

Royal County of Berkshire Pension Fund

Annual Report and Accounts



2017/2018



THE ROYAL COUNTY OF
BERKSHIRE
PENSION FUND

PENSION FUND PANEL

Chairman	Councillor John Lenton
Vice Chairman	Councillor David Hilton
Other members	Councillor Geoff Hill Councillor Jack Rankin (to 15 May 2017) Councillor Richard Kelleway (from 16 May 2017) One vacancy

PENSION FUND ADVISORY PANEL

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

Councillor David Worrall (Bracknell Forest Borough Council)
Councillor Glenn Dennis (Reading Borough Council)
Councillor KKhaula Usmani (Slough Borough Council)
Councillor Alan Law (West Berkshire Council)
Councillor Rob Stanton (Wokingham Borough Council)
Mr Engin Eryilmaz (University of West London)
Ms Sue Nicholls (UNISON) (to 15 May 2017)
Asia Allison (GMB)
Mr Mark Butcher (deferred scheme member)

ADVISERS

Actuary	Barnett Waddingham LLP
Independent Investment Adviser	The Law Debenture Pension Trustee Corporation (Mr Inder Dhringa)
Independent Strategy Advisers (to the Investment Working Group)	Ms Aoifinn Devitt Mr Scott Jamieson (to 31 December 2017)

Global Custodian

JP Morgan Worldwide Securities Services

Additional Voluntary Contribution Provider

Prudential Assurance Company

Royal Borough of Windsor & Maidenhead Pension Fund Officers

Head of Finance	Rob Stubbs
Pension Fund Manager	Nick Greenwood
Deputy Pension Fund Manager	Kevin Taylor
Investment Manager	Pedro Pardo
Pension Administration Manager	Philip Boyton

PENSION BOARD

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

Chairman Mr Tony Pettitt

Vice-Chairman Mr Alan Cross

Employer Representatives

Mr Alan Cross (Reading Borough Council)
Mr Neil Wilcox (Slough Borough Council)
1 vacancy

Scheme Member Representatives

Mr Tony Pettitt (Retired Scheme member)
Mr Jeff Ford (Active Scheme member)
1 vacancy

CHAIRMAN'S INTRODUCTION

It gives me great pleasure as Chairman of the Pension Fund Panel and the Pension Fund Advisory Panel to present the Annual Report and Accounts for the financial year ended 31 March 2018 for the Royal County of Berkshire Pension Fund.

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

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

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

The Fund managed a nominal investment return of 4.3% over the financial year and 6.7% per annum over the last three years. In real terms, the Fund's investment return achieved was 1.8% over one year to March 2018 and 4.8% over the last three years, thus underperforming the 4.5% real return target for the Fund's investments over one year but slightly exceeding it over the three-year period.

All asset classes experienced strong positive returns until January 2018 when various geopolitical concerns, normalising monetary policies and other uncertainties triggered higher volatility and significant market corrections despite robust economic data. Major central banks are now reducing or preparing to reduce the level of monetary stimulus by raising rates and reducing their balance sheet, whose impact on markets and economic fundamentals will become clearer over the next 12 months.

Following successful discussions over the last few months, The Royal County of Berkshire Pension Fund will be partnering with the Local Pensions Partnership (LPP) to manage the fund's assets which will remain the property of the Berkshire Pension Fund.

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

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



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

PENSION BOARD STATEMENT: APRIL 2017 – MARCH 2018

The Pension Board was set up in 2015 in accordance with the requirements defined in the Public Sector Pensions Act 2013.

The Board has a statutory duty to:

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

The main focus of the Board has been to embed the governance structure for the Board itself, which was done through the management of a clearly defined work programme of reviews, monitored through an action tracker. In addition, the Board has sought to deliver effective advice and assurance in line with the agreed Terms of Reference and the Administering Authority's Constitution.

The Board has continued the process of developing the knowledge and skills of the Board Members to enable them to undertake their duties with confidence. It has also given attention to the compliance of the Fund's administration, reviewing statutory documentation as it has been published throughout the year and building on the positive outcome of the internal audit of the Administering Authority's compliance with the TPR Code of Practice 14.

Pension Fund investment pooling has dominated the last year and has rightly been the main area of focus for the Pension Fund Panels. Whilst the Board has had no direct influence over the decisions taken by the Administering Authority, it has remained apprised of the situation with Board members receiving copies of all papers taken to meetings of the Pension Fund Panels. The Board has, however, felt it necessary to limit somewhat the number of its own meetings held this year pending the outcome of the pooling decision.

The Board welcomes the decision that has been taken to become a client of the Local Pensions Partnership Investment Limited (LPP I) and will continue to review the actions taken by the Administering Authority in formulating its Investment Strategy and Funding Strategy Statements. The Board will remain apprised of the asset allocation and investment performance reported by LPP I to the Pension Fund Panels on a quarterly basis. In addition the Board will keep under review Pension Panels' work-plan for the forthcoming year offering whatever assistance it can give to the Administering Authority in fulfilling its statutory duties of governance and administration.

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

PENSION BOARD 2017-18

Chairman: Tony Pettitt
Vice-Chairman: Alan Cross

Scheme Employer Representatives

Alan Cross (*Reading Borough Council*)
Neil Wilcox (*Slough Borough Council*)
1 vacancy

Scheme Member Representatives

Tony Pettitt (*Retired Scheme Member*)
Jeff Ford (*Active Scheme Member*)
1 vacancy

Dates of meetings:

14 June 2017
30 November 2017
20 March 2018 (postponed to 17 April 2018 – 2018/19 year)

Attendance for 2017/18

Name	Number of meeting eligible to attend	Attended
Tony Pettitt	2	2
Alan Cross	2	2
Neil Wilcox	2	2
Jeff Ford	2	2

SCHEME ADMINISTRATION REPORT

INTRODUCTION

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

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

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

Name	Authority	Number of Meetings eligible to attend	Attended
Councillor Lenton (Chair)	RB Windsor & Maidenhead	5	5
Councillor Hilton (Vice Chair)	RB Windsor & Maidenhead	5	5
Councillor Hill	RB Windsor & Maidenhead	5	2
Councillor Kellaway	RB Windsor & Maidenhead	4	4
Councillor Rankin	RB Windsor & Maidenhead	1	0
Councillor Usmani	Slough Borough Council	1	0
Councillor Sarfraz	Slough Borough Council	4	0
Councillor Law	West Berkshire Council	5	4
Councillor Stanton	Wokingham Borough Council	5	3
Councillor Dennis	Reading Borough Council	5	4
Councillor Worrall	Bracknell Forest Council	5	2

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

In addition to the invaluable support and advice offered by the Pension Fund Advisory Panel the Pension Fund Panel is assisted by a variety of advisers including Mr Inder Dhingra as an independent adviser and Mr Graeme Muir of Barnett Waddingham, the Actuary to the Fund. The Investment Working Group, a sub-group of the panels, is independently advised by Mr Scott Jamieson and Ms Aoifinn Devitt. Additional advice from other professional advisers is

sought as necessary. Many of the duties of the Panel are delegated to Officers in accordance with the Royal Borough's constitution.

CUSTOMER SATISFACTION

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

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

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

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

Compliance with Communications Policy Statement

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

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

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

> Communication with Employers

Annual Employers Meeting

All employers were invited to attend a meeting on 15 March 2018. They were provided with details of the data they are required to submit to the administration team so that members' records are correct, an actuarial update of the Pension Fund, and a presentation by Prudential (the Pension Fund's approved AVC provider), regarding the options AVCs provide at retirement.

Training for Employers

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

Regular Updates on the LGPS

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

Pension Fund website

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

The website contains sections dedicated to the following:

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

The site received over 62,000 visits from members and employers during the year and has been described as easily accessible and having many links making navigation user friendly.

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

The website address is www.berkshirepensions.org.uk

Employer Self Service (ESS)

The Pension Fund launched ESS on 19 October 2017. ESS is accessible to all registered scheme employers and enables them to view and amend their own scheme members' pension data remotely and securely from the comfort of their workplace.

ESS also enables scheme employers to calculate quickly and efficiently the value of their scheme members benefits any respective strain cost payable thus avoiding the need to contact the administration team.

i-connect Software

The Pension Fund continues to build on the success it has experienced since February 2016 by seeing a further 34 employers start submitting data to the Fund on a monthly basis using i-connect Software. A total of 57 scheme employers are now on board covering a little over 50% of the total active scheme membership.

This has saved the team a significant administration time by removing the need for manual input, but most importantly helping maintain the accuracy of member data. No doubt employers and the team will continue to benefit from this service throughout the next 12 months.

General Guidance and Assistance

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

Promotional Services

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

➤ **Communication with All Members**

Member Self Service - 'my pension ONLINE'

The Pension Fund's 'my pension ONLINE' service enables members to securely access and update your own pension details using not just their desktop PC but now using their laptop, tablet or smartphone.

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

Welcome Pack

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

Annual Benefit Statements

Each active and deferred member of the pension scheme receives an annual benefit statement. With the availability of 'my pension ONLINE' these statements are available for viewing, downloading or printing on-line and means the Fund only issues a paper statement to approximately 5,000 or 9.6% of the membership by post.

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

Pension Surgeries

During the year two pension surgeries were held at each of the six Unitary Authorities with additional pension surgeries being held at other employer locations upon request. These pension surgeries provide an opportunity for members to discuss any aspect of their pension benefits. The administration team met with 711 scheme members across the pension surgeries held.

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

Newsletters

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

Annual Meeting

A meeting took place on 9 November 2017 held at the Town Hall in Maidenhead. At the same time, the pension team invited members to attend an open day at the same location. In attendance were members of the administration and payroll teams, representatives from Barnett Waddingham (the Pension Fund Actuary) and Prudential (the Fund's approved AVC provider).

➤ **Communication with Pensioner and Dependant Members**

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

Pension Payslips

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

P60s

The administration team issued P60s to all pensioner and dependant members in April 2017 well in advance of the HMRC deadline. The Retirement Members area of the Pension Fund website provides a detailed explanation of a P60, which was also contained in our Spring edition of *'The Scribe'*. Since the implementation of 'my pension ONLINE' P60s are available for viewing, downloading and printing on-line in a format approved by HM Revenue & Customs.

Guaranteed Minimum Pension (GMP) Reconciliation

In January 2018 the Pension Fund successfully completed the reconciliation of GMP amounts held against those held by HM Revenue & Customs on 31 January 2018. Working in partnership with ITM Limited this exercise resulted in the correction of over 800 Annual Pension payments.

Annual Pension Increase Notice

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

Tell Us Once (TUO)

A service designed to provide Funds with details of those members having died and their next of kin via the General Registry Office (GRO), the Fund was one of the first Local Government Pension Funds to on board and up load membership data and since going LIVE in March 2016 has received 296 notifications with 155 of these received between 1 April 2017 and 31 March 2018 alone.

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

MANAGEMENT PERFORMANCE

Key Administration Performance Indicators

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

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

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

Performance for these key procedures over the year was 99.29%, which is a decrease of 0.05% on the 2016/17 year. A summary of achievement in each area is shown in the table below:

Administration Team Performance	Target (working days)	2016/17			2017/18		
		Number received	Number within target	% within target	Number received	Number within target	% within target
Inputting of new members	20	5144	5115	99.44	5424	5406	99.67
Processing of early leavers	20	3971	3952	99.52	4670	4644	99.44
Payment of retirement benefits	5	1040	1022	98.27	1115	1080	96.86
Payment of transfer values	15	50	49	98.00	54	53	98.15

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

Administration Team Performance	Target (working days)	2016/17			2017/18		
		Number received	Number within target	% within target	Number received	Number within target	% within target
Employee estimate requests	7	2650	2238	84.45	1428	1,192	83.47
Employer estimate requests	5	454	398	87.67	391	354	90.54
Changes to personal details	15	6121	5871	95.92	5,977	5,616	93.96
Issue of 'my pension ONLINE' Activation Keys	5	1212	1195	98.60	2247	2217	98.66
APC Quotes	20	235	230	97.87	213	213	100

Complaints

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

The complaints are monitored in two distinct ways:

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

The table below shows the number of complaints in each category. These represent a minimal percentage when compared to more than 41,000 procedures we carried out in 2017/18.

Administration Team Performance	Case Type	2016/17			2017/18			
		Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
	Service	10	0	n/a	n/a	0	n/a	n/a
	IDRP	n/a	1	1	100%	2	2	100%

Key Staffing and Membership Numbers

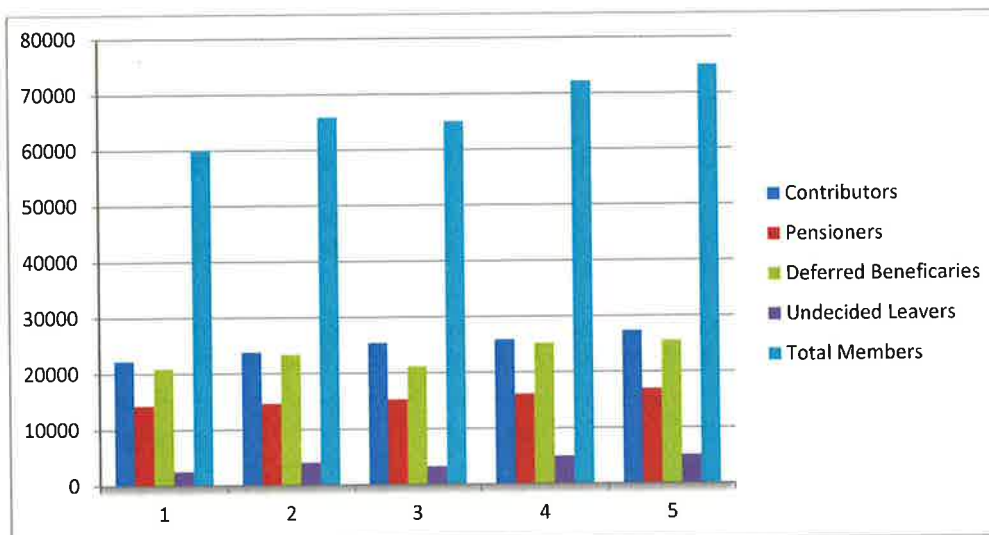
Staffing

The administration team is made up of the following members:

Year	2016/17	2017/18
Pension Administration Manager	1.0	1.0
Deputy Pension Administration Manager	1.0	1.0
Assistant Pension Manager (Communications)	1.0	1.0
Technical Analyst	1.0	1.0
Senior Pension Administrators	2.0	2.0
Pension Administrators	5.6	4.6
Trainee Pension Administrators	2.0	3.0
Payroll Supervisor	0.7	0.7
(Trainee) Payroll Assistant	1.0	n/a
Pension & Payroll Administrator	n/a	1.0
Clerical Support	0.6	0.6
Total	15.9	15.9

Membership

Membership of the Pension Fund continues to grow. The chart and table overleaf show the number of contributors, deferred beneficiaries and pensioners (including dependants) and Undecided Leaver member records (individuals may have more than one membership record) over the last five years to 31 March 2018.



	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018
Contributors	22,276	23,783	25,434	25,845	27,369
Pensioners	14,254	14,610	15,243	16,126	16,955
Deferred Beneficiaries	20,960	23,415	21,187	25,256	25,624
Undecided Leavers	2,503	4,083	3,271	5,015	5,127
Total Members	<u>59,993</u>	<u>65,891</u>	<u>65,135</u>	<u>72,242</u>	<u>75,075</u>

NOTES:

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

The result is a large Pension Fund being administered by a small team. The administrator to scheme member ratio remains consistent with the previous year at 1:4,721 with the administration team continuing to provide a highly regarded and professional service across the entire membership.

Benchmarking

The Pension Fund has not taken part in any formal benchmarking exercise since 2006 but is always prepared to take the opportunity to compare ourselves against other Pension Funds of a comparable size in terms of membership. The Pension Fund most recently took the opportunity when exploring the option of the administration team working in partnership with the Local Pensions Partnership (LPP).

Gathering Assurance

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

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

THE FUTURE

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

Ensuring the timely and accurate submission of data from employers is crucial to the administration team continuing to deliver a quality service to members. We will continue to endeavour to introduce further efficiencies and better ways of working to further improve on the systems that are currently in place.

These improvements will be delivered to not only ensure the quality of our members data is maintained to the standard required by the Pensions Regulator (tPR) but is also protected as required by the introduction of the Government Data Protection Regulation (GDPR) from 25 May 2018.

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

Investment Report

The structure of the investments and managers for the Royal County of Berkshire Pension Fund as at 31 March 2018 and previous year end is shown below:

Asset Class	31-Mar-18		31-Mar-17	
	Value £m	% Fund	Value £m	% Fund
Global Equities	944.0	45.3%	961.7	48.4%
Bonds	260.8	12.5%	263.1	13.2%
Absolute Returns	81.3	3.9%	180.3	9.1%
Property	272.0	13.0%	259.8	13.1%
Commodities	70.4	3.4%	55.4	2.8%
Infrastructure	129.0	6.2%	132.4	6.7%
Other Current Assets / Liabilities	327.7	15.7%	133.1	6.7%
	2,085.3	100.0%	1,985.8	100.0%

As at 31 March 2018, the Fund employed the following external managers (excluding General Partners of Limited Partnerships in which the Fund has a partnership interest across various asset classes including private equity, private debt and infrastructure):

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

The Fund managed a nominal investment return of 4.3% over the financial year and 6.7% per annum over the last three years. In real terms, the Fund's investment return achieved was 1.8% over one year to March 2018 and 4.8% over the last three years, thus underperforming the 4.5% real return target for the Fund's investments over one year but slightly exceeding it over the three-year period. All asset classes experienced strong positive returns until January 2018 when various geopolitical concerns, normalising monetary policies and other uncertainties triggered higher volatility and significant market corrections despite robust economic data. Major central banks are now reducing or preparing to reduce the level of monetary stimulus by raising rates and reducing their balance sheet, whose impact on markets and economic fundamentals will become clearer over the next 12 months.

There were minimal changes in the Fund investments during the financial year as the primary strategic initiative agreed by the Panel was the pooling of the pension fund assets as requested by Government at the end of 2015. Following successful discussions over the last few months, The Royal County of Berkshire Pension Fund will be partnering with the Local Pensions Partnership (LPP) to manage the fund's assets which will remain the property of the Berkshire

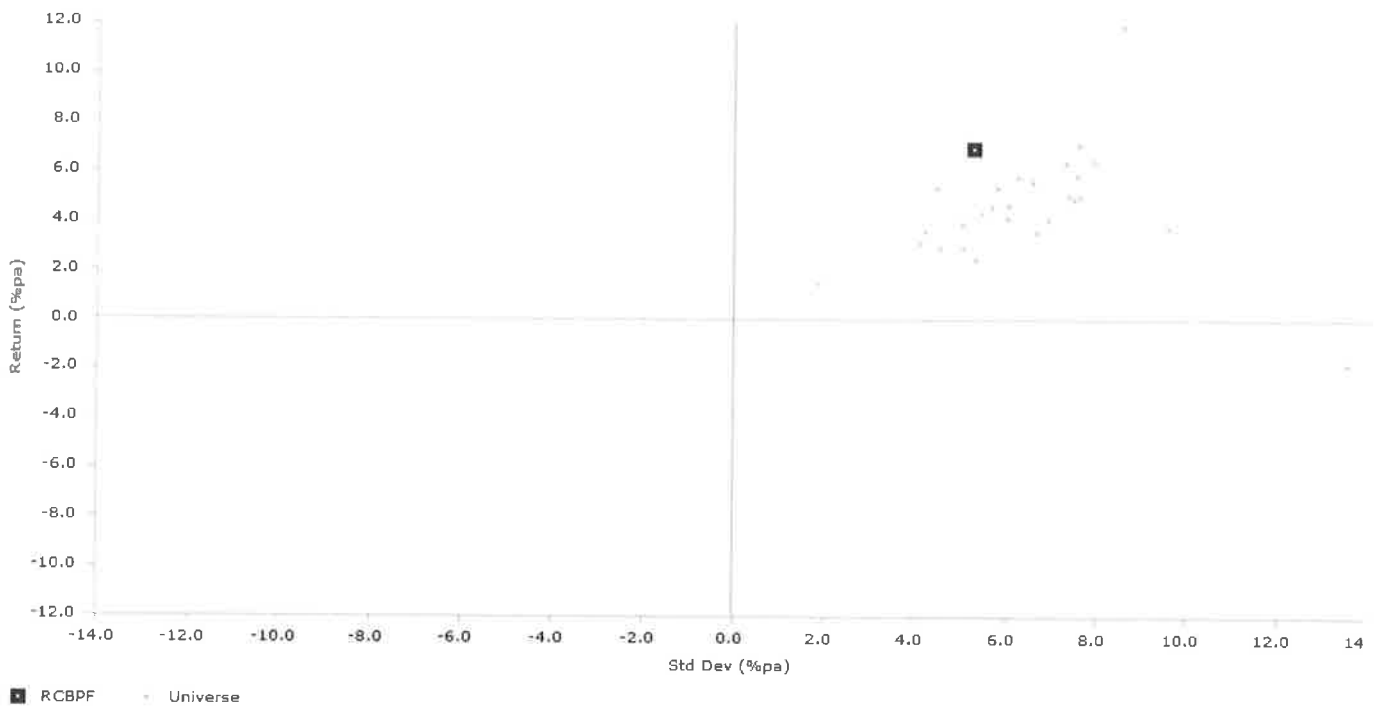
Pension Fund. Other than this, the strategic reduction of the absolute return portfolio formerly advised by Grosvenor was completed at the end of December 2017. The Fund also increased exposure marginally to other private debt and private equity funds both in the UK and Globally. The higher than usual liquidity will soon be redeployed according to the model portfolio recently agreed with LPP.

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

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

Berkshire Pension Fund

Return and Std Deviation in GBP (after fees) over 7 yrs ending March-18
 Comparison with the International Multi-asset GBP (Net) universe (quarterly calculations)



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Financial Performance

Movement in Net assets of the scheme

During the financial year, the value of the net assets of the scheme increased by £88.3 million.

Timeliness of Receipt of Contributions

	2017/18	2016/17	2015/16
Percentage of contributions received on or before the due date	97.65%	98.43%	98.49%

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

Administrative Costs Actual compared to Budget

	2017/18 Actual £000's	2017/18 Budget £000's
Staff	557	446
Supplies and Services	518	337
Unit Recharges	267	62
TOTAL	1,342	845

Income and Expenditure

	2017/18 Actual £000's	2017/18 Forecast £'000's
Employee/Employer Contributions	106,341	96,500
Employer additional contributions for early retirements	2,250	1,300
Transfer Values Received	13,403	6,300
Pensions Payable	-80,065	-82,000
Retirement Lump Sums and Death Grants	-20,428	-20,600
Transfer Values Paid and Refund of Contributions	-10,184	-2,700
Management Expenses	-9,204	-6,200
Net additions/(withdrawals) from dealing with members	2,113	-7,400

RISK MANAGEMENT

The Royal Borough of Windsor and Maidenhead as the administering authority for The Royal County of Berkshire Pension Fund ("the Fund") places great emphasis on risk management. The Fund differentiates between operational and strategic risks in order to secure the effective governance and administration of the Local Government Pension Scheme (LGPS). The main internal controls for the Fund set out the arrangements and procedures to be followed in administration, governance and management of the Scheme and the systems required for ensuring those arrangements are met.

Operational risk

Operational risk covers such areas as administration of members' records and payment of benefits, receipt of contributions as well as such things as business continuity, disaster recovery and having staff with the appropriate skill sets.

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

A number of key operational risks and the action taken to mitigate them are detailed below:

Risk	Mitigating Action
Failure to comply with Scheme regulations and associated pension law.	Staff training, employer training and external guidance provided. Desk top procedures in place and systems software provider competent.
Payments of incorrect benefits.	Annually each active member's contributions and pay details are confirmed with their employer. On leaving employment an individual's scheme membership history and pay details will be confirmed with their employer. Pension Fund is moving toward an automated and secure method of data transfer between employers and the Fund.
Pension benefits not paid on time.	A schedule of payment dates is maintained and written procedures adopted. Sufficient cover is provided to ensure payments are made at the correct time.

<p>Ongoing pension benefits paid to a deceased member.</p>	<p>The Fund undertakes a monthly mortality screening exercise and takes part in the biennial National Fraud Initiative (NFI)</p>
<p>Failure to maintain a high quality database.</p>	<p>The Fund's preferred method of receiving data from scheme employers is through a secure electronic data transfer system called i-connect thereby maintaining member records in real-time.</p> <p>Pro-active data checks are undertaken before benefits are paid.</p> <p>Both members and employers have access to self-service systems enabling them to check data.</p>
<p>Failure to hold data securely.</p>	<p>Database is hosted off-site and backed-up in 2 separate locations.</p> <p>Access to systems is via dual-password and username.</p> <p>Data transferred between systems is encrypted.</p> <p>Compliant with data protection and IT policies.</p>
<p>Contribution payments received late from scheme employers.</p>	<p>Receipt of contributions is monitored robustly with employers being reminded of their statutory duty if payments are received late.</p> <p>Procedures in place to issue notices of unsatisfactory performance to employers who fail to make payments on time and to report them to the Pensions Regulator where deemed materially significant.</p>
<p>Failure to communicate properly with stakeholders.</p>	<p>The Fund has a Communication Policy and a Communications Manager.</p> <p>The website is maintained to a high standard at all times.</p> <p>Newsletters and factsheets are issued to both scheme members and scheme employers.</p> <p>Training is provided to scheme employers.</p>

Loss of office premises	A comprehensive business continuity plan is in place. Systems are hosted and so can be accessed remotely from home or from an alternative office space.
Loss of funds through fraud.	The Fund is externally and internally audited annually to test that controls are adequate. The Fund participates on the biennial National Fraud Initiative (NFI)

Strategic risks

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

Risk	Mitigating Action
Funding level below 100%.	The Fund has issued a Funding Strategy Statement and Investment Strategy Statement. Deficit recovery plan is in place.
Unstable employer contributions.	The Fund aims to keep employer contribution rates stable by agreeing with scheme employers and the Actuary an appropriate deficit recovery plan.
Unsatisfactory investment performance.	The Fund has issued an Investment Strategy Statement and monitors closely the performance of its Investment Manager. An Investment Group meets quarterly with the Investment Manager to discuss investment performance and asset allocation.
Inappropriate funding targets.	The Fund has a broadly diversified portfolio with no one asset class dominating. Targets are reviewed quarterly with the Investment Manager.
Scheme employer covenants.	The Fund monitors closely the ability of scheme employers to meet their obligations. A cessation valuation is undertaken by the Actuary when a scheme employer

	<p>exits the Scheme.</p> <p>A funding report and covenant assessment is provided by the Actuary when an employer becomes a new admission body to the Fund.</p>
<p>Governance of the Fund</p>	<p>The Pension Fund is governed by the Pension Fund Panel and Pension Fund Advisory Panel.</p> <p>The Pension Board assist the Panels in fulfilling their statutory duties.</p> <p>Law Debenture have been appointed as an independent Governance Advisor to both Panels.</p> <p>Officers arrange training on specific matters as required during the year.</p>

Royal County of Berkshire Pension Fund

Actuary's Statement as at 31 March 2018

Barnett Waddingham LLP

17 May 2018

Introduction

The last full triennial valuation of the Royal County of Berkshire Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

2016 valuation results

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

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

Assumptions

The assumptions used to value the liabilities at 31 March 2016 are summarised below:

Assumption	31 March 2016
Discount rate	Unitary employers - 5.7% p.a. Non unitary employers - 5.5% p.a.
Pension increases (CPI)	2.4% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% p.a. thereafter
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Mortality	S2PMA tables with a 95% multiplier for male and female members, a 115% multiplier for male dependants and the S2DFA tables for female dependants with an 80% multiplier, with projected improvements in line with the CMI 2015 model allowing for a long term rate of improvement of 1.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Further details of these assumptions can be found in the relevant actuarial valuation report.

Assets

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

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

Updated position since the 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model. Overall, we estimate that the funding position as at 31 March 2018 has improved compared with the position as at 31 March 2016 although the primary rate has also increased due to changes in market conditions.

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

Graeme D Muir FFA
Partner, Barnett Waddingham LLP

Audit Statement

TBC

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

The Royal Borough of Windsor and Maidenhead's Responsibilities

The Royal Borough is required:

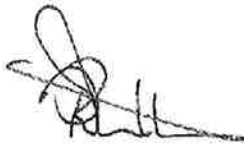
- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Pension Fund Manager is the officer fulfilling that responsibility;
- To manage its affairs so as to secure economic,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

The Head of Finance's Responsibilities

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

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

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



Rob Stubbs
Deputy Director and Head of Finance

PENSION FUND ACCOUNTS

The Royal County of Berkshire Pension Fund Account

2016/17 £'000		Notes	2017/18 £'000
	Dealings with members, employers and others directly involved in the Fund		
(98,745)	Contributions	7	(108,591)
(9,826)	Transfers in from other pension funds	8	(13,403)
(108,571)			(121,994)
96,585	Benefits	9	100,493
6,966	Payments to and on account of leavers	10	10,184
103,551			110,677
(5,020)	Net (additions)/withdrawals from dealings with members		(11,317)
8,378	Management expenses	11	9,204
3,358	Net (additions)/withdrawals including fund management expenses		(2,113)
	Returns on investments		
(34,915)	Investment income	12	(40,770)
2,207	Taxes on income	13	3,036
	Profits and losses on disposal of investments and changes in the market value of investments	14	(48,421)
(238,086)			(85,155)
(270,794)	Net return on investments		(85,155)
(267,436)	Net (increase)/decrease in the net assets available for benefits during the year		(88,268)
1,656,559	Opening net assets of the scheme		1,923,995
1,923,995	Closing net assets of the scheme		2,012,263

Net Assets Statement for the year ended 31 March 2018

2016/17 £'000		Notes	2017/18 £'000
1,981,322	Investment assets	14	2,082,344
(65,020)	Investment liabilities	14	(63,402)
1,916,302	Total net investments		2,018,942
10,241	Current assets	21	9,048
(2,548)	Current liabilities	22	(15,727)
1,923,995	Net assets of the fund available to fund benefits at the end of the reporting period		2,012,263

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

NOTES TO THE PENSION FUND

Notes to the Royal County of Berkshire Pension Fund Accounts for the year ended 31 March 2018

1 Description of Fund

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

The following description of the fund is a summary only. For more detail, reference should be made to the Royal County of Berkshire Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

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

b) Membership

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

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

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

There are 186 active employer organisations within the Royal County of Berkshire Pension Fund including the administering authority itself, and 70,310 individual members, as detailed below:

The Royal County of Berkshire Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	218	186
Number of employees in scheme		
Administering authority	2,432	1,867
Unitary authorities	15,097	12,741
Other employers	8,541	12,990
Total	26,070	27,598
Number of pensioners		
Administering authority	1,723	1,792
Unitary authorities	8,324	8,822
Other employers	6,070	6,314
Total	16,117	16,928
Deferred pensioners		
Administering authority	3,603	3,635
Unitary authorities	14,941	15,332
Other employers	6,358	6,817
Total	24,902	25,784
Total number of members in pension scheme	67,089	70,310

NOTES TO THE PENSION FUND

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. During 2017/18, employer contribution rates ranged from 9.1% to 31.3% of pensionable pay.

d) Benefits

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

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

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

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

2 Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the code') which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

NOTES TO THE PENSION FUND

3 Summary of significant accounting policies

Fund account - revenue recognition

a) Contribution income

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

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

NOTES TO THE PENSION FUND

Fund Account - expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2017/18, no estimated fees are included in investment management fees (2016/17: zero).

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

Net Assets Statement

g) Financial assets

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

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

h) Foreign currency transactions

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

NOTES TO THE PENSION FUND

i) Derivatives

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

j) Cash and cash equivalents

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

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

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

As permitted under the code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

m) Additional voluntary contributions

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

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

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

n) Contingent assets and contingent liabilities

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

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

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

NOTES TO THE PENSION FUND

4 Critical judgements in applying accounting policies

Pension fund liability

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

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

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

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

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

The items in the financial statements and notes at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £81.3 million. A 0.1% increase in the long term salary increases assumption would increase the value of liabilities by approximately £7.0 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £157.7 million.
Private equity investments	Private equity investments are valued at fair value in accordance with the International Private Equity and Venture Capital Board guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £597 million. There is a risk that this investment may be under- or overstated in the accounts.

6 Events after the balance sheet date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

NOTES TO THE PENSION FUND

7 Contributions receivable

By category

2016/17 £'000		2017/18 £'000
26,433	Employees' contributions	26,650
	Employers' contributions	
53,021	Normal contributions	61,089
17,291	Deficit recovery contributions	18,602
2,000	Augmentation contributions	2,250
72,312	Total employer's contributions	81,941
98,745		108,591

By authority

2016/17 £'000		2017/18 £'000
90,217	Scheduled bodies	98,681
4,759	Admitted bodies	4,657
3,769	Transferee admission body	5,253
98,745		108,591

8 Transfers in from other pension funds

2016/17 £'000		2017/18 £'000
9,826	Individual transfers from other pension funds	13,356
-	AVC to purchase scheme benefits	47
9,826		13,403

9 Benefits payable

By category

2016/17 £'000		2017/18 £'000
75,843	Pensions	80,065
17,733	Commutation and lump sum retirement benefits	17,520
3,009	Lump sum death benefits	2,908
96,585		100,493

By authority

2016/17 £'000		2017/18 £'000
87,847	Scheduled bodies	91,265
6,780	Admitted bodies	6,554
1,958	Transferee admission body	2,674
96,585		100,493

10 Payments to and on account of leavers

2016/17 £'000		2017/18 £'000
366	Refunds to members leaving service	478
6,600	Individual transfers to other pension funds	9,706
6,966		10,184

11 Management expenses

2016/17 £'000		2017/18 £'000
1,316	Administrative costs	1,342
6,940	Investment management expenses	7,816
122	Oversight and governance costs	46
8,378		9,204

a) Investment management expenses

2016/17 £'000		2017/18 £'000
6,714	Management Fees	7,583
226	Custody Fees	233
6,940		7,816

NOTES TO THE PENSION FUND

12 Investment income

2016/17 £'000		2017/18 £'000
17,148	Income from equities	19,090
1,125	Income from bonds	2,348
5,281	Private equity income	7,671
9,594	Pooled property investments	9,199
1,348	Pooled investments - unit trusts and other managed funds	1,616
419	Interest on cash deposits	846
34,915	Total before taxes	40,770

13 Other fund account disclosures

a) Taxes on income

2016/17 £'000		2017/18 £'000
687	Withholding tax - equities	1,064
1,201	Withholding tax - pooled property investments	1,342
319	Withholding tax - pooled investments	630
2,207		3,036

b) External audit costs

2016/17 £'000		2017/18 £'000
26	Payable in respect of external audit	30
26		30

14 Investments

Market value 31 March 2017 £'000		Market value 31 March 2018 £'000
	Investment assets	
84,320	Bonds	100,456
471,187	Equities	458,806
387,279	Pooled investments	332,724
81,518	Pooled liquidity funds	295,208
259,548	Pooled property investments	271,613
580,664	Private equity	583,269
	Derivative contracts:	
21,426	- Forward currency contracts	3,929
31,119	Cash deposits	32,836
3,120	Investment income due	3,503
61,141	Amounts receivable for sales	-
1,981,322	Total investment assets	2,082,344
	Investment liabilities	
	Derivative contracts:	
(820)	- Forward currency contracts	(289)
(64,200)	- Longevity Insurance Policy	(63,113)
(65,020)	Total investment liabilities	(63,402)
1,916,302	Net investment assets	2,018,942

NOTES TO THE PENSION FUND

a) Reconciliation of movements in investments and derivatives

	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Bonds	84,320	20,347	-	(4,211)	100,456
Equities	471,187	77,408	(77,447)	(12,342)	458,806
Pooled investments	387,279	763	(44,218)	(11,100)	332,724
Pooled liquidity funds	81,518	320,537	(105,647)	(1,200)	295,208
Pooled property investments	259,548	25,283	(45,730)	32,512	271,613
Private equity	580,664	128,326	(128,686)	2,965	583,269
	1,864,516	572,664	(401,728)	6,624	2,042,076
Derivative contracts:					
- Forward currency contracts	20,606	28,105	(97,689)	52,618	3,640
- Longevity insurance policy	(64,200)	6,894	-	(5,807)	(63,113)
	1,820,922	607,663	(499,417)	53,435	1,982,603
Other investment balances:					
- Cash deposits	31,119			(5,014)	32,836
- Amount receivable for sales of investments	61,141				-
- Investment income due	3,120				3,503
Net investment assets	1,916,302			48,421	2,018,942

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

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

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

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

NOTES TO THE PENSION FUND

b) Analysis of investments

31 March 2017 £'000		31 March 2018 £'000
	Investment assets	
	Bonds	
	Overseas	
84,320	Corporate quoted (Overseas)	100,456
84,320		100,456
	Equities	
	UK	
96,330	Quoted	95,766
	Overseas	
374,857	Quoted	363,040
471,187		458,806
	Pooled investments - additional analysis	
	UK	
209,456	Unit Trusts	221,673
	Overseas	
177,823	Unit Trusts	111,051
387,279		332,724
	Other investment assets	
81,518	Pooled liquidity funds	295,208
259,548	Pooled property investments	271,613
580,664	Private Equity	583,269
21,426	Derivative contracts	3,640
31,119	Cash deposits	32,836
3,120	Investment income due	3,503
61,141	Amounts receivable for sales	-
1,038,536		1,190,069
1,961,322	Total investment assets	2,082,055
	Investment liabilities	
(65,020)	Derivative contracts	(63,113)
(65,020)	Total investment liabilities	(63,113)
1,916,302	Net investment assets	2,018,942

c) Investments analysed by fund manager

Market value 31 March 2017			Market value 31 March 2018	
£'000	%			%
1,214,524	63.4	Royal County of Berkshire Pension Fund in-house investment team	1,342,739	66.5
213,028	11.1	Aviva Global Investors	221,659	11.0
242,276	12.6	Kames Capital	242,880	12.0
225,868	11.8	RWC Partners	207,192	10.3
20,606	1.1	The Cambridge Strategy	4,472	0.2
1,916,302			2,018,942	

All the above organisations are registered in the United Kingdom.

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

Security	Market value 31 March 2017 £'000	% of total fund	Market value 31 March 2018 £'000	% of total fund
Aviva Global Real Estate	148,550	7.8	153,161	7.6
JP Morgan Sterling Liquidity Fund	11,150	0.6	158,931	7.9

NOTES TO THE PENSION FUND

15 Analysis of derivatives

Objectives and policies for holding derivatives

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

- Forward foreign currency

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

- Longevity Insurance Policy

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

Open forward currency contracts

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
One to six months	GBP	492,402	USD	(690,363)	1,878	
One to six months	GBP	136,019	EUR	(153,156)	1,407	
One to six months	GBP	10,918	AUD	(19,374)	357	
One to six months	GBP	11,513	NOK	(124,644)	204	
One to six months	USD	22,478	GBP	(15,924)	47	
One to six months	USD	1,176	BRL	(3,859)	16	
One to six months	USD	1,170	TRY	(818)	14	
One to six months	USD	1,262	CLP	(757,586)	4	
One to six months	USD	867	SGD	(1,595)	1	
One to six months	USD	1,179	INR	(77,372)	1	
One to six months	USD	1,228	KRW	(1,303,855)		(1)
One to six months	GBP	605	EUR	(693)		(3)
One to six months	GBP	521	USD	(742)		(7)
One to six months	GBP	10,942	CAD	(19,840)		(8)
One to six months	USD	1,236	MXN	(23,290)		(18)
One to six months	JPY	2,112,904	GBP	(14,229)		(40)
One to six months	CHF	18,111	GBP	(13,740)		(212)
Open forward currency contracts at 31 March 2018					3,929	(289)
Net forward currency contracts at 31 March 2018						3,640
Prior year comparative						
Open forward currency contracts at 31 March 2017					21,426	(820)
Net forward currency contracts at 31 March 2017						20,606

NOTES TO THE PENSION FUND

16 Fair value - Basis of valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid values on published exchanges	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and venture Capital Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018:	Value on increase	Value on decrease
		£'000	£'000	£'000
Pooled property investments	0%	271,613	271,613	271,613
Private equity	3%	583,269	600,767	565,771
Derivative contracts	0%	(63,113)	(63,113)	(63,113)
Total		791,769	809,267	774,271

NOTES TO THE PENSION FUND

a) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

Values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	814,713	377,010	854,882	2,046,605
Loans and receivables	44,777			44,777
Total financial assets	859,490	377,010	854,882	2,091,382
Financial liabilities				
Financial liabilities at fair value through profit and loss	(279)		(63,113)	(63,392)
Financial liabilities at amortised cost	(15,727)			(15,727)
Total financial liabilities	(16,006)	-	(63,113)	(79,119)
Net financial assets	843,484	377,010	791,769	2,012,263

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

NOTES TO THE PENSION FUND

18 Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

Other price risk

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

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

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

NOTES TO THE PENSION FUND

Other price risk - sensitivity analysis

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

Asset type	Potential market movements (+/-)
Bonds	9.5%
Equities	9.0%
Private Equity	9.2%
Pooled investments	11.5%
Pooled Property Funds	4.2%

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

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

Asset type	Value as at 31 March 2018	Potential market movement	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Investment portfolio assets:				
Bonds	100,456	9,543	109,999	90,913
Equities	458,806	41,293	500,099	417,513
Pooled investments	332,724	38,263	370,987	294,461
Pooled Property Funds	271,613	11,408	283,021	260,205
Private Equity	583,269	53,661	636,930	529,608
Net derivative liabilities	(59,473)	-	(59,473)	(59,473)
Cash and cash equivalents	328,044	-	328,044	328,044
Investment income due	3,503	-	3,503	3,503
Amounts receivable for sales	-	-	-	-
Payment made in advance	-	-	-	-
Current assets:				
Debtors	5,753	-	5,753	5,753
Cash balances	3,295	-	3,295	3,295
Current liabilities	(15,727)	-	(15,727)	(15,727)
Total	2,012,263		2,166,431	1,858,095

Asset type	Value as at 31 March 2017	Potential market movement	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Investment portfolio assets:				
Bonds	84,320	8,010	92,330	76,310
Equities	471,187	42,407	513,594	428,780
Pooled investments	387,279	44,537	431,816	342,742
Pooled Property Funds	259,548	10,901	270,449	248,647
Private Equity	580,664	53,421	634,085	527,243
Net derivative liabilities	(43,594)	-	(43,594)	(43,594)
Cash and cash equivalents	112,637	-	112,637	112,637
Investment income due	3,120	-	3,120	3,120
Amounts receivable for sales	61,141	-	61,141	61,141
Payment made in advance	-	-	-	-
Current assets:				
Debtors	5,661	-	5,661	5,661
Cash balances	4,580	-	4,580	4,580
Current liabilities	(2,548)	-	(2,548)	(2,548)
Total	1,923,995		2,083,271	1,764,719

NOTES TO THE PENSION FUND

Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

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

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

Asset exposed to interest rate risk	Value as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash and cash equivalents	328,044	-	-
Cash balances	3,295	-	-
Bonds	100,456	(4,379)	4,379
Total change in assets available:	431,795	(4,379)	4,379

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

Income exposed to interest rate risk	Amount receivable in year ending 31 March 2018	Effect on income values	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash balances/cash and cash equivalents	846	3,280	(3,280)
Bonds	2,348	-	-
Total change in income receivable	3,194	3,280	(3,280)

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

NOTES TO THE PENSION FUND

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

Currency risk

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

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

Currency risk - sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange rate movements to be 10.1% (as measured by one standard deviation).

A 10.1% fluctuation in the currency is considered reasonable based on analysis of long-term historical movements in the month-end exchange rates over a rolling 3 year period.

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

A 10.1% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset value as at 31		Change to net assets available to pay benefits	
	March 2018			
	£'000	£'000	+10.1%	-10.1%
Overseas equities	363,040	36,667		(36,667)
Overseas unit trusts	111,051	11,216		(11,216)
Total change in assets available	474,091	47,883		(47,883)

Assets exposed to currency risk	Asset value as at 31		Change to net assets available to pay benefits	
	March 2017			
	£'000	£'000	+10.1%	-10.1%
Overseas equities	374,857	37,861		(37,861)
Overseas unit trusts	177,823	17,960		(17,960)
Total change in assets available	552,680	55,821		(55,821)

NOTES TO THE PENSION FUND

b) Credit risk

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

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

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

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

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

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2018 was £331.3m (31 March 2017: £117.2m). This was held with the following institutions:

	Rating	Balances as at 31 March 2017	Balances as at 31 March 2018
		£'000	£'000
Money Market funds			
Aviva	A+	25,003	41,090
JP Morgan	A+	11,629	177,106
Legal & General	A+	24,925	36,009
Northern Trust	AA-	19,960	41,002
Bank deposit accounts			
JP Morgan	A+	31,119	32,836
Bank current accounts			
Lloyds	A+	4,580	3,295
Total		117,216	331,339

c) Liquidity risk

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those which will take longer than three months to convert to cash. As at 31 March 2018 the value of illiquid assets was £854.9m, which represented 42.5% of the total fund assets (31 March 2017: £840.2m, which represented 43.7% of the total fund assets).

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

Refinancing risk

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

NOTES TO THE PENSION FUND

19 Funding arrangements

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

The key elements of the funding policy are:

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

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

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

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

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

Financial assumptions

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

Mortality assumptions

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

Commutation assumption

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

NOTES TO THE PENSION FUND

20 Actuarial present value of promised retirement benefits

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

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

Calculated on an IAS19 basis, the actuarial present value of promised retirement benefits at 31 March 2018 was £4,264 million (31 March 2017: £4,185 million). The net assets available to pay benefits as at 31 March 2018 was £2,010 million (31 March 2017: £1,924 million). The implied fund deficit as at March 2018 was therefore £2,254 million (31 March 2017: £2,261 million).

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

IAS19 assumptions used

Inflation/pension increase rate assumption	2.30%
Salary increase rate	3.80%
Discount rate	2.55%

21 Current assets

31 March 2017		31 March 2018
£'000		£'000
4,905	Contributions due	5,157
756	Sundry debtors	596
5,661	Debtors	5,753
4,580	Cash balances	3,295
10,241		9,048

Analysis of debtors

31 March 2017		31 March 2018
£'000		£'000
2,363	Other local authorities	1,549
3,298	Other entities and individuals	4,204
5,661		5,753

22 Current liabilities

31 March 2017		31 March 2018
£'000		£'000
(2,452)	Sundry creditors	(15,727)
(96)	Benefits payable	-
(2,548)		(15,727)

Analysis of creditors

31 March 2017		31 March 2018
£'000		£'000
(886)	Central government bodies	(902)
(253)	Other local authorities	(11,940)
(1,409)	Other entities and individuals	(2,885)
(2,548)		(15,727)

NOTES TO THE PENSION FUND

23 Additional voluntary contributions

Market value 31 March 2017		Market value 31 March 2018	
£'000		£'000	
14,068	Prudential	13,874	
4	Equitable Life	4	
18	Clerical Medical	18	
14,090	Total	13,896	

AVC Contributions of £2.051 million were paid directly to Prudential during the year (2016/17: £2.029 million).

24 Related party transactions

The Royal Borough of Windsor and Maidenhead

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

During the reporting period, the council incurred costs of £1.342m (2016/17 £1.316m) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the 5th largest employer of members of the pension fund and contributed £9.7m (2016/17 £11.0m).

Governance

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

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

Key management personnel

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

25 Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £321.046m (31 March 2017: £397.835m).

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

26 Contingent assets

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

Royal County of Berkshire Pension Fund

Pension accounting disclosure as at 31 March 2018
Prepared in accordance with IAS26

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Introduction

We have been instructed by the Royal Borough of Windsor and Maidenhead, the administering authority to the Royal County of Berkshire Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2018.

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

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

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

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

Valuation data

Data sources

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

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes and the results of the 31 March 2017 IAS26 report which was carried out for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2018;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016, 31 March 2017 and 31 March 2018; and
- Details of any new early retirements for the period to 31 March 2018 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

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

Fund membership statistics

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

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

Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2018.

We have been notified of 95 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £791,600.

The capitalised cost of the additional benefits on IAS19 compliant assumptions is calculated at £4,467,000. This figure has been included within the service cost in the statement of profit or loss.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2018 is estimated to be 5%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Royal County of Berkshire Pension Fund as at 31 March 2018 is as follows:

Asset breakdown	31 Mar 2018		31 Mar 2017	
	£000s	%	£000s	%
Equities	934,720	46%	953,343	50%
Other Bonds	295,759	15%	283,103	15%
Property	271,613	14%	259,548	13%
Cash	326,541	16%	205,196	11%
Target Return Portfolio	80,293	4%	119,171	6%
Commodities	35,507	2%	35,415	2%
Infrastructure	128,977	6%	132,417	7%
Longevity Insurance	-63,113	-3%	-64,176	-3%
Total	2,010,297	100%	1,924,017	100%

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2018 is likely to be different from that shown due to estimation techniques.

Unfunded benefits

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

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2018, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2018 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2018 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

The Fund entered into a longevity insurance contract in 2009 and this has been included in the assets. To value the longevity insurance contract we have considered what adjustment to the discount rate assumption (based on the Merrill Lynch LIBOR swap curve) would be required if the contract had a zero value at the date of inception. This is consistent with the approach taken last year, with the exception that this year we have only considered the cashflows over the remaining term of the contract (rather than including any cashflows in historic years). This has been updated following discussions with KPMG. A similar adjustment is then made to the discount rate assumption at the accounting date to calculate the updated value of the contract. Further details on this, or the approach adopted last year, can be provided on request.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 95%. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2018	31 Mar 2017
Retiring today			
Males		23.1	23.0
Females		25.2	25.0
Retiring in 20 years			
Males		25.3	25.1
Females		27.5	27.4

We have also assumed that:

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

Financial assumptions

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

Assumptions as at	31 Mar 2018	31 Mar 2017	31 Mar 2016
	% p.a.	% p.a.	% p.a.
Discount rate	2.55%	2.80%	3.70%
Pension increases	2.30%	2.70%	2.40%
Salary increases	3.80%	4.20%	4.20%

These assumptions are set with reference to market conditions at 31 March 2018.

Our estimate of the Fund's past service liability duration is 20 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond

yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.3% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is a slightly higher deduction than at the last accounting date where we assumed that CPI was 0.9% lower than RPI.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

Results and disclosures

We estimate that the net liability as at 31 March 2018 is a liability of £2,253,325,000.

The results of our calculations for the year ended 31 March 2018 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2018;
- Appendix 2 details a reconciliation of assets and liabilities during the year; and
- Appendix 3 shows a sensitivity analysis on the major assumptions.

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

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



Graeme Muir FFA
Partner

Appendix 1 **Statement of financial position as at 31 March 2018**

Net pension asset as at	31 Mar 2018	31 Mar 2017	31 Mar 2016
	£000s	£000s	£000s
Present value of the defined benefit obligation	4,263,622	4,185,496	3,343,040
Fair value of Fund assets (bid value)	2,010,297	1,924,017	1,656,533
Net liability in balance sheet	2,253,325	2,261,479	1,686,507

*Present value of funded obligation consists of £4,138,597,000 in respect of vested obligation and £125,025,000 in respect of non-vested obligation.

Appendix 2 **Asset and benefit obligation reconciliation for the year to 31 March 2018**

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	Year to
	31 Mar 2018	31 Mar 2017
	£000s	£000s
Opening defined benefit obligation	4,185,496	3,343,040
Current service cost	156,636	104,992
Interest cost	116,277	122,454
Change in financial assumptions	(127,915)	805,393
Change in demographic assumptions	-	(41,075)
Experience loss/(gain) on defined benefit obligation	-	(81,380)
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(97,795)	(96,477)
Past service costs, including curtailments	4,467	2,565
Contributions by Scheme participants and other employers	26,456	25,984
Unfunded pension payments	-	-
Closing defined benefit obligation	4,263,622	4,185,496

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to	Year to
	31 Mar 2018	31 Mar 2017
	£000s	£000s
Opening fair value of Fund assets	1,924,017	1,656,533
Interest on assets	53,936	61,243
Return on assets less interest	29,630	237,477
Other actuarial gains/(losses)	-	(27,389)
Administration expenses	(1,862)	(1,211)
Contributions by employer including unfunded	75,915	67,893
Contributions by Scheme participants and other employers	26,456	25,984
Estimated benefits paid plus unfunded net of transfers in	(97,795)	(96,477)
Settlement prices received / (paid)	-	(36)
Closing Fair value of Fund assets	2,010,297	1,924,017

The total return on the Fund's assets for the year to 31 March 2018 is £83,566,000.

Appendix 3 Sensitivity analysis

Sensitivity analysis (£000s)				
Present value of total obligation			4,263,622	
	Sensitivity to	+0.5%	+0.1%	-0.1%
				-0.5%
Discount rate		3,799,031	4,182,308	4,346,599
Long term salary increase		4,219,355	4,270,579	4,256,707
Pension increases and deferred revaluation		4,567,949	4,339,764	4,188,947
	Sensitivity to		+ 1 Year	- 1 Year
Life expectancy assumptions			4,421,357	4,111,689