Pension Fund Annual Report and Accounts

For the year ended 31 March 2017

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

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Preface

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 (the Fund) Annual Report and Financial Statement for the year ending 31 March 2017.

Over the last year, the Fund's assets have increased by over £210 million, (23%) and now stand at £1,052 million (£1.052 billion). The return obtained from investments has exceeded 20%, a significant increase on last year reflecting the impact of the pound's depreciation against other major currencies and positive underlying investment returns.

It is pleasing to note that following this year's triennial revaluation the Actuary has assessed the Fund as being "fully funded", well ahead of its 2020 target. In simple terms, the actuary believes the Fund now holds sufficient assets to meet its future pension liabilities, assuming it achieves its predicted investment returns. The actuary has assessed the overall funding level at 103%, compared to 95% in 2013 and has suggested a reduction in the overall contribution rate from 17.8% to 17.5%.

In July 2015 the government announced that it wanted to see LGPS funds pool investments to reduce costs and facilitate improved governance while maintaining overall investment performance. We share the Government's objectives. The Royal Borough of Kensington and Chelsea is a shareholder in the London Collective Investment Vehicle (CIV), which following FCA approval in 2016 has now started to trade. We have not yet transferred any funds to the CIV and will not elect to do so until we obtain additional clarity about some of its governance aspects and operational arrangements.

Finally, I would like to take this opportunity to thank my colleagues on the Investment Committee, Pension Board, our advisers, employers and the Pension Fund team involved in the management of the Pension Fund during 2016-17.

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, will be used to set contribution rates with effect from 1 April 2017.

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 2017.
- 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 Finance 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

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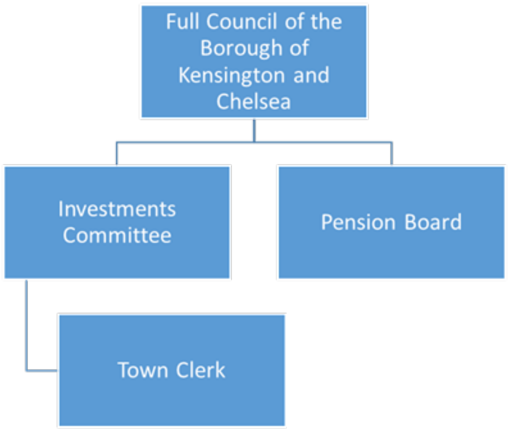
Management and Financial Performance

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 Town Clerk provided advice and guidance to the Investment Committee up to March 2017 in his capacity as the Council's section 151 officer who is legally responsible for financial affairs. Since March, the Council's section 151 responsibilities, and therefore the Town Clerk's role in advising the Fund on governance, administration and other matters, have been carried out by the Director of Finance.

INVESTMENT COMMITTEE

The Council has delegated decision making powers in respect of pensions to the Investment Committee (the Committee). Membership of the Committee in 2016-17 was 6 elected councillors plus 4 co-opted non-voting members. During 2016/17 there was one councillor vacancy which was filled in May 2017 by Councillor Weale. Attendance was as follows:

	May 2016	Sept 2016	Nov 2016	March 2017
Cllr Marshall (Chairman)	YES	YES	YES	YES
Cllr Lightfoot (Vice Chair)	YES	YES	YES	YES
Cllr Littler	YES	NO	NO	NO
Cllr Rinker	YES	YES	YES	YES
Cllr Warrick	YES	NO	YES	YES
Sir M Craig Cooper	NO	YES	YES	YES
Hon Alderman J Cox	YES	YES	YES	NO
Mr J Read	YES	NO	YES	YES
Mr K Sternberg (appointed Nov 16)	N/A	N/A	NO	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." Its detailed terms of reference are contained in Appendix 1.

The Committee obtains and considers advice as necessary from Council officers and from the Fund's appointed actuary, advisors and investment managers.

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.

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

	July 2016	Jan 2017
Mr T Aherne (Chair)	YES	YES
Mr J Williams (Vice Chair)	YES	YES
Mr M Spalding	YES	YES
Mr C Farrer (appointed Nov 16)	N/A	YES
Mr K Davison	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.

The Board is required to make an annual report on its activities and this was presented to the investment committee on 15 September 2016. The full report is available from the council website at

https://www.rbkc.gov.uk/committees/meetings/tabid/73/ctl/viewmeetingpublic/mid/669/meeting/6975/committee/1547/default.aspx

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	Nicholas Holgate, Town Clerk to March 2017 Chris Buss, Director of Finance from March 2017
Tri-Borough Pensions Team	Tri-Borough Director of Treasury and Pensions: • George Bruce to October 2016 • Peter Carpenter from October 2016 Pensions Team: Nikki Parsons, Peter Metcalfe Alex Robertson, Sue Hands Nicola Webb to November 2016, Hasina Shah
Director of Human Resources	Debbie Morris
Pensions Manager	Maria Bailey

Investment Adviser	Hymans Robertson
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.

No high risk areas have been identified during 2016/17. 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.	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.	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
L&G	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Longview	ISAE3402	Reasonable assurance	Reasonable assurance	Moore Stephens LLP
Baillie Gifford	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Northern Trust	SOC1	Reasonable assurance	Reasonable assurance	KPMG LLP

Third party assurances received and summarised above represent 82% of the total Fund value at 31 March 2017. No significant weaknesses in internal control were highlighted by these reports.

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

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

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

Further details of investment performance are provided in section 3.

Financial Performance

FUND VALUE

	2013/14	2014/15	2015/16	2016/17
Net Asset Statement	**£'000**	**£'000**	**£'000**	**£'000**
Equities	162,967	259,856	213,485	246,623
Pooled Investment Vehicles	517,803	548,255	608,659	786,542
Cash and other assets	3,759	9,469	10,724	11,394
Total Investment Assets	684,529	817,580	832,868	1,044,559
Current assets	11,584	9,530	10,417	7,817
Current Liabilities	(451)	(1,214)	(2,270)	(511)
Total Fund Assets	695,662	825,896	841,015	1,051,865
Net increase/decrease in Fund		130,234	15,119	**210,850**

INVESTMENT RETURNS

	2013/14	2014/15	2015/16	2016/17
Net investment returns	8,167	8440	7,785	6,960
Change in market value of investments	52,439	128,086	14,245	212,617
Taxes on income	(141)	(102)	(71)	(109)
Total investment income	60,465	136,424	21,959	219,468

FUNDING LEVEL

	2013/14	2014/15	2015/16	2016/17
Overall funding level assessed by actuary	95%	100%	102%	103%

Fund asset values have increased by increased by one third - £356m - over this four year period and by 23% over the past 12 months.

Just under 65% of pooled investment vehicles comprise overseas equity shareholdings. The remaining 15% is held in UK sterling and property pooled funds (87% and 13% respectively in 2015/16)

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

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

Investment returns in 2016/17 improved significantly in comparison to the previous three years, reflecting the impact of the pound's depreciation against major currencies and positive underlying investment returns.

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

	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	5,682	6,374	6,523	6,540
- Employers	24,409	18,290	17,162	17,212
- Transfers in and other income	4,039	1,240	2,743	1,232
Total Income	34,130	25,904	26,428	24,984
Benefits				
- Pensions	20,209	21,391	22,150	23,027
- Lump sum retirements and death benefits	5860	4,637	4,711	5,009
- Transfers out	2,582	2,279	1,689	2,110
- Refunds	20	54	26	52
Total Expenditure	28,671	28,361	28,576	30.198
Net Dealings with Members	**5,519**	**(2,457)**	**(2,148)**	**(5,214)**

OPERATING COSTS

The costs of running the pension fund are shown below.

	2013/14	2014/15	2015/16	2016/17
	£'000	£000	£'000	£'000
Administration	434	233	598	627
Governance and Oversight	*	223	209	211
Investment Management	3317	3277	3885	2,566
Total	**3,751**	**3,733**	**4,692**	**3,404**

Over the four year period, pensions paid have exceeded contributions by £4.3m. This reflects the maturity of the Fund membership in that there are currently fewer contributors than beneficiaries.

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 were compared to other local government pension funds in 2015/16. At 0.56% of year end net assets, the Fund's total operating costs were in line with the national average of 0.51%.

Administration costs have increased significantly in the past two years, and average administrative cost per member is currently above both London and UK LGPS averages. This is due to:

- 2015/16 costs reflecting the move from Capita to Surrey County Council.
- 2016/17 costs including IT investment in new online services for members and employers.
- However these additional costs are more than offset for by savings on investment management and governance and oversight costs.

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 (2016/17 Q4)
Retirements – new retirement benefits processed for payment following receipt of claim	7 days	88%
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	 79% 56%
New starters processed	30 days	100%
Refund paid following receipt of claim form	10 days	100%
Transfers in and out – payments processed	20 days	Transfers in 67% Transfers out 100%
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 30 September

Whilst it is disappointing to note that not all of the key performance indicators are being achieved, the current levels of performance do represent an improvement over the previous year. Not achieving targets is due to:

- Staff shortages at Surrey County Council
- ORBIS implementation (see opposite)
- Quality of membership data provided by Capita (the previous administrators)
- Timeliness and accuracy of financial data from BT Managed Services
- To address these issues 3 new members of staff have been recruited together with:
- additional investment in training
- shared working between teams to improve resilience and manage peaks in workload
- recruitment of a new Operations Manager, Technical Support Manager and Process Owner.

Work is also underway to review all membership records and correct any inaccuracies identified by 31 December 2017.

ORBIS

The ORBIS on-line pension system is now in operation with a secure portal which enables members to:

- Update personal details, check membership records and calculate pension projections
- View payslips and P60s
- Nominate beneficiaries
- Scheme employers can also use the new system to:
  - Submit starter and leaver details and other staff changes online
  - Run benefit calculations, e.g. early retirements

orbis

MEMBERSHIP NUMBERS AND TRENDS

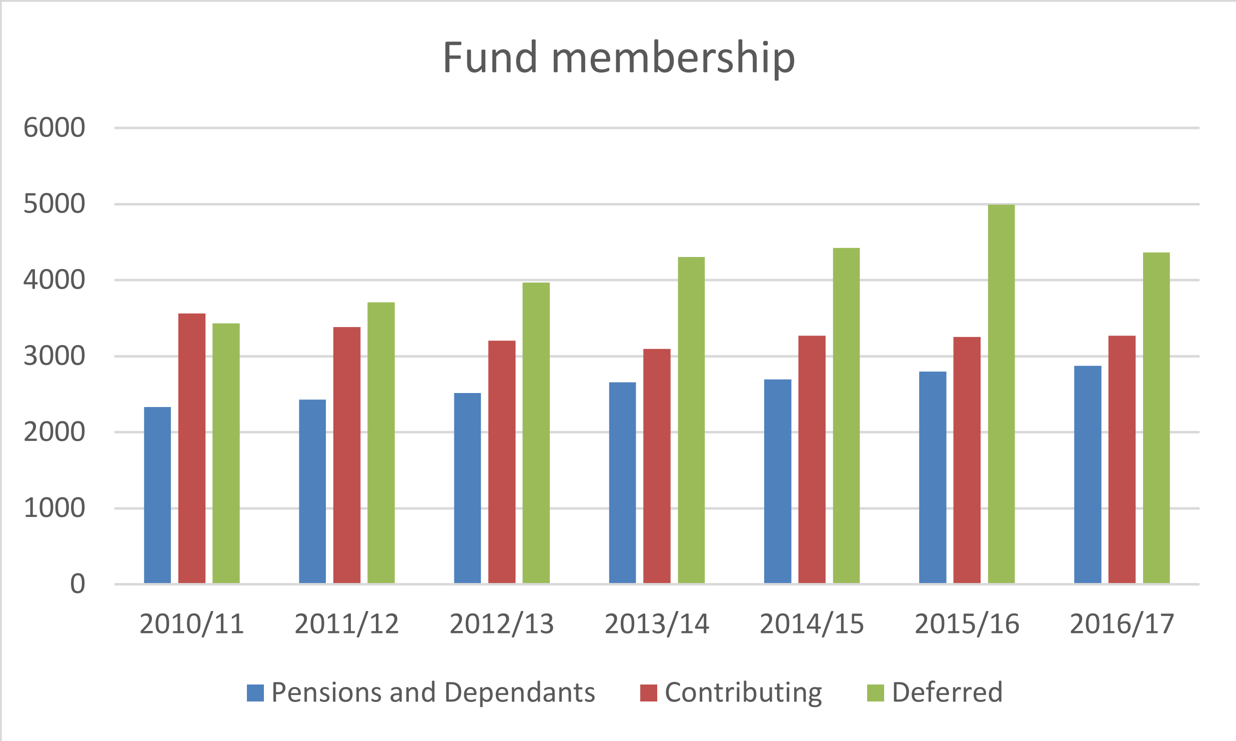
Overall membership has increased by 12% since 2010, from 9,322 to 10,508.

However, the number of contributing members to the Pension Fund has reduced from 3,562 to 3,271 whilst 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 25%.

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 2016/17:

	Employers Contributions	Employees Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority s			
Royal Borough of Kensington and Chelsea	13,017	5,077	18,094
St Charles Primary	63	25	88
St Thomas Primary	50	20	70
Park Walk Primary	49	22	71
Barlby Primary School	70	28	98
Maxilla and Golborne Nursery School	49	21	70
Oratory Roman Catholic Primary School	42	17	59
Oxford Gardens Primary School	56	23	79
Holy Trinity Primary School	46	19	65
St Joseph RC Primary School	46	19	65
St Clement and St James CoE Primary School	45	18	63
Sion Manning Girls' School	83	46	129
St Cuthbert with St Matthias CoE Primary	38	15	53
Total contributions from Administering authority	13,654	5,350	19,004

	Employers Contributions	Employees Contributions	Total Contributions
Scheduled Bodies			
Chelsea Academy	197	90	287
Kensington and Chelsea College	306	135	441
St Charles Sixth Form College	153	55	208
Brunel Academy	40	14	54
Holland Park Academy	211	60	271
Kensington Aldridge Academy	107	41	148
Latimer Academy	121	39	160
Cardinal Vaughan Academy	149	49	198
Parkwood Hall Academy	282	95	377
Kensington Primary Academy*	5	2	7
Total Contributions from Scheduled Bodies	1,571	580	2,151
Admitted Bodies			
Amey	271	60	331
Hestia	24	10	34
Specialist Schools and Academies Trust*	225	0	225
Tenant Management Organisation	1,175	431	1,606
Westway Development Trust	31	8	39
Epic CIC	118	44	162
Octavia Housing	32	13	45
Opera Holland Park	34	16	50
Action 4 Children*	77	28	105
Total Contributions from Admitted Bodies	1,987	610	2,597

*new to the Pension Fund in 2016/17

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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 Statement of Investment Principles (SIP).

The SIP sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The SIP also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles". These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government.

The current version of the Myners Principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

The Fund's SIP can be found at Appendix 2.

For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments
- The administering authority's assessment of the suitability of particular investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed
- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering 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.

A copy of the ISS can 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 2017 was as follows:

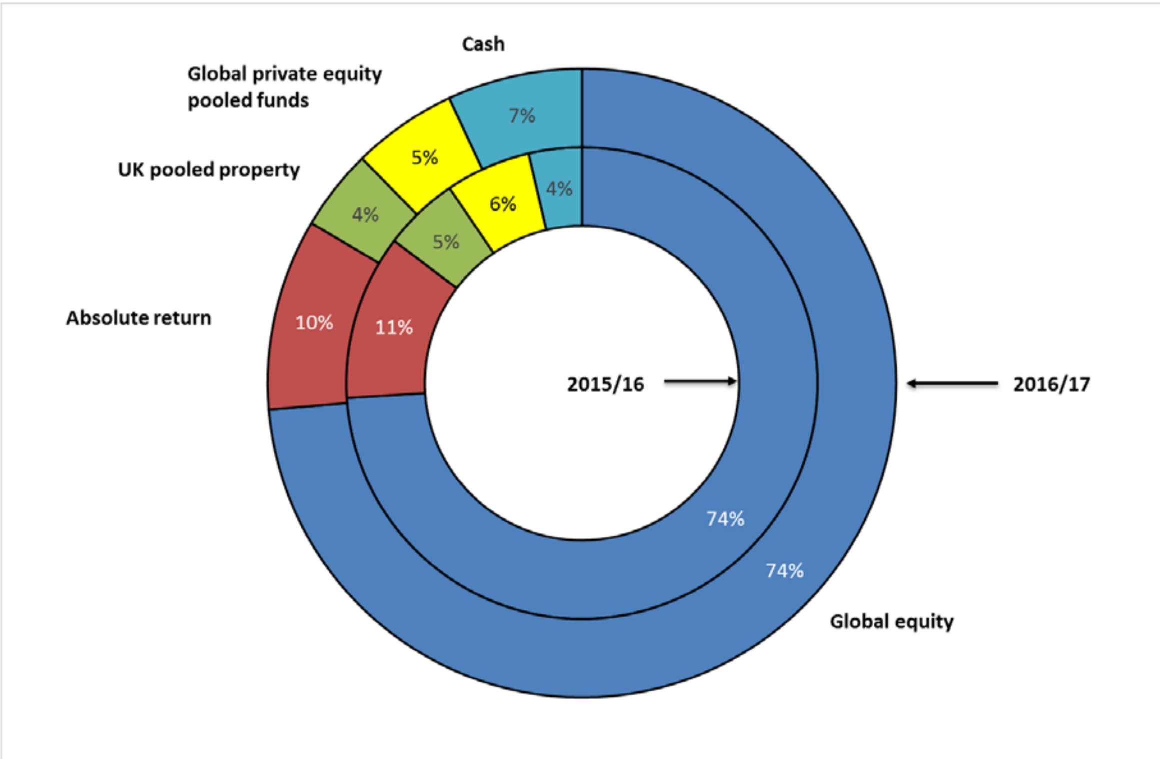
Asset Class	Target Allocation	Expected long term return	Fund Manager
Global Equities	60%	3.8%	Baillie Gifford Longview Legal and General
Absolute return fund Liquidity Fund	30%	3.8%	Pyrford Legal and General
Private Equity	5%	3.8%	Adams Street
Property	5%	2.1%	CBRE KAMES
Total	**100%**	**3.7%**	

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

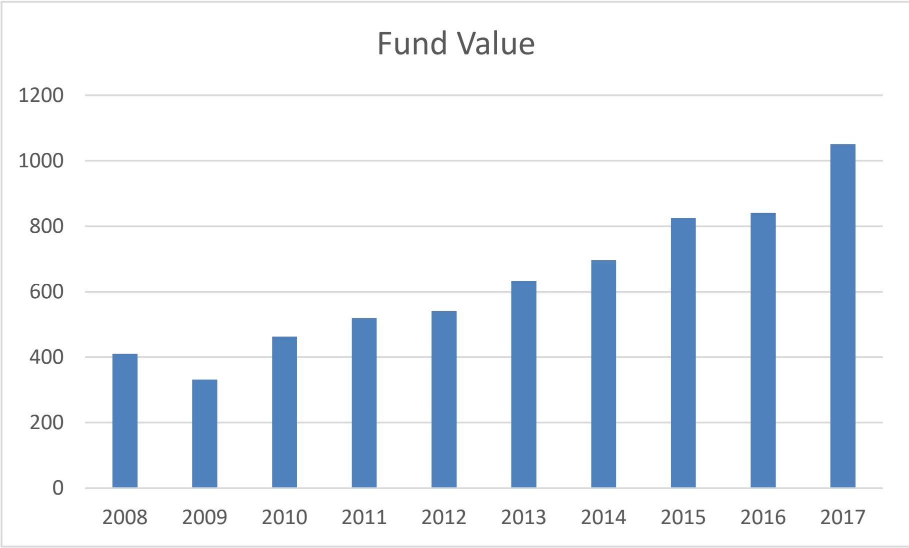
FUND VALUE

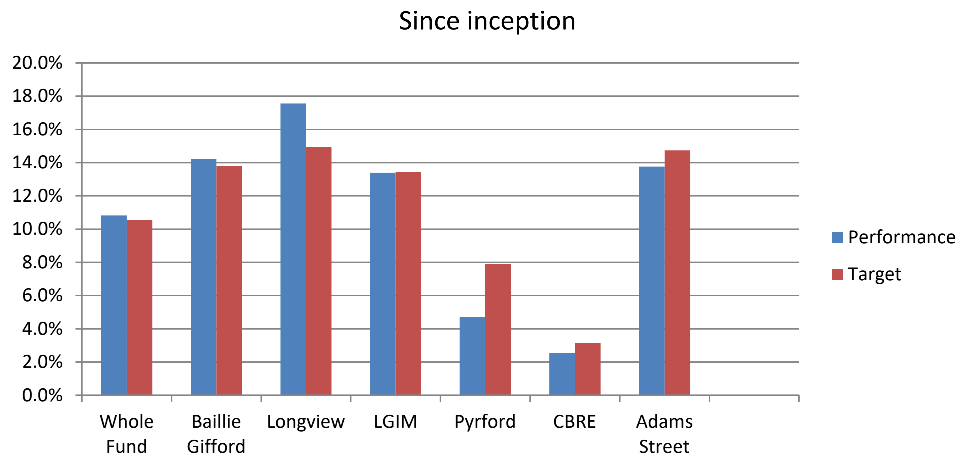
The value of the Fund has almost doubled over the past ten years. Relatively modest growth in 2015/16 reflected uncertainty around the strength of the global economy and emerging markets in particular, but the Fund recovered well in 2016/17 with a 23% increase in the value of investments during the year.

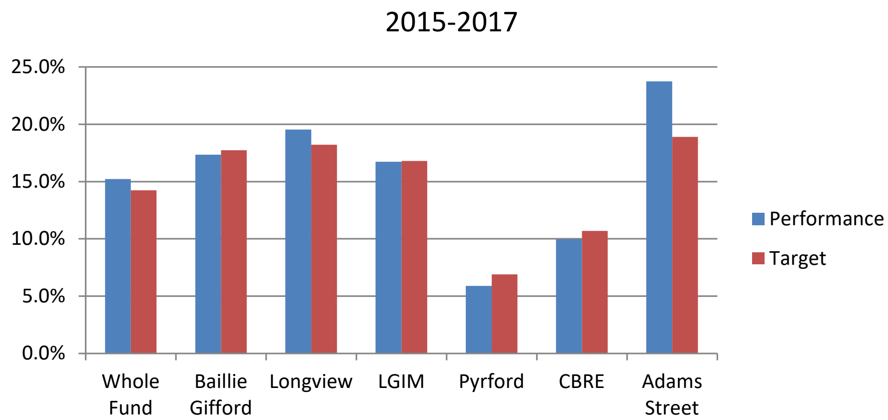
The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.

Performance of the Fund is measured against an overall strategic benchmark. Below this, 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, Hymans Robertson.

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.







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.

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.

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 2017 has improved compared with the position as at 31 March 2016.

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 July 2017

Barnett Waddingham
Public Sector Consulting

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. The Council's Chief Financial Officer is the Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent; and
- complied with the Code.

The Director of Finance has also:

- kept proper accounting records that were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATION

I confirm that the Statement of Accounts 2016-17 (set out on pages 30 to 114) gives a true and fair view of the financial position of the Royal Borough of Kensington and Chelsea Pension Fund as at 31 March 2017 and income and expenditure for the year ended 31 March 2017.

Chris Buss
Director of Finance and section 151 officer
Date: 3 October 2017

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.

We have audited the pension fund financial statements of the Royal Borough of Kensington and Chelsea (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR OF FINANCE AND THE AUDITOR

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

OPINION ON OTHER MATTERS

- In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the pension fund financial statements.

Andrew Sayers for and on behalf of KPMG LLP,
Appointed Auditor
KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL

17 October 2017

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2015/16		Notes	2016/17
£'000			**£'000**
	Dealings with members, employers and others directly involved in the fund		
(23,685)	Contributions	7	(23,752)
(2,741),	Individual transfers in from other pension funds		(1,232)
(2)	Other income		
(26,428)			(24,984)
26,861	Benefits	8	28,036
1,689	Individual Transfers Out to Other Pension Funds		2,110
26	Refunds to Members Leaving Service		52
28,576			30,198
2,148	Net (Additions)/Withdrawals from Dealings with Members		5,214
4,692	Management Expenses	9	3,404
6,840	Net additions/withdrawals including fund management expenses		8,618
	Returns on Investments		
(7,785)	Investment income	10	(6,960)
(14,245)	Profit and Loss on disposal of investments and change in the market value of investments	11	(212,617)
71	Taxes on income		109
(21,959)	Net return on investments		(219,468)
(15,119)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(210,850)
(825,896)	Opening Net Assets of the Scheme		(841,015)
(841,015)	Closing Net Assets of the Scheme		(1,051,865)

NET ASSET STATEMENT

2015/16		Notes	2016/17
£'000			**£'000**
832,687	Investment assets		1,044,559
0	Investment Liabilities	12	0
832,687	**Total net investments**		**1,044,559**
0	Borrowings		0
10,598	Current assets	13/19	7,817
(2,270)	Current liabilities	13/20	(511)
841,015	**Net Assets of the Fund Available to Fund Benefits at the Period End**		**1,051,865**

Notes 1 Description of Kensington and Chelsea Pension Fund

a) General

The Royal Borough of Kensington and Chelsea (RBKC) Pension Fund ("the fund") is part of the Local Government Pension Scheme (LGPS) and is administered by The Royal Borough of Kensington and Chelsea Council. The Council is the reporting entity for this pension fund.

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 2009 (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:

	2016/17	2015/16
Active members	3,271	3,255
Pensioners receiving benefits	2,873	2,798
Deferred pensioners*	4,364	4,990
Total	**10,508**	**11,043**

*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

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, as amended, require administering authorities to prepare and review from time to time a written Statement of Investment Principles. This statement provides details of the Fund's investment policies including the types of investment to be held, Risk measurement and management and compliance with the Myner's principles of investment management.

The latest Statement of Investment Principles (SIP) was approved in February 2015 by the Investment Committee and is available on Council's website at:

https://www.rbkc.gov.uk/council/how-council-manages-money/council-spending-and-finances/pension-fund-2014-15

The Fund's investment objective is to ensure that its assets are invested in a way that maximises the likelihood that benefits will be paid to members as they fall due and to ensure the continued long-term financial support from the sponsoring employers.

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

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

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarises the Fund's transactions for 2016-17 and its position at the year-end as at 31 March 2017. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based on International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Assets Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in a note to the accounts (Note 18).

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.

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

All expenses are accounted for on an accruals basis to ensure costs for the full accounting period are accounted for in the Fund account. Staff costs associated with the running of the Fund (including administration and oversight and governance) are charged to the Fund along with an element of management, accommodation and overhead charges.

The fees of the Fund's external investment managers reflect their differing mandates. Management fees are usually linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Fees are also payable to the Fund's custodian and other advisers.

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. Quoted securities and Pooled Investment Vehicles have been valued at the bid price ruling on the final day of the accounting period. Quoted securities are valued by Northern Trust, the Fund's custodian.

The values of the private equity investments are based on valuations provided by the general partners to the private equity funds. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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 18.

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 2009. They are disclosed in Note 21.

Notes 4 to 6

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

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

The items in the Net Asset Statement at 31 March 2017 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 £121.5 million. • a 0.2 per cent increase in assumed earnings would increase the value of liabilities by approximately £6.1 million. • a one-year increase in assumed life expectancy would increase the liability by approximately £49.5 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 £56.334 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 £563,000.

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 18. 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 £56.334 million (£48.798 million on 31 March 2016).

NOTE 6 - EVENTS AFTER THE BALANCE SHEET DATE

There were no events to report which took place between the Balance Sheet date and the date these accounts were signed off.

Note 7 Contributions receivable

BY CATEGORY

2015/16		2016/17
£'000		£'000
6,523	**Employees' normal contributions**	**6,540**
	Employer's contributions:	
13,211	Normal contributions	14,059
2,888	Deficit recovery contributions	2,543
1.063	Augmentation contributions	611
17,162	Total employers' contributions	17,212
23,685	**Total**	**23,752**

BY AUTHORITY

2015/16		2016/17
£'000		£'000
19,453	Administering Authority	19,004
1,866	Scheduled bodies	2,151
2,366	Admitted bodies	2,597
23,685		23,752

Note 8 Benefits Payable

BY CATEGORY

2015/16		2016/17
£'000		£'000
22,150	Pensions	23,027
3,797	Commutation and lump sum retirement benefits	4,457
914	Lump sum death benefits	552
26,861	**Total**	**28,036**

BY AUTHORITY

2015/16		2016/17
£'000		£'000
24,844	Administering Authority	25,464
341	Scheduled Bodies	358
1,676	Admitted Bodies	2,214
26,861		**28,036**

Note 9 Management expenses

2015/16		2016/17
£'000		£'000
598	Administration Expenses	606
	Investment Management expenses	
3,786	Management fees	2,457
60	Transaction costs	71
39	Custody fees	38
3,885		2,566
209	Oversight and Governance	232
4,692		3,404

Note 10 Investment Income

2015/16		2016/17
£'000		£'000
(5,538)	Equity Dividends	(4,626)
(2,210)	Pooled property investments	(2,287)
0	Private equity income	(3)
(37)	Interest on cash deposits	(44)
(7,785)	Total	(6,960)

Note 11 Movements in investments

2016/17	1 April 2016	Purchases	Sales	Change in market value	31 March 2017
	£'000	£'000	£'000	£'000	£'000
Sterling Liquid Pooled Fund (Legal and General)	30,286	42,000	0	221	72,507
Pooled active global equities (Baillie Gifford)	174,080	0	(14,000)	60,708	220,788
Active Global Equities (Longview)	223,011	46,929	(73,425)	61,352	257,867
Pooled passive global equities (Legal and General)	219,041	0	0	71,651	290,682
Pooled active global absolute return (Pyrford)	94,316	521	0	7,992	102,829
Pooled UK property fund (CBRE)	27,217	0	0	(643)	26,574
Pooled UK Property fund (KAMES)	15,788	0	0	1,040	16,828
Global private equity fund (Adams Street)	48,798	5,178	(9,193)	11,551	56,334
London Collective Investment Vehicle (CIV)	150	0	0	0	150
Sub total	832,687	94,628	(96,618)	213,862	1,044,559
Investment income due	181			0	708
Current assets	2,941			0	2,050
Current liabilities	(1,770)			0	(511)
Cash deposits	7,476			(1,245)	5,059
Cash Overdrawn	(500)				0
Net investment assets	**841,015**	**94,268**	**(96,818)**	**212,617**	**1,051,865**

Note 11 Movement in Investments (continued)

2015/16	1 April 2015	Purchases	Sales	Change in market value	31 March 2016
	£'000	£'000	£'000	£'000	£'000
Sterling Liquid Pooled Fund (Legal and General)	30,118	0	0	168	30,286
Pooled active global equities (Baillie Gifford)	176,326	0	(55)	(2,191)	174,080
Active Global Equities (Longview)	213,867	48,602	(44,555)	5,097	223,011
Pooled passive global equities (Legal and General)	218,302	0	0	739	219,041
Pooled active global absolute return (Pyrford)	92,702	868	0	746	94,316
Pooled UK property fund (CBRE)	25,660	3	0	1,554	27,217
Pooled UK Property fund (KAMES)	14,616	439	0	733	15,788
Global private equity fund (Adams Street)	45,901	3,981	(8,267)	7,183	48,798
London Collective Investment Vehicle (CIV)	0	150	0		150
Sub total	817,492	54,043	(52,877)	14,029	832,687
Investment income due	88			0	181
Current assets	142			0	2,941
Current liabilities	(1,214)			0	(1,770)
Cash deposits	9,388			216	7,476
Cash Overdrawn	0			0	(500)
Net investment assets	**825,896**	**54,043**	**(52,877)**	**14,245**	**841,015**

Note 12 Investments by Fund Manager

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 2016 Market Value	%	Fund Manager	31 March 2017 Market Value	%
£'000			£'000	
30,268	3.6	L & G Liquidity	72,507	6.9
174,080	20.9	Baillie Gifford	220,788	21.1
223,011	26.8	Longview	257,867	24.7
219,041	26.3	L & G Equities	290,682	27.8
94,316	11.3	Pyrford	102,829	9.8
27,217	3.3	CBRE	26,574	2.5
15,788	1.9	KAMES	16,828	1.6
48,798	5.9	Adams Street	56,334	5.4
150		London CIV	150	
832,687	100	Total held by Fund Managers	1,044,559	100
181		Investment income	708	
832,868		**Total Investments**	**1,045,267**	

Note 13 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 March 2016					31 March 2017			
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				
23,658	0	0	23,658	UK quoted	29,743	0	0	29,743
150	0	0	150	UK unquoted	150	0	0	150
189,677	0	0	189,677	Overseas	216,730	0	0	216,730
213,485	**0**	**0**	**213,485**	**Sub-total**	**246,623**	**0**	**0**	**246,623**
				Pooled funds- investment vehicles				
30,286	0	0	30,286	UK pooled liquidity fund	72,507	0	0	72,507
393,121	0	0	393,121	Pooled global equities	511,470	0	0	511,470
94,316	0	0	94,316	Pooled global absolute return fund	102,829	0	0	102,829
42,138	0	0	42,138	Pooled property investments	43,402	0	0	43,402
48,798	0	0	48,798	Pooled private equity funds (unquoted)	56,334	0	0	56,334
0	181	0	181	Investment income due	0	708	0	708
0	18,019	0	18,019	Cash with investment managers	0	10,686	0	10,686
0	0	0	0	Cash with administering authority	0	5,059	0	5,059
0	2,941	0	2,941	Debtors	0	2,758	0	2,758
608,659	**21,141**	**0**	**629,800**	**Sub-total**	**786,542**	**19,211**	**0**	**805,753**
				Financial Liabilities				
0	0	(1,770)	(1,770)	Creditors	0	0	(511)	(511)
0	0	(500)	(500)	Cash overdraft	0	0	0	0
0	**0**	**(2,270)**	**(2,270)**	**Sub-Total**	**0**	**0**	**(511)**	**(511)**
822,144	**21,141**	**(2,270)**	**841,015**	**Total**	**1,033,165**	**19,211**	**(511)**	**1,051,865**

Note 14 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 UK 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 March 2016					31 March 2017			
Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£000
				Financial Assets				
731,057	42,139	48,948	822,144	Fair value through profit and loss	570,090	406,591	56,484	1,033,165
21,141	0	0	21,141	Loans and receivables	19,211	0	0	19,211
752,198	**42,139**	**48,948**	**843,285**	**Total financial assets**	**589,301**	**406,591**	**56,484**	**1,052,376**
				Financial Liabilities				
(2,270)	0	0	(2,270)	At amortised cost	(511)	0	0	(511)
(2,270)	**0**	**0**	**(2,270)**	**Total financial liabilities**	**(511)**	**0**	**0**	**(511)**
749,928	**42,139**	**48,948**	**841,015**	**Net financial assets**	**588,790**	**406,591**	**56,484**	**1,051,865**

Note 15 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 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 2017	**981,472**	**1,079,619**	**883,325**
As at 31 March 2016	821,994	904,193	739,795

Note 15 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 2017	142,342	143,765	140,919
As at 31 March 2016	107,507	108,582	106,432

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 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 2017	886,376	975,014	797,738
As at 31 March 2016	642,709	706,980	578,438

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 through the failure to settle a transaction in a timely manner.

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 16 CONTRACTUAL COMMITMENTS

As at 31 March 2017 the Fund had a commitment to invest a further £28.0m into the Adams Street private equity fund 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 17 Funding Arrangements

The LGPS 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 published in the triennial valuation report which is available from the Tri-borough Pensions Team, see page 6 for contact details.

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 2016-17 the common contribution rate is 17.8% 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 %a
Retail Price Index (RPI) increases	3.5
Consumer Price Index (CPI) increases	2.7
Salary increases	4.5
Pension increases	2.7
Discount rate	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 2013 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 834m and the Actuary assessed the present value of the funded obligation at £808m indicating a net surplus of £26m, resulting in a funding level of 103%. This will be the basis for the contribution rates for three years from 1 April 2017.

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

Note 18 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2017. 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 17, the actuary will take into account the investment policy when determining the assumptions to be used.

31 March 2016			31 March 2017
£'000			£'000
	Present Value of Promised Retirement Benefits		
(991,170)	-	Vested obligations	(1,289,791)
(36,112)	-	Non Vested obligations	(43,177)
841,015	Fair Value of scheme assets (bid value)		1,033,307
(186,267)	**Net Liability**		**(299,661)**

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FINANCIAL ASSUMPTIONS

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

	31 March 2017 %	31 March 2016 %
Retail Price Index (RPI) increases	3.6	3.3
Consumer Price Index (CPI) increases	2.7	2.4
Salary increases	4.2	4.2
Pension increases	2.7	2.4
Discount rate	2.8	3.7

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% p.a.

Life expectancy from age 65 years		31 March 2016	31 March 2017
Retiring today	Males	24.4	22.5
	Females	26.0	25.8
Retiring in 20 years	Males	26.6	24.8
	Females	28.3	28.1

Note 19 Current Assets

31 March 2016		31 March 2017
£'000		£'000
	Debtors:	
346	Contributions due - employers	332
130	Contributions due - employees	190
2,465	Sundry debtors	2,236
2,941	Sub-total	2,758
7,476	Cash balances	5,059
10,417	**Total**	**7,817**

ANALYSIS OF DEBTORS

31 March 2016		31 March 2017
£'000		£'000
131	Central Government Bodies	187
278	Other entities and individuals	1,962
2,506	Administering Authority	609
26	Other local authorities	0
2,941	**Total**	**2,758**

Note 20 Current Liabilities

31 March 2016		31 March 2017
£'000		£'000
	Creditors	
(70)	Benefits payable	0
(1,700)	Sundry creditors	(511)
(1,770)	**Sub-total**	**(511)**
(500)	Cash overdrawn	0
(2,270)	**Total**	**(511)**

ANALYSIS OF CREDITORS

31 March 2016		31 March 2017
£'000		£'000
(313)	Central Government Bodies	0
(925)	Other entities and individuals	(511)
(403)	Administering Authority	0
(129)	Other local authorities	0
(1,770)	**Total**	**(511)**

Notes 21 to 23

NOTE 21 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 2016-17, AVC contributions of £0.471 million (£0.481 million in 2015-16) were paid to the provider, Prudential. The market value of these funds at 31 March 2017 is £3.333 million (£2.919 million at 31 March 2016).

NOTE 22 RELATED PARTY TRANSACTIONS

The Fund is administered by the Royal Borough of Kensington and Chelsea. The Council incurred, and was reimbursed for, costs of £0.238 million in the financial year 2016-17 (£0.242 million in 2015-16) in relation to administration costs.

In year, and in total, the Council contributed £13.654 million to the fund compared to £14.043 million in 2015-16. At 31 March 2017 the Council owed the pension fund a net amount of £0.609 million (£2.103 million at 31 March 2016).

The Council has a significant relationship with one admitted body, the Kensington and Chelsea Tenant Management Organisation (KCTMO). The fund received £1.175 million in employer contributions, deficit and early retirement costs from KCTMO (£1.187 million in 2015-16).

NOTE 23 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 2016/17 the Fund paid the gross sum of £0.233million (£0.264 million in 2015/16) on behalf of the Royal Borough of Kensington and Chelsea.

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.

8. Appendices

Appendix 1 - Governance Compliance Statement

BACKGROUND

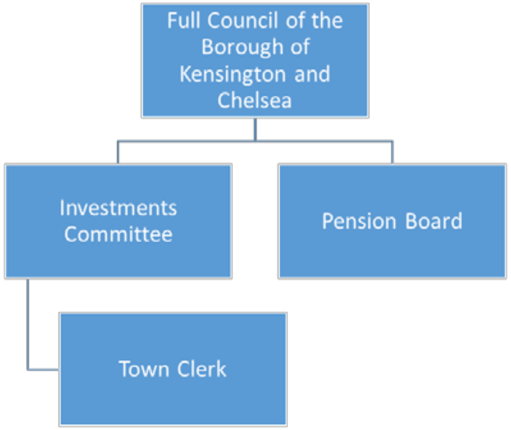
The Royal Borough of Kensington and Chelsea is the administering authority for the Royal Borough of Kensington and Chelsea Pension Fund (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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 - Statement of Investment Principles

1. THE SCHEME

1.1 The Local Government Pension Scheme (LGPS) was set up under statute to provide retirement, death and other benefits for all eligible employees. The LGPS benefits were amended from 1 April 2008. For service prior to this, the ongoing pension is 1/80th of a member's final salary for every year of service plus a lump-sum of 3/80ths for every year of service, on their retirement. The scheme continued as a final salary defined benefit scheme which pays 1/60th of the final salary for service from 1 April 2008 until 31 March 2014. There is no automatic lump sum, but members have the option to exchange some pension for a lump-sum payment.

1.2 From 1 April 2014, the LGPS changed again, based on career-average earnings from that point forward. It is funded by variable employee contributions dependent on salary and ranging from 5.5 per cent to 12.5 per cent of pensionable pay and by employer contributions, which are set following an actuarial valuation review of the assets and liabilities of the Scheme every three years. The benefits of the Scheme are defined by statute and increased for inflation in line with changes in the Consumer Prices Index as at September.

1.3 The LGPS is managed by several designated administering authorities, of which the Royal Borough of Kensington and Chelsea (The Royal Borough) is one such authority. Each administering authority maintains a pension fund and invests monies not required immediately to meet benefits.

As at 31 March 2014, the assets of the fund were valued at around £696 million. There are about 10,000 members of the Fund: 31 per cent active, 26 per cent pensioners and 43 per cent deferred pensioners. Further details of the Fund‟s investments and performance are published annually in the Pension Fund Report and Accounts which is available on the Council‟s web site www.rbkc.gov.uk.

Legal Requirements

1.4 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 introduced a requirement that authorities administering pension funds prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund assets.

1.5 The Royal Borough published its first Statement of Investment Principles in July 2003. The requirements were last modified in The Local Government Pension Scheme (Management and Investment of Funds) Regulations were last amended in 2013 and require authorities to state the extent to which they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom.

1.6 The SIP should be revised within six months of any significant changes being agreed by the Investment Committee, to ensure it remains a true reflection of the investment policy of the Fund.

1.7 In preparation of the SIP, appropriate advice has been received from the Fund's appointed advisers.

2. FUND GOVERNANCE

2.1 The following governance structure has been adopted for the administration of the Fund. This structure allows the important decisions on investment policy to remain the responsibility of the Investment Committee, while delegating the day-to-day aspects to the Managers, the Royal Borough Officers or the Advisers as appropriate. The responsibilities of each of the parties involved in the Fund's governance are set out below.

The Investment Committee

2.2 The Investment Committee includes elected representatives of The Royal Borough; each has voting rights. The Investment Committee reports to Full Council and has full, delegated authority to make investment decisions. The Investment Committee decides on the investment policies most suitable to meet the liabilities of the Royal Borough Fund and has ultimate responsibility for the governance of the Fund including investment strategy.

Advice

2.3 Four independent advisers supplement the Investment Committee. It also receives and considers advice from officers and investment advice from its appointed external Investment Consultant (Hymans Robertson), the Actuary to the scheme (Barnett Waddingham) and its Investment Managers.

Investment Management

2.4 The Investment Committee has delegated the investment management of the Fund’s investments to professional investment managers, whose activities are specified in detailed investment management agreements or contracts relating to specific pooled investments. Compliance is regularly monitored by the appointed investment consultant, the officers and through reports and presentations to the Investment Committee. No investments, except surplus cash pending transmission to the investment managers or required to meet the Fund’s liabilities as they fall due, are managed by The Administering Authority.

2.5 The Investment Committee is responsible for:

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment consultants;
- Setting performance benchmarks and reviewing investment manager performance against these benchmarks on a regular basis;
- Reviewing the managers‟ expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights; and
- Reviewing the investments over which they retain control and obtaining advice about them regularly from the Investment Consultant. The Investment Committee will also obtain written advice from the Investment Consultant when deciding whether or not to make any new investments.

2.6 The Investment Committee is advised by The Royal Borough Officers, who are responsible for:

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Investment Committee;
- Management of surplus cash, in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and the Royal Borough‟s Annual Treasury Management Strategy. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;
- Investment accounting and preparing the annual report and accounts of the fund; and
- Ensuring proper resources are available for the Royal Borough’s responsibilities to be met.

2.7 The Investment Managers are responsible for:

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements or contracts;
- Tactical asset allocation around the strategic benchmarks set by the Investment Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;
- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term; and
- Attending meetings of the Investment Committee as required.

2.8 The Independent Custodian (Northern Trust) is responsible for:

- Provision of monthly accounting data summarising details of all investment transactions during the period;
- Providing details of investment transactions in a timely manner to the independent measurers of performance;
- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;
- The separation of investment management from custody which is paramount for the security of the assets of the Fund; and
- Providing comparative information on the Fund’s performance relative to the benchmark and targets, and the relative performance of different asset classes.

2.9 The Actuary (Barnett Waddingham) is responsible for:

- Undertaking a triennial valuation of the Fund‟s assets and liabilities and interim valuations as required, including those to enable compliance with the International Accounting Standard IAS19 (formerly FRS17);
- Advising on the rate of employer contributions required to maintain appropriate funding levels; and
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services.

2.10 The Co-opted External Independent Advisers are responsible for providing advice to support the Investment Committee in its decisions.

2.11 The Investment Consultant (Hymans Robertson) is responsible for:

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;
- Providing investment information, investment advice1 and continuing education to the Investment Committee and the executive officers; and
- Independent monitoring of the investment managers and their activities.

3. PENSION FUND LIABILITIES

Overview

3.1 The Royal Borough Pension Fund is similar to other funds run by Local Authorities in terms of its maturity. The Actuary determined that the funding level was 95 per cent at the 31 March 2013 valuation, an increase of 6 per cent over the 2010 valuation level. Since 2005, the Investment Committee has pursued a policy of diversifying its investment allocations with the objective of reducing the volatility of investment returns.

3.2 Following disappointing overall returns for the Fund as a whole, a major review was undertaken, commencing in February 2010, with the aim of securing improvements to the long-term investment performance.

3.3 At its July 2010 meeting, the Committee agreed to a change in the strategy of the Fund to target allocations of 60 per cent equities, 30 per cent absolute return funds, five per cent property and five per cent private equity. Re-balancing may be undertaken from time to time to bring allocations closer to these targets, but only if the allocations to asset classes have moved significantly from the targeted amounts.

3.4 There is no specific allocation to bonds or to cash, although a small amount of cash is required to maintain liquidity and the absolute return fund managers invest varying proportions of their funds in bonds. This strategy is intended to grow the value of the assets at a managed level of risk in the medium to long term.

Scheme Benefits

3.5 The LGPS is a defined benefit scheme, which provides benefits related to final salary for its members to 31 March 2014 and on a career average basis thereafter. Each member's pension is specified according to a formula based on salary and service and is unaffected by the investment return achieved by the fund. Full details of the benefits are set out in the LGPS regulations.

Funding the Benefits

3.6 Active members are required to make pension contributions at variable rates, depending on the level of their salaries. The Royal Borough and other employers participating in the Fund are responsible for meeting the remainder of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined following the actuarial review and consultation with the Fund Actuary. The employers therefore have a direct financial interest in the investment return achieved on the Fund's assets to the extent that any funding shortfall is met from employers' contributions.

3.7 The Royal Borough published a revised Funding Strategy Statement in November 2012, as required by the LGPS regulations.

Actuarial Valuation

3.8 The Fund is valued every three years in accordance with the LGPS regulations and monitored each year by the officers and the Actuary. The last valuation was as at 31 March 2013.

4. INVESTMENT POLICY

Investment Objectives

4.1 The Investment Committee's main objective for the Fund is to ensure that the Fund's assets and the future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Fund as they arise.

4.2 The investment objective of the Fund is to maintain an appropriate funding level and to ensure growth above inflation in the value of the assets to control and minimise the level of costs passed on to Council Taxpayers by facilitating low and stable employer contribution rates in the long term. The Council remains the ultimate guarantor of the scheme members' benefits.

4.3 To this end, the assets of the fund are not structured in a way that closely matches the liabilities of the fund, but they are weighted towards diversified equity and other growth investments, which historically have provided a greater return than most fixed interest assets. The target is for all of the Fund to be invested in growth assets to meet the objective outlined in paragraph 4.1.

Investment Strategy

4.4 The Investment Committee's general principle is to exercise its powers to invest, as would a prudent and knowledgeable businessperson in making provision for persons for whom he had a moral duty to provide and taking into consideration the LGPS regulations and the liabilities of the Fund.

4.5 The Investment Committee has accordingly agreed the following general policies with regard to certain matters, having considered advice from the Adviser and also having due consideration for the objectives and attitude to risk of the Investment Committee members. These policies can only be changed by a formal decision of the Investment Committee.

Investment Management Strategy

4.6 The investment management strategy is to appoint professional fund managers to manage investments actively with the exception of a twenty per cent allocation to passively managed equities which provides market returns at minimal cost. The other managers take active sector and stock positions in order to outperform the indices against which they are benchmarked. The Fund will continue to hold an investment in a property fund of funds and invest in private equity funds of funds.

Strategic Benchmark.

4.7 The strategic benchmark for the Fund is set with reference to the long term nature of the Fund's liabilities, and is reviewed regularly. The current benchmark is set out in the table below:

ASSETS	BENCHMARK ALLOCATION	EXPECTED LONG TERM RETURN
Global Equities	60%	3.8%
Absolute return fund	30%	3.8%
Private Equity	5%	3.8%
Property	5%	2.1%
Total	100%	3.7%

Cash is not included in the benchmark as there is no set allocation to it as an asset class.

Performance Targets

4.8 Performance targets are set on a rolling three-year basis in relation to a variety of benchmarks and weighted indices which are specific to each manager. These are set out in Section 5. The investment managers' performance against the benchmark targets is reviewed at quarterly and annual intervals by the Fund's performance measurement company (Northern Trust) who provide independent performance statistics and by the Investment Consultant who interprets those statistics and comments on the level of risk taken by the managers to achieve the performance.

Reporting

4.9 The investment managers' current investment decisions and actions are reported quarterly to the Investment Committee. The Investment Committee publishes this Statement of Investment Principles and the minutes of their meetings, which include the results of their monitoring of the advisers and the investment managers.

Review

4.10 The investment strategy is reviewed periodically with a major review taking place every three years following the actuarial valuation of the Fund.

5. INVESTMENTS

5.1 The powers and duties of the Authority to invest Fund monies are set out in the LGPS (Management and Investment of Funds) Regulations 2009. These state that from 1 April 2010 the Council, as Administering Authority must not invest any monies not immediately required for the payment of benefits and pensions with its own cash balances. The Fund's cash is invested separately and since 1 April 2011, the Fund has been required to have a separate bank account. However, the Fund has acquired the ability to borrow money on a short-term basis (for the payment of transactions such as pensions and transfers) from the Administering Authority in order to meet its obligations.

5.2 For all investments, the Administering Authority is required to take account of the need for diversification, and of advice from persons properly qualified by their ability and practical experience of financial matters to provide that advice.

Statutory Investment Limits

5.3 Statutory maximum limits were increased, subject to administering authorities taking proper advice and compliance with a variety of criteria in the LGPS (Management and Investment of Funds) Regulations 2009.

5.4 The normal maximum limits, as a percentage of the total Fund are restated as shown below. The potential higher limits which can be agreed by the Committee are shown in parentheses:

- Any single sub-underwriting contract is limited to one per cent (five per cent);
- All contributions to any single partnership are limited to two per cent (five per cent);
- All contributions to partnerships are limited to five per cent (30 per cent);
- All loans and any deposits with local authorities or their preceptors are limited to ten per cent;
- All investments in unlisted securities of companies are limited to ten per cent (15 per cent);
- Any single holding is limited to ten per cent unless guaranteed by Her Majesty's Government;
- All deposits with any single bank, institution or person, (other than the National Savings Bank) are limited to ten per cent;
- All sub-underwriting contracts are limited to 15 per cent;
- All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body are limited to 25 per cent (35 per cent);
- All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by any one body are limited to 25 per cent (35 per cent);
- All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body are limited to 25 per cent (35 per cent);
- Any single insurance contract is limited to 25 per cent (35 per cent); and

  All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements are limited to 25 per cent (35 per cent).

Restrictions set by the Investment Committee

5.5 The Investment Committee permits managers to make investments in accordance with the mandates agreed at the time of their appointment. For pooled funds, the Committee agrees to the restrictions in place at the time of appointment and expects to be informed of any material change in the Fund's investment strategy or the assets to which allocations can be made. The restrictions for each manager are included under their individual entries from paragraph 5.9.

Risks

5.6 The Investment Committee recognises a number of risks involved in the investment of the assets of the Fund, including:

- The risk of failing to meet the objectives – the Investment Committee will regularly take advice and monitor the investments to mitigate this risk. In all cases the Investment Committee measures risk by reference to the liabilities of the Fund. Prior to setting the strategy after each actuarial valuation they consider the risk of the funding level worsening based on different strategies.

- Funding and Asset/Liability mismatch risk – this is addressed through the asset allocation strategy and through regular actuarial and investment reviews and the funding target. The majority of the Fund's liabilities are linked to inflation.
- Underperformance risk – this is addressed through monitoring closely the performance of the Managers and taking necessary action when this is not satisfactory.
- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across several countries. of assets thereby avoiding concentration of assets in one particular stock, sector or geographical area. The Investment Committee's agreements with the Investment Managers contain restrictions to limit the risks from each individual investment and prevent unsuitable investment activity.
- Default risk – this is addressed through the restrictions for the Investment Managers.
- Organisational risk – this is addressed through regular monitoring of the Investment Managers and Investment Advisers.
- Liquidity risk – the Fund generally invests in assets that are realisable at short notice.

Sponsor risk – there is a risk of the Employer ceasing to exist but an Act of central Government would be required to abolish it.

5.7 The investment Committee will keep these risks under regular review. Risk advice and measurement is provided by the Adviser on an ad-hoc basis.

Rates of Return

5.8 Based on the expected rates of return for each asset class, the Investment Committee expects to achieve a real rate of return for the total Fund of approximately 3.7 per cent per annum over the long term.

Suitability

5.9 The Investment Committee has taken advice from the Investment Advisers to ensure that the asset allocation strategy is suitable for the Fund, given its liability profile.

Diversification

5.10 The choice of asset allocation strategy is designed to ensure that the Fund's investments are adequately diversified and liquid. The Investment Committee monitors the strategy regularly to ensure that the levels of diversification and liquidity are satisfactory.

5.11 The Investment Committee has decided that, due to the size of the Fund and the high costs of direct investment in property, the most appropriate form of investment in this asset class is through a property fund of funds with a portfolio of investments in the United Kingdom.

For similar reasons, the Investment Committee made a commitment to invest up to five per cent of the Fund with a private equity fund of funds. By their nature, private equity investments are long term, so performance and valuation of these assets is determined in association with the Performance Measurer and the Fund‟s Actuary.

Realisation of Assets

5.12 All assets are held in segregated portfolios and pooled arrangements which can be realised easily if the Investment Committee so requires. The Fund has a strong funding level and is expected to have a fairly neutral or slightly negative cash flow for around 10 years. It is anticipated that this will largely be offset by cash returns from the Fund's private equity investments. There is therefore unlikely to be a requirement to realise investments prematurely to meet pensions and other benefits. The Investment Committee monitors the cash flow requirements of the Fund to control the timing of any disinvestment of assets. When issuing instructions to realise assets, the Investment Committee requires them to be acted upon immediately, unless a specified date or time-period is set for the assets to be realised, or is set out in the investment management agreement.

Self-Investment

5.13 The Fund has no assets invested in the business of the Royal Borough.

Investment Managers

5.14 The Investment Committee appointed two active global equity managers with effect from November 2010 and selected two absolute return managers in early 2011. A passive equity and bond manager, Legal and General Investment Management, was appointed in November 2009. Two managers were appointed in the summer of 2006 to provide the Fund with investments in property and private equity funds of funds.

5.15 More recently, in February 2014, the Committee received presentations from secondary property managers with a view to increasing the overall property holding to the target level of 5 per cent of the Fund. The first drawdowns for this investment of £15 million were made in November 2014. It is expected that the final payments will be made in early 2015.

5.16 Due to changes in the personnel responsible for investment management arrangements at Barings, it was decided to withdraw the funds from the manager. As an interim solution, to maintain a similar proportion of funds in appropriate asset classes, the funds were reinvested equally in a passive global equity fund and a sterling liquidity fund made up of bonds and cash.

Equity Managers

5.17 Baillie Gifford

Benchmark: MSCI All Countries World Index (including Emerging Markets).

- **Target:** to outperform this by two per cent per annum net over rolling three-year periods.
- This manager was re-appointed in 2010 with a revised allocation to a pooled fund in its Global Alpha Strategy. The strategy is executed by the manager on the basis of a strong conviction that the stocks selected will outperform the market generally, regardless of their weight in the index. The Fund will invest typically in a portfolio of 70-120 global securities. The Fund may use Baillie Gifford Open Ended Investment Company (OEIC) sub-funds to gain diversified exposure to certain areas.
- All income is re-invested. The amount of cash held for any significant period will not normally exceed five per cent. The proportion of the portfolio invested in any one holding shall normally, on purchase, not exceed the index weighting by more than six per cent and generally not be less than 0.5 per cent of the Fund's value.
- The proportion of the portfolio invested in any one particular industry shall normally, on purchase, not exceed the index weighting by more than ten per cent. There is no minimum proportion. The proportion of the portfolio invested in any one particular region shall normally, on purchase, not exceed the index weighting by more than 20 per cent. There is no minimum proportion. There are no restrictions in respect of non index positions. For example, a significant position may be taken in Emerging Markets from time to time.
- The Fund does have the ability to make use of currency forwards and to invest in derivatives. It is only likely to do this in exceptional circumstances and will do so for defensive purposes only.

5.18 Longview Partners

Benchmark: MSCI World (local) (Total Return) Net.

Target: to outperform this by two per cent per annum net over three-year rolling periods.

- This manager aims to invest in a concentrated, but well-diversified global portfolio of superior quality, but predictable companies with improving business fundamentals and attractive cash valuations. It has a disciplined investment process and is agnostic to the index.
- The manager can invest in all listed stocks globally with a market capitalisation of or in excess of US$ three billion. Industry and geographic allocation are purely derived by the bottom up stock selection process. In order to avoid systemic risk, Longview follow guidelines of a minimum allocation of 30 per cent to North America, a minimum allocation of 25 per cent to Europe, a maximum allocation of 20 per cent to Japan, and a maximum allocation of 12 per cent to emerging markets. Longview has a guideline limit of 12 per cent to any one industry (i.e. companies with common business drivers).

- The strategy is long only and no derivatives are used, other than currency forwards for currency hedging purposes. Short positions are not permitted.
- The choice of two global equity managers with differing investment styles provides diversification in manager risk for a major part of the Fund.

5.19 Legal and General Investment Management (LGIM)

Benchmark and target is MSCI World Index (Developed Markets only).

- This passive manager was appointed at the end of 2009 to enable the Fund to maintain its exposure to the Equity and Bond markets in the event that changes are made to other mandates in the portfolio. During the re-tendering process, it was decided that 20 per cent of the Fund should be allocated to this manager to generate index returns at minimal cost.
- Legal and General invest in global listed equities in developed markets only in order to match the FTSE World Index (for which the MSCI is used as a proxy. In addition to this, limited use of derivatives is allowable for efficient portfolio management. Such derivatives include currency forwards and index futures.

5.20 Absolute Return Managers

Barings

Benchmark: Three-month London Interbank Offered Rate (LIBOR).

Target: To exceed the benchmark by four per cent per annum net over three-year rolling periods.

- This manager was appointed in 2011 and funded in April with an allocation of 15 per cent of the Fund to the Baring Dynamic Asset Allocation Fund. The strategy was executed by the manager on the basis that value can be created by moving allocations between a variety of asset classes, depending on market conditions.
- At the end of August 2014 the Fund was advised that the investment manager responsible for the Dynamic Asset Allocation fund was leaving the company, along with his deputy. Having taken advice, it was agreed that this represented too much of a risk to the Fund, so the entire holding was sold.
- As a temporary measure, and with a view providing similar exposure to the market, the proceeds were allocated equally to the LGIM passive global equity mandate and the same company's Sterling Liquidity Fund. The funds will remain in these funds until needed to meet objectives determined during revisions to the asset allocation strategy.

5.21 Pyrford International

Benchmark: Retail Price Index

Target: To exceed the benchmark by five per cent per annum net over three-year rolling periods.

- Pyrford were appointed at the same time as Barings and allocated the same proportion (15 per cent) of the Fund's assets. Their strategy is to allocate funds to highly regarded equities and bonds according to prevailing market conditions.
- Pyrford invest in investment grade sovereign debt securities and equities of companies that, at time of purchase, have a minimum stock market capitalisation of US$500 million and that are listed, traded or dealt in on a Regulated Market. Particular emphasis is placed on Regulated Markets in North America, Europe (including the UK) and the Asia Pacific Region (including Japan).
- It is expected that the Fund will be weighted towards Pound Sterling denominated assets. The Fund may also hold up to 25 per cent of its Net Asset Value in cash. There is no restriction for investment in investment grade sovereign debt securities. The Fund may not invest more than five per cent of its Net Asset Value in any investment grade non-sovereign debt securities.

- The Fund may invest up to 20 per cent of its Net Asset Value in Emerging Markets and a maximum of 10 per cent of the Fund‟s Net Asset Value may be invested in units or shares of other collective investment schemes (including certain exchange traded funds) within the meaning of Regulation 45(e) of the Regulations for the purposes of gaining exposure to the types of investments described herein or otherwise to pursue the investment objective and policies of the Pyrford Fund.
- Subject to the limitations set forth in the Prospectus and consistent with the Pyrford‟s investment policies, restricted use of derivatives is permitted. Forward foreign exchange transactions may be used to reduce the risk of adverse market changes in exchange rates or to increase exposure to foreign currencies or to shift exposure to foreign currency fluctuations from one country to another. Derivative instruments may be exchange-traded or over-the-counter. Derivative usage is not intended for the purposes of obtaining leverage or otherwise to alter the volatility of the Fund in pursuing its investment objectives.
- The choice of two managers with differing investment styles provides diversification in manager risk for a substantial part of the Fund.

5.22 Property Fund of Funds Manager

CBRE – OSIRIS Fund of Funds

- **Benchmark and target**: IPD UK All Balanced Funds Index with a target to exceed this by 0.5 per cent over rolling three year periods.
- This is a specialist real estate manager and investment in the OSIRIS Fund of Funds gives the Royal Borough's Pension Fund exposure to a wide range of UK commercial property funds. Its key areas of investment are offices, industrial and warehousing units with long-term, secure cash flows, dominant retail property and alternatives, such as student accommodation and healthcare facilities.
- In addition to providing some diversification away from equity investments, this portfolio allows for risk to be spread through investment in a diversified range of property assets, rather than focusing on one sector of the market.

5.23 Secondary Property Fund of Funds Manager

KAMES

Benchmark and target: IPD UK All Balanced Funds Index with a target to exceed this by 0.5 per cent over rolling three year periods.

- This is a specialist secondary real estate manager and investment is into a closed-ended fund, expected to have a duration of approximately 10 years. Its key areas of investment are offices, retail units, industrial and warehousing in secondary locations with long-term, secure cash flows.
- In addition to providing some diversification away from equity investments, this portfolio allows for risk to be spread through investment in a different range of property assets to those held in the CBRE investment.

5.24 Private Equity Fund of Funds Manager

Adams Street Partners 2007 and 2008 Global Funds

Benchmark: MSCI World Index

Target: MSCI World Index plus two per cent per annum net over rolling three-year periods.

- This is a specialist private equity manager and investment in their 2007 and 2008 Global Funds provides exposure to a variety of venture capital, buyout and other investments in a range of private equity funds and through Adams Street‟s direct investments. This is a long-term investment, intended to provide higher returns than equity markets over 5-10 years.
- At its meeting in May 2011, the Investment Committee agreed to make a further commitment to the Adams Street 2012 Global Fund in order to reinvest the proceeds from its earlier investment and maintain the five per cent allocation to this asset class.
- The Investment Committee has not selected more managers as the benefits of further manager diversification would be outweighed by higher fees, given the risk tolerance and the out-performance targets set.

6. SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

6.1 The Investment Committee has considered socially responsible investment 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.

7. VOTING RIGHTS

7.1 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 investment managers are required to report voting actions to the Investment Committee quarterly.

8. MONITORING AND GOVERNANCE

Background

8.1 The Investment Committee amended its asset allocation significantly as a result of the initial results of the 2010 valuation.

General Investment

8.2 The Investment Committee receives information and training on new developments in investment markets as appropriate. The Investment Committee will keep this Statement of Investment Principles under review and will review the scheme benchmark at least annually.

Investment Managers

8.3 Fund manager performance is monitored at regular, quarterly meetings of the Investment Committee to satisfy members that the Investment Managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Fund.

8.4 Reports are received showing how each manager has performed against their benchmark and the Investment Committee will assess each Manager's performance against their investment objective. Advice is received from the Investment Consultant and representatives from the Investment Managers are questioned regarding past performance and their intended investment strategies. Other matters affecting the fund are addressed as and when required at meetings of the Committee.

8.5 The Investment Committee (after consulting with the Investment Advisers) will consider at least once every 12 months whether they are satisfied that each Investment Manager has the appropriate knowledge and experience and is carrying out his work competently and complying with the benchmarks set by the Investment Committee.

If the Investment Committee is not satisfied with the Investment Manager they will require that the Investment Manager takes such steps as will satisfy them in this respect, or will remove this Investment Manager.

Investment Advisers

8.6 The Investment Committee will monitor the advice given by the Investment Advisers on a regular basis. As part of this review, the Investment Committee will consider whether or not the Investment Advisers are carrying out their work competently.

Investment Committee

8.7 The Investment Committee monitors all the decisions it takes by maintaining a record of all decisions taken, together with a note of the rationale in each case.

9. FEES

Investment Managers

9.1 The Investment Managers are paid according to the terms of their respective contracts. The Investment Committee will consider the levels of fees paid, when assessing Managers' performance.

Investment Consultant

9.2 The Investment Consultant fees are based either on actual time spent and hourly rates for relevant individuals, or on fixed fees agreed in advance for specifically defined projects or services.

Investment Committee

9.3 The Chairman of the Investment Committee is entitled to receive a Special Responsibility Allowance. Other Council Members receive no additional allowance for being on the Committee, but the Independent Advisers receive an annual allowance for their services.

Custodian and Fund Performance Measurement

9.4 Custody fees are based on the value of the assets held by the Custodian on behalf of the Fund. Measurement fees are dependent on whether the assets are segregated or pooled.

10. COMPLIANCE

10.1 The LGPS (Management and Investment of Funds) Regulations 2009 require authorities to state the extent to which they comply with the six principles of investment practice set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme – A Guide to the Application of the Myners‟ Principles" and give reasons for not complying where they do not do so.

10.2 The Royal Borough of Kensington and Chelsea Fund complies as follows:

Compliance Requirement	Compliance	Notes
Principle 1: Effective Decision Making		
Administering 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.	Fully compliant	Decisions are made by the Investment Committee, with advice from the Fund's investment advisers. The Committee members receive quarterly reports on each fund manager's performance for monitoring purposes from the Custodian.
The persons and organisations involved responsible for decisions should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	Fully compliant	The Investment Committee members have significant investment experience and of challenging Investment Manager performance and the advice they receive. Anyconflicts of interest must be declared at the start of each meeting.
Principle 2: Clear Objectives		
Overall investment objectives should be set out for the Fund taking into account the scheme's liabilities, the potential impact on local taxpayers, 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 advisers and investment managers.	Fully compliant	The objectives are set out clearly and take into account the requirement to maintain a low cost over the long-term in accordance with the Fund's degree of maturity. These are communicated to advisors and investment managers.
Principle 3: Risk and Liabilities		
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	Fully compliant	The structure of the liabilities has been considered in calculating the deficit recovery period based on the anticipated long-term positive cash flow for the Fund. The risk associated with the target asset allocation takes into account the liability profile and in particular the long-term nature of the LGPS.
Have the implications for local taxpayers, the strength of the covenant for participating emplooyers, the risk of their default and longevity risk been considered?	Fully compliant	The implications for local taxpayers and longevity risks are considered when setting the contribution rates at the triennial valuation reports. The covenants of almost all employers are considered strong, since they are almost exclusively public bodies covering over 99% of the membership.
Principle 4: Performance Assessment		
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.	Fully compliant	The Custodian independently measures the performance of the managers' onvestments and its reports are presented to the Investment Committee quarterly. This enables them to assess the performance of the managers and advisers..
Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.	Fully compliant	The published Annual Report and accounts includes information on the performance of the Fund over time and the decisions made by the Committee. They are available through the administering authority's website. The administering authority considers the improved funding level of 95% at the 2013 valuation indicative that decision-making has been effective.

Principle 5: Responsible Ownership		
Administering authorities should: (i) Adapt or ensure that their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and assets	Fully compliant	All three of the Fund's global equity investment houses and both absolute return managers have signed up to this Code and adhere to these principles.
(ii) Include a statement of their policy on responsible ownership in their statement of investment principles	Fully compliant	The Investment Committee has considered socially responsible investment in the context of its legal and fiduciary duties and obligations. The Committee takes the view that nonfinancial factors should not drive the investment process at the cost of the financial return to the Fund (Para 6.1)
Principle 6: Transparency and Reporting		
Administering authorities should: (i) 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.	Fully compliant	The information is provided in the administering authority's report and accounts which is available through the website.
(ii) provide regular communication to scheme members in the form they consider most appropriate	Fully compliant	The published annual report and accounts are considered sufficient, since the benefits of the scheme are defined and guaranteed by statute.

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)

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