



NOTICE  
OF  
MEETING

**BERKSHIRE PENSION FUND PANEL**

will meet on

**MONDAY, 18TH JANUARY, 2016**

at

**4.00 pm**

In

**COUNCIL CHAMBER - TOWN HALL,**

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS JOHN LENTON (CHAIRMAN), GEOFF HILL, DAVID HILTON (VICE-CHAIRMAN) AND PHILIP LOVE

ADVISORY MEMBERS: COUNCILLORS TICKNER (READING BOROUGH COUNCIL), BROOKER (SLOUGH BOROUGH COUNCIL), STANTON (WOKINGHAM), WORRALL (BRACKNELL FOREST BOROUGH COUNCIL), LAW (WEST BERKSHIRE COUNCIL), SUE NICHOLLS (UNISON), ASIA ALLISON (GMB), PATRICK FULLER (UNIVERSITY OF WEST LONDON).

Karen Shepherd - Democratic Services Manager, Issued 08/01/2016

Members of the Press and Public are welcome to attend Part I of this meeting.

The agenda is available on the Council's web site at [www.rbwm.gov.uk](http://www.rbwm.gov.uk) or contact the Panel Administrator

**Fire Alarm** - In the event of the fire alarm sounding or other emergency, please leave the building quickly and calmly by the nearest exit. Do not stop to collect personal belongings and do not use the lifts. Congregate in the Town Hall Car Park, Park Street, Maidenhead (immediately adjacent to the Town Hall) and do not re-enter the building until told to do so by a member of staff.

**Recording of Meetings** – The Council allows the filming, recording and photography of public Council meetings. This may be undertaken by the Council itself, or any person attending the meeting. By entering the meeting room you are acknowledging that you may be audio or video recorded and that this recording will be available for public viewing on the RBWM website. If you have any questions regarding the council's policy, please speak to the Democratic Services or Legal representative at the meeting.

## **AGENDA**

### **PART I**

<b><u>ITEM</u></b>	<b><u>SUBJECT</u></b>	<b><u>PAGE NO</u></b>
1.	<b><u>APOLOGIES</u></b>  To receive any apologies for absence.	
2.	<b><u>DECLARATIONS OF INTEREST</u></b>  To receive any declarations of interest.	5 - 6
3.	<b><u>MINUTES</u></b>  To approve the Part I minutes of the meeting held on 26 October 2015.	7 - 10
4.	<b><u>PENSIONS ADMINISTRATION</u></b>  To consider the Risk Register, Breach Reporting, Administering Authority Decisions and the Pension Administration Strategy.	11 - 72
5.	<b><u>PENSION ADMINISTRATION SOFTWARE TENDER</u></b>  To consider the report.	73 - 78
6.	<b><u>STEWARDSHIP REPORT</u></b>  To consider the report.	79 - 96
7.	<b><u>LGPS COLLABORATION</u></b>  To consider the report including Investment Pooling, Consultation on Investment Regulations and Infrastructure Investment.	97 - 112
8.	<b><u>INVESTMENT GOVERNANCE</u></b>  To consider the report.	113 - 118
9.	<b><u>DEVELOPING MARKETS INVESTMENT STRATEGY</u></b>  To consider the report.	119 - 126

**PART II**

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
10.	<u>MINUTES</u>  To consider the Part II minutes of the meeting held on 26 October 2015.	127 - 128
11.	<u>INVESTMENT WORKING GROUP MINUTES</u>  To consider the IWG minutes.	129 - 132
12.	<u>INVESTMENT IN FARMLAND</u>  <b>Not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.</b>  To consider the report.	133 - 152

This page is intentionally left blank

## MEMBERS' GUIDANCE NOTE

### DECLARING INTERESTS IN MEETINGS

#### **DISCLOSABLE PECUNIARY INTERESTS (DPIs)**

DPIs include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any license to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where
  - a) that body has a piece of business or land in the area of the relevant authority, and
  - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

#### **PREJUDICIAL INTERESTS**

This is an interest which a reasonable fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs your ability to judge the public interest. That is, your decision making is influenced by your interest that you are not able to impartially consider only relevant issues.

#### **DECLARING INTERESTS**

If you have not disclosed your interest in the register, you **must make** the declaration of interest at the beginning of the meeting, or as soon as you are aware that you have a DPI or Prejudicial Interest. If you have already disclosed the interest in your Register of Interests you are still required to disclose this in the meeting if it relates to the matter being discussed. A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in discussion or vote at a meeting.** The term 'discussion' has been taken to mean a discussion by the members of the committee or other body determining the issue. You should notify Democratic Services before the meeting of your intention to speak. In order to avoid any accusations of taking part in the discussion or vote, you must move to the public area, having made your representations.

If you have any queries then you should obtain advice from the Legal or Democratic Services Officer before participating in the meeting.

If the interest declared has not been entered on to your Register of Interests, you must notify the Monitoring Officer in writing within the next 28 days following the meeting.

This page is intentionally left blank

## BERKSHIRE PENSION FUND PANEL AND ADVISORY PANEL

26 October 2015

PRESENT: Councillors Lenton (Chairman), Hilton (RBWM), Collins (RBWM), Love (RBWM), Tickner (Reading), Brooker (Slough Borough Council), Stanton (Wokingham), Worrall (Bracknell Forest) and Law (West Berks). Also present Sue Nicholls (Unison).

Independent Adviser to the Panel: Mr Dhingra

Officers: Mr Greenwood, Mr Taylor, Mr Brooker and Mr Cook.

### PART I

#### 83/14 APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Hill (Cllr Collins attending as substitute) and Donna Dowling.

#### 84/14 DECLARATIONS OF INTEREST

No declarations of interest were received.

#### 85/14 MINUTES

**RESOLVED UNANIMOUSLY: That the Part I minutes of the meeting of the Panel held on 13 July 2015 be approved subject to subject to Cllr Stanton being added to the IWG.**

The Chairman informed that he had been approached by the press questioning if the Fund invested in fossil fuels. The Panels investment position was explained, however Reading Council had a motion on this issue going to their Council so it was unknown if the matter would be raised again, it was also noted that the resolution of Reading's Council had no bearing on the investment strategy.

The Pension Fund Manager informed that he had spent 2 weeks in Australia and New Zealand investigating investment opportunities in agricultural land leasing. It was anticipated that the purchase of agricultural land to lease to farmers would yield around a 5% return in local currency.

#### 86/14 APPROVAL OF THE PENSION FUND ANNUAL REPORT AND ACCOUNTS 2014/15

The Pension Fund Manager introduced the report that presented the pension fund's annual report and accounts for 2014/15. The accounts had been audited by KPMG and presented to the authority's Audit and Performance Review Panel. In response to questions on page 30 of the Annual Accounts the Panel were informed that there had been an increase of the number of employers with active members from 156 to

174 because of the number of schools converting to academies, this would not have a financial impact on the Fund.

**RESOLVED UNANIMOUSLY: That the Fund's annual report and accounts for the year to 31 March 2015 be approved and published.**

87/14 PENSION BOARD MINUTES

The Panel noted the minutes of the first meeting of the Berkshire Pension Board held on 3 August 2015. The Panel noted that the Board had to have been constituted by April 2015 and that the Chairman had been appointed by the Panel. The Panel were informed that the intention was to make the Board as transparent as possible, however it was accepted that any Part II (Private Discussions) undertaken by the Panel would also be treated as confidential by the Board. The Board was to operate as a scrutiny / governance capacity and although they may comment on investment strategy it was the Panel who would have the final decision.

**RESOLVED UNANIMOUSLY: That the Board minutes of the 3 August 2015 be noted.**

88/14 LGPS INVESTMENT POOLING

The Pension Fund Manager gave a presentation on LGPS Investment Pooling. The Panel were informed that the Government had recently announced that it would be consulting on the pooling of LGPS investments and following discussions with the Department for Communities and Local Government and after hearing George Osborne's conference speech it appears that the consultation would call for proposals that:

- Offer scale – a figure of £30 billion per pool has been suggested as a minimum with the Chancellor suggesting the outcome will be 6 regional pools freeing up several billions (of pounds) to invest in UK Infrastructure
- Offer savings which must be demonstrated and achievable.
- Addresses governance issues. The Government intend to stop manager hire/fire decisions being made at a local level but early suggestions are that individual funds will retain investment strategy and asset allocation decisions.

The Panel received a presentation that confirmed that with regards to investments there was the attitude that passive investments was the Governments preferred option and that over time the individual strategies would merge.

With regards to governance there were 4 possible models:

- Single administering authority.
- Mutually owned investment manager.
- Outsourced to a single (external) investment manager.
- The "Swedish Model" a fully independent Pension Management Company.

The Panel received a list of positive and negative issues relating to each of the four models; appended to the minutes.



Members were informed that we were still awaiting dates for the consultation on the proposals and it was not expected to start until November. There were various initiatives underway including the Lancashire / LPFA FCA authorised firm and the London Collective Investment Vehicle.

The fund had to accept that pooling was going to happen and would argue that funds should retain as much influence as possible with reassurances that Berkshire would have an influence.

The Chairman raised concern that the Fund was too small to be efficient and had held merger discussions before (BOB) but this fell down due to lack of commitment from other authorities' Councilors. Costs could be cut by a merger but this was not what was being proposed. A main concern was that the Government would use the money to invest into public investment projects that would not provide sufficient returns; Network Rail requires investment but runs at a loss.

Cllr Hilton questioned if the Government would look at introducing pension payments from taxation similar to civil servants. The Panel were informed that this had been mentioned but for it to happen there would have to be major legislation passed and a change in regulations. There would also be the question if assets would be liquidated or left to run their course.

Cllr Stanton mentioned that the Government should be made aware that if the Fund is forced into this and taxation has to be used to support the Fund due to poor returns then legal action may be taken. The Pension Fund Manager agreed and said that the civil servants leading on this were very good at writing legislation but did not have a full understanding of investment strategies.

Cllr Wprall questioned if we would be required to put all our investments into one pot and was informed that it was not clear if there would be a single pool for the areas or multiple pools.

The Chairman informed that further updates would be brought back to the Panel.

**RESOLVED UNANIMOUSLY: That the Panel That:**

- I. Note this report**
- II. Authorises Officers to consult with other LGPS funds, the Chairman and Vice Chairman of the Panel and other stakeholders to draft a response once the consultation is published.**
- III. The draft response, when available, is circulated to Panel and Advisory Panel members and other stakeholders for their review and comments.**

89/14

MEMBER TRAINING

The Deputy Pension Fund Manager informed the Panel that the report follows on from a paper presented to Panel on 13 July 2015 concerning the requirements set out in the Public Service Pensions Act 2013 and associated LGPS regulations for 'trustees' to have the appropriate knowledge and skills. The paper recommended

that Members commit to attending a training session on the governance and administration of the LGPS (in addition to completing the Pension Regulator's TKU (Training Knowledge and Understanding) toolkit) and as requested the agenda was included within the report.

The Panel requested that a 'jargon buster' be circulated and that the training commence at 1pm on the 18th January 2016 with the Panel meeting between 4pm to 6pm on the same day.

**RESOLVED UNANIMOUSLY: That Members of the Pension Fund Panel commit to training at 1pm on 18<sup>th</sup> January 2016.**

90/14 STEWARDSHIP REPORT

The Pension Fund Manager introduced the report that dealt with the stewardship of the Pension Fund for the period 1 June to 31 August 2015. The style of the report had been changed to make it more visual and that the same report would also be presented to the Pension Board and published on the RBWM website for transparency. The liabilities continued to increase; although this was down to the longevity expectations from the actuary. Funding levels were also down slightly due to the actuary assumptions.

In response to questions the Panel were informed that there were 183 employers with active members and that an employer remains on the system for perpetuity. To help improve the transfer of data it was still proposed to use i-Connect, this had been taken to Berkshire Treasurer's and it had been agreed that RBWM would use the system to demonstrate that the connectivity works.

Cllr Law questioned the number of starters and leavers for West Berkshire Council as it seemed very high; the Pension Fund Manager agreed to look into this and report back.

**RESOLVED UNANIMOUSLY: That the Panel note:**

- **The investment performance and asset allocation of the Fund.**
- **All areas of governance and administration as reported.**
- **All key performance indicators.**

91/14 DATES OF FUTURE MEETINGS

Future meeting dates were noted.

92/14 LOCAL GOVERNMENT ACT 1972 – EXCLUSION OF THE PUBLIC

**RESOLVED: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on items 5-8 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of part I of Schedule 12A of the Act.**

Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO – Part 1
<b>Title</b>	Pension Administration Policy Documents
<b>Responsible Officer(s)</b>	Nick Greenwood Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Kevin Taylor Deputy Pension Fund Manager 01628 796715
<b>Member reporting</b>	Not Applicable
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	18 January 2016
<b>Implementation Date if Not Called In</b>	Not applicable
<b>Affected Wards</b>	None

## REPORT SUMMARY

1. This report covers four areas where the Fund or Administering Authority is required by statute to have a policy, namely:
  - Pension Administration Strategy as required by Regulation 59 of the Local Government Pension Scheme Regulations 2013 (as amended) (Annex 1)
  - Administering Authority decisions as specified in the regulations (Annex 2)
  - Reporting breaches of the law (Annex 3)
  - The pension fund's risk assessment and register (Annex 4)

<b>If recommendations are adopted, how will residents, fund members and other stakeholders benefit?</b>	
Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. Compliance with regulatory obligations demonstrates good governance of the Fund	Immediate

## **1. DETAILS OF RECOMMENDATIONS**

### **RECOMMENDATION: That Panel:**

- i. considers the pension administration strategy at Annex 1 and agrees to its implementation from 1 April 2016 once consultation with scheme employers has been concluded;**
- ii. adopts the administering authority decisions matrix as set out in Annex 2;**
- iii. notes the risk assessment and risk register as set out in Annex 3; and**
- iv. accepts the guide to reporting breaches of the law including the traffic light framework for reporting breaches as set out in Annex 4.**

## **2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED**

### Pension Administration Strategy (Annex 1)

Since 1 April 2014 changes made to Public Service Pension Schemes by the Public Service Pensions Act 2013 have meant that schemes such as the LGPS are under greater scrutiny than ever before.

The Pensions Regulator now has responsibility for ensuring that an Administering Authority of a Local Government Pension Fund is compliant with certain standards pertaining to all areas of governance and administration and that records are maintained that evidences a Fund's ability to adopt and achieve the highest possible standards of governance and administration in order to achieve the most efficient and cost effective means by which to deliver the best possible service to Scheme members.

The Pension Administration Strategy should be seen as a road map to success which sets out how the strategic aims of the administering authority can be achieved by working in partnership with its key stakeholders (Scheme members and Scheme employers).

Officers are seeking the approval of the strategy document to support them in formulating and delivering to scheme employers, training with regard to their statutory obligations under scheme regulations and the implementation of a revised and updated pension administration service level agreement that is fit for the 'new' scheme.

The Pension Administration Strategy must be considered and referred to by both the administering authority and scheme employers when carrying out their administrative duties. Once approved, the Pension Administration Strategy will be circulated to

Scheme employers for a period of consultation designed to run alongside the proposed scheme employer training.

#### Administering Authority Decisions (Annex 2)

Under current LGPS Regulations there are many occasions where the administering authority has certain discretion as to how the regulations should be applied and is required to take decisions or make policies so as to be consistent in the approach taken.

Annex 2 to this report sets out each of the individual regulations where an administering authority decision can be required along with a brief explanation of what each regulation means, policy options and a recommendation as to which policy should be adopted with regard to each regulation.

The purpose of this report is to highlight the statutory obligations of the administering authority with regard to the current regulations governing the LGPS and to make a formal policy for publication on the Pension Fund website.

#### Risk Assessment and Risk Register (Annex 3)

The Scheme Manager has a legal duty to establish and operate internal controls. Failure to implement an adequate and appropriate risk assessment and register could lead to breaches of law and where the effect and wider implications of not having in place adequate internal controls are likely to be materially significant the Pension Regulator must be notified in accordance with the Scheme Manager's policy on reporting breaches of the law.

Recent guidance from the Pensions Regulator is that pension funds should look to manage the three linked risks of investment, funding and covenant in an integrated way since all 3 interact with each other. Officers are considering ways how this may best be done and incorporated into a simple reporting tool.

#### Reporting Breaches of the Law (Annex 4)

Anyone connected with the management and administration of the Berkshire Pension Fund has a legal duty under Section 70 of the Pensions Act 2004, to report any breaches of the law to the Pensions Regulator where they consider that they have a reasonable cause to believe that a legal duty which is relevant to the administration of the Scheme has not been, or is not being, complied with and that failure to comply is likely to be of material significance to the Pensions Regulator in the exercise of its functions.

<b>Option</b>	<b>Comments</b>
Consider and adopt the four policies detailed in this report	<b>Recommended as these are all statutory obligations</b>
Do not adopt any/all of the policies in this report	Not recommended as this would be a breach of the law and/or statutory obligations and a requirement to report

Option	Comments
	the breach to the Pensions Regulator

### 3. KEY IMPLICATIONS

- 3.1 These are all statutory policies requiring approval by Panel. Approving these policies will ensure compliance with statutory requirements.

Defined Outcomes	Unmet	Met	Date they should be delivered by
Adoption and publication of policies	Not adopted or published	Adopted and published	1 April 2016

### 4. FINANCIAL DETAILS

None

### 5. LEGAL IMPLICATIONS

- 5.1 Compliance with regulations and guidance from the Pensions Regulator

### 6. VALUE FOR MONEY

- 6.1 Not applicable

### 7. SUSTAINABILITY IMPACT APPRAISAL

- 7.1 Not applicable

### 8. RISK MANAGEMENT

- 8.1

Risks	Uncontrolled Risk	Controls	Controlled Risk
Failure to comply with regulations	High	Adopt and implement policies	Low

### 9. LINKS TO STRATEGIC OBJECTIVES

- 9.1 Meeting statutory obligations to administer the Pension Fund in accordance with regulations and guidance issued by the Pensions Regulator.

### 10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION

10.1 Not required

## **11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS**

11.1 None

## **12. PROPERTY AND ASSETS**

12.1 None

## **13. ANY OTHER IMPLICATIONS**

13.1 None

## **14. CONSULTATION**

14.1 Pension Administration Strategy – consultation with scheme employers due to finish March 2016

## **15. TIMETABLE FOR IMPLEMENTATION**

15.1 Pension Administration Strategy 1 April 2016. Other policies immediately

## **16. APPENDICES**

16.1 Annex 1 – Pension Administration Strategy  
Annex 2 – Administering Authority Decisions  
Annex 3 – Risk Assessment and Risk Register  
Annex 4 – Reporting Breaches of the Law

## **17. BACKGROUND INFORMATION**

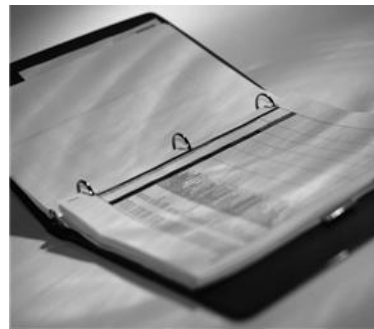
17.1 Local Government Pension Scheme Regulations 2013 (as amended)  
Public Service Pensions Act 2013  
Pensions Act 2004  
Pensions Regulator Code of Practice 14.

This page is intentionally left blank





# PENSION ADMINISTRATION STRATEGY



<b>1.0</b>	<b>INTRODUCTION.....</b>	<b>3</b>
1.1	Strategic Aims .....	3
1.2	Legislative Framework.....	3
<b>2.0</b>	<b>KEY OBJECTIVES .....</b>	<b>4</b>
<b>3.0</b>	<b>ACHIEVING THE OBJECTIVES .....</b>	<b>5</b>
3.1	Liaison and communication .....	6
3.2	Compliance with statutory requirements .....	7
3.3	Improving the flow of communication .....	8
3.4	Establishment of levels of performance (including SLA) .....	9
3.5	Procedures for producing performance statistics .....	10
3.6	Circumstances for issuing notices of underperformance.....	11
3.7	Disputes.....	12
<b>4.0</b>	<b>REVIEW AND CONSULTATION PROCESS .....</b>	<b>13</b>
	<b>ANNEX 1 – LEGISLATIVE FRAMEWORK FOR THIS STRATEGY .....</b>	<b>14</b>
	<b>ANNEX 2 – WRITTEN NOTICES OF UNSATISFACTORY PERFORMANCE.....</b>	<b>22</b>

## 1.0 INTRODUCTION

This is the Pension Administration Strategy for the Royal County of Berkshire Pension Fund having been developed in consultation with Scheme employers within the Fund and is effective from 1 April 2016.

The 1<sup>st</sup> April 2015 was a key milestone in the governance arrangements of the Local Government Pension Scheme (LGPS) as from that date the Pensions Regulator (tPR) took responsibility for setting standards of administration and governance on all administrative aspects of the Scheme. In addition a newly established local Pension Board now has an independent scrutiny role in assisting the Royal Borough of Windsor and Maidenhead ('RBWM') as the Administering Authority to the Royal County of Berkshire Pension Fund ('the Fund'), with its regulatory compliance, effective and efficient administration and governance of the Pension Fund.

The LGPS Regulations 2013 allow the Pension Fund Administering Authority (sometimes referred to as the Scheme Manager) to prepare a Pension Administration Strategy ('the Strategy') for the sole purpose of improving the administrative processes within their LGPS Fund. This Strategy replaces any earlier versions and ensures the governance and administration requirements of tPR are properly addressed as they fall to the Fund and its Scheme employers.



### 1.1 Strategic Aims

The aim of this Strategy is to continue progress towards a seamless, automated pension service, employing appropriate technologies and best practice which both significantly improve the quality of information overall and the speed with which it is processed to provide better information for Scheme employers and stakeholders and a more efficient service to Scheme members. It outlines, in conjunction with the Pension Administration Service Level Agreement, the quality and performance standards expected of all Scheme employers and Admission Bodies within the Fund.

The Strategy is designed to be a road map as to how the highest standards of administration can be achieved by adopting the most efficient and cost effective practices thereby ensuring a consistent approach to pensions administration across all Scheme employers in partnership with the Fund so that all Scheme members ultimately receive the highest standard of service in the most efficient and effective manner possible.

### 1.2 Legislative Framework

The Fund and its Scheme employers must have regard to this Strategy when carrying out their Scheme functions. This Strategy has been made in accordance with Regulation 59 of the LGPS Regulations 2013 which allows the Administering Authority to prepare a Pension Administration Strategy following consultation with its Scheme employers to facilitate best practices and efficient customer service.

As part of Regulation 59 all of the following matters are to be considered to ensure that the aims of this Strategy are achieved:

#### Procedures for liaison and communication...

...between the Administering Authority and its Scheme employers with the aim of clarifying the roles and responsibilities of both the Administering Authority and the Scheme employers in administering the LGPS.



#### Compliance with statutory requirements...

...setting out clear procedures which aim to secure that the Administering Authority and its Scheme employers comply with those statutory requirements and with any agreement about levels of performance.

#### Procedures for improving the flow of communication...

...between the Administering Authority and its Scheme employers to enable the Scheme functions to be carried out effectively and efficiently.

#### Establishment of levels of performance...

...that both the Administering Authority and its Scheme employers are expected to achieve including the setting of performance targets, the making of agreements about levels of performance and associated matters and such other matters as the Administering Authority considers appropriate.

#### Procedures for producing performance statistics...

...and the publication of an annual report dealing with the extent to which the Administering Authority and its Scheme employers have achieved the levels of performance established.

#### Production of a Pension Administration Service Level Agreement (SLA)

...setting out the various responsibilities of the Administering Authority and the Scheme employer with workflows being monitored and findings reported to the Berkshire Pension Fund Panel, Pension Fund Advisory Panel and Pension Board as part of a Stewardship report.

#### Circumstances for issuing notices of underperformance...

...under Regulation 70 of the Local Government Pension Scheme Regulations 2013 (*Additional costs arising from Scheme employer's level of performance*) on account of the Administering Authority considering that a Scheme employer's performance in carrying out its Scheme functions has been unsatisfactory and associated matters as considered appropriate.

In addition to the above the Administering Authority has power to consider any other matters that it believes to be appropriate for inclusion in this strategy and will consult with its Scheme employers and such other persons as required.

## 2.0 KEY OBJECTIVES

The key objectives of this Strategy are to ensure that:

- The Fund and Scheme employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in the Pension Administration Service Level Agreement);
- The Fund operates in accordance with LGPS Regulations and is aligned with tPR in demonstrating compliance and scheme governance;
- Communication processes are in place to enable both the Fund and Scheme employers to proactively and responsively engage with each other and other partners;
- Accurate records are maintained for the purpose of calculating pension entitlements and Scheme employer liabilities, ensuring all information and data is communicated accurately, on a timely basis and in a secure and compliant manner;
- The Fund and Scheme employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda;
- Standards are set and monitored for the delivery of specified activities in accordance with LGPS Regulations and minimum standards set out throughout the Pension Administration Service Level Agreement.

The key objectives for the Fund have been identified as:

OBJECTIVE	DETAIL	TARGET DATE
Implement i-Connect	i-Connect is a secure electronic data transfer system which sits between a Scheme employer's payroll system and the pension administration software. See section 3.3.	Depending on size of employer: 31/03/17 31/03/18 31/03/19
Implement Employer Self-Service (ESS) facility	ESS enables a Scheme employer access to the pension records of their own scheme members. See section 3.3.	31/03/19
Scheme employer meetings	Quarterly meetings to be held with the 6 Berkshire Unitary Authorities. See section 3.3.	30/06/16
Scheme surveys	Introduction of an annual Scheme employer survey and member surveys.	31/07/16
Scheme employer performance reports	Introduction of quarterly Scheme employer performance reports.	30/06/16
PASA accreditation	The Fund is committed to obtaining accreditation with the Pensions Administration Standards Association. See section 3.0.	31/03/17

## 3.0 ACHIEVING THE OBJECTIVES

There are currently in excess of 200 Scheme employers in the Fund differing in size, structure and capability which represents a significant logistical challenge to the management of information, processes and services within the Fund. As the number of Scheme employers



within the Fund grows as does the demand for more accurate and timely information especially with the introduction of the Career Average Revalued Earnings (CARE) Scheme from 1 April 2014. This information is also vital to ensure that Scheme employer liabilities are accurate and that funding targets and employer contribution rates reflect the correct position. Furthermore, tPR has introduced higher levels of compliance and the Fund will be required to report breaches of the Regulations in future.

This strategy applies not only to existing Scheme employers but will also apply to all new future employers of the Fund. Schools (other than Academies, Free Schools and University Technical Colleges (UTCs)) are included under the LEA of the relevant Council even if they have their own payroll or have outsourced it to a third party.

To assist with compliance in all areas of administration and governance the Fund is committed to obtaining accreditation with the Pensions Administration Standards Association (PASA). PASA has been created from within the pensions industry to become the body to set meaningful pension administration standards, assess compliance with those standards and act as a focal point for Government and the pensions industry on matters relating to pension administration. PASA is focused on three core activities:

- defining good standards of pensions administration relevant to all providers, whether in-house, third party;
- publishing guidance to support those standards; and
- being an independent accreditation body, assessing the achievement of good standards for scheme members and sponsors.

In order to achieve accreditation the Fund is committed to producing clear, understandable and achievable desk top procedures for all areas of administration that will form the basis for ensuring full compliance with statutory obligations and tPR requirements.

### 3.1 Liaison and communication

The Fund aims to provide clear, relevant, accurate, accessible and timely information to all of its stakeholders. The Fund's communication strategy is already well developed providing a wide range of solutions for all types of communication. However, with the ever increasing number of Scheme members and Scheme employers there is an ever increasing need for information and so the Fund is aiming to further develop its communications strategy by embracing technology in a number of key areas. The Fund's overall strategy is to provide communications digitally to its stakeholders wherever possible and for scheme data to be transferred electronically between the Fund and its Scheme employers.

The Pension Fund website is continually under review and provides all stakeholders with a single access point to relevant services and information.

A dedicated Scheme employer area is maintained which includes (but is not limited to):

- General guidance and information on procedures for administering the Local Government Pension Scheme;
- Employer bulletins (*'Inscribe'*) used to communicate current issues pertaining to the Scheme;
- Copies of all standard forms (on-line where possible) to be used by Scheme employers when providing information to the pension administration team;



- Copies of all publications issued by the Administering Authority including member newsletters, scheme guides and factsheets;
- A link to the LGPS Regulations, LGA Circulars, DCLG Guidance and consultation documents.

Pension administration relies largely on information supplied to the Administering Authority by its Scheme employers. It is therefore key that member records are maintained to a high standard so that information provided by the Fund to its Scheme members is accurate and up to date at all times.

The pension administration team is contactable during normal office hours on 0845 602 7237 although direct dial numbers are provided to all Scheme employers. An office helpdesk is also available at:

[info@berkshirerpensions.org.uk](mailto:info@berkshirerpensions.org.uk).

Each Scheme employer must nominate a Pension Liaison Officer (PLO) to deal with initial enquiries received from the Administering Authority. If preferred a number of officers can be nominated (up to a maximum of 4) by the Scheme employer in Appendix A to the Pension Administration Service Level Agreement, provided that their specific responsibilities are identified (e.g. HR or payroll; formulating policy statements; ensuring payment of monthly contributions and submitting returns). The Scheme employer will inform the Administering Authority immediately if these details are amended in anyway. Furthermore, the PLO(s) will be responsible for ensuring that Pension Fund communications are disseminated to all relevant officers in their organisations who have responsibility for any part of the process in administering the LGPS e.g. payroll officers, HR advisors, Heads of Department and other Senior officers.

The Scheme employer will provide the following details in respect of their PLO(s)

- Name;
- Position;
- Direct Telephone Number (if direct dial is available);
- Email contact details;
- Business address;
- Specific responsibilities of each officer (if more than one has been nominated).

The Administering Authority will maintain a schedule of PLOs and ensure that all staff concerned with pension administration use the contact details provided by the Scheme employer.

The Administering Authority will hold quarterly meetings with the PLOs of the six Unitary Authorities to discuss current pension issues and administration procedures. An annual meeting will be held to which all Scheme employers will be invited in accordance with the Administering Authority's 'Communications Strategy' (which can be found on the Pension Fund's website).

### 3.2 Compliance with statutory requirements

In carrying out their roles and responsibilities in relation to the administration of the LGPS, the Administering Authority and Scheme employers will, as a minimum, comply with the statutory Scheme regulations and associated legislation. These include (but are not limited to) the following regulations and any amendments thereto:

- The LGPS Regulations 2013
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014
- The Public Service Pensions (Record Keeping and Miscellaneous) Regulations 2014
- The Public Service Pensions Act 2013
- The Automatic Enrolment (Miscellaneous Amendment) Regulations 2013
- The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013
- The Pensions Regulator Code of Practice number 14 (Governance and administration of public service pension schemes)
- Earlier versions of the LGPS Regulations as they remain in force and relate to current and former scheme members
- The Pensions Acts 1995, 2004, 2008
- The Finance Act 2004
- Various related statutory instruments (Data Protection, Freedom of Information, Age Discrimination etc.)

The legislative framework under which this Strategy has been developed can be found at Annex 1. However, it is vital that every Scheme employer understands the statutory obligations under which they must fulfil their duties in administering the LGPS. This Strategy and associated SLA sets out agreed quality standards and the methods by which levels of performance will be monitored, reviewed and reported to ensure that those statutory obligations are maintained in line with the requirements of tPR.

The Fund is committed to providing the necessary tools to enable Scheme employers to meet their statutory obligations thereby continually improving the service that Scheme members receive at the same time as reducing, and ultimately eradicating, the risk of intervention from, and possible sanction by, tPR.

Prior to the effective date of this Strategy the Fund has provided training for all Scheme employers with regard to the statutory obligations that they are required to fulfil along with the implications of failing to do so (unless a Scheme employer has for whatever reason chosen not to attend the training in which case they have been advised of the risks involved in not doing so).

The Fund is also subject to a statutory annual audit of its processes and internal controls. The Fund and its Scheme employers will be expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by the Fund and, where appropriate, duly implemented, following discussions with Scheme employers where necessary.

### 3.3 Improving the flow of communication

As mentioned previously the strategic aim of the Fund is to provide a seamless, automated pension service by employing appropriate technologies and best practice to ensure the most effective and efficient service is provided to all of its stakeholders. The key principle is to identify the customer needs and attempt to provide this in the most efficient way.

The Fund will continue to invest and use ICT solutions to assist Scheme employers with the delivery of timely and accurate data. To this end the Fund is committed to working with Scheme employers in implementing and using i-Connect, a secure electronic data transfer system, as the method by which pension data is transferred between the Scheme employer and the Administering Authority.



i-Connect provides many benefits for both the Scheme employer and the Fund that support the strategic aim of improving the flow of communication and ultimately the levels of performance:

- Data is encrypted and submitted in real time on each occasion that a payroll is run meaning that, not only is data transmitted securely, Scheme members have instant access to the most up to date membership information;
- The need for Scheme employers to complete paper forms, spreadsheets and year-end returns is removed;
- All membership data is submitted at the correct time thereby ensuring that no data is missing and eliminating the risk of data inputting errors;
- All data protection requirements are met and security risks are significantly reduced;
- Instant reconciliation of Scheme contribution payments;
- Addresses auto-enrolment obligations thereby minimising the risk of fines from tPR;
- Automatically maintains membership data in line with the requirements set out in Record-Keeping regulations and to the standard required by tPR.

The Fund aims to have the largest Scheme employers using i-Connect by March 2017 with medium-sized employers being operational by March 2018. Consideration will be given to bringing smaller employers on-board ahead of the 2019 valuation subject to the solution being considered a viable option for those employers.

The Fund will also investigate and scope the use of a Scheme employer self-service (ESS) facility and identify an appropriate timeframe for implementation (no later than 31 March 2019). ESS will provide a Scheme employer with access to the pension records of their own Scheme members enabling the employer to:

- view, create and amend member information;
- Update sensitive information using online forms, thereby ensuring administrator checking and approval;
- Perform benefit calculations;
- Initiate and receive workflows;
- Produce and view documents;
- Run, create and print reports online.

As these solutions are developed the Fund will work and collaborate with Scheme Employers and provide necessary training and support.

To further improve communications the Fund is committed to re-introducing quarterly meetings with the PLOs of the largest Scheme employers the first such meeting to be held in the first quarter of the 2016/17 financial year. In addition an open invitation will be given to all other Scheme employers to meet with the Fund and discuss any element of pension procedures that they wish.

Furthermore the Fund will issue regular Scheme employer bulletins ('Inscribe') and issue at least one employer survey per year the outcome of which will be used to further improve communications and administration procedures.

### 3.4 Establishment of levels of performance (including SLA)

The use of time and accuracy based targets are vital in delivering a high level and cost effective service which is measurable, achievable, realistic and time specific as well as complying with statutory obligations.

In establishing acceptable levels of performance the Fund has tried to ensure that these targets strike a balance between allowing for each Scheme employers' other work pressures and the minimum turnaround times the Fund requires to ensure its system is as up to date as possible. By keeping pension systems up to date the Fund is able to significantly reduce pension related workloads for both the Fund and the Scheme employer by avoiding the follow-on problems that can occur as well as improving the service provided to Scheme members.

The Fund has developed a Service Level Agreement (SLA) (which can be found on the Pension Fund website) in consultation with Scheme employers which sets out specific targets that apply to all Scheme employers in respect of all pension administration processes, the outcomes of which will be subject to external scrutiny by tPR, the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board. It should be noted that many of the targets are set to ensure compliance with statutory requirements that already exist.

For some smaller Scheme employers, and for areas other than benefit administration, the amount of data typically collected will be too small to assess and report on statistically in a meaningful way. However, these targets will still apply and be considered on a case by case basis, particularly where the performance of the Fund or the Scheme employer falls well outside the prescribed targets. In these circumstances the appropriate action will be taken where necessary.

### 3.5 Procedures for producing performance statistics

The Pensions Regulator requires a Scheme Manager (Administering Authority) to keep records of information pertaining to member data across all membership categories and the Pension Board plays an independent scrutiny role to 'assist' the Scheme Manager with regulatory compliance and has the authority to report any serious concerns to tPR.

Assessment of the levels of administrative performance requires that agreed performance standards are continuously monitored and the results fed back to Scheme employers. This will be achieved by the production of a Performance Report each quarter for each employer (as relevant) to keep them fully informed of the efficiency of service delivery to Scheme members. The Performance Report will contain the key areas of performance setting out the total number of notifications received against the number received within the prescribed timescale set out in the Scheme employer agreed Service Level Agreement. In order to measure the efficiency of service processes the following areas of administration will be reported:

- New Scheme joiners;
- Early leavers (those where benefits are not immediately payable);
- Retirements;
- Payments of contributions (including receipt of monthly schedules);
- Settlement of invoices;

- Year-end returns;
- Member complaints.

The Fund will work with Scheme employers to ensure that overall quality and timeliness is improved and will identify any problem areas and devise an action plan designed to improve service delivery.

The Fund will also present a Stewardship Report at all meetings of the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board in which the performance of all Scheme employers (and that of the Fund) will be scrutinised and remedial actions considered.

tPR imposes a statutory obligation upon an Administering Authority and the Pension Board to report failures which are likely to be of material significance. All breaches of statutory requirements must be recorded in the breaches log and reported to the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board. This log may also be published on the Pension Fund website and in the Fund's Annual Report. Where there is a material breach which represents a reportable event to tPR then the Regulator would expect to see an improvement plan implemented to rectify this position.

### 3.6 Circumstances for issuing notices of underperformance

The purpose of the Pension Administration Strategy is to secure improvement across the administrative processes of the Fund. Both the Fund and its Scheme employers need to play their part in meeting this objective. However, in areas of continuous poor performance the Fund has a statutory right to apply financial penalties and may ultimately do so but only as a matter of 'last resort'.

In accordance with Regulation 59(2)(e) of the Local Government Pension Scheme Regulations 2013, an Administering Authority has to consider the circumstances in which it may give a written notice to any of its Scheme employers under Regulation 70 of those Regulations (additional costs arising from Scheme employer's level of performance), on account of the Scheme employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established in accordance with this Pension Administration Strategy and associated Pension Administration Service Level Agreement.

The Fund will remind PLOs of the key targets on occasion and where individual cases are found to be significantly outside of the performance targets set, the Fund will provide the Scheme employer with case-tracking information to help the employer understand if structural or procedural changes need to be made.

However, where persistent failure occurs and no improvement is demonstrated by the Scheme employer and/or unwillingness is shown by the employer to resolve the identified issue, the Fund will contact the PLO for the employer to discuss the area of poor performance and to find a satisfactory solution. Where the poor performance continues a formal written notice will be issued to the employer and escalated to a senior officer for action.

The following are circumstances upon which the Administering Authority will issue written notices of unsatisfactory performance:

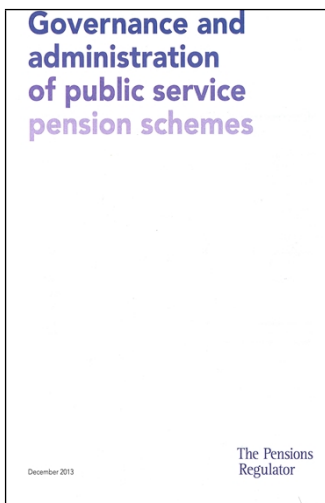
- Where, in the opinion of the Administering Authority, it has incurred additional costs as a result of a Scheme employer's unsatisfactory performance the Administering

Authority will give a written notice to the Scheme employer setting out the reasons for forming its opinion, the amount the Administering Authority has determined the Scheme employer should pay in accordance with Regulation 69(1)(d) and the basis upon which the amount has been calculated;

- Where a Scheme employer fails to make payment of employee and employer contributions by the 19<sup>th</sup> of the month following the period in relation to which the contributions were deducted;
- Where a Scheme employer persistently fails to provide the necessary documentation in support of the contribution payment;
- Where a Scheme employer has failed to settle an invoice for any additional costs arising as a result of their early retirement decisions within the prescribed 21-day deadline;
- Where a Scheme employer has failed to notify the Administering Authority that one of its employees has become entitled to the release of their pension benefits and, as a result of which, payment of any lump sum is made later than 30 calendar days from the date that pension benefits become payable.

On each occasion that any notice of unsatisfactory performance is issued it will be included in the Stewardship Report presented at meetings of the Berkshire Pension Fund Panel, Pension Fund Advisory Panel and Pension Board.

Where the Pension Fund has become liable to pay interest due to the unsatisfactory performance of a Scheme employer, consideration will be given to charging that interest payment to the appropriate Scheme employer.



Interest will be calculated in accordance with Regulation 71 of the Local Government Pension Scheme Regulations 2013 (one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests).

The Administering Authority will always assist the Scheme employer to resolve any issues but where persistent failure by a Scheme employer to meet payment deadlines can be evidenced, or where a Scheme employer continually fails to meet statutory requirements and/or the performance standards set out in the Pension Administration Service Level Agreement, further consideration will be given to whether or not that Scheme employer should be reported to the Pensions Regulator in line with Code of Practice number 14, 'Governance and Administration of Public Service Pension Schemes'.

Should the Fund incur any fine or charge for breach of its statutory duties which is as a result of a Scheme employer's performance failure, the Fund reserves the right to require the Scheme employer to reimburse it within 21 days of the fine or charge having been received by the Fund.

It is vital that all Scheme employers ensure that appropriate record-keeping is maintained and where they outsource their payroll, HR or pension administration functions to a third party, that the Scheme employer is clear that the legal responsibility for the provision of pension data to the Administering Authority lies with the Scheme employer and not the third party.

Scheme employers must therefore ensure, as part of any contract entered into with a third party, that the third party has sufficiently robust processes in place to fulfil the statutory duties of the Scheme and the performance levels set out in the Pension Administration Service Level Agreement.

See Annex 2 for a schedule of notices of unsatisfactory performance.

### 3.7 Disputes

The Fund has a clear internal disputes resolution procedure (IDRP) set out for members of the LGPS which can be found on the Pension Fund's website. Scheme employers are, however, required to nominate an adjudicator to deal with disputes at stage 1 of the process. Scheme employers are asked to supply the details of their stage 1 adjudicator as part of their discretionary policy statement and should advise the Fund immediately of changes made in this regard.

Where a Scheme employer is in dispute with a decision or action taken by the Fund, the Fund will in the first instance attempt to resolve the matter internally and may seek an independent senior mediator from within RBWM as the Administering Authority to make a final determination. Should this prove to be unsuccessful, a suitable, mutually agreeable and independent third party shall be appointed to determine the outcome of the matter.

## 4.0 REVIEW AND CONSULTATION PROCESS

The Fund will review this Strategy to ensure it remains up to date and meets the necessary regulatory requirements at least annually. A current version of the Strategy will always be available on the Pension Fund website.

In preparing this Strategy the Fund has consulted with Scheme employers and other persons considered appropriate. Where it is necessary to revise the Strategy all Scheme employers will be notified of the changes and advised where they can obtain a copy of the revised strategy.

## ANNEX 1 – LEGISLATIVE FRAMEWORK FOR THIS STRATEGY

### Local Government Pension Scheme Regulations 2013

#### Pension administration strategy

59.—(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

(a) keep its pension administration strategy under review; and

(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

- (5) An administering authority must publish—
- (a) its pension administration strategy; and
  - (b) where revisions are made to it, the strategy as revised.
- (6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.
- (7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.
- (8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

### **Additional costs arising from Scheme employer's level of performance**

**70.**—(1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

- (2) The administering authority may give written notice to the Scheme employer stating—
- (a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);
  - (b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and
  - (c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

### **Statements of policy about exercise of discretionary functions**

**60.**—(1) A Scheme employer must prepare a written statement of its policy in relation to the exercise of its functions under regulations—

- (a) 16(2)(e) and 16(4)(d) (funding of additional pension);
- (b) 30(6) (flexible retirement);
- (c) 30(8) (waiving of actuarial reduction); and
- (d) 31 (award of additional pension),

and an administering authority must prepare such a statement in relation to the exercise of its functions under regulation 30(8) in cases where a former employer has ceased to be a Scheme employer.

- (2) Each Scheme employer must send a copy of its statement to each relevant administering authority before 1st July 2014 and must publish its statement.
- (3) A body required to prepare a statement under paragraph (1) must—
- (a) keep its statement under review; and
  - (b) make such revisions as are appropriate following a change in its policy.

(4) Before the expiry of a month beginning with the date any such revisions are made, each Scheme employer must send a copy of its revised statement to each relevant administering authority, and must publish its statement as revised.

(5) In preparing, or reviewing and making revisions to its statement, a body required to prepare a statement under paragraph (1) must have regard to the extent to which the exercise of the functions mentioned in paragraph (1) in accordance with its policy could lead to a serious loss of confidence in the public service.

(6) In this regulation a relevant administering authority in relation to a Scheme employer, is any authority which is an appropriate administering authority for that employer's employees.

### **Statements of policy concerning communications with members and Scheme employers**

**61.**—(1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers.

(2) In particular the statement must set out its policy on—

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

### **Pension fund annual report**

**57.**—(1) An administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains—

- (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
- (b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;
- (c) a report of the arrangements made during the year for the administration of each of those funds;
- (d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;
- (e) the current version of the statement under regulation 55 (governance compliance statement);



(f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;

(g) an annual report dealing with—

(i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 59 (pension administration strategy), and

(ii) such other matters arising from a pension administration strategy as it considers appropriate;

(h) the current version of the statement referred to in regulation 58 (funding strategy statement);

(i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (statement of investment principles)(1);

(j) the current version of the statement under regulation 61 (statements of policy concerning communications with members and Scheme employers); and

(k) any other material which the authority considers appropriate.

(2) The authority must publish the pension fund annual report on or before 1st December following the Scheme year end.

(3) In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

## **Public Service Pensions Act 2013**

### **Administration**

#### **17 Regulatory oversight.**

(1) Schedule 4 contains provision relating to the regulation of schemes under section 1, new public body pension schemes and connected schemes.

(2) The Secretary of State may by order make—

(a) provision consequential on Schedule 4, and

(b) further provision for, or in connection with, the regulation of public service pension schemes within the meaning of the Pensions Act 2004 (as amended by that Schedule).

(3) The provision referred to in subsection (2) includes provision made by amending any legislation (including this Act).

(4) An order under this section may make different provision for different purposes.

(5) An order under this section is subject to—

(a) the affirmative procedure, if it amends primary legislation, and

(b) the negative procedure, in any other case.

## **SCHEDULE 4 Regulatory oversight**

Amends the Pensions Act 2004 to cover Public Service Pensions and the Pensions Regulator involvement.

#### **16 Records.**

(1) The scheme manager for a scheme under section 1 and any statutory pension scheme that is connected with it must keep such records as may be specified in regulations made by the Secretary of State.

### **The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014.**

#### **Records**

3. For the purposes of section 16 of the 2013 Act, the scheme manager for a public service pension scheme(1) must keep the records which are specified in regulations 4 to 6.

#### **Records of member and beneficiary information**

4.—(1) In respect of member and beneficiary information, the records which are specified are—

- (a) the name of each member and of each beneficiary;
- (b) the date of birth of each member and of each beneficiary;
- (c) the gender of each member and of each beneficiary;
- (d) the last known postal address of each member and of each beneficiary;
- (e) each member's identification number in respect of the scheme;
- (f) the national insurance number of each member who has been allocated such a number; and
- (g) in respect of each active member, deferred member and pensioner member—
  - (i) the dates on which such member joins and leaves the scheme;
  - (ii) details of such member's employment with any employer participating in the scheme including—
    - (aa) the period of pensionable service in that employment; and
    - (bb) the amount of pensionable earnings in each year of that employment.

(2) In respect of each member's rights and, where applicable, of each beneficiary's entitlement, to any benefits which are not money purchase benefits, injury benefits or compensation benefits under the scheme, the records which are specified are—

- (a) any formula or formulas used for calculating the member's or beneficiary's pension or benefit;
- (b) the percentage to be applied in respect of revaluation for each year to the member's accrued rights to benefits under the scheme; and
- (c) any increase to be applied to the pensioner member's or beneficiary's pension or benefit in payment in each year.

(3) In respect of each member's rights to any money purchase benefits under the scheme, the records which are specified are—

- (a) any investment decisions taken by, or in relation to, the member;
- (b) any investments held on behalf of the member; and

(c) any anticipated date of retirement notified by the member.

(4) In respect of pension credits under section 29(1)(b) of the Welfare Reform and Pensions Act 1999(1) (creation of pension debits and credits) or under article 26(1)(b) of the Welfare Reform and Pensions (Northern Ireland) Order 1999(2) (creation of pension debits and credits), the records which are specified are records of any information relevant to calculating each member's rights under the scheme which are attributable (directly or indirectly) to a pension credit.

(5) In respect of pension debits under section 29(1)(a) of the Welfare Reform and Pensions Act 1999 or under article 26(1)(a) of the Welfare Reform and Pensions (Northern Ireland) Order 1999, the records which are specified are records of any information relevant to calculating any reduction in each member's rights under the scheme which are attributable to a pension debit.

### **Records of transactions**

5. In respect of transactions, the records which are specified are—

(a) any employer contribution or member contribution paid in relation to each active member;

(b) payments of pensions and benefits including the date of the payment;

(c) except where the payment is a payment under paragraph (b) or (f), payments made by, or on behalf of, the scheme manager to any person including—

(i) the name and address of the person to whom payment was made; and

(ii) the reason for that payment;

(d) any movement or transfer of assets from the scheme to any person including—

(i) the name and address of the person to whom the assets were moved or transferred; and

(ii) the reason for that transaction;

(e) the receipt or payment of money or assets in respect of the transfer of members into or out of the scheme including—

(i) the name of that member;

(ii) the terms of the transfer;

(iii) the name of the scheme into or out of which the member has been transferred;

(iv) the date of the transfer; and

(v) the date of receipt or payment of money or assets;

(f) payments made to any member who leaves the scheme, other than on a transfer, including—

(i) the name of that member;

(ii) the date of leaving;

(iii) the member's entitlement at that date;

(iv) the method used for calculating any entitlement under the scheme; and

(v) how that entitlement was discharged;

(g) payments made to any employer participating in the scheme;

(h) any amount due to the scheme which has been written off in the scheme's accounts; and

(i) any other payment to the scheme including the name and address of the person from whom it is received and, where a payment is made in respect of a member, the name of the member in respect of whom it is made.

### **Records of pension board meetings and decisions**

6.—(1) In relation to any pension board meetings, the records which are specified are records relating to any such meeting including—

- (a) the date, time and place of the meeting;
- (b) the names of all the members of the pension board invited to the meeting;
- (c) the name of any person who attended the meeting and the capacity in which each attended; and
- (d) any decisions made at the meeting.

(2) In relation to any other decision made by the members of the pension board in the exercise of their functions as members of the pension board, the records which are specified are records relating to any such decision including—

- (a) the date, time and place of the decision; and
- (b) the names of the members of the pension board who participated in making the decision.

(3) In relation to any decision made by a committee or sub-committee of the pension board which has not been ratified by the pension board, the records which are specified are records relating to any such decision including—

- (a) the date, time and place of the decision; and
- (b) the names of the members of the committee or sub-committee who participated in making the decision.

### **Amendment of the Occupational Pension Schemes (Scheme Administration) Regulations 1996**

7. For regulation 16A of the Occupational Pension Schemes (Scheme Administration) Regulations 1996(1) (exemptions from the requirement to notify the Authority or the member of a late contribution payment) substitute—

#### **“Exemptions from the requirement to notify the Authority or the member of a late contribution payment**

**16A.**—(1) Subject to paragraph (3), where an amount corresponding to any contribution payable on behalf of an active member of an occupational pension scheme—

- (a) is deducted from that member’s earnings in respect of any employment; and
- (b) is not paid to the trustees or managers of the scheme within the period of 19 days beginning on the first day of the month after which the deduction is made,

the trustees or managers do not need to give notice of the failure to pay that amount within that period to the Authority or member in the circumstances specified in paragraph (2).

- (2) The specified circumstances are where the trustees or managers of the scheme are exempt from the requirement—

(a) to secure the preparation, maintenance and revision of a payment schedule for the purposes of section 87(1) of the 1995 Act (schedules of payments to money purchase schemes), by virtue of regulation 17(2); or

(b) to prepare, review and if necessary revise a schedule of contributions under section 227 of the 2004 Act (schedule of contributions), by virtue of any of subparagraphs (a) to (i) and (k) to (m) of regulation 17(1) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005(3).

(3) Paragraph (1) does not apply in circumstances where the scheme is a public service pension scheme.

(4) For the purposes of this regulation—

“the 2013 Act” means the Public Service Pensions Act 2013;

“connected”, “new public body pension scheme” and “statutory pension scheme” have the meanings given in section 37 of the 2013 Act (general interpretation);

“public service pension scheme” means—

- (a) a scheme established under section 1 of the 2013 Act (schemes for persons in public service);
- (b) a new public body pension scheme;
- (c) any statutory pension scheme which is connected with a scheme referred to in paragraph (a) or (b).”

### **Explanatory note for this amendment**

Under section 49 of the Pensions Act 1995 trustees or managers must notify the Pensions Regulator and the member where there is a late payment of a contribution where such late payment is likely to be of material significance to the Pensions Regulator’s function. Regulation 16A of the Scheme Administration Regulations sets out exceptions to that duty. The amendments mean that managers of public service pension schemes under the 2013 Act cannot benefit from the exception and will now be subject to the duty to notify.

## ANNEX 2 – WRITTEN NOTICES OF UNSATISFACTORY PERFORMANCE

1	In accordance with Regulation 69(1)(d), where, in the opinion of the Administering Authority, it has incurred additional costs in line with Regulation 70 as a result of a Scheme employer's unsatisfactory performance, the Administering Authority will give a written notice to the Scheme employer setting out the reasons for forming its opinion, the amount the Administering Authority has determined the Scheme employer should pay and the basis upon which the amount has been calculated.
2A	Failure to make payment of monthly employee and employer contributions by the 19 <sup>th</sup> of the month following the period to which the contributions relate will result in the Administering Authority issuing a written notice of unsatisfactory performance. Where a Scheme employer persistently fails to make payments within the statutory deadline and the Administering Authority considers that this is of a material significance, the Scheme employer will be reported to the Pensions Regulator.
2B	Where a Scheme employer persistently fails to provide the necessary documentation in support of the contribution payment the Administering Authority will issued a written notice of unsatisfactory performance.
3	Failure to make payment of a capital cost owing to the pension fund within 21 calendar days from the date of issue of an invoice will result in the Administering Authority issuing a written notice of unsatisfactory performance. This will be reported as part of a Stewardship report presented at meetings of the Berkshire Pension Fund Panel, Pension Fund Advisory Panel and Pension Board and steps may be taken to recover the amount of interest lost by the Pension Fund calculated in accordance with Regulation 71 of the Local Government Pension Scheme Regulations 2013.
4	Where as a result of the Scheme employer's failure to notify the administering authority of a scheme member's retirement, interest becomes payable on any retirement lump sum paid, the Administering Authority will issue a written notice of unsatisfactory performance. This will be reported as part of a Stewardship report presented at meetings of the Berkshire Pension Fund Panel, Pension Fund Advisory Panel and Pension Board and steps may be taken to recover the amount of interest lost by the Pension Fund calculated in accordance with Regulation 71 of the Local Government Pension Scheme Regulations 2013.

### NOTES

1. The Administering Authority has the power to charge a Scheme employer additional costs arising from the Scheme employer's level of performance in accordance with Regulation 70 of the Local Government Pension Scheme Regulations 2013 which will be referred to in all cases.
2. Payment of contributions is set out in clause 4.2.5 of the SLA.
3. Payment of capital costs is set out in clause 6.12 of the SLA.
4. Notifications of retirements is set out in clause 4.2.4 of the SLA. Regulation 71 of the Local Government Pension Scheme Regulations 2013 states that interest must be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests. If late payment of a lump sum occurs as a result of a failure by the scheme member to provide information to the administering authority, the pension fund will be liable for the payment of any interest due.

## Annex 2 – Administering authority decisions

No.	Regulation	Administering Authority Discretion	Administering Authority Decision Options
1	<b>LGPS13:</b> 3(5) & Sch. 2, Part 3, para. 1	Whether to agree to an admission agreement with a body applying to become an admission body other than where a body as defined in paragraph 1(d) must be admitted providing they undertake the requirements of the regulations.	<p><b>Option 1</b> - Report to be submitted to the Pension Fund Panel for approval subject to an employer covenant review being undertaken.</p> <p><b>Option 2</b> – Delegate to officers.</p> <p><b>Recommendation</b> – Option 1.</p>
2	<b>LGPS13:</b> 16(1)	Whether the administering authority deems it inappropriate for a scheme member to pay APCs over a period of time due to the contribution being very small.	<p><b>Option 1</b> – Pension Fund Panel to set an agreed minimum level of contribution whereby the scheme member will be required to pay APC as a lump sum (recommend £100).</p> <p><b>Option 2</b> – delegate to officers.</p> <p><b>Recommendation</b> – Option 1</p>
3	<b>LGPS13:</b> 16(10)	Whether to require a scheme member to have a medical (at their own expense) in order to satisfy the administering authority of their reasonably good health before agreeing to the scheme member’s application to pay APCs/SCAPCs (Shared Cost Additional Pension Contributions)	<p><b>Option 1</b> – Always require a medical.</p> <p><b>Option 2</b> – Never require a medical.</p> <p><b>Option 3</b> – Require a medical in circumstances where a scheme employer has already taken action to investigate the scheme member’s possible ill health retirement.</p> <p><b>Recommendation</b> – Option 3</p>
4	<b>LGPS13:</b> 17(12)	To whom any AVC fund should be paid upon the scheme member’s death.	<p><b>Option 1</b> - To follow scheme member’s expression of wish where appropriate. Otherwise delegate to officers for a decision.</p> <p><b>Option 2</b> – To follow scheme member’s expression of wish where appropriate. Otherwise report to Pension Fund Panel for a decision.</p> <p><b>Option 3</b> – To follow scheme member’s expression of wish</p>

			<p>where appropriate. If non-contentious delegate to officers for a decision or report to the Pension Fund Panel where decision could be contentious.</p> <p><b>Recommendation</b> – Option 3.</p>
5	<b>LGPS13: 22(3)(c)</b>	Pension accounts to be kept in a form as considered appropriate.	<p><b>Option 1</b> - Pension accounts to be maintained in line with regulatory and pension software requirements.</p> <p><b>Option 2</b> – Pension Fund Panel to consider an alternative.</p> <p><b>Recommendation</b> – Option 1.</p>
6	<b>LGPS13: 32(7)</b>	Whether to extend beyond three months the time limits within which a scheme member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	<p><b>Option 1</b> – To restrict the time limit to three months as set out in regulation.</p> <p><b>Option 2</b> – Pension Fund Panel to agree an alternative and extended time limit.</p> <p><b>Recommendation</b> – Option 1.</p>
7	<b>LGPS13: 34(1)</b>	Whether to commute the payment of a small pension into a trivial commutation lump sum within the meaning of section 164 of the Finance Act 2004.	<p><b>Option 1</b> - To commute upon request from the scheme member in line with the rules and limits imposed by HMRC.</p> <p><b>Option 2</b> – No to commute a small pension into a trivial commutation lump sum thereby providing a small annual pension to the scheme member.</p> <p><b>Recommendation</b> – Option 1</p>
8	<b>LGPS13: 36(3)</b>	Whether to approve or not a scheme employer’s choice of Independent Registered Medical Practitioner (IRMP).	<p><b>Option 1</b> – Pension Fund Panel to approve scheme employer’s choice of IRMP.</p> <p><b>Option 2</b> - Approval delegated to officers.</p> <p><b>Recommendation</b> – Option 2</p>
9	<b>LGPS13: 38(3)</b>	Whether a deferred member of a former employer that no longer exists meets the criteria for release of deferred benefits due to permanent ill health and	<p><b>Option 1</b> – Cases to be reported to Pension Fund Panel for a decision.</p> <p><b>Option 2</b> - Delegated to</p>



		the likelihood of not obtaining gainful employment before normal pension age or within three years, whichever is sooner.	<p>officers for a decision.</p> <p><b>Option 3</b> – potentially contentious cases to be reported to Pension Fund Panel for a decision otherwise delegated to officers.</p> <p><b>Recommendation</b> – Option 3</p>
10	<b>LGPS13:</b> 38(6)	Whether a suspended tier-3 ill health pension should be reinstated upon request from a deferred pensioner member of a former employer that no longer exists where that member is unlikely to be capable of undertaking gainful employment before normal pension age.	<p><b>Option 1</b> – Reported to Pension Fund Panel for a decision.</p> <p><b>Option 2</b> - Approval delegated to officers.</p> <p><b>Option 3</b> – potentially contentious cases to be reported to Pension Fund Panel for a decision otherwise delegated to officers.</p> <p><b>Recommendation</b> – Option 3.</p>
11	<b>LGPS13:</b> 40(2), 43(2), 46(2) & <b>TP14:</b> 17(5) to (8)	To whom a death grant should be paid following the death of a scheme member.	<p><b>Option 1</b> - To follow scheme member's expression of wish where appropriate. Otherwise delegate to officers for a decision.</p> <p><b>Option 2</b> – To follow scheme member's expression of wish where appropriate. Otherwise report to Pension Fund Panel for a decision.</p> <p><b>Option 3</b> – To follow scheme member's expression of wish where appropriate. If non-contentious delegate to officers for a decision or report to the Pension Fund Panel where decision could be contentious.</p> <p><b>Recommendation</b> – Option 3.</p>
12	<b>LGPS13:</b> 49(1)(c)	To determine the benefit payable to a scheme member, in the absence of an election from the scheme member, where the scheme member is entitled to a benefit under 2 or more of the regulations in respect of the same period of	<p><b>Option 1</b> – Each case to be reported to the Pension Fund Panel for consideration.</p> <p><b>Option 2</b> - Delegated to officers who will pay the benefit most beneficial to the scheme member.</p>

		membership.	<b>Recommendation</b> – Option2
13	<b>LGPS13: 54(1)</b>	Whether to establish an “admission agreement fund” in addition to the “main fund”.	<b>Option1</b> – To establish a separate fund.  <b>Option 2</b> - Not to establish a separate fund.  <b>Recommendation</b> – Option 2
14	<b>LGPS13: 59(1) &amp; (2)</b>	Whether to produce and publish a written pension administration strategy and the matters to be included.	<b>Option 1</b> – To produce and publish a pension administration strategy.  <b>Option 2</b> – Not to produce and publish a pension administration strategy.  <b>Recommendation</b> – Option 1
15	<b>LGPS13: 64(4)</b>	Whether to obtain a revised rates and adjustment certificate from the pension fund Actuary where it is considered that a scheme employer will become an exiting employer.	<b>Option 1</b> – Pension Fund Panel to consider each case as it arises.  <b>Option 2</b> - Delegated to officers to identify those scheme employer’s with a poor covenant and report to the Pension Fund Panel on action taken.  <b>Recommendation</b> – Option 2
16	<b>LGPS13: 65</b>	Whether to obtain a revised rates and adjustment certificate from the pension fund Actuary following amendments to the scheme regulations by the Secretary of State as a result of a valuation under regulation 63 (aggregate scheme costs).	<b>Option 1</b> – Pension Fund Panel to consider as appropriate.  <b>Option 2</b> - Delegated to officers to consider and take advice from the pension fund Actuary and report to the Pension Fund Panel.  <b>Recommendation</b> – Option 2
17	<b>LGPS13: 68(2)</b>	To require a scheme employer to make a strain (capital) cost payment to the pension fund in all cases where a scheme employer’s decision results in the immediate release of a scheme member’s benefits because of flexible retirement, redundancy or retirement due to business efficiency.	<b>Option 1</b> – Pension Fund Panel to consider all cases that arise.  <b>Option 2</b> - In all cases the scheme employer will be required to make payment of a strain (capital) cost in full and within 21 days of receipt of an invoice from the scheme manager.  <b>Recommendation</b> – Option 2

18	<b>LGPS13:</b> 69(1)	To consider the frequency that payments of contributions should be made to the pension fund by scheme employers and whether scheme employers should make a contribution towards to the cost of administration.	<p><b>Option 1</b> - Payments required by the 19<sup>th</sup> day of the month following deduction in accordance with statutory regulations. Currently no administration charges are made.</p> <p><b>Option 2</b> – Payments required by the 19<sup>th</sup> day of the month following deduction in accordance with statutory regulations. Administration charges to be set and reviewed by the Pension Fund Panel.</p> <p><b>Recommendation</b> – Option 1</p>
19	<b>LGPS13:</b> 69(4)	To consider the form and frequency of information required from a scheme employer to support the payment of contributions.	<p><b>Option 1</b> – Pension Fund Panel to consider and set policy.</p> <p><b>Option 2</b> - Delegated to officers. Failures by scheme employers to meet requirements to be reported to the Pension Board.</p> <p><b>Recommendation</b> – Option 2</p>
20	<b>LGPS13:</b> 70 & <b>TP14:</b> 22(2)	Whether to recover sums from a scheme employer where additional costs have been incurred because of the scheme employer’s unsatisfactory level of performance.	<p><b>Option 1</b> – Pension Fund Panel to consider and set policy.</p> <p><b>Option 2</b> - Pension administration strategy provides details of when notices of unsatisfactory performances will be issued to scheme employers and reported to the Pension Fund Panel and Pension Board.</p> <p><b>Recommendation</b> – Option 2</p>
21	<b>LGPS13:</b> 71(1)	Whether to charge interest on payments received from a scheme employer later than prescribed in the pension administration service level agreement or the pension administration strategy.	<p><b>Option 1</b> - Always charge interest on late payments.</p> <p><b>Option 2</b> - Instances to be reported to the Pension Fund Panel and Pension Board as part of a stewardship report for decision and where considered material, invoice to be raised, sent to scheme employer and reported to the Pensions Regulator.</p>

			<b>Recommendation</b> – Option 2
22	<b>LGPS13: 76(4)</b>	To determine the procedure to be followed at stage 2 of the IDRPs and the manner in which the exercise of those procedures should be undertaken.	<p><b>Option 1</b> – The Pension Fund Panel to appoint an adjudicator and produce, publish and review an agreed policy to dealing with stage 2 IDRPs cases.</p> <p><b>Option 2</b> - The appointed adjudicator at stage 2 of the IDRPs is the Head of Finance for the administering authority who will seek advice and guidance from relevant officers and the Pension Board before making a determination.</p> <p><b>Recommendation</b> – Option 2</p>
23	<b>LGPS13: 79(2)</b>	Whether to appeal to the Secretary of State against a scheme employer’s decision, or lack of decision, on a question arising under regulation 72 of LGPS13 (first instance decisions).	<p><b>Option 1</b> – Cases to be reported to Pension Fund Panel and Pension Board as part of a stewardship report and a decision to be taken as appropriate.</p> <p><b>Option 2</b> – Cases to be reported to the Pension Fund Panel and Pension Board as part of a stewardship report but decision delegate to officers.</p> <p><b>Recommendation</b> – Option 2</p>
24	<b>LGPS13: 80(1)(b) &amp; TP14: 22(1)</b>	To specify the format in which information supplied by a scheme employer is provided to the administering authority.	<p><b>Option 1</b> - Delegated to officers who provide all standard forms and spreadsheets to scheme employers to assist them in providing all information required to enable the administering authority to discharge its scheme functions.</p> <p><b>Option 2</b> – Pension Fund Panel and Pension Board to establish approved formats for submission of data from scheme employer to the Pension Fund.</p> <p><b>Recommendation</b> – Option 1</p>
25	<b>LGPS13: 82(2)</b>	Whether to pay out the whole or part of a death grant due	<b>Option 1</b> - Delegated to officers for a decision.

		from the pension fund without the need to obtain grant of probate or letters of administration where the value does not exceed the amount specified in section 6 of the Administration of Estates (Small Payments) Act 1965.	<p><b>Option 2</b> – Delegated to officers for a decision where non-contentious but referred to the Pension Fund Panel where decision could be contentious.</p> <p><b>Recommendation</b> – Option 2</p>
26	<b>LGPS13: 83</b>	Whether, where a person (other than an eligible child) appears to be incapable of managing their affairs by reason of mental disorder or otherwise, to make payment of benefits to another person.	<p><b>Option 1</b> - Delegated to officers for a decision.</p> <p><b>Option 2</b> – Delegated to officers for a decision where non-contentious but referred to the Pension Fund Panel where decision could be contentious.</p> <p><b>Recommendation</b> – Option 2</p>
27	<b>LGPS13: 89(5)</b>	To consider the date to which annual benefit statements are to be calculated.	<p><b>Option 1</b> – Pension Fund Panel to determine the date at which Annual Benefit Statements should be calculated to.</p> <p><b>Option 2</b> – Annual Benefit Statements calculated to the end of scheme year – 31<sup>st</sup> March.</p> <p><b>Recommendation</b> – Option 2.</p>
28	<b>LGPS13: 98(1)(b)</b>	Whether to agree to bulk transfer payments where two or more scheme members' membership ends on their joining a different registered pension scheme.	<p><b>Option 1</b> - Delegated to officers who will in all instances seek the advice and guidance of the pension fund Actuary.</p> <p><b>Option 2</b> – Pension Fund Panel to determine whether a bulk transfer payment should be undertaken having sought the advice and guidance of the pension fund Actuary.</p> <p><b>Recommendation</b> – Option 1</p>
29	<b>LGPS13: 98(4)(a)</b>	Whether to determine that the amount set aside for a bulk transfer should be in cash or in assets or both.	<p><b>Option 1</b> - Delegated to officers who will in all instances seek the advice and guidance of the pension fund Actuary.</p> <p><b>Option 2</b> – Pension Fund Panel to determine whether the amount set aside for a bulk transfer should be in cash or in assets or in both.</p>

			<b>Recommendation</b> – Option 1
30	<b>LGPS13:</b> 100(6)	Whether to extend the normal time limit for acceptance of a transfer value beyond 12 months from date scheme member joined the LGPS.	<p><b>Option 1</b> – Pension Fund Panel to consider each case as it arises.</p> <p><b>Option 2</b> – Delegated to officers as Scheme employers are required to include a statement in their discretions policy and where it is agreed to extend beyond the 12 month period the administering authority will endorse the scheme employer’s decision unless it is clearly identified that such a decision would be detrimental for the Pension Fund.</p> <p><b>Recommendation</b> – Option 2</p>
31	<b>LGPS13:</b> 100(7)	Whether to allow the transfer of relevant pension rights into the pension fund.	<p><b>Option 1</b> – Not to permit the transfer of relevant pension rights for credit to the member’s pension account.</p> <p><b>Option 2</b> – To permit the transfer of relevant pension rights for credit to the member’s pension account.</p> <p><b>Recommendation</b> – Option 2.</p>
32	<b>LGPS13:</b> 106(6)	To determine the procedures applicable to a local pension board.	Terms of reference set out in the Council’s Constitution.
33	<b>LGPS13:</b> 107(1)	To determine the membership of the local pension board and the manner in which members may be appointed and removed.	Approved by Pension Fund Panel.
34	<b>LGPS13:</b> 108(1)	To determine the method by which to confirm that a member of the pension board does not have a conflict of interest.	Set out in Council’s code of conflict policy.
35	<b>LGPS13:</b> Sch. 1 & <b>TP14:</b> 17(9)	In accordance with definition of eligible child determine whether to treat a child as being in continuous education or vocational training despite a break.	<p><b>Option 1</b> – Pensions payable to eligible children will continue to be paid during breaks in education or training of up to one year.</p> <p><b>Option 2</b> - Pensions payable to eligible children will not continue to be paid during breaks in education or training of up to one year.</p>

			<b>Recommendation</b> – Option 1
36	<b>LGPS13:</b> Sch.1 & <b>TP14:</b> 17(9)(b)	In accordance with definition of cohabiting partner determine the evidence required to confirm financial dependence of a cohabiting partner on a scheme member or financial interdependence of cohabiting partner and scheme member.	<p><b>Option 1</b> – Pension Fund Panel to determine the evidence required.</p> <p><b>Option 2</b> - Delegate to officers for a decision where non-contentious or to the Pension Fund Panel where decision could be contentious.</p> <p><b>Option 3</b> – Delegate all decisions to officers.</p> <p><b>Recommendation</b> – Option 2</p>
37	<b>LGPS13:</b> Sch. 2, Part 3, para. 9(d)	To determine the right to terminate an admission agreement under circumstances listed in regulation.	<p><b>Option 1</b> - Report to be submitted to the Pension Fund Panel.</p> <p><b>Option 2</b> – Delegate to officers for decision.</p> <p><b>Recommendation</b> – Option 1.</p>
38	<b>LGPS13:</b> Sch. 2, Part 3, para 12(a)	To consider definition of the term “employed in connection with the provision of the service or assets”.	<p><b>Option 1</b> - Must be continuously employed for a minimum of 50% of the time in connection with the provision of the service or assets as referred to in the admission agreement.</p> <p><b>Option 2</b> – Pension Fund Panel to determine an alternative definition.</p> <p><b>Recommendation</b> – Option 1</p>
39	<b>TP14:</b> 3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) & <b>B07:</b> 10(2)	In respect of a scheme member who retains a right to have the use of the average of 3 years pay for final pay purposes, to determine, should the member die before making an election, whether to make that election on behalf of the deceased scheme member.	<p><b>Option 1</b> – All cases to be reported to Pension Fund Panel for determination.</p> <p><b>Option 2</b> - Delegated to officers to calculate and apply the best option for the scheme member’s dependants.</p> <p><b>Recommendation</b> – Option 2</p>
40	<b>TP14:</b> 3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) & <b>T08:</b> Sch. 1 & <b>LGPS97:</b> 23(9)	In respect of a scheme member who retains a certificate of protection of pension benefits under former regulations, to determine, should the member die before	<p><b>Option 1</b> – All cases to be reported to Pension Fund Panel for determination.</p> <p><b>Option 2</b> - Delegated to officers to calculate and apply</p>



		making an election as to the use of that certificate, whether to make an election on behalf of the deceased scheme member.	the best option for the scheme member's dependants.  <b>Recommendation</b> – Option 2
41	<b>TP14:</b> 10(9)	In the absence of an election from a scheme member within 12 months of ceasing a concurrent employment, to determine, where the scheme member has more than one on-going employment, to which pension account the ceasing employment benefits should be aggregated.	<b>Option 1</b> – All cases to be reported to Pension Fund Panel for determination.  <b>Option 2</b> - Delegated to officers to calculate and apply the best option for the member.  <b>Recommendation</b> – Option 2.
42	<b>TP14:</b> 12(6)	Whether to use a certificate produced by an IRMP under the LGPS2008 for the purposes of making an ill health determination under the LGPS2013 in respect of a scheme employer that no longer exists.	<b>Option 1</b> – All cases to be reported to Pension Fund Panel for determination.  <b>Option 2</b> - Delegated to officers to make the necessary determination on a case by case basis.  <b>Recommendation</b> – Option 2.
43	<b>TP14:</b> 15(1)(c) & <b>T08:</b> Sch. 1 & <b>LGPS97:</b> 83(5)	Whether to extend the time period for capitalisation of ongoing added years contracts still in force under previous regulations.	<b>Option 1</b> – All cases to be reported to Pension Fund Panel for determination.  <b>Option 2</b> - Delegated to officers to make the necessary determination on a case by case basis.  <b>Recommendation</b> – Option 2.
44	<b>TP14:</b> 15(1)(d) & <b>A08:</b> 28(2)	Whether to charge a scheme member for the provision of an estimate of additional pension that would be provided for by the scheme in return for the transfer of in house AVC funds (where the arrangement was entered into before 1 April 2014).	<b>Option 1</b> - A charge to be applied.  <b>Option 2</b> – No charge to be applied.  <b>Recommendation</b> – Option 2.
45	<b>TP14:</b> Sch. 2, para. 2(5)	Whether to require a strain (capital) cost to be paid “up front” by a scheme employer following their decision to waive any actuarial reduction to benefits under the 85-year rule.	<b>Option 1</b> – To give a scheme employer the option to pay for a strain cost up-front, over 3 years or over 5 years.  <b>Option 2</b> - A scheme employer must make payment of a strain (capital) cost to the pension fund in full and “up front” on every occasion that such a



			cost arises. <b>Recommendation</b> – Option 2.
--	--	--	---

In the above table the statutory references relate to the following regulations where indicated:

**LGPS13:** The Local Government Pension Scheme Regulations 2013 (S.I. 2013 No. 2356)<sup>1</sup>

**TP14:** The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014 No. 525)<sup>2</sup>

**A08:** Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008 No. 239)<sup>3</sup>

**LGPS97:** Local Government Pension Scheme Regulations 1997 (SI 1997 No. 1612)<sup>4</sup>

**B07:** Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007 No. 1166)<sup>5</sup>

**T08:** Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008 No. 238)<sup>6</sup>

<sup>1</sup> <http://www.legislation.gov.uk/uksi/2013/2356/contents/made>

<sup>2</sup> <http://www.legislation.gov.uk/uksi/2014/525/contents/made>

<sup>3</sup> <http://www.legislation.gov.uk/uksi/2008/239/contents/made>

<sup>4</sup> <http://www.legislation.gov.uk/uksi/1997/1612/contents/made>

<sup>5</sup> <http://www.legislation.gov.uk/uksi/2007/1166/contents/made>

<sup>6</sup> <http://www.legislation.gov.uk/uksi/2008/238/contents/made>

This page is intentionally left blank



## MANAGING RISKS





## CONTENTS

<b>1</b>	<b>INTRODUCTION</b>	<b>5</b>
<b>2</b>	<b>RISK MANAGEMENT POLICY</b>	<b>5</b>
<b>3</b>	<b>PENSION FUND OBJECTIVES</b>	<b>6</b>
	<i>Operational objectives</i>	6
	<i>Strategic objectives</i>	7
<b>4</b>	<b>PENSION FUND RISKS</b>	<b>7</b>
	<i>Operational risks</i>	8
	<i>Strategic risks</i>	8
<b>5</b>	<b>RISK MANAGEMENT PROCESS</b>	<b>9</b>
	<i>Stage 1 – Identification</i>	9
	<i>Stage 2 - Assessment</i>	9
	<i>Stage 3 - Control</i>	10
	<i>Stage 4 - Monitoring</i>	10
<b>6</b>	<b>RISK APPETITE</b>	<b>10</b>
<b>7</b>	<b>RISK MANAGEMENT ROLES AND RESPONSIBILITIES</b>	<b>11</b>
<b>8</b>	<b>CORPORATE RISK FINANCING STRATEGY</b>	<b>13</b>
<b>9</b>	<b>RISK REGISTER</b>	<b>15</b>



## 1 INTRODUCTION

A Scheme Manager (Administering Authority) of a public service pension scheme must establish and operate internal controls which must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and with the requirements of the law. The Royal Borough of Windsor & Maidenhead, as the Administering Authority to the Royal County of Berkshire Pension Fund, has a risk management policy and strategy and the Fund's operational and strategic risks are integrated into, and have a direct correlation with, the Royal Borough's risk management framework. Great emphasis is placed on risk management and the reason why the Pension Fund differentiates between operational and strategic risks is to secure the effective governance and administration of the Local Government Pension Scheme.

Risk can be identified as "*the chance of something happening which may have an impact on the achievement of an organisation's objectives*". The difference between a risk and an issue is one of timing:

- A risk event has not happened yet;
- An issue is a result of an event that is happening right now or has already happened;
- As the risk event is a future event, the task is to assess its probability of occurring and estimate the impact that would be caused if it did occur;
- An issue event has already happened so there is no need to assess its probability but what must be taken into account is the impact and what reaction is required to deal with it;
- There is a possibility for a risk to turn into an issue when it is realised.



The main internal controls for the Pension Fund are:

- Arrangements and procedures to be followed in administration, governance and management of the scheme;
- Systems and arrangements for monitoring that administration, governance and management; and
- Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

## 2 RISK MANAGEMENT POLICY

Risk management decisions and practices will be in accordance with appropriate codes of best practice, ethical standards and values applicable to the governance and administration of the LGPS and as applied to the officers of the Pension Fund.

To deliver this policy it is necessary for Pension Fund staff, Elected Members of the Pension Fund Panel, members of the Pension Fund Advisory Panel and members of the Pension

Board to adopt a consistent and systematic approach to managing risks. The way in which risk is managed can have a major impact on the Pension Fund's key objectives and service delivery to its stakeholders.

The foundations of this policy are based upon a common understanding and application of the following principles:

- The informed acceptance of risk is an essential element of good business strategy;
- Risk management is an effective means to enhance and protect the Pension Fund over time;
- Common definition and understanding of risks is necessary in order to better manage those risks and make more consistent and informed business decisions;
- All risks are to be identified, assessed, measured, monitored and reported on in accordance with the Administering Authority's risk management strategy;
- All business activities are to adhere to risk management practices which reflect effective and appropriate internal controls.

### 3 PENSION FUND OBJECTIVES

#### *Operational objectives*

- To manage the scheme in accordance with scheme regulations and associated pension law;
- To ensure that the appropriate knowledge and experience is maintained within the Pension Fund so that all duties are discharged properly;
- To maintain a high quality pension member database;
- To ensure that all pension payments are made on the correct pay date;
- To ensure that payments do not continue to be made to deceased members of the scheme;
- To have continuous access to the pension administration software during normal working hours and extended hours as required;
- To ensure that pension contributions are received from Scheme employers by the Pension Fund within required timescales;
- To maintain an appropriate level of staff to administer the scheme effectively and efficiently;





- To maintain a pension administration strategy and service level agreement and ensure that key performance indicators are achieved and reported to the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board;
- To communicate effectively and efficiently with all scheme members;
- To ensure that third party operations are controlled and operate effectively and cost efficiently;
- To monitor and review the performance of Fund Investment Managers to ensure maximum benefit for the Pension Fund.

### *Strategic objectives*

- To achieve a funding level of 100%;
- To achieve stable employer contribution rates;
- To set appropriate funding targets;
- To ensure that investment performance is satisfactory and not volatile;
- To monitor the effect of improving life expectancy and to mitigate against any negative impact on funding levels;



- To monitor and manage exposure to overseas currency fluctuations and to mitigate against any negative impact on funding levels;
- To monitor and manage exposure to changing interest rates and to mitigate against any negative impact on funding levels;
- To monitor and manage the effects of inflation and to mitigate against any negative impact on funding levels;

- To ensure employer covenants are sufficient to meet employer obligations;
- To maintain a high level of governance of the Pension Fund.

## **4 PENSION FUND RISKS**

If risk is not properly managed it can have a significant impact on the Pension Fund. The effective management of risk is a critical part of the Pension Fund's approach to delivering sound governance and administration performance that provides better outcomes for all of its stakeholders. The Pension Fund identifies the operational and strategic risks associated with its operational and strategic objectives.

The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Pension Fund

should understand the nature of risk and systemically identify, analyse, treat, monitor and review those risks.

Risk management requires:

- A consistent management framework for making decisions on how best to manage risk;
- Relevant legislative requirements to be taken into account in managing risks;
- Integration of risk management with existing planning and operational processes;
- Leadership to empower staff in the management of risk;
- Good quality information.

### *Operational risks*

Key operational risk covers such areas as:

- Administration of member records;
- Payments of member benefits;
- Management of the Pension Fund's cash and investments;
- Receipt of employee and employer contributions;
- Business continuity and disaster recovery;
- Lack of knowledge and expertise; and
- Staff shortages.

### *Strategic risks*

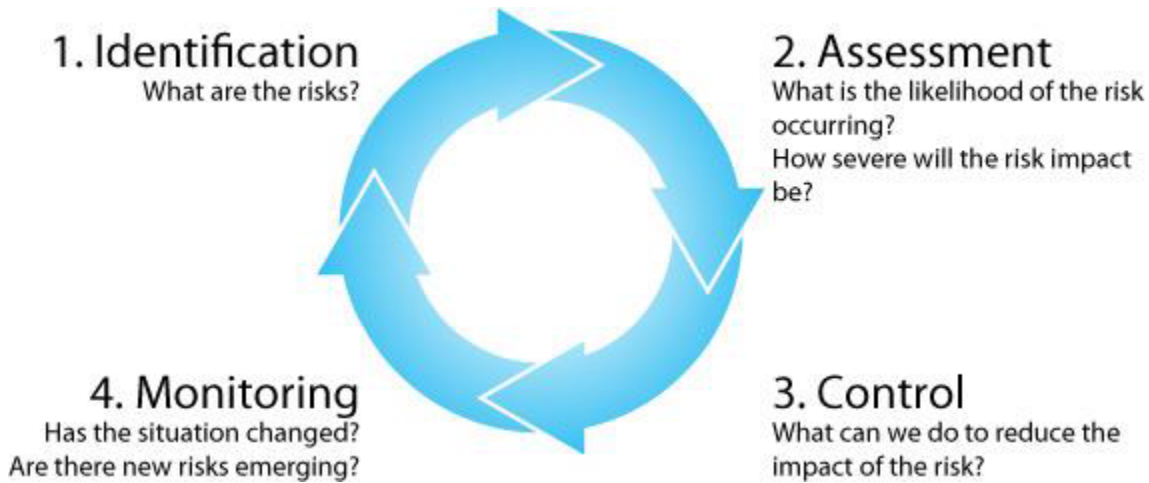
Key strategic risk, whilst not affecting day to day operations of the Fund, could in the medium or long-term, have significant impact and covers such areas as:

- The Pension Fund being less than 100% funded;
- Volatility of employer contribution rates;
- Investment performance;
- Failure to meet funding targets
- Longevity risk;
- Employer covenants.

The Pension Fund's risk assessment and register sets out all of the operational and strategic risks.

## 5 RISK MANAGEMENT PROCESS

The Pension Fund has adopted the Administering Authority's approach to risk management which follows a four-stage process that involves the Fund's objectives being risk profiled.



### *Stage 1 – Identification*

This involves identifying the Pension Fund's objectives from its core business processes.

### *Stage 2 - Assessment*

This stage identifies those circumstances (risks) that might prevent those objectives being reached and evaluates the likelihood, impact and significance of each risk.

Impacts are scored from 1 to 4 where 1 represents a minor risk and 4 represents a high risk. The likelihood of the risk occurring is also scored from 1 to 4 where 1 represents very unlikely and 4 very likely.

Multiplying these likelihood and impact scores together gives a result that is assessed as "high risk" (a value over 10), "high/medium risk" (a value above 8 and below 11), "medium risk" (a value above 4 and below 9) and "low risk" (a value below 5). Key risks are those identified as high risk and those where the implications of failure carry the most damaging consequences.

In terms of assessing each risk the assessment is detailed in three situations for all risks with a further dimension of risk appetite assessment to the key risks:

- Uncontrolled: the inherent risk without any controls whatsoever;
- Current: how the risk stands at the present time;
- Controlled: how the risk would look once all treatment measures are implemented.

An impact/likelihood matrix as follows shows how each risk once assessed against both criteria will identify the risk profile of each objective.

<b>I M P A C T</b>	<b>High</b>	<b>4</b>	<b>8</b>	<b>12</b>	<b>16</b>
	<b>Medium/High</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>12</b>
	<b>Medium</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>8</b>
	<b>Low</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
		<b>Low</b>	<b>Medium</b>	<b>Medium/High</b>	<b>High</b>
	<b>LIKELIHOOD VALUES</b>				

*Stage 3 - Control*

This stage treats the risks in order of priority. Treatment measures address whether the likelihood and/or impact can be reduced or the consequences changed. Contingencies can be devised to respond should the risk occur.

*Stage 4 - Monitoring*

This stage sets out a process for reviewing and monitoring actions previously taken. Each risk must clearly indicate all consequences, countermeasures and contingencies along with the risk owner.

This process adds scrutiny to ensure:

- Correct risks are being identified;
- Treatment measures identified are legitimate;
- Correct individuals are assigned as risk owners;
- There are challenges made to what is known to ensure that the most up to date knowledge is being utilised;
- There are early warning systems so that information can filter up quickly and easily.

**6 RISK APPETITE**

Risk appetite is the phrase used to describe where the Pension Fund considers itself to be on the spectrum ranging from willingness to take or accept risks through to an unwillingness or aversion to taking risks.

The Administering Authority provides a diverse range of services where its risk appetite may vary from one service to another. The Pension Fund has a set of core objectives and so its risk appetite can be set within appropriate limits.

A defined risk appetite reduces the likelihood of unpleasant surprises and considers:

- Risk capacity: the actual physical resources available and physical capability of the Pension Fund. The Fund’s capacity will have limits and therefore its capacity is finite

and breaching those limits may cause the Pension Fund problems that it cannot deal with;

- Risk tolerance: the factors that the Pension Fund can determine, can change and is prepare to bear. Risks falling within the Fund's tolerances for governance and administration services can be accepted.

## **7 RISK MANAGEMENT ROLES AND RESPONSIBILITIES**

This section has been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

### **Managing director**

The MD takes overall responsibility for the council's risk management performance and in particular ensures that:

- decision-making is in line with council policy and procedures for management of risk;
- adequate resources are made available for the management of risk;
- there is an understanding of the risks facing the council.

### **Cabinet members**

- Take reasonable steps to consider the risks involved in the decisions taken by them;
- Have an understanding of the key council risks falling within their portfolio.

### **Audit and Performance Review Panel**

- Consider and approve the risk management strategy annually and communicate it to other elected members;
- Receive an annual report on risk management and monitor the effective development and operation and corporate governance in the council;
- Receive quarterly reports on the management of the key operational and strategic risks facing the council to allow their scrutiny and challenge;
- Oversee the governance process to ensure that strategic risks are being reviewed at CMT and across each directorate;
- Oversee a comprehensive, inclusive and risk management approach to the annual governance statement process;
- Review an annual report on corporate governance (annual governance statement).

### **Head of finance**

- Ensure that a risk management policy and strategy is developed and reviewed annually to reflect the changing nature of the council;

- Champion the process of risk management as good management practice and a valuable management tool.

### **Corporate Management Team (CMT)**

- Ensure that the council manages risk effectively through the development of an all-encompassing strategy and monthly updates from the risk manager;
- Approve the corporate risk management strategy;
- Challenge the contents of the corporate risk register to ensure, in particular, that it reflects any significant new risks emerging and that monitoring systems are suitably robust;
- Support and promote risk management throughout the council;
- Ensure that, where appropriate, key decision reports include a section demonstrating that arrangements are in place to manage identified risks.
- Identify and manage the strategic and CMT risk registers on a quarterly basis.

### **Directorate Management Team (DMT)**

- Ensure that risk is managed effectively in each service area within the agreed corporate strategy;
- Identify any service specific issues relating to risk management which have not been explicitly addressed in the corporate strategy;
- Identify and manage the directorate risk register on a quarterly basis;
- Disseminate the detail of the strategy and allocate responsibilities for implementation to service managers and staff;
- Establish the training requirements of managers and staff with regard to strategy implementation;
- Have an understanding of the risks facing the council.

### **Insurance and risk management team**

- Develop the strategy and oversee its implementation across the council;
- Share experience and good practice on risk and risk management;
- Develop and recommend the strategy to the Audit and Performance Review Panel and CMT;
- Provide a clear and concise system for reporting risks to elected members.

### **Internal audit**

- Take the content of the key risk registers into account when setting the internal audit programme;
- Undertake audits to assess the effectiveness of the risk mitigation measures;
- Feed back audit opinions into the risk register.

### **Heads of service/managers**

- Take primary responsibility for identifying and managing significant strategic and operational risks arising from their service activities;
- Recommend the necessary training for employees on risk management;
- Maintain a risk management portfolio for their service area;
- Ensure that all employees are aware of the risk assessments appropriate to their activity;
- Be responsible for production, testing and maintenance of business continuity plans.

### **All staff**

- Identify new or changing risks in their job and feed these back to their line manager;
- Support continuous service delivery and any emergency response.

## **8 CORPORATE RISK FINANCING STRATEGY**

This section has also been lifted directly from the Administering Authority's risk management policy and strategy and has been included for the purposes of providing guidance on how the Pension Fund, as managed by The Royal Borough of Windsor & Maidenhead, is held accountable to the management structure of the Borough.

The council uses its risk financing arrangements to protect itself from the financial implications of unexpected accidental events affecting its staff and property, which helps in providing continuous services in the event of serious losses.

The level of cover bought and excesses applied will depend on the council's appetite for risk, based on its financial security i.e. ability to self fund claims and the strength of its risk management.

The council is exempt from the majority of requirements regarding compulsory insurance. The only insurable aspect of the council's operations it is obliged to make specific financial provision for is fidelity guarantee (fraud by staff).

Nevertheless, most public sector organisations including the council, choose to purchase external insurance for the majority of their risks. This is because without external insurance, the council will be obliged to fund all such exposures from its resources.

If the council were to insure against most of the risks that it faced then this would incur a significant amount of annual expenditure in premiums.

Having strong risk management arrangements across the council allows us to retain some risks either by deciding to self insure these risks in their entirety or by purchasing insurance cover for losses that arise over a certain value.

### **Objectives**

- Provide financial protection to the council's assets, resources, services and employees;
- Maintain an appropriate balance between external insurance and internal risk retention;
- Reduce the cost of external insurance premium spend;
- Ensure the internal insurance fund is maintained at an appropriate level;
- Ensure resilient claims handling arrangements and insurance fraud detection;
- Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.

### **Achieved by:**

- Using claims modelling and other risk assessments to determine risk exposures;
- Continually monitoring changes in legislation, civil justice protocols and relevant case law;
- Comparing the council's insurance programme and claims experience through suitable benchmarking;
- Maintaining claims handling protocols in line with statutory requirements;
- Undertaking periodic actuarial fund reviews.

### **Procurement of insurance**

All insurance procurement complies with the relevant EU procurement rules.

Hard copies of policies are retained indefinitely with more recent policy documentation stored electronically.



## 9 RISK REGISTER

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating			Level of risk	Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating			Date of review	
							I m p a c t	L i k e l i h o o d	S c o r e					I m p a c t	L i k e l i h o o d	S c o r e		Level of risk
PEN 001	Failure to comply with Scheme regulations and associated pension law.	Operational	Lack of technical expertise / staff resources to research regulations, IT systems not kept up to date with regulations.	Incorrect pension payments made or estimates given. Unhappy customers, employers, risks of fines, adverse audit reports, breaches of the law.	Nick Greenwood	Sufficient staffing. Training and regulatory updates for all individuals associated with the Fund. Competent software provider and external consultants.	2	2	4	Low	Work continues to ensure that the Fund complies fully with all governance and administration requirements.	Nick Greenwood Kevin Taylor Philip Boyton	Ongoing	2	2	4	Low	Dec 2015
PEN 002	Late issue of Scheme regulation amendments.	Operational	DCLG do not issue changes to regulations well in advance of effective date.	Resource issues for Fund. Administering Authority has a duty to ensure that all stakeholders receive and have access to most up to date information.	Nick Greenwood	Required actions to be considered in view of draft regulations. Senior managers to consider appropriate requirements and prioritise communications accordingly.	4	1	4	Low	Details to be included on welcome page of website and information to be distributed to Scheme employers for dissemination to scheme members via intranet and email.	Kevin Taylor Philip Boyton	N/A	4	1	4	Low	Dec 2015
PEN 003	The appropriate knowledge and understanding is not maintained by the Administering Authority.	Operational	Lack of technical expertise, training, professional development and continuous self-assessment to identify gaps in knowledge.	Failure to secure compliance with statutory obligations and tPR requirements leading to poor governance and administration of the Scheme. Unsatisfied customers, adverse audit reports, risk of fine.	Nick Greenwood	Training plans in place for officers and Members of the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board. Members of Pension Board to assist Administering Authority in ensuring compliance.	4	1	4	Low	Continual review of training needs and staff levels with succession plans developed.	Kevin Taylor Philip Boyton	Ongoing	4	1	4	Low	Dec 2015
PEN 004	Failure to maintain a high quality member database.	Operational	Poor or non-existent notification of member data by Scheme employers.	Incorrect records, incorrect benefit estimates, potentially incorrect pension benefits being paid. Scheme members access wrong information via self-service. Loss of reputation, more complaints, poor performance.	Nick Greenwood	Fund continues to work with employers to improve data quality. Pro-active checks when benefits are calculated. Membership information is checked as part of year-end processing	4	3	1 2	High	Key aim of the Pension Administration Strategy is to engage employers in the use of i-Connect	Philip Boyton	March 2017 to March 2019	4	1	4	Low	Dec 2015

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Date of review
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 005	Failure to hold personal data securely.	Operational	Poor procedures for data transfer to and from partner organisations, poor security of systems, poor data retention and disposal, poor backup and recovery of data.	Poor data, lost or compromised. Risk of fines, adverse audit reports, breaches of the law.	Nick Greenwood	Database hosted off-site and backed up in 2 separate locations. Access to systems is available to a limited number of users via dual password and user identification. Data transferred is encrypted. Compliant with RBWM data protection and IT policies. No paper files all managed via image and system document generation. Confidential waste shredded and disposed of in line with RBWM policy.	4	1	4	Low	Annual audit undertaken. Staff undertake annual data protection training in line with RBWM policy.	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015
PEN 006	Failure to make pension payments on time.	Operational	Systems not in place to ensure payments made on time.	Payments paid late and in some cases after statutory deadline. Fund open to criticism and possible fine.	Nick Greenwood	Schedule of payment dates is maintained and written procedures adopted. Sufficient cover is provided within team to ensure payments can be made on time.	4	1	4	Low	Continual review of training needs and staff levels with succession plans developed.	Philip Boyton	Ongoing	4	1	4	Low	Dec 2015
PEN 007	Continue making payments to deceased members.	Operational	Systems not in place to ensure that payments stop at appropriate time. Fund not advised of the death of a member.	Payments continue to be made incorrectly at a potential cost to the Pension Fund. Can cause distress for deceased member's dependants.	Nick Greenwood	The Fund undertakes a monthly mortality screening exercise and participates in the biennial National Fraud Initiative (NFI).	2	2	4	Low	The Fund has signed up to the Information Sharing Agreement hosted by WYPF and the DWP 'Tell Us Once' service.	Philip Boyton	Ongoing	2	2	4	Low	Dec 2015
PEN 008	Unable to access pension administration software during normal office hours or extended hours where required.	Operational	Links to system not working, internet access denied.	Unable to carry out administrative duties for duration of outage.	Nick Greenwood	Procedures are in place to contact software provider's helpdesk and action plan implemented. Outage times will be recorded and reported.	4	1	4	Low	As part of contract consideration needs to be given to means of compensation for loss of service.	Philip Boyton	Ongoing	4	1	4	Low	Dec 2015

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Date of review
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 009	Late or non-receipt of pension contributions from Scheme employer.	Operational	Scheme employers fail to make payment of employee and employer contributions to Pension Fund within statutory deadlines.	Loss of pension investment. Employer at risk of being reported to tPR with action and fines being imposed if considered to be of material significance.	Nick Greenwood	Receipt of contributions is monitored very closely and employers chased and reminded of their statutory duties. All occurrences recorded in stewardship report. Templates and guides issued to scheme employers.	2	1	3	Low	Scheme employers engaging with i-Connect will automatically upload contributions to member records monthly improving reconciliation processes.	Kevin Taylor	Ongoing	2	2	4	Low	Dec 2015
PEN 010	Increased liabilities as a result of large number of early retirement cases.	Operational	Scheme employer early retirement policies.	Potential for unfunded liabilities through strain costs. Financial loss to the Fund.	Nick greenwood	The Fund monitors the incidences of early retirements closely and procedures are in place to ensure that Scheme employers are invoiced for any strain costs that arise.	1	1	2	Low	Settlement of invoices required within 21 days of issue with failures resulting in the issue of a notice of unsatisfactory performance to employer.	Kevin Taylor	Ongoing	2	2	4	Low	Dec 2015
PEN 011	Loss of key staff.	Operational	The specialist nature of the work means that certain staff have become experts in the LGPS regulations and investment policies.	If someone leaves or becomes ill a big knowledge gap is left behind.	Nick Greenwood	In the event of a knowledge gap external consultants and independent advisors can help in the short-term.	2	2	4	Low	N/A	Nick Greenwood	Ongoing	2	2	4	Low	Dec 2015
PEN 012	Failure to communicate properly with stakeholders	Operational	Lack of clear communications policy and action particularly with Scheme members and employers.	Scheme members are not aware of the rights and privileges of being in the Scheme and might make bad decisions as a result. Employers are not aware of the regulation and their responsibilities and so data flow is poor.	Nick Greenwood	The Fund has a Communication Manager and a Communications Policy. The website is maintained to high standard and all guides, factsheets and training notes are published.	4	1	4	Low	The Communication Policy continues to evolve.	Kevin Taylor	Ongoing	4	1	4	Low	Dec 2015
PEN 013	Loss of office premises	Operational	Fire, bomb, flood etc.	Temporary loss of service.	Nick Greenwood	A business continuity plan is in place. Systems hosted, staff can work at home.	4	1	4	Low	N/A	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Date of review
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 014	Loss of funds through fraud.	Operational	Fraud or misappropriation of funds by an employer, agent or contractor.	Financial loss to the Fund.	Nick Greenwood	The Fund is internally and externally audited to test that controls are adequate. Regulatory control reports from investment managers, custodian. Due diligence is carried out when new investment managers appointed. Fund participates in biennial National Fraud Initiative (NFI).	4	1	4	Low	Monthly spot checks are undertaken as requested by internal audit to ensure that no 'ghost' members have been added to payroll and that all payment runs have been processed appropriately.	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015
PEN 015	Poor management of cashflows.	Operational	Day to day cashflows not monitored effectively.	Funds not available to make pension payments.	Nick Greenwood	Officers of the Pension Fund monitor cashflows on a daily basis and are aware of the payment schedules produced by payroll.	4	1	4	Low	N/A	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015
PEN 016	Failure to delegate duties appropriately.	Operational	Delegation of duties not understood.	Officers fail to fulfil their delegated duties resulting in poor performance and potential loss of reputation.	Nick Greenwood	Officers carry out their duties in accordance with the Administering Authority's Schedule of Delegations as contained in the Council's Constitution.	3	2	6	Medium	Schedules of delegation to be reviewed for all aspects of the Pension Fund's duties.	Nick Greenwood	March 2016	4	1	4	Low	Dec 2015
PEN 017	Funding Level below 100%.	Strategic	Lack of proper strategy to achieve 100% funding level. Actual investment returns fail to meet expected returns.	Fund remains underfunded and employer contribution rates increase.	Nick Greenwood	Fund has published Funding Strategy Statement. Deficit recovery plan implemented following the triennial valuation 2010. Fund regularly monitors investment returns and the Actuary provides a funding update each month.	4	2	8	Medium	N/A	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015

89

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Date of review
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 018	Unstable employer contribution rates.	Strategic	Actual investment returns fail to meet expected returns.	Volatile employer contribution rates leading to Scheme employers having difficulties in setting budgets.	Nick Greenwood	The Fund aims to keep employer contribution rates stable by agreeing with employers and the Actuary and appropriate deficit recovery plan.	4	1	4	Low	N/A	Nick Greenwood	To be reviewed as part of the 2016 triennial valuation	4	1	4	Low	Dec 2015
PEN 019	Inappropriate funding targets.	Strategic	Failure of investment strategy to deliver adequate returns.	Immediate cash injections required from employers. Increase in employer contributions.	Nick Greenwood	The Fund has issued a Funding Strategy statement and Statement of Investment Principles. The Fund has a broadly diversified portfolio with no one asset class dominating.	3	1	3	Low	Ongoing	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015
PEN 020	Unsatisfactory investment performance	Strategic	Poor economic conditions, wrong investment strategy, poor selection of investment managers.	Poor / negative investment return, employer contribution rates increase, funding level falls, pressure on Council tax and employer costs.	Nick Greenwood	Use of expert consultants in the selection of investment strategy and managers. Regular review via Investment Working Group.	2	2	4	Low	N/A	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015
PEN 021	Life Expectancy risk.	Strategic	As life expectancy rises liabilities increase disproportionately.	Employer contributions rise causing upward pressure on Council Tax and employer costs.	Nick Greenwood	In December 2009 the Fund entered into a longevity insurance SWAP covering its liabilities for pensioners as at 31 July 2009.	3	1	3	Low	The Pension Fund Panel continues to investigate how to protect the Fund against increasing longevity and reviews the cost of insuring longevity risk of pensioners retired since July 2009.	Nick Greenwood	Ongoing	3	1	3	Low	Dec 2015
PEN 022	Currency risk.	Strategic	Values of investments overseas are affected by unrelated changes in foreign exchange rates.	Investment returns become volatile in the medium to long-term.	Nick Greenwood	In April 2012 the Fund's currency hedging policy was amended so currency exposures are managed against a strategic currency benchmark.	3	1	3	Low	Pension Fund Panel continues to monitor currency hedging policy.	Nick Greenwood	Ongoing	3	1	3	Low	Dec 2015

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Date of review
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 023	Interest rate risk.	Strategic	Changes in long-term interest rates affect the net present value of the Fund's liabilities.	Investment returns become volatile in the medium to long-term.	Nick Greenwood	The Pension Fund Panel has considered how long-term interest rate risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.	3	1	3	Low	Under review by Pension Fund Manager.	Nick Greenwood	March 2016	3	1	3	Low	Dec 2015
PEN 024	Inflation risk.	Strategic	Benefits paid to Scheme members are linked (upwards only) to Consumer Price Index (CPI).	Liabilities increase disproportionately at times of high inflation.	Nick Greenwood	The Pension Fund Panel has considered how long-term inflation risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.	2	1	2	Low	Inflation rates currently low but risk to be reviewed should inflation rates increase.	Nick Greenwood	Ongoing	4	1	4	Low	Dec 2015
PEN 025	Inability of Scheme employers to meet their obligations.	Strategic	When a Scheme employer no longer has any active members a cessation valuation is triggered and an exit payment required if a funding deficit exists to meet future liabilities.	Failure to collect cessation payments means the cost of funding future liabilities will fall to the Fund and therefore all Scheme employers that remain in it meaning a potential increase in employer contributions.	Nick Greenwood	The Pension Fund Panel has authorised officers to take appropriate steps to review employer covenants and take the necessary action to mitigate the impact that the failure of one Scheme employer can have on all other Scheme employers.	3	2	6	Medium	Pension Fund Manager is undertaking a feasibility study of entering into an insurance policy designed to protect the Fund with sufficient cover should exit payments be required from ceasing employers.	Nick Greenwood	March 2016	3	1	3	Low	Dec 2015
PEN 026	Pooling of LGPS assets	Strategic	The Fund needs to respond to Government's consultation for pooling of LGPS assets.	If not involved in forming proposals the Government may impose a pooling arrangement over which the Fund has no control. If implemented incorrectly could be cost e.g. fees and poor returns.	Nick Greenwood	The Fund is actively trying to find other Funds to work with. Progress and update reports will be reported to Panel.	2	4	8	Medium	The Fund is closely monitoring the Government's consultation and will respond appropriately.	Nick Greenwood	Feb 2016	1	4	4	Low	Dec 2015

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Date of review
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 027	Ability to implement the Public Sector exit cap.	Operational	Introduction of exit cap will place an additional burden of the administration team.	Changes need to be communicated to individuals and Scheme employers. Systems will need to be adapted once revised regulations have been issued.	Nick Greenwood	Currently monitoring the progress and briefings being communicated.	1	4	4	Low	Awaiting issue of regulations in order to formulate action plan.	Kevin Taylor Philip Boyton	July 2016	1	4	4	Low	Dec 2015
PEN 028	Reconciliation of GMP records	Operational	From 6 April 2016 changes to the State Pension Scheme remove the contracting-out nature of the LGPS.	GMPs no longer provided by HMRC. GMP information held by Fund could be wrong resulting in potential for liabilities being paid by Fund.	Nick Greenwood	Data analysis being undertaken with a proposal to employ an external resource to assist in the reconciliation process.	2	4	8	Medium	To review resources against scope of project and agree approach or correcting errors.	Philip Boyton	March 2018	1	3	3	Low	Dec 2015

This page is intentionally left blank



Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO – Part I
<b>Title</b>	Procurement of Pension and Payroll Administration Software
<b>Responsible Officer(s)</b>	Philip Boyton Pension Administration Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	n/a
<b>For Consideration By</b>	Berkshire Pension Fund Panel and Pension Fund Advisory Panel
<b>Date to be Considered</b>	18 January 2016
<b>Implementation Date if Not Called In</b>	Not applicable
<b>Affected Wards</b>	None

## REPORT SUMMARY

1. The purpose of this report is to inform Panel of the procurement of pension and payroll administration software.

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. n/a	

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- Approves the tendering of a contract for the provision of pension and payroll administration software.**
- Will be requested to approve the award of any contract to the supplier deemed by Officers to offer the most economically advantageous solution.**

## 2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 The administration team's contract with *heywood* Limited ends on 15 June 2016.

Under the terms of the contract there is an option, at the Council's discretion, to extend for a further period not exceeding five years.

2.2 Although the functionality of *heywood* Limited's package has served the administration team well for many years it is generally accepted there now exist other suppliers that can deliver a software solution capable of administering the LGPS. This is reason enough for the administration team not to continue its relationship with *heywood* Limited without first establishing whether other software solutions are capable of administering the LGPS in more than its basic form, while being cost effective for the Pension Fund (including the cost of change that would be incurred by moving to a new supplier).

2.3 The environment that administrators operate in is characterised by constant change and significant complexity especially now there is a need for multiple scheme types (Final Salary, CARE and probably more to come) to coexist within a single service. It is essential, that all membership data must be maintained within a single database.

It is essential the software solution has the ability to cope with a variety of different scheme design with adequate support services in place. The supplier must also be able to provide the tools necessary for the administration team to deliver the objectives set out in its latest Administration Strategy and further improve upon the high level of service already provided to scheme employers and their scheme members.

With this in mind the administration team will consider the following when evaluating each supplier's tender submissions:

- i. Document Management;
- ii. Electronic Interfacing;
- iii. Employer Self Service;
- iv. Full Final Salary and CARE Functionality;
- v. Full Multiple Employment Functionality;
- vi. Hosting Services;
- vii. Member Self Service;
- viii. Pensioner Payroll;
- ix. Reporting Functionality;
- x. Valuation Functionality; and
- xi. Workflow.

In respect of the areas listed above the administration team will pay particular attention on the level of any:

- i. Configuration required;
- ii. Effort required from the administration team;
- iii. Support provided by the supplier; and
- iv. Training required.

## 2.4 Costs

During the five year term of the current contract the Pension Fund will have incurred a total cost of £1,113,056.00.

During the last five years the LGPS has been through a period of extraordinary change requiring large scale software investment. This generated additional costs that were impossible to predict when the current contract was agreed in June 2011 because much of the fine detail of the CARE Scheme was then unknown.

The cost of the investment required was shared across an established 'pooled' structure of 90 administering authorities. This helped keep to a minimum the additional monetary costs and the time and effort spent by team members testing upgrades and reporting errors. As a result a relatively small team of administrators were not distracted from the day to day business of providing a quality, accurate service to scheme employers and their scheme members.

Assuming that there will be no major changes to the LGPS during the next five years it is predicted the overall cost in real terms that will be incurred during a contract for the same period of time will be less than that incurred under the present contract.

## 2.5 Scoring

Tenders will be scored against the criteria described below:

- i. **Matching the Council's Specification**  
Suppliers will need to demonstrate that their software solution will enable the Pension Fund to be administered in accordance with all historical and current LGPS Regulations
- ii. **In-house Demonstration**  
Suppliers will be required to give a brief presentation on their proposal and demonstrate their system at the Pension Fund's offices. This will give Officers the opportunity to ask questions, assess the merits of the supplier's proposal and ask any clarification questions arising from the evaluation of the tender specific to the supplier.
- iii. **Reference Site Visit**  
As part of the evaluation process Officers will see the proposed software in operation at another LGPS administering authority's offices. The site visit will allow Officers to gain user opinion of how the proposed systems were or are being implemented and the ability of the system proposed to deliver the service required.
- iv. **Price**  
In financial terms, the Council is looking for suppliers to provide a clear and fully priced 'package'. Scoring will give due regard to the added value in the service delivery options and the potential for collaboration with other clients to keep future development costs to a minimum.

### **3 KEY IMPLICATIONS**

- 3.1 The administration team could be left without a system, if the procurement process is not concluded before the end of the current contract.

### **4. FINANCIAL DETAILS**

#### **Financial impact on the budget**

- 4.1 To be confirmed on evaluation of suppliers tender submissions.

### **5. LEGAL IMPLICATIONS**

- 5.1 The Royal Borough of Windsor Maidenhead, as the administering authority to the Royal County of Berkshire Pension Fund, is required to provide the necessary equipment to ensure the administration team can provide a service to all stakeholders of the LGPS.

### **6. VALUE FOR MONEY**

- 6.1 See above Point 2.4 (iv) Price

### **7. SUSTAINABILITY IMPACT APPRAISAL**

- 7.1 None

### **8. RISK MANAGEMENT**

- 8.1 As part of the procurement process, and in line with the Council's own Contract Procedure Rules, the Council will satisfy itself that all potential suppliers are financially sound and have sufficient capability to deliver the services required for the duration of the contract period of five years.

### **9. LINKS TO STRATEGIC OBJECTIVES**

- 9.1 The administration team's objective is to continue progress towards a seamless, automated pension service, employing appropriate technologies and best practice which both significantly improve the quality of information overall and the speed with which it is processed to provide better information for Scheme employers and stakeholders and a more efficient service to Scheme members.

### **10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION**

- 10.1 Not required.

### **11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS**

- 11.1 None

### **12. PROPERTY AND ASSETS**

- 12.1 None

### **13. ANY OTHER IMPLICATIONS**

- 13.1 None

## **14. CONSULTATION**

14.1 Reference Site Visits – Locations to be confirmed.

## **15. TIMETABLE FOR IMPLEMENTATION**

15.1 The administration team's contract with *heywood* Limited ends on 15 June 2016.

With the agreement of Panel a contract notice will be published in the Official Journal of the European Union. The objective will be for Officers to agree a preferred supplier before 1 May 2016 and recommend to Panel for final approval.

## **16. APPENDICES**

16.1 None

## **17. BACKGROUND INFORMATION**

17.1 None

This page is intentionally left blank

Report for: INFORMATION



<b>Contains Confidential or Exempt Information</b>	No - Part I
<b>Title</b>	Stewardship Report
<b>Responsible Officer(s)</b>	Nick Greenwood, Pension Fund Manager, Kevin Taylor, Deputy Pension Fund Manager, Pedro Pardo, Investment Manager, Philip Boyton, Pension Administration Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood, Pension Fund Manager 01628 796701
<b>Member reporting</b>	n/a
<b>For Consideration By</b>	Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	18 January 2016
<b>Implementation Date if Not Called In</b>	n/a
<b>Affected Wards</b>	None

<p><b>Report Summary</b></p> <ol style="list-style-type: none"> <li>1. This report deals with the stewardship of the Pension Fund for the period 1 September to 31 November 2015</li> <li>2. It recommends that Members (and Pension Board representatives) note the Key Financial and Administrative Indicators throughout the attached report.</li> <li>3. Good governance requires all aspects of the pension fund to be reviewed by the Administering Authority a regular basis</li> <li>4. There are no financial implications for RBWM in this report</li> </ol>
--

<b>If recommendations are adopted, how will residents, fund members and other stakeholders benefit?</b>	
Benefits to residents, fund members and other stakeholders and reasons why they will benefit	Dates by which they can expect to notice a difference
Efficient management of the pension fund enhances the reputation of the Royal Borough as administering authority for the Fund	On-going

## **1. Details of Recommendations**

**RECOMMENDATION:** That Panel note:

- **The investment performance and asset allocation of the Fund**
- **All areas of governance and administration as reported**
- **All key performance indicators**

## **2. Reason for Recommendation(s) and Options Considered**

The Pension Panels have a duty in securing compliance with all governance and administration issues.

## **3. Key Implications**

Failure to fulfil the role and purpose of the Administering Authority could lead to the Pension Fund and the Administering Authority being open to challenge and intervention by the Pensions Regulator.

## **4. Financial Details**

Not applicable.

## **5. Legal Implications**

None.

## **6. Value For Money**

Not relevant.

## **7. Sustainability Impact Appraisal**

There are no known implications.

## **8. Risk Management**

None.

## **9. Links to Strategic Objectives**

Linked to strategic objectives of the Pension Fund in accordance with overriding pension scheme regulations.

## **10. Equalities, Human Rights and Community Cohesion**

There are no known implications.

## **11. Staffing/Workforce and Accommodation implications:**

None.

## **12. Property and Assets**



None.

**13. Any other implications:**

None.

**14. Consultation**

Not applicable.

**15. Timetable for Implementation**

Not applicable.

**16. Appendices**

None.

**17. Background Information**

None.



THE ROYAL COUNTY OF  
**BERKSHIRE**  
PENSION FUND

**STEWARDSHIP REPORT**

**QUARTER 3 – 2015/16**

**1<sup>ST</sup> SEPTEMBER 2015 TO 30<sup>TH</sup> NOVEMBER 2015**

## TABLE OF CONTENTS

1.	INVESTMENT PERFORMANCE AND ASSET ALLOCATION .....	6
1.1	Pension Fund key financial indicators .....	6
1.2	Change in the smoothed liabilities .....	6
1.3	Market returns .....	7
1.4	Fund performance .....	8
1.5	Exception Traffic Lights November 2015 .....	8
1.6	Asset allocation update .....	9
1.7	Solvency.....	9
2	GOVERNANCE AND ADMINISTRATION.....	10
2.1	Scheme membership .....	10
2.2	Scheme Employers .....	11
2.3	Notices of unsatisfactory performance .....	12
2.4	Scheme Employer Key Performance Indicators.....	12
2.5	Administration – Key Performance Indicators.....	13
2.6	Administration - Communications.....	15
2.7	Website hits.....	15
2.8	Special projects.....	15
2.9	Comments, compliments and complaints .....	16
	Annex 1 – Notices of unsatisfactory performance where materially significant.....	17
	Annex 2 - Summary of employer KPIs .....	18

## 1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

### 1.1 Pension Fund key financial indicators

Table 1	March 2010	March 2013	November 2015
Asset Value (Smoothed)	£1,307.7m	£1,561.8m	£1,660.5m
Asset Value (Unsmoothed)	£1,319.4m	£1,572.4m	£1,687.8m
Liabilities (Smoothed)	£1,618.4m	£2,088.8m	£2,291.4m
Liabilities (Unsmoothed)	£1,618.4m	£2,107.7m	£2,313.2m
Deficit (Smoothed)	£310.7m	£527.0m	£630.9m
Deficit (Unsmoothed)	£299.0m	£535.3m	£625.5m
Funding Level (Smoothed)	81%	75%	72%
Funding Level (Unsmoothed)	82%	75%	73%
Deficit Recovery Period	30 years	27 years	25 years
Nominal Discount Rate	6.8%	6.1%	6.0%
Real Discount Rate	3.3%	3.4%	3.4%
Investment Performance Target (CPI + 4%)	7.0%	6.7%	7.3%
Nominal Earnings Inflation Assumption	4.7%	4.5%	4.4%
Consumer Price Index Inflation Assumption	3.0%	2.7%	2.6%
Employers Contributions – Future Service	12.8%	12.7%	12.4%
Employers Contributions – Past Service Deficit	3.7%	6.9%	7.8%

### 1.2 Change in the smoothed liabilities

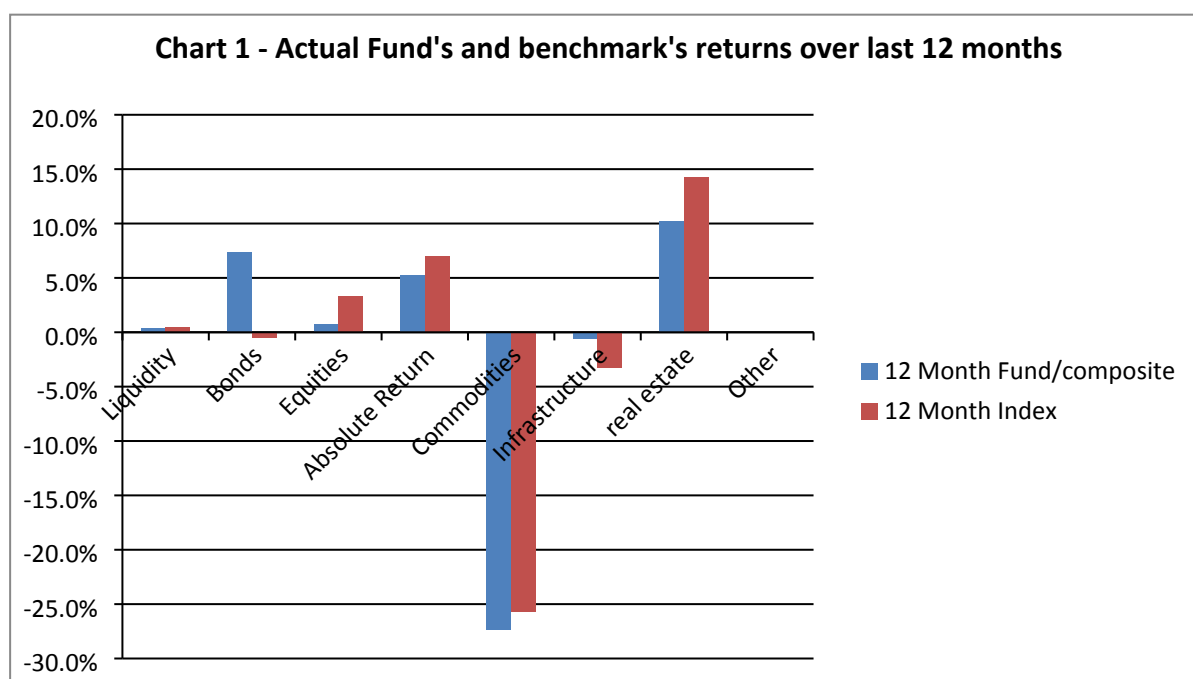
Table 2	30 Nov 2015
Liability reconciliation	£m
<b>Disclosed smoothed liability at 31/03/2013</b>	<b>2,088.8</b>
New liabilities (excluding transfers in)	208.1
Liabilities extinguished	-244.7
Net new liabilities from bulk transfers in/out	-79.8
Interest on liabilities	339.9
Change due to discount rate	47.5
Change due to inflation assumption	-71.7
Change in value of longevity insurance contract	3.3
<b>Increase in Liabilities</b>	<b>202.6</b>
<b>Smoothed liability at 30 November 2015</b>	<b>2,291.4</b>

NOTE: The actuary smooths liabilities by taking the average liability figure over the last 6 months.

### 1.3 Market returns

Table 3		3 month	12 month	36 month
<b>Liquidity</b>	<b>Fund</b>	0.09%	0.35%	0.35%
1 Week GBP Libor	<b>Index</b>	0.12%	0.48%	0.48%
	<b>Relative</b>	-0.03%	-0.13%	-0.13%
<b>Bonds</b>	<b>Fund</b>	2.02%	7.38%	n/a
Barclays Global Aggregate	<b>Index</b>	1.21%	-0.47%	-0.05%
	<b>Relative</b>	0.81%	7.85%	n/a
<b>Developed Markets Equities</b>	<b>Fund</b>	4.78%	2.53%	n/a
Morgan Stanley Capital International (MSCI) World	<b>Index</b>	5.67%	3.28%	13.31%
	<b>Relative</b>	-0.89%	-0.75%	n/a
<b>Emerging Markets Equities</b>	<b>Fund</b>	3.03%	-9.15%	4.00%
Morgan Stanley Capital International EM Equities	<b>Index</b>	2.03%	-13.64%	-2.54%
	<b>Relative</b>	1.00%	4.49%	6.54%
<b>Private Equity</b>	<b>Fund</b>	4.98%	11.35%	n/a
9% per annum	<b>Index</b>	2.18%	9.00%	9.00%
	<b>Relative</b>	2.81%	2.36%	n/a
<b>Total Equities</b>	<b>Fund</b>	4.33%	0.65%	n/a
Morgan Stanley Capital International World	<b>Index</b>	5.67%	3.28%	13.31%
	<b>Relative</b>	-1.34%	-2.63%	n/a
<b>Absolute Return</b>	<b>Fund</b>	0.91%	5.15%	n/a
7% per annum	<b>Index</b>	1.70%	7.00%	7.00%
	<b>Relative</b>	-0.79%	-1.85%	n/a
<b>Commodities</b>	<b>Fund</b>	-9.79%	-27.42%	-17.28%
Custom Equal Weights	<b>Index</b>	-8.89%	-25.67%	-15.86%
	<b>Relative</b>	-0.90%	-1.75%	-1.42%
<b>Infra-structure</b>	<b>Fund</b>	0.41%	-0.62%	5.02%
FTSE Global Core 50/50	<b>Index</b>	2.13%	-3.32%	10.54%
	<b>Relative</b>	-1.73%	2.69%	-5.52%
<b>Real Estate</b>	<b>Fund</b>	0.39%	10.20%	7.12%
UK Investment Property Databank	<b>Index</b>	3.23%	14.28%	14.29%
	<b>Relative</b>	-2.83%	-4.09%	-7.16%

## 1.4 Fund performance



## 1.5 Exception Traffic Lights November 2015

**Table 4**

<u>Traffic Lights November 2015</u>				
<u>Colour</u>		<u>£ m</u>	<u>Fund %</u>	<u>Comment</u>
	<b>BONDS</b>			
	<b>Convertible Bonds</b>			
Amber	Aviva	36.1	2.1%	Change in management team & weak performance
Amber	Blue Bay Global	27.1	1.6%	Currency volatility has resulted in disappointing GBP returns.
	<b>EQUITIES</b>			
	<b>Developed World</b>			
Amber	IPM Fundamental Umbrella Fund	169.2	10.0%	Performance remains below target.
	<b>Private Equity</b>			
Amber	South East Growth Fund	4.1	0.2%	Terms of additional extension to fund life agreed
Amber	Stafford Sustainable Fund	4.6	0.3%	Disappointing performance. Buyer not found
	<b>INFRASTRUCTURE</b>			
Amber	Macquarie SBI Infrastructure Ltd	3.0	0.2%	Performance adversely affected by delays in construction of key assets
	<b>COMMODITIES</b>			
Amber	Gresham	37.2	2.2%	Change in ownership. Poor performance continues
	<b>Total Fund Valuation (excl prepaid contribs)</b>	<b>1,687.8</b>		
<b>Key</b>				
<b>Colour</b>	<b>Comment</b>			
Red	<b>Recommendation that action be taken:</b> following a review by officers.			
Amber	<b>Performance being reviewed by officers:</b> the fund is not meeting its target return over the medium term (ie over a 1 to 2 year rolling period) or there are adverse material changes to processes/people/the firm.			
Green	<b>Satisfactory performance:</b> performance at least in line with target return or expectations.			
Blank	<b>Too early in the life of a fund to comment on performance.</b>			

1.6 Asset allocation update

Table 5 Comparison of Strategic Asset Allocation "SSA" changes					
SSA Weights	31/03/2010	31/03/2013	30/11/2015	12 month change	Change since 31 March 2013
<b>Liquidity</b>	<b>7.9%</b>	<b>1.1%</b>	<b>6.0%</b>	<b>0.6%</b>	<b>4.9%</b>
Investment Grade Debt	20.4%	7.9%	5.0%	-1.2%	-2.9%
Other Debt	11.7%	8.7%	8.2%	0.3%	-0.5%
<b>Total Debt</b>	<b>32.1%</b>	<b>16.6%</b>	<b>13.2%</b>	<b>-0.9%</b>	<b>-3.4%</b>
Developed Market Equities	17.3%	17.2%	21.3%	3.1%	4.1%
Developing Market Equities	6.2%	14.7%	11.6%	-1.9%	-3.1%
Private Equity	6.7%	9.2%	9.0%	1.1%	-0.2%
<b>Total Equities</b>	<b>30.2%</b>	<b>41.1%</b>	<b>41.9%</b>	<b>2.3%</b>	<b>0.8%</b>
<b>Absolute Return</b>	<b>9.9%</b>	<b>17.2%</b>	<b>17.6%</b>	<b>1.3%</b>	<b>0.4%</b>
Infrastructure	1.9%	4.7%	4.2%	0.2%	-0.5%
Commodities	8.2%	9.7%	3.4%	-4.4%	-6.3%
Real Estate	7.3%	9.8%	13.0%	1.5%	3.2%
Other	2.5%	-0.3%	0.7%	-0.6%	1.0%
<b>Real Assets</b>	<b>19.9%</b>	<b>23.9%</b>	<b>21.3%</b>	<b>-3.3%</b>	<b>-2.6%</b>
<b>Fund Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

1.7 Solvency

Chart 2

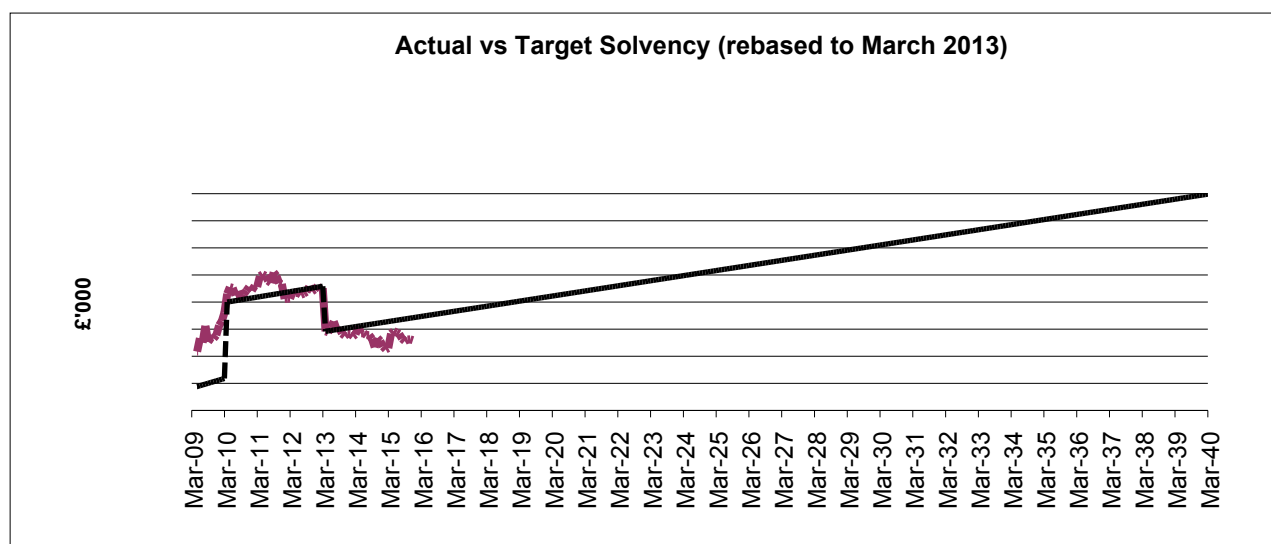
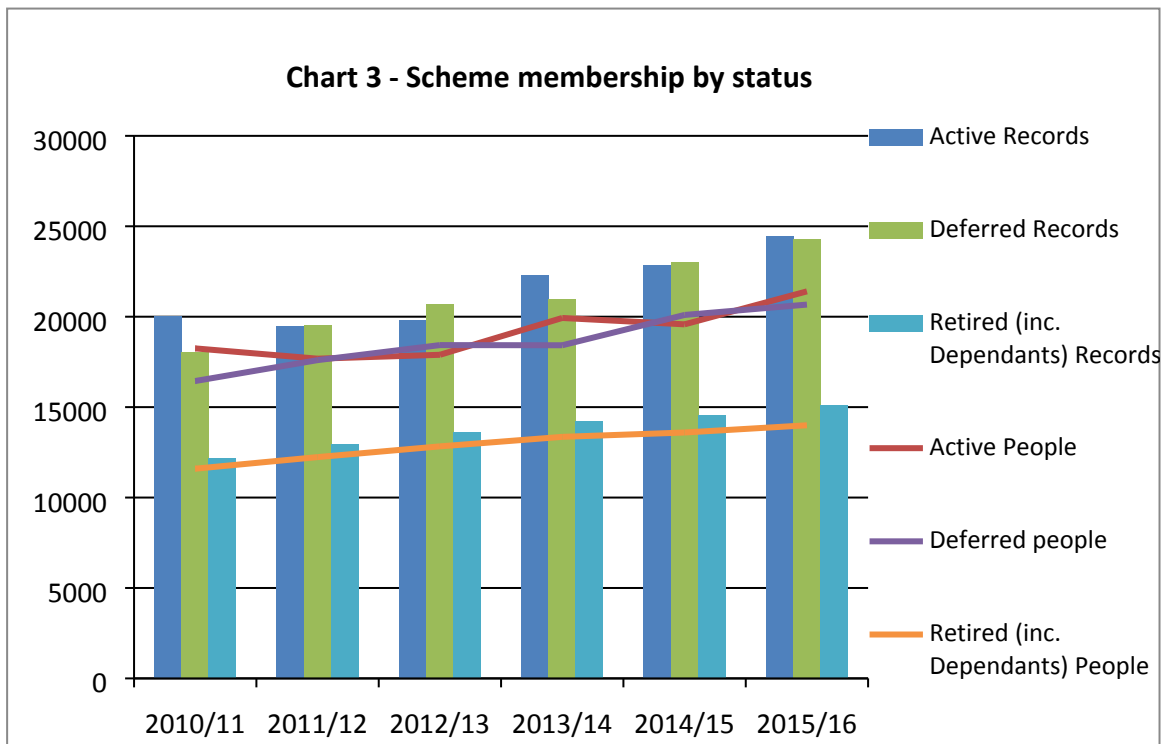


Table 6 - Cashflow	Year to 31/03/2014 (actual) £'000's	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (forecast) £'000's
Contributions	81,272	87,691	93,700
Transfers received	5,924	1,916	1,900
Employers' early retirement payments	2,602	1,400	3,000
Investment income via Custodian	15,928	23,762	17,000
Pension paid (gross)	-70,625	-73,625	-74,400
Retirement lump sums	-16,818	-18,045	-17,300
Transfers paid	-5,641	-67,201	-1,900
Investment management costs	-2,694	-3,654	-3,700
Employee costs	-824	-693	-700
Other costs	-978	-1,106	-700
<b>Net cash flow</b>	<b>8,147</b>	<b>-49,555</b>	<b>16,900</b>

NOTE: Transfers paid during year to 31 March 2015 were inflated by the statutory transfer of Thames Valley Probation staff to the Greater Manchester Pension Fund.

## 2 GOVERNANCE AND ADMINISTRATION

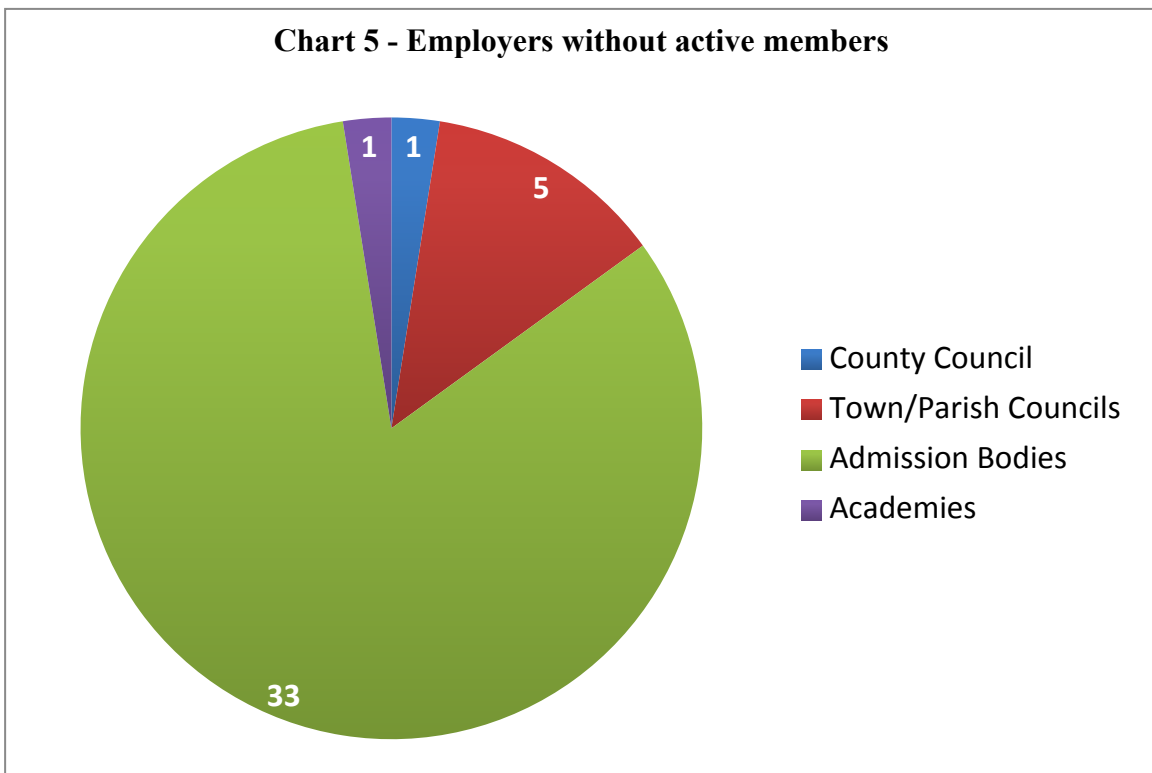
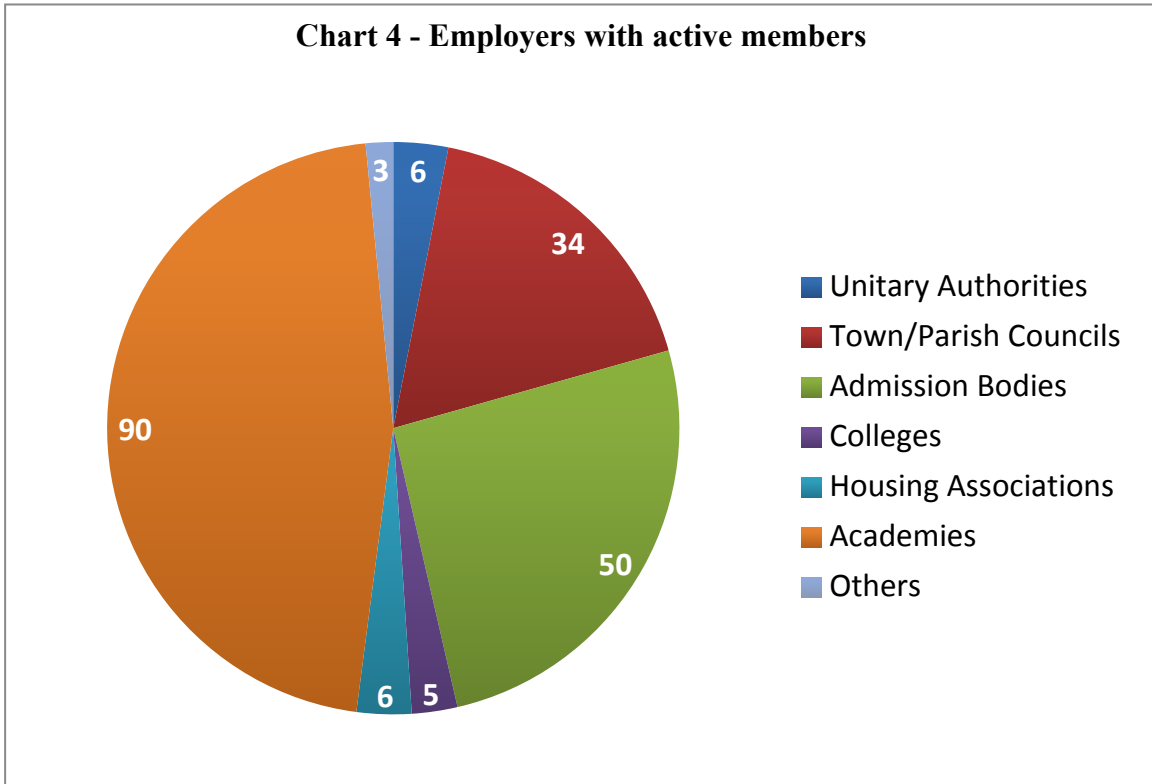
### 2.1 Scheme membership



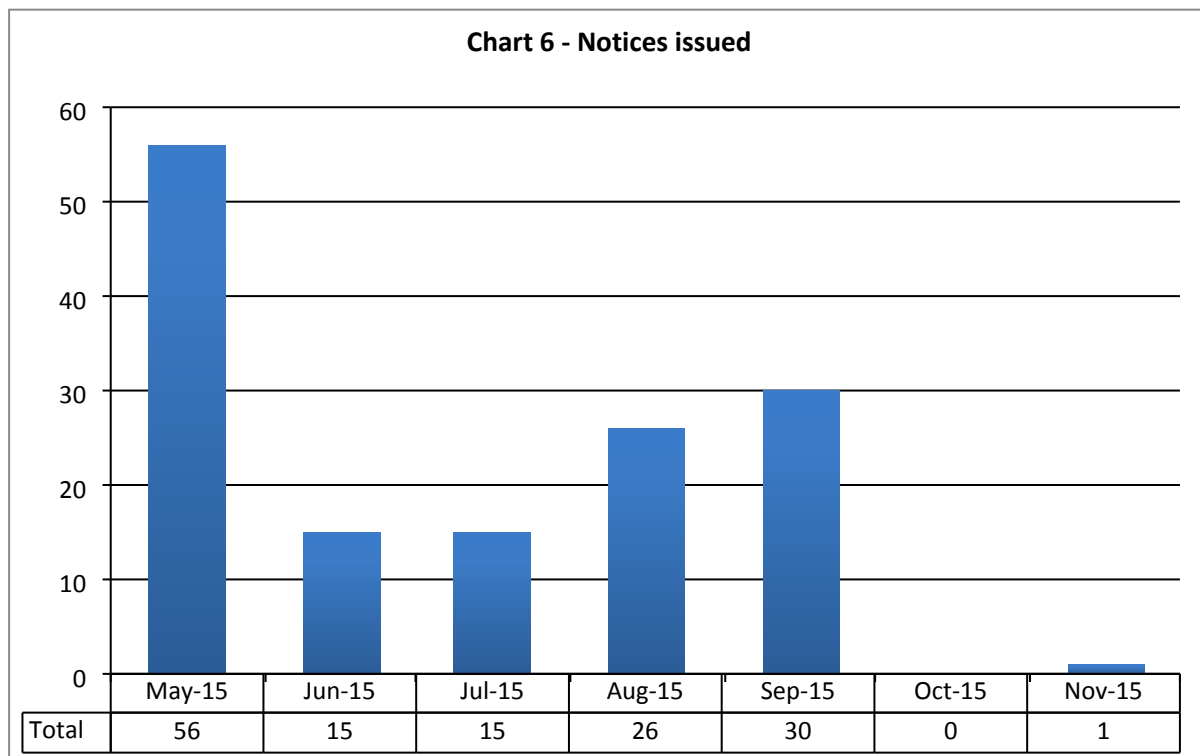
TOTAL MEMBERSHIP			
Active Records	24484	Active People	21401
Deferred Records	24293	Deferred People	20670
Retired Records	15098	Retired People	13996
<b>TOTAL</b>	<b>63875</b>	<b>TOTAL</b>	<b>56067</b>



2.2 Scheme Employers

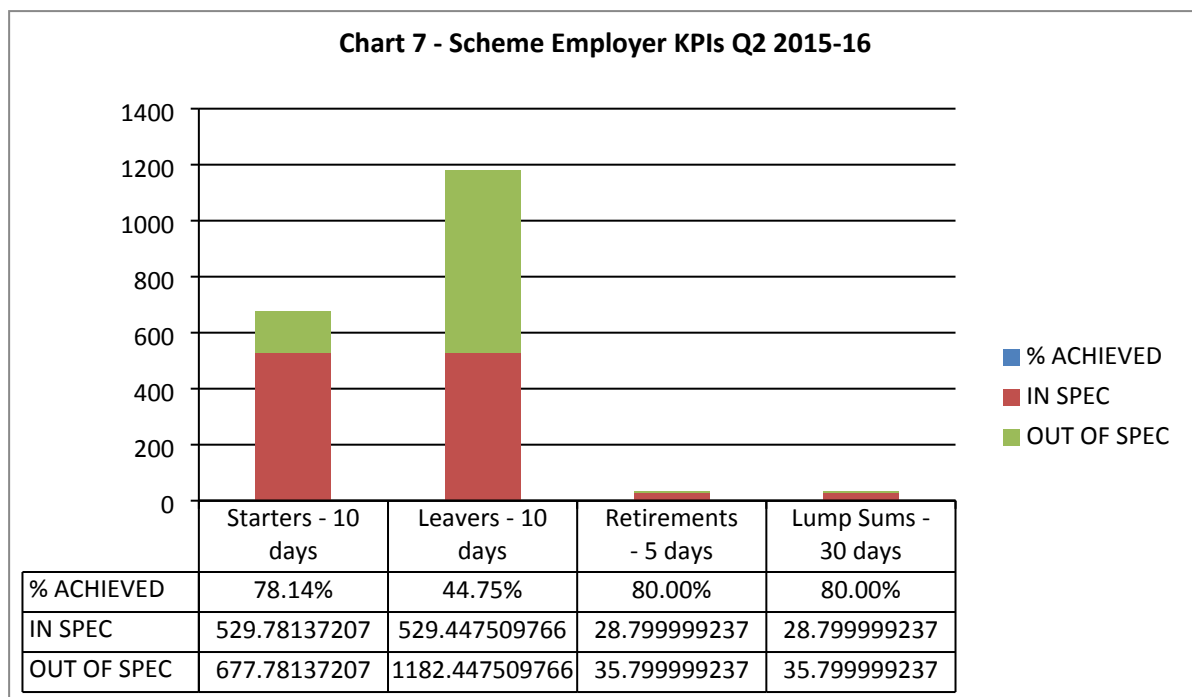


## 2.3 Notices of unsatisfactory performance



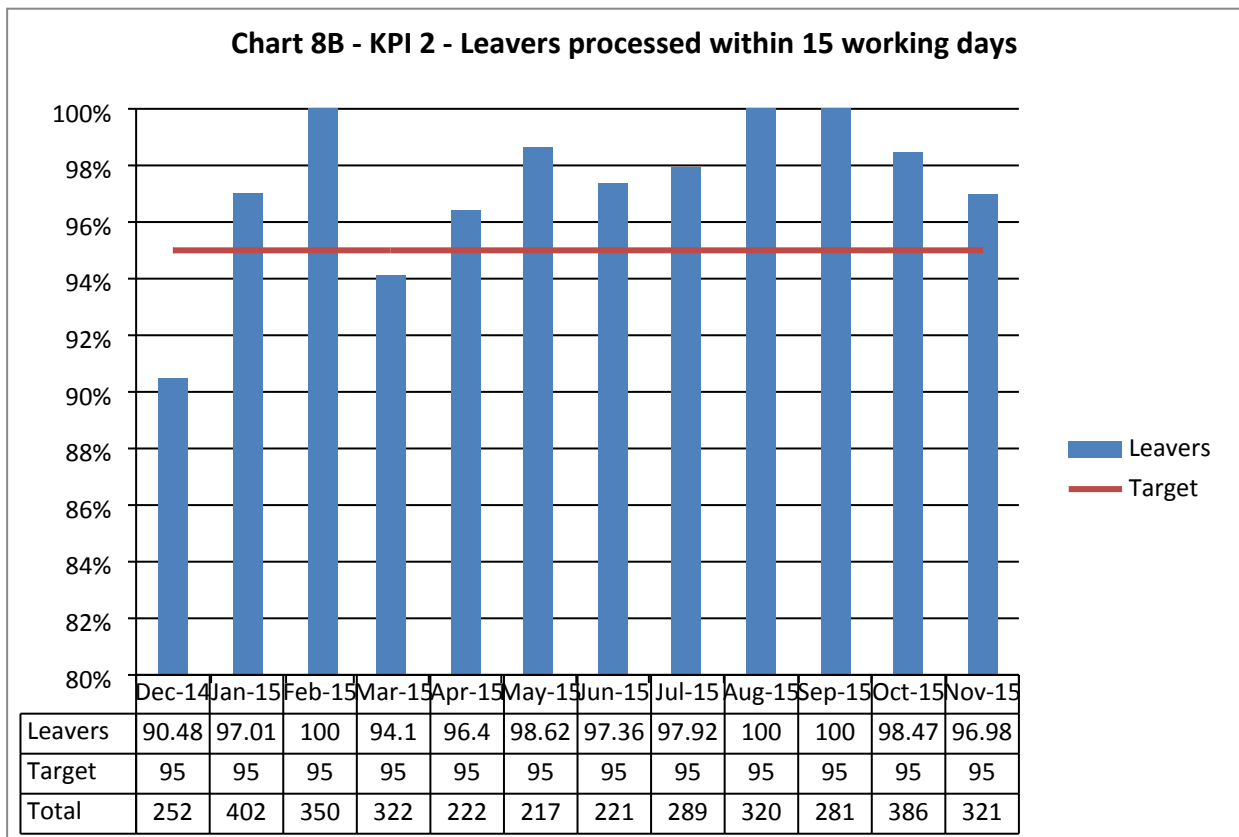
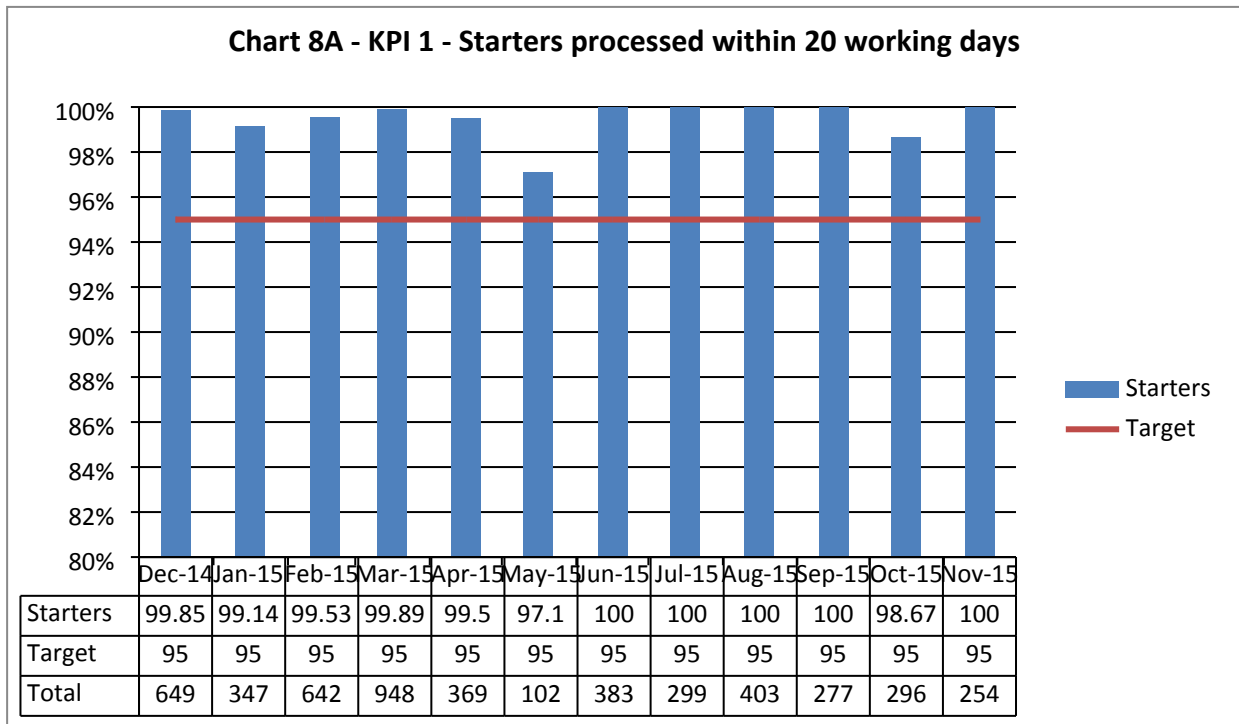
NOTE: No cases have been deemed to be of material significance and so have not been reported to the Pensions Regulator. A summary of cases can be found at Annex 1 to this report

## 2.4 Scheme Employer Key Performance Indicators

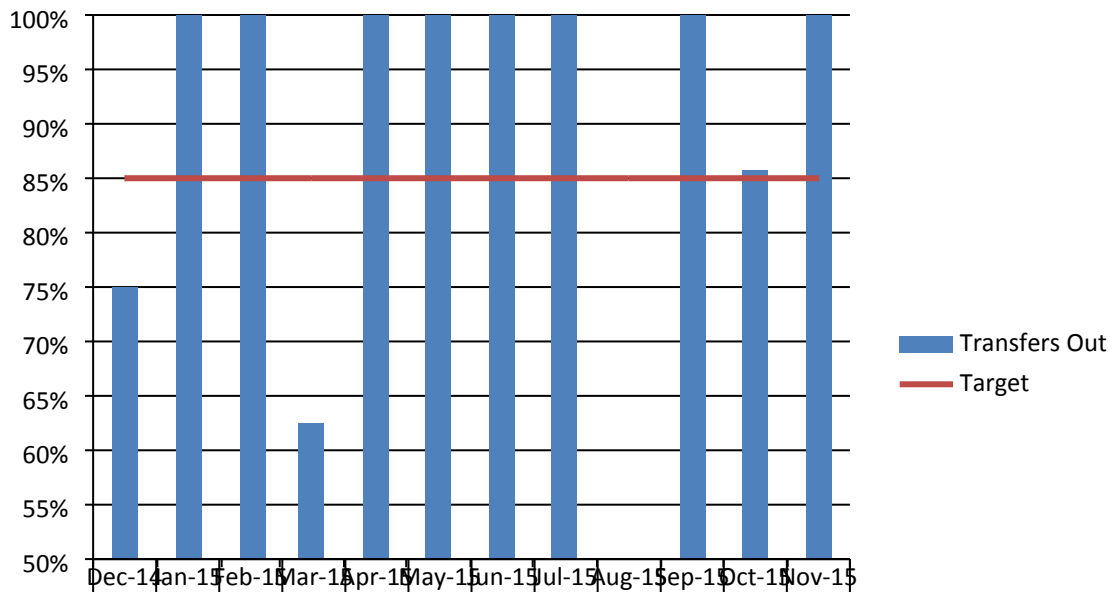


<b>Table 8</b>	<b>TREND</b>	<b>STARTERS</b>	<b>LEAVERS</b>	<b>RETIREMENTS</b>	<b>LUMP SUMS</b>
2015-16	Q2 –OUT	1168	171	18	22
	Q2 – IN	307	82	30	25
	<b>% ACHIEVED</b>	<b>20.81%</b>	<b>32.41%</b>	<b>62.50%</b>	<b>53.19%</b>
2015-16	Q1 –OUT	593	477	8	8
	Q1 – IN	212	262	6	6
	<b>% ACHIEVED</b>	<b>26.34%</b>	<b>35.45%</b>	<b>42.86%</b>	<b>42.86%</b>

2.5 Administration – Key Performance Indicators

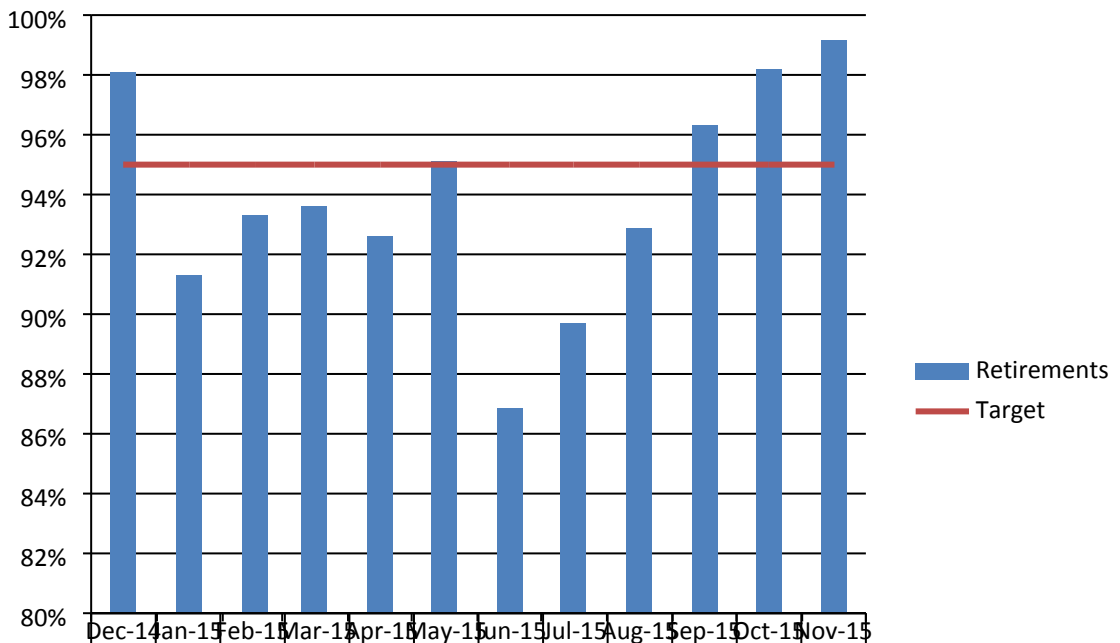


**Chart 8C - KPI 3 - Transfers out processed within 15 working days**



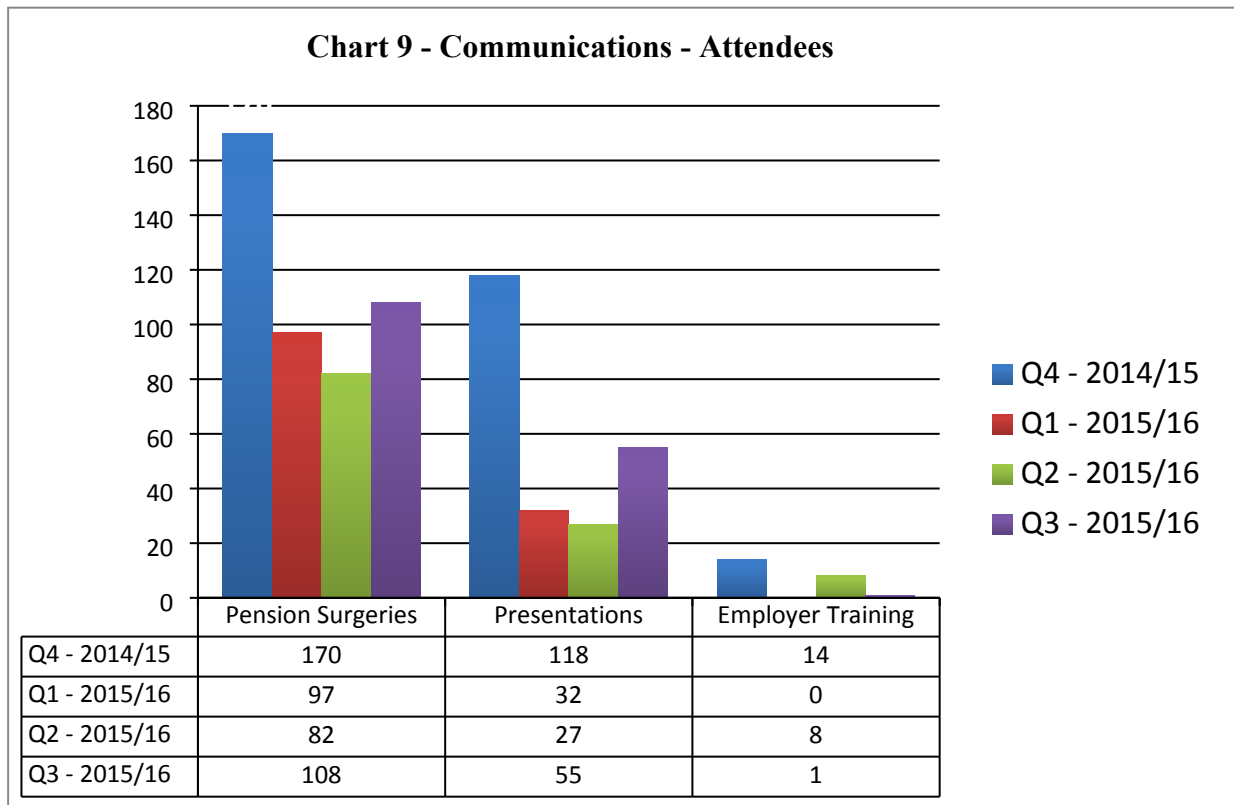
	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Transfers Out	75	100	100	62.5	100	100	100	100	0	100	85.71	100
Target	85	85	85	85	85	85	85	85	85	85	85	85
Total	4	3	3	5	1	5	3	3	1	7	6	3

**Chart 8D - KPI 4 - Retirements processed within 7 working days**

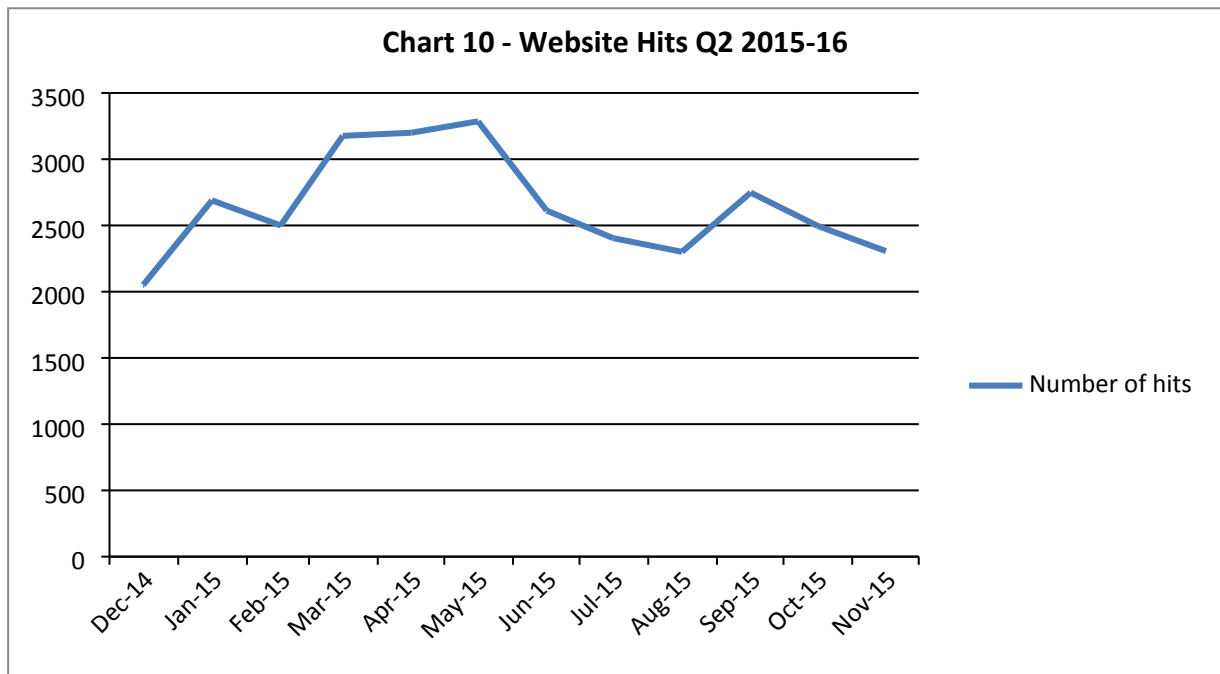


	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Retirements	98.1	91.3	93.3	93.6	92.59	95.12	86.84	89.69	92.86	96.3	98.18	99.15
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	53	92	75	94	222	41	76	97	98	104	108	116

2.6 Administration - Communications



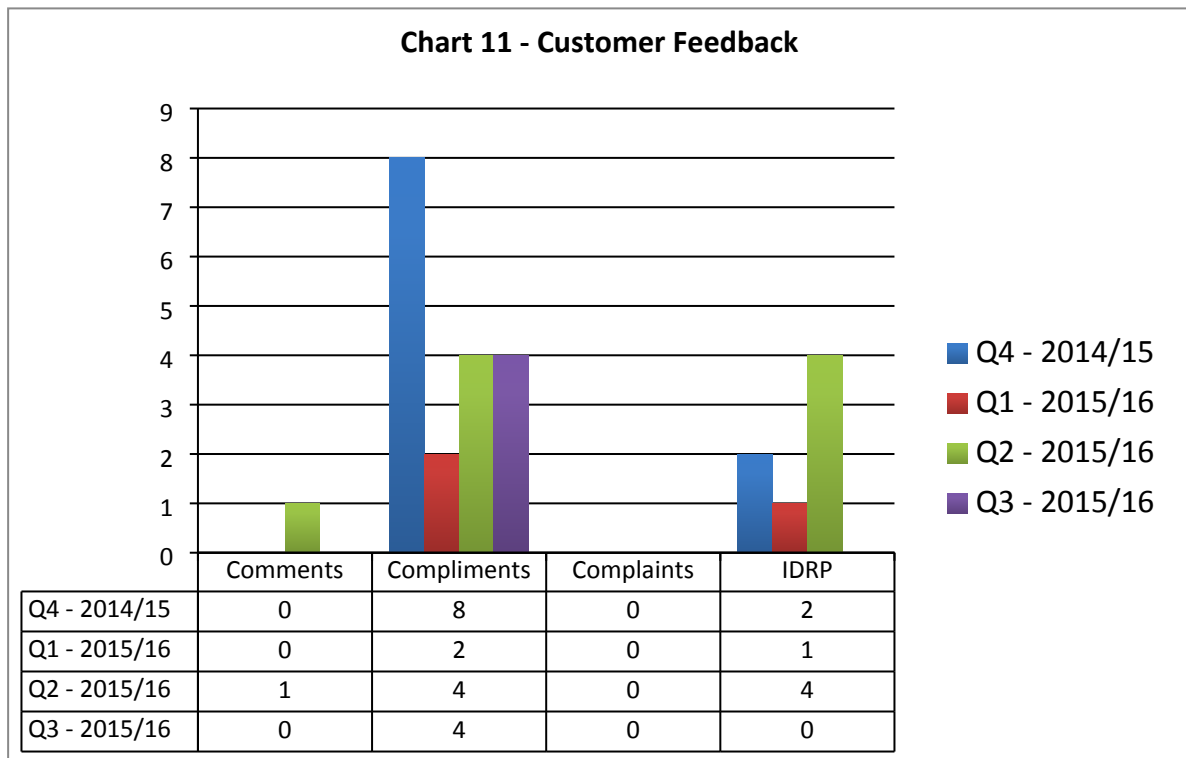
2.7 Website hits



2.8 Special projects

- GMP reconciliation
- i-Connect
- PASA
- Software Tender

2.9 Comments, compliments and complaints



**TABLE 9 - INTERNAL DISPUTE RESOLUTION PROCEDURES (IDRP)**

Period	Case	Summary of complaint	Stage 1	Stage 2	Stage 3	Resolution
Q4 – 2014/15	1	Request for early release of deferred benefits due to permanent ill health.	√	√	X	Case rejected at both stage 1 and 2. Not referred to PO.
	2	Claim made for survivor's pension not due under regulation	√	X	X	Rejected at Stage 1 as no statutory right to benefit.
Q1 – 2015/16	1	Request for early release of benefits due to permanent ill health.	√	√	X	Case rejected at stage 1 but accepted at Stage 2.
Q2 – 2015/16	1	Disputing the tier awarded for ill health retirement.	√	√		Case rejected at stage 1. Currently under review at stage 2.
	2	Request for early release of deferred benefits on compassionate grounds.	√	X	X	Case rejected at stage 1. No application made under stage 2.
	3	Disputing termination of employment and affect on pension benefits	√			Case currently under review at stage 1.
	4	Request for early release of deferred benefits due to permanent ill health.	√	√		Case rejected at stage 1. Currently under review at stage 2.

NOTE: Stage 1 refers to Adjudicator at Scheme Employer level  
 Stage 2 refers to adjudicator at Administering Authority level  
 Stage 3 refers to the Pensions Ombudsman

*Annex 1 – Notices of unsatisfactory performance*

<b>Form</b>	<b>May-15</b>	<b>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-15</b>	<b>Oct-15</b>	<b>Nov-15</b>
<b>1</b>	0	0	0	0	0	0	0
<b>2A</b>	4	6	1	0	0	0	0
<b>2B</b>	3	0	0	6	7	0	0
<b>2C</b>	46	9	11	20	23	0	0
<b>3</b>	3	0	3	0	0	0	1
<b>Total</b>	<b>56</b>	<b>15</b>	<b>15</b>	<b>26</b>	<b>30</b>	<b>0</b>	<b>1</b>

Key: Form 1: Administering Authority additional costs arising from employers' poor performance  
 Form 2A: Contributions unpaid  
 Form 2B: Contributions paid late  
 Form 2C: Contribution breakdown not received  
 Form 3: Late settlement of Capital Cost invoices

## Annex 2 - Summary of employer KPIs

### Starters received within specification Q3

Employer	IN	OUT	Total	% IN	Q2	Q1
Academies	74	32	106	69.81%	10.99%	0.07%
Bracknell Forest Council	72	3	75	96.00%	69.89%	73.20%
RBWM	59	6	65	90.77%	15.54%	16.33%
Reading BC	58	27	85	68.24%	12.00%	0.00%
Slough BC	51	3	54	94.44%	47.06%	59.62%
University of West London	0	0	0	0.00%	0.00%	n/a
West Berkshire Council	151	15	166	90.96%	19.42%	27.12%
Wokingham BC	19	8	27	70.37%	20.80%	12.96%
Wokingham BC (Selima)	2	5	7	28.57%	22.64%	39.13%

### Leavers received within specification Q3

Employer	IN	OUT	Total	% IN Spec	Q2	Q1
Academies	61	100	161	37.89%	15.97%	15.50%
Bracknell Forest Council	98	77	175	56.00%	49.19%	46.94%
RBWM	63	72	135	46.67%	42.74%	45.21%
Reading BC	106	108	214	49.53%	27.47%	29.09%
Slough BC	50	29	79	63.29%	58.67%	58.93%
University of West London	1	0	1	100.00%	100.00%	66.67%
West Berkshire Council	58	99	157	36.94%	62.42%	64.00%
Wokingham BC	29	23	52	55.77%	7.14%	10.34%
Wokingham BC (Selima)	9	52	61	14.75%	4.88%	9.09%

### Retirements not notified within 5 days from retirement date – Q3 2015-16

Employer	Member	Days Over 5
Mott MacDonald	DLW	7
Optalis Ltd	DAD	4
Park House School Newbury	JBL	12
Reading BC	MP	11
Reading BC	GMW	4
West Berkshire Council	IEV	8
Wokingham BC	PG	3

### Lump sums paid >30 days after retirement date – Q3 2016-16

Employer	Member	Days Over 30	Interest	Reason
Mott MacDonald	DLW	21	£15.17	2
Optalis Ltd	DAD	14	£23.25	2
Park House School Newbury	JBL	13	£0.86	1
Reading BC	MP	11	£21.59	1
Reading BC	GMW	4	£28.95	2
West Berkshire Council	IEV	8	£47.88	1,2
Wokingham BC	SFV	25	£5.95	2

NOTE: All interest paid by the pension fund.

Reason key:

- 1 Scheme employer delay in sending leaver from
- 2 Member delay in returning retirement forms
- 3 Pension Fund delay in calculation and/or making payment



Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	<i>NO - Part 1</i>
<b>Title</b>	Local Government Pension Scheme Investment Reform
<b>Responsible Officer(s)</b>	Nick Greenwood – Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	Cllr J Lenton
<b>For Consideration By</b>	Berkshire Pension fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	18 January 2016
<b>Implementation Date if Not Called In</b>	Immediate
<b>Affected Wards</b>	All – “County Wide”

## REPORT SUMMARY

1. This report covers the Local Government Pension Scheme: Investment Reform Criteria and Guidance published by the Department for Communities and Local Government (“DCLG”) in November 2015.
2. It seeks approval from Panel to continue discussions with a pool of their choice.
3. It also covers the consultation launched at the same time over the Investment Regulations which have to be amended to permit pooling.
4. Finally it also covers Infrastructure Investment an area highlighted within the guidance issue by DCLG.

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. None directly	

2. In the long term (in theory) investment costs should reduce and returns enhanced reducing pressure to increase deficit recovery payments	2025
---	------

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel

- i. **Agree which pool the Fund should seek to join.**
- ii. **Delegates authority to the Pension Fund Manager to continue discussions with the chosen pool.**
- iii. **Authorises Officers to prepare an Investment Strategy Statement for consideration by Panel in July.**
- iv. **Requests Officers to consider and report on the feasibility of the Fund working with other Local Government Pension Scheme funds and private sector funds to create economically viable UK infrastructure investment pools.**

## 2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

### 2.1 Investment Pooling

The Government announced in the July budget that it intended to consult on the criteria for the pooling of Local Government Pension Scheme (“LGPS”) investments. In October the Chancellor announced at the Conservative Party conference that LGPS investments would be pooled into 6 British Wealth Funds thereby releasing billions of pounds for investment in infrastructure in the UK. Subsequently after the Autumn Statement by the Chancellor DCLG published their document: “Local Government Pension Scheme: Investment Reform Criteria and Guidance” which clearly set out 4 criteria:

1. Asset pools should have a minimum size of £25 billion (Berkshire Pension Fund £1.7 billion) although there may be potential for smaller asset specific pools (e.g. for Infrastructure)
2. Each pool should have strong governance and decision making
3. Reduced costs and excellent value for money
4. An improved capacity to invest in infrastructure.

The table below details the tentative pools that Officers have been able to identify:

<b>Pool</b>	<b>Comment</b>
LPFA/LCC	Initial discussions held
South West	Initial discussions held
Central, East South East (“Access”)	Very brief discussions have been held. Geographically this is a pool we could consider
Midlands	A midlands pool has been announced with c£35 billion of assets
Northern	Publicly announced that Greater Manchester, West Yorkshire and Merseyside are collaborating along with other not-disclosed funds. Pool likely to be around £40 billion
Wales	Likely to be permitted even though they are nowhere near £25 billion in assets

Cumbria/Surrey/East Riding	Currently a very small group, initial discussions have been held.
London Collective Investment Vehicle	Scheduled to be launched in 2016 – initial focus (we believe) being on equities but other assets will be included. Open to investment from non-London funds

- 2.2 A review of these potential pools suggests that there are 2 regional pools that Berkshire could work with – the South West Group and the “Access” group. In addition Berkshire could opt to join the LPFA/LCC (“London Pensions Fund Authority and Lancashire County Council) or Cumbria/East Riding/Surrey initiatives or invest via the London Collective investment Vehicle.
- 2.3 Attached at annex 1 is a “Pooling Objectives” document which details the objectives the Fund is seeking to achieve in discussions with potential pools. This suggests that initially the Fund has £1.2 billion of assets immediately available for pooling with £500 million in illiquid funds that may be better retained by the Fund as direct investments whilst they return cash to the Fund (expected over the next decade).
- 2.4 Officers have held initial discussions with the South West Group and the LPFA/LCC Group.

South West Grouping – there has been an informal grouping of south western local authority funds for many years and they have successfully collaborated on a number of years via joint tenders. They are relatively well advanced (compared to what I can ascertain from other emerging groupings) in their thinking having commissioned business plans from PWC. Currently they are undecided whether they should follow a Joint Committee approach (similar to that proposed for Project BOB in 2014) or create an “Authorised Contractual Scheme” (“ACS”) in-line with the “direction of travel” suggested by the Cabinet Office (who commissioned a report from PWC on the alternative structures for pooling). Being adjacent to both Wiltshire and Oxfordshire (who recently signed a Memorandum of Understanding to join the grouping) suggest that this is one of two regional groupings that Berkshire could join.

London Pension Fund Authority/Lancashire County Council (“LLP”) – both administering authorities announced earlier this year that they were planning to integrate many of their pensions’ responsibilities including both investment and pensions administration. Following the Government’s announcement of the criteria they have entered into discussions with a number of parties to increase their asset pool from c£11 billion towards the £25 billion criterion set by DCLG. Given the very public support given by DCLG (holding them up as an example of the way forward) it is most unlikely that even if they fail to reach the magic £25 billion that they will not allow this pool to continue. LLP are in the final stages of getting Financial Conduct Authority to operate an ACS (under which pooled assets would be managed) and this approval is expected to be received in Q1 2016 enabling early pooling of some assets if desired (possible Brownie points for being an early pooler?). As a “letting” authority RBWM could elect to become a shareholder in the management company or simply be an investor in the ACS. The small advantage of the latter option is if we were dissatisfied with performance then, in theory at least, we could transfer some or all of our assets to another pool.

There has been an exchange of emails with the Access Group but Officers have elected not to progress discussions unless Panel wish them to do so.

Finally the Fund could elect to pool by investing in the London Collective Investment Vehicle (“London CIV”) which would require the Panel to choose which particular sub-funds they would wish to invest in. It is almost certain that the Fund could only become a client of the London CIV which was specifically set up by the London Boroughs to manage their investments.

Of the 4 options above Officers have a mild preference for the LPFA/LCC initiative on the grounds that not only is it further advanced but that it also has the potential to offer mandates (mainly via internal management) closely aligned with the Fund’s investment strategy. Should Panel disagree Officers propose that Panel choose between the Access Group and the South West Group (which geographically is closer to Berkshire). Officers do not recommend that Panel consider investing via the London CIV.

DCLG’s document makes it clear that responsibility for setting investment strategy and asset allocation will remain the responsibility of the administering authority.

## 2.5 Consultation on the Investment Regulations

The existing Management and Investment of Funds Regulations actually forbid Funds investing all their assets in a single pool so consequently DCLG are forced to amend the regulations to facilitate the objective of creating 6 British wealth Funds.

The main changes to the regulations are to remove the category limits (e.g. investment in limited partnerships) thereby facilitating pooling, require the publication of an Investment Strategy Statement by 1<sup>st</sup> October 2016 and granting a power to the Secretary of State to force an LGPS fund to join a pool.

The Investment Strategy Statement must include:

- (a). A requirement to invest fund money in a wide variety of investments.
- (b). The authority’s assessment of the suitability of particular investments and types of investments.
- (c). The authority’s approach to risk, including the ways in which risks are to be measured and managed.
- (d). The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services.
- (e). The authority’s policy on how social, environmental or corporate governance issues are taken into account in the selection, non-selection, retention and realisation of investments.
- (f). The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

The statement must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investment (but no minima required).

Officers will in conjunction with advisers and the Investment Working Group prepare an Investment Strategy Statement for consideration by Panel at its July meeting.

## 2.6 Infrastructure Investment

Whilst the DCLG document refers to (and defines Infrastructure to include housing) it does not specifically refer to UK investment although without doubt this is the Chancellor’s objective. Members will be aware from news reports that many large infrastructure projects (so called “trophy assets”) have changed hands on valuations that far higher than the Fund could possibly justify. Officers, believe, however that there are opportunities in smaller scale projects which would be attractive to the Fund.

Officers note that even with £200 billion under management and if LGPS funds made a 2% allocation (many funds have no exposure to infrastructure) only some £4 billion would be available for investment. Split across 6 pools this suggests that each pool may only be deploying £600-£700 million which may not be enough to ensure good diversification. Instead Officers believe that a single pool of £4billion should be created and invested alongside private sector funds who are active in this area. Officers request that Panel agree to promote this in the administering authority’s response to DCLG both in February and in July.

The Chairman is attending a meeting at the Local Government Association on January 12<sup>th</sup> on Infrastructure Investment and will advise Members of the outcome of that meeting.

<b>Option</b>	<b>Comments</b>
Select an emerging pool for investment pooling	<b>Recommended – pooling is mandatory after April 2018 LPFA/LCC is Officers preferred option followed by the South West Pool.</b>
Investment Strategy Statement	<b>Note the requirement for such a statement to be published by 1 October 2016.</b>
Infrastructure Investment	<b>Panel agree to promote the creation of a single pool for UK small scale infrastructure investment.</b>

## 3. KEY IMPLICATIONS

- 3.1 Whilst pooling of LGPS investments is a fundamental change to the way in which the Pension Fund is managed it is impossible to state at this time what the implications on costs, resources or staffing will be.

## 4. FINANCIAL DETAILS

**Financial impact on the fund is at this stage impossible to determine.**

## **5. LEGAL IMPLICATIONS**

- 5.1 The pooling of investments by LGPS funds is being mandated by DCLG. The publication of an Investment Strategy Statement will be required by new regulations to be published in 2016.

## **6. VALUE FOR MONEY**

- 6.1 Impossible to determine at this stage.

## **7. SUSTAINABILITY IMPACT APPRAISAL**

- 7.1 None

## **8. RISK MANAGEMENT**

- 8.1 The pooling of investments into 6 pools of £25 billion each will incur many risks, however, until such time as the nature of the pools are determined evaluating these risks is not possible.

## **9. LINKS TO STRATEGIC OBJECTIVES**

- 9.1 None – this is a Government initiative

## **10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION**

- 10.1 Not applicable at this stage but an Equality Impact Assessment may be required before assets are transferred to any pool.

## **11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS**

- 11.1 None at this stage but there may be implications on staffing and accommodation once assets have been transferred to a pool.

## **12. PROPERTY AND ASSETS**

- 12.1 Most assets will have to be transferred to a pool which may have implications on global custody arrangements.

## **13. ANY OTHER IMPLICATIONS**

- 13.1 None at this stage.

## **14. CONSULTATION**

14.1 This begins consultation on these matters

## 15. TIMETABLE FOR IMPLEMENTATION

Date	Details
19 February 2016	Initial response to DCLG
15 July 2016	Detailed response to DCLG
1 October 2016	Publication of Investment Strategy Statement

## 16. APPENDICES

16.1 Annex 1 – Pooling Objectives

## 17. BACKGROUND INFORMATION

17.1 Local Government Pension Scheme: Investment Reform Criteria and Guidance, DCLG November 2015  
Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, DCLG November 2015  
Public Service Pensions, England and Wales – The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (Draft)

This page is intentionally left blank



**The Royal Borough of Windsor & Maidenhead**  
**Administering authority for**  
**The Royal County of Berkshire Pension Fund**  
**Statement on Pooling Objectives**

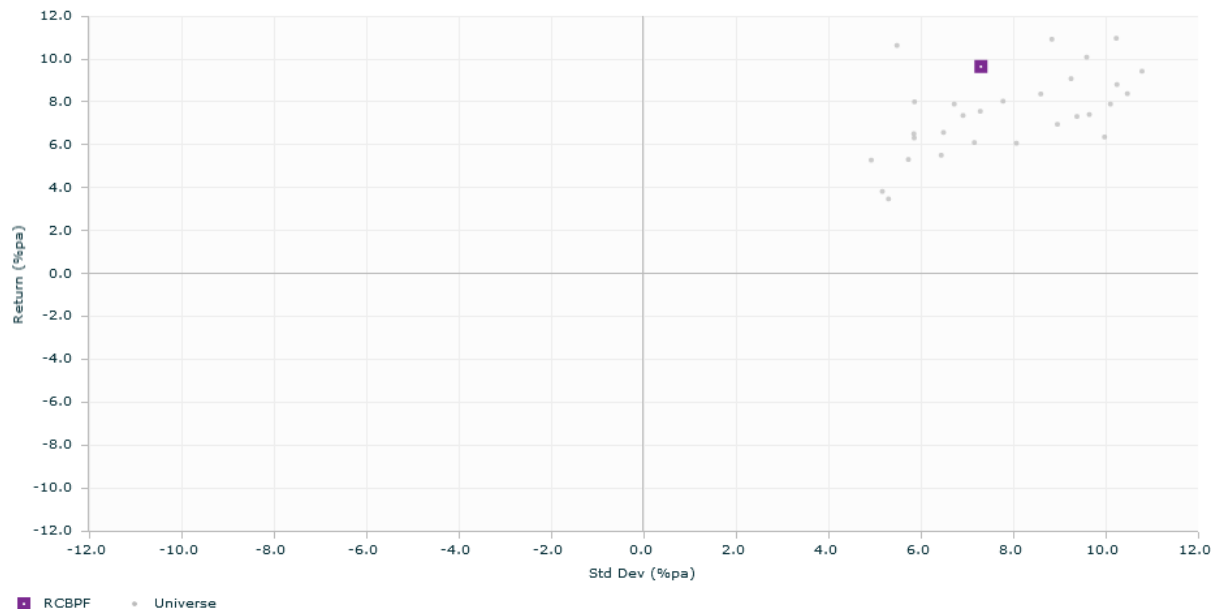
The Royal Borough of Windsor & Maidenhead (“RBWM”) is the administering authority for The Royal County of Berkshire Pension Fund (“the Fund”) and publishes this statement to facilitate discussions with other administering authorities about pooling of investments.

**Investment Strategy**

The Fund’s investment objective is to achieve over an economic cycle a total return of CPI +4% per annum. This return should be achieved with low volatility. Since the investment strategy was implemented in 2009 the Fund has achieved a 9.8% per annum nominal return with a 6% volatility. Compared to institutional diversified growth funds this places the Fund in the top 5 of its universe as shown below.

**Berkshire Pension Fund**

Return and Std Deviation in GBP (after fees) over 6 yrs and 2 quarters ending September-15  
 Comparison with the International Multi-Asset GBP (Net) universe (quarterly calculations)



Created on 30 Nov 2015 at 3:33 PM



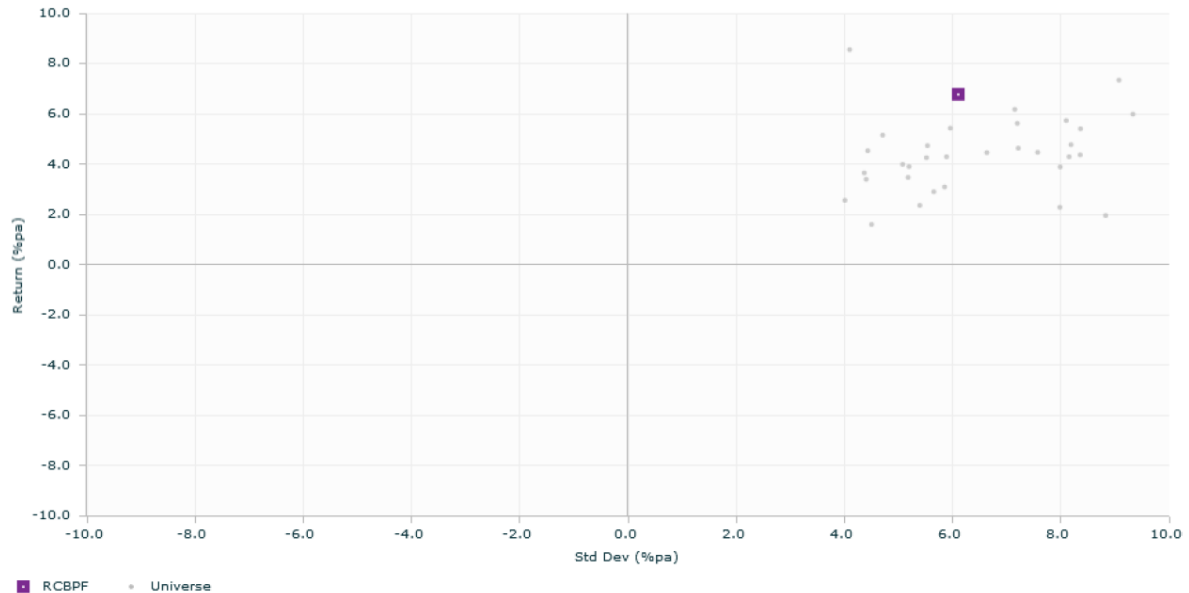
This output should be read in conjunction with, and is subject to, MercerInsight MPA™: Important notices and Third-party data attributions. See [www.mercerinsight.com/importantnotices](http://www.mercerinsight.com/importantnotices) for details. Copyright: © 2015 Mercer LLC. All rights reserved.

Again over the past 5 years the Fund has achieved a near 7% return with volatility around 6% placing it third in the universe. These are admirable returns bearing in

mind that whilst our returns are net of fees the comparable universe is shown gross of fees.

### Berkshire Pension Fund

Return and Std Deviation in GBP (after fees) over 5 yrs ending September-15  
 Comparison with the International Multi-Asset GBP (Net) universe (quarterly calculations)



The Fund follows a highly diversified investment approach with investments categorised into one of four buckets (namely equities, bonds, real assets and absolute return). In addition to the 4% real return target the Fund is increasing its exposure to income producing assets with the objective of reaching a 2% income target in the next two to three years. Thus mandates are designated capital growth (any income is available to the manager for reinvestment) or income producing (all income is paid to the Fund). Finally the Fund has an objective of investing 20% of its assets in Developing Markets via a multi-asset approach. We are still in the process of building out this portion of our portfolio.

### Assets to be Pooled

The Fund has around £500 million in closed ended-funds invested in illiquid assets. It is the Fund’s current intention that these assets will be held as a “run-off” portfolio probably outside any pool. The Fund will consider holding these funds on a nil-additional cost within a pool provided we retain 100% economic interest in these investments.

This leaves around £1.2 billion to be included in any pool.

### Listed Equities

The Fund has approximately £375 million invested in listed equities. The particular mandates which we would expect any pool to offer us are:

### ***Developed Markets Equity Dividend Growth (£207 million).***

Currently managed via two fixed price mandates by Kames Capital and RWC Partners. Each mandate started with an initial target yield of 4% and an investment objective of growing the Sterling income to the Fund over a 5 year period at a pace greater than UK inflation (CPI). Both portfolios are relatively concentrated.

### ***Developing Market (Emerging and Frontier Markets) Equities (£205 million).***

Currently held via 4 pooled funds (Fidelity, Stewart, William Blair and Morgan Stanley) in roughly equal proportions. It is our intention to carve out a minimum of £75 million into a Developing Market Dividend Growth mandate along the lines of the existing Developed Market Equity Dividend Growth mandates above. We expect this mandate to be in place during 2016.

*We would be very interested in discussing with administering authorities with internal investment management capabilities how we could jointly manage such a mandate in the interim to April 2018.*

### ***Developed Markets Equity Growth (£168.7 million)***

Currently invested in a RAFI index tracking fund managed by IPM this mandate is under review and likely to be replaced by a concentrated unconstrained growth mandate.

*We would welcome discussions with any administering authority as to how we can structure and manage such a mandate ahead of pooling in April 2018.*

### ***Private Equity (£163.6 million)***

Details of current funds are in the annex. Our strategy going forward is to focus our private equity investments on 3 themes:

*Food & Water* – currently via a co-investment account with WP Global Partners. Whilst we would expect to retain 100% economic interest in the current portfolio we are happy to discuss the potential for expanding the size of the current mandate if other administering authorities wish to participate.

*Developing Markets* – current investments include Sarona and Kuramo. We anticipate making further commitments over the next few years.

*Technology* – we are currently considering how best to achieve exposure to this sector.

Our long-term objective is to reduce our private equity exposure to around 5% of the Fund hence for every £2 of commitment released via a return of capital we are aiming to re-commit £1.

## **Bonds (£170 million)**

The majority of our bond investments are in close-ended funds and will be held within the run-off portfolio. The exceptions are:

*Index-Linked Gilts (£22 million)* – These are directly held by the Fund and we would expect this to continue for the foreseeable future.

*Dorchester Capital Credit Opportunities (£35 million)* – currently a close ended fund, we are in discussions with Dorchester about changing it to an open-ended fund whilst increasing our investment to around £65 million.

## **Absolute Return (£295 million)**

This portfolio of hedge fund investments is held directly but Grosvenor Capital Management have been retained to advise us on fund selection and portfolio management.

## **Commodities (£57 million)**

This includes investments with Gresham and direct holding of Exchange Traded Commodities. This mandate is currently under review.

## **Infrastructure (£76 million)**

The bulk of the investment is via global close ended funds (£71 million) which will be held in the “run-off” portfolio. The remaining £5 million is an investment in a private rented sector development within Berkshire. Our intention would be to retain this investment directly as a “local investment”. The Fund intends to expand its private rented sector portfolio to around 5% of assets.

## **Real Estate (£182 million)**

The Fund’s real estate investments are in two pooled funds managed by Aviva Investors (namely UK and Global).

## **Convertible Bonds (£64 million).**

Investment via 2 pooled funds (Aviva and Blue Bay) held as “equitized” cash for future investments and private fund calls.

## **Additional Information**

Performance data for all our investments can be found on the investment pages of the Fund’s web-site ([www.berkshirepensions.org.uk](http://www.berkshirepensions.org.uk)).

## **Conclusion**

We have set out in this document our investment strategy and current portfolio in the interests of full disclosure to parties who may wish to enter into discussions regarding pooling with us.

**Nick Greenwood**

**Pension Fund Manager**

**The Royal Borough of Windsor & Maidenhead**

**Private Funds As At 30<sup>th</sup> November 2015**

**Private Equity**

<b>Fund</b>	<b>Vintage</b>	<b>Fund Life</b>	<b>Commitment</b>	<b>NAV</b>	<b>Stage in Fund Life</b>
Adams Street 2006 Non US	2006	2018	£11.3m	£6.3m	In distribution mode.
Adams Street 2008 Non US	2008	2020	£5.3m	£3.9m	In distribution mode.
Adams Street 2008 US	2008	2020	£6.6m	£4.9m	In distribution mode.
Adams Street 2008 Direct	2008	2020	£1.3m	£1.4m	In distribution mode.
Adams Street 2009 Co-Investment	2008	2021	£10m	£8.3m	In distribution mode.
Adams Street 2009 Direct	2009	2021	£2.7m	£2.6m	In distribution mode.
Adams Street 2009 US	2009	2021	£13.3m	£10.5m	In distribution mode.
Adams Street 2009 Non US Developed Mkt	2009	2021	£8m	£4.6m	In distribution mode.
Adams Street 2009 Non US Emerging Markets	2009	2021	£2.7m	£2.5m	In distribution mode.
F&C Aurora	2009	2020	£3.5m	£4.7m	In distribution mode.
Henderson Asia Pacific	2007	2017	£6.6m	£5.5m	In distribution mode.
Kuramo Africa	2012	2021	£10m	£7.4m	In investment period.
Longwall VC	2012	2022	£4m	£1.4m	In investment period.
NB Marquee	2014	2024	£13.3m	£3.7m	In investment period.
Stafford Sustainable	2007	2019	£10m	£4.6m	In distribution mode.
Pantheon Asia	2006	2018	£3.3m	£0.8m	In distribution mode.
Pantheon USA	2006	2018	£18.6m	£14.5m	In distribution mode.
Partners Europe	2007	2021	£7.6m	£5.3m	In distribution mode.
Partners USA	2007	2019	£10m	£7.9m	In distribution mode.
Sarona	2013	2025	£10m	£2.7m	In investment period.
South East Growth Fund	2002	2016	£3m	£4.1m	In distribution mode.
WP Core Alpha II	2007	2017	£16.6m	£10.3m	In distribution mode.
WP Core Alpha III	2010	2020	£16.6m	£14.9m	In distribution mode.
WP Core Alpha IV – Partnership	2013	2023	£15.9m	£7.5m	In investment period.
WP Core Alpha IV – Co-Investment	2013	2023	£4m	£3.3m	In investment period.
WP Food, Water & Agriculture	2014	2024	£30m	£17.5m	In investment period.

**Private Fixed Interest**

<b>Fund</b>	<b>Vintage</b>	<b>Fund Life</b>	<b>Commitment</b>	<b>NAV</b>	<b>Stage in Fund Life</b>
Athyrium	2012	2020	£6.6m	£3.7m	In investment period.
Athyrium II	2014	2022	£19.9m	£7.9m	In investment period.
Dorchester	2012	2017	£36.5m	£35m	In distribution mode.
Grosvenor I	2012	2016	£43.2m	£11.1m	In distribution mode.
Grosvenor III	2013	2020	£40m	£41.2m	In distribution mode.
NB Distressed Debt	2008	2018	£26.6m	£6m	In distribution mode.

**Private Fixed Interest contd.**

<b>Fund</b>	<b>Vintage</b>	<b>Fund Life</b>	<b>Commitment</b>	<b>NAV</b>	<b>Stage in Fund Life</b>
NB Private Debt	2014	2022	£33.2m	£16.8m	In investment period.
Partners Distressed	2008	2018	£26.6m	£12.2m	In distribution mode.
WP Mezzanine	2008	2018	£33.2m	£15.5m	In distribution mode.

**Infrastructure**

<b>Fund</b>	<b>Vintage</b>	<b>Fund Life</b>	<b>Commitment</b>	<b>NAV</b>	<b>Stage in Fund Life</b>
Africa Infrastructure Inv. Fund II	2010	2023	£3.3m	£3m	In investment period.
JPM AIRRO	2011	2016	£6.6m	£6.5m	In investment period.
Macquarie European	2008	2018	£27.9m	£41.3m	In distribution mode.
Macquarie North America	2008	2018	£20m	£14.3m	In distribution mode.
Macquarie India	2010	2019	£3.3m	£3m	In investment period.
Macquarie Greater China	2011	2022	£3.3m	£3.4m	In investment period.

This page is intentionally left blank



Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO– Part I
<b>Title</b>	Investment Governance
<b>Responsible Officer(s)</b>	Nick Greenwood Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	N/A
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	18 January 2016
<b>Implementation Date if Not Called In</b>	Immediate
<b>Affected Wards</b>	None

## REPORT SUMMARY

1. This paper seeks to clarify the process for making investment decisions for the Fund and requests Panel to delegate authority to the Investment Working Group and Officers as detailed in Section 2.

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. A clearly defined investment decision making demonstrates good governance of the Fund	Immediately

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- i. Delegates authority to the Investment Working Group and Officers to make investment decisions on behalf of the Fund.

## 2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

The Council's Constitution currently gives all Officers broad delegated authority to fulfil their duties. The breadth of this delegated authority and the lack of clarity over whom (Panel, Investment Working Group or Officers) has the authority has resulted in Internal Audit recommending that there should be better clarity over the process followed when making investment decisions for the Fund.

The table below recommends specific delegated authorities and gives a rationale for that delegated authority. All decisions by the IWG will require a majority vote in favour by Panel members sitting on the IWG.

<b>Delegate</b>	<b>Delegated Authority</b>	<b>Rationale</b>
Pension Fund Panel	Set Investment Strategy including asset classes and upper limits for investment in those asset classes (required from 1 Oct 2016 via the Investment Strategy Statement).	Prerogative of the administering authority which has delegated this to the Pension Fund Panel
	Award contracts with a value exceeding £50,000 including investment management agreements*	Prerogative of the administering authority which has delegated this to the Pension Fund Panel
Investment Working Group	Recommend changes to the Investment Strategy	A natural function of the IWG; approval of changes will still require Panel approval.
	Set and change asset allocation	Asset allocation is a "by-product" of investment strategy and should be reviewed regularly. IWG was created to periodically review asset allocation and to review investments
	Review investment opportunities/new managers and authorise Officers to make such investments if they comply with the agreed Investment Strategy and do not involve the award of an investment management agreement.	IWG was created to review investments including new investments. Delegating this function to IWG will allow Panel to focus on the overall stewardship of the Fund.
	Terminate mandates/ redeem holdings in pooled funds and Limited Partnerships	Delegating this function to IWG will allow Panel to focus on the overall stewardship of the Fund.
Officers	Undertake due diligence on new investments/managers	Day to day management of the Fund.

	including utilising external resources (e.g. legal assistance) as necessary	
	Complete documentation for making investments	
	Make “capital actions**” decisions where the Capital value of such a decision does not exceed 0.5% (£8.5 million) of the Fund’s assets. Such decisions to include changes to the Absolute Return Portfolio, capital actions for listed equities, co-investment opportunities in private equity, reinvestment of income and capital proceeds from existing investments.	
	Any additional actions that may be required to ensure efficient implementation of the investment strategy or for the efficient management of the Fund. Approval for such actions to be sought from the Chairman or Vice Chairman of the Pension Fund Panel prior to execution.	
Constitutional Emergency Powers	Emergency action to terminate a mandate, redeem a pooled holding or reduce exposure to one or more asset classes	

\* An Investment Management Agreement is a contract between a fund manager and the administering authority to manage a pool of assets for the pension fund.

\*\* For the avoidance of doubt “Capital Actions” refers to actions required to ensure the efficient management of the Fund’s assets and does not enable Officers to make investments not previously approved by IWG or Panel.

Option	Comments
Implement Delegated Authorities as detailed above	<b>Recommended – provides a clear audit trail of how decisions have been made</b>
Do not implement recommended Delegated Authorities	Not recommended – Delegated Authorities demonstrate good governance.

### 3. KEY IMPLICATIONS

3.1 This proposal codifies how investment decisions are made and enables a clear audit trail to be established.

#### **4. FINANCIAL DETAILS**

None

#### **5. LEGAL IMPLICATIONS**

5.1 None

#### **6. VALUE FOR MONEY**

6.1 N/A

#### **7. SUSTAINABILITY IMPACT APPRAISAL**

7.1 N/A

#### **8. RISK MANAGEMENT**

8.1

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
No delegated authorities	Medium	Confirm delegated authorities	Low

#### **9. LINKS TO STRATEGIC OBJECTIVES**

9.1 N/A

#### **10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION**

10.1 Not required

#### **11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS**

11.1 None

#### **12. PROPERTY AND ASSETS**

12.1 N/A

#### **13. ANY OTHER IMPLICATIONS**

13.1 None

#### **14. CONSULTATION**

14.1 Chairman, Vice Chairman of Panel, Head of Finance, External Advisers

**15. TIMETABLE FOR IMPLEMENTATION**

15.1 Immediate

**16. APPENDICES**

16.1 None

**17. BACKGROUND INFORMATION**

17.1 None

This page is intentionally left blank

Report for: ACTION



<b>Contains Confidential or Exempt Information</b>	NO – Part 1
<b>Title</b>	Developing Markets Investment Strategy
<b>Responsible Officer(s)</b>	Nick Greenwood Pension Fund Manager
<b>Contact officer, job title and phone number</b>	Nick Greenwood Pension Fund Manager 01628 796701
<b>Member reporting</b>	Investment Working Group
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	18 January 2016
<b>Implementation Date if Not Called In</b>	Not applicable
<b>Affected Wards</b>	None

## REPORT SUMMARY

- Attached to this report is a paper considered by and approved by the Investment Working Group regarding the development of a multi-asset approach to investing in Developing Markets. It seeks Panel's approval for this strategy and authority for Officers to implement it after consultation with the Investment Working Group on specific investment opportunities

## If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents and reasons why they will benefit	Dates by which residents can expect to notice a difference
1. A clear strategy on investment in Developing Markets will ensure that exposure to these markets is well diversified.	31 <sup>st</sup> March 2017

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- i. **Approve the Developing Markets Investment Strategy at Annex 1**
- ii. **Authorise Officers to implement it after consultation with the Investment Working Group on specific investment opportunities.**

## 2. REASON FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Details of the proposed strategy are at Annex 1. For the avoidance of doubt Developing Markets encompasses all countries other than those recognised as Developed Markets (that is North America, Western Europe, Japan, Australia and New Zealand).

Members are requested to note that the private debt proposal mentioned in the annex was not proceeded with given concerns over its exposure to commodity based borrowers.

<b>Option</b>	<b>Comments</b>
Agree and implement proposed strategy	<b>Recommended by Officers and the Investment Working Group</b>
Do not agree the strategy	Not recommended as this could result in undue concentration in one asset class
Authorise Officers to implement the strategy after consultation with the Investment Working Group on specific investment opportunities	<b>Recommended by Officers on the grounds that this is the most efficient way of implementing the strategy</b>
Do not authorise Officers to implement the strategy after consultation with the Investment Working Group on specific investment opportunities	Not recommended as this would slow implementation and require Panel to approve every investment.

## 3. KEY IMPLICATIONS

### 3.1

<b>Defined Outcomes</b>	<b>Unmet</b>	<b>Met</b>	<b>Exceeded</b>	<b>Significantly Exceeded</b>	<b>Date they should be delivered by</b>
Strategy Implemented	Strategy not implemented	Strategy Implemented	Strategy Implemented by 30 Sept 2017	Strategy Implemented by 31 March 2017	31 March 2018



#### **4. FINANCIAL DETAILS**

Investments to be funded from cash-flow (including capital cash-flows as private funds return capital) and by sale/redemption of existing investments as and when appropriate

#### **5. LEGAL IMPLICATIONS**

5.1 None

#### **6. VALUE FOR MONEY**

6.1 Wherever possible the investment team will negotiate to minimise asset managers' fees.

#### **7. SUSTAINABILITY IMPACT APPRAISAL**

7.1 Not applicable

#### **8. RISK MANAGEMENT**

8.1

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
Developing Markets exposure concentrated in too few asset classes	High	Diversify exposure across asset classes	Medium
Developing Markets exposure concentrated in too few countries/locations	High	Diversify exposure across countries/locations	Medium
Poor selection of asset managers	Medium	Due diligence on managers	Low

#### **9. LINKS TO STRATEGIC OBJECTIVES**

9.1 Forms part of the Fund's overall investment strategy

#### **10. EQUALITIES, HUMAN RIGHTS AND COMMUNITY COHESION**

10.1 Not required

#### **11. STAFFING/WORKFORCE AND ACCOMMODATION IMPLICATIONS**

11.1 None

#### **12. PROPERTY AND ASSETS**

12.1 None

**13. ANY OTHER IMPLICATIONS**

13.1 None

**14. CONSULTATION**

14.1 Investment Working Group

**15. TIMETABLE FOR IMPLEMENTATION**

15.1 As opportunities arise

**16. APPENDICES**

16.1 Annex 1 (attached)

**17. BACKGROUND INFORMATION**

17.1 Annex 1 (attached)

## Annex 1 - Developing Markets Investment Strategy

### Proposal for a Multi-Asset Approach

The IWG at its meeting on 30th January 2015 resolved that the Fund should increase its Developing Markets exposure towards a target of 25% of the Fund's net assets.

This paper presents a proposed solution for creating such a multi-asset approach to Developing Markets and recommends a timetable for implementation.

The table below shows the Fund's current exposure to Developing Markets which has slipped below 15% of the total. This is due to two factors – the sale of the Nomura Small Company fund (reinvested in RWC dividend growth mandate) and the decline in Emerging Market Equity markets relative to other asset classes.

Asset Class	Market Value £m	Uncalled Cash £m	Weighting % (Whole Fund)	Developing Markets Asset Allocation % (Current Value)	Developing Markets Asset Allocation % (including uncalled amounts)
Emerging Market Equities	160.2		9.5	64.8	61.7
Frontier Markets Equities	56.7		3.4	23.0	21.9
Private Equity	7.1	11.2	0.4	2.9	7.0
Infrastructure	15.2	1.1	0.9	6.1	6.3
Property	8.0		0.5	3.2	3.1
Absolute Return					
<b>Totals</b>	<b>247.2</b>	<b>12.3</b>	<b>14.7</b>	<b>100.0%</b>	<b>100.0%</b>

The key fundamentals that investment in these markets should focus on include:

- The population of SE Asia exceeds that of the rest of the world
- Most (not all admittedly) developing markets are forecast to have faster GDP growth than Developed markets
- Infant mortality in developing markets is falling
- Increasing urbanisation – by 2025 47% of global GDP growth is forecast to be from 440 expanding cities in developing countries (source).?
- Forecast of 1 billion new urban consumers in developing markets by 2025 with an expected annual consumption of \$10 trillion.(source)?
- Increasing demand for food, water and energy.

Whilst emerging and frontier market listed equities will give exposure to these themes the increasing globalisation of world stock-markets does mean that many such listed

stocks have only modest exposure to their domestic markets. This does suggest that private equity (focussed on the consumer, urbanisation and increasing demand for food, water and energy) may offer higher exposure.

The table below gives a recommended broad asset allocation for a multi-asset developing market portfolio:

<b>Asset Class</b>	<b>Current Weighting (after outstanding calls)</b>	<b>Current Value £m</b>	<b>Proposed Target</b>	<b>Proposed Value £m</b>	<b>Range</b>
Listed Equity	83.6%	216.9	50%	170.0	35-75%
Private Equity	7.0%	18.3	7.5%	25.0	5-25%
Infrastructure	6.3%	16.3	10%	34.0	5-15%
Property	3.1%	8.0	10%	34.0	5-15%
Bonds	0.0%		15%	52.0	0-30%
Absolute Return	0.0%		7.5%	25.0	0-15%
<b>Total</b>		<b>259.5</b>		<b>340.0</b>	

### **Next steps**

**Listed Equities** – Long term aim is a reduction, however, following recent weakness it was considered that no reduction should be made at this time but that a search for an emerging markets equity dividend growth manager should be commenced during Quarter 4 2015 with a target of funding in Spring/Summer 2016.. Officers suggest a mandate value of £75m with a target income of £3 million growing by UK CPI over the next 5 years.

**Private Equity** – With headroom of £7.7 million (approx. \$12 million) Officers should be requested to review opportunities and report to IWG when suitable opportunities are found.

**Infrastructure** – Officers to review opportunities and report to IWG when suitable opportunities are found.

**Property** – We should engage with Aviva and advise them that the Fund would like to allocate an additional £26 million to Emerging Market real estate. The conversation with Aviva should also include the potential for raising some of this additional capital from the existing Aviva Funds of Funds.

**Bonds** – Largely dependent on timing – the Fund previously appointed Stone Harbour after a search in 2008 and it would be relatively simple to reinvest with them. Potential investments in Private Debt should also be considered as and when suitable opportunities arise

**Absolute Return** – Whilst there are many hedge fund managers based in Emerging Markets (particularly Hong Kong, Singapore and South Africa) most are “global” rather

than Emerging Market managers. Officers should research the universe and report to IWG in 2016.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank



By virtue of paragraph(s) 1 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank