

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA****MEETING OF THE COUNCIL - 12 OCTOBER 2011****REPORT OF THE INVESTMENT COMMITTEE****PENSION FUND REPORT AND ACCOUNTS 2010/11**

1. The Council's Pension Fund accounts for the financial year ending 31 March 2011 are now closed and the external audit has been completed. The Report and Accounts were presented to the Investment Committee on 27 July 2011 and the attached version incorporates comments from that meeting in addition to changes arising from the audit.
2. The Council publishes the Report and Accounts in order to provide members of the Pension Fund and other stakeholders with an accurate picture of the Fund as at the financial year-end and to ensure accountability to stakeholders. The report provides additional information to the summary included in the Council's main financial statements, especially on the re-structuring of the Fund's assets and other significant changes during the financial year.
3. The audited Pension Fund Report and Accounts will be published on the Council's website in order to meet the statutory requirement for publication by the end of December.
4. The Audit Commission has now published its audit opinion and Governance Report on the Pension Fund. The accounts are unqualified.
5. The Council is asked to note the report.

**FOR INFORMATION**

Mary Weale  
**Chairman, Investment Committee**

**Background papers:** 2010/11 Pension Fund closing files and associated working papers  
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# The Royal Borough of Kensington and Chelsea Pension Fund - Report and Accounts

## 2010-11

Financial Year End: 31 March 2011

September 2011



THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA

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## **1. Management of the Fund**

- 1.1. The Council has a statutory responsibility for the management of the Local Government Pension Scheme (LGPS) within its area. It is also responsible for making strategic decisions governing the way the scheme is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Investment Committee. The Investment Committee's responsibilities include reviewing and monitoring the Fund's investments, selecting and deselecting investment managers and other relevant third parties and establishing investment objectives and policies.
- 1.2. During 2010/11 the Investment Committee comprised six elected Members from the Royal Borough of Kensington and Chelsea, all of whom have voting rights. Five were Conservatives drawn from the majority party and there was one Labour member from the minority party. There were also four co-opted, non-voting members with investment backgrounds to advise the Committee. Professional advisers are also present throughout each normal meeting.
- 1.3. The normal meetings of the Committee are held four times a year. They are used to review performance in the previous quarter and deal with current and forthcoming issues relating to the investments and governance.
- 1.4. Northern Trust is the Fund's global custodian. The company is also responsible for the provision of measurement services. Northern Trust acts as custodian for all of the Fund's assets apart from the working cash balances, which are managed internally by officers of the Council.
- 1.5. Barnett Waddingham LLP acted as the Fund's actuaries and completed the 2010 triennial valuation for the Royal Borough as administering body. Each quarter, Barnett Waddingham report to the Investment Committee with a summary calculation of the Fund's assets, liabilities and overall funding position.
- 1.6. Hymans Robertson provide investment advice to the Fund and worked with the Investment Committee to assist with the major asset re-structuring carried out in 2010/11.
- 1.7. The Fund is an exempt approved fund under the Finance Act 1970, and is therefore exempt from Capital Gains Tax on its investments. At present all Value Added Tax is recoverable, but the Fund is not able to reclaim the tax on UK dividends.

### **Asset Allocation**

- 1.8. During 2009/10, the Committee followed up earlier discussions regarding the appropriateness of the existing distribution of assets between equities, debt and other alternatives, the relative merits of active and passive management and the possibility of moving from

the current geographically segregated benchmarks to a global benchmark for the equity managers. It was also decided that the two large equity manager contracts should be market-tested.

- 1.9. Under its new Chairman, the newly appointed Investment Committee made a number of significant decisions to restructure the portfolio during 2010/11. Key amongst these were:
  - To defer the market testing of the equity managers until a new structure for asset allocation had been agreed.
  - Agreement that, in future, global benchmarks would apply to equity-type investments.
  - A revised allocation of 60 per cent of the Fund to global equities, split equally between two active managers and the existing passive manager (Legal and General).
  - In order to increase the Fund's ability to generate equity-type returns, it was decided that in place of a specific allocation to bonds, 30 per cent of the Fund would be allocated to absolute return managers.
  - The allocations of five per cent each to private equity and property would remain unchanged.
- 1.10. The decision was taken to implement the revised allocation strategy in two phases. The first stage was to re-tender the active equity managers, with the aim of making the selections and funding the managers by the end of November 2010.
- 1.11. Selection of the absolute return managers would commence early in 2011, but they would not be funded until April 2011, to minimise the risk that the transition would affect the closing procedures at the financial year-end.

## **2. Achieving the New Asset Structure**

- 2.1. It was decided that the market-testing of the active equity mandates should take place over the summer of 2010 with the Fund's advisers, Hymans Robertson assisting in the selection of a long list from more than eighty applications received.
- 2.2. A special meeting of members of the Committee considered the long listing and selected the five most promising fund managers to make presentations to the full Investment Committee at a further special meeting in September.
- 2.3. As a result, one of the incumbent managers, Baillie Gifford was retained, but with an allocation to its pooled Global Alpha Equity Fund, in place of the segregated equity strategy adopted before. The new strategy allows the manager more flexibility to allocate funds across the full range of developed and emerging equity markets.

- 2.4. Longview Partners were selected to replace Alliance Bernstein. The new portfolio is a relatively concentrated one of segregated global equities.
- 2.5. Officers sought tenders from transition managers capable of managing the two stages of the transition in the way most likely to minimise the risks and costs in transferring and trading the assets to the new structure. Of the five bids received, Northern Trust's was the most competitive, and their team was selected to manage the transition. Residual funds from the legacy managers were transferred temporarily to Northern Trust's passive global passive equity fund between the first and second phase of the transition.
- 2.6. The selection process for the absolute return managers commenced in late 2010, and was similar to that for the equity managers, with a long listing of applications received in response to the OJEU notice being progressively reduced to a shortlist of five, who made presentations at a Special Committee meeting at the end of January.
- 2.7. As a result of this process, Barings were appointed to manage half of the Fund's absolute return allocation; but a further meeting was necessary to choose between two others. Pyrford was finally awarded the remainder of the absolute return mandate in February 2011.
- 2.8. These managers were funded in April 2011, so the closing position reported in these accounts represents the interim period between the first and second phases of the process to reach the Committee's desired asset allocation for the Fund.
- 2.9. Despite the many changes to the fund during the year, the continued recovery in markets during 2010/11 helped the Fund to increase in value from £463 million to £519 million, with the most significant gains during the year, largely due to the performance of the holdings in equities.
- 2.10. As at 31 March 2011, the Fund was invested 79 per cent in equities, 10 per cent in index-linked gilts, 4 per cent in property, 4 per cent in private equity and 3 per cent in cash. The gilts, together with 19 per cent of the equities, were sold in April. The proceeds, supplemented by one per cent of the cash balance, were used to purchase equal holdings in two absolute return funds, thereby achieving the intended asset mix by the end of April.

### **Financing the Fund**

- 2.11. The Fund is financed by employer and employee contributions and the income derived from investments in different asset classes, as outlined above. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The Council and other employers are responsible for meeting the

costs of non-statutory enhancements to pensions arising from early retirements or redundancy (if any) and for restoring any funding deficits.

- 2.12. Since 2008/09, most individual employers in the Fund have had their own contribution rates, determined by their membership profiles. They are therefore responsible for the “experience” of their members and each has its own nominal asset allocation within the overall Fund, although the investments continue to be managed as a whole by the administering authority.
- 2.13. The organisations participating in the Fund are listed below, along with the contribution rates set at the 2007 valuation.

<b>Organisation</b>	<b>Contribution Rate 2010/11</b>
Royal Borough of Kensington and Chelsea	21.5%
<b>Scheduled Bodies</b>	
Kensington and Chelsea College	18.8%
St Charles Sixth Form College	21.5%
Chelsea Academy	21.5%
<b>Admitted Bodies</b>	
Tenant Management Organisation	23.5%
Specialist Schools Trust	17.4%
Westway Development	14.4% + £71k
Medequip Assistive Technology	21.2% + £438

- 2.14. During 2010, Barnett Waddingham completed their first triennial valuation for the Royal Borough and reported that the scheme was 89 per cent funded as at 31 March 2010, with a deficit of £58 million between its assets and liabilities. With this result, the Actuary has been able to maintain stability in the contribution rates for all employers in the Fund and maintain the target to eliminate the deficit in 2020.
- 2.15. The contribution rates arising from the 2010 valuation were introduced on 1 April 2011 and will remain in place for three years. The full 2010 Actuarial Valuation Report is available on the Council’s website, [www.rbkc.gov.uk](http://www.rbkc.gov.uk).
- 2.16. Barnett Waddingham provide the Investment Committee with quarterly updates of the funding position and, as at 31 March 2011 were able to report that the scheme was 92 per cent funded.

### **3. Investment Policy**

- 3.1. The Fund’s detailed investment objectives and policies are set out in a Statement of Investment Principles and a Funding Strategy

Statement, which are published for Council Tax payers, employees and other interested parties via the Council's Web Site [www.rbkc.gov.uk](http://www.rbkc.gov.uk).

- 3.2. Day to day investment management of the Fund's assets is delegated to professional investment managers in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- 3.3. Specific investment benchmarks, aligned to the Fund's investment objectives, are set for each of the managers along with an out-performance target. The active equity managers had a target to beat their benchmarks by two per cent at 1 April 2010 with no outperformance expected from index-tracking managers. The private equity manager is also expected to out-perform the benchmark significantly, but over a long period. Low or negative returns are anticipated in the early years of private equity investing.
- 3.4. The benchmarks at 1 April 2010 were as set out in the table below:

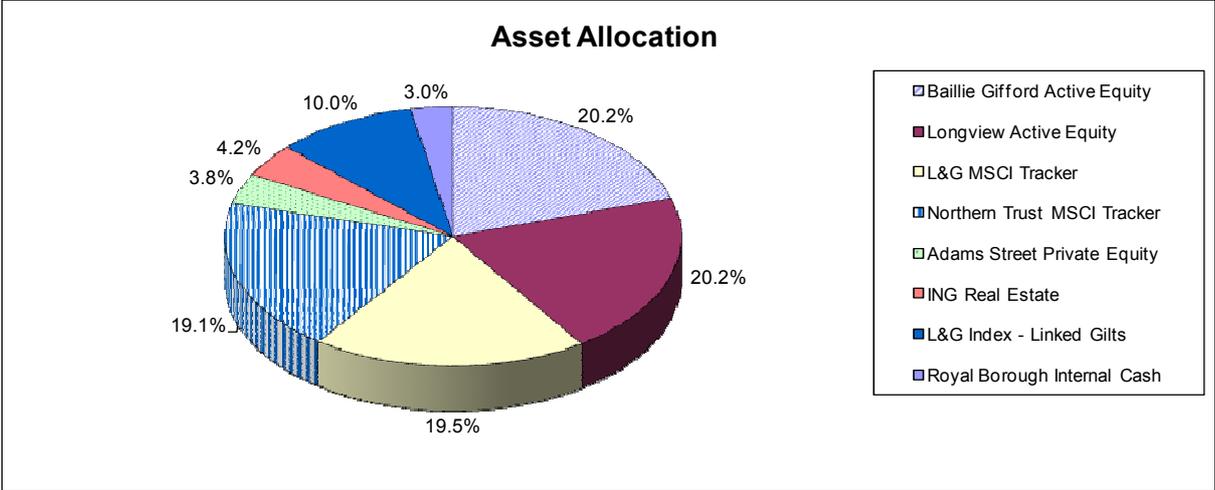
<b>Sector</b>	<b>Benchmark Weight %</b>	<b>Benchmark</b>
UK Equities	35.0	FTSE All-share
European Equities	12.6	FTSE All World Dev Europe ex-UK
North American Equities	11.9	FTSE All World North America
Developed Asia inc-Japan Equities	7.0	FTSE All World Dev Asia-Pacific inc-Japan
Emerging Market Equities	3.5	MSCI Emerging Markets Free NDR
UK Index-Linked Bonds	20.0	FTSE A Index Linked Gilts (over 5 years)
Global Private Equity	5.0	LIBOR + 2%
UK Property	5.0	HSBC/AREF All Balanced Funds

- 3.5. As set out in section 1.8, the Committee agreed to move away from the regional equity benchmarks and all of the equity managers are benchmarked against MSCI World indices. The active equity managers continue to have a two per cent outperformance target, after fees. Full details of the benchmarks and targets are given in the Fund's Statement of Investment Principles.
- 3.6. The smaller holdings in a property fund of funds and a private equity fund of funds, are managed by ING Real Estate and Adams Street Partners respectively. The commitment to these asset classes is for their long term potential returns and it is anticipated that the investment into private equity will continue to be drawn down from the Fund's cash reserves as investment opportunities arise over the coming years at a rate of around £4 million per year. Income from this investment is expected to make this asset class cash-flow neutral by 2013

- 3.7. Day to day cash balances were managed by the Council during 2010/11 as the Fund's administering authority. The Fund received the better of LIBOR or the actual return received by the Council on its cash balances.
- 3.8. In order to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, from 1 April 2010, a separate current account was opened for the Fund with the Council's bankers, RBS/NatWest. This is linked to an interest bearing account for cash-management purposes. Individual deposits are arranged with other clearing banks, as necessary to secure better interest rates or to keep below the £10 million limit on deposits with any single banking group.

**4. Investment Performance**

4.1. Asset values recovered significantly during 2009/10, after the preceding financial crises and continued to strengthen through most of 2010/11. At the close of the year, the assets in the fund were valued at £519 million and were allocated as shown in the chart below:-



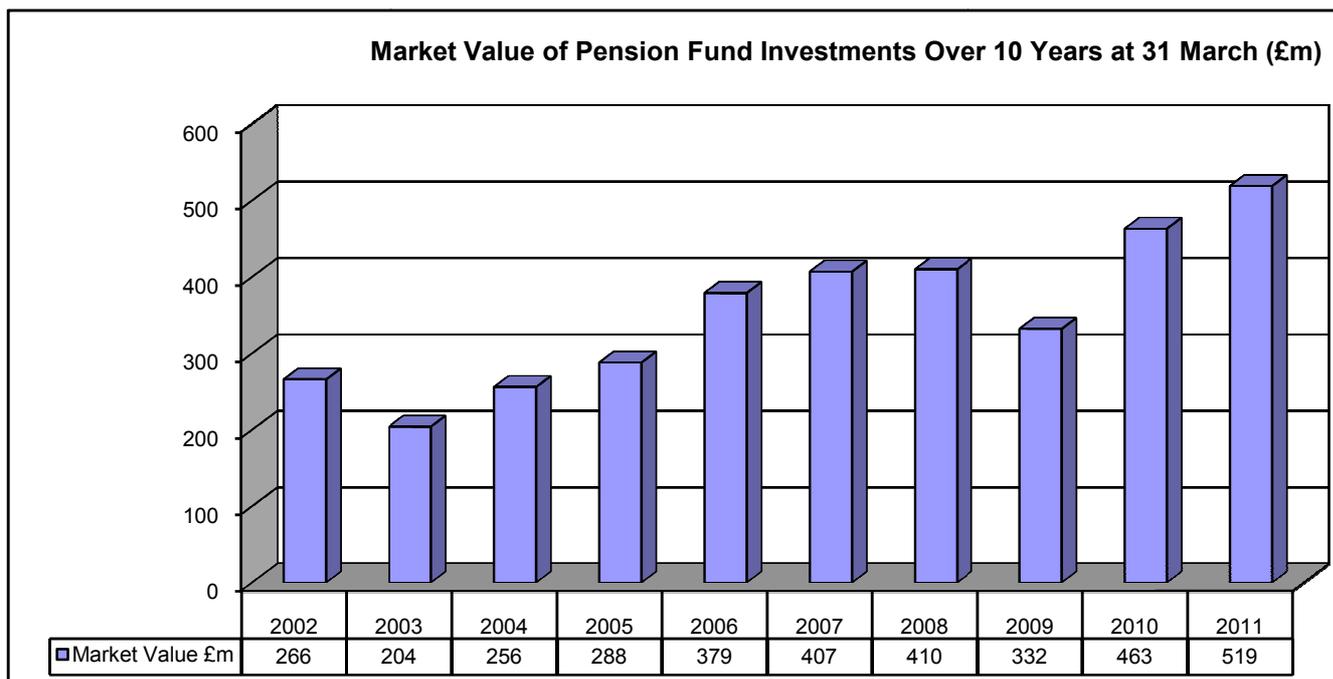
**Performance in 2010/11**

4.2. For the year to 31 March, with the positive return on investments of 11.3 per cent, the Fund marginally out-performed against its benchmark by 0.2 per cent. This was the same level of out-performance as in 2009/10, but the overall target to beat the benchmark by 1.5 per cent was not achieved.

Due to the very extensive restructuring of the Fund during the year, the performance of most individual managers is only available for limited periods within the year. Hence, it is only possible to report on the whole Fund performance on an annual basis.

**Long-term performance of the Fund – over 10 years**

4.3. Over the last ten years the market value of the fund has changed as indicated in the chart below:



- 4.4. As in previous years, performance by the two active global equity managers was sharply different through to November, when the holdings were liquidated. Alliance Bernstein again significantly under-performed against benchmark, while Baillie Gifford outperformed against both benchmark and target. In both cases, the key performance drivers were stock selection.
- 4.5. The residual holding in M&G's Index-Linked Gilt Fund was transferred to Legal and General's Index Linked Gilt Tracking Fund in early July 2010. Over the year, this holding effectively tracked the index, as anticipated.
- 4.6. The ING Osiris property fund-of-funds continued to under-perform the benchmark over one and three years.
- 4.7. There are no private equity performance data to report from Adams Street. Although a few of the early investments have been sold, with cash returned to investors, this long-term investment is still being drawn down and it is too early for significant returns to be received on the investments made.

## **5. Administration Arrangements of the Fund**

- 5.1. The Superannuation Act 1972 makes provision for local authorities to operate pension funds for their employees and employees of other employers who have either a statutory right or an admission agreement to participate in the funds.

- 5.2. The Royal Borough of Kensington and Chelsea Pension Fund (The Fund) is set up under the Local Government Pension Scheme Regulations 1997 (as amended). It provides for retirement pensions, grants on age or ill-health retirement, short service grants, death grants, injury allowances and widows' pensions.
- 5.3. The Fund is operated and administered by the Royal Borough of Kensington and Chelsea which, up to September 2007, managed pension administration functions internally.
- 5.4. The Fund is financed by employer and employee contributions and from income derived from investments. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The Council and other employers are responsible for meeting the costs of non-statutory enhancements to pensions arising from early retirements or redundancy (if any).
- 5.5. The Fund's investments continue to be accounted for internally, but the majority of administration relating to the membership of the Fund is provided by Capita Hartshead. The contractor provides the main point of contact for members and pensioners, the maintenance of membership records, transfers in and out of the Fund, and the calculation of pension benefits and lump sums.
- 5.6. The contractor's effectiveness is overseen by the administering authority's Pensions Client Team which provides a liaison function and administers contributions from admitted and scheduled bodies and payments to members.
- 5.7. The Fund provides benefits for employees of the Council, Admitted and Scheduled bodies. The larger Admitted and Scheduled bodies would take individual responsibility for the experience of their members and be allocated a nominal proportion of the assets and separate employer contribution rates.
- 5.8. Teachers, lecturers and youth workers are subject to different pension fund arrangements. These are administered by the Department for Education, to whom the Council makes payments for this purpose.

## **6. Actuarial Valuation of the Fund**

- 6.1. The accounts summarise the transactions and net assets of the Fund, but do not take into account future liabilities to pay pensions and other benefits. The ability of the Fund's contributions and investments to meet its overall commitments is reviewed in detail by its appointed independent actuaries (Barnett Waddingham) every three years.

6.2. The latest actuarial valuation report received is as at 31 March 2010 and assessed the market value of the scheme's assets at 31 March 2010 at £451 million and its liabilities at £509 million. This corresponds to a funding level of 89 per cent, a 4 per cent improvement on the level at the 2007 valuation.

6.3. The actuarial valuation was done using the projected unit method and is based on economic and statistical assumptions made by the actuaries. The main ones are:-

- The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.
- Future rises in pensionable pay due to inflation etc., and pension increases.
- Withdrawals from membership due to mortality, ill health and ordinary retirement.
- Progression of pensionable pay due to promotion.

## **7. Pension Fund Accounts**

7.1. The Council's Pension Fund is a funded defined benefit scheme operated under the provisions of the Local Government Superannuation Acts and provides for pensions, grants on age or ill health retirement, short service grants, death grants, injury allowances and widows' pensions.

7.2. The Fund is financed by contributions from employers and employees of the Council and admitted / scheduled bodies and by earnings from investment of fund monies. A full list of the admitted and scheduled bodies is shown in Note 15.

7.3. The total numbers of active members and beneficiaries at 31 March were as follows:

	<b>2010/11</b>	<b>2009/10</b>
	<b>£'000</b>	<b>£'000</b>
Active Members	<b>3,562</b>	3,588
Pensioners and Dependents	<b>2,331</b>	2,235
Former Employees - Deferred Benefits	<b>3,429</b>	3,271
<b>Total</b>	<b>9,322</b>	9,094

7.4. The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension

Schemes - a Statement of Recommended Practice, (Revised May 2007) Chapter 2 Recommended Accounting Practice. Disclosures are as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

- 7.5. In accordance with the requirements of the Code, investments are stated at market value with any surplus or deficit on revaluation being credited direct to the fund balance. The market value of securities is determined by closing bid prices on 31 March. Until 2007/08, mid prices were used under the prevailing SORPs, but bid prices have been quoted since 2008/09. Fixed interest securities are valued on a 'clean' basis i.e. excluding accrued interest.
- 7.6. Purchase and sales transactions in foreign currencies are converted to sterling using a pooled average exchange rate. The property fund of funds is valued at the bid price quoted for 31 March. The private equity investment is the Fund's only unquoted investment and is valued from the 31 December 2010 valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2011.
- 7.7. External managers administer the investments of the Fund and the cost of this is shown in the Fund Account. Internal administration expenses are charged directly to the Pension Fund on the basis of direct costs plus apportioned overheads.
- 7.8. Pensions to staff are provided from the Pension Fund whose summarised accounts are shown below. All pension payments, except added years relating to early retirements prior to 1998/99, were paid from the Fund. Employers' contributions, at rates advised by the Fund's actuaries (Hymans Robertson at the 2007 Valuation), were credited to the Fund as received. Since 1998/99, additional employer's contributions have been made as a capital sum to the Pension Fund following the early retirement of employees. The contributions are based on a formula, provided by the actuary, to cover the cost of early payment of pension benefits and discretionary enhancements.
- 7.9. The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits after the period end. The ability of the Fund's contributions and investments to meet its overall obligations is reviewed in detail by a firm of independent actuaries.
- 7.10. The Fund excludes transactions for teachers, lecturers and youth workers that are administered by the Department for Children Schools and Families, to whom the Council makes a payment for this purpose.

7.11. The accounts are prepared on an accruals basis with the exception of inter-fund adjustments i.e. transfers to and from other pension funds when employees leave and join, which are accounted for on a cash basis.

## The Pension Fund Income and Expenditure Statement

	31 March '11	31 March '10	Notes
	£'000	£'000	
<b><u>Expenditure – Pension Benefits</u></b>			
Benefits Payable			
Pensions	14,747	13,881	2
Lump Sums	4,209	4,765	4
Payments to and on behalf of leavers			
Refund of Contributions	27	36	
Transfer values Paid	4,913	4,983	
Pension Administration and other expenses	650	509	
<b>Total Expenditure</b>	<b>24,546</b>	<b>24,174</b>	
<b><u>Income – Contributions</u></b>			
Employers' Contributions	(20,825)	(21,101)	5
Employers' Contributions- Early Retirements	(644)	(1,910)	
Employees' Contributions	(6,762)	(6,855)	5
Transfer Values Received	(4,911)	(3,130)	
Other income	0	0	
<b>Total Income</b>	<b>(33,142)</b>	<b>(32,996)</b>	
<b>Net (Addition)</b>	<b>(8,596)</b>	<b>(8,822)</b>	
<b><u>Returns on Investments</u></b>			
Investment Income	(6,987)	(8,683)	8
Other Investment Income	(234)	(1)	8
Change in Market Value (Realised and Unrealised)	(42,380)	(115,167)	
Taxation (Irrecoverable Withholding Tax)	244	284	
Investment Management Expenses	1,725	1,682	
<b>Net Returns on Investments</b>	<b>(47,632)</b>	<b>(121,885)</b>	
<b>Net Increase / (Decrease) in the Fund during the Year</b>	<b>56,228</b>	<b>130,707</b>	
<b>Opening Net Assets of the Fund</b>	<b>463,026</b>	<b>332,319</b>	
<b>Closing Net Assets of the Fund</b>	<b>519,254</b>	<b>463,026</b>	

## The Pension Fund Net Assets Statement

	2011		2010		2009*	
	%	£'000	%	£'000	%	£'000
<b>Fixed Interest Securities</b>						
UK Public Sector	0	0	0	0	8.6	28,534
<b>Index Linked Securities</b>						
UK Public Sector	0	0	0	0	9.4	31,287
UK Other	0	0	0	0	0.2	670
<b>Equities</b>						
United Kingdom	2.0	10,563	30.2	139,759	25.8	85,768
Overseas	18.0	93,286	31.4	145,218	28.2	93,737
<b>Pooled Investment Vehicles</b>						
Overseas Equities	0	0	8.4	38,899	5.5	18,411
Global Equities	59.1	306,687				
UK Index-Linked Gilt Fund	9.9	51,532	10.4	47,939	0	0
UK Corporate Bond Fund	0	0	0	0	8.8	29,364
UK Property	4.0	20,937	4.5	20,850	3.0	9,854
Overseas Private Equity	3.8	19,952	3.4	15,808	3.1	10,169
<b>Derivative Contracts</b>	0	0	0	0	0.0	6
<b>Short Term Investments</b>						
Fixed Term Bank Deposit	1.0	5,000	0	0	0	0
<b>Cash</b>						
Non Current (With Managers)	0.2	829	1.5	6,865	2.2	7,203
Current (Held Directly by Fund)	2.1	10,924	10.1	46,943	5.0	16,461
<b>Accrued Investment Income</b>	0.0	211	0.3	1,512	0.4	1,461
<b>Current Assets</b>						
Contributions Due	0.1	340	0.0	135	0.0	111
<b>Current Liabilities</b>						
Accrued Fees Due	(0.1)	(364)	(0.1)	(285)	(0.1)	(297)
Accrued Lump Sums Payable	(0.1)	(643)	(0.1)	(617)	(0.1)	(420)
<b>Net Assets and Liabilities</b>	<b>100</b>	<b>519,254</b>	<b>100</b>	<b>463,026</b>	<b>100</b>	<b>332,319</b>

\*The third balance sheet has been included in accordance with guidance on the transition to IFRS however there are no material differences arising from this transition.

## The Pension Fund Investment Movement Summary

	Market Value at 31/3/2010 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value at 31/3/2011 £'000
Alliance Bernstein Global Equities	144,687	32,505	(167,538)	(9,654)	0
Baillie Gifford Global Equities	178,177	16,708	(203,679)	8,794	0
Baillie Gifford Global Equities	0	97,636	0	6,527	104,163
Longview Global Equities	0	102,742	(7,315)	9,251	104,678
Legal and General Global Equities	6,694	89,505	0	8,554	104,753
Northern trust Global Equities	0	92,630	(7,946)	13,088	97,772
M&G Indexed Gilts	47,939	0	(48,965)	1,026	0
Legal and General Indexed Gilts	0	48,965	0	2,566	51,531
ING Property	22,033	0	(844)	(252)	20,937
Adams Street Private Equity	15,808	2,876	(1,212)	2,480	19,952
Fixed Term Bank Deposits	0	68,000	(63,000)	0	5,000
<b>Total Investments</b>	<b>415,338</b>	<b>551,567</b>	<b>(500,499)</b>	<b>42,380</b>	<b>508,786</b>
Debtors	1,647				551
Creditors	(902)				(1,007)
Cash	46,943				10,924
<b>Net Assets</b>	<b>463,026</b>				<b>519,254</b>

### Notes to the Pension Fund Accounts

7.12. The latest actuarial valuation report received is as at 31 March 2010 and was conducted on the following basis:

7.13. The market value of the scheme's assets at 31 March 2010 was £463 million and the actuary assessed the present value of the funded obligation at £751 million indicating a net liability of £288 million. The Investment Movement Summary shows how the valuation of assets has changed between 31 March 2010 and 31 March 2011. As at 31 March 2011 the market value of the scheme's assets was £519 million and the actuary assessed the present value of the funded obligation at £665 million indicating a net liability of £146 million under International Accounting Standard (IAS) 26.

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

- The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.

- Future rises in pensionable pay due to inflation and etc, and pension increases.
- Withdrawals from membership due to mortality, ill health and ordinary retirement.
- Progression of pensionable pay due to promotion.

7.15. The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100 per cent over a period of 10 years, as set out in the Funding Strategy Statement.

7.16. On the basis of a funding level of 89 per cent, the employers' common contribution rate for the whole Fund was set at 21.2 per cent for contributions from 1 April 2011. However, it should be noted that for the period covered by these accounts, the employers' common contribution rate was 20.2 per cent of pensionable pay from 1 April 2008 to 31 March 2011. The 2010 Actuarial Valuation and the 2011 IAS26 update are published with these accounts.

7.17. The next actuarial revaluation of the Fund will be as at 31 March 2013

7.18. Benefits payable were as follows (including all pension and lump sum payments):

Body	2010/11 £'000	2009/10 £'000
Administering Authority	17,575	17,334
Admitted Bodies	1,239	1,192
Scheduled Bodies	142	120
<b>Total</b>	<b>18,956</b>	18,646

7.19. Payments to pensioners exclude potential liabilities in respect of fifteen deferred members who have reached retirement age, but cannot be contacted or located.

7.20. Lump sum payments included in note 2 are summarised as shown below:

Payment Type	2010/11 £'000	2009/10 £'000
Commutation of Pensions and Lump Sum Retirement Benefits	4,019	4,153
Lump Sum Death Benefits	190	612

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<b>Total</b>	<b>4,209</b>	4,765
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7.21. Contributions were received from the following sources:

Body	<b>Employer's 2010/11 £'000</b>	<b>Employer's 2009/10 £'000</b>
Administering Authority	<b>17,591</b>	17,805
Admitted Bodies	<b>2,347</b>	2,537
Scheduled Bodies	<b>887</b>	759
<b>Total</b>	<b>20,825</b>	21,101
<b>Of which deficit funding through payroll*</b>	<b>7,661</b>	7,770

*These figures now include an estimate of the deficit –funding for admitted and scheduled bodies*

Body	<b>Employee's 2010/11 £'000</b>	<b>Employee's 2009/10 £'000</b>
Administering Authority	<b>5,646</b>	5,690
Admitted Bodies	<b>828</b>	894
Scheduled Bodies	<b>288</b>	271
<b>Total</b>	<b>6,762</b>	6,855

7.22. The contributions receivable from employers relating to early retirements will vary from year to year, depending on the number of early retirements.

### 7.23. **Related Party Transactions**

Pension Administration and other expenses were £650,000 and included: the costs of administering pension entitlements; contributions and etc; the apportioned costs of Corporate Finance time spent on pension administration; and direct costs.

There were no material transactions between the fund and Members of the Investment Committee or between the fund and senior officers of the Council during the financial years 2009/10 and 2010/11.

## 7.24. Investment Income

	2010/11 £'000	2009/10 £'000
Income from Fixed Interest Securities	0	(315)
Income from Index Linked Securities	0	(151)
Dividends from Equities	5,556	8,224
Income from Property	848	394
Income from Derivatives	0	0
Income from Private Equity	308	207
Interest on Cash Deposits	196	324
<b>Investment Income</b>	<b>6,908</b>	<b>8,683</b>
<b>Other Investment Income</b>	<b>234</b>	<b>1</b>

Now that so much of the income from the Fund's investments is through pooled investment vehicles, income is also included within the change in market value of these investments.

7.25. None of the UK Equities is unlisted. The scheme has no material holdings of unlisted investments in other markets except for the Adams Street holdings in private equity, which are shown separately in these accounts.

7.26. Pooled Investment Vehicles (previously known as Managed Funds) are Open Ended Investment Companies investing in equities and bonds.

### 7.27. Statement of Investment Principles

The Investment Committee regularly reviews its Statement of Investment Principles (SIP), which is revised following any change in circumstances. A copy of the latest version is published on the Council's web site or obtained from the Executive Director for Finance, Information Systems and Property.

## 7.28. Investments

The market value of assets under management at 31 March was as follows:

Managed by	2011		2010	
	£'000	% of Total	£'000	% of Total
Alliance Bernstein	0	0	144,687	31.3
Baillie Gifford	104,163	20.0	178,177	38.5
Longview	104,678	20.1	0	0
Legal and General	104,753	20.2	6,694	1.4
Northern Trust	97,772	18.8	0	0
M and G	0	0	47,939	10.4
Legal and General	51,531	9.9	0	0
ING	20,937	4.0	22,033	4.8
Adams Street*	19,952	3.9	15,808	3.4
<b>Total Managers</b>	<b>503,786</b>	<b>96.9</b>	415,338	89.8
RBKC Cash Investment	15,924	3.1	46,943	10.2
<b>Subtotal</b>	<b>519,710</b>	<b>100.0</b>	462,281	100.0
Debtors	551		1,647	
Creditors	(1,007)		(902)	
<b>Net Assets</b>	<b>519,254</b>		463,026	

\*The valuation is taken from the 31 December 2010 valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2011.

\*\*Cash held by managers is included in the totals. Interest on cash held internally is calculated at market rates of interest and credited to the Pension Fund.

7.29. The level of activity in the Fund's investments at cost during 2010/11 is shown in the Investment Movement Summary. The total change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses on sales of investments during the year.

## 7.30. Net Current Assets

Amounts due to and from the Fund at the Balance Sheet Date have been included within the Fund Account as follows:

<b><u>Current Liabilities</u></b>	<b>£'000</b>
Accrued Fees Due	364
Accrued lump sum payments	643

**Total** **1,007**

<b><u>Current Assets</u></b>	<b>£'000</b>
Dividends and Interest	211
Accrued Income	340
<b>Total</b>	<b>551</b>

### 7.31. **Admitted and Scheduled Bodies:**

#### **Admitted Bodies**

- Medequip
- Specialist Schools & Academies Trust
- Tenant Management Organisation
- Westway Development Trust

#### **Scheduled Bodies**

- Kensington and Chelsea College
- St Charles Roman Catholic Sixth Form College
- Chelsea Academy

The following former admitted bodies have no active members and are included within the Royal Borough of Kensington and Chelsea Pool:

- Housing Action Centre
- Maxilla Nursery
- Portobello Business Centre
- West London Family Service Units

### 7.32. **Additional Voluntary Contributions (AVCs)**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 do not permit AVCs to be paid into the Pension Fund, so they are not included in these accounts. 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. A total of £686,000 was invested by members of this fund in this way during 2010/11.

#### **NICHOLAS HOLGATE**

EXECUTIVE DIRECTOR FOR FINANCE, INFORMATION SYSTEMS AND PROPERTY

