension Funds		340
52	Refunds to Members Leaving Service		20
30,198			34,471
5,214	Net (Additions)/Withdrawals from Dealings with Members		10,047
3,404	Management Expenses	10	3,497
8,618	Net additions/withdrawals including fund management expenses		13,544
	Returns on Investments		
-6,960	Investment income	11	-6,828
-212,617	Profit and Loss on disposal of investments and change in the market value of investments	12	-36,897
109	Taxes on income		272
-219,468	Net return on investments		-43,453
-210,850	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		-29,909
-841,015	Opening Net Assets of the Scheme		-1,051,865
-1,051,865	Closing Net Assets of the Scheme		-1,081,774

NET ASSET STATEMENT

2016/17		Notes	2017/18
£'000			**£'000**
1,044,559	Investment assets	12	1,079,557
0	Investment Liabilities		-391
1,044,559	Total net investments		**1,079,166**
0	Borrowings		0
7,817	Current assets	15/21	4,156
-511	Current liabilities	15/22	-1,548
1,051,865	Net Assets of the Fund Available to Fund Benefits at the Period End		**1,081,774**

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).
- It is a contributory defined benefits scheme established in accordance with statute, which provides pensions and other benefits to employees and former employees of the Council and the admitted and scheduled bodies to the Fund.

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:

	2017/18	2016/17
Active members	3,559	3,271
Pensioners receiving benefits	2,986	2,873
Deferred pensioners*	4,333	4,364
Total	**10,878**	**10,508**

*in addition there were 800 leavers who have left but have not yet decided whether 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 12% to 20.5% of pensionable pay.

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 four 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 27 June 2017 (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 summarise the Fund's transactions for 2017/18 and its position at year end as at 31st March 2018. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on 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 Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in a note to the accounts (Note 20). The pension Fund Accounts have been prepared on a going concern basis.

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 Sub-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 IAS19 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 7

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 2018 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 0.5 per cent increase in the discount rate assumption would result in a decrease in the pension liability of £67.1 million. • a 0.2 per cent increase in assumed earnings would increase the value of liabilities by approximately £2.1 million. • a one-year increase in assumed life expectancy would increase the liability by approximately £32.4 million.
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.	The value of private equity investments at the balance sheet date was £52.942 million. There is a risk that this investment may be under or overstated in the accounts. If these assets are under or over valued by 1%, this would affect the overall value of the fund by £0.592 million

NOTE 5 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING PRACTICES

In applying the accounting policies set out above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used the intervening years follows generally agreed guidelines and is in accordance with IAS19. These assumptions are summarised in Note 19. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Unquoted Private Equity Investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £52.942 million (£56.334 million on 31 March 2017).

NOTE 6 - EVENTS AFTER THE BALANCE SHEET DATE

There have been no material events after the balance sheet date.

NOTE 7 - ACCOUNTING STANDARDS NOT YET ADOPTED

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.

- IFRS 15 Revenue from Contracts with Customers, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.

- IAS 7 Statement of Cash Flows (Disclosure Initiative), will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.

- IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses), applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

Note 8 Contributions receivable

BY CATEGORY

2016/17		2017/18
£'000		£'000
6,540	Employees' normal contributions	6,636
	Employer's contributions:	
14,059	Normal contributions	15,611
2,543	Deficit recovery contributions	9
611	Augmentation contributions	764
17,212	Total employers' contributions	16,384
23,752	**Total**	**23,020**

BY AUTHORITY

2016/17		2017/18
£'000		£'000
19,004	Administering Authority	18,691
2,151	Scheduled bodies	2,013
2,597	Admitted bodies	2,316
23,752		23,020

Note 9 Benefits Payable

BY CATEGORY

2016/17		2017/18
£'000		£'000
23,027	Pensions	24,332
4,457	Commutation and lump sum retirement benefits	4,232
552	Lump sum death benefits	462
28,036	**Total**	**29,026**

BY AUTHORITY

2016/17		2017/18
£'000		£'000
25,464	Administering Authority	26,229
358	Scheduled Bodies	282
2,214	Admitted Bodies	2,515
28,036		**29,026**

Note 10 Management expenses

2016/17		2017/18
£'000		£'000
606	Administration Expenses	559
	Investment Management expenses	
2,457	Management fees	2,691
71	Transaction costs	0
38	Custody fees	66
2,566		2,757
232	Oversight and Governance	181
3,404		3,497

Note 11 Investment Income

2016/17		2017/18
£'000		£'000
(4,626)	Equity Dividends	(4,983)
(2,287)	Pooled property investments	(1,626)
(0)	Other Investment Income	(170)
(3)	Private equity income	(0)
(44)	Interest on cash deposits	(49)
(6,960)	Total	(6,828)
109	Taxes on Income	272
(6851)	Total	(6,556)

Note 12 Movements in investments

2016/17	1 April 2017	Purchases	Sales	Change in market value	31 March 2018
	£'000	£'000	£'000	£'000	£'000
Equities	245,229	81,146	(68,314)	540	258,601
Pooled Investments	686,805	254,383	(253,664)	30,902	718,426
Pooled Property Investments	41,607	0	(0)	2,905	44,512
Private Equity/Infrastructure	56,076	4,464	(10,442)	2,844	52,942
Sub total	1,029,717	339,993	(332,420)	37,191	1,074,481
Investment income due	708			0	464
Amounts receivable for sales of investments	544			0	0
Spot FX contracts	3			(65)	0
Cash deposits	13,587			(230)	4,612
Amounts Payable for purchases of investments	0			(1)	(391)
Net investment assets	**1,044,559**	**339,993**	**(332,420)**	**36,897**	**1,079,166**

The table below has been restated to show the investments by asset type as per the code of practice. Current assets and liabilities not investment related have been stripped out

Note 12 Movement in Investments (continued)

2016/17	1 April 2016	Purchases	Sales	Change in market value	31 March 2017
	£'000	£'000	£'000	£'000	£'000
Equities	213,635	46,929	(73,427)	58,092	245,229
Pooled Investments	517.573	291,158	(262638)	140,712	686,805
Pooled Property Investments	42,138	0	(0)	(531)	41,607
Private Equity/Infrastructure	48,798	5,178	(9,193)	11,293	56,076
Forward Currency Contracts	0	216	0	(216)	
Sub total	822,144	343,481	(345,258)	209,350	1,029,717
Investment income due	181			0	708
Amounts receivable for sales of investments	0			(1)	544
Spot FX contracts	0			(157)	3
Cash deposits	18,018			437	13,587
Net investment assets	**840,343**	**343,481**	**(345,258)**	**209,629**	**1,044,559**

Note 13 Investments by Fund Manager

31 March 2017 Market Value	%	Fund Manager	31 March 2018 Market Value	%
£'000			£'000	
72,507	6.9	L & G Liquidity	72,786	6.7
220,788	21.1	Baillie Gifford	249,532	23.1
257,867	24.7	Longview	263,092	24.4
290,682	27.8	L & G Equities	295,729	27.4
102,829	9.8	Pyrford	100,379	9.3
26,574	2.5	CBRE	28,382	2.6
16,828	1.6	KAMES	16,139	1.5
56,334	5.4	Adams Street	52,942	4.9
150	-	London CIV	150	-
1,044,559	100	Total held by Fund Managers	1,079,131	100
5,414		Cash held at Custody	35	
1,045,267		**Total Investments**	**1,079,166**	

Note 14 Investments exceeding 5% of net assets

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

31 March 2017 Market Value		Holding	31 March 2018 Market Value	
£'000	**% Holding**		**£'000**	**% Holding**
72,507	6.9	L & G Liquidity	72,786	6.7
220,788	21.1	Baillie Gifford	249,532	23.1
257,867	24.7	Longview	263,092	24.4
290,682	27.8	L & G Equities	295,729	27.4
102,829	9.8	Pyrford	100,379	9.3
944,673	90.0%	Total Top Holdings	981,518	90.9%
1,049,973		**Total Value of Investments**	**1,079,166**	

Note 15 Classification of Financial Instruments

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

31-Mar-17					31-Mar-18			
Designated Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total		Designated Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
				Financial Assets				
29,743	0	0	29,743	UK quoted	36,322	0	0	36,322
150	0	0	150	UK unquoted	150	0	0	150
216,730	0	0	216,730	Overseas	222,129	0	0	222,129
246,623	**0**	**0**	**246,623**	**Sub-total**	**258,601**	**0**	**0**	**258,601**
				Pooled funds- investment vehicles				
72,507	0	0	72,507	UK pooled liquidity fund	72,786	0	0	72,786
511,470	0	0	511,470	Pooled global equities	545,261	0	0	545,261
102,829	0	0	102,829	Pooled global absolute return fund	100,379	0	0	100,379
43,402	0	0	43,402	Pooled property investments	44,512	0	0	44,512
56,334	0	0	56,334	Pooled private equity funds (unquoted)	52,942	0	0	52,942
0	708	0	708	Investment income due	0	464	0	464
0	10,686	0	10,686	Cash with investment managers	0	4,612	0	4,612
0	5,059	0	5,059	Cash with administering authority	0	2,096	0	2,096
0	2,758	0	2,758	Debtors	0	2,060	0	2,060
786,542	**19,211**	**0**	**805,753**	**Sub-total**	**815,880**	**9,232**	**0**	**825,112**
				Financial Liabilities				
0	0	-511	-511	Creditors	-391	0	-1,548	-1939
0	0	0	0	Cash overdraft	0	0	0	0
0	**0**	**-511**	**-511**	**Sub-Total**	**-391**	**0**	**-1548**	**-1939**
1,033,165	19,211	-511	1,051,865	Total	1,074,090	9,232	-1,548	1,081,774

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 and the analysis of year end investments between these levels is shown below:

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 1investments 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 to determine fair value use inputs that are based significantly on observable 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 valuation 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.

			31-Mar-17					31-Mar-18
Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£0
				Financial Assets				
245,079	728,416	56,226	1,029,721	Fair value through profit and loss	258,451	762,938	53,092	1,074,481
245,079	728,416	56,226	1,029,721	Total financial assets	258,451	762,938	53,092	1,074,481
				Financial Liabilities				
0	0	0	0	At amortised cost	0	-391	0	-391
0	0	0	0	Total fiancial liabilities	0	-391	0	-391
245,079	728,416	56,226	1,029,721	Net financial assets	258,451	762,547	53,092	1,074,090

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. 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.

Responsibility for the Fund's investment strategy rests with Investment Committee and is reviewed on a regular basis along with the Pension Fund Risk Register.

In order to meet the Fund's objective of being fully funded within 7 years of the 2013 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The overall target for the scheme is to outperform a weighted average of these benchmarks by 2.3% on a rolling 3-year basis. The Fund had achieved fully funded status by the 2016 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 Fund would have been if prices had been 10% higher or 10% lower is shown below:

Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2018	**1,002,545**	**1,102,800**	**902,291**
As at 31 March 2017	981,472	1,079,619	883,325

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 its 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 Investment 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 (eg 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 shown below:

Assets exposed to interest rate risk	Value	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2018	77,005	77,775	76,235
As at 31 March 2017	142,342	143,765	140,919

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 equities 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 if currencies had been 10% higher or 10% lower.

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2018	908,993	999,892	818,094
As at 31 March 2017	886,376	975,014	797,738

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 the majority of 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 2017, the Fund had a commitment to invest a further $29.5 million (£21.4m) into the Adams Street private equity funds of funds.

It is anticipated that these commitments will be spread over the next 10 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 of the Fund was carried out by Barnett Waddingham as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and Regulation 62 of the Local Government Pension Scheme Regulations 2013. The results were on the Council's website.

The next valuation will take place as at 31 March 2019.

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 2017-18 the common contribution rate is 17.5% of pensionable pay to be paid by each employing body participating in the Fund. In addition each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustments 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 2016 %	March 2013 %
Consumer Price Index (CPI) increases	2.4	2.7
Salary increases	3.9	4.5
Pension increases	2.4	2.7
Discount rate	4.9	5.9

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 1.5% per annum

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £630m and the Actuary assessed the present value of the funded obligation at £663m indicating a net liability of £33m, resulting in a funding level of 95%. This was the basis for the contribution rates during 2016-17.

As at 31 March 2016, the actuary's smoothed market value of the scheme's assets had risen to £841 million and the actuary assessed the present value of the funded obligation at £815 million indicating a net surplus of £26 million, resulting in a funding level of 103%.

The next actuarial valuation of the Fund will be as at 31 March 2019 and will be published in 2020.

Note 20 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2018. The figures have been prepared by the Fund's actuary, only for the purposes of providing the information required by IAS26. (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 pension's legislation.

In calculating the below net liability, the actuary adopted methods and assumptions that are consistent with IAS19. 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 2017			31 March 2018
£'000			£'000
	Present Value of Promised Retirement Benefits		
(1,289,791)	-	Vested obligations	(1,302,103)
(43,177)	-	Non Vested obligations	(39,199)
1,033,307	Fair Value of scheme assets (bid value)		1,080,781
(299,661)	**Net Liability**		**(260,521)**

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FINANCIAL ASSUMPTIONS

The financial assumptions applied by the actuary are set out below:

	31 March 2017 %	31 March 2018 %
Retail Price Index (RPI) increases	3.6	3.3
Consumer Price Index (CPI) increases	2.7	2.3
Salary increases	4.2	3.8
Pension increases	2.7	2.3
Discount rate	2.8	2.6

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

DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S1PA tables with a multiplier of 105%, for males and 95% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% per annum.

Life expectancy from age 65 years		31 March 2017	31 March 2018
Retiring today	Males	24.4	24.5
	Females	26.0	26.1
Retiring in 20 years	Males	26.6	26.8
	Females	28.3	28.4

Note 21 Current Assets

31 March 2017		31 March 2018
£'000		£'000
	Debtors:	
332	Contributions due - employers	321
190	Contributions due - employees	105
2,236	Sundry debtors	1,634
2,758	Sub-total	2,060
5,059	Cash balances	2,096
7,817	**Total**	**4,156**

ANALYSIS OF DEBTORS

31 March 2017		31 March 2018
£'000		£'000
187	Central Government Bodies	448
1,962	Other entities and individuals	1,551
609	Administering Authority	61
0	Other local authorities	0
2,758	**Total**	**2,060**

Note 22 Current Liabilities

31 March 2017		31 March 2018
£'000		£'000
	Creditors	
0	Benefits payable	0
(511)	Sundry creditors	(1,548)
(511)	Sub-total	(1,548)
0	Cash overdrawn	0
(511)	**Total**	**(1,548)**

ANALYSIS OF CREDITORS

31 March 2017		31 March 2018
£'000		£'000
0	Central Government Bodies	(1,028
(511)	Other entities and individuals	(242)
0	Administering Authority	(278)
0	Other local authorities	0
(511)	**Total**	**(1,548)**

Notes 23 to 26

NOTE 23 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Council has made arrangements 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 2016 do not permit AVC to be paid into the Fund, so they are not included in these accounts.

During 2017-18, AVC contributions of £0.546 million (£0.471 million in 2016-17) were paid to the provider, Prudential. The market value of these funds at 31 March 2018 is £3.783 million (£3.333 million at 31 March 2017).

NOTE 24 RELATED PARTY TRANSACTIONS

The Fund is administered by the Royal Borough of Kensington and Chelsea. The Council incurred, and was reimbursed for, costs of £0.323 million in the financial year 2017-18 (£0. 238 million in 2016-17) in relation to administration costs.

In year, and in total, the Council contributed £13.209 million to the fund compared to £13.654 million in 2016-17. At 31 March 2018 the Council owed the pension fund a net amount of £0.061 million (£0.609 million at 31 March 2017).

The key management personnel of the Fund are the Members of the Investment Committee, the Executive Director of Resources and Assets and the Tri-Borough Director of Pensions and Treasury. No remuneration was payable to key management personnel by the Pension fund during the year.

NOTE 25 AGENCY SERVICES

The Fund pays discretionary awards to former employees of the Royal Borough of Kensington and Chelsea. The amounts are not included within the Fund Account but are provided as a service and fully reclaimed.

During 2017/18 the Fund paid the gross sum of £0.248 million (£0.233 million in 2016/17) on behalf of the Royal Borough of Kensington and Chelsea.

NOTE 26 EXTERNAL AUDIT COSTS

The external audit fee payable to the Fund's external auditors, KPMG LLP, was £21,000 (21,000 in 2016/17).

Section 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.

Glossary of Terms (continued)

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.

Section 8

Appendices

Appendix 1 - Governance Compliance Statement

BACKGROUND

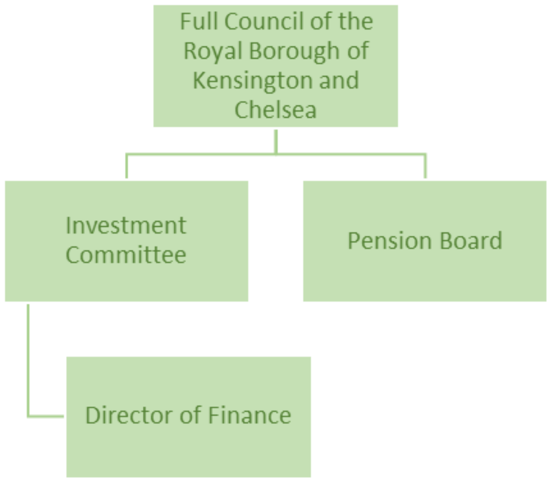
The Royal Borough of Kensington and Chelsea is the administering authority for the Royal Borough of Kensington and Chelsea Pension Fund (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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 Director of Finance.

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.

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:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three 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 Annex 1.

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

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 first Investment Strategy Statement (ISS) adopted by the Royal Borough of Kensington and Chelsea Pension Fund ("the Fund").

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Royal Borough of Kensington and Chelsea Pension Fund is required to publish this ISS. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how they meet each of 6 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 or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

We deal with each of these in turn below.

1.3 The Investment Committee of the Royal Borough of Kensington and Chelsea Pension 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, 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 Investment Committee within the Council's Constitution are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.

- To determine the overall investment strategy and strategic asset allocation of the Pension Fund with regard to diversification and the suitability of asset classes;

- To appoint the investment managers, custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund;

- To monitor the performance of the custodians, actuary and external advisors to ensure that they remain suitable;

- To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls;

- To prepare, publish and maintain the Investment Strategy Statement, and monitor compliance with the statement and review its contents;

- To prepare, publish and maintain the Funding Strategy Statement (FSS), the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy;

- To approve the final accounts and balance sheet of the Pension Fund and approve this Annual Report in accordance with the relevant Accounts & Audit Regulations made from time to time;

- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund;

- To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately;

- To receive and consider the external auditors' report on the governance of the Pension Fund;

- And to review policy on social, environmental and ethical considerations, and on the exercise of voting rights.

The Town Clerk and the appointed consultants and actuaries support the 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 performance reviews, which may indicate a need to change investment policy, or make significant changes to the FSS.

1.6 Under the previous Regulations, the Statement of Investment Principles required administering authorities to state how they complied with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles.

1.7 Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the 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 is discussed in more detail later in this ISS. However, at this stage it is important to state that the 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 differing markets, 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.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund divide its assets across 4 broad categories; global equities, absolute return funds, private equity, and property. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the Investment Committee are concerned with is to ensure that 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 meet these 4 obligations and does not have to rely on a level of risk which the Investment Committee considers excessive.

Whilst the Fund currently has a surplus of income over expenditure the Investment Committee is mindful that this position may change in future and keeps the liquidity of the Fund monitored.

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 has recognised that there are risks involved in the investment of the assets of the Fund and set these out in a Risk Register (See Appendix C). The key risks are:

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 managers' 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 managers' 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 cash investment 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 sections 13 to 16 of 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 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 constrain the managers' actions in areas of particular risk and set out the respective responsibilities of both the managers and the Royal Borough of Kensington and Chelsea Pension Fund.

4.9 The Royal Borough of Kensington and Chelsea Pension Fund and the Investment Committee are aware 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 Royal Borough of Kensington and Chelsea Pension Fund to meet the future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Royal Borough of Kensington and Chelsea Pension Fund and the Investment Committee are of the view that the diversification of the Fund 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.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also 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 those in more benign market conditions.

To help manage, risk the Investment Committee uses an external investment adviser for monitoring purposes. In addition, when undertaking investment strategy reviews the Investment Committee has used different investment advisers to assess the level of risk involved.

4.11 The Fund targets a long-term return of 4.9 per cent per annum and the Fund's investment strategy is considered to have a low degree of volatility.

4.12 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.

4.13 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 Royal Borough of Kensington and Chelsea Pension Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures the maximum benefit for the Fund, in terms of return, management costs and the appropriateness of governance arrangements.

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

5.3 The Fund is looking to transition assets into the London CIV when it is satisfied that the criteria in 5.1 have been met. It does not currently have any assets with the CIV.

5.4 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 Royal Borough of Kensington and Chelsea Pension 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 Committee does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the 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 Royal Borough of Kensington and Chelsea Pension 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.

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 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 shareholder's 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), National Association of Pension Funds (NAPF) 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:

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Investment Strategy Statement: Appendix A

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. Hapwood 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 Investment Committee, which meets at least quarterly.

The responsibilities of the Investment 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 and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers.

The Investment Committee obtains and considers advice from and is supported by the Director of Finance, 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 Investment 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 as required.

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 Investment 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 valuation taking place in 2016. 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 paragraph 4.3 of the SIP.

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 (see paragraph 4.3) 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 Hymans, 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. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

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 8 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

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.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The Stewardship Code is a set of principles or guidelines released in2010 and updated in 2012 by the Financial Reporting Council 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:

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

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 and SRI Policy,

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 1: Pension Fund risk register, January 2015

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Review Date
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	Tri-borough Director of Treasury and Pensions	February 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	Tri-borough Director of Treasury and Pensions	February 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	5	Low 10	Tri-borough Director of Treasury and Pensions	February 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	Tri-borough Director of Treasury and Pensions	February 2016
5	**STRATEGIC: FUNDING** 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.	• Cashflow forecast maintained and monitored. • Cashflow requirement is a factor in current investment strategy review. • Cashflow position is reported to the committee bi-annually.	2	1	Very Low 2	Tri-borough Director of Treasury and Pensions	February 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	Tri-borough Director of Treasury and Pensions	February 2016
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• 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. • Cashflow position monitored monthly.	2	3	Low 6	Tri-borough Director of Treasury and Pensions	February 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016
9	**STRATEGIC: REGULATION** Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of this developing issue.	4	3	Medium 12	Tri-borough Director of Treasury and Pensions	February 2016
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016

			Residual risk score			

Ref	Risk	Mitigating Actions	Likelihood	Impact	Risk Rating	Officer responsible	Review Date
11	**OPERATIONAL: GOVERNANCE** Investment Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required FUTURE ACTION to reduce score: Develop a knowledge and skills framework to evidence members' existing knowledge and skills and provide training to enhance these if required.	3	3	Low 9	Tri-borough Director of Treasury and Pensions	February 2016
12	**OPERATIONAL: GOVERNANCE** 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.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Tri- and bi- borough nature of the pensions teams provides resilience and sharing of knowledge.	3	2	Low 6	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016
13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Investment Committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	Tri-borough Director of Treasury and Pensions	February 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
14	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	2	Low 6	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016
15	**OPERATIONAL: FUNDING** Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review “budgets” at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016
16	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• 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	3	Low 6	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
17	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. There are currently some challenges with the standard controls and therefore the regular reconciliation processes. Mitigating controls and checks have been put in place to address this. • Periodic internal audits of Pensions Finance and HR teams.	3	2	Low 6	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016
18	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	Contract monitoring in place with all providers. Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
19	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments (to fund managers and advisers) not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of payments. • Officers are tracking payments through the system to ensure scheme members and suppliers receive them. • Officers undertaking additional reconciliation work to verify accounting transactions.	4	4	High 16	Tri-borough Director of Treasury and Pensions	February 2016
20	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• Pensioner payroll system is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required.	1	5	Very Low 5	Bi-borough Director of HR	February 2016
21	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• SCC's Altair system allows for all pensioner benefits to be automatically calculated by the administration system. • Pensioner benefits are double-checked by another team member in SCC before being released. • Spot checks are undertaken by the Client Team for accuracy.	2	3	Low 6	Bi-borough Director of HR	February 2016

Ref	Risk	Mitigating Actions	Likelihood	Impact	Risk Rating	Officer responsible	Review Date
22	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pensioner administration system Altair is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for Altair to be run from an alternative site if required. • Payments can be made from other UK sites other than SCC's HQ.	1	5	Very Low 5	Bi-borough Director of HR	February 2016
23	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• SCC's pension teams are highly skilled and knowledgeable in the area of LGPS administration. • The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure. • Team members received regular training on LGPS and on changes or enhancements to the pension administration system. • There are regular monthly meetings with the Client Manager to review performance.	2	3	Low 6	Bi-borough Director of HR	February 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
24	**OPERATIONAL: ADMINISTRATION** The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required for Surrey County Council (SCC) to correctly administer the LGPS for scheme members.	• Work is in progress by actuaries to analyse the data sent by SCC and to be completed by January 2016. This will be used to guide priorities in terms of filling any gaps that exist with the data. • A log of known data issues is being kept and a plan to address these will be developed and aligned to the outcome of the data analysis done by actuaries. • Shortfalls in the range or quality of inherited data are being raised with Capita to determine the cause and identify what measures can be put in place to rectify the deficiency.	3	5	Medium 15	Bi-borough Director of HR	February 2016

Appendix 3 - Communication Policy

1. Background

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

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

RBKC in its capacity as the Administering Authority engages with other employers (in the form of Admitted bodies and Scheduled Bodies) and has approximately 3,400 active members, 3,700 deferred members and 2,400 pensioners. This policy document sets out the mechanisms that RBKC use to meet their communication responsibilities.

2. Roles and Responsibilities overview

The Retained Team within HR are responsible for setting the pensions administration management strategy which includes the drafting of this document and the allocation of communication responsibilities, including those to third parties. They are also responsible for the monitoring of the quality, timeliness and accuracy of pensions communications from third parties and for the periodic review of this document.

The Retained Team will approve significant communications prior to them being issued that have been drafted on behalf of RBKC by Surrey County Council (SCC) and British Telecom (BT).

Surrey County Council (SCC) are responsible for the day to day transactional pensions administration service under a section 101 agreement with RBKC. Under this agreement SCC are responsible for the quality, timeliness and accuracy of pensions communications within their normal business activities. They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.

British Telecom (BT) BT are responsible for the day to day transactional HR and payroll services for RBKC nonschool's staff, RBKC schools that have opted into the service and any third parties such as Academies who buy into the service. Within the context of this policy BT are responsible for the quality, timeliness and accuracy of communications within their normal business activities. They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.

3. How information is communicated

RBKC pensions information can be obtained via the Pensions web site using this link.
http://www.rbkcpensionfund.org/

4. Details of 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.
- Annual newsletter - Provides updates on changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming roadshows and contact details.
- Copies of Fund Annual Reports and Accounts 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 SCC and the Retained Team will visit a particular location to provide a presentation on a particular topic of interest.
- Face to face discussions with a representative from SCC and/or the Retained Team to discuss personal circumstances.
- Posters - 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 - An annual formal seminar style event with a number of 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 – It is a legal requirement to notify both organisations of the name and type of employer entered into 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 received requesting specific information in relation to the structure of the LGPS or the composition of the Fund.

If you require more information about the LGPS you should contact:

Surrey County Council
Pension Services (RBKC Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN

Email: myhelpdeskpensions@surreycc.gov.uk

The table below shows the availability of Fund publications along with their publication frequency and review periods.

Communication type	Peter Based	Website	Intranet	Roadshows	Factsheets	Faec to face	Frequency of issue	Communication method	Active member	Deferred Members	Pensioners	Prospective Members	Employers	Union Reps	Pension Fund Committee	Pension Board	Residents and traxpeysr	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			√				Constantly 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					√						
Annual employers meeting						√	Annually	Invitation by email					√						
Employer focus groups						√	Qiuarterly	Invitation by email					√						
Pension fund annual report and accounts		√					Annually	Electronic	√	√	√	√	√	√					
Briefing papers/committee papers	√	√					In advance of commiteee	Hard copy	√	√	√	√	√	√	√	√	√	√	√

Appendix 4 - Funding Strategy Statement

1. Purpose of the Funding Strategy Statement

1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:

- How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met though the Fund
- The objectives in setting employer contribution rates; and
- The funding strategy that is adopted to meet these objectives.

2. Purpose of the Fund

2.1 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive 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.

3.2 The funding objectives 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.
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

4. Key Parties

4.1 The key parties involved in the funding process and their responsibilities are as follows:

The Administering Authority

4.2 The Administering Authority for the Royal Borough's Pension Fund is the Royal Borough of Kensington and Chelsea. The main responsibilities of the Administering Authority are to:

- Collect employee and employer contributions;
- Invest the Fund's assets;
- Pay the benefits due to Scheme members;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the SIP after consultation with other interested parties; and
- Monitor all aspects of the Fund's performance.

Individual Employers

4.3 In addition to the Administering Authority, a number of scheduled and admitted bodies participate in the Fund. Those with active members are all currently open to new members, although it is anticipated that some may close to new and possibly existing members in the near future (see 6.2 below). The responsibilities of each individual employer 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;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures

Fund Actuary

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

- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations; 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 actuarial valuation involves a projection of future cash flows 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.

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 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. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer 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 chosen funding target.

6.3 For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:

- 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 for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit;
- The future service funding rate which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

6.4 The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

6.5 For closed employers, the 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 the remaining expected working lifetime of active members.

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 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 statistical assumptions which are essentially estimates of the likelihood 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. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Future Pay Inflation

7.4 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 inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term.

Future Pension Increases

7.5 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less then RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

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 adopted will depend on the funding target adopted for each employer.

7.8 For open employers, 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 underlying 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.

7.9 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer either wishes to leave the Fund, or the terms of their admission require it.

7.10 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

7.11 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

7.12 For the purposes 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.

Statistical Assumptions

7.13 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

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. Accordingly the Fund will normally either be in surplus or in deficit.

8.2 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

8.3 The period that is adopted 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 and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of employers' contribution.

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, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

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

10. Cessation Valuations

10.1 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

10.2 In assessing the deficit on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

11. Links with the Statement of Investment Principles (SIP)

11.1 The main link between the Funding Strategy Statement (FSS) and the SIP 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 underlying investment strategy as set out in the SIP.

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

12. Risks and Counter Measures

12.1 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.

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

13. Financial Risks

13.1 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.

13.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5 per cent per annum inthe real discount rate will decrease/increase the liabilities by ten per cent, and decrease/increase the required employer contribution by around 2.5 per cent of payroll.

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

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

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

14. Demographic Risks

14.1 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 of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to one per cent.

14.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

14.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

14.4 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.

15. Regulatory Risks

15.1 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 central government.

15.2 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.

15.3 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.

16. Governance

16.1 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.

16.2 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.

16.3 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.

17. Monitoring and Review

17.1 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.

17.2 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
13 FEBRUARY 2014

Appendix 5 - Pensions Administration Strategy

1. Introduction

The delivery of a high quality, cost effective 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 their 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).

It should be noted that the Administering Authority has outsourced partners (BT and Surrey County Council) to support them with the delivery of their responsibilities.

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 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 an Employer where costs have been incurred because of an Employer's noncompliant level of performance in carrying out its functions under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administering 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 Administering Authority and Employers
- a schedule of charges that 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 decide how any previous service or 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 necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.
- To calculate and pay the appropriate 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.
- 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 when required.
- To arrange and manage the triennial valuation of the pension fund
- To ensure compliance with the Data Protection Act 1998.

Employers

The main responsibilities of an Employer are:

- To decide who is eligible to become a member of the Scheme.
- 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 pay of employees for the purposes of calculating the pension contributions.
- To determine final pay for the purposes of calculating benefits due from the Scheme.

  To issue a notification to any employees 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, provide basic information to the Administering Authority.
- At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administering Authority and the Scheme member of the decision.
- To supply timely and accurate information to the Administering Authority to ensure the correct calculation of benefits payable from the Scheme.
- To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.
- To be responsible for exercising the discretionary powers given to Employers by the 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 Administering Authority in determining ill health retirement.
- To repay to the Scheme member any incorrectly deducted employee's contributions.

- To provide the Administering Authority with Monthly and Year-end information as at 31 March each year in an approved format.
- To provide the Administering Authority with an audited copy of the final statement 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. 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.
- Pay the Administering 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 Administering Authority.
- To ensure compliance with Data Protection Act 1998.

4. Liaison, engagement and communication strategy

The Administering 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 Administering Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Administering Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

5. Standards of expected service

Appendix 1 sets out the standard of expected service between the Administering Authority and the employers.

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 Administering 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 Administering 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.

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 working days from the employee's last day in the Scheme.	£50 per case
Retirements: Employer to send the Administrating Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
Deductions		
Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority	By the 19th day of the month following the month in which contributions were deducted	£100 per instance of late delivery

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

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Appendix 1 – service standards

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 20 working days after the scheme membership start date.	100% compliance within the target
AA	**New scheme member** Administrating Authority to create a new pensions 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

Who *	Administration Description	Performance Targets	Acceptable performance
	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	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 10 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 5 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 being notified of the date of leaving.	100% compliance within the target
AA	**Leaver:** Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV)	Within 20 working days of request	100% compliance within the target
E	**Retirements:** Employer to send the Administrating Authority a completed retirement notification.	At least 15 working days before their final paid day of work.	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,	Within 7 working days of receiving all required information from the Employer	100% compliance within the target
AA	**Retirements:** Administrating Authority to arrange payment of Annual Pension (paid monthly)	Within 7 working days of request from the Employer	100% compliance within the target
	Deductions		
E	**Monthly deductions:** Employer to send funds and schedule of deductions from salary to the Administering Authority	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
	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 8.30 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 Surrey Pensions Service, subject to all necessary information being available to Surrey to enable a full response to be given. if all necessary information is not available Surrey will send a holding reply to the complainant and will provide an indication as to when a full response will be provided.	100% compliance within the target

* Body responsible for the action (AA = Administering Authority, E = Employer)