

NOTICE  
OF  
MEETING

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**BERKSHIRE PENSION FUND PANEL**

will meet on

**MONDAY, 11TH SEPTEMBER, 2017**

at

**4.00 pm**

In

**COUNCIL CHAMBER - TOWN HALL, MAIDENHEAD,**

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS JOHN LENTON (CHAIRMAN), DAVID HILTON (VICE-CHAIRMAN), GEOFF HILL AND RICHARD KELLAWAY

ADVISORY MEMBERS: SUNYIA SARFRAZ (SLOUGH BC), MARK BUTCHER, CLLR GLENN DENNIS (READING), CLLR STANTON, CLLR WORRALL, SUE NICHOLLS, CLLR LAW, PATRICK FULLER AND ASIA ALLISON

Karen Shepherd - Democratic Services Manager

Issued: 31/08/17

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 **David Cook**, [david.cook@rbwm.gov.uk](mailto:david.cook@rbwm.gov.uk) **01628 796560**

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## AGENDA

### PART I

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
1.	<u>APOLOGIES</u>  To receive any apologies for absence.	
2.	<u>DECLARATIONS OF INTEREST</u>  To receive any declarations of interest.	5 - 6
3.	<u>MINUTES</u>  To approve the Part I minutes of the meeting held on May 15 <sup>th</sup> .	
4.	<u>PENSION FUND ANNUAL REPORT &amp; ACCOUNTS 2016/17</u>  To consider the report and approve the 2016/17 accounts.	7 - 140
5.	<u>RISK ASSESSMENT REGISTER</u>  To note the contents of the update.	141 - 152
6.	<u>STEWARDSHIP REPORT</u>  To consider the report.	153 - 168
7.	<u>MARKETS IN FINANCIAL INSTRUMENT DIRECTIVE</u>	169 - 178
8.	<u>LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC</u>  To consider passing the following resolution:-  "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 9-12 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act."	

**PART II**

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
9.	<u>MINUTES</u>  To consider the Part II Minutes of the meeting held on May 15 <sup>th</sup> .  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	179 - 180
10.	<u>ACTION TRACKING</u>  To note the update.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	181 - 182
11.	<u>PROJECT GRAND</u>  To note the contents of the report and to make recommendations.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	183 - 198
12.	<u>LGPS POOLING</u>  To note the contents of the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	199 - 204



## MEMBERS' GUIDE TO DECLARING INTERESTS IN MEETINGS

### Disclosure at Meetings

If a Member has not disclosed an interest in their Register of Interests, they **must make** the declaration of interest at the beginning of the meeting, or as soon as they are aware that they have a DPI or Prejudicial Interest. If a Member has already disclosed the interest in their Register of Interests they 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 the discussion or vote at a meeting.** The speaking time allocated for Members to make representations is at the discretion of the Chairman of the meeting. In order to avoid any accusations of taking part in the discussion or vote, after speaking, Members should move away from the panel table to a public area or, if they wish, leave the room. If the interest declared has not been entered on to a Members' Register of Interests, they must notify the Monitoring Officer in writing within the next 28 days following the meeting.

### Disclosable Pecuniary Interests (DPIs) (relating to the Member or their partner) 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 licence 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.

Any Member who is unsure if their interest falls within any of the above legal definitions should seek advice from the Monitoring Officer in advance of the meeting.

A Member with a DPI should state in the meeting: ***'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

*Or, if making representations on the item: 'I declare a Disclosable Pecuniary Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'*

### Prejudicial Interests

Any interest which a reasonable, fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs the Member's ability to judge the public interest in the item, i.e. a Member's decision making is influenced by their interest so that they are not able to impartially consider relevant issues.

A Member with a Prejudicial interest should state in the meeting: ***'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'***

*Or, if making representations in the item: 'I declare a Prejudicial Interest in item x because xxx. As soon as we come to that item, I will make representations, then I will leave the room/ move to the public area for the entire duration of the discussion and not take part in the vote.'*

### Personal interests

Any other connection or association which a member of the public may reasonably think may influence a Member when making a decision on council matters.

Members with a Personal Interest should state at the meeting: ***'I wish to declare a Personal Interest in item x because xxx'. As this is a Personal Interest only, I will take part in the discussion and vote on the matter.***

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<b>Title: Approval of Pension Fund Annual Report and Financial Statements 2016/17</b>
Contains Confidential or Exempt Information?: <i>NO - Part I</i>
Member reporting: Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date: Berkshire Pension Fund and Pension Fund Advisory Panels – 11 September 2017
Responsible Officer(s): Nick Greenwood, Pension Fund Manager
Wards affected: None

## REPORT SUMMARY

1. This report presents the Fund's draft Annual Report and Financial Statements for the year to 31 March 2017 for noting and approval by Panel.
2. It also requests authority for the final version to be published by the statutory deadline of 1 December 2017.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That Panel notes the report and:

- i) **Authorises Officers to correct typographical and drafting errors and to insert the Auditors' Report on receipt.**
- ii) **Approves publication of the final version of the Fund's Annual report and Financial Statements by the statutory deadline of 1 December 2017.**

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

- 2.1 Attached at Annex 1 is a draft copy of the Fund's Annual Report and Financial Statements for the year to 31 March 2017. The Auditors will not issue their final report until they have reviewed the draft Annual Report (including Financial Statements) approved by Panel. Accordingly Officers request authority to insert this on receipt and prior to publication.
- 2.2 The accounts also include the IAS 126 report – this is an accountancy requirement that values the Fund's liabilities using a discount rate derived from Corporate Bond Yields. It has no role in setting contribution rates for Employers or Employees.

- 2.3 Officers also request authority to correct typographical and drafting errors, ensuring that the meaning of content is not changed from that approved by Panel, and publish the Annual Report by the statutory deadline of 1 December 2017.

**Table 1: Option Analysis**

<b>Option</b>	<b>Comments</b>
<b>Authorise Officers to make corrections as required</b>	<b>Recommended to ensure accuracy of the Report</b>
<b>Authorise Officers to insert the Auditors' Report on receipt</b>	<b>Recommended – inclusion of an Auditors' Report is a statutory requirement</b>
<b>Authorise the publication of the Annual Report and Financial Statements</b>	<b>Recommended as this is a statutory requirement</b>
Do not authorise publication	Not recommended as this would breach the statutory requirement for publication.

### **3. KEY IMPLICATIONS**

- 3.1 Not applicable

### **4. FINANCIAL DETAILS / VALUE FOR MONEY**

- 4.1 Only a small number of copies of the Annual Report and Financial Statements are printed so the financial implications of publication are de minimis.

### **5. LEGAL IMPLICATIONS**

- 5.1 Publication is a statutory requirement

### **6. RISK MANAGEMENT**

- 6.1 Not applicable as publication is a statutory requirement.

### **7. POTENTIAL IMPACTS**

- 7.1 Not applicable

### **8. CONSULTATION**

- 8.1 The Pension Fund accounts form part of the Borough's accounts which were due to be approved by The Royal Borough's Audit and Performance Review Panel on 6 September 2017.

### **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 Publication by 1 December 2017.



## **10. APPENDICES**

10.1 Annex 1 – The Royal County of Berkshire Pension Fund Annual Report and Accounts 2016/17 (attached)

## **11. BACKGROUND DOCUMENTS**

11.1 None

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# Royal County of Berkshire Pension Fund *Annual Report and Accounts*



2016/2017





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## **PENSION FUND PANEL**

Chairman	Councillor J Lenton
Vice Chairman	Councillor D Hilton
Other members	Councillor G Hill Councillor P Love (to 26 May 2016) Councillor J Collins (from 26 May 2016 to 14 March 2017) Two vacancies (one for 2016/2017 and one since 14 March 2017) Councillor J Rankin (from 27 May 2016)

## **PENSION FUND ADVISORY PANEL**

In addition to the 5 Pension Fund Panel members, the Advisory Panel consisted of:

Councillor D Worrall (Bracknell Forest Borough Council)  
Councillor G Dennis (from 26 February 2016 Reading Borough Council)  
Councillor Khaula Usmani (appointed from 6 June 2016 Slough Borough Council)  
Councillor A Law (West Berkshire Council)  
Councillor R Stanton (Wokingham Borough Council)  
Mr Engin Eryilmaz (University of West London from January 2017)  
Ms S Nicholls (UNISON)  
Asia Allison (GMB)  
John Ralfs (Langley Academy Trust from 16 January 2017) to 16 March 2017  
Mark Butcher (deferred member from 16 January 2017)

## **ADVISERS**

Actuary	Barnett Waddingham LLP
Independent Investment Adviser	The Law Debenture Pension Trustee Corporation (Mr Inder Dhringa)
Independent Strategy Advisers (to the Investment Working Group)	Ms A Devitt Mr S Jamieson

## **Global Custodian**

JP Morgan Worldwide Securities Services

## **Additional Voluntary Contribution Provider**

Prudential Assurance Company

## **Royal Borough of Windsor & Maidenhead Pension Fund Officers**

Head of Finance	Rob Stubbs (from 4 July 2016)
Pension Fund Manager	Nick Greenwood
Deputy Pension Fund Manager	Kevin Taylor
Investment Manager	Pedro Pardo
Pension Administration Manager	Philip Boyton

## **PENSION BOARD**

In accordance with the provisions of the Public Service Pensions Act 2013 a Pension Board was constituted on 22 July 2015.

Chairman Mr B Webster (until 9 February 2017)

### Employer Representatives

Mr A Cross (Reading Borough Council) Mr A  
Nash (Bracknell Forest Council) – move to Scheme Member Representative from 9 Feb  
2017

Mr B Webster (Wokingham Borough Council until  
9 February 2017)

### Scheme Member Representatives

Mr I Dhak until 28 July 2016  
Mr P Southwell until 28 April 2016  
Mr T Pettitt (Chair from 10 February 2017  
Mr J Ford from 9 February 2017

### Employer Representatives Substitutes

In the event of an employer representative being unable to attend the following  
representatives have been nominated as substitutes:

Mrs S Nagra (Slough Borough Council)  
Mr T Baldwin (The Royal Borough of Windsor &  
Maidenhead)  
Mr A Walker (West Berkshire Council)



## CHAIRMAN'S INTRODUCTION

It gives me great pleasure as Chairman of the Pension Fund Panel and the Pension Fund Advisory Panel to present the Annual Report and Accounts for the financial year ended 31 March 2017 for the Royal County of Berkshire Pension Fund.

The Royal Borough of Windsor & Maidenhead administers the Fund on behalf of the 6 Berkshire Unitary Authorities and around 250 other public, and private, sector employers. I am once again most grateful to the administration team for the efficient service they have provided to all of our employers and their continued professionalism in maintaining the highest standards of service to our Scheme members

The Pension Team is continually striving to provide the best 'customer' experience for all of its scheme members, whether they are current contributing employees, deferred members awaiting payment of their benefits from a future retirement date or retired members in receipt of their pension benefits. Earlier this year we re-launched our online self-service facility – 'my pension ONLINE' which enables our members to access their pension information through a secure portal from the comfort of their own home or workplace. With the ever evolving Local Government Pension Scheme and the need to communicate information and updates to our members and employers alike, we see our online presence to be one of the most effective tools to achieve this.

The Berkshire Pension Fund Panel has powers delegated to it under the Constitution of the Royal Borough of Windsor & Maidenhead's Council Constitution. The Panel comprises of five Councillors from the Royal Borough of Windsor & Maidenhead and receives invaluable support from the Pension Fund Advisory Panel, which consists of representatives from the other 5 Berkshire Unitary Authorities, three other Scheme employer representatives and the trades unions. The Panels are additionally assisted by an independent advisor.

In practice decisions are taken at joint meetings of the two Panels. Investment decisions by the Pension Fund Panel are made after considering recommendations from the Investment Working Group (IWG). The IWG includes members nominated from both Panels together with our external Investment Strategy Advisers.

The Local Pension Board as established in accordance with the Public Service Pensions Act 2013 and Regulation 106 of the Local Government Pension Scheme (LGPS) continues to operate. The Board consists of 3 Berkshire scheme member representatives and 3 Berkshire scheme employer representatives.

The Board is non executive and its purpose is to assist the administering authority in securing compliance with the increasingly complex LGPS Regulations, other legislation relating to the governance and administration of the Scheme and other requirements imposed by the Pensions Regulator. During 2016/17 an audit of the Board found it to be, in the main, compliant with The Pensions Regulator's Code of Practice No.14: Governance and Administration of Public Service Pension Schemes with actions having been taken to ensure that full compliance is now achieved.

Included in this document is the Board's annual report which can be found on page 9.

The Fund performed strongly over the year (15.8% as at 31 March 2017) with most risky assets contributing to returns, especially emerging markets equities following stronger commodity prices. The depreciation of Sterling has significantly contributed to the performance of the Fund thanks to the currency translation gains from non-Sterling denominated investments. Global economic growth and initial optimism about the new

growth focused policies of the US President Donald Trump also contributed to the strong performance over the year.

Uncertainty remained high following the Brexit referendum and other important elections both in the US and Europe although the initial impact from their outcomes proved either positive or less negative than anticipated. Accommodative policy support in the major advanced economies and China continues to lend support to financial markets stretching valuations and lowering yields.

Late in 2015 the Department for Local Government and Communities announced its intention that LGPS pensions schemes including Berkshire should transfer control over Fund investments into 8 pools. At the time of writing the Berkshire Pension Fund Panel is in an advanced stage of negotiation with the Local Pensions Partnership, one of the pools. Members will be kept in touch with developments on this matter.

I also wish to thank the members of the Pension Panel and Advisory Panel for their invaluable contributions to the work of the Fund during the year.

Finally I would like to thank Nick Greenwood, our Pension Fund Manager and the Pension Fund Team for their continuous hard work and invaluable contribution to the efficient running of the service.

A handwritten signature in black ink, appearing to read 'John Lenton', written in a cursive style.

**Councillor John Lenton**  
**Chairman**  
**Berkshire Pension Fund Panel**  
**Berkshire Pension Fund Advisory Panel**

## PENSION BOARD STATEMENT: APRIL 2016 - MARCH 2017

The Pension Board was set up two years ago in accordance with the requirements defined in the Public Sector Pensions Act 2013.

The Board has a statutory duty to:

- Ensure the Fund's compliance with legislation, regulation and guidance, along with the Pension Regulator's (TPR) requirements;
- Ensure that the Fund's governance and administration is effective and efficient.

The main focus of the Board's second year has been to embed the governance structure for the Board itself, which was done through the management of a clearly defined work programme of reviews, monitored through an action tracker. The details of the programme and actions can be seen in the documents and meeting minutes published on the Berkshire Pension Fund website: ([www.berkshirerpensions.org.uk](http://www.berkshirerpensions.org.uk))

In addition, the Board has sought to deliver effective advice and assurance in line with the agreed Terms of Reference and the Administering Authority's Constitution. The Board has continued the process of developing the knowledge and skills of the Board Members to enable them to undertake their duties with confidence. Training has been delivered addressing triennial evaluation procedures, annual reporting requirements, data protection and quality standards, complaints handling and fraud prevention and mitigation.

The Board has also given attention to the compliance of the Fund's administration, reviewing statutory documentation as it has been published throughout the year, including the Governance Compliance Statement, the Statement of Investment Principles, the Fund Annual Report & Accounts and the Annual Business Plan. The Board also reviewed the internal and external audit reports and outcomes. The positive outcome of the internal audit of the Administering Authority's compliance with the TPR Code of Practice 14, with only a small number of moderate and minor issues identified, was especially welcomed. This process will continue in the coming year as we further examine procedural compliance and the underlying effectiveness and efficiency of the Fund's administration, particularly in the context of the challenges of implementing the planned pooling with LPP.

A good working relationship with the Berkshire Pension Fund Panel has been maintained. Overall it has been a successful year with the work of the Board providing further evidence of the compliant, effective and efficient running of the Fund. There will always be room for improvement but our work helps to establish clear priorities for future activity.

## **PENSION BOARD 2016-17**

### **Chair**

Billy Webster

### **Employer Representatives**

Alan Cross (*Reading Borough Council*)

Alan Nash (*Bracknell Forest Borough Council*) (to 24 November 2016)

Billy Webster (*Wokingham Borough Council*)

### **Scheme Member Representatives**

Inderpal Dhak (to 28 April 2016)

Peter Southwell (to 28 April 2016)

Alan Nash (from 24 November 2016)

Tony Pettitt (*Vice Chair*)

### **Employer Representatives Substitutes**

Surjit Nagra (*Slough Borough Council*)

Terry Baldwin (*Royal Borough of Windsor & Maidenhead*)

Andy Walker (*West Berkshire Council*)

# SCHEME ADMINISTRATION REPORT

## INTRODUCTION

The Royal Borough of Windsor and Maidenhead acts as the administering authority for the Royal County of Berkshire Pension Fund – the pension fund for local government employees in the County of Berkshire. Benefits for members of the Fund are set by the Local Government Pension Scheme Regulations 2013 (as amended).

The Royal Borough has delegated its role as administering authority to the Pension Fund Panel. This Panel consists of five Royal Borough councillors and is assisted by the Pension Fund Advisory Panel. This latter panel includes the five Royal Borough councillors plus one councillor drawn from each of the other five unitary authorities in the Fund, one representative from the University of West London on behalf of the other employing bodies in the Fund, two Trade Union representatives (one each from Unison and GMB) acting for the active members of the Fund and one independent adviser.

The Pension Fund and Pension Fund Advisory Panels meet quarterly to receive and consider reports from the Pension Fund Manager and external advisors on the management of the Fund. Attendance to the Panel is noted below:

<b>Name</b>	<b>Authority</b>	<b>Number of Meetings eligible to attend</b>	<b>Attended</b>
Councillor Lenton (Chair)	RB Windsor & Maidenhead	4	4
Councillor Hilton (Vice Chair)	RB Windsor & Maidenhead	4	4
Councillor Collins	RB Windsor & Maidenhead	4	4
Councillor Hill	RB Windsor & Maidenhead	4	4
Councillor Love	RB Windsor & Maidenhead	4	1
Councillor Rankin	RB Windsor & Maidenhead	4	3
Councillor Brooker	Slough Borough Council	4	1
Councillor Usmani	Slough Borough Council	4	3
Councillor Law	West Berkshire Council	4	4
Councillor Stanton	Wokingham Borough Council	4	4
Councillor Dennis	Reading Borough Council	4	4
Councillor Worrall	Bracknell Forest Council	4	4

Royal Borough councillors may delegate designated substitute members to attend a Panel meeting if they are unable to attend.

In addition to the invaluable support and advice offered by the Pension Fund Advisory Panel the Pension Fund Panel is assisted by a variety of advisers including Mr Inder Dhingra as an independent adviser and Mr Graeme Muir of Barnett Waddingham, the Actuary to the Fund.

The Investment Working Group, a sub-group of the panels, is independently advised by Mr Scott Jamieson and Ms Aoifinn Devitt. Additional advice from other professional advisers is sought as necessary. Many of the duties of the Panel are delegated to Officers in accordance with the Royal Borough's constitution.

## **CUSTOMER SATISFACTION**

The landscape of the Local Government Pension Scheme has evolved greatly resulting in the need for our administration team to continue using a variety of methods to understand our members and employers needs. Their needs, experiences of the service we provide and their perception of the Pension Fund help us to continually improve and become more efficient and effective.

The 1 April 2014 saw a significant change to the Local Government Pension Scheme with the introduction of a career average scheme, fundamentally different to the final salary scheme previously in place. This event undoubtedly made the Scheme more complex to administer with increased scrutiny from The Pensions Regulator.

During the last year the team has continued to communicate with members to ensure that they are aware of the impact the changes to the Scheme will make to their pension benefits and to ensure employers are fully educated and understand their responsibilities to provide timely and accurate information together with the consequences of their failure to do so.

There is no doubt our relationship and need to continue working with our members and employers is ever more important.

## **Compliance with Communications Policy Statement**

Under Regulation 61 of the Local Government Pension Scheme Regulations 2013 (as amended) The Royal Borough of Windsor & Maidenhead, in its role as administering authority to The Royal County of Berkshire Pension Fund, is required to publish a statement of policy concerning communications.

This policy statement can be found at Appendix 1 and deals with the methods of communication between the administering authority, members and employers of the Pension Fund.

The administering authority keeps the policy statement under review. During the year the Fund undertook:

### ➤ **Communication with Employers**

#### Annual Employers Meeting

All employers were invited to attend a meeting on 17 March 2017. They were provided with details of the data they are required to submit to the administration team so that members' records are correct, an actuarial update of the Pension Fund, and a presentation by Prudential (the Pension Fund's approved AVC provider), regarding the options AVCs provide at retirement.

#### Quarterly Employer Group Meetings

These meetings were introduced and held during September 2016 and January 2017. Attended by Payroll and HR representatives, of our six largest scheme employers, they were well received and provided opportunity to discuss current issues and developments to the Scheme regulations that impacted on them and their members.

### Training for Employers

The Administration Team continues to hold ad-hoc training sessions throughout the year on request. These sessions are designed to educate both new and current employers about the important role they play in helping the team administer the Scheme and the importance of holding clean and accurate data to process benefits quickly and efficiently. These sessions were well received with the team immediately seeing a more proactive approach towards the submission and quality of data by employers.

### Regular Updates on the LGPS

“*The Inscribe*” bulletin is distributed to employers on a quarterly basis with other global emails distributed to employers when deemed necessary.

### Pension Fund website

The Pension Fund website continues to prove a valuable source of information for our Scheme employers and their members.

The website contains sections dedicated to the following:

- Current members
- Deferred members
- Retired members
- Councillor members
- Employers

The site received over 44,000 visits from members and employers during the year and has been described as easily accessible and having many links making navigation user friendly.

The administration team continue to review and remodel the website to ensure members are aware of the impact any changes to the Scheme will make to their pension benefits but also to ensure a point of reference for employers to help continually educate them and understand their responsibilities.

The website address is [www.berkshirepensions.org.uk](http://www.berkshirepensions.org.uk)

### General Guidance and Assistance

The pension administration team can be contacted during normal office hours. There is a dedicated help-line 0845 602 7237 and a dedicated email help desk ([info@berkshirepensions.org.uk](mailto:info@berkshirepensions.org.uk)).

### Promotional Services

The Pension Fund continues to produce and publish scheme guides and factsheets relating to specific pension topics all of which are available for download from the Pension Fund website.

### i-connect Software

Building on the success experienced since February 2016 by all the 16 employers that started submitting data to the Fund using i-connect Software a further 7 have come on board during the last 12 months.

This has saved the team a significant administration time by removing the need for manual input, but most importantly helping maintain the accuracy of member data. No doubt employers and the team will continue to benefit from this service throughout the coming year.

## ➤ **Communication with All Members**

### Member Self Service - 'my pension ONLINE'

On 1 March 2017 the Fund upgraded its 'my pension ONLINE' service to enable members to securely access and update your own pension details using not just their desktop PC but now using their laptop, tablet or smartphone.

The service continues to prove popular with members of all status who can quickly gain access to their own pension record to check their details are correct and calculate the current and future value of their own benefits and their dependants. This removes the need to contact the administration team and wait for an estimate to be sent to them.

### Welcome Pack

With the implementation of 'my pension ONLINE' each new member receives a letter containing an activation code and guidance as to how to access their welcome pack online. If a member chooses not to register for 'my pension ONLINE' a paper version of the welcome pack will be sent to the member's home address upon request.

### Annual Benefit Statements

Each active and deferred member of the pension scheme receives an annual benefit statement. With the availability of 'my pension ONLINE' these statements are available for viewing, downloading or printing on-line and means the Fund only issues approximately 5,000 statements by post.

The Annual Benefit Statement provides details of benefits built up to 31<sup>st</sup> March the previous year, death in service benefits and details of the member's nominated beneficiaries.

### Pension Surgeries

During the year two pension surgeries were held at each of the six Unitary Authorities with additional pension surgeries being held at other employer locations upon request. These pension surgeries provide an opportunity for members to discuss any aspect of their pension benefits. The administration team met with 976 scheme members across the pension surgeries held.

To accompany these pension surgeries the administration team provide pre-retirement courses and presentations aimed at those members considering retirement in the near future.

### Newsletters

The Pension Fund produces and distributes bi-annual newsletters. '*The Quill*' is issued to active and deferred members and '*The Scribe*' is issued to pensioner and dependant members. Both continue to be very well received by members. Since the implementation of 'my pension ONLINE' newsletters are available for viewing, downloading or printing on-line.



## Annual Meeting

A meeting took place on 10 November 2016 held at the Town Hall in Maidenhead. At the same time, the pension team invited members to attend an open day at the same location. In attendance were members of the administration and payroll teams, representatives from Barnett Waddingham (the Pension Fund Actuary) and Prudential (the Fund's approved AVC provider).

## ➤ **Communication with Pensioner and Dependant Members**

The Pension Fund has a dedicated payroll team dealing with former members now receiving payment of their pension benefits. As well as responding to their enquiries the payroll team are responsible for ensuring we meet our regulatory requirements.

## Pension Payslips

The administration team has issued payslips in accordance with its 50 pence variance rule each month and before payment has been made. The Retired Members area of the Pension Fund website provides a detailed explanation of a payslip. Since the implementation of 'my pension ONLINE' payslips are available for viewing, downloading and printing on-line.

## P60s

The administration team issued P60s to all pensioner and dependant members in April 2015 well in advance of the HMRC deadline. The Retirement Members area of the Pension Fund website provides a detailed explanation of a P60, which was also contained in our Spring edition of *'The Scribe'*. Since the implementation of 'my pension ONLINE' P60s are available for viewing, downloading and printing on-line in a format approved by HM Revenue & Customs.

## Annual Pension Increase Notice

The administration team issued a notification to all pensioner and dependant members in April 2017 providing details of the 1% increase awarded from 10 April 2017 in line with the Consumer Price Index (CPI).

## Tell Us Once (TUO)

A service designed to provide Funds with details of those members having died and their next of kin via the General Registry Office (GRO), the Fund was one of the first Local Government Pension Funds to on board and up load membership data and since going LIVE in March 2016 has received 141 notifications.

This helped the Fund make contact with the next of kin more quickly and avoid any potential overpayment of benefits.

## MANAGEMENT PERFORMANCE

### Key Administration Performance Indicators

The administration team monitor the time it takes to complete procedures. The key foundation to achieving the performance standards we set to complete procedures is by ensuring we maintain quality data.

Our key procedures reported to the Pension Fund Panel on a quarterly basis are:

- Inputting of new members;
- Processing of early leavers;
- Payment of retirement benefits; and
- Payment of transfer values.

Performance for these key procedures over the year was 99.34%, which is an increase of 0.65% on the 2015/16 year. A summary of achievement in each area is shown in the table below:

<b>Administration Team Performance</b>		<b>2015/16</b>			<b>2016/17</b>		
<b>Case Type</b>	<b>Target (working days)</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>
Inputting of new members	20	4269	4252	99.60	5144	5115	99.44
Processing of early leavers	20	3508	3433	97.86	3971	3952	99.52
Payment of retirement benefits	5	1047	999	95.42	1040	1022	98.27
Payment of transfer values	15	47	43	91.49	50	49	98.00

A further top five procedures in terms of cases completed are shown in the table below:

<b>Administration Team Performance</b>		<b>2015/16</b>			<b>2016/17</b>		
<b>Case Type</b>	<b>Target (working days)</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>
Employee estimate requests	7	2510	2248	89.56	2650	2238	84.45
Employer estimate requests	5	478	408	85.35	454	398	87.67
Changes to personal details	15	3115	2965	95.18	6121	5871	95.92
Issue of 'my pension ONLINE' Activation Keys	5	813	774	95.20	1212	1195	98.60
APC Quotes	20	177	176	99.44	235	230	97.87

## Complaints

The administration team monitor the complaints received on a monthly basis and ensure we respond promptly having investigated thoroughly and learning from them to continually improve the service we provide.

The complaints are monitored in two distinct ways:

- Complaints about our service and the way we apply the regulations; and
- Under the LGPS members can use a three stage Internal Dispute Resolution Procedure (IDRP) to settle any disagreement or complaint that they may have about decisions made under scheme rules.

The table below shows the number of complaints in each category. These represent a minimal percentage when compared to more than 30,000 procedures we carried out in 2015/16.

Administration Team Performance		2015/16			2016/17		
Case Type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
Service	10	0	n/a	n/a	0	0	0
IDRP	n/a	3	n/a	n/a	1	n/a	n/a

## Key Staffing and Membership Numbers

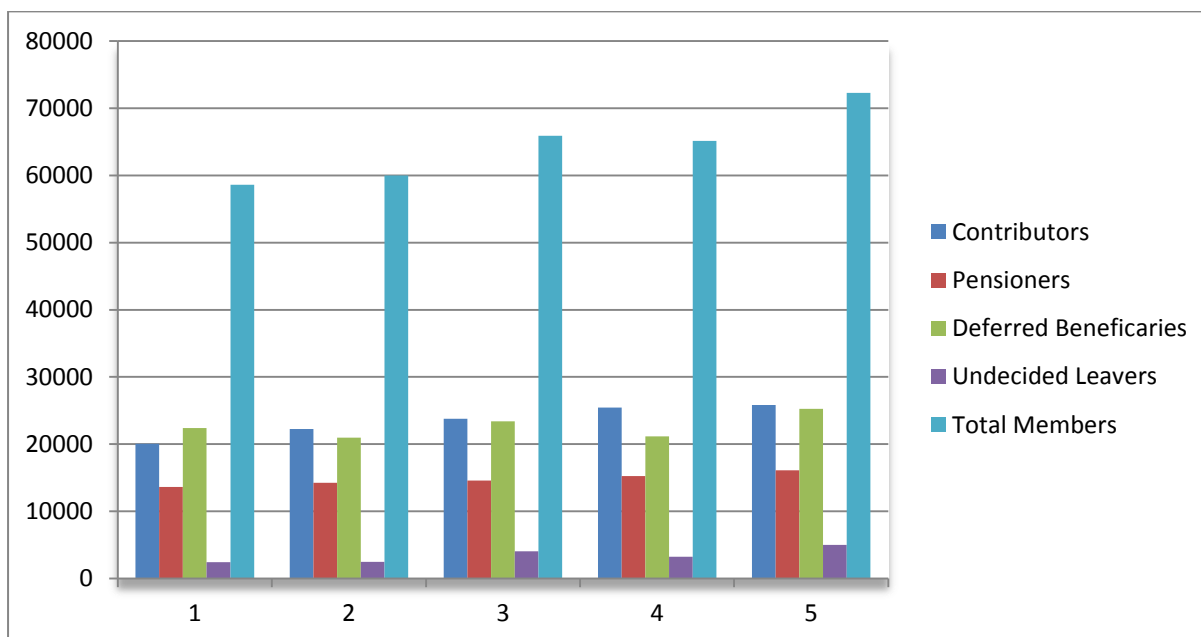
### Staffing

The administration team is made up of the following members:

Year	2015/16	2016/17
Pension Administration Manager	1.0	1.0
Deputy Pension Administration Manager	1.0	1.0
Assistant Pension Manager (Comms)	1.0	1.0
Technical Analyst	1.0	1.0
Senior Pension Administrators	2.0	2.0
Pension Administrators	4.6	5.6
Trainee Pension Administrators	2.0	2.0
Payroll Supervisor	0.7	0.7
(Trainee) Payroll Assistant	1.0	1.0
Clerical Support	1.0	1.0
<b>Total</b>	<b>15.3</b>	<b>16.3</b>

### Membership

Membership of the Pension Fund continues to grow. The chart and table overleaf show the number of contributors, deferred beneficiaries and pensioners (including dependants) and Undecided Leaver member records (individuals may have more than one membership record) over the last five years to 31 March 2017.



	<b>31 March 2013</b>	<b>31 March 2014</b>	<b>31 March 2015</b>	<b>31 March 2016</b>	<b>31 March 2017</b>
<b>Contributors</b>	20,060	22,276	23,783	25,434	25,845
<b>Pensioners</b>	13,666	14,254	14,610	15,243	16,126
<b>Deferred Beneficiaries</b>	22,406	20,960	23,415	21,187	25,256
<b>Undecided Leavers</b>	2,441	2,503	4,083	3,271	5,015
<b>Total Members</b>	<b><u>58,573</u></b>	<b><u>59,993</u></b>	<b><u>65,891</u></b>	<b><u>65,135</u></b>	<b><u>72,242</u></b>

#### NOTES:

- Contributors are employees currently contributing to the Local Government Pension Scheme and include some employees who have more than one contract of employment, each contract being treated separately for administration purposes.
- Pensioner members are in receipt of a pension and include all dependants of former members.
- Deferred beneficiaries are former contributors who have elected to retain their rights in the Scheme until such time as they become payable.
- Undecided Leavers are former contributors who have an entitlement to receive a return of contributions paid less mandatory deductions.

The result is a large Pension Fund being administered by a small team. The administrator to scheme member ratio remains consistent with the previous year at 1:4,432 with the administration team continuing to provide a highly regarded and professional service across the entire membership.

## **Benchmarking**

The Pension Fund has not taken part in any formal benchmarking exercise since 2006 but has taken the opportunity during 2017 to compare ourselves against other Pension Funds of a comparable size in terms of membership when continuing to look at options available in regards to the Government's announcement about the pooling of LGPS investments.

## **Gathering Assurance**

The Pension Fund recognises the importance of gathering assurance over the effective and efficient operation of the pension and payroll administration software used, *altair*. Provided by heywood Limited, both our teams utilise the workflow functionality afforded to us ensuring thorough checks are performed by senior members of the team in all areas of administration.

The Pension Fund is also proactive in responding to enquiries received from both internal (Royal Borough of Windsor & Maidenhead) and external (KPMG) auditors.

## **THE FUTURE**

Whilst there is much uncertainty following the Government's announcement about pooling of LGPS investments to create "British Wealth Funds" by 1 April 2018 and the impact this may have on Administration we will be certain to remain committed and focus our efforts on communicating with both our members and employers. We will ensure that members understand and appreciate the value of the Scheme, which forms a significant part of the pay and reward package provided by their employer.

Ensuring the timely and accurate submission of data from employers is crucial to the administration team continuing to deliver the quality service to members. In an effort to achieve this we aim to not only continue with our efforts to introduce an on-line system across our employers to upload data securely to our pension administration system, but also introduce Employer Self Service. This will enable employers to gain access to their members' pension records to check details are correct and to calculate the current and future value of benefits.

This will help to ensure membership data is updated more frequently and the service to employers and their members is improved. It should also reduce the administrative burden and deliver efficiencies for both the administration team and employers.

Customer service will continue to be a priority as the next few years will be challenging for both members and employers. To demonstrate our commitment and ensure this continues we will ask for our members and employers opinion on our services in a variety of ways. We will continue to survey a sample of our active, deferred, pensioner and dependant members by post, at pension surgeries, presentations and on-line via our website.



## Investment Report

The structure of the investments and managers for the Royal County of Berkshire Pension Fund as at 31 March 2017 and previous year end is shown below:

Asset Class	31-Mar-17		31-Mar-16	
	Value £m	% Fund	Value £m	% Fund
Global Equities	961.7	48.4%	766.3	44.6%
Bonds	263.1	13.2%	246.3	14.3%
Absolute Returns	180.3	9.1%	299.0	17.4%
Property	259.8	13.1%	190.1	11.1%
Commodities	55.4	2.8%	44.1	2.6%
Infrastructure	132.4	6.7%	80.6	4.7%
Other Current Assets / Liabilities	133.1	6.7%	90.3	5.3%
	<b>1,985.8</b>	<b>100.0%</b>	<b>1,716.7</b>	<b>100.0%</b>

As at 31 March 2017, the Fund employed the following external managers (excluding General Partners of Limited Partnerships in which the Fund has a partnership interest across various asset classes including private equity, private debt and infrastructure):

Asset Class	Managers
Global Convertible Bonds	Aviva Investors Blue Bay Asset Management
UK & Global Property	Aviva Investors Global Services
Global Equities	Kames Capital RWC Partners
Emerging Markets Equity	Fidelity International First State Investments Morgan Stanley Investment Management William Blair International
Absolute Returns	Grosvenor Capital Management

The Fund managed a nominal investment return of 15.8% over the financial year and on an annualised basis 8.7% per annum over the last three years. In real terms, the Fund's investment return achieved was 13.2% over one year and 7.7% over three years, significantly outperforming the 4.5% real return target for the Fund's investments over both the one-year and three-year periods. All asset classes experienced strong positive returns despite high geopolitical and policy related uncertainties over the last 12 months (Brexit, US and other European elections and the initial interest rate increases by the Federal Reserve in the United States). The Fund global investments benefited from the depreciation of Sterling, the continuation of accommodative central bank policies and higher economic growth around the world.

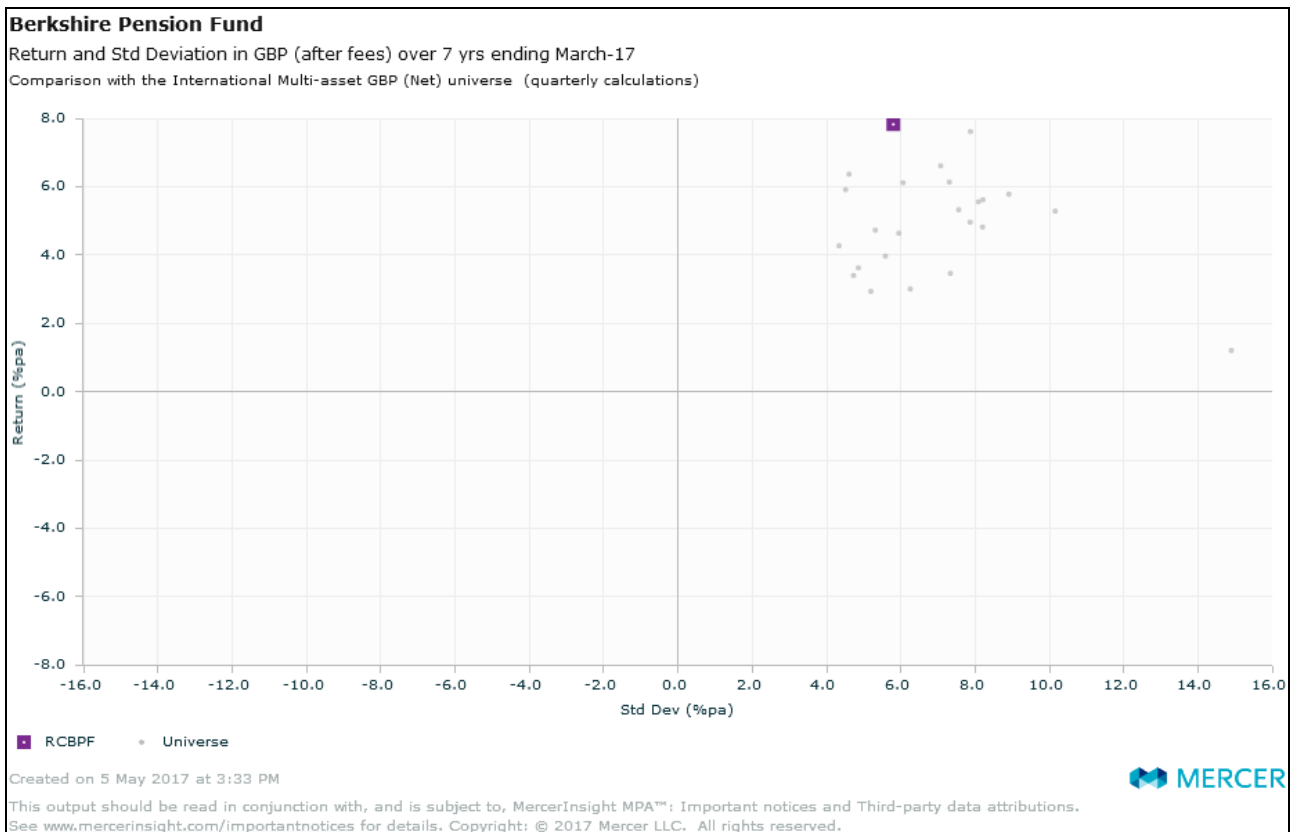
Asset allocation changes during the financial year and other strategic initiatives agreed by the Panel included:

- Reducing further the absolute return portfolio advised by Grosvenor over the next 12 months.
- Increasing exposure to other private debt and private equity funds both in the UK and Globally, including new Emerging Markets multi-asset class investments (property),

middle-market infrastructure, hedge fund secondaries opportunities and other private markets investments (distressed energy, real estate credit and technology).

More detailed information about the performance of the Fund can be found in the Investments section of the Fund's web-site (<http://www.berkshirepensions.org.uk>).

The chart below shows that against funds with a similar investment strategy the Berkshire Pension Fund has, since the inception of our bespoke strategy, performed extremely well against other similar funds with a higher than average return and a lower than average level of risk.





## Financial Performance

### Movement in Net assets of the scheme

During the financial year, the value of the net assets of the scheme increased by £267.4 million.

### Timeliness of Receipt of Contributions

	2016/17	2015/16	2014/15
Percentage of contributions received on or before the due date	98.43%	98.49%	98.93%

The option to levy interest on overdue contributions has not been exercised.

### Administrative Costs Actual compared to Budget

	2016/17 Actual £000's	2016/17 Budget £000's
Staff	597	443
Supplies and Services	486	337
Unit Recharges	233	76
<b>TOTAL</b>	<b>1,316</b>	<b>856</b>

### Income and Expenditure

	2016/17 Actual £000's	2016/17 Forecast £'000's
Employee/Employer Contributions	96,745	93,700
Employer additional contributions for early retirements	2,000	1,900
Transfer Values Received	9,826	3,000
Pensions Payable	-75,843	-74,400
Retirement Lump Sums and Death Grants	-20,743	-17,300
Transfer Values Paid and Refund of Contributions	-6,966	-1,900
Administration Costs	-1,316	-856
<b>Net additions/(withdrawals) from dealing with members</b>	<b>3,703</b>	<b>4,144</b>



## RISK MANAGEMENT

The Royal Borough of Windsor and Maidenhead as the administering authority for The Royal County of Berkshire Pension Fund places great emphasis on risk management. We differentiate between operational and strategic risks and these risks are integrated into the Royal Borough's risk management framework via the Corporate Risk register which records the risks that relate to the achievement of the Royal Borough's objectives. The key risks below are recorded in the Risk Register as part of the Royal Borough's governance procedures.

### Operational risk

Operational risk covers such areas as administration of members' records and payment of benefits, management of the fund's cash and investments, receipt of contributions as well as more mundane matters such as swine flu, business continuity, disaster recovery and having staff with the appropriate skill sets.

The Fund participates in the National Fraud Initiative where National Insurance numbers of members receiving pensions and other benefits are matched against a national database of reported deaths. Any matches are thoroughly investigated.

The key operational risks and the action taken to mitigate them are detailed below:

<b>Risk</b>	<b>Mitigating Action</b>
Wrong benefits are paid.	Annually each active member's salary and hours worked is confirmed with his/her employer On leaving employment a member's final salary and hours worked will be confirmed with his/her employer.
Benefits paid to a deceased member.	The Fund participates in the biennial National Fraud Initiative. Life Certificates may be requested from pensioners living abroad or where a power of attorney is held.
Benefits not paid on time	Lump sum on retirement – we are dependent on both the employer and employee completing paperwork on time. Employers' deadlines are within their Service Level Agreements; regular reminders are sent to chase paperwork up. Monthly payroll of pensions – written procedures are in-place.

Poor quality data	<p>Amendments to active member records should be made at the point at which a change to employment terms and conditions arise. We are dependent on employers completing the relevant paperwork in a timely manner. Employers' deadlines are within their Service Level Agreements. Further checks are undertaken annually when employee contributions are posted to each member record. Employers are regularly chased to provide the outstanding data required.</p> <p>Deferred and pensioner members are encouraged to notify changes of personal details via reminders in newsletters and messages on the pension fund website.</p> <p>The Fund participates in the National Fraud Initiative and in regular "life existence" exercises including checking records against death registers.</p>
Contagious diseases result in insufficient staff being able to work	Key staff have been identified and provided with the ability to work remotely thereby giving the Fund the ability to maintain a basic administration service.
Loss of office premises	A comprehensive disaster recovery plan is in place.
Loss of administration software and/or databases	The pensions administration software is remotely hosted. Officers can access administration data from any web-enabled computer.
Late payment of contributions	Receipt of contributions from employers is monitored. Late paying employers are chased and reminded of their responsibilities. The Fund reserves the right to charge interest on late payments
Third party operations	We seek SAS70 or equivalent statements on internal controls from all external fund managers
High staff turnover	Terms and conditions of staff are reviewed regularly. Opportunities are given for training and promotion where possible.
Loss of key staff	Succession planning; regular review of terms and conditions.

Fund managers failing to produce satisfactory returns	Fund managers' performance is reviewed monthly by officers and quarterly by the Pension Fund Panel. The Investment Working Group focuses on asset allocation as well as fund managers' investment performance.
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### Strategic risks

Strategic risks are those which whilst not affecting day to day operations of the Fund could, nevertheless, in the medium and/or long-term have significant impact. These strategic risks and action being taken to mitigate them are detailed in the table below:

<b>Risk</b>	<b>Mitigating Action</b>
Investment returns being unsatisfactory and/or volatile	The Fund has a broadly diversified portfolio with no one asset class dominating.
Members living longer than anticipated in the Actuarial valuation	Panel noted that a 1 year improvement in life expectancy adds 5% to the Fund's liabilities. In December 2009 the Fund announced that it had entered into longevity insurance covering its liabilities to pensioners as at 31 <sup>st</sup> July 2009. The Panel continues to investigate how to protect the Fund against increasing longevity and reviews the cost of insuring the longevity risk of pensioners retired since July 2009 at regular intervals.
Currency risk – value of investments overseas are affected by unrelated changes in foreign exchange rates	In April 2012 the currency hedging policy was amended so that currency exposures are managed against a strategic currency benchmark. This is expected to assist in reducing the volatility of investment returns in the medium to long term.
Interest Rate Risk – changes in long-term interest rates affects the net present value of the Fund's liabilities	Panel have 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.

<p>Inflation – benefits paid to members are linked (upwards only) to changes in the Consumer Price Index</p>	<p>Panel have considered how long-term inflation rate risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.</p>
<p>Employer Covenant – inability of employers to meet their obligations</p>	<p>The vast majority of the Fund’s liabilities are the direct responsibility of the 6 unitary authorities. A large proportion of the rest lie within the public sector. A very small proportion lies with admitted bodies whose covenant is weaker than that of the Public Sector bodies. The Fund monitors its exposure to these bodies and is considering how this risk may be mitigated effectively and economically.</p>
<p>Governance of the Fund</p>	<p>We regularly review the staffing of the pension fund team.  The composition of the Pension Fund Panel and Pension Fund Advisory Panels is reviewed regularly. New members to both Panels receive a comprehensive members’ handbook and are offered training.  Law Debenture have been appointed as an independent Governance Advisor to both Panels.  Officers arrange training on specific matters as required during the year.  In accordance with statutory requirements a Pension Board was established in July 2015.</p>

# Royal County of Berkshire Pension Fund

Actuary's Statement as at 31 March 2017

20 June 2017

## Introduction

The last full triennial valuation of the Royal County of Berkshire Pension Fund was carried out as at 31 March 2016 in accordance with the Local Government Pension Scheme Regulations and the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

## 2016 valuation results

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

- The Fund as a whole had a funding level of 73% i.e. the assets were 73% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £597m which is higher than the deficit at the previous valuation in 2013.
- To cover the cost of new benefits and to also pay off the deficit over a period of 24 years, an average total employer contribution rate of 22.0% of pensionable salaries would be required.
- However, the contribution rate for each employer was set as the cost of new benefits accruing in future plus an adjustment (expressed either as a percentage of payroll or as a lump sum payment) required to fund their individual deficit over an appropriate period.



## Assumptions

The assumptions used at the valuation as at 31 March 2016 are as follows:

Assumption	31 March 2016
Discount rate	Unitary employers - 5.7% p.a. Non unitary employers - 5.5% p.a.
Pension increases	2.4% p.a.
Salary increases	2.4% p.a. until 31 March 2020 and 3.9% p.a. thereafter
Mortality	S2PMA tables with a 95% multiplier for male and female members, a 115% multiplier for male dependants and the S2DFA tables for female dependants with an 80% multiplier, with projected improvements in line with the CMI 2015 model allowing for a long term rate of improvement of 1.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

## Assets

At 31 March 2016, the market value of the assets was £1,656m.

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date and the asset value used at the valuation is adjusted in a consistent manner although the difference between the smoothed and market values was not significant.

## Updated position since the 2016 valuation

Over the period from 31 March 2016 to 31 March 2017, the assets have achieved an estimated return significantly higher than assumed at the 2016 valuation.

The value placed on the liabilities will have also increased due to the accrual of new benefits, lower discount rates and changes in other assumptions.

We estimate that the funding level at 31 March 2017 is slightly higher when compared on a consistent basis to 31 March 2016. However the ongoing cost of benefits accruing in future will have increased due to market changes.

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

**Graeme Muir FFA**  
**Partner, Barnett Waddingham LLP**

## **Independent auditor's report to the members of the Royal Borough of Windsor & Maidenhead on the pension fund financial statements published with the Pension Fund Annual Report**

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 37 to 56.

### **Respective responsibilities of the Head of Finance and the auditor**

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of the Royal Borough of Windsor & Maidenhead, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

### **Opinion**

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the Royal Borough of Windsor & Maidenhead for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts 2014/2015 and the date of this report.

### **Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

**Darren Gilbert**

**For and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

66 Queen Square, Bristol, BS1 4BE



## **Statement of Responsibilities for the Royal County of Berkshire Pension Fund Accounts**

### **The Royal Borough of Windsor and Maidenhead's Responsibilities**

The Royal Borough is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Pension Fund Manager is the officer fulfilling that responsibility;
- To manage its affairs so as to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the Fund's statement of accounts;

### **The Head of Finance's Responsibilities**

The Head of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Head of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.



**Rob Stubbs**  
**Deputy Director and Head of Finance**



PENSION FUND ACCOUNTS

The Royal County of Berkshire Pension Fund Account

2015/16 £'000		Notes	2016/17 £'000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(94,015)	Contributions	7	(98,745)
(4,761)	Transfers in from other pension funds	8	(9,826)
(98,776)			(108,571)
89,761	Benefits	9	96,585
7,831	Payments to and on account of leavers	10	6,966
97,592			103,551
<b>(1,184)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(5,020)</b>
<b>6,995</b>	<b>Management expenses</b>	11	<b>8,378</b>
<b>5,811</b>	<b>Net additions/withdrawals including fund management expenses</b>		<b>3,358</b>
	<b>Returns on investments</b>		
(27,352)	Investment income	12	(34,915)
1,484	Taxes on income	13	2,207
13,267	Profits and losses on disposal of investments and changes in the market value of investments	14	(238,086)
(12,601)	Net return on investments		(270,794)
<b>(6,790)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(267,436)</b>
1,649,769	<b>Opening net assets of the scheme</b>		1,656,559
<b>1,656,559</b>	<b>Closing net assets of the scheme</b>		<b>1,923,995</b>

Net Assets Statement for the year ended 31 March 2017

2015/16 £'000		Notes	2016/17 £'000
1,717,884	Investment assets	14	1,981,322
(67,532)	Investment liabilities	14	(65,020)
<b>1,650,352</b>	<b>Total net investments</b>		<b>1,916,302</b>
7,891	Current assets	21	10,241
(1,684)	Current liabilities	22	(2,548)
<b>1,656,559</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>1,923,995</b>

The fund's financial statements do not take account of liabilities to pay pensions and others benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

## Notes to the Royal County of Berkshire Pension Fund Accounts for the year ended 31 March 2017

### 1 Description of Fund

The Royal County of Berkshire Pension Fund (the 'fund') is part of the Local Government Pension Scheme and is administered by the Royal Borough of Windsor and Maidenhead. The Royal Borough of Windsor and Maidenhead is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Royal County of Berkshire Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

#### a) General

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

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

It is a contributory defined benefit pension scheme administered by the Royal Borough of Windsor and Maidenhead to provide pensions and other benefits for pensionable employees of the 6 unitary local authorities in the geographical region of Berkshire, and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Pension Fund Panel, which is a committee of the Royal Borough of Windsor and Maidenhead.

#### b) Membership

Membership of the LGPS is voluntary. Employees are automatically enrolled into the scheme and are free to choose whether to remain in the scheme, opt-out of the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Royal County of Berkshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 218 active employer organisations within the Royal County of Berkshire Pension Fund including the administering authority itself, and 67,087 individual members, as detailed below:

The Royal County of Berkshire Pension Fund	31 March 2016	31 March 2017
Number of employers with active members	198	<b>218</b>
<b>Number of employees in scheme</b>		
Administering authority	2,604	2,432
Unitary authorities	14,652	15,097
Other employers	8,178	8,541
<b>Total</b>	<b>25,434</b>	<b>26,070</b>
<b>Number of pensioners</b>		
Administering authority	1,589	1,723
Unitary authorities	7,792	8,324
Other employers	5,862	6,070
<b>Total</b>	<b>15,243</b>	<b>16,117</b>
<b>Deferred pensioners</b>		
Administering authority	3,566	3,603
Unitary authorities	14,860	14,941
Other employers	6,032	6,358
<b>Total</b>	<b>24,458</b>	<b>24,902</b>
<b>Total number of members in pension scheme</b>	<b>65,135</b>	<b>67,089</b>

#### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. During 2016/17, employer contribution rates ranged from 9.1% to 27.5% of pensionable pay.

#### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.



	Service pre 1 April 2008	Service post 1 April 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump Sum</b>	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average revalued earnings (CARE) scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Royal County of Berkshire Pension Fund website.

## 2 Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the code') which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## 3 Summary of significant accounting policies

### Fund account - revenue recognition

#### a) Contribution income

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

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see Notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see note 3m) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### c) Investment income

##### i) Interest income

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

##### ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

##### iii) Distributions from pooled funds

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

##### iv) Movement in the net market value of investments

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

### Fund Account - expense items

#### d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be payable during the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities (Note 22).

## **e) Taxation**

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

## **f) Management expenses**

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs (2016)*.

### Administrative expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

### Oversight and governance costs

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

### Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Most are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change, but there are a number of fixed price contracts with annual inflation related increases.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, no estimated fees are included in investment management fees (2015/16: zero).

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

## **Net Assets Statement**

### **g) Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

### **h) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### **i) Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes (see note 15).

### **j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### **k) Financial liabilities**

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

### **l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the relevant actuarial standards.

As permitted under the code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the

net assets statement (Note 20).

#### m) Additional voluntary contributions

The Royal County of Berkshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its current AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

The fund has previously used Equitable Life and Clerical Medical as alternative AVC providers to Prudential.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the LGPS (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

#### n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

### 4 Critical judgements in applying accounting policies

#### Pension fund liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

### 5 Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the financial statements and notes at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £79.6 million. A 0.1% increase in the long term salary increases assumption would increase the value of liabilities by approximately £9.9 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £154.8 million.
<b>Private equity investments</b>	Private equity investments are valued at fair value in accordance with the International Private Equity and Venture Capital Board guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £581 million. There is a risk that this investment may be under- or overstated in the accounts.

### 6 Events after the balance sheet date

There have been no events since 31 March 2017, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

### 7 Contributions receivable

#### By category

2015/16 £'000		2016/17 £'000
26,041	Employee's contributions	26,433

	<b>Employer's contributions</b>	
52,142	Normal contributions	53,021
14,774	Deficit recovery contributions	17,291
1,058	Augmentation contributions	2,000
<b>67,974</b>	<b>Total employer's contributions</b>	<b>72,312</b>
<b>94,015</b>		<b>98,745</b>

#### By authority

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
85,793	Scheduled bodies	90,217
4,749	Admitted bodies	4,759
3,473	Transferee admission body	3,769
<b>94,015</b>		<b>98,745</b>

#### 8 Transfers in from other pension funds

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
4,716	Individual transfers from other pension funds	9,826
45	AVC to purchase scheme benefits	-
<b>4,761</b>		<b>9,826</b>

#### 9 Benefits payable

##### By category

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
72,548	Pensions	75,843
14,755	Commutation and lump sum retirement benefits	17,733
2,458	Lump sum death benefits	3,009
<b>89,761</b>		<b>96,585</b>

##### By authority

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
82,521	Scheduled bodies	87,847
6,190	Admitted bodies	6,780
1,050	Transferee admission body	1,958
<b>89,761</b>		<b>96,585</b>

#### 10 Payments to and on account of leavers

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
292	Refunds to members leaving service	366
7,539	Individual transfers to other pension funds	6,600
<b>7,831</b>		<b>6,966</b>

#### 11 Management expenses

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
1,151	Administrative costs	1,316
5,783	Investment management expenses	6,940
61	Oversight and governance costs	122
<b>6,995</b>		<b>8,378</b>

##### a) Investment management expenses

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
5,573	Management Fees	6,714
210	Custody Fees	226
<b>5,783</b>		<b>6,940</b>

#### 12 Investment income

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
8,689	Income from equities	17,148
485	Income from bonds	1,125
3,140	Private equity income	5,281
9,037	Pooled property investments	9,594

5,784	Pooled investments - unit trusts and other managed funds	1,348
217	Interest on cash deposits	419
<b>27,352</b>	<b>Total before taxes</b>	<b>34,915</b>

### 13 Other fund account disclosures

#### a) Taxes on income

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
437	Withholding tax - equities	687
891	Withholding tax - pooled property investments	1,201
156	Withholding tax - pooled investments	319
<b>1,484</b>		<b>2,207</b>

#### b) External audit costs

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
29	Payable in respect of external audit	26
<b>29</b>		<b>26</b>

### 14 Investments

<b>Market value</b>		<b>Market value</b>
<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£'000</b>		<b>£'000</b>
	<b>Investment assets</b>	
85,131	Bonds	84,320
215,784	Equities	471,187
707,409	Pooled investments	387,279
72,580	Pooled liquidity funds	81,518
189,902	Pooled property investments	259,548
415,680	Private equity	580,664
	Derivative contracts:	
5,959	- Forward currency contracts	21,426
15,942	Cash deposits	31,119
1,415	Investment income due	3,120
5,032	Amounts receivable for sales	61,141
3,050	Payment made in advance	-
<b>1,717,884</b>	<b>Total investment assets</b>	<b>1,981,322</b>
	<b>Investment liabilities</b>	
	Derivative contracts:	
(2,461)	- Forward currency contracts	(820)
(65,071)	- Longevity Insurance Policy	(64,200)
<b>(67,532)</b>	<b>Total investment liabilities</b>	<b>(65,020)</b>
<b>1,650,352</b>	<b>Net investment assets</b>	<b>1,916,302</b>

#### a) Reconciliation of movements in investments and derivatives

	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Bonds	85,131	19,432	(30,793)	10,550	84,320
Equities	215,784	233,074	(57,107)	79,436	471,187
Pooled investments	707,409	31,779	(447,175)	95,266	387,279
Pooled liquidity funds	72,580	526,639	(517,797)	96	81,518
Pooled property investments	189,902	23,575	-	46,071	259,548
Private equity	415,680	172,954	(92,624)	84,654	580,664
	<b>1,686,486</b>	<b>1,007,453</b>	<b>(1,145,496)</b>	<b>316,073</b>	<b>1,864,516</b>
Derivative contracts:					
- Forward currency contracts	3,498	226,382	(130,506)	(78,768)	20,606
- Longevity insurance policy	(65,071)	6,297	-	(5,426)	(64,200)
	<b>1,624,913</b>	<b>1,240,132</b>	<b>(1,276,002)</b>	<b>231,879</b>	<b>1,820,922</b>
Other investment balances:					
- Cash deposits	15,942			6,207	31,119
- Amount receivable for sales of investments	5,032				61,141
- Investment income due	1,415				3,120
- Payment made in advance	3,050				-
<b>Net investment assets</b>	<b>1,650,352</b>			<b>238,086</b>	<b>1,916,302</b>
	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the	Market value 31 March 2016

	year				
	£'000	£'000	£'000	£'000	£'000
Bonds	86,319	358	-	(1,546)	85,131
Equities	212,080	17,870	(17,828)	3,662	215,784
Pooled investments	786,989	19,551	(57,427)	(41,704)	707,409
Pooled liquidity funds	10,544	196,365	(134,381)	52	72,580
Pooled property investments	210,487	5,711	(35,621)	9,325	189,902
Private equity	387,862	76,342	(79,125)	30,601	415,680
	<b>1,694,281</b>	<b>316,197</b>	<b>(324,382)</b>	<b>390</b>	<b>1,686,486</b>
Derivative contracts:					
- Forward currency contracts	461	67,640	(50,984)	(13,619)	3,498
- Longevity insurance policy	(69,770)	5,306	-	(607)	(65,071)
	<b>1,624,972</b>	<b>389,143</b>	<b>(375,366)</b>	<b>(13,836)</b>	<b>1,624,913</b>
Other investment balances:					
- Cash deposits	15,306			569	15,942
- Amount receivable for sales of investments	-				5,032
- Investment income due	1,104				1,415
- Payment made in advance					3,050
<b>Net investment assets</b>	<b>1,641,382</b>			<b>(13,267)</b>	<b>1,650,352</b>

Purchases and sales of derivatives are recognised in note 14a above as follows:

Forward currency contracts - forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

Longevity insurance policy - the payments or receipts under the contract are reported in the above reconciliation table.

#### b) Analysis of investments

31 March 2016		31 March 2017	
£'000		£'000	
<b>Investment assets</b>			
<b>Bonds</b>			
<b>UK</b>			
23,995	Public sector quoted	-	
<b>Overseas</b>			
61,136	Corporate quoted	84,320	
<b>85,131</b>		<b>84,320</b>	
<b>Equities</b>			
<b>UK</b>			
44,211	Quoted	96,330	
<b>Overseas</b>			
171,573	Quoted	374,857	
<b>215,784</b>		<b>471,187</b>	
<b>Pooled investments - additional analysis</b>			
<b>UK</b>			
179,347	Unit Trusts	209,456	
<b>Overseas</b>			
528,062	Unit Trusts	177,823	
<b>707,409</b>		<b>387,279</b>	
<b>Other investment assets</b>			
72,580	Pooled liquidity funds	81,518	
189,902	Pooled property investments	259,548	
415,680	Private Equity	580,664	
5,959	Derivative contracts	21,426	
15,942	Cash deposits	31,119	
1,415	Investment income due	3,120	
5,032	Amounts receivable for sales	61,141	
3,050	Payment made in advance	-	
<b>709,560</b>		<b>1,038,536</b>	
<b>1,717,884</b>	<b>Total investment assets</b>	<b>1,981,322</b>	
<b>Investment liabilities</b>			
(67,532)	Derivative contracts	(65,020)	
<b>(67,532)</b>	<b>Total investment liabilities</b>	<b>(65,020)</b>	
<b>1,650,352</b>	<b>Net investment assets</b>	<b>1,916,302</b>	

#### c) Investments analysed by fund manager

Market value 31 March 2016		Market value 31 March 2017	
£'000	%	£'000	%

1,238,483	75.0	Royal County of Berkshire Pension Fund in-house investment team	1,214,524	63.4
189,902	11.5	Aviva Global Investors	213,028	11.1
113,232	6.9	Kames Capital	242,276	12.6
105,237	6.4	RWC Partners	225,868	11.8
3,498	0.2	The Cambridge Strategy (Asset Management)	20,606	1.1
<b>1,650,352</b>			<b>1,916,302</b>	

All the above organisations are registered in the United Kingdom.

The following investments represent more than 5% of the net assets of the scheme

Security	Market value 31 March 2016 £'000	% of total fund	Market value 31 March 2017 £'000	% of total fund
Aviva Global Real Estate	119,011	7.2	148,550	7.8

## 15 Analysis of derivatives

### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

#### - Forward foreign currency

To maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's portfolio is in overseas assets. To reduce the volatility associated with fluctuating currency rates, the fund has a passive currency programme in place with an external manager.

#### - Longevity Insurance Policy

In December 2009 the fund entered into an insurance contract with ReAssure Ltd to cover a closed group of pensioner members. The fund pays ReAssure a pre-determined fixed annual premium and ReAssure reimburses the fund for pensions paid to the insured members. The contract is valued by an external firm of actuaries by considering what adjustment to the discount rate assumption (based on the Merrill Lynch LIBOR swap curve) would be required if the contract had a zero value at the date of inception. A similar adjustment is then made to the discount rate assumption at the accounting date to calculate the updated value of the contract.

#### Open forward currency contracts

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
One to six months	GBP	670,199	USD	(816,653)	18,362	
One to six months	GBP	132,366	EUR	(152,116)	2,014	
One to six months	GBP	12,216	NOK	(126,354)	464	
One to six months	GBP	12,086	CAD	(19,809)	217	
One to six months	GBP	12,427	AUD	(20,107)	201	
One to six months	GBP	15,908	EUR	(18,436)	110	
One to six months	USD	25,035	GBP	(19,943)	39	
One to six months	USD	5,050	BRL	(16,254)	19	
One to six months	JPY	2,000,000	GBP	(14,371)	0	
One to six months	JPY	881,804	GBP	(6,339)		(3)
One to six months	USD	4,998	CLP	(3,323,739)		(3)
One to six months	USD	5,117	SGD	(7,236)		(52)
One to six months	USD	5,010	TRY	(19,210)		(117)
One to six months	USD	5,142	KRW	(5,917,318)		(124)
One to six months	USD	5,165	INR	(348,507)		(138)
One to six months	USD	5,334	MXN	(105,852)		(174)
One to six months	CHF	18,111	GBP	(14,722)		(209)
<b>Open forward currency contracts at 31 March 2017</b>					<b>21,426</b>	<b>(820)</b>
<b>Net forward currency contracts at 31 March 2017</b>						<b>20,606</b>
<b>Prior year comparative</b>						
<b>Open forward currency contracts at 31 March 2016</b>					<b>5,959</b>	<b>(2,461)</b>
<b>Net forward currency contracts at 31 March 2016</b>						<b>3,498</b>

## 16 Fair value - Basis of valuation

The basis of the valuation of each class of investment asset is set below. There has been no change in the valuation techniques during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required

<b>Exchange traded pooled investments</b>	Level 1	Closing bid values on published exchanges	Not required	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Pooled investments - overseas unit trusts and property funds</b>	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
<b>Unquoted equity</b>	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and venture Capital Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
		£'000	£'000	£'000
Pooled property investments	0%	259,548	259,548	259,548
Private equity	2%	580,665	592,278	569,051
Derivative contracts	0%	(64,200)	(64,200)	(64,200)
<b>Total</b>		<b>776,013</b>	<b>787,626</b>	<b>764,400</b>

#### a) Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

##### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.

##### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value

##### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2017	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	596,627	449,102	840,212	1,885,941
Loans and receivables	105,622			105,622
<b>Total financial assets</b>	<b>702,249</b>	<b>449,102</b>	<b>840,212</b>	<b>1,991,563</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(820)		(64,200)	(65,020)
Financial liabilities at amortised cost	(2,548)			(2,548)
<b>Total financial liabilities</b>	<b>(3,368)</b>	<b>-</b>	<b>(64,200)</b>	<b>(67,568)</b>
<b>Net financial assets</b>	<b>698,881</b>	<b>449,102</b>	<b>776,012</b>	<b>1,923,995</b>



Values at 31 March 2016	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	337,803	749,060	605,582	1,692,445
Loans and receivables	33,330			33,330
<b>Total financial assets</b>	<b>371,133</b>	<b>749,060</b>	<b>605,582</b>	<b>1,725,775</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(2,461)		(65,071)	(67,532)
Financial liabilities at amortised cost	(1,684)			(1,684)
<b>Total financial liabilities</b>	<b>(4,145)</b>	<b>-</b>	<b>(65,071)</b>	<b>(69,216)</b>
<b>Net financial assets</b>	<b>366,988</b>	<b>749,060</b>	<b>540,511</b>	<b>1,656,559</b>

b) Reconciliation of fair value measurements within level 3

	Market value 31 March 2016 £'000	Purchases during the year and derivative receipts £'000	Sales during the year and derivative receipts £'000	Unrealised gains/(losses) £'000	Realised gains/(losses) £'000	Market value 31 March 2017 £'000
Private equity	415,680	172,954	(92,624)	62,595	22,059	580,665
Pooled property investments	189,902	23,575	-	46,071	-	259,548
Derivative contracts	(65,071)	6,297	-	(5,426)	-	(64,200)
	<b>540,511</b>	<b>202,826</b>	<b>(92,624)</b>	<b>103,240</b>	<b>22,059</b>	<b>776,013</b>

17 Financial instruments

a) Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

Fair value through profit and loss	31 March 2016			Fair value through profit and loss	31 March 2017		
	Loans and receivables £'000	Financial liabilities at amortised cost £'000	£'000		Loans and receivables £'000	Financial liabilities at amortised cost £'000	£'000
			<b>Financial assets</b>				
85,131			Bonds	84,320			
215,784			Equities	471,187			
707,409			Pooled investments	387,279			
72,580			Pooled liquidity funds	81,518			
189,902			Pooled property investments	259,548			
415,680			Private equity	580,664			
5,959			Derivative contracts	21,426			
	17,187		Cash		35,699		
	9,497		Other investment balances		64,261		
	6,646		Debtors		5,661		
<b>1,692,445</b>	<b>33,330</b>	<b>-</b>		<b>1,885,942</b>	<b>105,621</b>	<b>-</b>	
			<b>Financial liabilities</b>				
(67,532)			Derivative contracts	(65,020)			
		(1,684)	Creditors			(2,548)	
<b>(67,532)</b>	<b>-</b>	<b>(1,684)</b>		<b>(65,020)</b>	<b>-</b>	<b>(2,548)</b>	
<b>1,624,913</b>	<b>33,330</b>	<b>(1,684)</b>		<b>1,820,922</b>	<b>105,621</b>	<b>(2,548)</b>	

b) Net gains and losses on financial instruments

31 March 2016	31 March 2017
---------------	---------------

£'000		£'000
(13,836)	Fair value through profit and loss	231,879
569	Loans and receivables	6,207
<b>(13,267)</b>	<b>Total</b>	<b>238,086</b>

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## 18 Nature and extent of risks arising from financial instruments

### Risk and risk management

The fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

#### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund mitigates this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

#### Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year the council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset type	Potential market movements (+/-)
Bonds	9.1%
Equities	8.8%
Private Equity	9.7%
Pooled investments	11.0%
Pooled Property Funds	4.1%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (with prior year comparator):

Asset type	Value as at 31 March 2017	Potential market movement	Value on increase	Value on decrease
------------	---------------------------	---------------------------	-------------------	-------------------

	£'000	£'000	£'000	£'000
<b>Investment portfolio assets:</b>				
Bonds	84,320	7,673	91,993	76,647
Equities	471,187	41,464	512,651	429,721
Pooled investments	387,279	42,601	429,879	344,678
Pooled Property Funds	259,548	10,641	270,189	248,907
Private Equity	580,664	56,324	636,989	524,340
Net derivative liabilities	(43,594)	-	(43,594)	(43,594)
Cash and cash equivalents	112,637	-	112,637	112,637
Investment income due	3,120	-	3,120	3,120
Amounts receivable for sales	61,141	-	61,141	61,141
Payment made in advance	-	-	-	-
<b>Current assets:</b>				
Debtors	5,661	-	5,661	5,661
Cash balances	4,580	-	4,580	4,580
<b>Current liabilities</b>	(2,548)	-	(2,548)	(2,548)
<b>Total</b>	<b>1,923,995</b>		<b>2,082,698</b>	<b>1,765,290</b>

Asset type	Value as at 31 March 2016	Potential market movement	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
<b>Investment portfolio assets:</b>				
Bonds	85,131	7,747	92,878	77,384
Equities	215,784	18,989	234,773	196,795
Pooled investments	707,409	77,815	785,224	629,594
Pooled Property Funds	189,902	7,786	197,688	182,116
Private Equity	415,680	40,321	456,001	375,359
Net derivative liabilities	(61,573)	-	(61,573)	(61,573)
Cash and cash equivalents	88,522	-	88,522	88,522
Investment income due	1,415	-	1,415	1,415
Amounts receivable for sales	5,032	-	5,032	5,032
Payment made in advance	3,050	-	3,050	3,050
<b>Current assets:</b>				
Debtors	6,646	-	6,646	6,646
Cash balances	1,245	-	1,245	1,245
<b>Current liabilities</b>	(1,684)	-	(1,684)	(1,684)
<b>Total</b>	<b>1,656,559</b>		<b>1,809,217</b>	<b>1,503,901</b>

#### Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

#### Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a  $\pm$  100 BPS change in interest rates:

Asset exposed to interest rate risk	Value as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash and cash equivalents	112,637	-	-
Cash balances	4,580	-	-
Bonds	84,320	(3,926)	3,926
<b>Total change in assets available</b>	<b>201,537</b>	<b>(3,926)</b>	<b>3,926</b>

Asset exposed to interest rate risk	Value as at 31 March 2016	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash and cash equivalents	88,522	-	-

Cash balances	1,245	-	-
Bonds	85,131	(7,613)	7,613
<b>Total change in assets available</b>	<b>174,898</b>	<b>(7,613)</b>	<b>7,613</b>

Income exposed to interest rate risk	Amount receivable in year ending 31 March 2017	Effect on income values	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash balances/cash and cash equivalents	419	1,203	(1,203)
Bonds	1,125	-	-
<b>Total change in income receivable</b>	<b>1,544</b>	<b>1,203</b>	<b>(1,203)</b>

Income exposed to interest rate risk	Amount receivable in year ending 31 March 2016	Effect on income values	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash balances/cash and cash equivalents	217	898	(898)
Bonds	485	-	-
<b>Total change in income receivable</b>	<b>702</b>	<b>898</b>	<b>(898)</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

#### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

#### Currency risk - sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange rate movements to be 10.0% (as measured by one standard deviation).

A 10.0% fluctuation in the currency is considered reasonable based on analysis of long-term historical movements in the month-end exchange rates over a rolling 3 year period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10.0% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset value as at 31 March 2017	Change to net assets available to pay benefits	
		+10.0%	-10.0%
	£'000	£'000	£'000
Overseas equities	374,857	37,486	(37,486)
Overseas unit trusts	177,823	17,782	(17,782)
<b>Total change in assets available</b>	<b>552,680</b>	<b>55,268</b>	<b>(55,268)</b>

Assets exposed to currency risk	Asset value as at 31 March 2016	Change to net assets available to pay benefits	
		+10.0%	-10.0%
	£'000	£'000	£'000
Overseas equities	171,573	17,157	(17,157)
Overseas unit trusts	528,062	52,806	(52,806)
<b>Total change in assets available</b>	<b>699,635</b>	<b>69,963</b>	<b>(69,963)</b>

#### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence, the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum deposit placed with any one class of financial institution. In addition, the council invests an agreed amount of its funds in the money markets to provide diversification.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2017 was £117.2m (31 March 2016: £89.8m). This was held with the following institutions:

	Rating	Balances as at 31 March 2016 £'000	Balances as at 31 March 2017 £'000
<b>Money Market funds</b>			
Aviva	A+	20,000	25,003
JP Morgan	A+	16,641	11,629
Legal & General	AAA	19,831	24,925
Northern Trust	AA-	16,108	19,960
<b>Bank deposit accounts</b>			
JP Morgan	A+	15,942	31,119
<b>Bank current accounts</b>			
Lloyds	A+	1,245	4,580
<b>Total</b>		<b>89,767</b>	<b>117,216</b>

### c) Liquidity risk

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

The council has immediate access to its pension fund cash holdings.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those which will take longer than three months to convert to cash. As at 31 March 2017 the value of illiquid assets was £840.2m, which represented 43.8% of the total fund assets (31 March 2016: £605.6m, which represented 36.7% of the total fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

### Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 19 Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 24 years from the valuation date and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2016 actuarial valuation, the Fund was assessed as 73% funded (75% at the March 2013 valuation). This corresponded to a deficit of 597 million (2013 valuation: 527 million) at that time.

At the 2016 actuarial valuation the average required employer contribution to restore the funding position to 100% over the next 24 years was 22.0% of pensionable pay.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

#### Financial assumptions

Discount Rate	5.9% per annum
Pension and Deferred Pension Increases	2.4% per annum
Short term pay increases	CPI for period from 31 March 2016 to 31 March 2020
Long term pay increases	3.9% per annum

#### Mortality assumptions

Current mortality	95% of the S2PA tables
Mortality Projection	2015 CMI Model with a long-term rate of improvement of 1.5% p.a

#### Commutation assumption

It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum of £1 of pension.

### 20 Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS19 basis, the actuarial present value of promised retirement benefits at 31 March 2017 was £4,185 million (31 March 2016: £3,343 million). The net assets available to pay benefits as at 31 March 2017 was £1,924 million (31 March 2016: £1,657 million). The implied fund deficit as at March 2017 was therefore £2,261 million (31 March 2016: £1,686 million).

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

#### IAS19 assumptions used

Inflation/pension increase rate assumption	2.70%
Salary increase rate	4.20%
Discount rate	2.80%

### 21 Current assets

31 March 2016		31 March 2017
£'000		£'000
6,640	- Contributions due	4,905
6	- Sundry debtors	756
6,646	Debtors	5,661
1,245	Cash balances	4,580
<b>7,891</b>		<b>10,241</b>

#### Analysis of debtors

31 March 2016		31 March 2017
£'000		£'000
3,643	Other local authorities	2,363
3,003	Other entities and individuals	3,298
<b>6,646</b>		<b>5,661</b>

### 22 Current liabilities

31 March 2016		31 March 2017
£'000		£'000
(1,682)	Sundry creditors	(2,452)
(2)	Benefits payable	(96)
<b>(1,684)</b>		<b>(2,548)</b>

#### Analysis of creditors

31 March 2016	31 March 2017
---------------	---------------

<b>£'000</b>		<b>£'000</b>
(907)	Central government bodies	(886)
-	Other local authorities	(253)
(777)	Other entities and individuals	(1,409)
<b>(1,684)</b>		<b>(2,548)</b>

### 23 Additional voluntary contributions

Market value 31 March 2016		Market value 31 March 2017	
£'000		£'000	
13,653	Prudential	14,068	
4	Equitable Life	4	
58	Clerical Medical	18	
<b>13,715</b>	<b>Total</b>	<b>14,090</b>	

AVC Contributions of £2.029 million were paid directly to Prudential during the year (2015/16: £2.001 million).

### 24 Related party transactions

#### The Royal Borough of Windsor and Maidenhead

The Royal County of Berkshire Pension Fund is administered by The Royal Borough of Windsor and Maidenhead. Consequently there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £1.316m (2015/16 £1.151m) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the 5th largest employer of members of the pension fund and contributed £11.0m (2015/16 £11.0m).

#### Governance

No members of the pension fund panel are in receipt of pension benefits from The Royal County of Berkshire Pension Fund.

Each member of the pension fund panel is required to declare their interests at each meeting.

#### Key management personnel

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of The Royal Borough of Windsor and Maidenhead.

### 25 Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £397.835m (31 March 2016: £139.986m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts "called" by these funds are irregular in both size and timing.

### 26 Contingent assets

Several admitted body employers in the Royal County of Berkshire Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These funds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.





# Royal County of Berkshire Pension Fund

Pension accounting disclosure as at 31 March 2017  
Prepared in accordance with IAS26

21 August 2017

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## 1. Introduction

We have been instructed by the Royal Borough of Windsor and Maidenhead, the administering authority to the Royal County of Berkshire Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2017.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

As was requested by the administering authority, we issued a draft report (dated 30 May 2017) while the valuation of the longevity contract was in the process of being finalised. This has since been finalised and so this report reflects the agreed value of the longevity contract. Furthermore, we have since received a whole Fund asset statement as at 31 March 2017 and our results are based on this updated information.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

## 2. Valuation data

### Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from the Royal Borough of Windsor and Maidenhead:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2017;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016 and 31 March 2017; and
- Details of any new early retirements for the period to 31 March 2017 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

### Employer membership statistics

The table below summarises the membership data, as at 31 March 2016.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	25,050	390,997	45
Deferred pensioners	29,817	36,630	46
Pensioners	15,269	71,952	71

### Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2017.

We have been notified of 79 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £555,000.

### Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2017 is estimated to be 18%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Royal County of Berkshire Pension Fund as at 31 March 2017 is as follows:

Asset breakdown	31 Mar 2017		31 Mar 2016	
	£000s	%	£000s	%
Equities	953,343	50%	762,025	46%
Gilts	0	n/a	23,995	1%
Other Bonds	283,103	15%	222,346	13%
Property	259,548	13%	189,901	11%
Cash	205,196	11%	107,698	7%
Target Return Portfolio	119,171	6%	290,937	18%
Commodities	35,415	2%	44,120	3%
Infrastructure	132,417	7%	80,582	5%
Longevity Insurance	-64,176	-3%	-65,071	-4%
<b>Total</b>	<b>1,924,017</b>	<b>100%</b>	<b>1,656,533</b>	<b>100%</b>

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2017 is likely to be different from that shown due to estimation techniques.

## Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

### **3. Actuarial methods and assumptions**

#### **Valuation approach**

To assess the value of the Fund's liabilities at 31 March 2017, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2017 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2017 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

The Fund entered into a longevity insurance contract in 2009 and this has been included in the assets. Following discussions with KPMG and the Fund, we have updated the approach to valuing the longevity contract this year. We have considered what adjustment to the discount rate assumption (based on the Merrill Lynch LIBOR swap curve) would be required if the contract had a zero value at the date of inception. A similar adjustment is then made to the discount rate assumption at the accounting date to calculate the updated value of the contract. Further details on this, or the approach adopted last year, can be provided on request.

#### **Demographic/Statistical assumptions**

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. This has been updated since the previous accounting date when the assumptions were set to be consistent with those adopted for the Fund's 2013 valuation, details of which can be found in the previous accounting report.

The post retirement mortality tables adopted are the S2PA tables with a multiplier of 95%. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2017	31 Mar 2016
Retiring today		
Males	23.0	22.9
Females	25.0	26.2
Retiring in 20 years		
Males	25.1	25.2
Females	27.4	28.6

We have also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

## Financial assumptions

The financial assumptions used to calculate the results in Section 4 and the Appendices are as follows:

Assumptions as at	31 Mar 2017	31 Mar 2016	31 Mar 2015
	% p.a.	% p.a.	% p.a.
Discount rate	2.8%	3.7%	3.3%
Pension increases	2.7%	2.4%	2.4%
Salary increases	4.2%	4.2%	4.2%

These assumptions are set with reference to market conditions at 31 March 2017.

Our estimate of the duration of the Fund's liabilities is 20 years.

The discount rate is the annualised yield at the 20 year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 20 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.6% p.a. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% p.a. below RPI i.e. 2.7% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is consistent with the approach used at the last accounting date.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This has been updated since the previous accounting date to be in line with the salary increase assumption adopted for the Fund's 2016 valuation. At the previous accounting date, salaries were assumed to increase at 1.8% p.a. above CPI in addition to a promotional scale.



## 4. Results and disclosures

We estimate that the net liability as at 31 March 2017 is a liability of £2,261,479,000.

The results of our calculations for the year ended 31 March 2017 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2017;
- Appendix 2 details a reconciliation of assets and liabilities during the year; and
- Appendix 3 shows a sensitivity analysis on the major assumptions.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.



**Graeme Muir FFA**  
**Partner**

## Appendix 1 Statement of financial position as at 31 March 2017

Net pension asset as at	31 Mar 2017	31 Mar 2016	31 Mar 2015
	£000s	£000s	£000s
Present value of the defined benefit obligation	4,185,496	3,343,040	3,442,647
Fair value of Fund assets (bid value)	1,924,017	1,656,533	1,650,873
<b>Net liability in balance sheet</b>	<b>2,261,479</b>	<b>1,686,507</b>	<b>1,791,774</b>

\*Present value of funded obligation consists of £4,045,869,000 in respect of vested obligation and £139,627,000 in respect of non-vested obligation.

## Appendix 2 Asset and benefit obligation reconciliation for the year to 31 March 2017

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	Year to
	31 Mar 2017	31 Mar 2016
	£000s	£000s
<b>Opening defined benefit obligation</b>	<b>3,343,040</b>	<b>3,442,647</b>
Current service cost	104,992	116,563
Interest cost	122,454	112,545
Change in financial assumptions	805,393	(263,664)
Change in demographic assumptions	(41,075)	-
Experience loss/(gain) on defined benefit obligation	(81,380)	-
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(96,477)	(92,636)
Past service costs, including curtailments	2,565	1,746
Contributions by Scheme participants and other employers	25,984	25,839
Unfunded pension payments	-	-
<b>Closing defined benefit obligation</b>	<b>4,185,496</b>	<b>3,343,040</b>

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to	Year to
	31 Mar 2017	31 Mar 2016
	£000s	£000s
<b>Opening fair value of Fund assets</b>	<b>1,656,533</b>	<b>1,650,873</b>
Interest on assets	61,243	54,498
Return on assets less interest	237,477	(48,024)
Other actuarial gains/(losses)	(27,389)	-
Administration expenses	(1,211)	(1,971)
Contributions by employer including unfunded	67,893	67,954
Contributions by Scheme participants and other employers	25,984	25,839
Estimated benefits paid plus unfunded net of transfers in	(96,477)	(92,636)
Settlement prices received / (paid)	(36)	-
<b>Closing Fair value of Fund assets</b>	<b>1,924,017</b>	<b>1,656,533</b>

The total return on the Fund's assets for the year to 31 March 2017 is £298,720,000.

## Appendix 3 Sensitivity analysis

Sensitivity analysis		£000s			
Present value of total obligation		4,185,496			
	<b>Sensitivity to</b>	<b>+0.5%</b>	<b>+0.1%</b>	<b>-0.1%</b>	<b>-0.5%</b>
	Discount rate	3,802,908	4,105,864	4,266,752	4,608,727
	Long term salary increase	4,235,870	4,195,412	4,175,659	4,137,082
	Pension increases and deferred revaluation	4,556,628	4,256,837	4,115,548	3,849,188
	<b>Sensitivity to</b>		<b>+1 Year</b>	<b>- 1 Year</b>	
	Life expectancy assumptions		4,340,271	4,036,412	





## COMMUNICATIONS STRATEGY







## 1.0 INTRODUCTION

This Communications Strategy ('the Strategy') is formulated by the Royal Borough of Windsor and Maidenhead in its role as the Administering Authority for the Royal County of Berkshire Pension Fund in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013.



This Strategy deals with the communication of all aspects of the scheme to both Scheme employers and the individual LGPS members (or their representatives).

It should be noted for the purposes of clarification that the reference to 'member' in this statement means an individual who by virtue of his/her employment is an active contributor, deferred beneficiary or retired member of the Royal County of Berkshire Pension Fund.

The aim of the Strategy is to provide clear and consistent information to all Scheme members and employers and to communicate this information effectively and accurately.

This Strategy will be kept under review and amended following any material change as regards:

- i) The provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- ii) The format, frequency and method of distributing such information or publicity; and
- iii) The promotion of the Scheme to prospective members.

Following any revision to the policy statement, the Administering Authority will publish the statement as revised.

The communication policy is sub-divided into four main areas:

- 1 - Communication with Scheme employers;
- 2 - Communication with individual Scheme members (or their representatives);
- 3 - Communication with prospective Scheme members; and
- 4 - Communication with prospective Scheme employers.



## 2.0 COMMUNICATION WITH SCHEME EMPLOYERS

The Royal County of Berkshire Pension Fund has many Scheme employers that satisfy the relevant membership conditions set out within the LGPS Regulations. These employers can be broadly split into 2 groups:

- Group 1: Scheduled Bodies (including Borough, District, Town and Parish Councils, Academies, Berkshire Fire & Rescue Service, Colleges and Housing Associations)
- Group 2 Admission Bodies (including employers previously defined as Community Admission Bodies and Transferee Admission Bodies).

## 2.1 Decision Making Process

The Policy Statement on Governance covers the involvement of Scheme employers within the decision making process but should also be seen as an element in the communication process with regard to Scheme employers other than the Royal Borough of Windsor & Maidenhead in its role as the Administering Authority for the Fund.

## 2.2 Scheme Employers Meeting

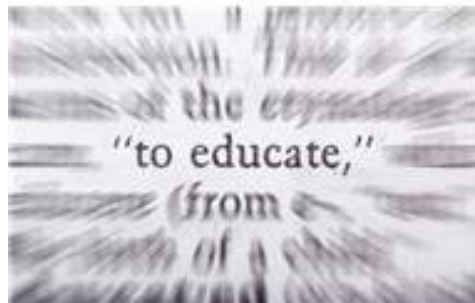
Meetings will be held between representatives of the 6 Berkshire Unitary Authorities and the Fund on a quarterly basis to discuss all current pension-related matters. An open invitation is also provided to other Scheme employers to meet with the Fund and discuss any element of pension procedures they wish.



An annual meeting is held with at least one representative of each Scheme employer being invited to attend. Representatives of various professional bodies employed by the Fund such as the Actuary will be present at the meeting to explain the details of any relevant topic and receive questions. If possible both the Chairman of the Berkshire Pension Fund Panel and of the Pension Board will also attend the meeting. The date for this meeting may vary so as to take into account the timing of any specific issues that may arise such as the actuarial valuation results.

## 2.3 Training for Scheme Employers

Scheme administration guidance is available to all the Scheme employers within the Fund via the Pension Fund website. In addition training meetings may be arranged on an ad hoc basis with the relevant officers within the pension administration team and individual Scheme employers by way of supplementing the guidance provided via the website. These meetings are most applicable for HR and payroll staff of the Scheme employer.



## 2.4 Regular LGPS updates

Regular updates are sent to each Scheme employer from the pension administration team regarding any changes to the Local Government Pension Scheme. These are mainly in the form of Employer newsletters (*'Inscribe'*) posted to the Employer section of the Royal County of Berkshire Pension Fund website but updates may also be provided in the form of letters or e-mails. Bulletins will be issued three or four times a year and will include details of any legislation changes and how the changes impact on Scheme employers.

The Royal County of Berkshire Fund operates a Pension Fund website with sections specifically dedicated to active Scheme members, deferred beneficiaries, retired members, and Scheme employers.

Other details that can be found include:



**Standard Fund documentation (guides, leaflets and forms)**

**Statement of Accounts for the Pension Fund**

**Statement of Investment Principles**

**Funding Strategy Statement**

**Governance Statement**

**Copies of Scheme Member newsletters**

**Links to other web sites**

The Berkshire Pension Fund website address is [www.berkshirerpensions.org.uk](http://www.berkshirerpensions.org.uk).

## 2.5 General Guidance and Assistance

The pension administration team can be contacted during normal office hours and is always available to answer any questions raised by Scheme employers and can arrange for ad hoc meetings to be held for pension input into any specific tasks Scheme employers may have e.g. outsourcing of services. The pension administration team can be contacted by telephone on 0845 602 7237 or by email at [info@berkshirerpensions.org.uk](mailto:info@berkshirerpensions.org.uk)

## 2.6 Promotional Services

Promotional guides, factsheets and leaflets are produced by the pension administration team and are available from the Pension Fund website. The pension administration team will also commit to attending any events held by the Scheme employer where their input would be seen to be of value.

## 2.7 Scheme Member Data

The Administering Authority's 'Pension Administration Strategy' is to accept data from Scheme employers via i-Connect, a secure electronic data transfer interface between the Scheme employer's payroll system and the Scheme Administrator's pension administration system. The reasons for this are many but in particular because the data transfer is encrypted providing greater data security, pension information is uploaded in real time meaning that Scheme members have access to the most up to date membership information via 'mypension ONLINE', keying and data errors are eliminated and scheme administration is maintained to the highest standards possible.



The Administering Authority will continue to work with Scheme employers in implementing i-Connect but until such time as a Scheme Employer contracts into using i-Connect the Scheme Administrator will continue to receive pension data from a Scheme employer via either a pre-formatted excel spreadsheet or by the completion of standard forms as made available from the Scheme employers' section of the Pension Fund website in both pdf and Word formats.

With the exception of Scheme employers who use i-Connect, all other Scheme employers are required to supply a 'year end' return (31<sup>st</sup> March) to the Administering Authority by 30<sup>th</sup> April in a specified format to enable annual benefits statements to be produced and supplied to active and deferred members within the statutory deadlines set out in Scheme regulations.

## 2.8 Employer Factsheets

A suite of topical factsheets (known as "**Pension Pointers**") is available to assist employers with the administration of the LGPS.

## 2.9 Employer Self-Service (ESS)

The Administering Authority is committed to making available to each Scheme employer the facility to access member data in respect of their own current and former Scheme members through a secure link to the pension administration software.

### 3.0 COMMUNICATION WITH INDIVIDUAL SCHEME MEMBERS

Membership of the Royal County of Berkshire Pension Fund covers the active contributors, those members who have left the Fund but still have a deferred pension awaiting payment from normal retirement age and retired members and their dependants.

The preferred method of communication with Scheme members is via *mypension* ONLINE a secure member self-service facility provided as part of the pension administration software. *mypension* ONLINE is available to all member types and enables the member to update certain personal details online and provides each member type with access to their annual benefit statements, membership certificates and guides/leaflets relevant to their membership type. Where a member requests that information should be supplied in a paper format the Scheme Administrator will make arrangements for this information to be sent to the member's home address.

#### 3.1 Welcome Pack

Upon receipt of a new starter notification from a Scheme employer, a *mypension* ONLINE activation key is sent, by the Scheme Administrator, to the home address of the new active member. Access to the pension system provides a new Scheme member with:

- A membership certificate of entry into the scheme
- An employee guide to the scheme
- A guide to increasing pension benefits
- A guide to making a transfer of pension rights from a previous pension scheme;
- A guide to protections for the family
- An expression of wish form for payment of a death grant
- A guide to civil partnerships
- A guide to working part-time
- A copy of the Pension Fund's Service Standards
- A guide to keeping records up to date
- A guide to making contributions following a period of absence

If a Scheme member prefers not to use *mypension* ONLINE, they can request a full welcome pack to be sent to their home address.



#### 3.2 Annual Benefit Statements

Each active contributor and deferred beneficiary has an Annual Benefit Statement made available via *mypension* ONLINE which includes details of:

- Accrued benefits within the scheme as at the 31<sup>st</sup> March last

- The value of the death grant payable from the Scheme

- The member's nominated beneficiaries for receipt of any death grant

If a Scheme member prefers, a paper copy of their annual benefit statement will be sent to their home address upon request.

#### 3.3 Pension Surgeries

One to one meetings are available at the Pension Fund offices for any member of the Fund and formal Pension Surgeries are held twice yearly at the offices of the six Unitary Authorities and on an ad hoc basis at the offices of other Scheme employers as arranged by the Scheme employer.

### 3.4 Newsletters



Newsletters are produced bi-annually for active and retired members and annually for deferred members. These newsletters are available via *mypension* ONLINE or the Pension Fund website although they can be sent out to individual addresses if requested.

The newsletters are tailored to the recipient according to their membership status and contain an update of all matters relating to the LGPS and the Berkshire Pension Fund. Retired members receive “The Scribe”.

Active members receive “The Quill” as do deferred members although two different versions of the Autumn edition are provided to cater for the differences in the specific member types.



### 3.5 Pre-Retirement Courses

Where pre-retirement courses are run by Scheme employers, a member of the pension administration team will be available to attend to explain the details of Scheme benefits and how and when pension payments will be made.

### 3.6 Pension Fund Website

Individual members of the Fund have access to the Pension Fund website which is continually reviewed and updated. Specific sections of the website have been designed for each membership type with downloadable forms, guides, online flipbooks and modellers made available. Access to *mypension* ONLINE is gained via the Pension Fund website [www.berkshirerpensions.org.uk](http://www.berkshirerpensions.org.uk)



### 3.7 Pension Payslips

Pension payslips are available via *mypension* ONLINE. If a member requires a pay advice slip to be sent to their home address it is the practice of the administering authority to only send out pay advice slips when there is a variation of 50 pence or more in net pay between consecutive months. A detailed description of a payslip is available on the retired members section of the Pension Fund website.

### 3.8 P60s

P60s are available via *mypension* ONLINE but will be sent out to members' home addresses as a matter of course. Every retired member and/or their dependants will receive a P60 each year before the HMRC deadline of 31<sup>st</sup> May. A detailed description of a P60 is available on the retired members section of the Pension Fund website.

### **3.9 Annual Pension Increase Letter**

Annual Pension Increase letters are available via *mypension* ONLINE but will also be sent out to members' home addresses. Retired members will receive a pension increase booklet every April containing their individual increase on their pension (where an increase is to be applied). This letter will include details of the monetary value of their revised pension and details of the amount to be paid in April.

### **3.10 Annual Meeting**

An Annual Meeting of the Royal County of Berkshire Pension Fund is held with all Scheme members receiving an invite. A restricted number of members will be able to attend on a first come first served basis. The main purpose of the meeting is to communicate details of the Fund's Annual Report & Accounts, Investment Strategy and any other specific matters relating to the LGPS Regulations. The date for this meeting may vary so as to take into account certain regulatory matters that may arise.



### **3.11 Ad Hoc Meetings**

Ad hoc meetings will be held from time to time for various groups of members. These may be defined by type of member (active or retired) or location (for a specific employer or group of employers). The timing of these meetings will be dictated by either requests from employers or the need to consult and notify members of any changes that occur.

## **4.0 COMMUNICATION WITH PROSPECTIVE SCHEME MEMBERS**

A brief guide to the Scheme is available to all prospective Scheme members and should be provided to all new employees by their Scheme employer as part of their contract of employment details. The brief guide is available from the Pension Fund website in both pdf and Word formats and is kept up to date with current regulations at all times.

The Berkshire Pension Fund website has a dedicated area for employees considering opting into the LGPS.

## **5.0 COMMUNICATION WITH PROSPECTIVE SCHEME EMPLOYERS**

A guide for admission bodies is available on the Pension Fund website for all prospective employers considering admission to the Berkshire Pension Fund and is available as a hard copy upon request.

A template admission agreement has been produced and is available either via the Pension Fund website or as a hard copy upon request.

The administering authority has the power to accept various types of Scheme employer into the Pension Fund but will only do so subject to a full and open discussion taking place between the parties to any admission agreement and that the final admission agreement has been completed in advance of the agreed admission date.







**GOVERNANCE**

**COMPLIANCE**

**STATEMENT**



## INTRODUCTION

This document details the compliance of the Royal Borough of Windsor and Maidenhead, as the administering authority of the Royal County of Berkshire Pension Fund, with the guidance issued for governance of the Local Government Pension Scheme by the Secretary of State for Communities and Local Government. It has been prepared as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

The Regulations require the administering authority to prepare this written statement setting out whether or not it delegates its functions or part of its functions to a committee, a sub-committee or an officer of the authority.

Where the administering authority does delegate all or part of its functions the statement must include the terms, structure and operational procedures of the delegation, the frequency of any committee or sub-committee meetings and whether such a committee or sub-committee includes representatives of Scheme employers and members, and if so, whether those representatives have voting rights.

In addition, the administering authority must state the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not comply, the reasons for not complying.

The administering authority must also set out details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 of the Local Government Pension Scheme Regulations 2013 as inserted by the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

This governance compliance statement must be published by the administering authority, kept under review and amended following any material change to any matters included within, once any consultation has been concluded.

## STRUCTURE

The Royal Borough of Windsor & Maidenhead (RBWM) has been designated as the administering authority to the Royal County of Berkshire Pension Fund in accordance with Part 1 of Schedule 3 of the Local Government Pension Scheme Regulations 2013.

For the purposes of managing the Pension Fund, RBWM delegates its powers under the Constitution of the Council where it sets out the functions of the Royal County of Berkshire Pension Fund Panel (hereinafter referred to as 'the Main Panel'), the Royal County of Berkshire Pension Fund Advisory Panel (hereinafter referred to as 'the Advisory Panel') and the Berkshire Pension Board (hereinafter referred to as 'the Pension Board'). As such several principles have been set out to ensure compliance with the scheme regulations.

**i)** The management of the administration of benefits and strategic management of fund assets.

**Compliant** – The Constitution of the Council defines the responsibilities of 'the Main Panel' to manage the Pension Fund.

**ii)** Representatives of Scheme employers and Scheme members should sit on 'the Advisory Panel' to underpin the work of 'the Main Panel'.

**Compliant** – Membership of ‘the Advisory Panel’ includes five Elected Members from RBWM, one Elected Member from each of the other five Berkshire Unitary Authorities, two Admission Body representatives, two union representatives, and two members to represent the active, deferred and retired Scheme members.

The Pension Fund Panel has established 3 Working Groups (namely the Investment, Liability Management and Covenant Assessment Working Groups) whose members are drawn from the Pension Fund and Pension fund Advisory Panels.

**iii)** The structure of ‘the Main Panel’ and ‘the Advisory Panel’ should ensure effective communication across both levels.

**Compliant** – ‘The Advisory Panel’ meets concurrently with ‘the Main Panel’ with both Panels receiving the same information.

**iv)** At least one seat on ‘the Main panel’ should be allocated for a member of ‘the Advisory Panel’.

**Compliant** – All five seats on ‘the Main Panel’ are allocated to the five RBWM members of ‘the Advisory Panel’.

**v)** The structure of ‘the Pension Board’ must consist of an equal number of Scheme member and Scheme employer representatives all of whom have voting rights.

**Compliant** – Membership of ‘the Pension Board’ consists of one Independent Chairperson (who does not have a right to vote), 3 Scheme member representatives and 3 Scheme employer representatives.

## REPRESENTATION

All key stakeholders should be afforded the opportunity to be represented with ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’. To ensure compliance a number of principles have been identified.

The key stakeholders are:

**i)** Scheme employers.

**Compliant** – The six Berkshire Unitary Authorities and up to two of the other Scheme employers are represented on ‘the Advisory Panel’. In addition 3 Scheme employer representatives make up membership of ‘the Pension Board’

**ii)** Scheme members (including deferred and retired members).

**Compliant** – ‘The Advisory Panel’ has two representatives from the major trades unions and makes provision to have two representatives from the active, deferred or retired Scheme membership. In addition 3 Scheme member representatives sit on ‘the Pension Board’

**iii)** Independent Professional Observers.

**Compliant** – An Independent Adviser attends each meeting of ‘the Main Panel’ and ‘the Advisory Panel’. Independent Advisers are also required to attend meetings of ‘the Pension Board’ as requested by the Chairperson.

**iv)** Expert advisers (on an ad-hoc basis)

**Compliant** – Expert advisers are invited to meetings of ‘the Main Panel’ and ‘the Advisory Panel’ as required. Independent Strategy Advisers attend meetings of the Investment Working Group. In addition expert advisers are required to attend meetings of ‘the Pension Board’ as requested by the Chairperson.

v) Where lay members sit on either ‘the Main Panel’ or ‘the Advisory Panel’ they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process with or without voting rights. No lay members sit on ‘the Pension Board’.

**Compliant** – Members of both ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’ are treated equally in respect of access to papers, meetings and training. All members are given full opportunity to contribute to the decision making process.

## SELECTION AND ROLE OF LAY MEMBERS

Members of ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’ need to be fully aware of the status, role and function that they are required to perform.

**Compliant** – Bodies nominating individuals for membership of ‘the Main Panel’, ‘the Advisory Panel’ or ‘the Pension Board’ are periodically reminded that it is their responsibility to ensure that all members are aware of their responsibilities. The Chair of ‘the Main Panel’ will remind members of both ‘the Main Panel’ and ‘the Advisory Panel’ of their responsibilities as required. The Chair of ‘the Pension Board’ will remind members of ‘the Pension Board’ of their responsibilities as required. Each set of papers for every Panel/Board meeting contains a reminder to members of their duty in respect to potential conflicts of interest. Members are expected to declare conflicts of interest and abide by RBWM’s rules on conflicts of interest.

## VOTING

The policy of the administering authority on voting rights must be clear and transparent and include justification for not extending voting rights to each body or group represented on ‘the Main Panel’ or ‘the Pension Board’.

**Compliant** – The Constitution of RBWM sets out the terms of reference and voting rights of ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’.

## TRAINING / FACILITY TIME / EXPENSES

i) In relation to the way in which statutory and related decisions are taken by RBWM, a clear policy on training, facility time and reimbursement of expenses in respect of members involved in that decision making process must be made.

**Compliant** – All members of ‘the Main Panel’ and ‘the Advisory Panel’ are entitled to attend or request training. Members of ‘the Pension Board’ are required to have a working knowledge of the LGPS regulations and other associated legislation as it relates to the governance and administration of the Scheme and so must commit to undertaking the relevant training in order to achieve this requirement. All members of the Panels/Board are entitled to request the use of facilities belonging to RBWM in respect of their duties as members of ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’ and reasonable expenses incurred in relation to their membership of the Panels/Board will be reimbursed upon request.

ii) Any policy must apply equally to all members of the Panels/Board.

**Compliant** – No distinction is made between members of ‘the Main Panel’ or ‘the Advisory Panel’. However, the Independent Chairperson of ‘the Pension Board’ is appointed under contract and so in addition to the reimbursement of reasonable expenses also receives payment for chairing meetings of ‘the Pension Board’ at a rate of £125 per hour. In addition the Chairperson receives an annual fee of £250 for use of IT systems.

## MEETINGS (frequency/Quorum)

i) RBWM will hold meetings of ‘the Main Panel’ at least quarterly.

**Compliant** – Meetings are held quarterly.

ii) RBWM will hold meetings with ‘the Advisory Panel’ at least twice a year synchronised with the dates for meetings of ‘the Main Panel’.

**Compliant** – Both panels meeting concurrently

iii) RBWM will hold meetings of ‘the Pension Board’ ahead of each meeting of ‘the Main Panel’ and ‘the Advisory Panel’.

**Compliant** – ‘The Pension Board’ meets quarterly at a satisfactorily and mutually agreed date ahead of each meeting of ‘the Main Panel’ and ‘the Advisory Panel’.

iv) Where lay members are included in the formal governance arrangements RBWM will provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

**Compliant** – ‘The Advisory Panel’ has four lay members. Also Scheme employer road shows are held on an ad-hoc basis to explain current issues. An annual meeting is held for Scheme employers and Scheme members.

## ACCESS

Subject to any rules in RBWM’s Constitution, all members of ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’ will have equal access to committee papers, documents and advice that falls to be considered at meetings of the Panels/Board.

**Compliant** – All members of ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’ have equal access to Panel/Board papers, documents and advice that falls to be considered at Panel/Board meetings.

## SCOPE

RBWM will take steps to bring wider Scheme issues within the scope of their governance arrangements.

**Compliant** – Wider Scheme issues are considered by ‘the Main Panel’, ‘the Advisory Panel’ and ‘the Pension Board’ on a regular basis.

## PUBLICITY

RBWM will publish details of their governance arrangements in such a way that interested stakeholders can express their interest in wanting to be part of those arrangements.

**Compliant** – The Governance Policy Statement is published on the Royal County of Berkshire Pension Fund website ([www.berkshirerpensions.org.uk](http://www.berkshirerpensions.org.uk)) and is available on request from the Pension Manager.







## FUNDING STRATEGY STATEMENT



## 1 INTRODUCTION

1.1 This is the Funding Strategy Statement (“FSS”) for the Royal County of Berkshire Pension Fund (“the Fund”) which is administered by The Royal Borough of Windsor and Maidenhead (“the Administering Authority”). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013.

1.2 This statement should be read in conjunction with the Fund’s Investment Strategy Statement (“ISS”)

### *Purpose of the Funding Strategy Statement*

1.3 The purpose of the FSS is to explain the Fund’s approach to meeting the employer’s pension liabilities and in particular:

- To establish a clear and transparent Fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;
- To take a prudent longer-term view of funding those liabilities; and
- To support the regulatory framework to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme, and where possible to maintain as nearly constant Scheme employer contribution rates as possible.

1.4 The purpose of the Fund is to:

- Collect monies in respect of employee and employer contributions, transfer values and investment income;
- Facilitate payment of Local Government Pension Scheme (LGPS) benefits, transfer values, costs, charges and expenses; and
- Accumulate and invest money received and facilitate the management of this.

### *Funding Objectives*

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

1.6 The funding objectives are to

- Set levels of employer contributions that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund and ensure the solvency of the Fund;
- Set contributions which maximise the long-term cost efficiency. Broadly, this means that paying contributions as soon as possible so that any deficit is addressed quickly is preferable;



- Build up the required assets in such a way that produces levels of employer contributions that are as stable as possible;
- Minimise the risk of employers leaving with unpaid deficits, which then fall to the other employers;
- Ensure effective and efficient management of employer liabilities; and
- Allow the return from investments to be maximised within reasonable risk parameters.

## 2 KEY PARTIES

2.1 The parties directly concerned with the funding aspect of the Pension Fund are contained in this section of the FSS. A number of other key parties, including investment managers and external auditors also have responsibilities to the Fund but are not key parties in determining funding strategy.

### *The Administering Authority*



The Administering Authority for the Royal County Berkshire Pension Fund is the Royal Borough of Windsor & Maidenhead. The main responsibilities of the Administering Authority are as follows:

- Collect and account for employee and employer contributions;
- Pay the benefits to Scheme members and their dependants as they fall due;
- Invest the Fund's assets ensuring sufficient cash is available to meet the liabilities as and when they become due;
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- Manage the Actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain the FSS and also the ISS (Investment Strategy Statement) and after consultation with other interested parties;
- Monitor all aspects of the Fund's performance and funding to ensure that the FSS and the ISS are updated as necessary; and
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer.

### *Scheme employers*

2.3 The responsibilities of each individual Scheme employer which participates in the Fund, including the Administering Authority in its capacity as a Scheme employer, are as follows:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary within the statutory timescales;
- Promptly notify the Administering Authority of any new Scheme members and any other membership changes in accordance with the pension administration service level agreement;
- Promptly notify the Administering Authority of any Scheme member who leaves or retires from their employment in accordance with the pension administration service level agreement;
- Promptly notify the Administering Authority of all Scheme member data and information required by the Administering Authority in accordance with the pension administration service level agreement so that the Administering Authority is able to accurately calculate the value of benefits payable to each Scheme member;
- Exercise any discretions permitted under the Scheme Regulations and to produce, maintain and publish a policy statement with regard to the exercise of those discretions;
- Meet the costs of any augmentations or other additional costs such as Pension Fund strain costs resulting from decisions to release early Scheme members' retirement benefits in accordance with Scheme regulations and agreed policies and procedures;
- Provide any information as requested to facilitate the Actuarial valuation process.



### *Fund Actuary*

2.4 The Fund Actuary for the Royal County of Berkshire Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare the Actuarial Valuation having regard to the FSS and the Scheme Regulations;
- Prepare annual FRS102/IAS19 (accounting standards) reports for all Scheme employers requiring such a report for their annual report and accounts;
- Advise interested parties on funding strategy and completion of Actuarial valuations in accordance with the FSS and the Scheme Regulations;
- Advise on other actuarial matters affecting the financial position of the Fund.



### 3 FUNDING STRATEGY

- 3.1 The funding strategy seeks to achieve (via employee and employer contributions and investment returns) two key objectives:
- A funding level of 100% as assessed by the Fund's appointed actuary, triennially, in accordance with the Scheme Regulations;
  - As stable an employer contribution rate as is practical.
- 3.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements, actuarial assumptions and investment returns and that the employer contribution has to be adjusted to a level sufficient to maintain the pension Fund's solvency and to achieve a funding level of 100% over the longer term.
- 3.3 The Actuarial valuation process is essentially a projection of future cash-flows to and from the Fund. The main purpose of the triennial valuation is to determine the level of employers' contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.
- 3.4 The last Actuarial valuation was carried out as at 31<sup>st</sup> March 2016 with the assets of the Fund found to be 73% of the accrued liabilities for the Fund.

#### *Funding Method*

- 3.5 The funding target is to have sufficient assets to meet the accrued liabilities for each Scheme employer in the Fund. The funding target may, however, also depend on certain Scheme employer circumstances and will, in particular, have regard to whether a Scheme employer is an "open" employer (which allows new recruits access to the Fund) or a "closed" employer (which no longer permits new employees access to the Fund). The expected period of participation by a Scheme employer in the Fund may also affect the chosen funding target.
- 3.6 For all Scheme employers the Actuarial funding method adopted considers separately the benefits in respect of service completed before the Valuation date ("past service") and benefits in respect of service expected to be completed after the Valuation date ("future service"). This approach focuses on:
- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities whereas a funding level of less than 100% indicates a deficit.
  - The future funding rate i.e. the level of contributions required from the individual Scheme employers which together with employee contributions are expected to support the cost of benefits accruing in the future.
- 3.7 For "open" Scheme employers, the Projected Unit method is used which, for the future service rate, assesses the cost of one year's benefit accrual.
- 3.8 For "closed" Scheme employers the funding method adopted is known as the Attained Age Method. This gives the same results for the past service funding level as the Projected Unit Method but for the future cost it assesses the average cost of the

benefits that will accrue over the remaining working lifetime of the active Scheme members.

### *Valuation Assumptions and Funding Model*

- 3.9 In completing the Actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.
- 3.10 The assumptions adopted at the valuation can therefore be considered as:
- The statistical assumptions which generally speaking are estimates of the likelihood of benefits and contributions being paid; and
  - The financial assumptions which generally speaking will determine the estimates of the amount of benefits and contributions payable and their current or present value.

### *Future Price Inflation*

- 3.11 The base assumption in any triennial valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the valuation date using a point from the Bank of England RPI Inflation Curve. This gives an assumption for Retail Prices Index (RPI) inflation, which is then adjusted to get an assumption for Consumer Prices Index (CPI) inflation. At the 2016 valuation, CPI was assumed to be 0.9% per annum lower than RPI, giving a CPI inflation assumption of 2.4% per annum.



### *Future Pay Inflation*

- 3.12 As benefits accrued before 1<sup>st</sup> April 2014 (and in the case of some protected members after 31<sup>st</sup> March 2014) are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. The assumption adopted in the 2016 valuation is that pay increases will, on average over the longer term, exceed CPI by 1.5% per annum. In the short term in anticipation of Government policy, it has been assumed that pay increases for the 4 year period to 31 March 2020 would be limited to CPI.

### *Future Pension Increases*

- 3.13 Pension increases are assumed to be linked to CPI.

### *Future Investment Returns/Discount Rate*

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

- 3.15 The discount rate adopted depends on the funding level target adopted for each Scheme employer.



- 3.16 For “open” Scheme employers the discount rate applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields and indicators in the 6 months straddling the valuation date. This discount rate so determined may be referred to as the “ongoing” discount rate.

The level of prudence at the 2016 valuation differed between the major councils and the remaining employers, to reflect the difference in covenant strength. This gave a discount rate of 5.7% per annum for the unitary authorities (and the employers pooled with them) and of 5.5% per annum for the other employers.

- 3.17 For “closed” employers an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected “termination date”) the Scheme employer either wishes to leave the Fund or the terms of their admission requires it.
- 3.18 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- 3.19 The adjustment to the discount rate is essentially to set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination.

#### *Asset Valuation*

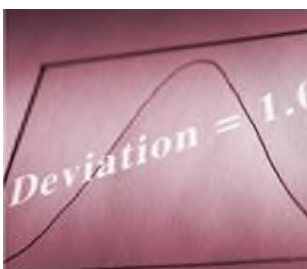
- 3.20 The asset valuation is a market value of the accumulated Fund at the triennial valuation date adjusted to reflect average market conditions during the 6 months straddling the triennial valuation date.

#### *Statistical Assumptions*

- 3.21 The statistical assumptions incorporated into the triennial valuation such as future rates of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual Scheme employers. For the 2016 valuation, the Fund received a bespoke analysis of the pensioner mortality and the results of this analysis were used to aid in setting a suitable assumption for the Fund.

#### *Deficit Recovery/Surplus Amortisation Periods*

- 3.22 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.



- 3.23 Where the Actuarial valuation discloses a significant surplus or deficit then the levels of required Scheme employers’ contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years. At the 2016 valuation, a deficit was revealed and contributions were set to recover this deficit over a period no longer than 24 years.



3.24 The period that is adopted for any particular Scheme employer will depend upon:

- The significance of the surplus or deficit relative to that Scheme employer’s liabilities;
- The covenant of the individual Scheme employer and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of Scheme employers’ contributions.

3.25 At the 2016 triennial valuation the period adopted to recover the deficit was:

Type of Scheme Employer	Maximum Length of Recovery Period
Unitary Authorities and Associated Employers	24 years
Housing Associations	14 years
Colleges	14 years
Academies	17 years
Community Admission Bodies	14 years
Transferee Admission Bodies	Future working life of current employees or contract period whichever is the shorter period

3.26 Where a Scheme employer’s contribution has to increase significantly then the increase may be phased in over a period not exceeding 6 years although this may only be allowed for some Scheme employer types or if the increase in contributions would increase the risk of an employer insolvency, leaving an unpaid deficit and adversely affecting other employers’ contributions and the solvency of the Fund as a whole.

*Pooling of Individual Scheme employers*

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

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

3.29 Currently, other than Scheme employers that are already legally connected, there are the following pools:

- Colleges
- Academies
- Community Admission Bodies
- Housing Associations



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

### *Cessation Valuations*

- 3.31 On the cessation of a Scheme employer's participation in the Fund, the Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the Scheme employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the Scheme employer will transfer within the Fund to another participating Scheme employer.
- 3.32 In assessing the deficit on termination, the Actuary may adopt a discount rate based on gilt yields or other lower risk assets and adopt different assumptions to those used at the previous triennial valuation to protect the other Scheme employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

### *Early Retirement Costs*

- 3.33 The Actuary's funding basis makes no allowance for premature retirement except on grounds of permanent ill health. Scheme employers are required to pay additional contributions whenever an employee retires before attaining the age at which the triennial valuation assumes that benefits are payable. The calculation of these costs is carried out with reference to a calculation approved by the Actuary to the Fund.



- 3.34 The Fund monitors each Scheme employer's ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous triennial valuation by a statistically significant amount, the Scheme employer may be charged additional contributions on the same basis as apply for non-ill health cases.

### *Triennial Valuation*

- 3.35 The next triennial valuation is due as at 31<sup>st</sup> March 2019.

## **4 LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)**

- 4.1 The main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.
- 4.2 As explained above the ongoing discount rate adopted in the Actuarial valuation is derived by considering the expected return from the underlying investment strategy and so there is consistency between the funding strategy and the investment strategy.

## 5 RISKS AND COUNTER MEASURES

- 5.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of Scheme employer contributions, it is recognised that there are a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.
- 5.2 The major risks for the funding strategy are financial risks although there are external factors including demographic risks, regulatory risks and governance risks.

### *Financial Risks*

- 5.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The triennial valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the liabilities by 2% and decrease/increase the required Scheme employer contribution by around 1.0% of payroll.



- 5.4 The Pension Fund Panel regularly monitor the investment returns achieved by the fund managers and seek advice from Officers and independent advisors on investment strategy. In the inter-valuation period 2013 to 2016 such monitoring activity saw investment returns slightly lower than assumed in the 2013 valuation.
- 5.5 In addition the Fund Actuary provides monthly funding updates between triennial valuations to check whether the funding strategy continues to meet the funding objectives.

### *Demographic Risks*

- 5.6 Allowance is made in the funding strategy via the actuarial assumptions of continuing improvement in life expectancy. However, the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase in 1 year to life expectancy of all members in the Fund will reduce the funding level by around 2%
- 5.7 The actual mortality of retired members in the Fund is, however, monitored by the Fund Actuary at each Actuarial valuation and assumptions kept under review.
- 5.8 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements (including redundancies).
- 5.9 However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual Scheme employers to pay additional

amounts to the Fund to meet any additional costs arising from early retirements thereby avoiding unnecessary strain on the Fund.

### *Regulatory Risks*

- 5.10 The benefits provided by the Scheme and employee contribution levels are set out in Statutory Regulations as determined by central Government. The tax status of the invested assets is also determined by central Government.
- 5.11 The funding strategy is therefore exposed to the risks of changes in the Statutory Regulations governing the Scheme and changes to the tax regime which increase the cost to individual Scheme employers of participating in the Scheme.
- 5.12 The Administering Authority actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

### *Governance*

- 5.13 Several different Scheme employers participate in the Fund. Accordingly it is recognised that a number of Scheme employer specific events could impact on the funding strategy including:
- Structural changes in an individual Scheme employer's membership;
  - An individual Scheme employer deciding to close the Scheme to new employees;
  - A Scheme employer ceasing to exist without having fully funded their pension liabilities; and
  - New Scheme employers being created out of existing Scheme employers.
- 5.14 The Administering Authority monitors the position of Scheme employers participating in the Fund particularly those that may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.
- 5.15 In addition the Administering Authority keeps in close touch with all individual Scheme employers participating in the Fund and regularly holds meetings with Scheme employers to ensure that, as Administering Authority, it has the most up to date information available on individual Scheme employer situations and also to keep individual Scheme employers fully briefed on funding and related issues.

## **6 MONITORING AND REVIEW**

- 6.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial valuation process.
- 6.2 The Administering Authority also monitors the financial position of the Fund between triennial valuations and may review this FSS more frequently if deemed necessary.

Approved by the Berkshire Pension Fund Panel

15 May 2017

Next Review date: March 2020

## Appendix 3 Rates and Adjustment Certificate

### Regulatory background

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement and this report.

The primary rate of contribution as defined by Regulation 62(5) for each employer for the period 1 April 2017 to 31 March 2020 is set out in the table overleaf. The primary rate is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017. In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

### Primary and secondary rate summary

The primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates, and is 14.3% of payroll.

109 The secondary rates across the entire Fund (as a percentage of projected payroll and as an equivalent monetary amount) in each of the three years in the period 1 April 2017 to 31 March 2020 is set out in the table below.

Secondary contributions	2017/18	2018/19	2019/20
Average as a % of payroll	5.3%	6.7%	8.2%
Total monetary amounts	£21,017,000	£27,468,000	£34,075,000

The above table assumes that the small number of employers that have not had their contributions finalised for the entire valuation period will continue to pay consistent levels of deficit contributions.

### General notes

Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us as the Fund Actuary. The Administering Authority, with the advice from us as the Fund Actuary may allow some or all of these contributions to be treated as a prepayment and offset against future certified contributions.

The certified contributions include an allowance for expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by participating employers in addition.

The monetary amounts are payable in 12 monthly instalments throughout the relevant year unless agreed by the Administering Authority and an individual employer.

If contributions set out in the certificate are adjusted for any such agreements in place relating to the timing of contribution payments these are noted in the end column and detailed in specific notes at the end of the certificate.

Code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)			Specific notes
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	
<b>2</b>	<b>Bracknell Forest Council</b>	<b>14.3%</b>	<b>£2,083,000</b>	<b>£2,489,000</b>	<b>£2,914,000</b>	<b>14.3% plus £2,083,000</b>	<b>14.3% plus £2,489,000</b>	<b>14.3% plus £2,914,000</b>	<b>B</b>
49	Binfield Parish Council	14.3%	4.1%	4.7%	5.4%	18.4%	19.1%	19.8%	
9	Bracknell Town Council	14.3%	4.1%	4.7%	5.4%	18.4%	19.1%	19.8%	
125	Crowthorne Parish Council	14.3%	4.1%	4.7%	5.4%	18.4%	19.1%	19.8%	
137	Sandhurst Town Council	14.3%	4.1%	4.7%	5.4%	18.4%	19.1%	19.8%	
39	South Hill Park Trust	14.3%	4.1%	4.7%	5.4%	18.4%	19.1%	19.8%	
190	Warfield Parish Council	14.3%	4.1%	4.7%	5.4%	18.4%	19.1%	19.8%	
42	Winkfield Parish Council	14.3%	4.1%	4.7%	5.4%	18.4%	19.1%	19.8%	
<b>3</b>	<b>RBWM (non-schools)</b>	<b>14.3%</b>	<b>£2,371,000</b>	<b>£3,176,000</b>	<b>£4,017,000</b>	<b>14.3% plus £2,371,000</b>	<b>14.3% plus £3,176,000</b>	<b>14.3% plus £4,017,000</b>	<b>B</b>
	<b>RBWM (schools)</b>	<b>14.3%</b>	<b>8.0%</b>	<b>10.5%</b>	<b>12.9%</b>	<b>22.3%</b>	<b>24.8%</b>	<b>27.2%</b>	
118	Bray Parish Council	14.3%	8.0%	10.5%	12.9%	22.3%	24.8%	27.2%	
51	Cox Green Parish Council	14.3%	8.0%	10.5%	12.9%	22.3%	24.8%	27.2%	
45	Eton Town Council	14.3%	8.0%	10.5%	12.9%	22.3%	24.8%	27.2%	
143	Hurley Parish Council	14.3%	8.0%	10.5%	12.9%	22.3%	24.8%	27.2%	
18	Sunningdale Parish Council	14.3%	8.0%	10.5%	12.9%	22.3%	24.8%	27.2%	
19	Sunninghill & Ascot Parish Council	14.3%	8.0%	10.5%	12.9%	22.3%	24.8%	27.2%	
127	White Waltham Parish Council	14.3%	8.0%	10.5%	12.9%	22.3%	24.8%	27.2%	
<b>4</b>	<b>West Berkshire Council</b>	<b>14.3%</b>	<b>£2,631,000</b>	<b>£3,693,000</b>	<b>£4,774,000</b>	<b>14.3% plus £2,631,000</b>	<b>14.3% plus £3,693,000</b>	<b>14.3% plus £4,774,000</b>	<b>B</b>
147	Burghfield Parish Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
216	Chieveley Parish Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
249	Holybrook Parish Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
136	Hungerford Town Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
88	Newbury Town Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
250	Purley on Thames Parish Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
11	Thatcham Town Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
75	The Downs School	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
47	Theale Parish Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
20	Tilehurst Parish Council	14.3%	4.8%	6.5%	8.2%	19.1%	20.8%	22.5%	
<b>5</b>	<b>Reading Borough Council</b>	<b>13.4%</b>	<b>£5,829,000</b>	<b>£5,969,000</b>	<b>£6,112,000</b>	<b>13.4% plus £5,829,000</b>	<b>13.4% plus £5,969,000</b>	<b>13.4% plus £6,112,000</b>	<b>A</b>
68	Reading Girls School	13.4%	8.5%	8.5%	8.5%	21.9%	21.9%	21.9%	

Code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)			Specific notes
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	
66	The Blessed Hugh Faringdon School	13.4%	8.5%	8.5%	8.5%	21.9%	21.9%	21.9%	
<b>6</b>	<b>Slough Borough Council</b>	<b>13.6%</b>	<b>£2,719,000</b>	<b>£3,012,000</b>	<b>£3,318,000</b>	<b>13.6% plus £2,719,000</b>	<b>13.6% plus £3,012,000</b>	<b>13.6% plus £3,318,000</b>	<b>B</b>
61	Holy Family School	13.6%	8.5%	9.2%	9.9%	22.1%	22.8%	23.5%	
119	Pippins School - Slough	13.6%	8.5%	9.2%	9.9%	22.1%	22.8%	23.5%	
62	Priory School	13.6%	8.5%	9.2%	9.9%	22.1%	22.8%	23.5%	
122	Wexham Court Parish Council	13.6%	8.5%	9.2%	9.9%	22.1%	22.8%	23.5%	
<b>7</b>	<b>Wokingham Borough Council</b>	<b>14.2%</b>	<b>£1,443,000</b>	<b>£2,061,000</b>	<b>£2,692,000</b>	<b>14.2% plus £1,443,000</b>	<b>14.2% plus £2,061,000</b>	<b>14.2% plus £2,692,000</b>	<b>B</b>
73	All Saints CE (Aided) Primary School	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
97	Barkham Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
251	Charvil Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
10	Earley Town Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
117	Finchampstead Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
258	Ruscombe Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
96	Shinfield Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
52	Swallowfield Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
159	Twyford Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
129	Winnersh Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
70000	Wokingham Borough Council (Schools)	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
12	Wokingham Town Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
227	Wokingham Without Parish Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
21	Woodley Town Council	14.2%	6.2%	7.9%	9.6%	20.4%	22.1%	23.8%	
<b>Colleges</b>									
58	Berkshire College Of Agriculture	13.9%	8.4%	Tbc	Tbc	22.3%	Tbc	Tbc	
55	Bracknell & Wokingham College	17.3%	6.9%	Tbc	Tbc	24.2%	Tbc	Tbc	
57	East Berkshire College	15.0%	7.3%	Tbc	Tbc	22.3%	Tbc	Tbc	
53	Newbury College	15.8%	6.8%	Tbc	Tbc	22.6%	Tbc	Tbc	
156	University of West London	15.8%	7.7%	Tbc	Tbc	23.5%	Tbc	Tbc	
<b>Housing Associations</b>									
132	Bracknell Forest Homes	19.6%	2.4%	2.4% plus £264,000	2.4% plus £541,000	22.0%	22.0% plus £264,000	22.0% plus £541,000	

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Code	Employer name	Primary rate (%) pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)			Specific notes
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	
83	Dimensions UK Ltd	17.9%	4.8%	4.8% plus £5,000	4.8% plus £10,000	22.7%	22.7% plus £5,000	22.7% plus £10,000	
104/79	Housing Solutions Ltd	15.6%	2.6%	2.6% plus £213,000	2.6% plus £438,000	18.2%	18.2% plus £213,000	18.2% plus £438,000	
80	Windsor Housing	23.1%	2.6%	2.6% plus £6,000	2.6% plus £13,000	25.7%	25.7% plus £6,000	25.7% plus £13,000	
<b>Admission Bodies - Pooled</b>									
26	Age UK Berkshire	24.1%	-1.9%	-1.9% plus £5,000	-1.9% plus £10,000	22.2%	22.2% plus £5,000	22.2% plus £10,000	
38	AOSEC	24.9%	-5.4%	-5.4% plus £3,000	-5.4% plus £5,000	19.5%	19.5% plus £3,000	19.5% plus £5,000	
95	Berkshire Maestros	17.3%	0.8%	0.8% plus £15,000	0.8% plus £31,000	18.1%	18.1% plus £15,000	18.1% plus £31,000	
30	Mary Hare Grammar School	16.4%	1.9%	1.9% plus £86,000	1.9% plus £177,000	18.3%	18.3% plus £86,000	18.3% plus £177,000	
105	PACT	22.1%	-3.8%	-3.8% plus £14,000	-3.8% plus £29,000	18.3%	18.3% plus £14,000	18.3% plus £29,000	
40	Reading Voluntary Action	22.1%	-0.3%	-0.3% plus £3,000	-0.3% plus £6,000	21.8%	21.8% plus £3,000	21.8% plus £6,000	
35	School of St Helen & St Katharine	20.0%	0.9%	0.9% plus £11,000	0.9% plus £23,000	20.9%	20.9% plus £11,000	20.9% plus £23,000	
121	SECBE	17.5%	-1.2%	-1.2% plus £5,000	-1.2% plus £10,000	16.3%	16.3% plus £5,000	16.3% plus £10,000	
37	Slough Council For Voluntary Service	18.7%	1.6%	1.6% plus £3,000	1.6% plus £5,000	20.3%	20.3% plus £3,000	20.3% plus £5,000	
<b>Admission Bodies - Individual</b>									
193	Adviza	15.5%	-0.3%	4.0%	8.2%	15.2%	19.5%	23.7%	
184	Arvato	16.1%	-3.2%	-1.6%	-	12.9%	14.5%	16.1%	
226	Berks Bucks & Oxon Wildlife Trust	18.6%	0.8%	0.8%	0.8%	19.4%	19.4%	19.4%	
90	Berkshire Fire & Rescue Service	15.2%	-1.5% plus £158,000	£198,000	£239,000	13.7% plus £158,000	15.2% plus £198,000	15.2% plus £239,000	
150	Busy Bee Cleaning Services Ltd	27.6%	-7.9%	-3.9%	-	19.7%	23.7%	27.6%	
247	Busy Bee Cleaning Services Ltd (Wexham School)	24.9%	-8.5%	-4.3%	-	16.4%	20.6%	24.9%	
140	Care UK	20.8%	-0.4%	-0.1%	0.1%	20.4%	20.7%	20.9%	
59	CfBT Berks Careers Guidance	19.8%	£160,000	£216,000	£275,000	19.8% plus £160,000	19.8% plus £216,000	19.8% plus £275,000	
242	Continental Landscapes Ltd	17.4%	-1.8%	1.2%	4.3%	15.6%	18.6%	21.7%	
100	Corn Exchange Trust	25.8%	-6.4% plus £300	£2,000	£5,000	19.4% plus £300	25.8% plus £2,000	25.8% plus £5,000	
241	Cranstoun	19.2%	-3.0%	-0.2%	2.5%	16.2%	19.0%	21.7%	
261	Creative Support (Slough Extra Care)	21.0%	-7.1%	-7.1%	-7.1%	13.9%	13.9%	13.9%	
211	Creative Support Limited	18.9%	-2.7%	2.1%	6.9%	16.2%	21.0%	25.8%	
255	C-Salt (1Life Management Solutions)	17.4%	-6.1%	-2.7%	0.7%	11.3%	14.7%	18.1%	
204	Elior UK plc	23.4%	-9.7%	-4.9%	-	13.7%	18.5%	23.4%	
28	Elizabeth Fry Charity	10.1%	22,000	23,000	24,000	10.1% plus £22,000	10.1% plus £23,000	10.1% plus £24,000	
282	Energy Kidz	10.9%	-	-	-	10.9%	10.9%	10.9%	

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Code	Employer name	Primary rate (%) pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)			Specific notes
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	
281	Get Active Sports	17.5%	-3.4%	-1.7%	-	14.1%	15.8%	17.5%	
128	Greenwich Leisure Ltd	17.2%	-5.2% plus £8,000	£10,000	£23,000	12.0% plus £8,000	17.2% plus £10,000	17.2% plus £23,000	
114	Holroyd Howe Ltd	29.0%	-4.2% plus £4,000	£7,000	£10,000	24.8% plus £4,000	29.0% plus £7,000	29.0% plus £10,000	
237	Innovate Services Ltd (Baylis Court)	20.7%	-2.9%	-1.4%	-	17.8%	19.3%	20.7%	
107	Interserve (Facilities Services Slough) Ltd	19.3%	-4.3% plus £64,000	£84,000	£150,000	15.0% plus £64,000	19.3% plus £84,000	19.3% plus £150,000	
188	KGB Cleaning Ltd	25.5%	-4.0%	-2.0%	-	21.5%	23.5%	25.5%	
248	Legacy Leisure Limited	18.7%	-6.6%	-3.3%	-	12.1%	15.4%	18.7%	
115	MITIE	18.2%	-5.2% plus £10,000	£12,000	£13,000	13.0% plus £10,000	18.2% plus £12,000	18.2% plus £13,000	
178	Northgate Information Solutions	20.1%	-4.6%	-0.2%	4.2%	15.5%	19.9%	24.3%	
113	Northgate Ltd	18.5%	-5.4% plus £7,000	£9,000	£13,000	13.1% plus £7,000	18.5% plus £9,000	18.5% plus £13,000	
267	Olive Dining Ltd	18.7%	-1.8%	-0.9%	-	16.9%	17.8%	18.7%	
160	Optalis Limited	21.2%	-7.2%	-3.6%	-	14.0%	17.6%	21.2%	
44	Reading Transport Ltd	21.5%	-1.3% plus £374,000	£487,000	£604,000	20.2% plus £374,000	21.5% plus £487,000	21.5% plus £604,000	
260	Slough Children's Services Trust	14.2%	-2.2%	-0.5%	1.3%	12.0%	13.7%	15.5%	
103	Slough Community Leisure	12.2%	3.4%	6.8%	10.1%	15.6%	19.0%	22.3%	
110	Slough Enterprise Ltd	18.1%	-0.1%	2.3%	4.7%	18.0%	20.4%	22.8%	
48	Sovereign Housing Association	24.7%	-2.8% plus £412,000	£438,000	£465,000	21.9% plus £412,000	24.7% plus £438,000	24.7% plus £465,000	
252	The Windsor Club Day Nursery Ltd	19.5%	-5.2%	-1.8%	1.5%	14.3%	17.7%	21.0%	
155	Vinci Park Services Ltd (Bracknell)	17.8%	-8.7%	-4.3%	-	9.1%	13.5%	17.8%	
139	VolkerWessels Ltd	27.1%	-2.7%	-2.7%	-2.7%	24.4%	24.4%	24.4%	
256	Ways Into Work	15.2%	-1.0%	0.7%	2.4%	14.2%	15.9%	17.6%	
<b>Academies - Individual</b>									
126	John Madejski Academy	14.5%	-2.0%	-0.3%	1.4%	12.5%	14.2%	15.9%	
135	Langley Academy	14.3%	-2.2%	-0.6%	0.9%	12.1%	13.7%	15.2%	
<b>Academies - Pooled</b>									
	Academies Pooled	15.3%	2.3%	3.3%	4.3%	17.6%	18.6%	19.6%	
171	Prospect School Reading	15.3%	2.3% plus £1,280	3.3% plus £1,330	4.3% plus £570	17.6% plus £1,280	18.6% plus £1,330	19.6% plus £570	

Below is a table outlining all of the academies paying the pooled rate included in the table above.

Code	Employer name	Code	Employer name	Code	Employer name	Code	Employer name	Code	Employer name
181	All Saints Junior School Reading	191	Altwood School	206	Battle Primary Academy	163	Baylis Court School	271	Bellevue Place Education Trust
246	Braywick Court School	245	Burchetts Green Infants School	199	Castlevew School	200	Charters School	146	Churchend Academy
186	Cippenham Infants School	185	Cippenham Primary School	262	Civitas Academy (Free School)	210	Colnbrook School	175	Cox Green School
179	Datchet St Mary's C of E Primary School	180	Denefield School	201	Desborough School	230	Ditton Park Academy	278	Eton Porny CofE First School
233	Evendons Primary School	208	Fir Tree Academy Trust	264	Forest Bridge School (Free School)	225	Foxborough School	176	Furze Platt Senior School
198	Godolphin Infant School	197	Godolphin Junior School	275	Halley House School	182	Herschel Grammar School	144	Highdown School and 6 <sup>th</sup> Form Centre
229	Holyport College	215	James Elliman School	168	Kendrick School	148	Kennet Academy	274	Kilburn Grange School
236	Knowl Hill CE Academy	169	Langley Grammar School	167	Langley Hall Primary Academy	152	Lowbrook Academy Trust	257	Lynch Hill Enterprise Academy
170	Lynch Hill School Primary Academy	153	Maiden Erlegh School	280	Maiden Erlegh School Reading	187	Marish Primary School	203	Meadow Park Academy
224	Montem School	221	National Autistic Society (NAS) Academy Trust	269	Newlands Girls' School	189	Oakbank Free School	157	Park House School Newbury
235	Parlaunt Park Academy	166	Ranelagh School	266	Ranikhet Primary School	173	Reading School	272	Rutherford House School
266	Ranikhet Primary School	164	Slough & Eton C of E School	174	St Bartholomew's School	263	St Francis School	244	St Lukes Church of England Primary School
270	St Margaret Clitherow School	213	St Mary's Catholic Primary School	243	St Peters Church of England Middle	165	The Avenue Academy	214	The Forest School
232	The Heights Primary School	161	The Holt School	268	The Langley Academy Primary	217	The Palmer Academy	158	The Piggott C of E Academy
218	The Specialist Education Trust (Haybrook College)	240	The Specialist Education Trust (Littledown Primary School)	265	The Wren School (Free School)	219	Theale Green School	194	Trinity School
234	Upton Court Grammar School	231	UTC Reading	259	Waingels Academy	276	Watling Park School	238	Western House Academy
183	Westgate School	239	Wheatfield School	196	White Waltham School	273	Whitehall Park Primary School	223	Whitelands Park School
207	Willow Primary School	228	Windmill School	253	Windsor Boys School Academy	254	Windsor Girls School Academy		

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## Notes

The notes below detail what the specific notes refer to in the table above:

- A We understand that employers with this note have agreed with the administering authority that they will prepay an element of their certified contributions by making a single lump payment in April 2017. This lump sum payment will receive an actuarially equivalent discount and the employer has been notified of the required amount separately. If they do not make the lump sum payment by 30 April 2017, the above contributions in the table will apply as normal.
- B We understand that employers with this note have agreed with the administering authority that they will prepay an element of their certified contributions by making lump sum payments at the start of each year (i.e. in April 2017, April 2018 and April 2019). This lump sum payment will receive an actuarially equivalent discount and the employer has been notified of the required amount separately. If they do not make the lump sum payments by 30 April in the period they are due, the above contributions in the table will apply as normal.

## Post valuation employers

A number of employers joined the Fund on or after 1 April 2016 and their rates were certified at their date of joining and have been reviewed as part of the 2016 valuation process. The table summarises the start dates and contributions required from these employers where known.

Employer Code	Employer name	Transfer date	Total contributions (% pay)		
			2017/18	2018/19	2019/20
279	Wraysbury Parish Council	01/09/2016	22.1%	22.8%	23.5%
283	Rapid Clean	01/04/2016	24.3%	24.3%	24.3%
284	Brakenhale School	01/04/2016	17.6%	18.6%	19.6%
285	Dedworth Middle School	01/05/2016	17.6%	18.6%	19.6%
286	Dedworth Green First School	01/05/2016	17.6%	18.6%	19.6%
287	St John's CE Primary School	01/06/2016	17.6%	18.6%	19.6%
288	Compton Parish Council	01/05/2016	19.1%	20.8%	22.5%
289	Holyport CE Primary	01/06/2016	17.6%	18.6%	19.6%
290	Rapid Clean	25/04/2016	24.0%	24.0%	24.0%
291	New Town School	01/06/2016	17.6%	18.6%	19.6%
292	Get Active	01/09/2016	12.0%	12.0%	12.0%
293	Innovate Cleaning Services Ltd	01/09/2016	18.7%	18.7%	18.7%
294	Floreat Montague Park Primary School	01/09/2016	17.6%	18.6%	19.6%
296	Bohunt School	01/06/2016	17.6%	18.6%	19.6%
297	John O'Gaunt School	01/10/2016	17.6%	18.6%	19.6%
298	Beechwood School	01/09/2016	17.6%	18.6%	19.6%
299	Trevelyan Middle School	01/11/2016	17.6%	18.6%	19.6%
300	Lambourn Parish Council	01/01/2017	19.1%	20.8%	22.5%
308	St Anthony's Primary School and Nursery	01/12/2016	17.6%	18.6%	19.6%
309	St Ethelbert's Catholic High School	01/12/2016	17.6%	18.6%	19.6%
310	St Joseph's High School	01/12/2016	17.6%	18.6%	19.6%
311	Northern House Academy Wokingham	01/01/2017	17.6%	18.6%	19.6%
312	Speenhamland Primary School	01/02/2017	17.6%	18.6%	19.6%

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## Investment Strategy Statement

The Royal Borough of Windsor & Maidenhead (“RBWM”) acting as the administering authority for The Royal County of Berkshire Pension Fund, a constituent member of The Local Government Pension Scheme in England & Wales, is required by Section 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to publish an Investment Strategy Statement.

This is the first such statement published by the Royal Borough and in accordance with the Regulations it will be reviewed regularly and at no more than 3 year intervals.

The Regulations require the administering authority to outline how it meets each of 6 objectives:

### **1. A requirement to invest fund money in a wide range of instruments.**

RBWM’s policy is that the pension fund should have a highly diversified investment portfolio spread across different asset classes and different asset managers using differing approaches as appropriate. This ensures that the fund money is invested in a wide range of instruments.

RBWM’s Pension Fund Panel has established an Investment Working Group which meets at least quarterly to review the pension fund’s performance, asset allocation and ability to meet its target return. In addition the Investment Working Group reviews potential new investment ideas and products and opines whether such ideas are consistent with the investment strategy of the fund and a suitable investment.

The Investment Working Group receives advice from suitably qualified Officers and Independent Strategy Advisers. It also makes use of information derived from investment managers. It will commission specialist work from an external adviser when it believes that neither Officers nor the Independent Strategy Advisers have sufficient experience or expertise in a particular field.

To achieve sufficient diversification the fund divides assets across 4 broad categories: equities, bonds, real assets and absolute return strategies. The size of each bucket will vary depending on investment conditions but each bucket will itself be diversified.

Any investment strategy will have associated risks, including primarily that of not meeting the returns required to ensure the long-term ability of the fund to pay benefits as they fall due. To mitigate these risks the Investment Working Group regularly reviews both the performance and the expected returns from the portfolio to measure whether it has met and is likely to continue to meet its return objective.

In addition the Investment Working Group notes that there will be an increasing gap between contributions received and benefits – i.e. that the fund is cash-flow negative. The Pension Fund Panel does not wish the fund to sell assets to pay benefits. Consequently, it has resolved that a secondary objective of the investment strategy of the fund should be to ensure that there is sufficient investment income generated from the fund's investments to meet any cash-flow shortfall. This has been formalised as a medium term objective to generate a 2% income return across the investment portfolio (i.e. investment income should be at least equivalent to 2% of the fund's assets).

## **2. The authority's assessment of the suitability of particular investments and types of investments.**

In assessing the suitability of investments RBWM takes into account a number of factors including prospective return, risks, concentration or diversification of risk as well as geographic and currency exposures.

Performance benchmarks are set for the fund as a whole (target return UK CPI+4.5%) as well as for individual allocations. The fund's target return is greater than the actuarial discount rate used to value liabilities and has been set at a level sufficient to assist in meeting the funding gap whilst not taking excessive investment risk. Furthermore the Pension Fund Panel has agreed that the fund should aim to achieve its target return with a low level of volatility in those returns. Whilst the fund as a whole has an absolute return target, RBWM recognises that for measuring the performance of individual asset classes and managers performance relative benchmarks may be more appropriate.

In ensuring the suitability of investments RBWM pays regard to both the potential returns and risk (including possible interactions with other investments in the portfolio). RBWM will also consider the reputational risk of being connected with or investing in any investment proposal. RBWM expects its managers where possible to take into account Environmental, Social and Governance issues when making an investment. When making a direct investment the Investment Working Group will pay attention to these issues prior to authorising or recommending an investment.



RBWM measures the returns and the volatility of those returns on a quarterly basis and publishes the results relative to a global group of investment funds with a similar diversified approach to investment on the pension fund web-site.

### **3. The authority's approach to risk, including the ways in which risks are to be measured and managed**

There are a variety of risks to be addressed when managing a pension fund with investment risk being just one of them. In accordance with the principles of Pensions Regulator guidance, in 2016 RBWM commissioned Lincoln Pensions to undertake an Integrated Risk Management ("IRM") study of the Fund. This study looked at the interaction of employer covenant risk – the ability of the employers to meet future contributions, support the investment risk (volatility of returns) and underwrite funding risk (volatility of actuarial deficit). The study concluded that:

- The future contributions estimated by the Fund's Actuary (on the GAD's funding test, i.e. aimed at removing an actuarial deficit over 20 years) are likely to be affordable across the Fund's employers over the next 10 years.
- Some of the Fund's larger employers, notably unitary authorities, do face a number of challenges in the near term which could constrain affordability of future contributions, particularly given their statutory duties to provide adequate services.

In reaching these conclusions, the Fund's assets, liabilities, and its participating employers have been subjected to a number of adverse stress scenarios to assess resilience, which serve to test and constrain affordability. Where employers find themselves under stress, they would be required to identify and utilise financial levers in order to maintain contributions at the level required. Such levers could include support from central Government or other employers, increases in council tax rates, increasing borrowings (subject to restrictions) and pledging assets to the Fund.

As part of the IRM study, Lincoln will now recommend a number of key performance indicators which can be included as part of the normal monitoring framework which will help the RBWM to identify on a timely basis any material risks which may be crystallising. In addition, the RBWM may wish to develop more detailed risk responses and contingency plans as part of their ongoing IRM framework. RBWM will also be seeking to work alongside council representatives as they continue to explore the possibility of formalising the reliance that can be placed on central Government support.

Looking specifically at investment risk RBWM is of the view that the diversification of the pension fund investment portfolio is so broad that investment risk (volatility of returns) is low and will continue to be low. Ex ante volatility

estimates require forecasts by asset class of volatility and correlation and whilst historic data can be used to estimate volatility for listed assets, it is much more difficult for unlisted (e.g. private equity, infrastructure, real estate) assets. Furthermore RBWM note that correlations continually change and in times of financial stress all risk assets trend to a correlation with each other of 1. This “tail risk” means that most risk models either understate risk in times of stress or conservatively over-estimate volatility in normal markets.

The fund targets a long-term return of UK CPI+4.5%; this is sufficient for it to meet its long-term liabilities. In setting the investment strategy, the Pension Fund Panel decided that this return should be achieved with a low degree of volatility – currently the fund targets volatility below 10% per annum over the medium term.

As a patient long-term investor the fund is prepared to ride-out short term volatility in investment markets and may, if suitable opportunities arise, adapt its investment strategy accordingly. At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

#### **4. The authority’s approach to pooling investments, including the use of collective investment vehicles.**

RBWM has broad experience of investing in pooled vehicles be they collective investment vehicles or other “collectives” such as multi-partner Limited Partnerships.

When deciding whether to invest in a collective scheme or to seek a segregated account RBWM, will pay close attention to:

- The relative costs between a collective investment scheme and a segregated account with a focus on the Total Cost of Ownership
- The suitability and ability of a collective investment scheme to meet the mandate requirements of RBWM.

RBWM recognises the government’s requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures that maximum cost effectiveness for the pension fund. In this respect RBWM exchanged a Letter of Intent with the Local Pensions Partnership (“LPP”). RBWM is reviewing the quantum of assets to be pooled with LPP. It has judged that initially liquid assets will achieve the most instant benefits from pooling. The only liquid assets that Berkshire holds are listed equities in Developed, Emerging and Frontier markets currently (September 2016) these represent 34% of the fund’s assets. RBWM believes that it would be uneconomic to pool existing investments in private funds (private debt, private equity and Infrastructure) or real estate funds largely due to the costs of transfer and the inequality created by sharing future returns. When future investments in these types of funds are considered

RBWM will take into account suitable investment opportunities made available by its pooling partners.

When it has become clear that the RBWM has become an investment client of LPP or a shareholder in LPP this document will be updated to provide detail on the structure and governance arrangements of LPP. At that time the RBWM will be able to provide clarity what (if any) services that it will share or jointly procure.

The table below sets out (as at September 2016) the assets that will not initially be invested through a pool:

<b>Asset Class</b>	<b>% of Fund</b>
Private Debt	9.3%
Private Equity	10.1%
Absolute Return Funds	14.7%*
Infrastructure	4.8%
Pooled Real Estate Funds	11.6%
Local Assets**	0.3%

\* In November 2016 RBWM resolved to reduce this allocation to less than 5% of the fund by 31 December 2017

\*\* Investment in Glassford LLP a private rented accommodation unit in Wokingham

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

RBWM accepts that stakeholders will have differing views on how social, environmental and corporate governance considerations should be taken into account and believes that no “onesize fits all” policy can possibly be implemented across such a diverse portfolio such as that of the pension fund. Nevertheless RBWM seeks to protect its reputation as an institutional investor and ensures that its investment managers take into account these issues when selecting investments for purchase, retention or sale. RBWM will not place social, environmental or corporate governance restrictions on its managers but relies on them to adhere to best practices in the jurisdictions in which they are based, operate and invest.

**6. The authority’s policy on the exercising of the rights (including voting rights) attaching to investments.**

RBWM expects its managers to exercise all rights attaching to investments including voting in accordance with recognised responsible investment guidelines. Where an asset is owned directly by RBWM on behalf of the pension fund it will exercise all rights and vote shares in a responsible manner. Managers’ approaches to incorporating these factors into their investment philosophy and

process are but one of the many factors RBWM takes into account when selecting managers.

RBWM expects its managers to comply with the principles of the UK Stewardship Code and does so itself where holdings are owned directly by the Fund.

**RBWM confirms that the Berkshire Pension Fund has no investments in entities that are connected with the authority but if in future it does these will be limited to no more than 5% of the Fund's assets.**

The table overleaf sets out the asset class limits as agreed by the Berkshire Pension Fund Panel on 11 April 2016 and amended on 7 November 2016.

Approved by the Berkshire Pension Fund Panel

15 May 2017

Next review date:

April 2018

## Annex 1 – Agreed Asset Class Limits

Asset Class	Proposed Max % (11 April 2016)	Amended limit (7 November 2016)	Single Investment Limit % (of fund)
<b>Bonds</b>	<b>35</b>		<b>n/a</b>
“Conventional” Gilts	25		25% in any single issue
“Index-Linked” Gilts	25		25% in any single issue
Investment Grade Bonds	25		2% in any single issue
Non-investment grade bonds (“High Yield”)	10		0.5% in any single issue or 5% in any single fund
Private Fixed Interest	20		5% in any single fund
Convertible Bonds	10		5% in any single fund
<b>Equities</b>	<b>60</b>		<b>n/a</b>
Developed World Listed Equities	40		5% in any single company
Emerging & Frontier Market Equities	25		5% in any single fund
Private Equity	15		5% in any single fund 0.5% in any single co-investment
<b>Absolute Return (“Hedge Funds”)</b>	<b>20</b>	<b>5*</b>	<b>2.5% in any single fund</b>
<b>Infrastructure</b>	<b>15</b>		<b>n/a</b>
Global Infrastructure Funds	10		2.5% in any single fund
UK Infrastructure	5		5% in any single fund
<b>Commodities</b>	<b>5</b>		<b>n/a</b>
Commodity funds	3		3% in any single fund
Single Commodity Exchange Traded Funds	2		2% in any single commodity
<b>Property</b>	<b>20</b>		<b>n/a</b>
UK Funds	5		5% in any single fund of funds
Global Funds	10		10% in any single fund of funds
Private Rented Residential	5		3% in any single development
<b>Cash</b>	<b>15</b>		<b>2% in any single “money fund”</b>

\* Redemptions are currently underway to bring the current investments to within this limit. This is expected to be achieved by 31 December 2017.





**SERVICE LEVEL AGREEMENT BETWEEN THE  
ROYAL BOROUGH OF WINDSOR & MAIDENHEAD  
AS ADMINISTERING AUTHORITY AND THE  
THE PENSION ADMINISTRATION TEAM**







## INTRODUCTION

The Royal Borough of Windsor & Maidenhead (RBWM) is the administering authority for the Royal County of Berkshire Pension Fund. As such, RBWM has certain statutory responsibilities for the administration of the Local Government Pension Scheme (LGPS) in Berkshire. This includes the six Unitary Authorities (of which RBWM is one) and around 200 other associated employers who make up the membership of the Pension Fund.

The administering authority has ultimate responsibility for interpreting and implementing statutory LGPS regulations, which includes taking decisions about fund investments, for receiving monies due to and paying monies owing from the Fund and for making sure that it has robust systems and processes in place to ensure that the scheme is administered in line with scheme regulations and within prescribed levels of performance.

STATUTORY INSTRUMENTS	
2013 No. 2356	
PUBLIC SERVICE PENSIONS, ENGLAND AND WALES	
The Local Government Pension Scheme Regulations 2013	
Made	230 September 2013
Laid before Parliament	190 September 2013
Coming into force in accordance with regulation 1	
<b>CONTENTS</b>	
<b>PART 1</b>	
Membership, contributions and benefits	
1. Choice, commencement and ending	4
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6. Deferred and deferred pension members	7
7. Pension members	7
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9. Contributions	8
10. Emergency reduction in contributions	8
11. Contributions during absence from work	8
12. Contributions during ill-health absence	8
13. Contributions during periods of service leave	8
14. Contributions during absence for illness	8
15. Employer contributions during absence	8
16. Additional pension contributions	11
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21. Maturity pension day pay	17
<b>Pension accounts</b>	
22. Pension accounts	18
23. Active member's pension accounts	18
24. Deferred member's pension accounts and deferred-related account	18

This document has been prepared as a service level agreement between the administering authority and the pension administration team and sets out service standards or 'promises' of the level of service that the team will provide to ensure that the administering authority achieves its statutory responsibilities.

### 1.0 ADMINISTRATION OF THE LGPS

The pension administration team will:

1.1 Maintain a member database of all current, deferred and retired members (including their dependants) of the scheme along with historical data relating to former scheme members who have a right to claim a refund of contributions but have not elected to do so (frozen refunds), former members who no longer have a liability within the Fund (benefits transferred out of the scheme) and employees who have opted out of the Scheme for whom an opting out form must be retained.

1.2 Provide an efficient, effective and courteous administration service.



1.3 Calculate member benefits in accordance with Scheme regulations.

1.4 Provide a pension payroll service to all retired Scheme members and their dependants.

1.5 Ensure that pension payments are made on the correct date and that all lump sum payments are made as soon as possible following the retirement of the Scheme member.

- 1.6 Provide current and deferred members with an annual benefit statement.
- 1.7 Ensure that all new Scheme members receive an access key to 'my pension ONLINE' with details of how to access a formal notification of membership and other relevant Scheme information.
- 1.8 Notify all retired scheme members of the annual increase to their pension.
- 1.9 Provide a payslip to retired members of the Scheme in April every year and any subsequent month where there is 50 pence variance in net pay.
- 1.10 Provide a P60 to every retired Scheme member within HMRC deadlines.
- 1.11 Perform other administrative tasks in line with the service standards laid down in a service level agreement with Scheme employers.



**2.0 SCHEME COMMUNICATIONS**

The pension administration team will:

**The Royal County of Berkshire Pension Fund**

The pages of this website contain information about the Local Government Pension Scheme and how it is administered in Berkshire. It sets out details about your membership of the benefits of contributing to a highly regarded, final-salary occupational pension scheme



- 2.1 Maintain and update a website for all members of the LGPS and provide a dedicated area for Scheme employers to assist them in administering the scheme on behalf of their employees.
- 2.2 Inform all scheme members of significant changes to the LGPS by way of a bi-annual newsletter.
- 2.3 Produce, publish and maintain a suite of scheme guides and fact-sheets to assist scheme members in understanding their pension rights and options.

- 2.4 Offer pension surgeries, presentations and open days to be held across the County of Berkshire.
- 2.5 Respond to letters and emails within 10 working days.

**3.0 COMPLAINTS PROCEDURE**

- 3.1 The pension administration team has a commitment to put things right if they go wrong and will investigate any complaint received within 10 working days.

- 3.2 If the team are unable to resolve a complaint the member has a right to appeal under the Internal Disputes Resolution Procedure (IDRP) which is a 3-stage appeal process set out in the regulations.

#### **4.0 GENERAL**

The pension administration team will:

- 4.1 Deal with member enquiries in a professional, polite and friendly way and offer guidance to scheme members as appropriate without giving financial advice.
- 4.2 Make available confidential interview facilities as required.
- 4.3 Maintain and report on performance statistics.
- 4.4 Provide information for completion of a stewardship report to be presented to members of the Pension Fund Panel, Pension Fund Advisory Panel and Pension Board each time they meet.
- 4.5 Provide information for the annual report and accounts of the Pension Fund.



## Appendix 6 - Contributions Received 2016/17

<b>Employer</b>	<b>Employee £'000</b>	<b>Employer £'000</b>
Brakenhale School	47	131
Dedworth Middle School	27	72
Dedworth Green First School	13	38
St Johns CE Primary School	19	56
Compton Parish Council	0	1
Holyport CE Primary School	16	44
Rapid Commercial Cleaning Services Ltd 2	1	2
New Town Primary School	15	45
Get Active Sports (St Anne's)	0	1
Innovate Services (Prospect)	4	10
Floreat Montague Park Primary School	2	6
Bohunt Wokingham	6	16
John O'Gaunt School	8	24
Beechwood School	18	50
Trevelyan Middle School	9	25
Lambourn Parish Council	0	1
St Anthony's School	13	39
St Ethelbert's School	9	26
St Joseph's School	10	26
Northern House School Wokingham	8	20
Speenhamland Primary School	3	9
CfBT Schools Trust	1	1
Bracknell Forest BC	3,384	9,104
RBWM	2,696	7,987
West Berkshire DC	3,400	8,873
Reading Borough Council	4,530	11,618
Slough Borough Council	2,194	6,904
Wokingham Borough Council	3,143	7,932
Cookham Parish Council	2	7
Elizabeth Fry Hostel	10	77
Mary Hare Grammar School	210	597
Greenwich Leisure Ltd ext 4076	11	29
Association of SE Colleges	3	7
Woodley Town Council	33	100
Crowthorne Parish Council	4	12
Sunninghill & Ascot Parish Council	2	6
Bracknell Town Council	43	118
Thatcham Town Council	12	32
Wokingham Town Council	48	52
Reading Voluntary Action	3	25
Earley Town Council	30	88
Slough Council For Voluntary Service	8	19

Fitzpatrick	2	7
Sunningdale Parish Council	2	5
Age Concern Berkshire	5	17
South Hill Park Trust	15	26
School of St Helen & St Katharine	22	65
Tilehurst Parish Council	7	18
Winkfield Parish Council	11	29
Eton Town Council	1	3
University of West London	66	198
Theale Parish Council	2	6
Sovereign Housing Association	17	447
Binfield Parish Council	4	11
Swallowfield Parish Council	3	9
Cfbt Berks Careers Guidance	3	115
Newbury College	102	359
Bracknell & Wokingham College	155	537
East Berkshire College Ext 3302	192	615
Berkshire College Of Agriculture	171	588
Berkshire County Blind Society	0	25
Reading Transport Ltd	51	501
Windsor Housing	4	201
Dimensions UK Ltd	4	13
White Waltham Parish Council	4	11
Cox Green Parish Council	3	10
Newbury Town Council	20	53
Shinfield Parish Council	5	14
Berkshire Maestros	28	80
Berkshire Fire & Rescue Service	311	863
Barkham Parish Council	0	2
Woodley Age Concern	-0	-1
Corn Exchange Trust	2	7
Slough Community & Leisure Ltd	72	145
Housing Solutions Ltd	224	645
Pact	21	43
Interserve (Facilities Services Slough) Ltd	64	211
Computacentre	0	5
Enterprise plc	32	96
Northgate UK Ltd (Altair Code 00113)	3	25
Holroyd Howe Ltd	1	11
MITIE	1	13
Finchampstead Parish Council	19	6
Bray Parish Council	2	7
S.E.Centre for the Built Environment Ltd	11	19
Wexham Court Parish Council	1	3
Ways Into Work CIC	10	23
Lynch Hill Enterprise Academy	11	31

Ruscombe Parish Council	0	0
Waingels College	51	134
Slough Children's Services Trust	475	812
Creative Support Extra Care	26	79
Civitas Academy	4	11
St Francis School	12	34
Forest Bridge School	32	86
The Wren Free School	9	24
Ranikhet Primary School	18	53
Olive Dining Ltd	4	11
Langley Academy Primary	10	30
Newlands Girls School	47	131
St Margaret's Clitherow School	11	34
Bellevue Place Education Trust	7	13
Rutherford House School	28	73
Whitehall Park Primary School	7	21
Kilburn Grange School	4	12
Halley House School	4	12
Watling Park School	6	16
Deer Park School	2	5
Eton Porny C of E First School	7	21
Wraysbury Parish Council	0	1
Maiden Erlegh School Reading	6	18
Get Active	0	0
Energy Kidz	0	0
Rapid Commercial Cleaning Services Ltd	1	4
Ranelagh School	51	101
Kendrick School (Academy Status)	32	82
Langley Hall Primary Academy	35	99
Langley Grammar School (Academy Status)	44	107
Lynch Hill School Primary Academy	38	110
Prospect School Reading (Academy Status)	75	220
Reading School (Academy Status)	43	111
Slough Grammar School (Academy Status)	60	161
St Bartholomew's School (Academy Status)	58	164
Cox Green School (Academy Status)	50	134
Furze Platt Senior School (Academy Status)	71	197
Datchet St Mary's C of E Primary School	17	49
Denefield School (Academy Status)	51	139
All Saints Junior School Reading	5	14
Herschel Grammar School (Academy Status)	37	96
Westgate School (Academy Status)	65	175
Cippenham Primary School (Academy Status)	42	118
Cippenham Infants School (Academy Status)	18	47
Marish Primary School (Academy Status)	59	169
Oakbank Free School	20	53

Reading Girls School	32	99
The Downs School	65	194
Priory School	75	236
Holy Family School	30	97
Whitelocke Infant	60	137
The Blessed Hugh Farringdon School	35	106
Slough & Eton C of E School	65	159
Holt School (Academy Status)	50	131
John Madejski Academy	73	143
Warfield Parish Council	2	7
Altwood School (Academy Status)	34	113
Trinity School (Academy Status)	40	108
Winnersh Parish Council	3	10
Bracknell Forest Homes	184	527
Langley Academy	94	157
Hungerford Town Council	3	9
Sandhurst Parish Council	1	2
Care UK	8	26
Connexions Thames Valley	140	340
Vinci Park Services Ltd (Bracknell)	1	2
Hurley Parish Council	1	2
Highdown School	55	149
Busy Bee Cleaning Services Ltd	1	2
Library Services (Slough) Ltd	6	12
Churchend Academy	29	77
Burghfield Parish Council	3	9
Kennet Academy	78	212
The Avenue Academy	105	298
Lowbrook Academy Trust	12	34
Maiden Erlegh School	105	274
Park House School Newbury	39	107
The Piggott C of E Academy	55	156
Twyford Parish Council	1	3
Optalis Limited	102	226
Baylis Court School	39	112
Northgate UK Ltd (Altair Code 00178)	14	31
KGB Cleaning Ltd	0	2
Arvato	210	406
White Waltham School (Academy Status)	12	36
Godolphin Junior School	20	54
Godolphin Infant School	18	53
Castlevew School (Academy Status)	45	127
Charters School (Academy Status)	73	199
Desborough School (Academy Status)	35	92
Meadow Park Academy	28	54
Elior UK plc	2	4



Ryvers School (Academy Status)	32	91
Battle Primary Academy	60	71
Willow Primary School	27	75
Fir Tree Academy Trust	9	26
Colnbrook Primary School ( Academy Status )	14	40
Creative Support Ltd (Altair 00211)	11	26
St Mary's Catholic Primary School (Academy Status)	14	41
The Forest School Academy Trust	46	117
James Elliman School (Academy Status)	52	148
Chieveley Parish Council	1	2
The Palmer Academy	26	72
Haybrook College	69	186
Theale Green School (Academy Status)	56	165
Slough Learning Partnership	7	17
The National Autistic Society Academy Trust	35	99
Mott MacDonald	93	162
Whitelands Park Primary School (Academy Status)	12	35
Montem Academy	39	112
Foxborough Primary School (Academy Status)	28	80
Berks, Bucks & Oxfordshire Wildlife Trust	8	27
Wokingham Without Parish Council	6	19
Windmill Primary School	6	16
Radian Support Emp 00212	0	0
Holyport College	39	101
Ditton Park Academy	26	69
University Technical College Reading	10	28
The Heights Free School	10	29
Ewendons Primary School	10	29
Parlaunt Park Primary School	47	133
Knowl Hill CE Academy	5	14
Innovate Services Ltd	2	6
Western House Academy	35	102
Wheatfield School	6	17
Littledown School and SEBD	27	76
Cranstoun	4	10
Continental Landscapes Ltd	15	38
St Peters CE School	12	35
St Luke's School	15	44
Burchetts Green Infant School	4	11
Braywick Court School	4	11
Busy Bee Cleaning Services 2	1	4
Legacy Leisure Limited	30	60
Holybrook Parish Council	2	4
Purley on Thames Parish Council	1	4
Charvil Parish Council	1	4
The Windsor Day Club Nursery	1	3

The Windsor Boys School	41	111
Windsor Girls School	31	81
C-Salt	1	1

## Appendix 7 - AVC Arrangements

There are a number of investment choices available to members of the Royal County of Berkshire Pension Fund who elect to pay Additional Voluntary Contributions (AVCs). Members can choose to switch AVC Funds at any time subject to the terms and conditions of each vehicle. At retirement, the accumulated value of a member's AVC Fund can be used to provide a tax-free lump sum payment (subject to HMRC limits), to purchase an annuity on the open market or, in certain circumstances, buy additional membership of the Local Government Pension Scheme. The following table sets out the available Funds and the level of investment risk attached to each of those Funds:

<b>Provider</b>	<b>Fund Type</b>	<b>Level of Risk</b>
Prudential Assurance Company	Deposit	Minimal
	Cash	Minimal
	Fixed Interest	Lower
	Index Linked Gilts	Lower
	Retirement Protection	Lower
	With Profits	Lower to Medium
	Discretionary	Medium
	Property	Medium
	International Equity	Medium to Higher
	Global Equity	Medium to Higher
	Equity	Higher
	UK Equity Passive	Higher
	Socially Responsible	Higher

Many members choose to invest in the With Profits Fund that is designed to provide smoothed medium to long-term growth by investing in a range of assets including equities and property. The investment returns are distributed by way of reversionary and terminal bonuses.

### Lifestyling

Lifestyling is a convenient way for members of AVC schemes to stay invested in assets with the potential for long-term growth throughout their working lives whilst gaining an element of protection through automatic switching into funds with lower risk as retirement approaches.

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Report for:  
INFORMATION



<b>Contains Confidential or Exempt Information</b>	NO - Part I
<b>Title</b>	Risk Assessment Register
<b>Responsible Officer(s)</b>	Nick Greenwood
<b>Contact officer, job title and phone number</b>	Kevin Taylor Deputy Pension Fund Manager 01628 796715
<b>Member reporting</b>	Cllr John Lenton
<b>For Consideration By</b>	Berkshire Pension Fund and Pension Fund Advisory Panels
<b>Date to be Considered</b>	11 September 2017
<b>Implementation Date if Not Called In</b>	N/A
<b>Affected Wards</b>	All

## REPORT SUMMARY

1. This report provides an update concerning the Pension Fund's Risk Assessment Register.

## 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. The monitoring of risks and compliance with regulatory obligations demonstrates good governance of the Fund	Immediate

## 1. DETAILS OF RECOMMENDATIONS

### RECOMMENDATION: That Panel:

- i. considers the amendments made to the risk register as set out in this report and as represented in the full register at report Annex 1

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

The Scheme Manager (The Royal Borough as the administering authority for the Fund) 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.

All high and medium risks have been reviewed and changes have been made to:

PEN 026 – Pooling of LGPS assets. This remains as a medium risk. The Fund has currently entered into negotiations with LPP as the preferred partner with actions to be taken in the coming weeks and months by a newly formed project board.

Other high and medium risks remain pending further action:

PEN 004 – Failure to maintain a high quality member database. Remains as the only high risk due to certain scheme employers expected to be in breach of scheme regulations and reported to The Pensions Regulator this year. 2 Scheme Employers in particular are expected to miss their deadline for providing membership data to the Pension Fund meaning that Annual Benefit Statements will not be made available to their scheme members by the statutory deadline of 31 August 2017.

PEN 017 – Funding level below 100%. This remains as a medium risk with ingoing discussions being held with a number of scheme employers following the issue of the triennial actuarial valuation results.

PEN 025 – Inability of Scheme employers to meet their obligations. The Pension Fund Manager continues to explore options for the implementation of an insurance policy to protect the Pension Fund against a scheme employer's failure to be able to meet the cost of it's liabilities at exit from the Fund.

PEN 028 – Reconciliation of GMP records. This remains as a medium risk but work has commenced with the reconciliation process and must be concluded by March 2018.

Option	Comments
Consider risks detailed in this report	<b>Recommended as this is a statutory obligation</b>

## 3. KEY IMPLICATIONS

- 3.1 This is a statutory policy requiring review by Panel. Failure to do so could lead to a loss in confidence.

<b>Defined Outcomes</b>	<b>Unmet</b>	<b>Met</b>	<b>Date they should be delivered by</b>
Review and update of risk register ensuring risks are contained.	Risks evolve and become an issue.	Risks reviewed and monitored	Ongoing

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

Failure to monitor identified risks and to implement appropriate strategies to counteract those risks could lead to an increased Fund deficit resulting in employers having to pay more.

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

5.1 Compliance with regulations and guidance from the Pensions Regulator

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

Not applicable

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

Not applicable

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

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
Failure to comply with regulations, TPR requirements, Funding deficit etc	High	Review and monitor identified risks taking appropriate action where necessary	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 None

**15. TIMETABLE FOR IMPLEMENTATION**

Immediate

**16. APPENDICES**

Annex 1 – Risk Register

**17. BACKGROUND INFORMATION**

None

Full name of report author	Job title	Full contact no:
Kevin Taylor	Deputy Pension Fund Manager	01628 796715



## Royal County of Berkshire Pension Fund – Risk Assessment Register

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				Next Review Date
							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 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	Sep 2017
PEN 002	Late issue of Scheme regulation amendments.	Operational	DCLG do not issue 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	Sep 2017
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. Dissatisfied 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	Sep 2017
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	Sep 2017

## Royal County of Berkshire Pension Fund – Risk Assessment Register

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				Next Review Date
							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	
146	PEN 005	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 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	Sep 2017
	PEN 006	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 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	Sep 2017
	PEN 007	Operational	Systems not in place to ensure that payments stop at appropriate time. Fund not advised of member's death.	Payments continue to be made incorrectly at a potential cost to the Pension Fund. Distress caused to dependants.	Nick Greenwood	The Fund undertakes a monthly mortality screening exercise and participates in the biennial National Fraud Initiative (NFI).	2	2	4	Low	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	Sep 2017
	PEN 008	Operational	Links to system not working, internet access denied.	Unable to carry out administrative duties for duration of outage.	Nick Greenwood	Procedures in place to contact software provider's helpdesk and action plan implemented. Outage times recorded / 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	Sep 2017

## Royal County of Berkshire Pension Fund – Risk Assessment Register

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				Next Review Date
							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. Employers chased and reminded of their statutory duties. All occurrences recorded in stewardship report. Guidance 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	Sep 2017
PEN 010 147	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	Sep 2017
PEN 011	Loss of key staff.	Operational	The specialist nature of the work means some 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	Sep 2017
PEN 012	Failure to communicate properly with stakeholders	Operational	Lack of clear communications policy and action particularly with Scheme members and employers.	Scheme members unaware of the rights and privileges the Scheme provides so make bad decisions. Employers are not aware of the regulations 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	Sep 2017
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	Jan 2018

## Royal County of Berkshire Pension Fund – Risk Assessment Register

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				Next Review Date
							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	Sep 2017
PEN 015 018	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	Sep 2017
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	Low	Schedules of delegation to be reviewed for all aspects of the Pension Fund's duties.	Nick Greenwood	March 2016	4	1	4	Low	Jan 2018
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 2010 valuation. 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	Sept 2017

## Royal County of Berkshire Pension Fund – Risk Assessment Register

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				Next Review Date
							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	Sep 2017
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	Sep 2017
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	Sep 2017
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. Reviews the cost of insuring longevity risk of pensioners retired since July 2009.	Nick Greenwood	Ongoing	3	1	3	Low	Sep 2017
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	Sep 2017

## Royal County of Berkshire Pension Fund – Risk Assessment Register

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				Next Review Date
							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	Ongoing	3	1	3	Low	Sep 2017
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	Sep 2017
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 having an insurance policy designed to protect the Fund against exit payments arising from exiting employers.	Nick Greenwood	Ongoing	3	1	3	Low	Sep 2017
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 Government may impose a pooling arrangement upon the Fund with no controls. Incorrect implementation could be costly e.g. fees and poor returns.	Nick Greenwood	Corporate Project Board to be established to ensure compliance with Government's directive to pool investments by 1 <sup>st</sup> April 2018.	2	4	8	Medium	Negotiations have been ongoing with LPP as the preferred partner.	Rob Stubbs	Mar 2018	1	4	4	Low	Sep 2017

## Royal County of Berkshire Pension Fund – Risk Assessment Register

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				Next Review Date
							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	Subject to regulations being issued	1	4	4	Low	Sep 2017
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	Dec 2018	1	3	3	Low	Sep 2017
<del>PEN 029</del> PEN 029	Failure by Pension Board members to fulfil their Terms of Reference and associated protocols	Operational	Members of the Pension Board so not fulfil their statutory obligations set out in their Terms of Reference.	Failure by Pension Board members to assist the Administering Authority in securing compliance with pension legislation and requirements set out by the Pensions Regulator leading to poor governance and administration of the scheme. Dissatisfied customers, loss of reputation, risk of fine.	Nick Greenwood	Training plans in place for Pension Board members.	4	1	4	Low	Annual review of Terms of Reference and regular review of training needs.	Kevin Taylor	Ongoing	4	1	4	Low	Sep 2017

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Title: Stewardship Report
Contains Confidential or Exempt Information?: NO - Part I
Member reporting: Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date: Berkshire Pension Fund and Pension Fund Advisory Panels - 11 September 2017
Responsible Officer(s): Nick Greenwood, Pension Fund Manager
Wards affected: None

## REPORT SUMMARY

1. This report deals with the stewardship of the Pension Fund for the period 1 April 2017 to 30 June 2017
2. It recommends that Members (and Pension Board representatives) note the Key Financial and Administrative Indicators throughout the attached report.
3. Good governance requires all aspects of the Pension Fund to be reviewed by the Administering Authority on a regular basis
4. There are no financial implications for RBWM in this report

## 1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

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

Please note that Stewardship Reports are provided to each quarter end date (30 June, 30 September, 31 December and 31 March) and presented at each Panel meeting subsequent to those dates.

## **2. REASON(S) 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 / VALUE FOR MONEY**

Not applicable.

## **5. LEGAL IMPLICATIONS**

None.

## **6. RISK MANAGEMENT**

None.

## **7. POTENTIAL IMPACTS**

None.

## **8. CONSULTATION**

Not applicable.

## **9. TIMETABLE FOR IMPLEMENTATION**

Not applicable.

## **10. APPENDICES**

None.

## **11. BACKGROUND DOCUMENTS**

None.



THE ROYAL COUNTY OF  
**BERKSHIRE**  
PENSION FUND

**STEWARDSHIP REPORT**

**QUARTER 1– 2017/18**

**1 April 2017 TO 30 June 2017**

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## 1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

### 1.1 Pension Fund key financial indicators

Table 1	March 2013	March 2016	June 2017
Asset Value (Smoothed)	£1,561.8m	£1,645.0m	£1,950.6m
Asset Value (Unsmoothed)	£1,572.4m	£1,655.8m	£1,946.9m
Liabilities (Smoothed)	£2,088.8m	£2,242.0m	£2,578.6m
Liabilities (Unsmoothed)	£2,107.7m	£2,256.2m	£2,527.5m
Deficit (Smoothed)	£527.0m	£597.0m	£628.0m
Deficit (Unsmoothed)	£535.3m	£600.4m	£580.7m
Funding Level (Smoothed)	75%	73%	76%
Funding Level (Unsmoothed)	75%	73%	77%
Deficit Recovery Period	27 years	24 years	23 years
Nominal Discount Rate (Smoothed)	6.1%	5.7%	5.6%
Real Discount Rate (Smoothed)	3.4%	3.3%	2.9%
Investment Performance Target (CPI + 4%)	6.7%	6.4%	6.7%
Nominal Earnings Inflation Assumption	4.5%	3.9%	4.2%
Consumer Price Index Inflation Assumption	2.7%	2.4%	2.7%
Employers Contributions – Future Service	12.7%	14.3%	15.8%
Employers Contributions – Past Service Deficit	6.9%	7.7%	8.1%

### 1.2 Change in the smoothed liabilities

Table 2	30 June 2017
Liability reconciliation	£m
Disclosed smoothed liability at 30/04/2016	2,571.2
Update of smoothing adjustment	-11.7
Updated smoothed liability at start	2,559.5
New liabilities (including transfers in)	17.5
Liabilities extinguished	-18.8
Net new liabilities from bulk transfers in/out	-
Interest on liabilities	23.7
Change due to discount rate	11.7
Change due to inflation assumption	-14.9
<b>Increase in Liabilities</b>	<b>19.1</b>
<b>Smoothed liability at 30 June 2017</b>	<b>2,578.6</b>

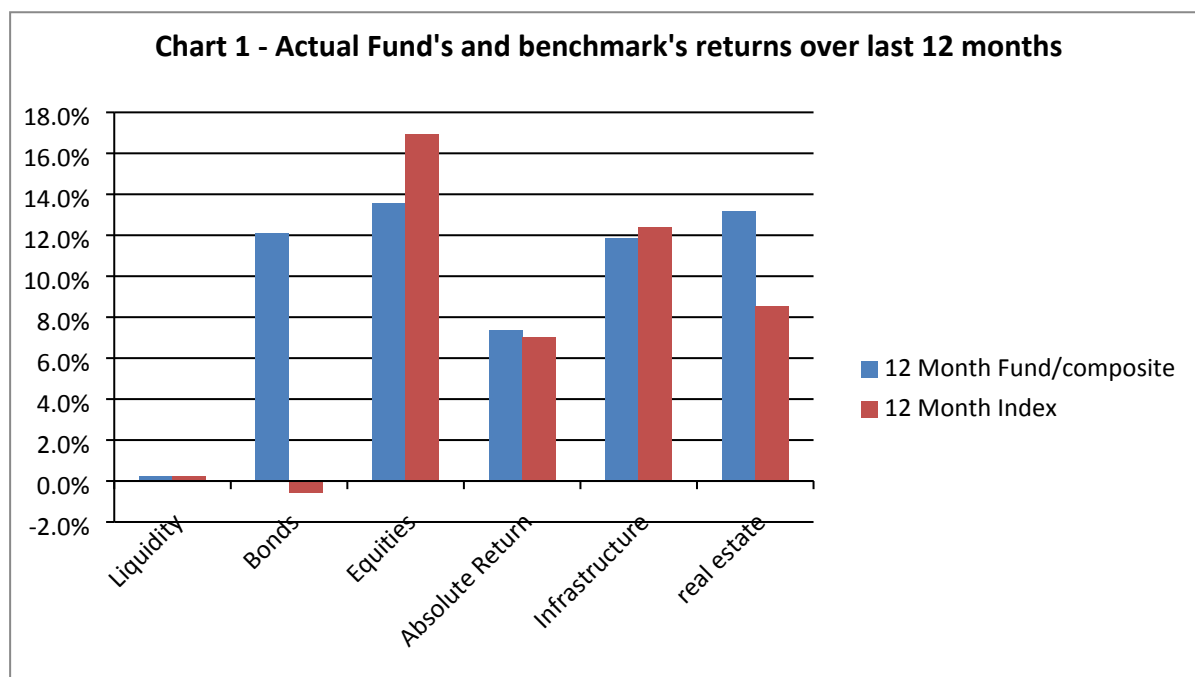
NOTE: The actuary smooths liabilities by taking the average liability figure over the last 6 months. The liabilities are now valued on the 2016 basis and consistent with the 2016 actuarial valuation. The value of the longevity swap is now included in the asset value rather than the liability value (but not in the Fund NAV and returns calculated by JP Morgan).

### 1.3 Market returns in GBP

All Fund and Index returns in the first three columns of the table below are denominated in GBP. Following the strong depreciation of GBP post Brexit returns of non-Sterling assets were significantly higher in sterling terms than in their local currencies. The right most column shows 12-month returns in US Dollars as a proxy for the 12-month local currency returns, except for the Absolute Return portfolio as calculated by Grosvenor Capital and Global Property ex-UK as calculated by Aviva (valued quarterly in arrears).

Table 3		3 month in GBP	12 month in GBP	36 month in GBP	12 month in USD
<b>Liquidity</b>	<b>Fund</b>	0.04%	0.22%	0.34%	
1 Week GBP Libor	<b>Index</b>	0.06%	0.24%	0.40%	
	<b>Relative</b>	-0.02%	-0.02%	-0.06%	
<b>Bonds</b>	<b>Fund</b>	1.07%	12.10%	12.92%	11.32%
Barclays Global Aggregate	<b>Index</b>	1.24%	-0.58%	9.14%	-1.28%
	<b>Relative</b>	-0.17%	12.68%	3.78%	12.60%
<b>Developed Markets Equities</b>	<b>Fund</b>	2.92%	12.65%	11.28%	11.85%
Morgan Stanley Capital International (MSCI) World	<b>Index</b>	3.00%	16.94%	15.81%	16.13%
	<b>Relative</b>	-0.08%	-4.29%	-4.53%	-4.27%
<b>Emerging Markets Equities</b>	<b>Fund</b>	6.19%	19.10%	11.17%	18.25%
Morgan Stanley Capital International EM Equities	<b>Index</b>	8.14%	25.72%	11.19%	24.83%
	<b>Relative</b>	-1.95%	-6.62%	-0.02%	-6.58%
<b>Private Equity</b>	<b>Fund</b>	1.18%	8.71%	14.88%	7.94%
9% per annum	<b>Index</b>	2.18%	9.01%	9.00%	9.01%
	<b>Relative</b>	-1.00%	-0.30%	5.88%	-1.08%
<b>Total Equities</b>	<b>Fund</b>	3.45%	13.54%	11.93%	12.73%
Morgan Stanley Capital International World	<b>Index</b>	3.00%	16.94%	15.81%	16.13%
	<b>Relative</b>	0.45%	-3.40%	-3.88%	-3.40%
<b>Absolute Return</b>	<b>Fund</b>	-0.98%	7.36%	10.07%	6.61%
7% per annum	<b>Index</b>	1.72%	7.00%	7.00%	7.00%
	<b>Relative</b>	-2.70%	0.36%	3.07%	-0.39%
<b>Infra-structure</b>	<b>Fund</b>	3.85%	11.82%	12.95%	11.03%
FTSE Global Core 50/50	<b>Index</b>	4.15%	12.39%	16.62%	11.60%
	<b>Relative</b>	-0.30%	-0.57%	-3.67%	-0.57%
<b>Real Estate</b>	<b>Fund</b>	2.66%	13.16%	13.15%	12.36%
UK Investment Property Databank	<b>Index</b>	2.59%	8.52%	9.95%	
	<b>Relative</b>	0.07%	4.64%	3.20%	
<b>Total Fund Nominal</b>	<b>Fund</b>	2.05%	9.96%	8.52%	
UK CPI	<b>Index</b>	0.29%	2.58%	1.14%	
Total Fund Real	<b>Relative</b>	1.75%	7.19%	7.30%	
Total Fund Target (4% real)		0.99%	4.00%	4.00%	

## 1.4 Fund performance in GBP



## 1.5 Exception Traffic Lights

**Table 4**

<u>Traffic Lights July 2017</u>					
<u>Colour</u>		<u>£ m</u>	<u>Fund %</u>	<u>Comment</u>	<u>Date Traffic Light Changed</u>
	<b><u>BONDS</u></b>				
	<b><u>Convertible Bonds</u></b>				
<b>Amber</b>	Aviva	37.6	1.9%	Change in management team & weak performance	Jul-14
<b>Amber</b>	Blue Bay Global	28.4	1.4%	Currency volatility has resulted in disappointing GBP returns.	Jul-14
	<b><u>EQUITIES</u></b>				
	<b><u>Private Equity</u></b>				
<b>Amber</b>	South East Growth Fund	2.1	0.1%	Terms of additional extension to fund life agreed	Jul-13
<b>Amber</b>	Stafford Sustainable Fund	4.3	0.2%	Disappointing performance. Buyer not found	Jul-13
	<b><u>Absolute Return</u></b>				
<b>Red</b>	Grosvenor	99.2	4.9%	Disappointing performance in 2016	Oct-16
	<b><u>INFRASTRUCTURE</u></b>				
<b>Amber</b>	JPMorgan AIRRO India SideCar Fund	7.3	0.4%	Delays in construction of key assets and adverse legal developments	Aug-17
<b>Amber</b>	Macquarie SBI Infrastructure Ltd	4.1	0.2%	Performance adversely affected by delays in construction of key assets	Jul-13
	<b><u>Total Fund Valuation (excl prepaid contribs)</u></b>	<b>2,023.4</b>			

### Key

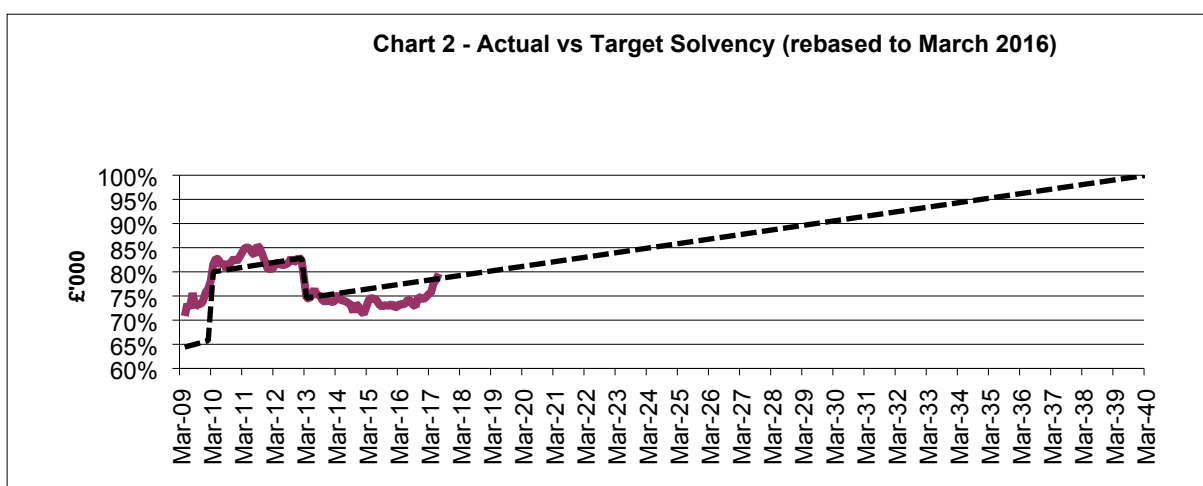
#### Colour Comment

- Red** Recommendation that action be taken: following a review by officers.
- Amber** Performance being reviewed by officers: 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** Satisfactory performance: performance at least in line with target return or expectations.
- Blank** Too early in the life of a fund to comment on performance.

## 1.6 Asset allocation update

SSA Weights	Comparison of Strategic Asset Allocation "SSA" changes				
	31/03/2013	31/03/2016	31/07/2017	12m change	36m change
<b>Liquidity</b>	<b>1.1%</b>	<b>5.1%</b>	<b>12.6%</b>	<b>3.8%</b>	<b>7.4%</b>
Investment Grade Debt	7.9%	5.0%	3.2%	-1.6%	-3.1%
Other Debt	8.7%	9.4%	9.3%	-0.2%	1.2%
<b>Total Debt</b>	<b>16.6%</b>	<b>14.3%</b>	<b>12.4%</b>	<b>-1.9%</b>	<b>-1.9%</b>
Developed Market Equities	17.2%	22.1%	22.8%	0.1%	4.6%
Developing Market Equities	14.7%	12.4%	12.7%	-0.4%	-0.7%
Private Equity	9.2%	10.1%	11.1%	1.3%	2.2%
<b>Total Equities</b>	<b>41.1%</b>	<b>44.6%</b>	<b>46.6%</b>	<b>1.0%</b>	<b>6.1%</b>
<b>Absolute Return</b>	<b>17.3%</b>	<b>17.4%</b>	<b>5.0%</b>	<b>-10.0%</b>	<b>-11.3%</b>
Infrastructure	4.7%	4.7%	6.5%	1.9%	2.4%
Commodities	9.8%	2.6%	3.4%	1.2%	-4.5%
Real Estate	9.8%	11.1%	12.8%	0.7%	1.2%
Other	-0.3%	0.2%	0.7%	3.3%	0.5%
<b>Real Assets</b>	<b>23.9%</b>	<b>18.5%</b>	<b>23.4%</b>	<b>7.1%</b>	<b>-0.4%</b>
<b>Fund Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

## 1.7 Solvency



Month	Smoothed		Unsmoothed	
	Surplus/Deficit £000s	Funding Level	Surplus/Deficit £000s	Funding Level
July 2016	(631,741)	74%	(621,553)	74%
August 2016	(660,966)	73%	(658,853)	73%
September 2016	(666,594)	73%	(674,959)	73%
October 2016	(617,258)	75%	(623,320)	75%
November 2016	(635,559)	75%	(608,720)	75%
December 2016	(658,102)	74%	(640,317)	74%
January 2017	(632,066)	75%	(635,317)	75%
February 2017	(642,066)	75%	(618,573)	75%
March 2017	(636,550)	75%	(621,985)	76%
April 2017	(633,996)	75%	(636,213)	75%
May 2017	(653,038)	75%	(621,660)	76%
June 2017	(628,025)	76%	(580,668)	77%

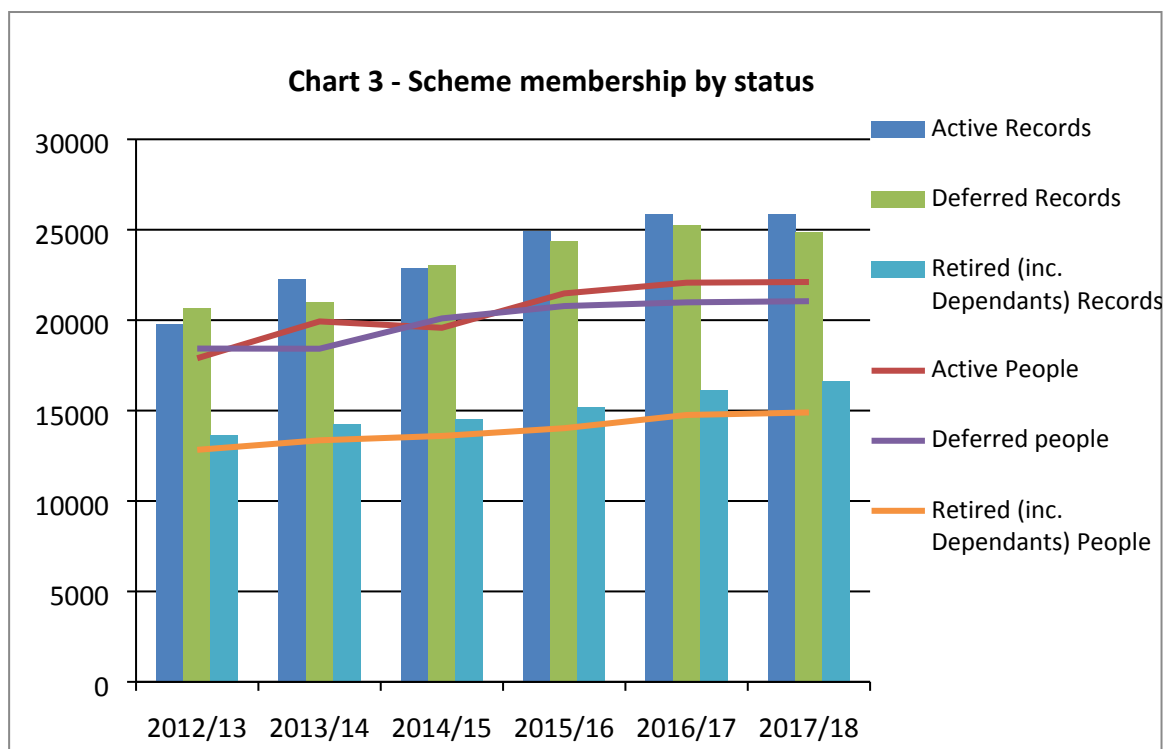


Table 7 - Cashflow	Year to 31/03/15 (actual) £'000's	Year to 31/03/16 (actual) £'000's	Year to 31/03/17 (forecast) £'000's
Contributions	87,691	92,957	96,500
Transfers received	1,916	4,761	6,300
Employers' early retirement payments	1,400	1,058	1,300
Investment income via Custodian	23,762	25,868	25,600
Pension paid (gross)	-73,625	-77,854	-82,000
Retirement lump sums	-18,045	-17,213	-20,600
Transfers paid	-67,201	-7,831	-2,700
Investment management costs	-3,654	-5,783	-6,200
Employee & Other costs	-1,799	-1,212	-1,200
Net cash flow	<b>-49,555</b>	<b>14,751</b>	<b>17,000</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.  
Why swing in Investment Income?

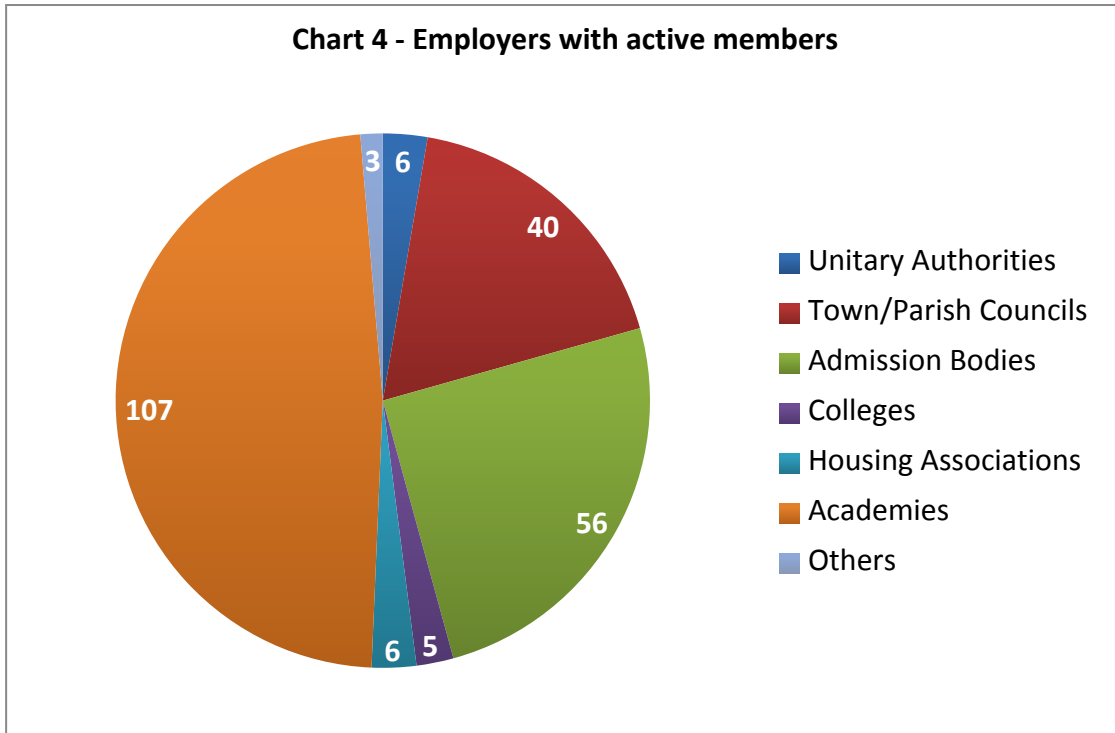
## 2 GOVERNANCE AND ADMINISTRATION

### 2.1 Scheme membership



TOTAL MEMBERSHIP			
Active Records	25841	Active People	22110
Deferred Records	24873	Deferred People	21049
Retired Records	16633	Retired People	14896
<b>TOTAL</b>	<b>67347</b>	<b>TOTAL</b>	<b>58055</b>

2.2 Scheme Employers

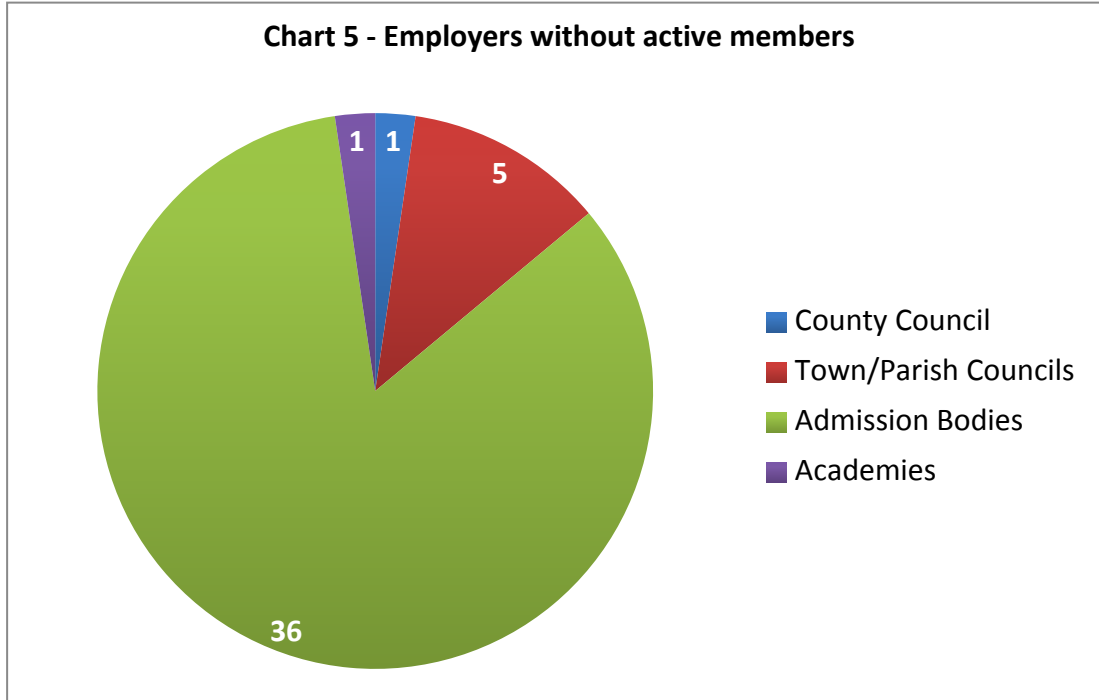


New employers since last report:

**Admission Bodies:** VolkerHighways Ltd (RBWM); Project Centre Limited x 2 (RBWM).

**Academies:** Bonitas Multi-Academy Trust Limited; The Keys Academy Trust

**Town/Parish Councils:** Nil



**Exiting employers:** CfBT Advice and Guidance

## 2.3 Scheme Employer Key Performance Indicators

Employer	Starters	Leavers	Changes	Total	Errors	Achieved
RBWM	209	251	612	<b>1072</b>	196	<b>84.54%</b>
Reading BC	257	91	1167	<b>1515</b>	100	<b>93.80%</b>
Academies	64	50	816	<b>930</b>	387	<b>70.62%</b>
Colleges	10	4	173	<b>187</b>	9	<b>95.41%</b>
Others	9	7	253	<b>269</b>	24	<b>91.81%</b>
<b>Totals</b>	<b>549</b>	<b>403</b>	<b>3021</b>	<b>3973</b>	<b>716</b>	<b>84.73%</b>

**NOTES:** Table 8A above shows all transactions through i-Connect in the first quarter of 2017/18. Changes include hours/weeks updates, address amendments and basic details updates.

The benefits of i-Connect are:

- Pension records are maintained in 'real-time';
- Scheme members are presented with the most up to date and accurate information through *mypension* ONLINE (Member self-service);
- Pension administration data matches employer payroll data;
- Discrepancies are dealt with as they arise each month;
- Employers are not required to complete year end returns;
- Manual completion of forms and input of data onto systems is eradicated removing the risk of human error.

### Exception report – less than 90% achieved

RBWM – These errors arose due to one school (St. Edmund Campion) having a change to their date of conversion to academy status. All errors were quickly resolved.

Academies – as reported in the last stewardship report presented to Panel in May 2017 a change in administration processes took place effective from 1 April 2017 with regard to academies i.e. administration is now undertaken at the MAT (Multi-Academy Trust) level as opposed to the individual academy level. This caused i-Connect to challenge the member's date of first joining the scheme, at the individual academy level, against the date the member joined the MAT (1 April 2017). These 'errors' were quickly rectified and will not re-occur in the future.

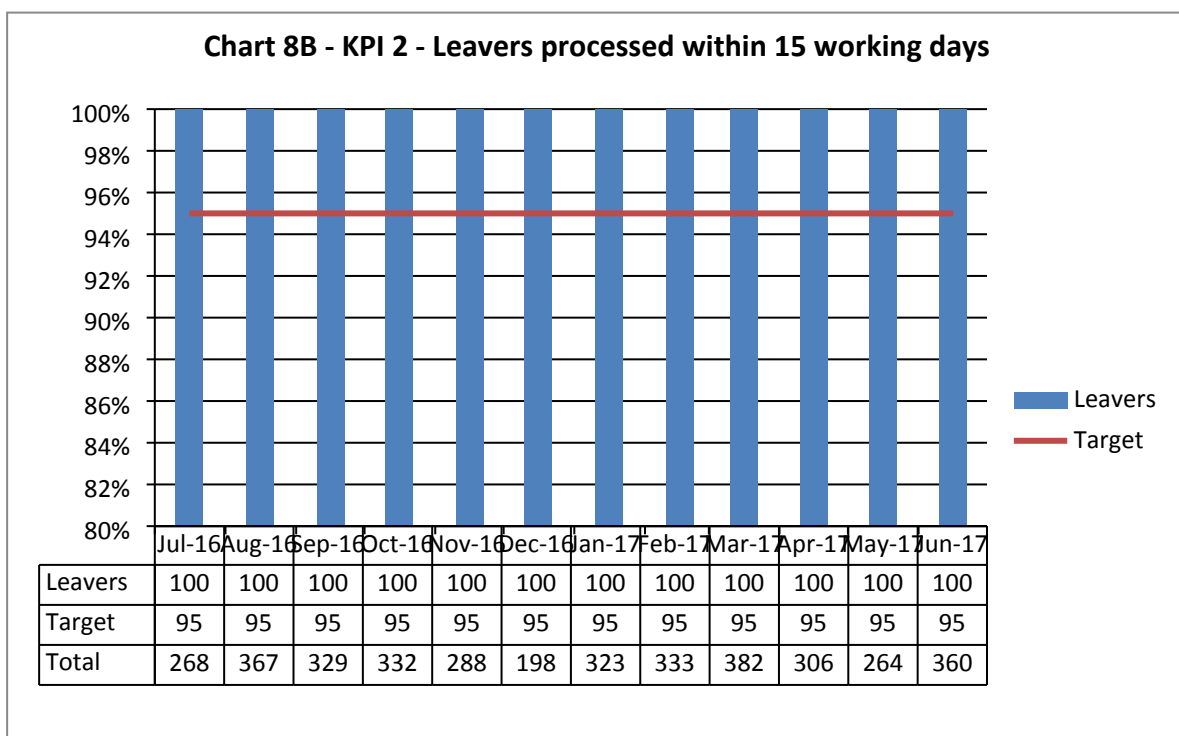
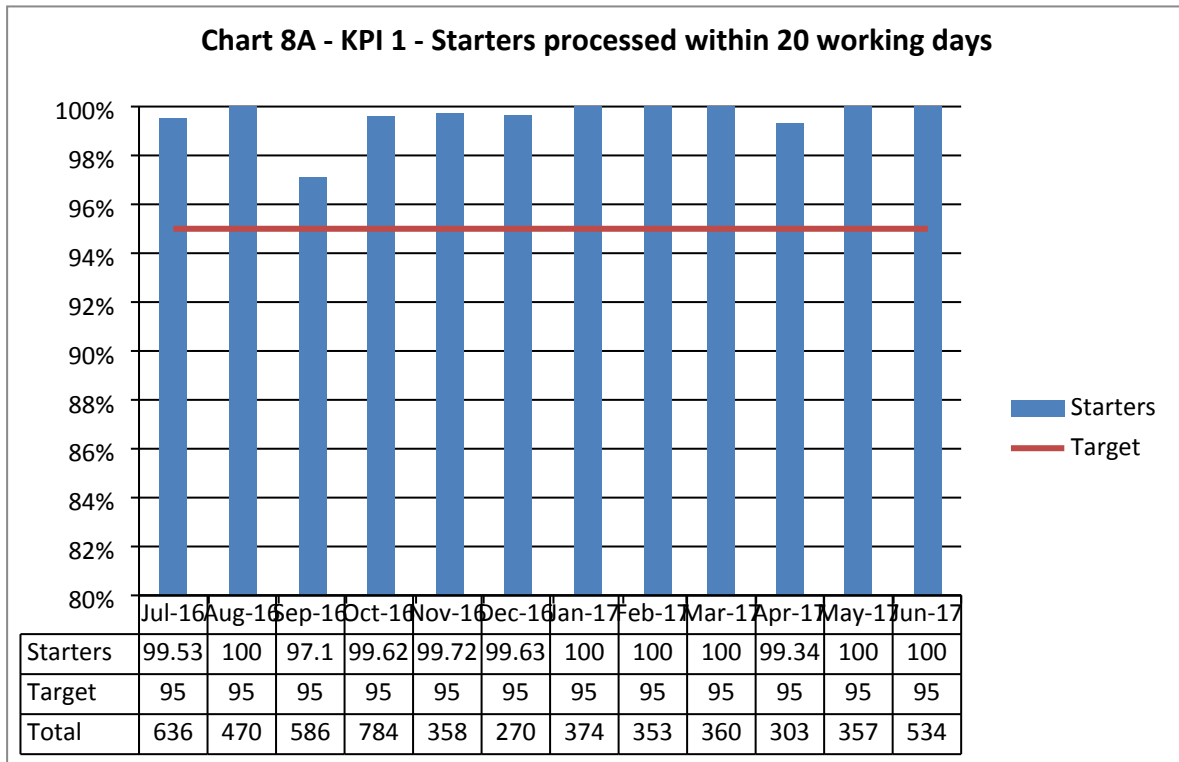
Employer	Starters	Leavers	Total	Achieved	Trend		
					Quarter <1	Quarter <2	Quarter <3
	In/Out	In/Out					
Bracknell	60/35	19/36	150	<b>52.66%</b>	71.79%	70.11%	53.61%
RBWM	3/27	13/54	97	<b>16.49%</b>	33.35%	60.57%	43.03%
Reading	0/1	12/59	72	<b>16.67%</b>	49.45%	53.91%	16.24%
Slough	41/32	7/31	111	<b>43.24%</b>	50.65%	39.36%	70.41%
W Berkshire	15/187	11/47	260	<b>10.00%</b>	32.19%	27.17%	11.11%
Wokingham	19/53	18/15	105	<b>35.24%</b>	39.90%	67.41%	46.15%
WBC Schs.	0/75	2/49	126	<b>1.59%</b>	14.64%	18.18%	20.81%
Academies	82/380	10/146	618	<b>14.89%</b>	39.44%	41.29%	38.42%
Colleges	8/50	2/16	76	<b>13.16%</b>	34.94%	38.10%	29.95%
Others	32/51	10/67	160	<b>26.25%</b>	45.73%	47.36%	41.40%
<b>Totals</b>	<b>260/891</b>	<b>104/520</b>	<b>1775</b>	<b>20.51%</b>	<b>41.21%</b>	<b>48.79%</b>	<b>34.96%</b>

**NOTES:** Some employers listed in Table 8B above will also be listed in Table 8A. This is because not all employees of a scheme employer are paid through the scheme employer's payroll e.g. some non-teaching staff at Local Authority maintained schools may be paid via a third party payroll provider which is not an i-Connect user although those individuals are employees of the relevant Unitary Authority.

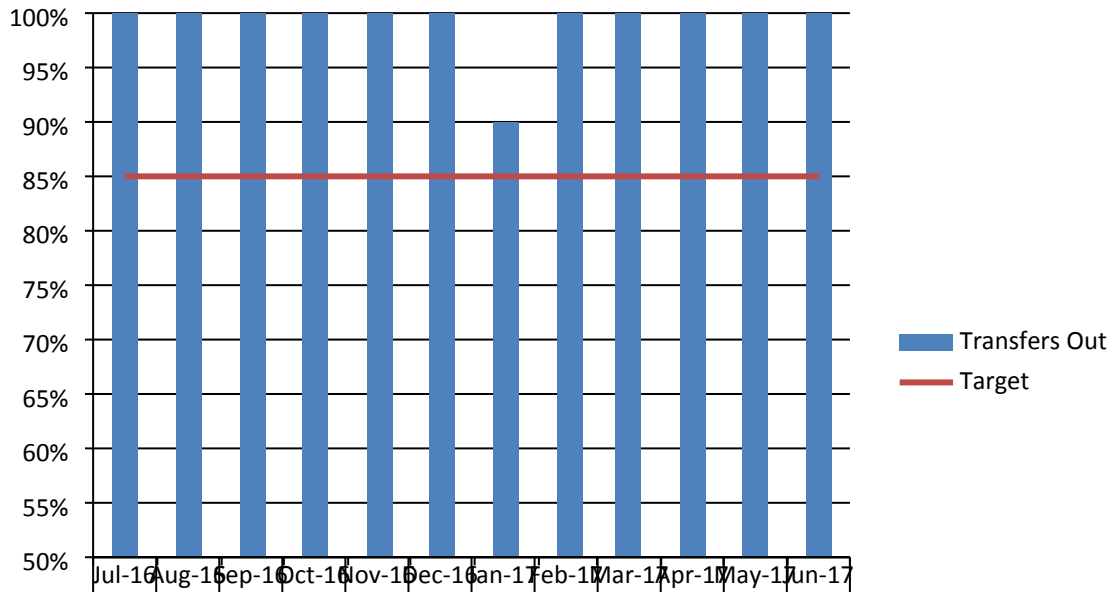
Details of starters and leavers only are recorded by the team. Other pension record changes may or may not have been received by the Pension Fund via payroll or from the scheme member direct. Experience tends to show that individuals may notify payroll of certain data changes but not always pensions and that payroll may not always forward information to the pension team.

Many missing data items are found through the year-end process which can be a long, labour intensive exercise for both the Pension Fund and the scheme employer. Employers using i-Connect do not have a year-end process to deal with as all data is uploaded and verified on a monthly basis.

## 2.4 Administration – Key Performance Indicators

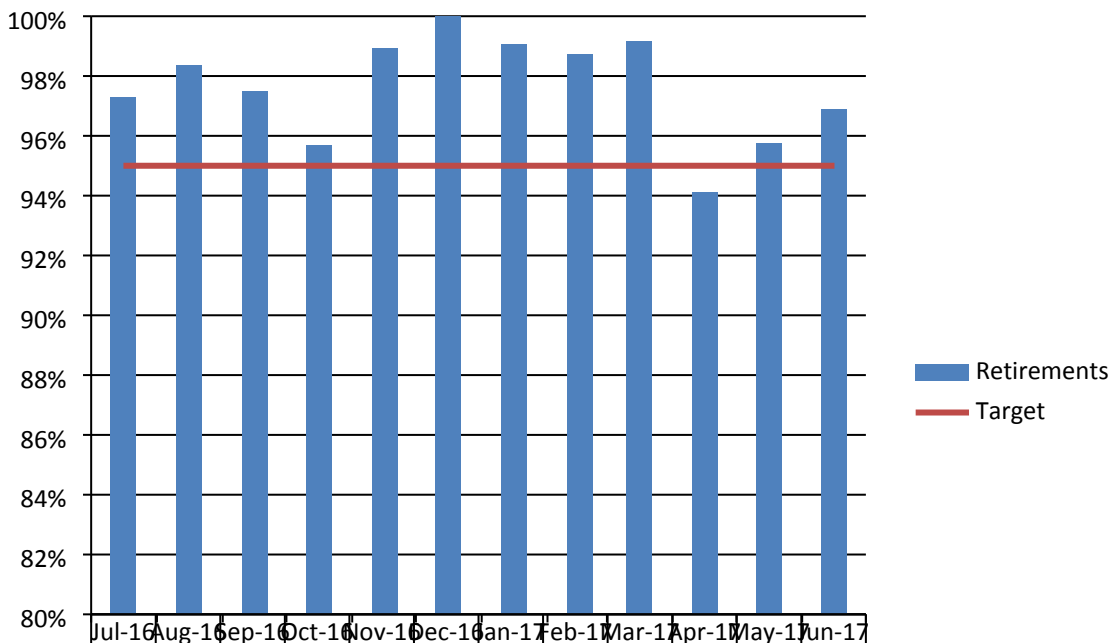


**Chart 8C - KPI 3 - Transfers out processed within 15 working days**



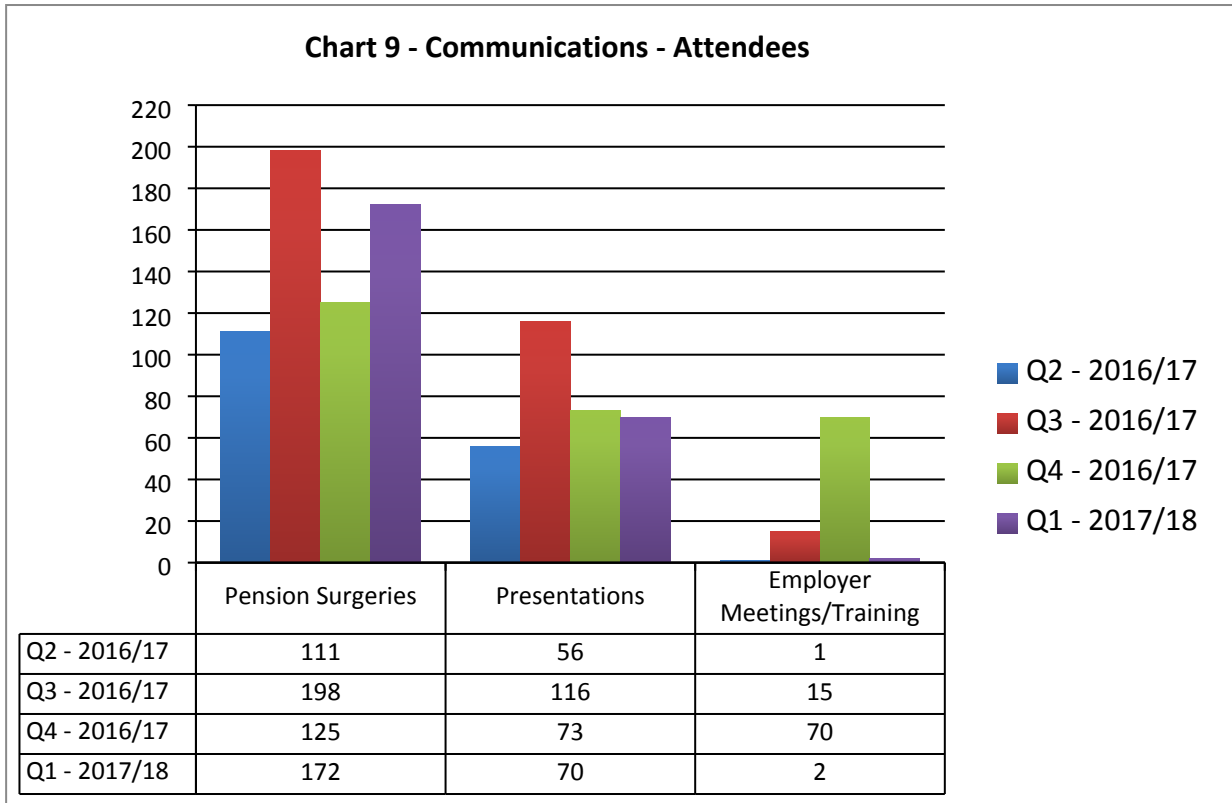
	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Transfers Out	100	100	100	100	100	100	90	100	100	100	100	100
Target	85	85	85	85	85	85	85	85	85	85	85	85
Total	6	3	1	5	8	3	9	3	6	4	14	1

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

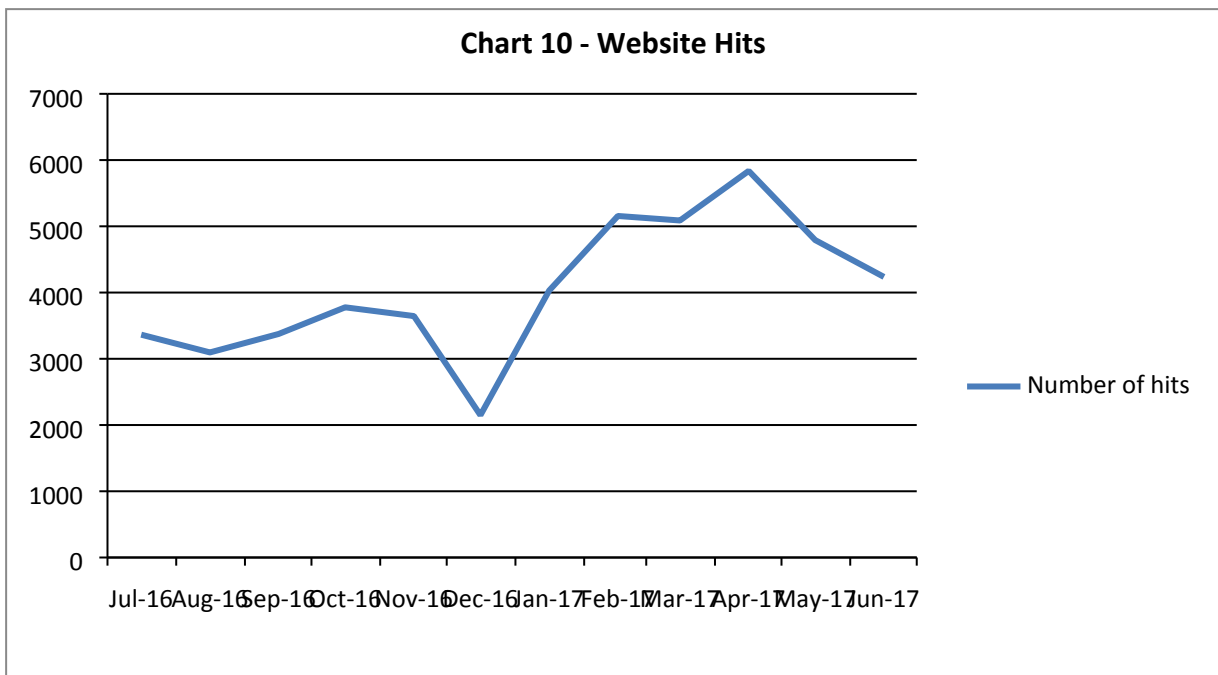


	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Retirements	97.3	98.36	97.5	95.7	98.94	100	99.06	98.72	99.17	94.12	95.74	96.88
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	74	122	80	93	94	63	106	78	120	85	94	96

2.5 Administration – Communications



2.6 Website hits



## 2.7 *Special projects*

- GMP Reconciliation
  - With the removal of the contracted-out nature of public service pension schemes the Pension Fund entered into a period of reconciliation against DWP records to ensure that the correct GMP (Guaranteed Minimum Pension) values are held by the Pension Fund for Pensioner and Dependant scheme members. It is now strongly anticipated this project will be completed by 1 February 2018.

This process will be followed by the Pension Fund ensuring that the correct GMP values are held for Active scheme members.

The deadline by when all Pension Funds must complete their reconciliation is 31 December 2018.

- i-Connect Software
  - Bellevue Park Education Trust – Went LIVE in August 2017
  - Bracknell Forest Council – Still resistant to change, but do now recognise a change to their internal processes is required to avoid the high number of queries needing to be resolved during Year End 2017 processing.
  - East Berkshire College – Expected to go LIVE in October 2017
  - Slough Borough Council – Expected to go LIVE before 1 April 2018
  - West Berkshire Council – Will go LIVE in September 2017
  - Wargrave Parish Council – Went LIVE in July 2017
  - Wokingham BC (In-house) – Will go LIVE in September 2017
- Pension Administration Standards Association (PASA)
  - Remains ongoing with a target date of 31 March 2018 to have all desktop procedures written and accreditation applied for.
- Employer Self Service
  - Expected to go LIVE in October 2017. During August and September Activate Learning Education Trust, Adviza, Bracknell Forest Council and a third party payroll provider, Dataplan, will test the functionality available and provide feedback to the Pension Fund.
- ABAKA
  - Following discussions with ABAKA (a company which provides pension benefit modelling tools for scheme members that can be linked to the member self-service facility 'mypension ONLINE') the Pension Fund are currently ensuring all data protection requirements are in place. If adopted this 'modelling tool' will present members with details of the pension benefits they can expect to receive and sets out any shortfall against the member's own expectations of what income they need in retirement. Options for making up any perceived deficit are also then presented with the proviso, of course, that any member must seek independent financial advice before taking any decisions.

## 2.8 *Items of material significance*

- Year-end procedures 2016-17
  - As part of a Service Level Agreement between the Pension Fund and its Scheme employers an annual 'year-end' contribution return is due to be submitted by each employer by 30<sup>th</sup> April each year. (Please note i-Connect users do not have to submit this file). The Pension Fund circulates to each

scheme employer a template document for completion and return ensuring consistency of data. Of the 238 year-end returns sent by the Fund 189 were submitted within the agreed timeframe. Therefore, 49 employers have failed to meet the deadline set out in the SLA.

It is important scheme employers provide all of the information requested by the Pension Fund within a timely manner to ensure the Pension Fund can meet its statutory obligation to issue Annual Benefit Statements to scheme members before 1 September each year. The Pension Fund began making Annual Benefit Statements available to scheme members online at the beginning of June with very few not made available before 1 September 2017.

The Pension Fund is reviewing carefully the reasons why it was not possible to issue an Annual Benefit Statement and will report to the Pension Panels and Pension Board and ultimately to The Pensions Regulator if this failure is deemed to be of a material significance.



Title: Markets in Financial Instrument Directive 2014/65 – Professional Client Election
Contains Confidential or Exempt Information?: <i>NO - Part I</i>
Member reporting: Councillor Lenton, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date: Berkshire Pension Fund and Pension Fund Advisory Panels – 11 September 2017
Responsible Officer(s): Nick Greenwood, Pension Fund Manager
Wards affected: None

## REPORT SUMMARY

1. This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018.
2. It recommends that the Panel agree that elections for professional client status should be made immediately.
3. It also recommends that delegated authority be granted to the Pension Fund Manager and the Investment Manager to complete all and any documentation required for completing elections for professional client status.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That Panel notes the report and:

- i. Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018.**
- ii. Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.**
- iii. In electing for professional clients status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Annex 1.**
- iv. Agrees to grant delegated authority to the Pension Fund Manager and Investment Manager for the purposes of completing the applications and determining the basis of the application as either full or single service.**

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

- 2.1 Under the current UK regulatory regime, local authorities are automatically categorised as ‘per se professional’ clients in respect of non-MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt-up criteria’.
- 2.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a “per se professional client” or elective eligible counterparty (“ECP”) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted- up by firms to an “elective professional client” status.
- 2.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

### Potential impact

- 2.4 A move to retail client status (see Annex 1) would mean that all financial services firms such as banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.
- 2.5 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
- 2.6 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (“FCA”) rules as ‘non-complex’ which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss (‘promote’) certain asset classes and vehicles with the authority as a retail client.

## Election for professional client status

- 2.7 MiFID II allows retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.
- 2.8 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the Financial Conduct Authority to make the test better fitted to the unique situation of local authorities.
- 2.9 The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual.
- 2.10 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so will result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.
- 2.11 The Local Government Pension Scheme Advisory Board (SAB) and the LGA have worked with industry representative bodies including the Investment Association (IA), the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats although at the end of the day it is up to individual financial institutions what documentation they require. It is by no means certain that our managers will require this template to be completed as most will have developed their own questionnaire.
- 2.12 An example of the opt-up letter that a manager may require completing is attached as Annex 2.
- 2.13 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end. Officers recommend that opt-ups are made for all services offered by the institution.
- 2.14 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt- up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the Panel or Investment Working Group changed significantly resulting in a loss of experience.

## LGPS Pooling

- 2.15 LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will, however, need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer. Officers will clarify this position with Local Pensions Partnership (LPP).
- 2.16 Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

## Next steps

- 2.17 In order to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with which the authority has an existing or potential relationship with in relation to the investment of the pension fund.
- 2.18 This process should commence as soon as possible in order to ensure it is completed in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.
- 2.19 Officers request that the Pension Fund Manager and Investment Manager are granted delegated authority to make applications to opt-up on a full service basis on RBWM's (as administering authority for the Pension Fund) behalf.

**Table 1: MiFID II options**

<b>Option</b>	<b>Comments</b>
Do not opt-up to Professional Client Status	Not recommend as this would impact adversely on the Fund's investment strategy (no access to private equity, infrastructure funds)
Opt-up to Professional Client Status on a "single service" basis	Not recommended as this would require new opt-ups for any additional services requested from a financial institution
<b>Opt-up to Professional Client Status on a "full service" basis</b>	<b>Recommended as this gives the maximum flexibility to the Fund</b>

## **3. KEY IMPLICATIONS**

- 3.1 MiFID II is a European Union directive designed to give additional protection to retail clients when purchasing "complex" financial products. The Financial Conduct Authority has ruled that local authorities should be treated as retail clients unless they opt-up to professional client status having met certain

criteria; however, they have agreed that administering authorities can opt-up in respect of their pension funds based solely on their status as an administering authority.

- 3.2 Failure to opt-up to professional client status will restrict the ability of the Fund to invest in private equity, infrastructure, commodity, private debt and other “complex” funds. This would have an adverse impact on the Fund’s ability to maintain its investment strategy and could result in forced sales (probably at prices below fair value) of existing investments.

#### **4. FINANCIAL DETAILS / VALUE FOR MONEY**

- 4.1 None/Not Applicable

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

- 5.1 MiFID II is a European Directive

#### **6. RISK MANAGEMENT**

- 6.1 The key risk is that non-compliance with MiFID II or the failure to opt-up to professional client status will not only impact on the Fund’s ability to maintain its investment strategy but may also result in the forced sale of assets at prices substantially below their true value.

#### **7. POTENTIAL IMPACTS**

- 7.1 Not Applicable

#### **8. CONSULTATION**

- 8.1 This report is based on a template provided by the LGPS Scheme Advisory Board

#### **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 **Table 5: Timetable**

<b>Date</b>	<b>Details</b>
Immediate	Issue of Opt-up Letters
3 January 2018	MiFID II comes into force

## **Annex 1 - Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

(A) the firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

(B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

(C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

(D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

## 5. Dealing

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

## 6. Reporting information to clients

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

## 7. Client reporting

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

## 8. Financial Ombudsman Service

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

## 9. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

## 10. Exclusion of liability

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

## 11. Trading obligation

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

## 12. Transfer of financial collateral arrangements

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

### 13. Client money

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.



## **Annex 2 - Example Opt-up Letter requesting categorisation as an elective professional client**

[ON [AUTHORITY] HEADED PAPER]

[Manager name]  
[Manager address]  
[Date]

Dear [●]

### **Request to be treated as a professional investor**

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

- (a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.
- (b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.
- (c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.
- (d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.
- (e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.
- (f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact [name] on [number] or alternatively e-mail us at [email address].

Yours sincerely,

.....  
[insert name and position] [Authority]

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

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