Public Document Pack

NOTICE

OF

MEETING

BERKSHIRE PENSION FUND PANEL

will meet on

MONDAY, 21ST MAY, 2018

at

4.00 pm

In

COUNCIL CHAMBER - TOWN HALL, MAIDENHEAD,

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS JOHN LENTON (CHAIRMAN), DAVID HILTON (VICECHAIRMAN), MALCOLM ALEXANDER AND RICHARD KELLAWAY

ADVISORY MEMBERS: SUNYIA SARFRAZ, MARK BUTCHER, CLLR STANTON, CLLR WORRALL, CLLR LAW, PATRICK FULLER AND ASIA ALLISON

` Karen Shepherd – Service Lead Democratic Services Issued: 11/05/2018
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 or contact the Panel Administrator **David Cook – david,cook@rbwm.gov.uk**

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

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

AGENDA

PART I

PART II - PRIVATE MEETING

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 **<u>or</u>** (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.

<u>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.</u>

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.***

This page is intentionally left blank

BERKSHIRE PENSION FUND PANEL

MONDAY, 22 JANUARY 2018

PRESENT: Councillors John Lenton (Chairman), David Hilton (Vice-Chairman) and Richard Kellaway.

Advisory Members: Councillor Dennis, Councillor Law, Councillor Stanton, Mark Butcher.

Officers: Philip Boyton, David Cook, Kevin Taylor, Pedro Pardo, Rob Stubbs, Alison Alexander and Nikki Craig.

Independent Advisor: Mr Andrew Harrison

APOLOGIES

Apologies for absence were received by Mr Dhingra, Mr Harrison attended in his place.

DECLARATIONS OF INTEREST

There were no declarations of interest received from Panel Members and Advisory Members.

It was noted that pension fund officers had an interest in the Pooling item.

MINUTES PART I

RESOLVED UNANIMOUSLY: that the Part I minutes of the meeting held on 18 December 2017 were approved as a true and correct record.

LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PUBLIC

RESOLVED UNANIMOUSLY: that the order of business as detailed in the agenda, be amended.

RESOLVED UNANIMOUSLY: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting 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.

The meeting returned to Part I after the Part II discussions.

INTERNAL AUDIT REPORT - PENSION GOVERNANCE 2017-18

The Panel considered the report that showed the results of the annual internal audit of the Pension Funds governance. Members were informed that the audit opinion was 'Substantially Complete and Generally Effective' which was the second highest of the 4 audit opinions.

There had been 29 moderate concerns raised in the previous audits undertaken in 2015/16 and 2016/17 and only 5 have been raised again as moderate concerns within this review.

There were 7 concerns identified in this Audit Report which are all classified as moderate concerns. There were 5 minor concerns that were discussed at the exit meeting. The

Management Action Plan for pension governance issues raised was attached to the report and could be found on page 16 of the agenda pack.

With regards to the first concern about conflicts of interest this had arisen as the Pension Board only allowed three representatives from the unitary authorities so it been agreed, at the point the Board was created, to allow for three substitutes to attend. Action to resolve the conflict had already been taken.

With regards to training for Panel and Advisory Panel and Pension Board members this would be actioned after pooling had been introduced. The one Board member who had not completed the training has now completed it.

Action had been taken to reduce the risk of failure to report breaches of the law with the Head of Finance (RBWM) and Monitoring Officer (RBWM) having been trained.

The concern that the constitution had not been updated following changes made to the Panel and Advisory Panel membership had been actioned.

The Panel were informed that all the smaller issues identified in the audit had been resolved.

In response to questions it was noted that the issue of overpayments was not in the audit as this was an audit of governance and not of pension administration and payroll and that the Panel reviewed the risk register every 6 months.

Resolved unanimously: that the Panel notes the Internal Audit Report on Pension Governance.

GOVERNANCE COMPLIANCE STATEMENT

The Panel considered the report that presented updates made to the Administering Authority's Governance Compliance Statement required by Regulation 55 of the Local Government Pension Scheme Regulations 2017. A tracked changes version had been provided.

Resolved unanimously: that the Panel notes the report and:

i) Approves the amendments made to the Governance Compliance Statement and agrees to the updated version being published on the Pension Fund website.

PENSION POOLING

The meeting, which began at 4.00 pm, finished at 5.00 pm

CHAIRMAN……………………………….

DATE……………………………….........

Report Title:	**Stewardship Report**
Contains Confidential or Exempt Information?	YES - 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 – 21 May 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager
Wards affected:	None

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report deals with the stewardship of the Pension Fund for the period 1 October 2017 to 31 March 2018
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.

1 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
	Lead Member/ Principal Member/Deputy Lead Member		
Alison Alexander	Managing Director		
Russell O'Keefe	Executive Director		
Andy Jeffs	Executive Director		
Rob Stubbs	Section 151 Officer		
Nikki Craig	Head of HR and Corporate Projects		
Louisa Dean/Milly Camley	Communications		
	Other e.g. external		

STEWARDSHIP REPORT

QUARTERS 3 & 4 – 2017/18

1 October 2017 TO 31 March 2018

TABLE OF CONTENTS

1. INVESTMENT PERFORMANCE AND ASSET ALLOCATION

1.1 Pension Fund key financial indicators

Table 1	March 2013	March 2016	Dec 2017
Asset Value (Smoothed)	£1,561.8m	£1,645.3m	£1,999.6m
Asset Value (Unsmoothed)	£1,572.4m	£1,655.9m	£2,029.3m
Liabilities (Smoothed)	£2,088.8m	£2,238.7m	£2,602.5m
Liabilities (Unsmoothed)	£2,107.7m	£2,257.0m	£2,608.7m
Deficit (Smoothed)	£527.0m	£593.3m	£602.9m
Deficit (Unsmoothed)	£535.3m	£601.1m	£579.5m
Funding Level (Smoothed)	75%	73%	77%
Funding Level (Unsmoothed)	75%	73%	78%
Deficit Recovery Period	27 years	24 years	23 years
Nominal Discount Rate (Smoothed)	6.1%	5.7%	5.7%
Real Discount Rate (Smoothed)	3.4%	3.3%	3.0%
Investment Performance Target (Smooth Return required to restore funding level)	6.7%	6.9%	6.9%
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 (Smoothed)	12.7%	13.8%	15.4%
Employers Contributions – Past Service Deficit (Smoothed)	6.9%	8.1%	8.1%

1.2 Change in the smoothed liabilities

Table 2	31 Dec 2017
Liability reconciliation	**£m**
Disclosed smoothed liability at 31/03/2016	**2,242.0**
Update of smoothing adjustment	-3.34
Updated smoothed liability at start	**2,238.7**
New liabilities (including transfers in)	174.5
Liabilities extinguished	-188.4
Net new liabilities from bulk transfers in/out	-
Interest on liabilities	240.2
Change due to discount rate	-22.0
Change due to inflation assumption	159.5
Increase in Liabilities	**363.8**
Smoothed liability at 31 December 2017	**2,602.5**

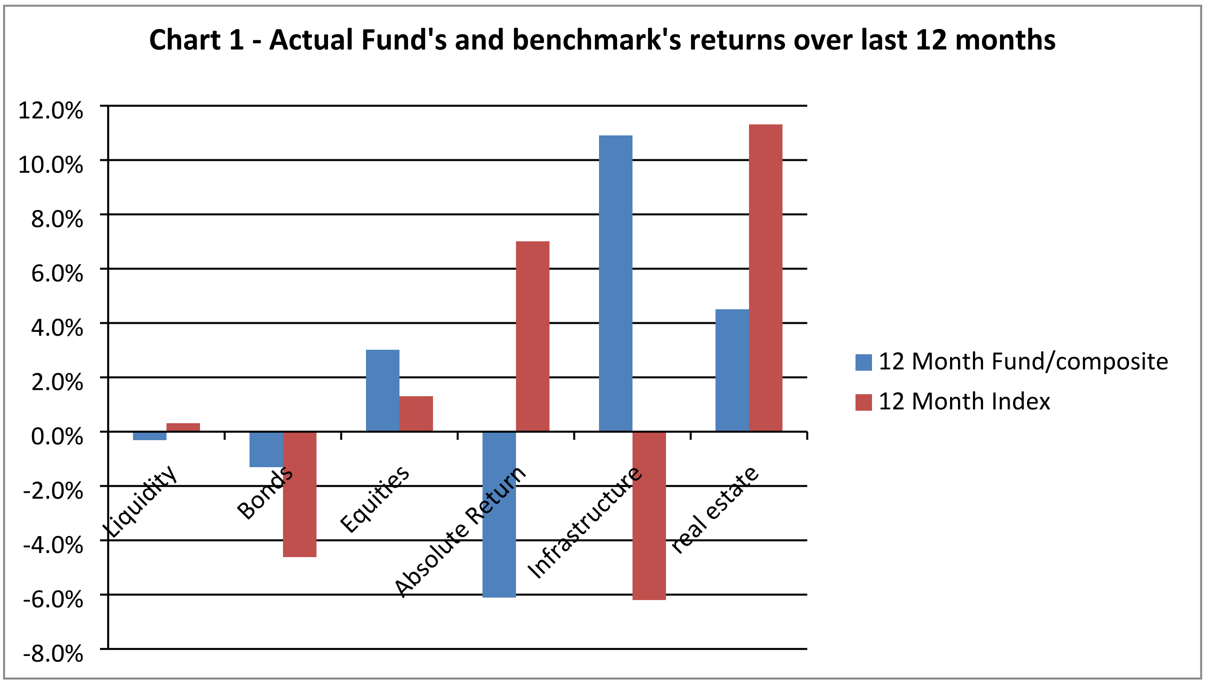
NOTE: The actuary smooths liabilities by taking the average liability figure over the last 6 months. The liabilities are now valued on the 2016 basis and consistent with the 2016 actuarial valuation. The value of the longevity swap is now included in the asset value rather than the liability value (but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

1.3 Market returns in GBP

All Fund and Index returns in the table below are as at 31 March 2018 and denominated in GBP.

Table 3		3 month in GBP	12 month in GBP	36 month in GBP
Liquidity	**Fund**	-0.17%	-0.29%	0.13%
1 Week GBP Libor	**Index**	0.12%	0.34%	0.38%
	Relative	-0.28%	-0.63%	-0.25%
Bonds	**Fund**	-1.75%	-1.34%	7.71%
Barclays Global Aggregate	**Index**	-2.25%	-4.64%	5.11%
	Relative	0.51%	3.30%	2.60%
Developed Markets Equities	**Fund**	-4.91%	1.34%	7.99%
Morgan Stanley Capital International (MSCI) World	**Index**	-4.80%	1.25%	10.03%
	Relative	-0.11%	0.09%	-2.03%
Emerging Markets Equities	**Fund**	-2.37%	10.21%	9.92%
Morgan Stanley Capital International EM Equities	**Index**	-2.20%	11.36%	10.88%
	Relative	-0.17%	-1.16%	-0.96%
Private Equity	**Fund**	-0.63%	0.37%	10.05%
9% per annum	**Index**	2.18%	9.00%	9.00%
	Relative	-2.81%	-8.63%	1.05%
Total Equities	**Fund**	-3.29%	3.03%	8.76%
Morgan Stanley Capital International World	**Index**	-4.80%	1.25%	10.03%
	Relative	1.52%	1.77%	-1.26%
Absolute Return	**Fund**	-2.08%	-6.13%	3.44%
7% per annum	**Index**	1.68%	7.00%	7.01%
	Relative	-3.76%	-13.13%	-3.57%
Infra-structure	**Fund**	-1.05%	10.89%	15.32%
FTSE Global Core 50/50	**Index**	-7.76%	-6.24%	8.05%
	Relative	6.70%	17.13%	7.26%
Real Estate	**Fund**	0.54%	4.49%	10.55%
UK Investment Property Databank	**Index**	2.31%	11.25%	8.88%
	Relative	-1.77%	-6.76%	1.67%
Total Fund Nominal	**Fund**	-1.08%	4.31%	6.69%
UK CPI	**Index**	0.10%	2.44%	1.78%
Total Fund Real	**Relative**	-1.18%	1.87%	4.91%
Total Fund Target (4.5% real)		1.11%	4.50%	4.50%

1.4 Fund performance in GBP



1.5 Exception Traffic Lights

Table 4

Traffic Lights March 2018

Colour		£ m	Fund %	Comment	Date Traffic Light Changed
	BONDS				
	Convertible Bonds				
Amber	Aviva	37.4	1.8%	Changes in management team & weak performance	Jul-14
Amber	Blue Bay Global	28.1	1.4%	Currency volatility & weak performance	Jul-14
	EQUITIES				
	Private Equity				
Amber	South East Growth Fund	2.1	0.1%	Terms of additional extension to fund life agreed	Jul-13
Amber	Stafford Sustainable Fund	3.6	0.2%	Disappointing performance. Buyer not found	Jul-13
	Absolute Return				
Amber	Swan (formerly Grosvenor)	72.5	3.5%	Volatile performance since 2017 second half	Jan-18
	INFRASTRUCTURE				
Amber	JPMorgan AIRRO India SideCar Fund	9.3	0.5%	Delays in construction of key assets and adverse legal developments	Jun-17
Amber	Macquarie SBI Infrastructure Ltd	4.4	0.2%	Performance adversely affected by delays in construction of key assets	Jul-13
	Total Fund Valuation (excl prepaid contribs)	**2,073.4**			

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 perfomance:** 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

Table 5	Comparison of Strategic Asset Allocation "SSA" changes				
SSA Weights	31/03/2013	31/03/2016	31/03/2018	12m change	36m change
Liquidity	**1.1%**	**5.1%**	**15.5%**	**9.8%**	**14.1%**
Investment Grade Debt	7.9%	5.0%	3.1%	-0.1%	-1.9%
Other Debt	8.7%	9.4%	9.4%	-0.6%	0.0%

Total Debt	**16.6%**	**14.3%**	**12.5%**	**-0.7%**	**-1.8%**
Developed Market Equities	17.2%	22.1%	22.4%	-1.7%	-0.4%
Developing Market Equities	14.7%	12.4%	11.5%	-1.1%	-1.9%
Private Equity	9.2%	10.1%	11.3%	-0.4%	2.2%
Total Equities	**41.1%**	**44.6%**	**45.3%**	**-3.2%**	**-0.2%**
Absolute Return	**17.3%**	**17.4%**	**3.9%**	**-5.2%**	**-14.7%**
Infrastructure	4.7%	4.7%	6.2%	-0.5%	2.0%
Commodities	9.8%	2.6%	3.4%	0.6%	-0.3%
Real Estate	9.8%	11.1%	13.0%	0.0%	0.7%
Other	-0.3%	0.2%	0.2%	-0.8%	0.2%
Real Assets	**23.9%**	**18.5%**	**22.8%**	**-0.7%**	**2.6%**
Fund Total	**100%**	**100%**	**100%**		

1.7 Solvency

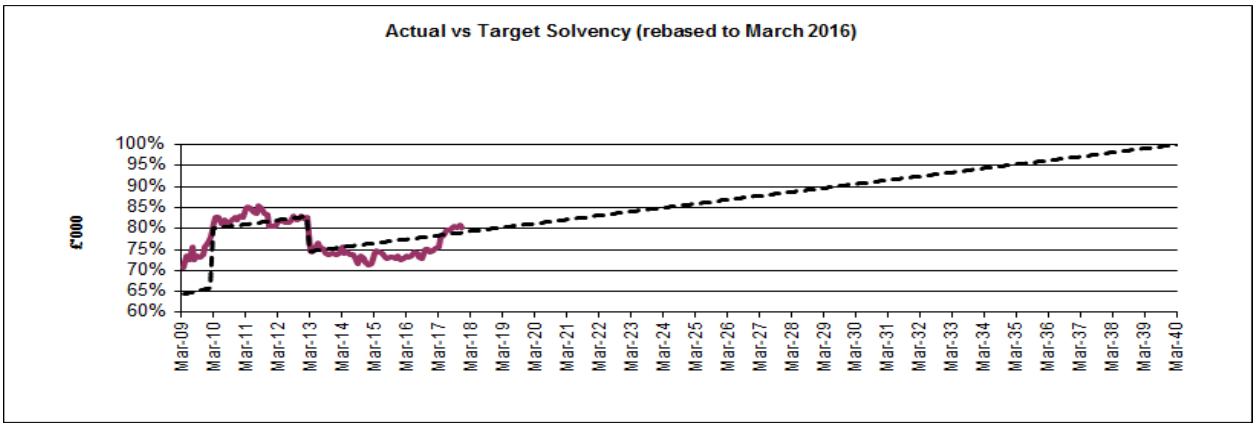


Table 6 – Funding Level (12 months)				
	Smoothed		**Unsmoothed**	
Month	Surplus/Deficit £000s	Funding Level	Surplus/Deficit £000s	Funding Level
April 2017	(635,081)	75%	(636,219)	75%
May 2017	(639,874)	76%	(621,666)	76%
June 2017	(580,668)	77%	(581,166)	77%
July 2017	(585,449)	77%	(584,763)	77%
August 2017	(580,668)	77%	(581,196)	77%
September 2017	(564,119)	78%	(564,301)	78%
October 2017	(570,587)	78%	(570,587)	78%
November 2017	(557,043)	78%	(557,043)	78%
December 2017	(579,474)	78%	(579,474)	78%
January 2018	(555,752)	79%	(555,752)	79%
February 2018	(547,382)	79%	(547,382)	79%
March 2018	(568,343)	78%	(568,343)	78%

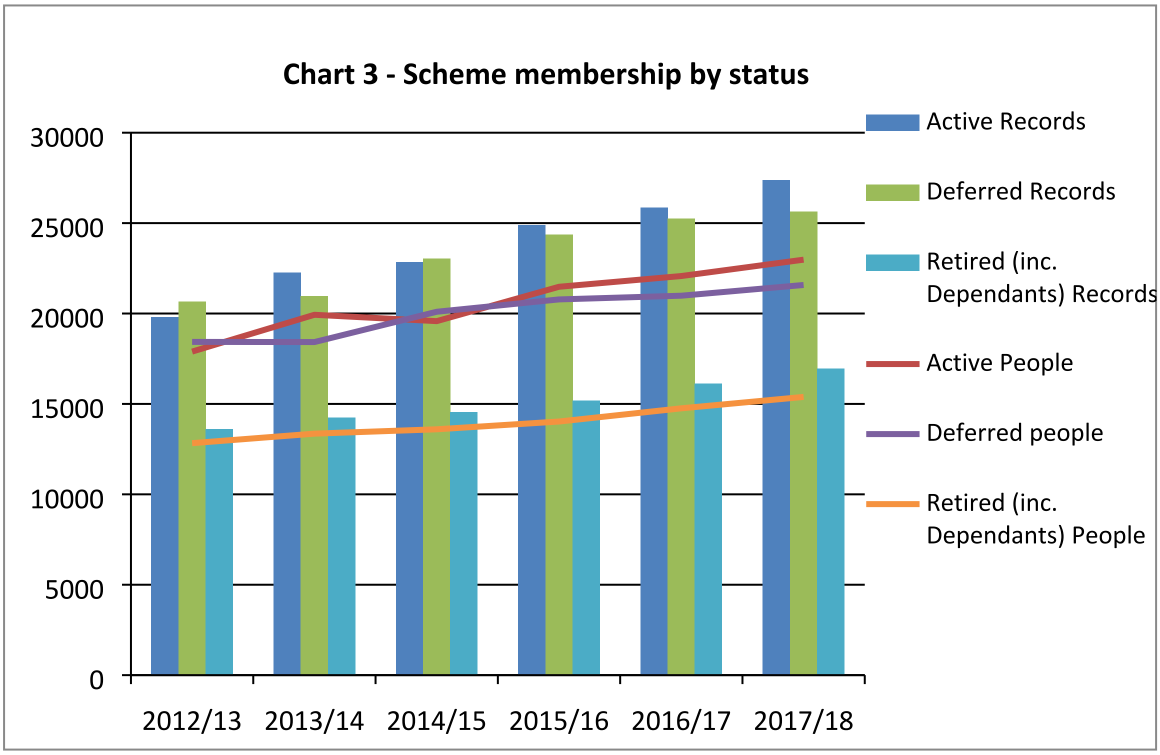
Table 7 - Cashflow	**Year to 31/03/15 (actual) £'000's**	**Year to 31/03/16 (actual) £'000's**	**Year to 31/03/17 (forecast) £'000's**
Contributions	87,691	92,957	96,500
Transfers received	1,916	4,761	6,300
Employers' early retirement payments	1,400	1,058	1,300
Investment income via Custodian	23,762	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	**-49,555**	**14,751**	**17,000**

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?

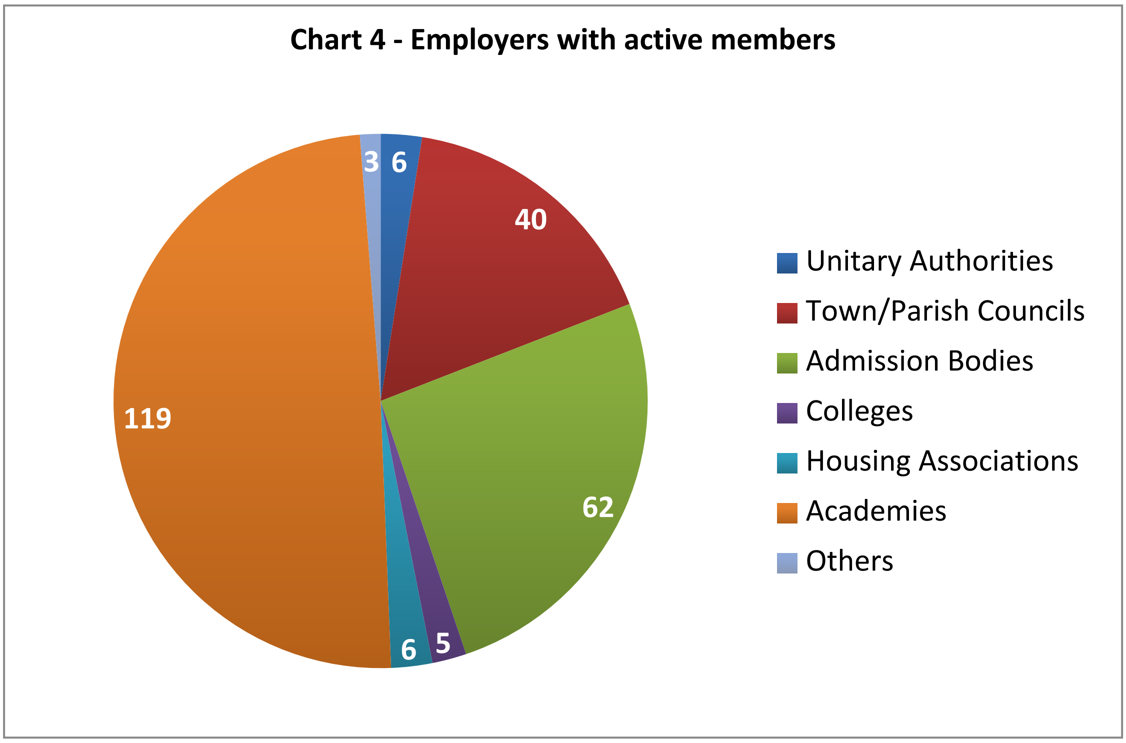
2 GOVERNANCE AND ADMINISTRATION

2.1 Scheme membership

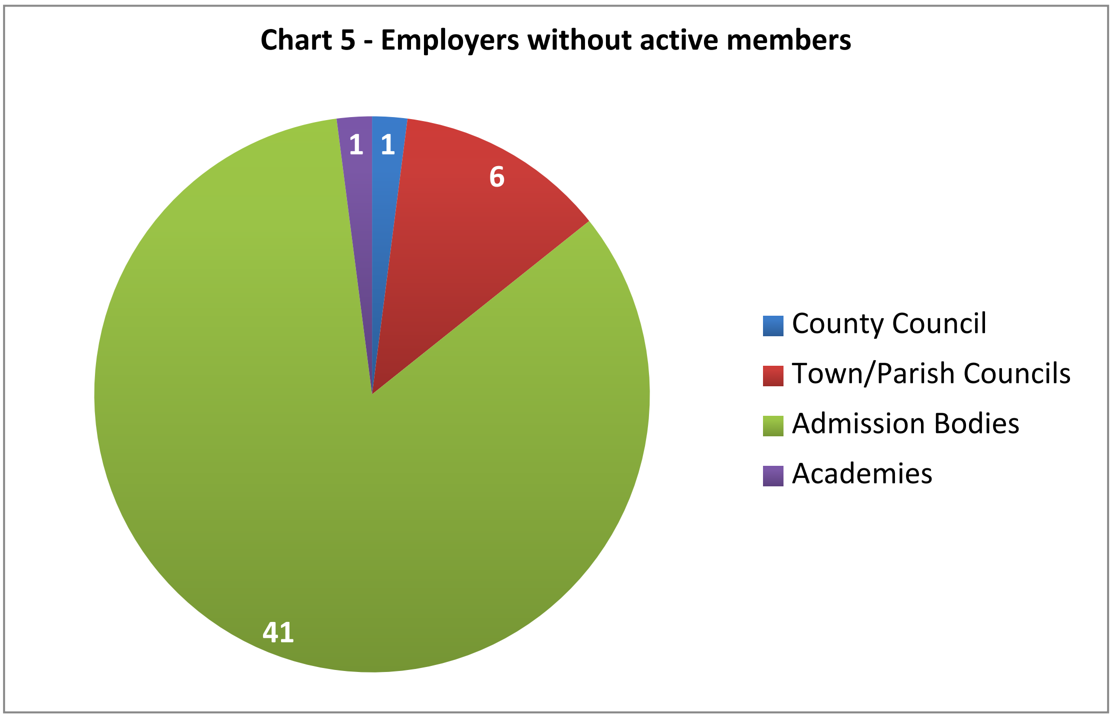


TOTAL MEMBERSHIP			
Active Records	27369	Active People	22978
Deferred Records	25624	Deferred People	21578
Retired Records	16955	Retired People	15387
TOTAL	**69948**	**TOTAL**	**59943**

2.2 Scheme Employers



New employers since last report:
Admission Bodies: RBWM Property Company Ltd, Osborne Property Services Lid, NSL Ltd, The Beehive (Wokingham) Ltd, Bouygues E&S FM UK Ltd.
Academies: The Corvus Learning Trust (4 Schools – Edgbarrow (Bracknell Forest), Hatch Ride, Oaklands Junior and Oaklands First (all Wokingham)); The Circle Trust (2 Wokingham Schools – St Crispin's and Nine Mile Ride).
Town/Parish Councils: Hampstead Norreys PC, Ruscombe PC, Pangbourne PC



Exiting employers: Vinci Park (Bracknell), Interserve, Slough Enterprise Ltd, Barkham PC, C-Salt, Ruscombe PC

2.3 Scheme Employer Key Performance Indicators

Table 8A – i-Connect users Quarters 3 & 4 (1 October to 31 March 2018)						
Employer	**Starters**	**Leavers**	**Changes**	**Total**	**Errors**	**Achieved**
RBWM	200	114	531	845	33	96.2415%
Reading BC	363	228	2990	3581	32	99.1143%
Academies	434	107	1037	1578	163	90.6376%
Colleges	66	29	837	932	17	98.2086%
Others	29	6	81	116	5	95.8678%
Totals	100	41	33	174	7	96.1326%

NOTES: Table 8A above shows all transactions through i-Connect for the third 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

None

Table 8B Non i-Connect users Quarters 3 & 4 (1 October to 31 March 2018)					Trend		
Employer	**Starters**	**Leavers**	**Total**	**This Quarter**	**Quarter <1**	**Quarter <2**	**Quarter <3**
	In/Out	**In/Out**					
Bracknell	65/99	26/9	199	**45.73%**	**78.10%**	49.50%	52.66%
RBWM	1/23	10/12	46	**23.91%**	**59.38%**	20.00%	16.49%
Reading	0/5	27/21	53	**50.94%**	**27.27%**	19.35%	16.67%
Slough	149/80	1/10	240	**62.50%**	**78.05%**	53.49%	43.24%
W Berkshire	1/10	34/27	72	**48.61%**	**9.84%**	14.22%	10.00%
Wokingham	30/18	6/3	57	**63.16%**	**55.00%**	45.61%	35.24%
WBC Schs.	69/372	3/23	467	**15.42%**	**1.52%**	1.90%	1.59%
Academies	72/224	17/47	360	**24.72%**	**42.47%**	34.95%	14.89%
Colleges	4/16	2/0	22	**27.27%**	**36.67%**	23.81%	13.16%
Others	37/39	5/23	104	**40.38%**	**57.89%**	48.03%	26.25%
Totals	**428/886**	**131/175**	**1620**	**34.51%**	**45.18%**	**35.41%**	**20.51%**

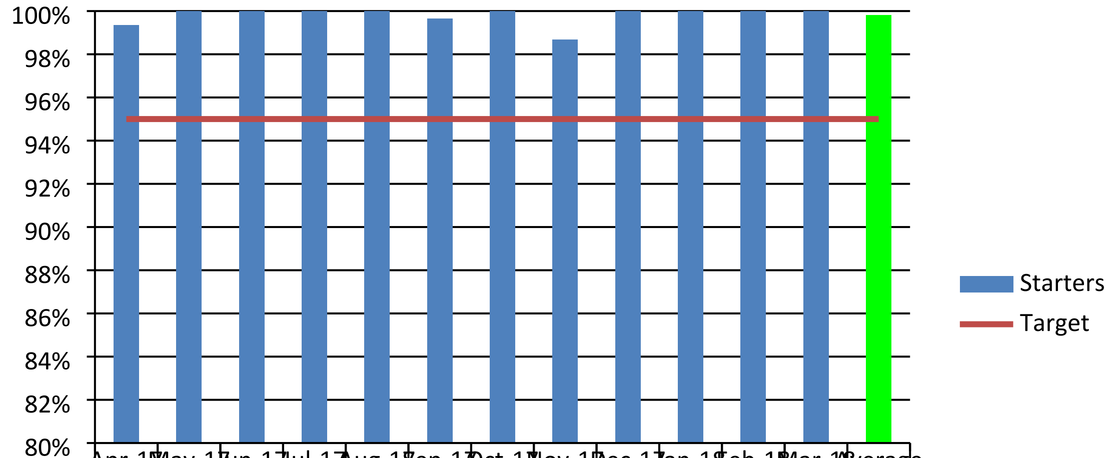
NOTES: Some employers listed in Table 8B above will also be listed in Table 8A. This is because not all employees of a scheme employer are paid through the scheme employer's payroll e.g. some non-teaching staff at Local Authority maintained schools may be paid via a third party payroll provider which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

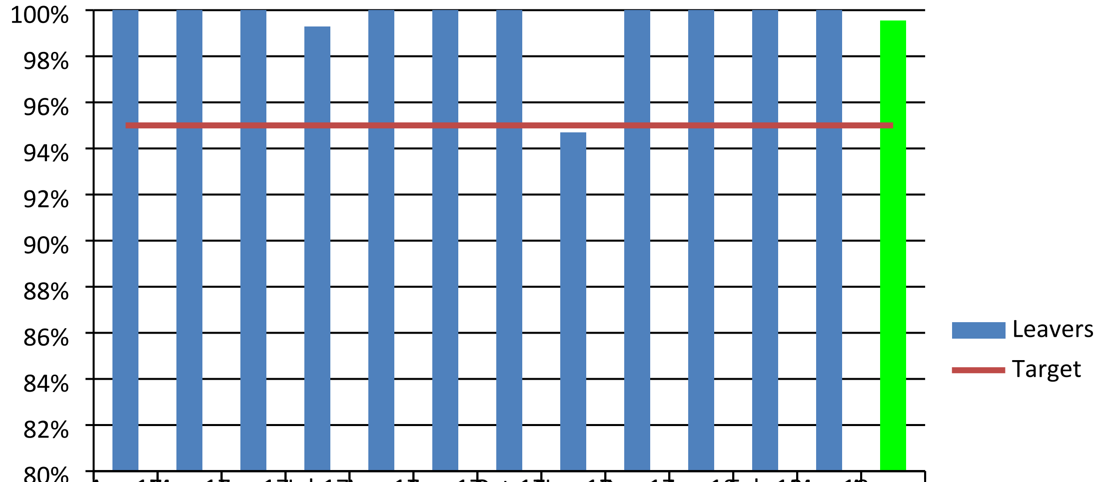
2.4 Administration – Key Performance Indicators

Chart 8A - KPI 1 - Starters processed within 20 working days



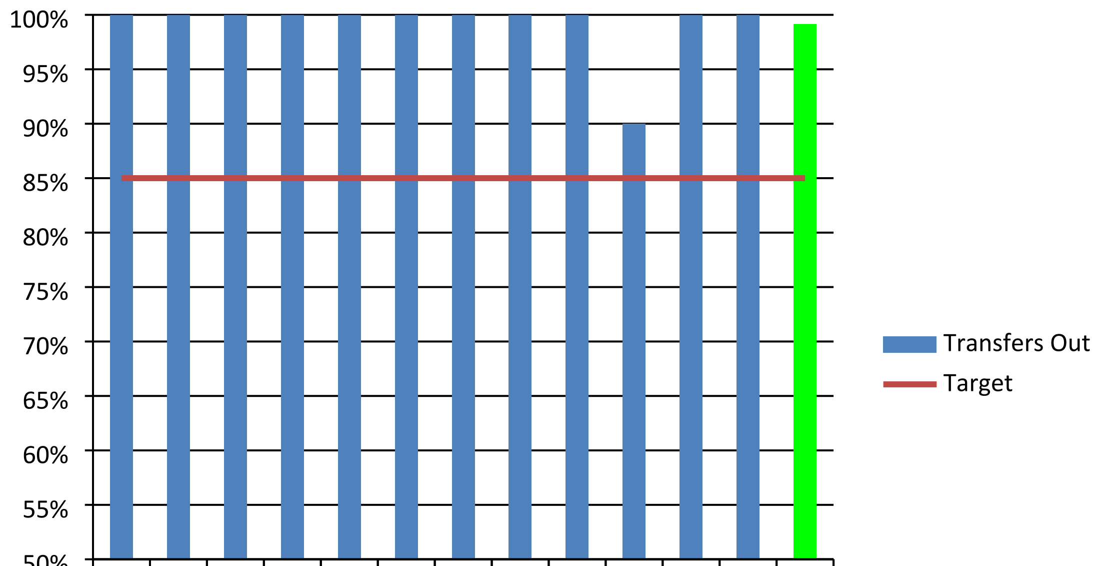
	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Average
Starters	99.34	100	100	100	100	99.65	100	98.68	100	100	100	100	99.81
Target	95	95	95	95	95	95	95	95	95	95	95	95	95
Total	303	357	534	421	208	285	208	380	174	753	979	732	445

Chart 8B - KPI 2 - Leavers processed within 15 working days



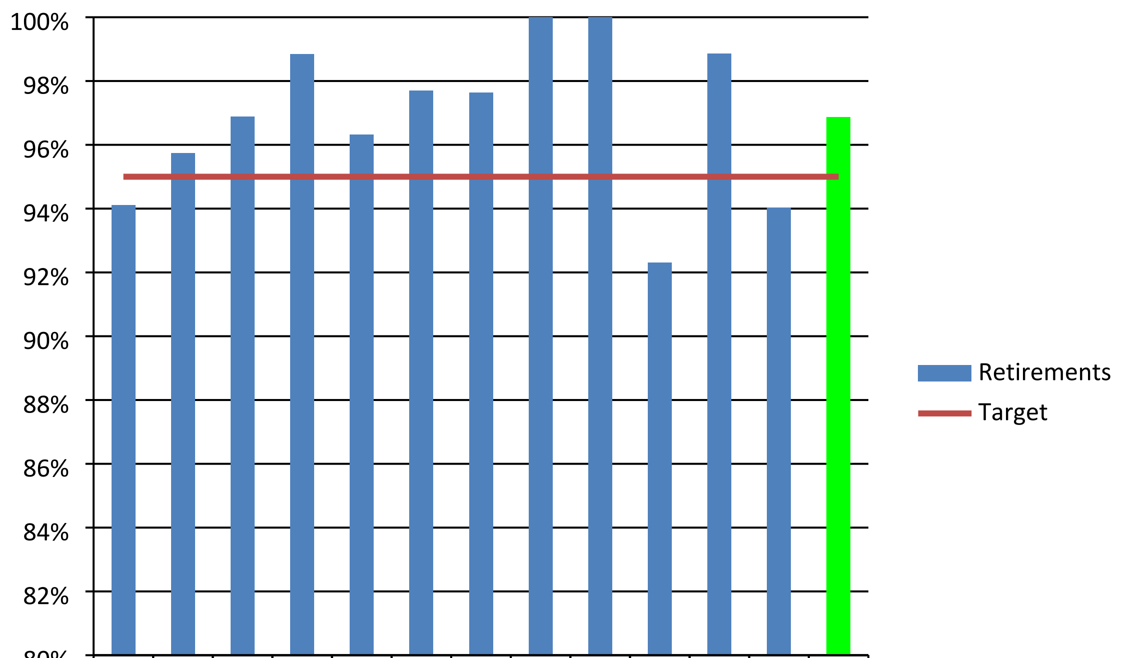
	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Average
Leavers	100	100	100	99.3	100	100	100	94.7	100	100	100	100	99.6
Target	95	95	95	95	95	95	95	95	95	95	95	95	95
Total	306	264	360	283	574	395	466	452	216	476	504	374	389

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



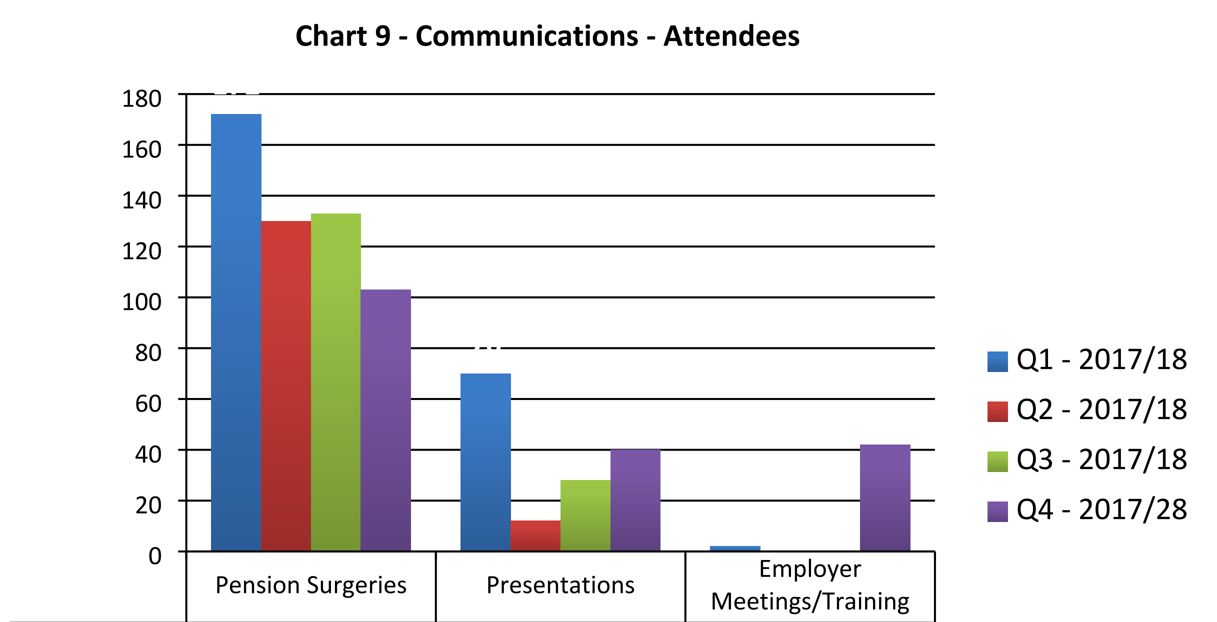
	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Average
Transfers Out	100	100	100	100	100	100	100	100	100	90	100	100	99.2
Target	85	85	85	85	85	85	85	85	85	85	85	85	85
Total	4	14	1	1	2	6	5	6	3	6	5	1	4.5

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



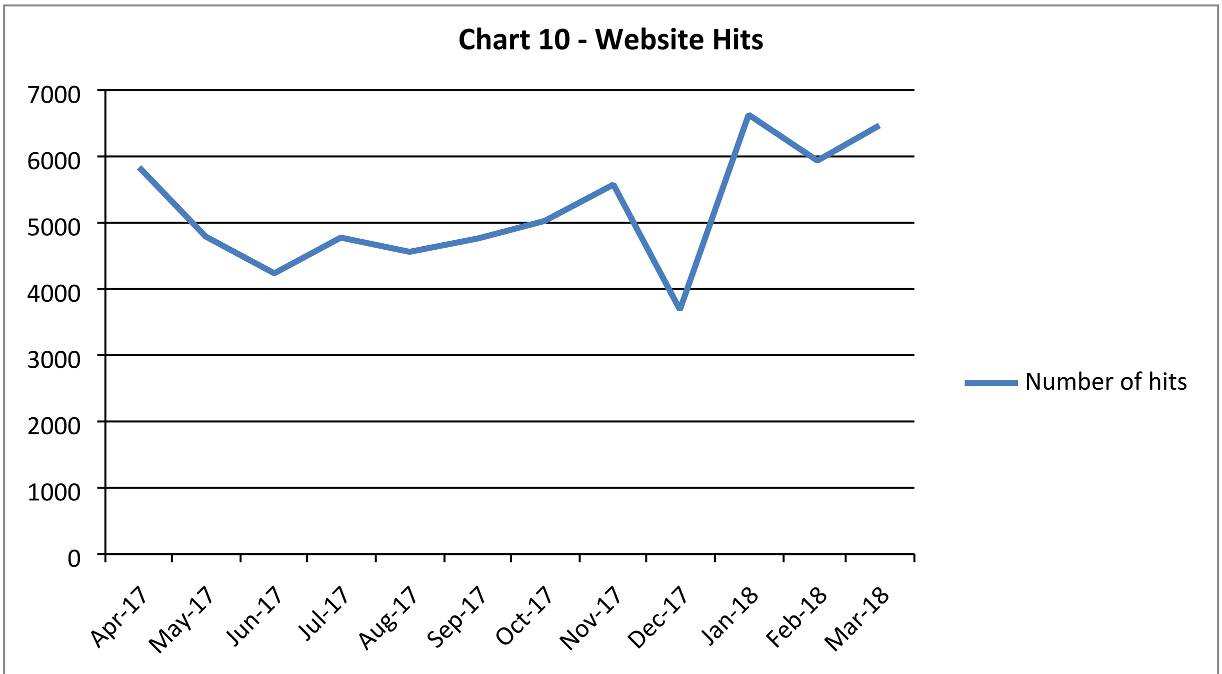
	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Average
Retirements	94.1	95.7	96.9	98.8	96.3	97.7	97.6	100	100	92.3	98.9	94	96.9
Target	95	95	95	95	95	95	95	95	95	95	95	95	95

2.5 *Administration – Communications*



	Pension Surgeries	Presentations	Employer Meetings/Training
Q1 - 2017/18	172	70	2
Q2 - 2017/18	130	12	0
Q3 - 2017/18	133	28	0
Q4 - 2017/28	103	40	42

2.6 *Website hits*



2.7 *Stakeholder Feedback*

As part of the Pension Fund's aim to achieve Pension Administration Standards Association (PASA) accreditation it is a requirement to report to Members the comments and complaints received from scheme employers and their scheme members on a periodic basis. The table below details the comments and complaints received during October 2017 to March 2018.

SCHEME MEMBER NAME	THIRD PARTY NAME	DATE RECEIVED	METHOD RECEIVED	FEEDBACK RECEIVED
AW		04/12/2017	E-mail	Thank you so much for your dedication and patience. Very much appreciated.
	DM, Pension Officer, Greenwish Leisure	06/12/2017	E-mail	Many thanks [NAME] for the quick response. You are a star.
	JS, RBWM GDPR Team Leader	06/12/2017	E-mail	Your crown is well and truly still in place and shining. Your Privacy Notice is the first one to be approved. I will be using it as an exemplar!
AL		08/12/2017	Face to Face	MW told me you were definitely the man I needed to see. Much appreciated, you have been a great help.
CH		15/12/2017	Telephone	Wishes all the wonderful staff of Berkshire Pensions a very Happy Christmas.
GB		15/12/2017	Telephone	Member has TUPE transferred to Oxfordshire Pension Fund (OCC) but requires an estimate. She said you can't speak to a person and have to leave a message at OCC and wait for a call back. She has left OCC mutliple messages. It is not like Berkshire Pension Fund where you can always speak to a person straight away.
CW		15/12/2017	E-mail	May I take this opportunity to thank yourself and the Pension Team for all your help and advice on my pensions, over the last 12 months. Also can I thank yourself, for the helpful and informative meeting's we had to dicuss my pensions and options. Once again, thanks for the helpful and welcoming service you and your team have provided. A Merry Christmas to you all, and a Happy New Year
SN		21/12/2017	Telephone	Very best wishes for the festive period and a big thank you for the fantastic service provided to her and the Payroll Team over the last year
DP		03/01/2017	E-mail	Huge thanks as always, I've had a quick look and all looks good, I'll go through it in more detail later. I really do appreciate your support, it is most helpful. Unless I come across any queries, have a great 2018 and I'll be in touch again at the usual time. If for any reason you plan to leave RBWM please keep me posted.
	SS - LB of Kingston	04/01/2017	E-mail	Thank you for continuing to maintain the member data and we were most impressed with the speed of the member print that we received from your team for the member that is looking to retire, it is most helpful for us.

MS		15/01/2017	E-mail	Many thanks for your very prompt and helpful response. I'm content that you have a note held on my file and all is under control.
VN		30/01/2018	Telephone	Hampshire Pension Fund seems to want to help me. Speaking to you I always know where I stand with my benefits. If you need a contribution towards the Christmas Party fund just drop me a line.
MF		05/01/2018	E-mail	Thank you so much for all your help on this. You have no idea how worried I was so your work today has made my this process so much easier for me
	GS, Dataplan	18/01/2018	E-mail	Thanks for the response. I think the success with i-Connect has been down to the work that Glen has done here, but with all of the support that you have provided – so much appreciated and thank you for this.
JH	CH	17/01/2018	Telephone	time she has contacted us she has been very impressed with the way we deal with the enquiry and how pleasant everyone is. This was particularly helpful to her as she recently dealt with us when her mother passed away and so it had been a very difficult time.
ED		08/01/2018	Face to Face	Thank you so much for all you help, you are amazing you must really love figures!!
	JW, LGA	08/02/2018	E-mail	E-mail 1 - You are the only fund so far who has completed the reconciliation exercise (and will most likely be in minority) for a group of members.
	JW, LGA	08/02/2018	E-mail	E-mail 2 - This is brilliant [NAME], incidentally I love the reason that was provided as to why the pension had been over paid, though not too sure our HMRC colleagues would agree. However, if this has worked then fabulous.
PGW		02/03/2018	E-mail	appreciate that you have given authority for my February pension to be paid into my Barclays account on 8th March 2018. I understand that it will probably take longer to resubmit the LSRG retirement grant into my Nationwide account as you will need to wait until the money has been returned before reissuing. I do apologise for causing Barclays account on 8th March 2018.
GT		17/03/2018	E-mail	Thanks so much for all your work and time on this and your clear explanations. I understand now the reasons for the differences. It hadn't crossed my mind before and I hadn't picked up that a later retirement date of say age 67 in effect means that I would "lose out" on 7 years "80ths" pension payments and 2 years "60ths" pension payments. This is really helpful for future decision making.
JA		26/03/2018	E-mail	Thank you very much for the calculations of my Annual and Lifetime Allowances. I greatly appreciate the work you undertake to provide this information.

2.8 *Special projects*

- i-Connect Software

In an effort to bring on board the two remaining unitary authorities (Bracknell Forest Council and Slough Borough Council) yet to adopt i-connect Officers held a meeting with all six unitary authorities on Tuesday, 27 March that provided opportunity for experiences to be shared and to suggest ways of improving current processes.

The meeting proved very positive with the latest position of Bracknell Forest Council and Slough Borough Council shown below.

- Bracknell Forest Council – Recognise a change to their internal processes is required to avoid a repeat of the high number of queries needing to be resolved during Year End 2017 processing. They will aim to begin implementation during June 2018.
- Slough Borough Council – Still experiencing difficulties with their Agresso Payroll System which once resolved will result in implementing of i-connect.
- Dataplan – A payroll provider, submitting scheme member data on behalf of 10 scheme employers.

Others:

- West Berkshire Council – Went LIVE in November 2017.
- Wokingham BC (In-house) – Went LIVE in March 2018. Also provided a Year End 2018 File to help with reconciliation of scheme member data.

- Oxford Diocesan Schools Trust – Went LIVE March 2018.

  Overall there are currently 49 scheme employers submitting monthly data to the Administration Team using i-connect. This represents 53% of the current total active scheme membership.

- Pension Administration Standards Association (PASA)

  Accreditation has now been applied for with Officers due to meet with representatives of PASA on Monday, 14 and Tuesday, 15 May. At this meeting Officers will present evidence demonstrating we are PASA compliant and also to learn from representatives of PASA of any areas where further evidence is required.

- General Data Protection Regulation (GDPR)

  The Pension Fund is reviewing and updating all existing policies and procedures in readiness for the changes to data protection regulations due to come into force from 25 May 2018.

- 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.

- Wokingham Schools – Selima

  The Pension Fund has undertaken to complete a data matching exercise in respect of scheme members employed at Wokingham Borough Council (WBC) maintained schools. The reason for doing this is that for many years the Pension Fund has identified problems with the data being supplied, or not supplied as is more the case, by WBC's contracted payroll provider, Selima.

  Last year, as a result of this issue the Pension Fund did not release annual benefit statements to members as it considered its membership data to be unusable.

  Therefore, the Pension Fund has decided to be proactive and to take on a significant workload in order to update and manage the flow of data between Selima, WBC and the Fund. A challenging work plan has been put in place involving each of the 48 schools identified as part of this process and senior officers at WBC are aware of and are monitoring the actions being taken and the progress being made.

  Our aim is to have all membership data up to 31 March 2017 updated by the end of May 2018 so that the 2017 annual benefit statements can be issued to the affected members. Work will then commence on the 2017/18 year end process with the aim of having all data uploaded and accurate before the end of August 2018 so that the 2018 annual benefit statements can be issued in line with the statutory requirement of 31 August 2018. Thereafter, steps will be taken to ensure that this employer moves to i-connect thereby removing the risk of these actions having to be taken again in the future.

This page is intentionally left blank

Report Title:	**Housing Associations Funding Agreements**
Contains Confidential or Exempt Information?	YES - 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 – 21 May 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager
Wards affected:	None

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report brings to Members' attention proposals from Housing Solutions Limited (formerly Maidenhead and District Housing Association) and Bracknell Forest Homes to enter into Funding Agreements.
2. In particular Members are asked to review the letters dated 13 February 2018 received from Devonshires Solicitors on behalf of Housings Solutions Limited and 27 April 2018 from Martin Huckerby on behalf of Bracknell Forest Homes (both provided at Appendix 1 to this report) and consider the draft Funding Agreement at Appendix 2.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

i) Agrees in principle to entering into a Funding Agreement with Housing Solutions Limited and Bracknell Forest Homes; and
ii) Authorises Officers to instigate such an agreement in line with the requirements of the LGPS Regulations.

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

2.1 Housing Solutions Limited is to consider an option of closing its defined benefit pension schemes to its employees thereby removing all future accrual in the Local Government Pension Scheme (LGPS) for its existing members of the Berkshire Pension Fund. There are currently 60 active members, 154 deferred members and 90 retired members and/or dependants that make up their total membership of the Fund. Bracknell Forest Homes is not considering the closure of its defined benefit pension schemes but wishes to risk assess the liabilities they hold in the Fund. They currently have 60 active, 65 deferred and 72 pensioner and dependant members.

2.2 In accordance with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) at the point a scheme employer ceases to have any active members contributing to the scheme it becomes an exiting employer and the Pension Fund's actuary is required to undertake a 'cessation valuation' identifying any exit payment required of the exiting employer to meet the cost of its liabilities.

2.3 An exit payment is defined in the regulations as being the assets required to be paid by the exiting employer over such period of time as the administering authority considers reasonable, to meet the liabilities specified.

2.4 Where an administering authority considers it unlikely that an exiting employer will be able to meet the cost of their liabilities either before or at the exit date, it can consider the period over which (beyond the exit date and via a Funding Agreement) payment of the liabilities should be made.

2.5 By entering into a Funding Agreement the pension debt at the point of Housing Solutions Limited and/or Bracknell Forest Homes exiting the Fund will not crystallise meaning that the pension debt will not be treated as expenditure in the income and expenditure account of Housing Solutions Limited/Bracknell Forest Homes in the year of exit. Housing Solutions Limited/Bracknell Forest Homes will, however, remain liable for the debt which will become recoverable over an agreed funding period no longer than the existing deficit recovery period outlined in the administering authority's Funding Strategy Statement (March 2030).

3 KEY IMPLICATIONS

3.1 The key implications of entering into a Funding Agreement or not with Housing Solutions Limited/Bracknell Forest Homes appear to be two-fold:

- A Funding Agreement would enable the Pension Fund to agree a deficit recovery period over which the pension liabilities pertaining to Housing Solutions Limited/Bracknell Forest Homes can be managed without the need for those liabilities being crystallised at the point the scheme employer exits the scheme;
- By not entering into a Funding Agreement the liabilities will crystallise which could have implications for Housing Solutions Limited/Bracknell Forest Homes in having to sell some of its assets to meet the pension debt.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 At the 2016 valuation Housing Solutions Limited was 68% funded and had a funding deficit of £6,506,000.00. Bracknell Forest Homes was 94% funded and had a funding deficit of £1,091,000.00

5 LEGAL IMPLICATIONS

5.1 Under the Local Government Pension Scheme Regulations the actuary is required to certify employer contributions rates, including deficit recovery payments, as part of the valuation exercise every three years but is also required to undertake additional valuations for employers exiting the scheme in accordance with Regulation 64 of the LGPS Regulations 2013 (as amended).

6 RISK MANAGEMENT

6.1 Consideration needs to be given to any perceived risk of the Pension Fund being unable to recover all any part of the liabilities for which Housing Solutions Limited/Bracknell Forest Homes are accountable.

7 POTENTIAL IMPACTS

7.1 Consideration needs to be given to the options of crystallising a debt against managing a debt over an agreed funding period and the reputational risk of the Pension Fund having a materially adverse impact on Housing Solutions Limited's/Bracknell Forest Homes' social investment/development programme.

8 CONSULTATION

Not applicable

9 TIMETABLE FOR IMPLEMENTATION

9.1

Implementation timetable

Date	Details
1 July 2018	Housing Solutions Limited has requested an in principle agreement to enter into a Funding Agreement to enable it to commence consultation with its staff. Bracknell Forest Homes has also requested an in principle agreement but does not, at this time, intend any staff consultation.
1 October 2018	Funding Agreement to be agreed and implemented.

10 APPENDICES

10.1 The appendices to the report are as follows:

- Appendix 1 – Letters dated 13 February 2018 from Devonshires Solicitors and 27 April 2018 from Bracknell Forest Homes.
- Appendix 2 – Draft Funding Agreement

11 BACKGROUND DOCUMENTS

11.1 None

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
	Lead Member/ Principal Member/Deputy Lead Member		

Name of consultee	**Post held**	**Date issued for comment**	**Date returned with comments**
Alison Alexander	Managing Director		
Russell O'Keefe	Executive Director		
Andy Jeffs	Executive Director		
Rob Stubbs	Section 151 Officer		
Nikki Craig	Head of HR and Corporate Projects		
Louisa Dean/Milly Camley	Communications		
	Other e.g. external		

Bracknell
Forest Homes

<u>Private & Confidential</u>

Kevin Taylor
Deputy Pension Fund Manager
Royal County of Berkshire Pension Fund
Minster Court
22-30 York Road
Maidenhead
Berkshire

By e mail and post: kevin.taylor@rbwm.gov.uk

27 April 2018

Dear Kevin,

Participation in the Royal County of Berkshire Pension Fund

As you are aware Bracknell Forest Homes' (**BFH**) is an admitted employer in the Royal County of Berkshire Pension Fund (**the Fund**). As you are also probably aware BFH is a registered provider of housing subject to regulation by the Regulator of Social Housing (previously known as the Homes and Communities Agency). BFH became admitted to the Fund following its creation connected to a large-scale transfer of social housing stock. Under the terms of the legal agreements entered into, BFH was required to offer continued membership of the Fund to the former council employees who transferred with the housing stock.

With a diminishing number of active members, the uncertainty of when BFH's liability to the Fund will crystallise and become payable is a key financial risk and one that BFH wishes to manage.

As such, BFH would like to propose that a Funding Agreement is put in place which will enable the accrued and on-going liability to be appropriately managed in a way that is of material benefit to both BFH and, we believe, the Fund.

BFH has been advised by its solicitors, Devonshires, that the Proposal that we wish to make complies with Regulation 64 of the Local Government Pension Scheme Regulation 2013 (**LGPS Regulations**) and the LGPS Regulations generally. Devonshires have also advised that other LGPS funds have agreed similar arrangements with other housing associations. We understand that at least one other housing association already has a form of Funding Agreement with the Fund.

Proposal

BFH understand from its solicitors that ordinarily the approach of the Fund is that, on the date the last active member leaves, the liabilities and obligations of BFH would crystallise under Regulation 64 of the LGPS Regulations and be payable.

If BFHs' liabilities crystallise, whether or not an agreement is then reached with the Fund to pay this debt in instalments over a period of time, in accounting terms this is treated as a debt in the same way as if the amount was paid immediately in full. Obviously this will have a material impact on the social investment that BFH could otherwise undertake.

BFH would like to propose a mechanism which enables its liability to be settled over a period of time but without this being treated as crystallised when the last active member leaves. The advantage to BFH of doing this is that, in accounting terms, the liability will not be treated as crystallising and as such will not affect its ability to invest in the communities in which it operates. The advantage to the Fund is that the on-going funding risk remains with BFH.

What we would like to agree with the Fund is a Funding Agreement, a draft form of which is attached at Appendix A. This is a draft and of course can be subject to amendment following discussion with the Fund if required. In summary, the draft agreement provides:

- On the date that BFH ceases to have active members it will exit the Fund (under Regulation 64 of the LGPS Regulations) and an actuarial valuation will be undertaken.
- Instead of the debt crystallising and being paid as at the date of exit, the rates and adjustment certificate issued by the Fund would certify that the liability will be that payable under the terms of the Funding Agreement.
- BFH's liability would remain as a floating liability.
- Under the Funding Agreement, BFH will pay in lump sum employer contributions assessed on an on-going funding basis until such time as the Funding Agreement terminates.
- To protect the Fund, the Funding Agreement can set out various Risk Events that, if triggered, could give grounds for the Fund to terminate the Funding Agreement. We have suggested appropriate provisions. These can be discussed and agreed.

- On termination of the Funding Agreement, the Fund will obtain a valuation on the termination valuation basis at that time and the debt certified under the rates and adjustment certificate will be payable.

I would be grateful if you could confirm whether or not the Fund is prepared to enter into an agreement in the form attached or similar?

I anticipate that this will need to be passed to your legal department and if they have any queries I would ask that they contact our solicitors whose details are as follows:

Kirsty Thompson
Devonshires Solicitors LLP
Email: kirsty.thompson@devonshires.co.uk
Tel: 020 7065 1847

I look forward to hearing from you.

Yours sincerely,

Martin Huckerby

Interim Executive Director – Finance
Bracknell Forest Homes

Cc Valerie Burns - Head of HR
Kirsty Thompson – Devonshires
Neal Thompson – First Actuarial

Devonshires
solicitors

Strictly Private and Confidential
Kevin Taylor
The Royal County of Berkshire Pension Fund

Our Ref: RCT/MDH1.38.

By email to: Kevin.taylor@rbwm.gov.uk

13 February 2018

Dear Kevin

Housing Solutions Limited: Participation in the Berkshire Pension Fund

I write in reference to the above matter. I act on behalf of Housing Solutions, which is admitted to the Berkshire Pension Fund ('**the Fund'**). I am authorised to write to you on my client's behalf and as you will see they are copied in to this letter.

Purpose of this letter

I have been instructed to write to you in relation to a proposal my client wishes to discuss with the Fund. Once you have had an opportunity to consider this letter it may be useful to arrange an early telephone conference or meeting to discuss this further.

Before setting out the proposal I thought it would be useful to set out the background to Housing Solutions' admission to the Fund.

Relevant background to the proposal

Housing Solutions (then called Maidenhead & District Housing Association Limited) was admitted to the Fund following a stock transfer from the Royal Borough of Windsor & Maidenhead in or around May 1995. In order for the transferring employees to continue participating in the Fund, HS was required to enter into an Admission Agreement with the Fund. This was entered into on 2 May 1995.

On or around 1 April 2001, there was a further transfer of staff to HS and a further Admission Agreement was entered into in respect of those transferring employees.

Housing Solutions now has approximately 61 active members remaining in the Fund under both Admission Agreements (11 active members under the 1995 Agreement and 50 active members in the 2001 Agreement).

Housing Solutions has recently carried out a review of its pensions offering to staff and is considering a number of options due to the increasing cost of defined benefit pensions, the unpredictability and uncertainty they bring, and issues of fairness and equity in relation to the different pension offers in place within the organisation. One of the options being considered is to commence consultation with its staff on a proposal to close its defined benefit schemes to future accrual for existing members and to move all employees on to a defined contribution arrangement. Around 70 employees are members of the defined contribution scheme following the closure of the defined benefit scheme to new entrants in 2014.

30 Finsbury Circus, London EC2M 7DT
Tel 020 7 628 7576 Fax 0870 608 9390 DX 33856 Finsbury Square
www.devonshires.com

Lexcel
Practice Management Standard
Law Society

Devonshires and Devonshires Solicitors are the trading names of Devonshires Solicitors LLP, registered in England and Wales at the address above with company number OC397401.
A list of members is open for inspection at our offices. This firm does not accept service by electronic mail or facsimile.
This Firm is authorised and regulated by the Solicitors Regulation Authority under the name of Devonshires Solicitors LLP and registration number 619881

The proposal

I have been instructed to approach you in relation to the principle of the Fund entering into a legal agreement with Housing Solutions (which is referred to in this letter as a 'Funding Agreement') under which both its Admission Agreements can continue to operate when its last active member leaves the Fund. This is a principle that we have agreed with a number of other LGPS Funds on behalf of other housing association clients.

In seeking the agreement of the Fund to this proposal it is important to note Housing Solutions is not seeking to avoid its liabilities to the Fund; rather it is seeking to settle these, but in a way that does not create an immediate accounting issue when their last active member leaves and which could have material adverse implications for the service it provides within Berkshire.

In summary, the terms of a Funding Agreement would generally provide:

- What will happen when there are active members and when there are not.
- Whilst Housing Solutions has active members, that its liability will continue to be assessed on the on-going funding basis applicable to scheduled employers.
- On the date that Housing Solutions ceases to have active members that it will be treated as exiting the Fund (under Regulation 64 Local Government Pension Scheme Regulations 2013 ('**the Regulations**')
- Instead of the debt crystallising and being paid as at the date of exit, the Fund agrees that the rates and adjustment certificate will certify that the liability will be that payable under the terms of the Funding Agreement.
- That the Admission Agreement will continue notwithstanding active membership ceasing and Housing Solutions will continue to be treated as if it had remained in the Fund (i.e. its liability will remain uncrystallised and future contributions will continue to be assessed on an on-going funding basis until such time as the Funding Agreement terminates).
- Housing Solutions would aim to pay off the funding deficit by the end of its current recovery period. More importantly, Housing Solutions liability for future deficit contributions would not cease at the end of the recovery period. Like any other employer in the Fund, Housing Solutions would remain liable for any future deficits that emerge under its Admission Agreement, for example due to experience not being in line with the actuarial assumptions, or the assumptions themselves being updated at subsequent triennial valuations.
- To protect the Fund, the Funding Agreement can set out various conditions that Housing Solutions must comply with. These can be discussed and agreed. In the event that any of these conditions are breached, the Funding Agreement will terminate.
- In such circumstances if there are no active members, there will be a valuation on the termination valuation basis and the debt certified under the rates and adjustment certificate will be payable.
- The Funding Agreement can also provide for other provisions as to when it can be terminated (other than for default), for example if the value of the liability assessed on a termination valuation basis is less than a specified amount, say £100,000

The effect of the above proposal is that Regulation 64 of the Regulations would be complied with. We are of the view that it enables a lawful mechanism whereby the liability of Housing Solutions remains an uncrystallised liability and is paid over time (and reassessed on each triennial valuation). The benefit to my client is that their liability does not (other than on termination of the Funding Agreement) crystallise and become immediately payable.

This is a principle that a number of other LGPS Funds have agreed and I have negotiated and agreed similar forms of Funding Agreements for a number of clients with the Surrey LGPS Fund, the Buckinghamshire LGPS Fund, the LPFA, the Devon LGPS Fund and the Staffordshire LGPS Fund.

Merits of the proposal

We believe that our proposal merits your consideration for three main reasons:

- The proposal is equitable when you consider that when the Admission Agreements with HS were first set up, HS was notionally credited with assets equal to the value of the past-service liabilities measured using the ongoing funding assumptions, so that the HS section was 'fully funded' on those assumptions. It therefore seems illogical and unfair that the assumptions used for leaving the Fund should be different – if the HS section had ceased accrual on day two, would a deficit in relation to all of the employees' past service have been instantaneously created despite the HS section being fully funded one day earlier?

- HS is a not-for-profit organisation and so requiring it to pay out a large cash sum may impact on its primary purpose, which is delivering excellent services and high quality homes (both new homes and improvements to existing properties) to existing and future residents across Berkshire. In particular, this is not about HS not being able to make the cessation deficit payment – it's more to do with how that money could be better spent for the good of the community and meeting its core business objectives.

- It is better for the Fund and other participating employers to have a strong employer to continue its support and participation for the long-term, in order to meet the benefit promises of its former employees. In particular, it is worth noting that the Fund receiving the cessation deficit as a cash lump sum would not automatically ensure that there will be sufficient assets to meet the benefits at all points in the future. This means that there is a chance that HS's liability could fall back to the other participating employers in the Fund. This outcome would, of course, be avoided under our proposed approach as described above (until such time as a cessation event does actually take place).

We believe that the ongoing covenant provided to the Fund by HS is robust and will actually improve under the proposed approach as a potentially significant source of investment is not diverted away from HS's core business. Further details of our covenant are set out in the Appendix.

Impact if the proposal is not implemented

Unless otherwise agreed, and as we have set out above, on the date that HS ceases to have active members admitted to the Fund, then the Fund is likely to treat it as exiting the Fund. Under the Regulations, an exit valuation will be undertaken and the liability assessed will be reflected in the rates and adjustment certificate that is issued. The amount certified in this certificate will be a debt. As such, whether or not agreement is then reached with the Fund to pay this debt in instalments over a number of years, the entire amount will be treated as expenditure in the income and expenditure account of HS in that year. Dependent upon market conditions on the actual date of termination, and the actuarial assumptions and valuation basis applied by the scheme actuary, the actual level of cessation debt can vary substantially, month to month and day to day.

Whether or not the Fund requires the crystallised liability to be paid immediately as one lump sum it will in any event be a debt, which has an adverse accounting impact. As such, there may be an impact on the level of investment that can be made by my client, and subject to the level of debt there could, at least in theory, be a need to dispose of housing stock to satisfy that liability.

The effect of the proposal we have suggested is that the liability will remain as an uncrystallised liability; as such HS will remain liable and responsible for the liabilities in respect of their members which will be reassessed from time to time. Until such time as the Funding Agreement ends there is no liability which crystallises and which is shown as a debt in the income and expenditure account of HS. Entering into such an agreement would mitigate the risk of my client's liability to the Fund crystallising in the short term, and on a date over which they have no control.

We believe that it is possible to secure via a legal agreement terms which protect the Fund and which enable HS to manage, but not avoid, its liability to the Fund. This in turn will enable the social investment/development programme of HS not to be materially adversely impacted by the crystallisation of a pension debt that could be managed in a more advantageous way.

I would be grateful if you could consider the above and contact me to discuss this further and, if necessary, arrange an early meeting. If you are agreeable in principle to the above terms, we can provide you with a draft form of Funding Agreement for your consideration.

Yours sincerely

Ronnie Tong
Partner
Direct tel: 020 7880 4335
Direct fax: 020 7880 4226
E-mail: ronnie.tong@devonshires.co.uk

cc: Carol Lovell, Corporate Services Director, Housing Solutions
Andrew Robertson, Finance Director, Housing Solutions

Appendix

Strength of covenant

This Appendix sets out our view of the strength of the covenant that Housing Solutions offers to the Fund.

Housing Solutions has met all of its financial commitments in relation to its section of the Fund and fully intends to do so going forward. We understand that when assessing the sponsor covenant the Fund is expected to consider the employer's financial position and prospects, as well as its willingness to fund its pension obligations. Regarding the latter, Housing Solutions has always paid the required contributions when they were due and has developed a good working relationship with the Administering Authority. The proposed approach will not affect this in this regard; the Fund will continue to be supported in just the same way.

In terms of Housing Solutions' financial position and prospects, based on the latest audited accounts, Housing Solutions is financially strong and a very successful housing association. As the accounts indicate, HS has generated a significant surplus in each of the last eight years.

In addition, HS owns and manages or maintains just over 7,500 homes. With assets of £519 million, an annual turnover of £45m and reserves totalling £192 million, HS is a strong regional housing association.

Housing Solutions' net assets, after deducting the debt, are therefore expected to be considerably larger than any potential termination deficit.

Also, Housing Solutions complies comfortably with its existing loan covenants and is forecast to do so in the future. Relevant financial metrics are monitored and reported to lenders on a quarterly basis which should also provide assurance to the Fund regarding Housing Solutions ongoing financial health and the strength of the employer covenant. Housing Solutions is currently rated [A+] by Standard and Poors.

The Fund should gain further comfort with respect to the covenant from the fact that Housing Solutions' activities are regulated, and its statutory regulator, Homes England (previously the Homes and Communities Agency) monitors Housing Solutions to ensure that it meets Homes England's expectations in respect of financial viability and governance covenants. Housing Solutions is currently ranked G1 and V1, which are the top available ratings for governance and viability.

The above information confirms that Housing Solutions is a very strong employer, that provides a strong covenant to the Fund, and the expectation is that this will continue into the future.

This page is intentionally left blank

Dated 2018

(1) The Royal Borough of Windsor & Maidenhead

and

(2) Bracknell Forest Homes Limited

FUNDING AGREEMENT
In relation to an admission agreement to participate in the Local Government Pension Scheme

---

THIS AGREEMENT is made on the day of 2018

BETWEEN

(1) The Royal Borough of Windsor & Maidenhead of Town Hall, St Ives Road, Maidenhead, Berkshire SL6 1RF (the **"Administering Authority");** and

(2) Bracknell Forest Homes Limited whose registered office is at Berkshire Court, Western Road, Bracknell RG12 1RE (the **"Scheme Employer")**

BACKGROUND

(A) The Administering Authority is an administering authority within the meaning of the Regulations and administers the Scheme and maintains the Fund in accordance with the Regulations.

(B) The Scheme Employer is a scheme employer within a meaning set out in Schedule 2 of the Regulations and participates in the Scheme pursuant to an admission agreement dated 11 February 2008 (the **"Admission Agreement").**

IT IS AGREED as follows:

1. DEFINITIONS and INTERPRETATION

1.1 In this Agreement unless the context otherwise requires the following terms shall have the meanings given to them below:

"Commencement Date"

The date of this Funding Agreement

"First Exit Date"

The date upon which the Scheme Employer ceases to have any active members contributing to the Fund

"Fund"

Royal County of Berkshire Pension Fund

“Funding Strategy Statement”

The written statement setting out the funding strategy which the Administering Authority has in place from time to time in accordance with Regulation 58 of the Regulations

“Ongoing Valuation Basis”

The Fund’s ongoing valuation basis as applies where a scheme employer continues to have active members in the Fund as recommended from time to time by the Fund’s actuary based on the policies set out in the Funding Strategy Statement

“Regulations”

The Local Government Pension Scheme Regulations 2013 (as amended)

“Scheme”

The Local Government Pension Scheme established pursuant to the Regulations made by the Secretary of State under sections 7 and 12 of the Superannuation Act 1972

“Second Exit Date”

The date of termination specified in the notice served under Clause 6.1

1.2 **In this Agreement**

1.2.1 **expressions have the same meaning as in the Regulations except where the context otherwise requires;**

1.2.2 **the singular includes the plural and vice versa;**

1.2.3 **words preceding 'include' includes 'including' and 'included' shall be construed without limitation by the words which follow these words;**

1.2.4 **headings in this Agreement are for convenience of reference only and shall not be taken into account in its construction or interpretation;**

1.2.5 **save where stated to the contrary any reference to this Agreement or to any other document shall include any permitted variation amendment or supplement to this Agreement or to such document; and**

1.2.6 **any reference to any enactment order regulation or other similar instrument shall be construed as a reference to the enactment order regulation or instrument as amended replaced consolidated or re-enacted.**

2. AGREEMENT

2.1 This Agreement has effect on and from the Commencement Date.

2.2 The Administering Authority and the Scheme Employer agree that the Scheme Employer's continued participation in the Scheme from the Commencement Date until the date the Scheme Employer ceases to have any active members will be in accordance with the terms of the Admission Agreement and the Regulations. The Scheme Employer will pay contributions to the Fund in accordance with the rates and adjustments certificates that are in force from time to time as calculated in accordance with the Ongoing Valuation Basis.

2.3 This Agreement envisages that at some point the Scheme Employer may cease to employ any active members in the Fund. For the avoidance of doubt, the mere fact that the Scheme Employer ceases to employ any active members will not result in an automatic termination of this Agreement which will continue unless otherwise terminated as provided for by the terms of this Agreement.

3. REGISTERED PROVIDER CEASING TO HAVE ACTIVE MEMBERS

3.1 If at any time the Scheme Employer ceases to have an active member contributing to the Fund, the Scheme Employer will become an "exiting employer" for the purposes of Regulation 64(1) of the Regulations. In accordance with Regulation 64(2) of the Regulations, the Administering Authority shall obtain:-

3.1.1 an actuarial valuation as at the First Exit Date of the liabilities of the Fund in respect of benefits in respect of the Scheme Employer's current and former employees; and

3.1.2 a revised rates and adjustments certificate showing the exit payment due from the Scheme Employer in respect of those benefits.

3.2 In consideration of the Scheme Employer's covenant set out in Clause 4.1 below, the Administering Authority agrees that any revised rates and adjustments certificate issued pursuant to clause 3.1.2 will state the "exit payment" to be such amounts as are from time to time payable by the Scheme Employer in accordance with the provisions of this Agreement.

4. REGISTERED PROVIDER COVENANT

4.1 In consideration of the Administering Authority's agreement above, the Scheme Employer covenants that it will **continue to pay contributions in accordance with the rates and adjustment certificate in force from time to time calculated in accordance with the Ongoing Valuation Basis as if it were an admission body in the Fund** until such time as there is a Termination Event as referred to in Clause 6.

5. RISK EVENTS

5.1 The parties agree that the following events will be treated as a **"Risk Event":-**

5.1.1 The Scheme Employer ceasing to be a registered provider of social housing registered with, and subject to regulation by, the Regulator of Social Housing (or any successor body);

5.1.2 The Scheme Employer being assessed by the Regulator of Social Housing (or any successor body) as non-compliant for financial viability (or similar), currently a V3 or a V4 rating; or

5.1.3 The Scheme Employer failing to make a payment to the Administering Authority in accordance with Clause 4.1 in full on the required date.

5.2 Subject to Clause 5.5 below, if a Risk Event is triggered then the Administering Authority shall first approach the Scheme Employer to request further information about the event and ask the Scheme Employer to demonstrate its continued financial strength in light of the Risk Event occurring. The Administering Authority shall have the right to commission a covenant assessment of the Scheme Employer by an independent assessor if not satisfied with the information provided by the Scheme Employer.

5.3 Subject to Clause 5.4, if the Administering Authority, acting reasonably and after following the actions in Clause 5.2 above, is not satisfied that the Scheme Employer's covenant position is adequate to cover its deficit, the Administering Authority shall be entitled to serve notice on the Scheme Employer terminating this Agreement.

5.4 Notice may only be given under Clause 5.3 where the Administering Authority has first informed the Scheme Employer that it is not satisfied with the covenant position and the Scheme Employer has not raised a written challenge as to the reasonableness of the Administering Authority's position within 7 days thereafter. If the Scheme Employer raises such a challenge, then notice to terminate this Agreement may not be given until the dispute has been heard and determined by the Pension Panel of the Fund, and only then if the outcome is in favour of the Administering Authority's position.

5.5 Without prejudice to Clauses 5.2 and 5.3 above, if a Risk Event is triggered and (a) the Administering Authority acting reasonably considers that it would be to the material financial detriment of the Fund to proceed in accordance with Clause 5.2, and (b) the Administering Authority, acting reasonably, considers it to be reasonable and necessary in order to protect the Fund, then the Administering Authority **shall be entitled to serve notice on the Scheme Employer terminating this Agreement.**

6. TERMINATION OF THE FUNDING AGREEMENT

6.1 In the event that notice terminating this Agreement is served by the Scheme Employer for any reason, or the Administering Authority under Clause 5.3 or 5.4, then with effect from the date specified in the notice (which must be no less than 14 days after the date of the notice itself) there will be a **"Termination Event".**

6.2 Upon a Termination Event, the Administering Authority will undertake an actuarial valuation as at the Second Exit Date, of the liabilities of the Fund in respect of benefits in respect of the Scheme Employer's current and former employees. This valuation will be undertaken on the basis that would normally be applied as at the Second Exit Date for an exiting employer based on market conditions as at the Second Exit Date and will take account of the payments made by the Scheme Employer under Clause 4.1.

6.3 The Administering Authority will issue a revised rates and adjustments certificate showing the amount of exit payment due from the Scheme Employer in accordance with Clause 6.2 (the "Final Exit Payment").

6.4 The Scheme Employer covenants to pay the Final Exit Payment within the time period notified by the Administering Authority to the Scheme Employer which will be not less than 90 days from the date of receipt by it of the revised rates and adjustment certificate. On payment in full of the Final Exit Payment, the liability of the Scheme Employer to the Fund generally, and without limitation in relation to the exit payment referred to at Clause 3.1 and the Final Exit Payment, will be treated as having been fully discharged.

7. COSTS

The Scheme Employer will bear the Administering Authority's reasonable costs and expenses incurred in connection with the implementation of this Agreement.

8. GENERAL TERMS

8.1 Unless otherwise defined herein, terms and expressions defined in the Admission Agreement and the Regulations shall bear the same meaning in this Agreement.

8.2 No term in this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not party to this Agreement.

8.3 This Agreement and the Admission Agreement constitute the entire understanding between the Scheme Employer and the Administering Authority in relation to the subject matter of the agreement and supersede all prior contracts, undertakings, representations and negotiations whether oral or written except that nothing in this condition shall exclude or restrict liability for fraudulent or fundamental misrepresentations.

8.4 This Agreement shall be governed by and interpreted in accordance with English law and shall be subject to the jurisdiction of the courts of England and Wales.

IN WITNESS whereof the parties have executed and delivered this Agreement as a Deed on the day and year first before written.

THE COMMON SEAL OF THE ROYAL BOROUGH OF WINDSOR & MAIDENHEAD
was affixed to this deed in
the presence of:

Authorised Officer

THE COMMON SEAL OF
BRACKNELL FOREST HOMES LIMITED was affixed to this deed in the presence of:

Director

Director/Secretary

This page is intentionally left blank

Report Title:	**Berkshire Pension Fund Business Plan 2018-19**
Contains Confidential or Exempt Information?	YES - 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 – 21 May 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager
Wards affected:	None

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report presents the Pension Fund Business Plan for 2018/19 and medium term strategy for 2019 to 2022.
2. It recommends that Panel approve this business plan and authorises Officers to publish it on the Pension Fund website.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

i) Approves the Business Plan and Medium Term Strategy and
ii) Authorises Officers to publish it on the Pension Fund website

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

2.1 The publication of the Pension Fund Business Plan and Medium Term Strategy demonstrates that the Fund is properly governed, managed and that appropriate controls are in place.

3 KEY IMPLICATIONS

3.1 The Business Plan and Medium Term Strategy defines desired outcomes by objective and Officers will report achievement against these objectives.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Not applicable

5 LEGAL IMPLICATIONS

5.1 None

6 RISK MANAGEMENT

6.1 Good governance reduces the risk of intervention by The Pensions Regulator.

7 POTENTIAL IMPACTS

7.1 None

8 CONSULTATION

Not applicable

9 TIMETABLE FOR IMPLEMENTATION

9.1

Implementation timetable

Not applicable

10 APPENDICES

10.1 The appendices to the report are as follows:

- Appendix 1 - Draft Business Plan 2018/19.

11 BACKGROUND DOCUMENTS

11.1 None

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
	Lead Member/ Principal Member/Deputy Lead Member		
Alison Alexander	Managing Director		
Russell O'Keefe	Executive Director		
Andy Jeffs	Executive Director		
Rob Stubbs	Section 151 Officer		
Nikki Craig	Head of HR and Corporate Projects		
Louisa Dean/Milly Camley	Communications		
	Other e.g. external		

THE ROYAL COUNTY OF
BERKSHIRE
PENSION FUND

BUSINESS PLAN 2018-19

And

MEDIUM-TERM STRATEGY 2019/2022

CONTENTS

1.0 INTRODUCTION

This document is intended to outline how the Royal County of Berkshire Pension Fund will deal with its key responsibilities during 2018/19 and the over the medium-term from 2019 to 2022. The Administering Authority to the Royal County of Berkshire Pension Fund is the Royal Borough of Windsor & Maidenhead (RBWM).

The Pension Fund has two teams – The Pension Administration Team and The Pension Finance Team. Accounting for the Fund is carried out by colleagues within the Finance Team within RBWM's Corporate and Community Services Directorate.

The Business Plan will be used to guide and direct the Fund, provide clarity and alignment on goals and objectives and establish key initiatives for the forthcoming year. In addition, it is available to all stakeholders to better understand what the Fund is planning to do to provide an efficient service across the County of Berkshire whilst supporting the overall corporate aims of RBWM as the Administering Authority to the Pension Fund.

This Business Plan will be updated annually and presented to the Pension Fund Panel for adoption. The plan will also review the previous year's plan and detail whether the objectives therein were met.

2.0 STRATEGIC INTENT – MISSION STATEMENT

The Royal County of Berkshire Pension Fund aims:

To deliver an efficient pension service to all stakeholders in the Fund that:

- *Is cost effective, high quality, innovative and fit for purpose;*
- *Ensures that Scheme members receive the right benefits at the right time;*
- *Ensures Scheme members are kept informed about their benefits and changes in regulations which will affect them;*
- *Ensures all strategic investment objectives are managed and met in accordance with the Pension Fund's Investment Strategy Statement in partnership with the London Pensions Partnership;*
- *Recognises that pensions are an important part of employees' reward packages which assists employers to deliver their strategic goals;*
- *Provides staff in the Pension Fund team with a satisfying work environment and career development path.*

3.0 BUSINESS OBJECTIVES

The business objectives for the Pension Fund team are directly aligned to the Council's corporate aims, as follows:

Business Aim	Business Objective
Stakeholder Satisfaction	To deliver an effective pension service that meets the expectations of Scheme members and other stakeholders as measured by a low number of

	complaints and adherence to agreed KPIs.
Value for Money	To manage the assets of the Fund in such a way as to achieve the medium term investment return objective, achieve value for money in all contracts and manage all other direct costs in managing the Fund and paying pension benefits. To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.
Equip Ourselves for the Future	To manage staff effectively in order to deliver high levels of morale, ensuring all staff are effectively performance managed and developed by ensuring sickness rates are reduced, aligned objectives are set for all staff, performance appraisals are undertaken and poor performers are appropriately dealt with. To transform, develop and improve the Pension Team through creating an evidence-based continuous improvement culture and ensuring that all agreed projects and other initiatives are delivered to time and budget and achieve the expected benefits.
Delivering Together	To work together with Elected Members to deliver the goals and objectives of the Pension Fund Panel, to be measured by positive feedback from Lead Members.

4.0 VALUES

The CREATE values of RBWM have been cascaded throughout the team and translated into local values and behaviours. In the spirit of the behaviours adopted by the Royal Borough of Windsor & Maidenhead, the Pension Team will adopt the following values and behaviours:

- There will be no ‘ambushing’ or surprises - discuss first before raising in public;
- We will always be realistic when negotiating timescales and be considerate of other’s priorities and time;
- Everyone’s view matters and we will always give credit where it is due;
- We will share information, be inclusive and supportive and back each other up;
- We will always consider Scheme members and other stakeholders in everything we do;
- We will always look to do something rather than find ways to not do it and we will always look to support a reasonable request;
- We will accept being challenged and only challenge ideas not people;

- We will always deal with issues and not let them fester;
- We will always lead by example;
- We will use face to face communication as our preferred initial medium with telephony as our second preference;
- If we do e-mail we will always use appropriate distribution lists;
- We will always respect each other and work together to meet the Fund's objectives;
- We will promote and celebrate success;
- We will take full responsibility for our actions.

5.0 BUSINESS TARGETS 2018/19

Pension Team Business Objective	2018/19 Target
To deliver an effective pensions service that meets the expectations of members and other stakeholders as measured by a low number of complaints and adherence to agreed KPIs.	All annual benefits statements to be issued on time. 95% of critical service standards achieved (stretch 100%). 90% of non-critical service standards to be achieved (stretch of 95%). Service related complaints to be less per member than 2017/18.
To manage the assets of the Fund in such a way as to achieve the medium term investment return objective, achieve value for money in all contracts and manage all other direct costs in managing the Fund and paying benefits.	Achieve a 4.5% real investment return over an economic cycle (7 years). Tender all contracts when due with a stretch objective of reducing costs (on a like-for-like basis) in real terms.
To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.	Positive feedback from internal and external auditors that controls are better than in previous years. To maintain robust business continuity, disaster recovery and emergency plans for all areas. Reduce risk profile of the Pension Fund.
To incorporate Integrated Risk Management into the management of the Fund	Develop a Risk Dashboard with Lincoln Pensions
To comply with the Government's Pooling Directive	Work with The Local Pensions Partnership to become a partner.
To transform, develop and improve the pension teams through creating an evidence-based continuous improvement culture and ensuring that all agreed projects and other	Deliver 90% of tasks within the pension teams' operational plan (stretch of 95%). Deliver all agreed programmes and projects

initiatives are delivered to time and budget and achieve the expected benefits.	to time and budget.
To work together with Elected Members to deliver the goals and objectives of the Pension Fund Panel, to be measured by positive feedback from Lead Members.	Positive feedback from Lead Members on performance and engagement.

6.0 KEY ASSSUMPTIONS AND RISKS

The following are the key business assumptions used in the compilation of the 2018/19 budget:

- Sufficient staff resources are available and committed to deliver business as usual and agreed projects, with key posts filled if they become vacant;
- The gap between benefits payable and contributions received will grow in the medium term thereby requiring the investment portfolio to generate a level of investment income sufficient to meet that gap to avoid the need to sell investments at an inopportune time;
- Staff turnover is as expected otherwise the Pension Team will struggle to meet its obligations to stakeholders;
- That performance targets remain as agreed;
- That central support resources are available to support the Pension Team;
- Changes to legislation do not adversely impact on the operation of the Pension Fund;
- Training and development resources are available;
- The new change management model is fully embedded and effective in managing and prioritising projects;
- FOI and DPA requests will not increase;
- Number of schools converting to academies and the number of new employers admitted to the Fund will remain in-line with previous years' experience;
- The Pension Fund will need to adjust investment strategy as a result of the Government's investment pooling strategy.

7.0 CASH-FLOW SUMMARY

A summary of the forecast cash-flow for the Pension Fund is shown below:

	Year to 31/03/17 (actual) £'000's	Year to 31/03/18 (forecast) £'000's	Year to 31/03/19 (forecast) £'000's
Contributions – employees	26,433	26,400	26,400
Contributions – employers normal	53,021	54,200	57,963
Contributions – employers deficit	17,291	18,298	16,251
Transfers In	9,826	6,600	6,600
Employers additional contribution for early retirements	2,000	1,800	1,800
Investment Income via Custodian	32,708	33,689	34,700
Pensions Paid (Gross)	-82,140	-83,400	-85,902
Retirement Lump Sums	-20,743	-21,200	-21,200
Transfers Out	-6,966	-6,500	-6,500
Investment Management Costs	-6,940	-7,148	-7,363
Employee & Other Costs	-1,438	-1,300	-1,300
Net Cash Flow	**23,052**	**21,439**	**21,499**

8.0 KEY INITIATIVES 2018/19

Business Objective	Key Initiatives
To deliver an effective pensions service that meets the expectations of members and other stakeholders as measured by a low number of complaints and adherence to agreed KPIs.	Ensure that Pension Administration Software is kept up to date. Apply for PASA accreditation by April 2018 and to become fully accredited by December 2018. To continue to work with Scheme employers to increase the percentage of member records administered via i-Connect from 53% at March 2018 to 70% by March 2019. Continual review of Service Level Agreements to ensure they remain current. Annual review of the Pension Administration Strategy. Annual review of Communications Policy with the continuing aim to provide Scheme information digitally wherever possible. Keep members up to date via newsletters and Scheme employers up to date via bulletins. Run Pension Surgeries at least twice

	annually for each Unitary Authority and at least once a year for other Scheme employers upon request. Continue to provide training and literature for Scheme employers to assist them in administering the Scheme on behalf of their employees. Continue to provide presentations and literature for Scheme members to provide greater understanding of their Scheme. Maintain the Pension Fund web-site to the highest standards ensuring that all information is current and accurate. Ensure the continued development of Member Self Service to the highest possible standard and in line with scheme and pension software supplier changes. Continue the promotion and development of ~~the~~ Employer Self Service (ESS) ~~application~~ to enable Scheme employers to access the pension details of their own employees.
To manage the assets of the Fund in such a way as to achieve the medium term investment return objective with minimal loss of capital, achieve value for money in all contracts and manage all other direct costs in managing the fund and paying benefits.	Join the Local Pensions Partnership to comply with investment pooling as required by the Department for Communities and Local Government. Implement Investment Strategy as agreed by the Pension Fund Panel. Ensure that no fire-sale of assets is required to meet benefit payments.
To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.	Produce Annual Financial Statements so they can be published by 1 December 2017. Complete contributions reconciliation. Achieve a clean audit. Complete Year End procedures in advance of 31 August 2018 to enable prompt issue of annual benefit statements. Annual Benefit Statements (Active and Deferred members) to be issued by 31 August 2018.

	Apply Pensions Increase and HMT Revaluation Orders. Issue P60's and payslips by 31 May 2018 in line with statutory legislation. Service the Berkshire Pension Board to ensure they receive the information they require to discharge their obligations. Ensure that all Pension Fund policies are current. Ensure continuing compliance with the Pensions Regulator's Code of Practice number 14. Ensure compliance with General Data Protection Regulation (GDPR) by 25 May 2018 and ensure continued compliance.
To manage staff effectively in order to deliver high levels of morale, ensuring all staff are performance managed and developed by ensuring sickness rates are reduced, aligned objectives are set for all staff, performance appraisals are undertaken and poor performers are appropriately dealt with.	Monitor staff requirements to ensure a high quality service is provided to stakeholders.
To transform, develop and improve the Pensions Team through creating an evidence based continuous improvement culture and ensuring that all agreed projects and other initiatives are delivered to time and budget and achieve the expected benefits.	Ensure that staff "buy-into" RBWM's performance related pay scheme. Ensure that staff receive appropriate training internally and from external providers.
To work together with Elected Members to deliver the goals and objectives of the Pension Fund Panel, to be measured by positive feedback from Lead Members.	Ensure Pension Fund Panel, Pension Fund Advisory Panel and Pension Board members receive appropriate training. Ensure that Pension Fund Panel, Pension Fund Advisory Panel and Pension Board members understand the Fund's strategy.

9.0 REVIEW OF 2017/18 KEY INITIATIVES

In 2017/18 we said that we would:

Business Objective	Key Initiatives	Outcome
To deliver an effective pensions service that meets the expectations of members and other stakeholders as measured by a low number of complaints and adherence to agreed KPIs.	Ensure that Pension Administration Software is kept up to date	Achieved. All Pension Administration Software has been kept up to date.
	Finalise Desktop Procedures to ensure consistency of working practices in the Pension Administration Team	Completed.
	Continue to promote and encourage employers to use i-Connect as the administering authority's preferred method of data transfer.	Achieved. 53% of Scheme members records were administered using i-Connect at March 2018 an increase of 26% from March 2017.
	Continual review of Service Level Agreements to ensure they remain current.	Achieved.
	Keep members up to date via newsletters.	Achieved. All newsletters produced throughout 2017/18 on time and in line with the Fund's Communication policy.
	Run Pension Surgeries at least twice annually for each unitary authority and as requested by other employers.	Achieved. A total of 19 surgeries were held through 2017/18 with 546 members attending.
	Educate scheme employers by providing scheme training upon request.	Achieved. 2 employer training sessions provided.
	Educate scheme members by providing presentations upon request from scheme employers.	Achieved. 9 presentations provided.
	Maintain web-site to highest standards ensuring that all information is current.	Achieved. Web-site is continually reviewed and updated.
	To increase the number of visits made to scheme	Partially achieved. As e-communications improve

	employers to discuss key statutory responsibilities and improve performance.	fewer requests for site visits are received.
To manage the assets of the Fund in such a way as to achieve the medium term investment return objective with minimal loss of capital, achieve value for money in all contracts and manage all other direct costs in managing the fund and paying benefits.	Join an LGPS Investment Pool as required by the Department for Communities and Local Government. Implement Investment Strategy as agreed by the Pension Fund Panel. Ensure that no fire-sale of assets is required to meet benefit payments	Not achieved. Pension Panel agreed to join the London Pensions Partnership (LPP) at its meeting on 22 January 2018. Achieved. Achieved.
To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.	Produce Annual Financial Statements so they can be published by 1 December 2017. Complete contributions reconciliation. Achieve a clean audit. Complete Year End procedures before 31 August 2017 to enable prompt issue of annual benefit statements. Annual Benefit Statements (Active and Deferred members) to be issued by 31 August 2017.	Achieved. Document published and available from Pension Fund web-site. Achieved. Achieved. Audit rating 'Complete and Effective – Highest out of 4 Audit Opinions'. Partially achieved. 97.5% of procedures were completed on time. Remaining 2.5% of procedures were not completed on time due to certain Scheme employer data received by the Fund being of a poor quality. Partially achieved. 100% of deferred member statements issued on time. 97.5% of active member statements issued on time the remaining 2.5% be issued out of time due to issues with certain Scheme employer data. Matter under review.

	Apply Pensions Increase and HMT Revaluation Orders. Issue P60's and payslips. Ensure that employers complete Policy Statements as required by LGPS Regulations 2013. Service the Berkshire Pension Board to ensure they receive the information they require to discharge their obligations. Ensure that all Pension Fund policies are current. Ensure compliance with the Pensions Regulator's Code of Practice number 14.	Achieved. Pensions Increase applied in line with statutory legislation. Achieved. All documents issued in line with statutory legislation. Partially achieved. A small number of Scheme employers have yet to issue their policies but are kept under review. Achieved. Pension Board receive everything required to operate effectively. Achieved. All policies are kept under review and updated as necessary. The Pension Board procured an audit review of the administering authority's compliance with Code 14 with a number of minor concerns being identified and resolved.
To manage staff effectively in order to deliver high levels of morale, ensuring all staff are performance managed and developed by ensuring sickness rates are reduced, aligned objectives are set for all staff, performance appraisals are undertaken and poor performers are appropriately dealt with.	Monitor staff requirements to ensure a high quality service is provided to stakeholders.	Achieved.
To transform, develop and improve the Pensions Team through creating an evidence based continuous improvement culture and ensuring that all agreed projects and other initiatives	Ensure that staff "buy-into" RBWM's performance related pay scheme. Ensure staff receive appropriate training internally and from external providers.	Achieved. Achieved.

are delivered to time and budget and achieve the expected benefits.		
To work together with Members to deliver the goals and objectives of the Pension Fund Panel, to be measured by positive feedback from Lead Members.	Ensure Pension Fund Panel, Pension Fund Advisory Panel and Pension Board members receive appropriate training. Ensure that Pension Fund Panel, Pension Fund Advisory Panel and Pension Board members understand the Fund's strategy.	Achieved. Achieved.

10.0 MEDIUM TERM PLAN 2019/22

The following table details the medium term plan for the Pension Fund for the period 2019 to 2022.

Objective	Rationale	Timescale
Investment Pooling.	Required by the Department for Communities and Local Government per their announcement 25 November 2015.	All investments to be pooled with Local Pensions Partnership (LPP) by mid-2020. Investment staff to TUPE transfer to LPP on 1 June 2018. Business case for merger of pension administration to be considered during 2018/19.
Attain accreditation to the Pensions Administration Standards Association (PASA).	Accreditation will confirm that the Pension Administration Team are adhering to industry best practice.	Accreditation to be achieved during 2018/19.
Credit insure the Fund against loss incurred by the insolvency of admission bodies.	Protects the Fund against losses incurred when admission bodies become insolvent and they are unable to meet their cessation liabilities.	Initial work completed in 2015. Further work regarding feasibility of an insured solution undertaken in 2017/18. Further work required in 2018/19.
Reconciliation of Guaranteed Minimum Pension (GMP) obligations.	Reconcile GMP values held with those calculated by HMRC or Fund faces making overpayments to existing scheme members and even to individuals for whom it is believed there is no liability.	Work completed in February 2018.
Introduction of Employer Self Service (ESS)).	Increase ability of Scheme employers to interact with the Fund via self-service facilities	System implemented in 2017/18 but further development required in

	(operational efficiency)	2018/19
i-Connect	Will lead to improved quality of data held by Fund and increased efficiency of the service	100% (or maximum viable) achieved by 31 March 2019
Maintain sufficient cash-flow to avoid fire-sale of assets to meet benefits payable	Avoid sale of assets at low process negatively impacting long-term sustainability of the fund	On-going
Investigate additional longevity insurance	Protect fund against unforeseen improvements in life expectancy	On-going
Continuous review of investment strategy	Ensure that investment strategy is “fit for purpose”	On-going
Review inflation hedging possibilities	Protect fund against large rises in inflation	On-going

Approved by Berkshire Pension Fund Panel: 21 May 2018

Report Title:	**College Funding Levels**
Contains Confidential or Exempt Information?	YES - 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 – 21 May 2018
Responsible Officer(s):	Kevin Taylor, Deputy Pension Fund Manager
Wards affected:	None

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. This report brings to Members' attention the funding levels applicable to the College pool.
2. In particular Members are asked to consider the removal of the University of West London from the college pool and the associated amendment required to the Funding Strategy Statement at Appendix 2.
3. Attached to this report at Appendix 1 is a paper prepared by Barnett Waddingham as the actuary to the Berkshire Pension Fund.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

i) Agree to the University of West London being removed from the college pool with the Funding Strategy Statement being amended as highlighted in Appendix 2 to this report;
ii) Requests that officers continue to investigate funding options with the colleges and in particular with the University of West London;
iii) Requests officers to engage with the actuary and officers of the University of West London to consider the option of either transferring all liabilities from the Berkshire Pension Fund to the Ealing Pension Fund or vice versa.

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

2.1 It is a statutory requirement that the Pension Fund is actuarially valued every three years.

2.1 As part of the valuation process the actuary sets the employer contribution rates for the forthcoming valuation period. As at the last valuation date, 31 March 2016, it was identified that the funding deficit and proposed employer contribution rates for the college pool were higher than for any other individual or pooled employer with in the Fund. Contribution rates were not certified for the colleges by the actuary beyond 31 March 2018 pending subsequent discussions with the colleges. It should be noted that following these discussions the actuary has agreed to extend the employer contribution rates certified for the college pool for the financial year 2017/18 to 31 July 2018.

2.2 Discussions have been ongoing with the colleges to find a satisfactory funding mechanism going forward but it has been clearly identified that the University of West London, which includes the liabilities for the former Thames Valley University, has a vastly different membership and liability profile to the other 4 colleges in the pool.

2.3 The University of West London is based in Ealing and is a scheme employer within the Ealing Pension Fund. All new employees of the University are entered into the Ealing Pension Fund and therefore the number of active members contributing to the Berkshire Fund is slowly dwindling.

3 KEY IMPLICATIONS

3.1 When the last active member of the Berkshire Pension Fund ceases membership of the scheme the actuary will be required to carry out a cessation valuation which will crystallise the deficit owing by the University of West London to the Pension Fund.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 The actuary currently estimates the cessation debt to be in the region of £11.5M on an ongoing basis (where a suitable alternative scheme employer can be found to pick up the deficit) and £30M on a full cessation basis.

5 LEGAL IMPLICATIONS

5.1 Under the Local Government Pension Scheme Regulations the actuary is required to certify employer contributions rates, including deficit recovery payments, as part of the valuation exercise every three years but is also required to undertake additional valuations for employers exiting the scheme in accordance with Regulation 64 of the LGPS Regulations 2013 (as amended).

6 RISK MANAGEMENT

6.1 Consideration needs to be given to the options of transferring all assets and liabilities held in the Berkshire Pension Fund on behalf of the University of West London to the Ealing Pension Fund or vice versa. Either option will avoid a cessation valuation but both Funds will need to consider closely any likely impact on funding levels.

7 POTENTIAL IMPACTS

7.1 Recovery of the pension deficit as currently estimated will have a significant impact on the finances of the University of the West London and their ability to operate in the future.

8 CONSULTATION

N/A

9 TIMETABLE FOR IMPLEMENTATION

9.1

Implementation timetable

Date	Details
1 August 2018	Employer contribution rates must be set for the college pool for the period 1 August 2018 to 31 March 2020.
1 August 2018	Decision must be taken as to whether or not the University of West London remains in the college pool.
31 March 2019	Decision needs to be taken as to whether or not the University of West London continues to operate across both the Berkshire and Ealing Pension Funds.

10 APPENDICES

10.1 The appendices to the report are as follows:

- Appendix 1 - Barnett Waddingham paper on the College Funding Pool.
- Appendix 2 – Tracked version of Funding Strategy Statement

11 BACKGROUND DOCUMENTS

11.1 None

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
	Lead Member/ Principal Member/Deputy Lead Member		
Alison Alexander	Managing Director		
Russell O'Keefe	Executive Director		
Andy Jeffs	Executive Director		
Rob Stubbs	Section 151 Officer		
Nikki Craig	Head of HR and Corporate Projects		
Louisa Dean/Milly Camley	Communications		
	Other e.g. external		

Royal County of Berkshire Pension Fund
The College Funding Pool

Introduction

This report is provided to Royal Borough of Windsor and Maidenhead as Administering Authority for the Royal County of Berkshire Pension Fund (the "Fund").

This report may be shared with the employers in the College Pool (the "Employers") as participating employers within the Fund but it does not constitute advice to them. The Fund is part of the Local Government Pension Scheme (LGPS).

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

Background

Historically the 5 colleges in the Berkshire Fund have been "pooled" for the purposes of determining employers' contribution rates. The main purpose of pooling is to help keep employer contribution rates stable. Pooling of employers' pensions risks and costs can result in some cross subsidy between employers but provided the employers in the pool are relatively homogenous in terms of membership profile and experience, the amount of cross subsidy should be minimal. The major risks affecting employers' contributions – investment and inflation risk are the same for all employers in the Fund so pooling only extends the risk sharing to other less significant risks.

At the 2016 valuation of the Fund there were a number of issues identified for the College Pool.

- All further education establishments in England and Wales were subject to the "area review" by Government - a review of the number of colleges and similar institutions across the country.
- The new "insolvency regime" for such bodies.
- The group was no longer homogeneous. In particular University of West London ("UWL") are now headquartered in Ealing and all new members of staff eligible for the LGPS are joining the London Borough of Ealing Fund rather than the Berkshire Fund. Accordingly the University of West London in the Berkshire Fund was now a "closed employer" and at some point would become an "exiting employer" once there were no longer any active members.
- Strode's College, an employer in the Surrey County Council Fund, was to merge with East Berkshire College in July 2017, and a direction order would be sought from the Secretary of State to move the Strode assets and liabilities from the Surrey Fund to the Berkshire Fund. The Direction Order has now been obtained and the transfer is in progress.

The purpose of the 2016 valuation was to set levels of employer contributions for all employers in the Fund for the period 1 April 2017 until 31 March 2020. Given some of the uncertainty for the colleges therefore it was

BARNETT WADDINGHAM
beyond the expected

agreed to only certify contribution rates for the period 1 April 2017 until 31 March 2018 and then carry out some further work after the valuation to determine the rates to be certified from 1 April 2018.

We have had a number of meetings with officers of the Fund and invited representatives of the Colleges to these meetings. All colleges apart from University of West London have attended these meetings.

Whilst a number of issues were identified at these meetings, the key issue identified was the fact that University of West London was now closed and so no longer qualified to remain in the College Pool. Remaining in the pool with a quickly diminishing number of active members would have key consequences:

- Allocating the pool deficit across the 4 colleges and then funding as a percentage of payroll would mean that UWL would pay much less than its fair share of the pool deficit which would ultimately be met by the other colleges.
- Whilst assets and liabilities are pooled for the purposes of determining employer contribution rates, we do track individual employer assets and liabilities – not least for accounting purposes. UWL is by far the largest employer in the pool in terms of share of total liabilities and deficit. As part of the pool therefore the contributions to be paid by UWL under the pooling arrangement is not really funding their individual deficit due to the relatively small deficit contributions they are effectively paying.
- As a closed employer, UWL will reach a point when they no longer have any active members. They will then become an "exiting employer" under Regulation 64 and trigger a "cessation valuation", requiring them to pay off their individual deficit in full. The assessment of their deficit on cessation will produce a much larger deficit than the ongoing deficit revealed by the 2016 valuation.
- Regulation 64(4) also states that where an employer is likely to become an exiting employer then the administering authority may obtain a revised rates and adjustments certificate certifying levels of contribution to target a fully funded position by the expected exit date.
- It was noted that the Funding Strategy Statement would need to be amended to reflect UWL leaving the pool.

The purpose of this paper is to look at the implications of University of West London leaving the pool.

2016 Valuation data and results

The following table sets out a summary of the valuation data and results for the College Pool as at the 2016 valuation. The assumptions underlying the results are included in our valuation report and also replicated in the appendix for ease of reference.

Employer membership statistics	Number of members			Pensionable Pay £(000)	Pooled assets £(000)	Pooled liabilities £(000)	Deficit £(000)	Funding Level
	Actives	Deferreds	Pensioners					
Newbury College	122	260	79	1,506	4,409	6,211	1,802	71%
Berkshire College of Agriculture	139	264	67	2,489	5,943	8,371	2,428	71%
East Berkshire College	133	338	165	2,607	13,818	19,465	5,647	71%
Bracknell & Wokingham College	186	213	128	2,442	8,577	12,081	3,504	71%
University of West London	26	399	343	985	28,168	39,680	11,512	71%
Total	606	1,474	782	10,029	60,915	85,808	24,893	71%

Assuming UWL were to remain in the College Pool and allowing for contributions to be stepped up to the required level until 31 March 2020 the required level of contributions would be as follows:

		Period to 31 July 2017		Period to 31 July 2018		Period to 31 July 2019		Period to 31 July 2020	
	Future Service Cost	Total Rate	Projected total conts	Total Rate	Projected total conts	Total Rate	Projected total conts	Total Rate	Projected total conts
Employer name	% pay	% pay	£	% pay	£	% pay	£	% pay	£
Newbury College	15.8%	22.6%	£340,000	22.6%	£340,000	29.7%	£447,000	36.8%	£554,000
Bracknell & Wokingham College	17.3%	24.2%	£592,000	24.2%	£592,000	31.3%	£764,000	38.3%	£936,000
East Berkshire College	15.0%	22.3%	£582,000	22.3%	£582,000	29.1%	£760,000	36.0%	£938,000
Berkshire College of Agriculture	13.9%	22.3%	£555,000	22.3%	£555,000	28.6%	£712,000	34.9%	£870,000
University of West London	15.8%	23.5%	£232,000	23.5%	£232,000	30.2%	£297,000	36.8%	£363,000
			£2,301,000		£2,301,000		£2,980,000		£3,661,000

The following table shows the projected deficit for UWL and the other colleges as at 31 March 2020 assuming UWL were to remain in the pool.

Employer name	31/03/2016 £(000)	31/03/2017 £(000)	31/03/2018 £(000)	31/03/2019 £(000)	31/03/2020 £(000)
University of West London	£11,512	£12,068	£12,654	£13,204	£13,718
Other colleges	£13,381	£13,429	£13,479	£12,900	£11,659

As we see the UWL deficit continues to grow as the effective deficit contributions are not sufficient to meet the interest on the deficit, never mind fund any of the capital element of the deficit, whereas the deficit for the other colleges declines as expected.

The following table shows the required level of contributions after removing University of West London from the pool.

		Period to 31 July 2017		Period to 31 July 2018		Period to 31 July 2019		Period to 31 July 2020	
	Future Service Cost	Total Rate	Projected total conts	Total Rate	Projected total conts	Total Rate	Projected total conts	Total Rate	Projected total conts
Employer name	**% pay**	**% pay**	**£**	**% pay**	**£**	**% pay**	**£**	**% pay**	**£**
Newbury College	15.8%	22.6%	**£340,000**	22.6%	**£340,000**	24.7%	**£373,000**	26.9%	**£405,000**
Bracknell & Wokingham College	17.3%	24.2%	**£592,000**	24.2%	**£592,000**	26.3%	**£643,000**	28.4%	**£695,000**
East Berkshire College	15.0%	22.3%	**£582,000**	22.3%	**£582,000**	24.2%	**£631,000**	26.1%	**£680,000**
Berkshire College of Agriculture	13.9%	22.3%	**£555,000**	22.3%	**£555,000**	23.7%	**£589,000**	25.1%	**£624,000**
University of West London	15.8%	23.5%	**£232,000**	23.5%	**£232,000**	75.5%	**£744,000**	127.6%	**£1,257,000**
			£2,301,000		**£2,301,000**		**£2,980,000**		**£3,661,000**

As expected, the other colleges see an overall contribution reduction from 1 August 2018 and a significant increase for UWL. In practice we would certify the required contributions for UWL as the future service rate plus cash sums for the deficit element as their payroll will continue to decline. The cash sums for the 2 final periods would be of the order of £600k and £1.1m.

Impact of Strode's College joining the Fund

On a basis consistent with the 2016 valuation basis for the Berkshire Colleges, Strode's College had assets and liabilities of around £5m as at that date and so once included in the pool will marginally improve the financial position of the pool.

As this transfer will take some time to finalise we would suggest that the impact of Strode's College joining the pool is assessed at the 2019 actuarial valuation.

Funding issues for UWL

Extracting UWL from the College Pool will result in a significant increase in employer contributions in terms of a percentage of the payroll of the remaining members. This is entirely due to the number of active members reducing significantly since as all new staff join the Ealing Fund. Had this not taken place the required levels of contribution as a percentage of payroll would have been comparable with the other colleges in the pool.

Kevin Taylor and Graeme Muir met with UWL on 5th March to discuss their issues and options. Whilst the increase in contributions is likely to be an issue for them in the short term, they also have to face the implications of being a closed employer and ultimately an exiting employer.

When they no longer have any active members and become an exiting employer which will trigger a "cessation valuation" which will certify the deficit payment they will be required to make. The ongoing deficit at the 2016 valuation was £11.5m although had they ceased on that date without a guarantor to stand behind the remaining liabilities then the "full cessation deficit" would have been over 3 times that amount.

Across England and Wales we are seeing a number of colleges merging. Where the colleges are in the same LGPS Fund then it is relatively straightforward – the assets and liabilities of both colleges are merged within the Fund. Where they are not then it is less straightforward. Assets and liabilities in one Fund have to be transferred to the other Fund – a bulk transfer. The LGPS Regulations only permit the assets and liabilities of active members to be transferred. However if only the active members are transferred then this leaves the transferring employer as an exiting employer in the transferring Fund, triggering a cessation valuation.

However there is a mechanism that can be used to avoid this. It is possible to ask the Secretary of State for a direction order to allow all the assets and liabilities, not just those in respect of active members, to be transferred. Normally the receiving Fund is the Fund that covers the geographical area in which the new merged body has its registered office but we do not believe that this is mandatory. It may be possible to use the other Fund as the receiving Fund.

In the case of UWL therefore, whilst they are not yet an exiting employer they will become one at some point and it could be relatively soon. The LGPS Regulations also require an administering authority to set the funding strategy for employers who will become an exiting employer and to essentially set the funding target as a fully funded cessation position. So rather than wait until the exit date and require the full cessation debt to be paid, levels of employer contributions are set to fund the cessation debt over the period to the expected exit date.

If we were to set the level of contributions for UWL to target a fully funded cessation positon in 10 years' time the deficit contributions would be in excess of £3m per annum.

The solution to avoid these significant costs for UWL is to seek a direction order from the Secretary of State to transfer the assets and liabilities in the Berkshire Fund to the Ealing Fund. This not only requires the permission of the Secretary of State but also the agreement of both Funds.

The Ealing Fund is much better funded than the Berkshire Fund and so transferring all the UWL assets and liabilities in the Berkshire Fund will increase the overall deficit in the Ealing Fund and reduce their funding level. The Ealing Fund therefore may not agree to the transfer as if UWL was to subsequently fail then it would be the other employers in the Ealing Fund who would have to fund the UWL deficit (which would be bigger than it would have been if the transfer had not taken place). There may be ways to mitigate this risk by asking UWL to fund their deficit more quickly or put up some security such as property.

Alternatively the Berkshire Fund could be used as the receiving Fund for all UWL assets and liabilities. On the Berkshire funding basis for colleges, we estimate that the liabilities that the Berkshire Fund would receive would be fully covered by the assets received. So if the transfer was from Ealing to Berkshire then the overall deficit in the Berkshire Fund would not increase and in fact there would be a slight increase in funding level.

In terms of the relative size of assets and liabilities in both Funds then the assets and liabilities on an accounting basis as at 31 July 2017 were as follows:

	Berkshire	**Ealing**	**Total**
Assets	£24.7m	£75.0m	£99.7m
Liabilities	£51.7m	£105.9m	£157.6m
Accounting deficit	£27.0m	£30.9m	£57.9m

As we see the Ealing liabilities on the accounting basis are around twice the Berkshire liabilities but the Ealing assets are three times the Berkshire assets.

Funding Strategy Statement

The Funding Strategy Statement sets out a number of policies on how the liabilities are funded. The section on pooling currently says:

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.

We would suggest that the reference to "Colleges" is replaced with "Colleges excluding University of West London", or possibly "Colleges open to new staff".

Summary and Conclusions

The conclusions are

- Due to the closed nature of UWL, they can no longer participate in the College Pool and need to be assessed on a standalone basis.
- On leaving the pool, even if we adopt the same funding strategy for them in terms of assumptions and deficit recovery period, the required level of contributions will increase significantly.
- UWL will become an exiting employer under Regulation 64 at some point, at which time an exit valuation will be required. Unless UWL can find a guarantor within the Fund or obtain a direction order to move to the Ealing Fund, the assessment of their funding position at that time will be on a full cessation basis. If we were to set levels of contributions now to target the required amount of assets to meet these liabilities in 10 years' time then the required level of contributions would be of the order of £5m to £10m per annum.
- Accordingly we would suggest an early meeting with UWL to discuss these issues.
- In the meantime extracting UWL from the College Pool will require a minor modification to the Funding Strategy Statement.

Barnett Waddingham LLP
19 February 2018

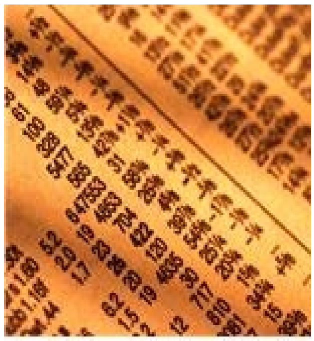
Appendix 1 - Assumptions

The following table sets out a summary of the financial assumptions adopted at the 2016 valuation.

		31 March 2016	31 March 2013
Discount rate	Unitaries	5.7% p.a.	6.1% p.a.
	Non-unitaries	5.5% p.a.	6.1% p.a.
Pay increases	Long-term	3.9% p.a.	4.5% p.a.
	Short-term	CPI for period from 31 March 2016 to 31 March 2020	1% for period from 31 March 2013 to 31 March 2016
Retail Price Inflation (RPI)		3.3% p.a.	3.5% p.a.
Consumer Price Inflation (CPI)		2.4% p.a.	2.7% p.a.
Pension increases		2.4% p.a.	2.7% p.a.
Post-retirement mortality (member) - base table		95% of the S2PA tables	S1PA tables with a multiplier of 100% for males and 90% for females
Allowance for improvements in life expectancy		2015 CMI Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.

This page is intentionally left blank

THE ROYAL COUNTY OF
BERKSHIRE
PENSION FUND



FUNDING STRATEGY STATEMENT

CONTENTS

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 31st 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 1st April 2014 (and in the case of some protected members after 31st 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

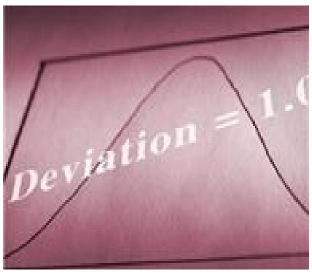
3.20 The asset valuation is a market value of the accumulated Fund at the triennial valuation date adjusted to reflect average market conditions during the 6 months straddling the triennial valuation date.

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 (excluding the University of West London)*	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 (with the exception of the University of West London)*
- 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.

*The University of West London is a closed employer whose membership and liability profile no longer makes it a viable employer for inclusion within the college pool.

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 31st 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 12 March 2018

Next Review date: March 2020

This page is intentionally left blank

Agenda Item 8

Report Title:	**Governance arrangements – the role of the investment working group**
Contains Confidential or Exempt Information?	NO - Part I
Member reporting:	Councillor Lenton, Chairman, Pension Panel
Meeting and Date:	Pension Fund Panel - 21 May 2018
Responsible Officer(s):	Alison Alexander, Managing Director. Rob Stubbs, Deputy Director and Head of Finance
Wards affected:	All

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1 The report lays out the proposed governance arrangements for the Royal County of Berkshire Pension Fund (BPF). The BPF will begin pooling its investments with the Local Pensions Partnership (LPP) from 1 June 2018. The report also seeks approval to undertake a procurement exercise to fill the vacant independent adviser post vacated earlier in the year.

2 The role of the current investment working group will change as the BPF will no longer undertake its own investments or select fund managers. This will become the responsibility of LPP. There are a number of responsibilities that the BPF, and the Royal Borough of Windsor and Maidenhead as administering body, will retain. There is therefore a need to review the current structure of the working group and to redefine its role.

3 It is a government requirement that all Local Government Pension Schemes join or form pooling arrangements.

4 No changes are proposed to the Pension Fund Panel, Pension Fund Advisory Panel or the Pension Board.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the pension fund panel notes the report and:

- **i) Agrees to the proposal for a revised investment group in light of pooling guidance.**
- **ii) Agrees the terms of reference for the Investment Group and instructs the Deputy Director and Head of Finance to secure the terms of reference within the administering body's constitution.**
- **iii) Agrees that the Deputy Director and Head of Finance in conjunction with the Chairman and Vice-Chairman of the Panel undertake the appointment of a second independent adviser with a final decision to appoint to be made at a future Panel.**

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

2.1 All local government pension schemes are required to pool investments in line with the guidance issued from the Department of Communities and Local Government (now the Ministry of Housing, Communities and Local Government) in October 2015.

2.2 As part of this pooling requirement the Royal County of Berkshire Pension Fund (BPF) has agreed to become a client of the Local Pensions Partnership (LPP). Work is currently underway to agree an Advisory and Management Agreement with LPP.

2.3 The management of 100% of BPF assets will be undertaken by LPP. This includes the appointment of fund managers, a role currently undertaken by the Investment Working Group (IWG).

2.4 It is proposed that the Investment Working Group is redesigned to reflect future expectations, renamed the Investment Group and undertakes more of a monitoring role as well as providing expert professional advice to the Pension Fund Panel.

2.5 The Investment Group will:

- Review the Fund’s long term investment strategy and where necessary make recommendations to the Pension Fund Panel.
- Advise on strategic and/or tactical asset allocations proposed by LPP.
- Restrict and control the range of asset allocations used by LPP as set out in the Policy Portfolio.
- Consider appropriate risk management strategies to include the matching of pension liabilities with suitable investments and where necessary make recommendations to the Pension Fund Panel.
- Monitor and review the investment activity.
- Review and report on the performance of the Fund and where necessary make recommendations to the Pension Fund Panel.

2.6 The Investment Group will not exercise any delegated powers but will instead provide advice to the Deputy Director and Head of Finance who will either exercise his delegated powers or make recommendations to the Pension Fund Panel taking into account the advice and views of the group.

2.7 The Pension Fund Panel have Law Debenture to advise on non-investment matters so the Investment Group advisers should be focussed on investments and investment governance. The Pension Fund Panel should retain Law Debenture to give an independent view on any recommendations coming from the Investment Group. This would avoid the Investment Group members being conflicted at a Panel meeting.

2.8 It is proposed that the Investment Group comprises:

- Pension Fund Panel Chairman (Chair) and/or
- Pension Fund Panel Vice Chairman.
- One Advisory Pension Fund Panel member.
- Deputy Director and Head of Finance (s151 Officer).
- Not less than two strategic independent advisers appointed in accordance with arrangements determined by the Pension Fund Panel.

2.9 The pension fund and pension fund advisory panels have had for many years independent advisers to assist them in making decisions on complex matters. The investment working group has also included within it two independent investment advisers. Earlier in the year one of those posts became vacant. It is intended, and also important moving forward that we retain the specialist advice and guidance we receive from our advisers. The proposal for the Investment Group retains the need for two independent advisers.

2.10 The independent adviser role is to act as the trusted adviser to the Berkshire Pension Fund and Pension Fund Advisory Panels on all pension related issues including but not limited to investment management advice, monitoring and advising on assets transitioning in to any pooling vehicles. and the performance of the Fund manager.

2.11 The adviser will be expected to give Panel members an independent view and assist them in assessing topics under consideration prior to any decision being made. Investment related work will be limited to providing the Panel with explanations where necessary and also an independent view on investment performance.

2.12 To fill the vacant position it is proposed, as previously, that a procurement exercise is undertaken to appoint a second independent adviser to support the Deputy Director and Head of Finance and members of the Panel. Initial interviews with the Deputy Director and Head of Finance and the Chairman and Vice-Chairman of the Panel will be held before a shortlist is brought forward to a future joint Pension Fund Panel and Advisory Panel for interview and final selection of the preferred candidate.

3 KEY IMPLICATIONS

3.1 The Investment Group will ensure that the transfer of assets and the performance of the Fund under LPP management is monitored and reported regularly to the Panel.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 There are no additional financial implications as a result of this paper. All costs will be covered within existing budgets.

5 LEGAL IMPLICATIONS

5.1 The appointment of an adviser will be subject to contract.

6 RISK MANAGEMENT

6.1 As pension pooling progresses it is important to retain suitable skills and experience to support the administering authority in the performance of the fund, its managers and its investments.

7 TIMETABLE FOR IMPLEMENTATION

7.1 The intention is to secure the appointment of a second strategic adviser as soon as possible but not later than September 2018, procurement processes permitting. Arrangements will be made as soon as possible after Panel approval for the Investment Group to meet and understand roles and responsibilities.

Table 5: Implementation timetable

Date	Details
May 2018	Panel agrees proposal for the Investment Group.

Date	Details
June 2018	Recruitment process for Strategic Independent Adviser underway
July-August 2018	Candidates shortlisted
September 2018	Selection of suitable candidates for the position of Strategic Independent Adviser

7.2 Implementation date if not called in: Immediate.

8 APPENDICES

8.1 The appendices to the report are as follows:

- Appendix A Investment Group terms of reference.

9 BACKGROUND DOCUMENTS

9.1 None.

10 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Councillors Lenton and Hilton	Chairman/ Vice Chairman of the Pension fund Panel		
Alison Alexander	Managing Director	08/05/2018	
Russell O'Keefe	Executive Director	08/05/2018	09/05/18
Andy Jeffs	Executive Director	08/05/2018	
Nikki Craig	Head of HR and Corporate Projects	08/05/2018	09/05/18
Hilary Hall	Deputy Director Commissioning	08/05/2018	09/05/18
Louisa Dean	Communications	08/05/2018	
	Other e.g. external		

REPORT HISTORY

Decision type: Non-key decision	Urgency item? No	To Follow item?
Report Author: Robert Stubbs, Deputy Director and Head of Finance, 01628 796222		

Royal County of Berkshire Pension Fund

Investment Group

Terms of Reference

The Royal County of Berkshire Pension Fund Investment Group will be a Working Group of the Berkshire Pension Fund Panel.

The Investment Group will consist of the Chairman and Vice-Chairman of the Berkshire Pension Fund Panel and one member of the Berkshire Pension Fund Advisory Panel along with two independent strategic advisers and the Deputy Director and Head of Finance.

The Investment Group will meet at least quarterly and on an ad-hoc basis as required. With an annual plan of meetings at the beginning of each financial year, taking into account commitments of partners. At least 10 days notice of ant ad-hoc meeting will be given for each meeting. The Working Group may meet “electronically” if required. In such a circumstance it will be made clear by what date members are required to respond.

All recommendations made by the Investment Group will be reported to the Pension Fund and Pension Fund Advisory Panel.

The role of the Group is to review and recommend appropriate policies/actions to the Pension Fund Panel and Advisory Panel in respect of the following:

1. The Strategic Asset Allocation of the Fund
2. The investment performance of the Fund
3. New investment products/mandates and their suitability for investment by the Fund
4. To recommend the appointment or termination of investment mandates
5. Such other matters as may be relevant to managing the investments of the Fund and implementing decisions of the Pension Fund Panel
6. Make recommendations on consent assets.

Quorum: Four members of whom at least two shall be members of the Pension Fund Panel and Advisory Panel and include the Chairman or the Vice Chairman of the Panel.

This page is intentionally left blank

Report Title:	**Pension Fund Policy Document – Investment Strategy Document**
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 - 21 May 2018
Responsible Officer(s):	Nick Greenwood, Pension Fund Manager
Wards affected:	None

www.rbwm.gov.uk

Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1 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.

2 This is the second version of this statement and has replaced the Statement of Investment Principles previously published by the Fund. This report requests Panel to approve for publication the Investment Strategy Statement.

3

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and

i) Authorises the publication of the Investment Strategy Statement.

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

2.1 The LGPS Regulations require the administering authority to publish a number of policy documents one of which is the Investment Strategy Statement. The Investment Strategy Statement replaces the Statement of Investment Principles and covers the six objectives set out in the Local Government Pensions Scheme (Management and Investment of Funds) Regulations. This statement has been prepared by the Pension Fund Manager and the Fund's Strategic Independent Adviser and circulated to Berkshire Treasurers.

Table 1: Options

Option	Comments
Publish the statement	**Recommended as a statutory requirement**.
Do not publish the statement	Not recommended as required by statute to be published.

3 FINANCIAL DETAILS / VALUE FOR MONEY

3.1 There are no financial implications as a result of this report.

4 LEGAL IMPLICATIONS

4.1 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.

5 APPENDICES

5.1 There is one appendix to the report:

- Appendix 1 The Investment Strategy Statement

6 BACKGROUND DOCUMENTS

6.1 None.

7 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Councillor Lenton	Chairman of the Pension Fund and Pension Fund Advisory Panels		
Alison Alexander	Managing Director	10/5/18	10/5/18
Russell O'Keefe	Executive Director	10/5/18	10/5/18
Andy Jeffs	Executive Director	10/5/18	10/5/18
Hilary Hall	Deputy Director - commissioning	10/5/18	10/5/18
Nikki Craig	Head of HR and Corporate Projects	10/5/18	
Louisa Dean	Communications	10/5/18	

REPORT HISTORY

Decision type: Non-key decision	Urgency item? No	To Follow item?
Report Author: Rob Stubbs, Deputy Director and Head of Finance, 01628 796222		

Appendix 1 - 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 second such statement published by the Royal Borough and in accordance with the Regulations it will be reviewed regularly and at no more than three year intervals.

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

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

RBWM's policy is that the pension fund (the "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 Group which meets at least quarterly to review the Fund's performance, asset allocation and ability to meet its target return. In addition the Investment Group Committee reviews potential new investment ideas and products offered by its investment manager, Local Pensions Partnership Investments Limited (the "Investment Manager"), and opines whether such ideas are consistent with the investment strategy of the Fund and a suitable investment.

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

To achieve sufficient diversification the Fund divides assets across four 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 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 Group notes that there will be an increasing gap between contributions received and benefits – i.e. that the Fund will become 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 relies on the Investment Manager to take into account relevant factors including, but not limited to, prospective return, risks, concentration or diversification of risk as well as geographic and currency exposures, as well as possible interactions with other investments in the portfolio.

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 measuring the performance of individual asset classes relative to specific benchmarks may be more appropriate.

In ensuring the suitability of investments RBWM expects Local Pensions Partnership Investments to pay 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 made by the Investment Manager. RBWM expects its managers to take into account Environmental, Social and Governance (ESG) issues when making 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 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 2016, in accordance with the principles of Pensions Regulator guidance, 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.

Looking specifically at investment risk RBWM is of the view that the diversification of the 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 notes 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%; which 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.

In recognition of the government's requirement for LGPS funds to pool their investments RBWM has agreed to become an Investment Client of the Local Pensions Partnership Investments Limited. RBWM anticipates that it will become a client of the Local Pensions Partnership Investments Limited by 1June 2018 at which time pooling of assets will commence.

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 "one size fits all" policy can possibly be implemented across such a diverse portfolio such as that of the Fund. Nevertheless RBWM seeks to protect its reputation as an institutional investor and ensures that the Investment Manager takes into account these issues when selecting investments for purchase, retention or sale. RBWM will not place social, environmental or corporate governance restrictions on the Investment Manager but relies on it to adhere to best practices in the jurisdictions in which it is based, operates and invests.

Furthermore RBWM has implemented three investment themes under "ESG" principles: investment in the food chain, housing and infrastructure. Specifically RBWM has made private equity investments in a "food and water" segregated account within its private equity portfolio, two farmland funds in its property portfolio, a number of infrastructure fund investments both globally and in the UK (in particular it was the seed investor in the Gresham House British Strategic Investment Fund focussed on small scale Infrastructure and Housing projects) as well as investments to support house builders via the purchase of residual shared equity loan books and a fund specialising in acquiring brownfield land for residential developments.

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

RBWM expects the Investment Manager to exercise all rights attaching to investments including voting in accordance with recognised responsible investment guidelines. RBWM expects the Investment Manager to comply with the principles of the UK Stewardship Code.

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.

Table one sets out the asset class limits as agreed by the Berkshire Pension Fund Panel 21 May 2018.

Table one: Asset class limits

Relevant LPP Pool	**Range**
Credit	5-15%
Fixed Income	0-5%
Global Equities	20-35%
EM Equity	7.5-15%
Private Equity	10-15%
Total Return	0-10%
Infrastructure	10-15%
Property	10-20%
Cash	0-5%

This page is intentionally left blank

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

Agenda Item 11

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank