

Report Title:	<b>Statutory Policies</b>
Contains Confidential or Exempt Information	No - Part I
Lead Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee and Advisory Panel – 13 March 2023
Responsible Officer(s):	Damien Pantling, Head of Pension Fund
Wards affected:	None

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## **REPORT SUMMARY**

This report covers three key statutory documents as required by the LGPS regulations which are brought back to the Pension Fund Committee for periodic review and re-approval.

Appendix 1 covers the Fund's Funding Strategy Statement (FSS), Appendix 2 covers the Fund's Investment Strategy Statement (ISS) and Appendix 3 covers the Fund's Governance Compliance Statement and annual report of training records.

### **1. DETAILS OF RECOMMENDATION(S)**

**RECOMMENDATION: That the Pension Fund Committee notes the report;**

- i) Considers and approves the revised Funding Strategy Statement to be implemented from 1 April 2023;**
- ii) Considers and approves the revised Investment Strategy Statement to be implemented from 1 April 2023;**
- iii) Considers and approves the Governance Compliance Statement including the Committee training records.**

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

2.1. The Funding Strategy Statement (FSS) is a statutory document required by the Local Government Pension Scheme Regulations (2013) (the Regulations). The Fund's FSS has been prepared by the Administering Authority to the Royal County of Berkshire Pension Fund in accordance with Regulation 58 of the Regulations and with regard to the guidance (Preparing and maintaining a funding strategy statement in the LGPS - 2016 edition) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2. The Fund's employers, officers and scheme actuary Barnett Waddingham have been consulted on the contents of the FSS as attached in Appendix 1 to this report and should be read in conjunction with the Fund's ISS which is attached in Appendix 2 to this report.

2.3. There have been several key changes to the FSS which was last reviewed and approved in March 2020 in conjunction with the 2019 triennial valuation. These changes are designed considering the Fund's below-average funding levels and seek to balance the Fund's key objectives of funding, contribution affordability and contribution stability. A summary of the key material changes is noted as follows:

- 2.3.1. The Fund has introduced a stabilisation mechanism to ensure that the majority of employers receive a contribution increase of no less than 1% of pensionable pay from 1 April 2023 and that employers will pay primary contributions as a minimum- i.e. that there is no scope in the FSS for negative secondary contributions. In addition, an explicit restriction is placed on employers wishing to over-pay secondary contributions, limiting deficit recovery contributions to the level of the actuarially assessed deficit. This is linked to the stabilisation mechanism (which removes the incentive) but explicitly restricts over-payments of secondary contributions for any other reason that employers may wish to over-pay.
- 2.3.2. The deficit recovery period has been reduced from 21 years to 17 years, 3 of which occur due to the natural passage of time, 1 of which is reactive to the improved funding levels and the recommendations from the Government Actuary's Department (GAD) following a prior amber flag for deficit recovery.
- 2.3.3. Risk sharing arrangements have been ratified in the FSS in anticipation of upcoming government legislation surrounding "new fair deal". In practice, this applies to outsourcing arrangements typically undertaken by local authorities. Going forward, letting employers will retain the majority of LGPS responsibilities and will be classed as a deemed employer. All admission agreements created because of contracting or outsourcing of services from 1 April 2023 will be signed on a pass-through basis. In practice, this means that contractors may just have the responsibility for collecting and paying contributions but generally all risks will be retained by the letting/outsourcing employer.
- 2.3.4. Employers wishing to pay secondary contributions for 3 years in advance in April 2023 are offered a discount of 3.5% of the total unadjusted amount listed in the rates and adjustments certificate
- 2.3.5. The approach to calculating cessation debts on a minimum risk basis (i.e. where the last active member leaves an employer and that employer does not have a guarantor or security/bond) has significantly changed to move away from the Gilt yield approach and towards a more appropriate prudence-plus approach. This approach reflect the Fund's actual investment strategy and relevant risks associated with ceased employers, helping to protect the remaining Fund employers following an employer cessation event.
- 2.3.6. Updating the relevant risks, including highlighting the increase in inflation as a major risk to the Fund's liabilities.

- 2.4. The revised FSS has undergone extensive consultation with the Fund actuary in developing each of the material changes since its last publication in 2020. Employers have been consulted on the changes and had the opportunity to return comments throughout the whole month of February 2023.
- 2.5. In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations), the Administering Authority must review and if necessary, revise its investment strategy from time to time, and at least every 3 years. The date of last revision and approval by the Pension Fund Committee was 7 March 2022
- 2.6. As the Fund's FSS must be prepared having regard to the Fund's ISS (Regulation 58(4)(b) of the Regulations), it is appropriate practice that the ISS is revised in conjunction with the changes to the FSS. These two statements should always be read in conjunction with one another.
- 2.7. Regulation 7 of the Investment Regulations states that "The Administering Authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy." Officers can confirm that the Fund's principal investment manager and advisor LPPI have been extensively consulted in the development of the revised ISS, as have the Fund's two independent advisors. Therefore, it can be confirmed that the appropriate persons have been consulted in the development of the Fund's ISS.
- 2.8. Regulation 7 of the Investment Regulations also states that the Fund must publish a statement of any revisions to the ISS. There were significant revisions approved by the Pension Fund Committee in March 2022, however, the revisions to the March 2023 version are largely minor and immaterial and can be summarised as follows.
  - 2.8.1. Formatting and structure change to enable the Strategic Asset Allocation (SAA) to be updated in future without a full review of the ISS.
  - 2.8.2. Updating of the relevant risks including inflation as a major risk to the Fund's investment strategy.
  - 2.8.3. Enablement of the Fund to use both derivatives and leverage if applicable for hedging and Tactical Asset Allocation (TAA) purposes.
  - 2.8.4. Increasing the focus on cash and treasury management
  - 2.8.5. Revision of the Actuarial Benchmark following the 2022 triennial valuation.
- 2.9. Regulation 55 of the Regulations places a statutory responsibility on Pension Fund Administering Authorities to formulate and keep under review a Governance Compliance Statement. The details prescribed in Regulation 55 are all contained within the Fund's Governance Compliance Statement which is attached at Appendix 3 to this report.

- 2.10. Hymans Robertson published several “Good Governance” recommendations in its Phase 3 report to the SAB (February 2021). Whilst these recommendations are not (yet) backed by legislation, it is good practice to implement these recommendations where appropriate, ahead of any formal guidance. The two relevant recommendations regarding training are as follows (Section D of the SAB report):
  - 2.10.1. Administering Authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
  - 2.10.2. The Administering Authority should develop a training plan to ensure these training requirements are met and maintain training records of key individuals against the training plan. These records should be published in the Governance Compliance Statement.
- 2.11. The Fund’s training plan shall be presented to Committee at the next meeting following the May 2023 local elections, however, the prior-year training records are annexed to the Governance Compliance Statement in line with the SAB recommendation

### **3. KEY IMPLICATIONS**

- 3.1. The Administering Authority must produce, publish and keep under review its Governance Compliance Statement. Failure to do so could result in the Pensions Regulator issuing fines to the Authority where it is deemed to have failed in areas of scheme governance.
- 3.2. The key implications following the implementation of the FSS are detailed in the above sections of this report and have been fully consulted on in line with the Regulations
- 3.3. The Investment Strategy Statement addresses the 6 key points required under Regulation 7(2) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;
  - 3.3.1. sets the Strategic Asset Allocation (SAA) as per Regulation 7(3);
  - 3.3.2. includes a statement that is compliant with Regulation 7(4) (i.e. that no more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that Authority);
  - 3.3.3. is presented for approval within 3 years of the last revision (7 March 2022) as per Regulation 7(6); and
  - 3.3.4. states as per Regulations 7(8) that the Authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the Fund.
- 3.4. The Fund is fully compliant with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. However, the

revised Investment Strategy Statement includes an optional section for Investment Principals. This sets out the Fund's investment beliefs, investment philosophy and headline investment principals which should be adhered to by the Fund in making any future investment decisions. This section aims to act as a supplementary framework for investment decision making that the Committee can refer to when making future capital allocation and investment decisions.

- 3.5. The Strategic Asset allocation (SAA) has been revised and is presented in the ISS, the process surrounding this revision is detailed in the Part-2 report taken to the March 2023 Committee meeting to be approved in tandem with the ISS. The revised SAA aims to maximise future risk-adjusted returns within the fund's risk appetite metrics.
- 3.6. Detailed advice has been provided by LPPI (the Fund's Investment Manager), Barnett Waddingham (the Fund's Actuary) and the Fund's Investment Advisors in proposing a revised SAA for this ISS.
- 3.7. The ISS also reflects the levelling up white paper, targeting up to 5% of the Fund's investments in projects which support local areas. For the avoidance of doubt, this is intended to be ancillary to the Fund's fiduciary duty and other investment principals/objectives and therefore should not come into conflict with these.
- 3.8. The Committee is also asked to note that this 5% local investment target is distinct from Regulation 7(4) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which states that no more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that Authority).

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

- 4.1. Implementation of the revised ISS and FSS are at no additional cost to the Fund or the Administering Authority.
- 4.2. Reporting of the Governance Compliance Statement has no financial implications to the Fund or the Administering Authority.

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

- 5.1. The Administering Authority has a statutory duty to keep under review its Governance Compliance Statement in accordance with the Regulations.
- 5.2. The ISS and the FSS have been prepared and are fully compliant with the Regulations and the Investment Regulations as applicable.

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

- 6.1. A detailed risk register is brought to the Committee quarterly for review and approval, the risks associated with poor governance, investment strategy and

funding strategy are detailed in the register and the relevant mitigation actions refer to the relevant statutory policies provided as appendices to this report.

## **7. POTENTIAL IMPACTS**

- 7.1. Failure to comply with pension legislation could result in the Administering Authority being reported to the Pensions Regulator where failure is deemed to be of a material significance.
- 7.2. Equalities: An Equality Impact Assessment is available at Appendix 4 to this report. The Equality Act 2010 places a statutory duty on the council to ensure that when considering any new or reviewed strategy, policy, plan, project, service or procedure the impacts on particular groups, including those within the workforce and customer/public groups, have been considered. There are no EQIA impacts as a result of taking this decision. Equality Impact Assessments are published on the [council's website](#)
- 7.3. Climate change/sustainability: N/A
- 7.4. Data Protection/GDPR. GDPR compliance is included as a specific risk on the register in regard to processing and handling personal data, this is dealt with in the appendix along with the relevant mitigations.

## **8. CONSULTATION**

- 8.1. Relevant stakeholder groups have been consulted as appropriate, as detailed in earlier sections of this report.

## **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1. From 1 April 2023.

## **10. APPENDICES**

- 10.1. This report is supported by 4 Appendices:
  - Appendix 1 – Funding Strategy Statement
  - Appendix 2 – Investment Strategy Statement
  - Appendix 3 – Governance Compliance Statement
  - Appendix 4 - EQIA

## **11. BACKGROUND DOCUMENTS**

- 11.1. This report is supported by 0 background documents:

## 12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
<i>Mandatory: Statutory Officers (or deputy)</i>			
Adele Taylor	Executive Director of Resources/S151 Officer	17/02/2023	
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer	17/02/2023	
<i>Deputies:</i>			
Andrew Vallance	Head of Finance (Deputy S151 Officer)	17/02/2023	23/02/2023
Elaine Browne	Head of Law (Deputy Monitoring Officer)	17/02/2023	02/03/2023
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)	17/02/2023	
<i>Other consultees:</i>			
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee	17/02/2023	
Alan Cross	Chairman – Local Pension Board	17/02/2023	27/02/2023

## 13. REPORT HISTORY

Decision type:	Urgency item?	To follow item?
Pension Fund Committee decision	Yes/No	Yes/No

Report Author: Damien Pantling, Head of Pension Fund
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Royal County of Berkshire Pension Fund  
Funding Strategy Statement – March 2023

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**Employer Consultation Period: 1 February 2023 – 28 February 2023**

**Date of Committee approval: 13 March 2023**

**Date of implementation and application: 1 April 2023**



## 1. Introduction

**1.1.** This is the Funding Strategy Statement for the Royal County of Berkshire Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the Regulations) and describes the Royal Borough of Windsor and Maidenhead's strategy, in its capacity as administering authority, for the funding of the Royal County of Berkshire Pension Fund.

**1.2.** The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

**1.3.** This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**1.4.** In developing the funding strategy, the administering authority has considered the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

## 2. Purpose of the Funding Strategy Statement

**2.1.** Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;

**2.2.** Support the desirability of maintaining an as nearly constant primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;

**2.3.** Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in done so in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and

**2.4.** Take a prudent longer-term view of funding those liabilities.

## 3. Aims of the Fund

**3.1.** Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;

**3.2.** Enable contribution rates to be kept as near to constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and

**3.3.** Seek returns on investment within reasonable risk parameters (risk adjusted returns).

## 4. Purpose of the Fund:

**4.1.** Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;

**4.2.** Meet the costs associated in administering the Fund; and

**4.3.** Receive and invest contributions, transfer values and investment income.

## 5. Funding Objectives

- 5.1. Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- 5.2. Ensure the short, medium and long term solvency of the Fund;
- 5.3. Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- 5.4. Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- 5.5. Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

## 6. Key Parties

- 6.1. The key parties involved in the funding process and their responsibilities are set out below.
- 6.2. **The administering authority** for the Fund is the Royal Borough of Windsor and Maidenhead (RBWM). The main responsibilities of the administering authority are to:
  - 6.2.1. Operate the Fund in accordance with the LGPS Regulations;
  - 6.2.2. Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
  - 6.2.3. Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
  - 6.2.4. Pay the benefits due to Scheme members as stipulated in the Regulations;
  - 6.2.5. Ensure that cash is available to meet liabilities as and when they fall due;
  - 6.2.6. Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
  - 6.2.7. Manage the actuarial valuation process in conjunction with the Fund Actuary;
  - 6.2.8. Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
  - 6.2.9. Monitor all aspects of the Fund's performance;
  - 6.2.10. Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
  - 6.2.11. Enable the Local Pension Board to review the valuation process as they see fit.
- 6.3. **Scheme employers.** In addition to the administering authority, a number of other Scheme employers participate in the Fund. The responsibilities of each employer that participates in the Fund, including the administering authority, are to:
  - 6.3.1. Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
  - 6.3.2. Notify the administering authority of any new Scheme members and any other membership changes promptly;

**6.3.3.** Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;

**6.3.4.** Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and

**6.3.5.** Pay any exit payments due on ceasing participation in the Fund.

**6.4. Scheme members.** Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC).

**6.5. The Fund Actuary** for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

**6.5.1.** Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;

**6.5.2.** Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;

**6.5.3.** Provide advice and valuations on the exiting of employers from the Fund;

**6.5.4.** Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;

**6.5.5.** Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;

**6.5.6.** Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and

**6.5.7.** Advise on other actuarial matters affecting the financial position of the Fund.

## 7. Funding Strategy

**7.1.** The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

**7.2.** The most recent actuarial valuation of the Fund was carried out at 31 March 2022. The overall results of the 2022 valuation are summarised as follows:

<b>Surplus / (Deficit)</b>	<b>(£446m)</b>
<b>Funding Level</b>	<b>86%</b>

**7.3.** At a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 16.9% of payroll p.a.

**7.4.** The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2022 valuation report.

**7.5.** The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

## 7.6. Funding Method

**7.6.1.** The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period. The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

**7.6.2.** For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

**7.6.3.** The past service funding level of the Fund is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and

**7.6.4.** The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

**7.6.5.** The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

**7.6.6.** The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

**7.6.7.** For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

**7.6.8.** For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

**7.6.9.** The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

## 7.7. Valuation assumptions and funding model

**7.7.1.** In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc. The assumptions adopted at the valuation can therefore be considered as:

**7.7.2.** The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and

**7.7.3.** The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

## 7.8. Future price inflation.

**7.8.1.** The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date.

**7.8.2.** The 20 year point on the curve is taken as 20 years and is consistent with the average duration of an LGPS Fund. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

## 7.9. Future pension increases.

**7.9.1.** Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030. Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is made to the RPI assumption to derive the CPI assumption.

## 7.10. Future pay increases.

**7.10.1.** As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted at 31 March 2022 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

## 7.11. Future investment returns/discount rate

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

**7.11.2.** The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date.

**7.11.3.** The discount rate as determined by the Actuary may be referred to as the "ongoing" discount rate. It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority. A summary of the financial assumptions adopted for the 2022 valuation is set out in the following table:

<b>RPI inflation</b>	<b>3.2% p.a.</b>
<b>CPI inflation</b>	<b>2.9% p.a.</b>
<b>Pension/deferred pension increases and CARE revaluation</b>	<b>In line with CPI inflation</b>
<b>Pay increases</b>	<b>CPI inflation + 1.0% p.a.</b>
<b>Discount rate</b>	<b>5.1% p.a.</b>

## 7.12. Asset valuation.

**7.12.1.** For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

**7.12.2.** The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g., contributions received, and benefits paid).

### **7.13. Demographic assumptions**

**7.13.1.** The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

**7.13.2.** Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

### **7.14. McCloud/Sargeant judgments**

**7.14.1.** When the Government reformed public service pension schemes in 2014 and 2015, they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them.

**7.14.2.** The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on over the course of 2022/23 with revised Regulations effective from October 2023.

**7.14.3.** For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

**7.14.4.** The current underpin (which only applies to those members within 10 years of their NPA on 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;

**7.14.5.** The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);

**7.14.6.** Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);

**7.14.7.** Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and

**7.14.8.** The underpin will consider when members take their benefit.

**7.14.9.** Further details of the McCloud/Sergeant judgment can be found below in the Regulatory risks section.

### **7.15. Guaranteed Minimum Pension (GMP) indexation and equalisation**

**7.15.1.** On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found [here](#).

**7.15.2.** The 2022 valuation approach for GMP is that the Fund 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, the Fund will be required to pay the entire inflationary increase.

## 7.16. Stabilisation mechanism

**7.16.1.** The LGPS Regulations (Regulation 62(6)(b)) specify that the Actuary must have regard to the desirability of maintaining as nearly constant a primary rate as possible. However, it is a key objective of the Fund to maintain stability of total rates as far as possible. The Fund therefore adopts a stabilisation approach as shown below to achieve this aim:

**7.16.2.** Where an employer is in deficit, the current contribution rate (2022/23) will be increased by a minimum of 1% of assumed gross pensionable pay;

**7.16.3.** For an employer that is in surplus, with no guarantor in the fund liable to pick up the residual liabilities and assets upon ceasing, the total contribution rate payable will be the higher of the 2022 primary rate and the current (2022/23) rate plus 1% of assumed gross pensionable pay, unless the employer has a funding level in excess of 130%. For the avoidance of doubt, employers with a funding level above 130% will still pay a minimum of the primary contribution rate.

**7.16.4.** Notwithstanding the above, there may be some cases where it is appropriate to set a different rate and the Administering Authority can apply discretion as appropriate. A general example is where an admitted body has a guarantor in the Fund, and as a result would be valued on an ongoing basis upon ceasing. For these employers, particularly those who have few active members, it may not be appropriate to set a secondary contribution rate if they have a large surplus, as they would have little chance of receiving an exit credit upon ceasing. In all fringe cases such as this, the Administering Authority may exercise discretion and has the final decision. Another example, relating specifically to pooled employers, is detailed in section 7.18.5

**7.16.5.** An employer with a funding level in excess of 130% pays the 2022 primary rate as a minimum (i.e., there is no scope for an adjustment to total contributions by applying negative secondary contributions).

**7.16.6.** The stabilisation mechanism will be reviewed at the next triennial valuation exercise, expected at 31 March 2025.

## 7.17. Deficit recovery/surplus amortisation periods

**7.17.1.** Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

**7.17.2.** Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years from 1 April 2023. The adjustment (or secondary contribution) may be set either as a percentage of payroll or as a fixed monetary amount.

**7.17.3.** The Fund's deficit overall maximum recovery period is therefore 17 years from 1 April 2023, revised from 21 years at the date of the last FSS publication. The reduction of 4 years has been due to a combination of the passage of time and management decision making to reduce the deficit.

**7.17.4.** The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

**7.17.4.1.** The significance of the surplus or deficit relative to that employer's liabilities;

**7.17.4.2.** The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;

**7.17.4.3.** The remaining contract length of an employer in the Fund (if applicable); and



**7.17.4.4.** The implications in terms of stability of future levels of employers' contributions.

**7.17.5.** A general summary of the approach used for employers in the Fund is set out in the table below, however, the approach adopted may differ to reflect the situation specific to the employer as agreed by the Administering Authority.

Type of employer	Examples	Maximum recovery period*
Major scheduled bodies	Unitary authorities	17 years
Higher and further education bodies	Colleges (excluding University of West London)	8 years
Housing associations		8 years
Academies	Academies, free schools	9 years
Admission bodies	Contractors	Maximum of remaining contract length or 8 years

*\*An element of discretion may be exercised by the Fund as agreed in advance, subject to not breaching the Fund's overall maximum deficit recovery period as specified in Paragraph 7.17.2*

**7.17.6.** In circumstances where employers are in significant surplus, subject to the provisions of the Stabilisation Mechanism in section 7.16, the surplus may be amortised over a reasonable timeframe as agreed with the Administering Authority. This, in effect, leads to negative secondary contributions for a finite period of time, this may also be interpreted as a negative adjustment to the total contribution rate.

**7.17.7.** The Fund maintains a policy to restrict upfront payments of secondary contributions to the value of the deficit as certified by the Fund actuary.

## 7.18. Pooling of individual employers

**7.18.1.** The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances. However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

**7.18.2.** Currently, other than Scheme employers that are already connected, the funding pools adopted for the Fund at the 2022 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate
Community Admission bodies	Past service pooling only	All CABs in the pool pay the same secondary rates but pay a primary rate bespoke to their membership
Colleges (excluding UWL)	Past service pooling only	All colleges in the pool pay the same secondary rates but pay a primary rate bespoke to their membership

**7.18.3.** The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

### 7.18.4. Forming/disbanding a funding pool

**7.18.4.1.** Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

**7.18.4.2.** Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in



the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

**7.18.4.3.** Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

**7.18.5.** The stabilisation mechanism as outlined in 7.16 (referring to the minimum increase of contributions by 1%), may not be appropriate in some specific scenarios concerning the Higher and Further education pool. For example, where employers in the pool pay the same secondary rate but their own primary rate. There may be situations where the employers primary rate decreases due to membership changes and the blanket increase in secondary rate doesn't offset in primary rate, resulting in a total contribution rate decrease or an increase of less than 1%. The Administering Authority may exercise discretion not to apply the stabilisation mechanism in situations such as this.

## **7.19. Risk sharing**

**7.19.1.** There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

**7.19.2.** For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

**7.19.3.** At the 2022 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

**7.19.4.** From 1 April 2023, in anticipation of "new fair deal" being legislated before the date of the next triennial valuation, all new employers created through the outsourcing or contracting of other scheme employers will not be considered on a full risk transfer basis.

**7.19.5.** The Fund, from the date of this FSS, maintains a policy of pass-through arrangements only. Under this policy, the "fair deal" employer (letting employer), or employer transferring staff to a contractor (or equivalent), will retain the majority of scheme employer responsibilities and be classed as a "deemed employer".

**7.19.6.** Under this arrangement, the contractor may or may not have direct responsibility for making payments to the LGPS, but the indirect responsibility for guaranteeing these payments will fall to the "fair deal" or outsourcing employer.

**7.19.7.** There are several approaches to pass through arrangements and several risk categories to be considered for responsibility under this pass-through arrangement policy. The full approach to risk-sharing shall be agreed in advance between the Fund and the letting employer in consultation with the Fund Actuary before any contract procurement commences as this is highly likely to impact contract pricing.

**7.19.8.** The final terms of the risk sharing agreement shall be ratified in the admission agreement between the Fund and the Deemed employer, as previously agreed by the Letting Employer.

**7.19.9.** The Fund Actuary shall be engaged in all pass-through arrangement and risk-sharing negotiations to ensure the Fund and the letting employer receive appropriate professional advice due to the complicated and technical nature of these arrangements.

## **7.20. Contribution payments**

**7.20.1.** Employers pay contributions on a monthly basis. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. Monetary

amounts are payable in 12 equal monthly instalments throughout the relevant year unless agreed otherwise with the administering authority.

**7.20.2.** Employers must pay contributions in line with the Rates and Adjustments Certificate, but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority.

**7.20.3.** The administering authority has agreed to allow a discount to major scheduled bodies who pay their total secondary contributions up front, as long as the payment is received by the end of April 2023. The discount applied is notified to employers and set out in the Rates and Adjustment certificate. The discount for paying three years of contributions in advance is roughly 3.5%. Employers should discuss with and gain agreement from the administering authority before making up front payments at the discounted rate.

**7.20.4.** For the avoidance of doubt, the total secondary contributions referred to above just refers to those certified in the Rates and Adjustments certificate. The Rates and Adjustments certificate is issued based on the results of the 2022 triennial valuation and sets the rates payable of the three year period from 1 April 2023 until 31 March 2026.

**7.20.5.** The 3.5% discount referred to above may vary from employer to employer and is for example purposes only, applying only to the results of the 2022 valuation and may be subject to change or withdrawal in future valuation periods. Discounts may, from time to time, be offered to other employers but the percentage amount may vary considerably especially where their recovery period is less than three years from 1 April 2023. Employers interested in paying their secondary contributions in bulk should contact the administering authority to discuss and agree relevant arrangements.

**7.20.6.** Employers may, from time to time, wish to consider an upfront payment of Secondary (or deficit recovery) contributions greater than those certified in the three year rates and adjustment certificate. Larger up-front payments may be agreed at the discretion of the Fund and subject to prior agreement on the specific terms of the upfront payment (discount rate, timing etc.).

**7.20.7.** The Fund maintains a policy to restrict upfront payments of secondary contributions to the value of the deficit as certified by the Fund actuary.

## **8. New employers joining the Fund**

**8.1.** When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

**8.2.** All new employers joining the fund where relevant shall be applicable to the risk sharing provisions set out in Section 7.19, fully implemented by 1 April 2023.

### **8.3. Admission bodies**

**8.3.1.** New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

#### **8.3.2. Funding at start of contract:**

**8.3.2.1.** Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e., the

new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g., on an accounting basis).

**8.3.2.2.** However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

### **8.3.3. Contribution rate**

**8.3.3.1.** The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body, the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

**8.3.3.2.** Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

### **8.3.4. Security**

**8.3.4.1.** To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

**8.3.4.2.** If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

### **8.3.5. Risk sharing**

**8.3.5.1.** Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

**8.3.5.2.** Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

**8.3.5.2.1.** Above average pay increases, including the effect on service accrued prior to contract commencement; and

**8.3.5.2.2.** Redundancy and early retirement decisions.

**8.3.5.2.3.** Any other scenario not specifically mentioned whereby a decision is taken by the employer that disproportionately increases pension liabilities.

**8.3.5.3.** The risk-sharing arrangements must be clearly documented in the admission agreement, the transfer agreement or any other side agreement.

**8.3.5.4.** Any agreed arrangement should not lead to any undue risk to the other employers in the Fund. Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

**8.3.5.5.** This section is subject to the provisions outlined in section 7.19

## 8.4. New academies

**8.4.1.** When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

### 8.4.2. Funding at start

**8.4.2.1.** On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities. The new academy will join the existing academy pool, with the academy pool funding level.

### 8.4.3. Contribution rate

**8.4.3.1.** The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2022 valuation.

## 9. Contribution reviews between actuarial valuations

**9.1.** It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate.

**9.1.1.** There may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

**9.1.2.** A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if at least one of the following conditions are met:

**9.1.2.1.** it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

**9.1.2.2.** it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

**9.1.2.3.** a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

**9.1.3.** Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out in the Fund's separate Contribution review policy which can be accessed on the Pension Fund's website. This includes details of the process that should be followed where an employer would like to request a review.

**9.1.4.** Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

**9.1.5.** Employers should be mindful of the Fund's stabilisation mechanism as prescribed in Section 7.16 when requesting a contribution review, this mechanism applies automatically in all scenarios unless the administering authority exercise their discretion to make an exemption.

**9.1.6.** Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment

that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

**9.1.7.** With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next Rates and Adjustments Certificate.

## 10. Cessation valuations

**10.1.** When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

**10.2.** Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

**10.2.1.** It may be agreed with the administering authority that the exit payment can be spread over some agreed period;

**10.2.2.** the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or

**10.2.3.** the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

**10.3.** The Fund maintains a separate Employer Flexibilities policy referring to the Deferred Debt Agreements and Debt Spreading Agreements available to employers under Regulations 64(7A) and 64(7B) of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).

**10.4.** Any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation and always subject to the Fund's exit credit policy as outlined in section 10.7.

**10.5.** In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario. For example, those subject to a minimum risk cessation as outlined in section 10.6.

### 10.6. Minimum risk policy

**10.6.1.** Cessation Deficits calculated on a minimum-risk basis usually apply to an employer when the last remaining active scheme member ceases to exist (i.e., is transferred, leaves employment or retires) in the Fund and there is no guarantor to take over the liabilities.

**10.6.2.** Prior to 31 March 2023, the minimum-risk basis was calculated using 20-year Gilt yields, broadly replicating what happens in the private sector, when a defined benefit scheme wishes to "buy out" its liabilities and pass them on to an insurer. In the private sector, the resulting funds are then used to pay the benefits to the members whose liabilities the insurer has just taken on. The value the insurer places on the bought-out liabilities is therefore highly correlated with the future return they can expect to receive from gilts.

**10.6.3.** There is of course no current provision for LGPS liabilities to be bought out in this way although the gilts-based approach has been a common proxy for calculating minimum risk debts for many years. In this case, the role of "insurer" is taken on by the remaining employers in the Fund, who are essentially liable for additional contributions if future funding experience does not go as well as hoped. The term "minimum risk" is something of a misnomer, as investment risk is often left on the table.

**10.6.4.** The use of gilt yields, having been at very low levels for so long, has historically led to significantly larger exit payments being requested than if an ongoing methodology was applied. This has the effect of protecting Funds as it reduces the risk that the exit payment is insufficient, and that Funds will need to call upon their remaining employers to meet any future deficit that could arise.

**10.6.5.** In response to recent economic events, the Gilt yield approach is no longer deemed appropriate for the Fund from a risk management perspective, as advised by the Fund Actuary. Gilt yields no longer serve to protect the remaining employers in the Fund by reducing risk. By way of an example, Gilt yields hit 5.2% in 2022, exceeding the ongoing discount rate, making this approach redundant as a proxy for minimum risk.

**10.6.6.** From 1 April 2023, the Fund maintains a policy of taking a “prudence-plus” approach to determining a minimum risk discount rate. The alternative methodology links the minimum risk discount rate to that used for ongoing funding but incorporating a higher and constant level of prudence. The assumptions adopted will therefore be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g., due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. A key advantage of this approach is that it reduces the reliance on gilt yields to the extent that the Fund is actually invested in this asset class and better serves the Fund and its remaining employers from a risk management perspective.

**10.6.7.** The appropriate level of prudence on this basis was reviewed as part of the Fund’s 2022 valuation, when a stochastic analysis was used to assess the “success probabilities” of certain levels of prudence. The Fund’s approach is to target a 90% success probability that an exiting employer’s assets plus the calculated exit payment/exit credit will be sufficient to meet the residual liabilities. This corresponds to a 4.3% prudence adjustment to the best estimate discount rate assumption (or “prudence-plus margin”). This adjustment will be reviewed on a regular basis, and as a minimum as part of each actuarial valuation of the Fund. For the avoidance of doubt, the prudence margin is not the minimum-risk discount rate, but the level of prudence to be deducted from the Funds ongoing best estimate discount rate.

**10.6.8.** As this is a significant change to the FSS, the Fund is introducing a transition period, whereby all cessation valuations provided before 31 March 2023 shall have the prior methodology honoured provided the full cessation is concluded within 6 months of the date of this FSS (to 30 September 2023). Under this transition period, the Fund Actuary may adopt a discount rate based on Spot Gilt Yields, Smoothed Gilt Yields or other lower risk assets and adopt different assumptions to those used at the previous triennial valuation to protect the other Scheme employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

## **10.7. Exit credit policy**

**10.7.1.** The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between the administering authority, the exiting employer and the guaranteeing employer (if applicable).

**10.7.2.** Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

**10.7.2.1.** Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This is on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit.

**10.7.2.2.** The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.



**10.7.2.3.** Any exit credit payable may be subject to a maximum of the actual employer contributions paid into the Fund as certified in the Fund's rates and adjustments certificates, up to any cap arrangements that may have been in place and excluding any additional payments such as strain payments.

**10.7.2.4.** As detailed above, the Fund Actuary may adopt differing approaches when assessing whether an exit debt is payable by the employer, depending on the specific details surrounding the employer's cessation scenario.

**10.7.2.5.** Exit credits will only be paid if the ceasing employer has a surplus on the minimum risk basis at the cessation date. Allowance will be made for additional liabilities incurred as a result of redundancies.

**10.7.2.6.** The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. If the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.

**10.7.2.7.** Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

**10.7.2.8.** For the avoidance of doubt, the exit credit policy detailed here takes precedent over all other areas of documentation whereby exit credits or surpluses may be referred to (for example in draft cessation reports)

## **10.8. Managing exit payments**

**10.8.1.** Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

**10.8.2.** The Fund maintains a separate Employer Flexibilities policy and keeps this under review. Please refer to this policy for detail and guidance on implementing, monitoring and terminating DDAs and DSAs, this includes details of when a DDA or a DSA may be permitted, and the information required from the employer when putting forward a request for a DDA or DSA.

**10.8.3.** Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e., they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

**10.8.4.** Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

**10.8.5.** Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

## **10.9. Regulatory factors**

**10.9.1.** At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the timing of future actuarial valuations. This is set out in the Local Government Pension Scheme: changes to the local valuation cycle and the management of employer risk consultation document.

**10.9.2.** Further details of this can be found in the Regulatory risks section below.

## **11. Bulk transfers**

**11.1.** Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

**11.2.** The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e., the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

**11.3.** A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

### **11.4. Consolidation of Multi-Academy Trusts (MATs)**

**11.4.1.** Where an academy is transferring into or out of the Fund as part of a MAT consolidation exercise, the Fund generally expects that this will proceed through a Direction Order from the Secretary of State. In these situations, and subject to the terms agreed between the Fund Actuary to both LGPS Funds, typically all the assets attributable to the academy in the ceding Fund are transferred to the receiving Fund.

**11.4.2.** The Fund's preference would be for any transfer to include all members, including deferred and pensioner members. Should a situation arise where an academy is transferring out of the Fund and only active members are transferring, the Fund would seek to retain a level of assets to be at least sufficient to fully fund any deferred and pensioner members left behind, as measured by the Fund's ongoing funding basis at the transfer date.

**11.4.3.** Where the academy is transferring into the Fund, where appropriate, the academy will become part of the Fund's Academy pool. However, the Fund would not accept a transfer in which would lead to a deterioration in its overall funding level, and in particular as a minimum receive a transfer amount that was no less than the equivalent individual CETVs for the transferring members, based on Government Actuary factors in force at the transfer date. The agreed basis of transfer could take into account the funding basis of the Fund and a top up payment could be made to ensure the Fund would not be significantly worse off or be subject to an unacceptable level of risk.

### **11.5. Early retirement costs**

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

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

## **12. Links with the Investment Strategy Statement (ISS)**

**12.1.1.** The Fund's FSS is designed to be read in conjunction with the Fund's ISS.

**12.1.2.** The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.



**12.1.3.** As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

**12.1.4.** Many of the risks outlined in Section 13 involve mitigations or counter measures that are dealt with through the ISS, for example ensuring that the cash-flow profile of the Fund's investments matches the maturity profile of the Fund's membership.

## **13. Risks and counter measures**

**13.1.** Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

**13.2.** The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

**13.3.** A separate risk register is maintained by the Fund and is reviewed quarterly by the Pension Fund Committee, further detail on any of these risks can be found in this risk register available on the Fund's website.

### **13.4. Financial risks**

**13.4.1.** The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

**13.4.2.** The valuation results are highly sensitive to the real discount rate (i.e., the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

**13.4.3.** In prior valuations, the risk of adverse intra-valuation period inflation experience (i.e., the difference between actuarial long-term inflation assumptions and actual inflation experience across the triennial period) has been somewhat of a misnomer. The Fund's approach to determining long-term Inflation expectations is outlined in paragraph 7.8. Any significant and pronounced deviation to these expectations poses a significant risk to the Fund, e.g., April 2023 assumed 2.9% inflation compared to 10.1% actual experience, ceteris paribus this equates to a 7.2% increase in liabilities. The Fund has flagged this as one of the most significant financial risks to this valuation period.

**13.4.4.** The Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy. The Committee may also seek advice from the Fund Actuary on valuation related matters.

**13.4.5.** In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### **13.5. Demographic risks**

**13.5.1.** Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

**13.5.2.** The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. The Fund commissions a bespoke longevity analysis by

Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

**13.5.3.** In addition, in 2009 the Fund entered into a longevity insurance contract which covers all pensions in payment at the end of July 2009. This contract means the Fund pays a premium to the insurer and the insurer pays the actual pension amounts due. This contract is designed to mitigate the risk of members living longer than anticipated.

**13.5.4.** The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

## 13.6. Climate risk

**13.6.1.** There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

**13.6.2.** The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement and Responsible Investment policy.

**13.6.3.** As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The principles behind the analysis were agreed with the Government Actuary's Department (GAD).

**13.6.4.** The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

**13.6.5.** The Fund will continue to assess this risk on a regular basis.

## 13.7. Maturity risk

**13.7.1.** The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

**13.7.2.** The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments. This risk is mitigated by increasing the level of income-paying assets as the Fund matures and is dealt with through the ISS.

**13.7.3.** The government has published a consultation (Local Government Pension Scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

## 13.8. Regulatory risks

**13.8.1.** The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

**13.8.2.** The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

**13.8.3.** However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

**13.8.4.** There are a number of general risks to the Fund and the LGPS, including:

**13.8.4.1.** If the LGPS was to be discontinued in its current form, it is not known what would happen to members' benefits;

**13.8.4.2.** More generally, as a statutory scheme the benefits provided by the LGPS, or the structure of the scheme could be changed by the government;

**13.8.4.3.** The State Pension Age is due to be reviewed by the government in the next few years.

**13.8.5.** At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgments and the timing of future funding valuations consultation. These are discussed in the sections below.

### **13.9. McCloud/Sargeant judgments**

**13.9.1.** The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

**13.9.2.** The Government subsequently applied to the Supreme Court to appeal the judgment, but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

**13.9.3.** At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

### **13.10. Cost control mechanism**

**13.10.1.** As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

**13.10.2.** For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

### **13.11. Consultation: Local Government Pension Scheme: changes to the local valuation cycle and management of employer risk**

**13.11.1.** On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

**13.11.1.1.** amendments to the local Fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;

**13.11.1.2.** a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;

**13.11.1.3.** proposals for flexibility on exit payments;

**13.11.1.4.** proposals for further policy changes to exit credits; and

**13.11.1.5.** proposals for changes to the employers required to offer LGPS membership.

**13.11.2.** The proposals for flexibility on exit payments and for further policy changes to exit credits have been finalised, however, are still to be finalised for the remaining three proposals. This FSS will be revisited once the outcome is known and reviewed where appropriate.

### **13.12. Timing of future actuarial valuations**

**13.12.1.** LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e., every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control mechanism and HMT believed that all public sector schemes should have the cost control test happen at the same time.

### **13.13. Changes to employers required to offer LGPS membership**

**13.13.1.** At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

**13.13.2.** With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term, then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

**13.13.3.** This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

## 13.14. Employer risks

**13.14.1.** Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

**13.14.1.1.** Structural changes in an individual employer's membership;

**13.14.1.2.** An individual employer deciding to close the Scheme to new employees; and

**13.14.1.3.** An employer ceasing to exist without having fully funded their pension liabilities.

**13.14.2.** However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined and takes advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

**13.14.3.** In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

## 13.15. Governance risks

**13.15.1.** Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued, then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

## 13.16. Monitoring and review

**13.16.1.** This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

**13.16.2.** The most recent valuation was carried out at 31 March 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

**13.16.3.** The timing of the next funding valuation is due to be confirmed as part of the government's Local Government Pension Scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2025.

**13.16.4.** The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

# Royal County of Berkshire Pension Fund

## Investment Strategy Statement – March 2023

### 1. Introduction

- 1.1.** This is the Investment Strategy Statement (“ISS”) adopted by the Royal County of Berkshire Pension Fund (“the Fund”), which is administered by the Royal Borough of Windsor and Maidenhead (“the Administering Authority”).
- 1.2.** Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (Regulation 7) the Fund is required to publish this ISS at least every three years, it was last approved in March 2022. The Regulations require administering authorities to outline how they meet each of six objectives aimed at improving the investment and governance of the Fund.
- 1.3.** This Statement addresses each of the objectives included in Regulation 7(2) of the 2016 Regulations:
- ***Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments;***
  - ***Objective 7.2(b): The authority’s assessment of the suitability of particular investments and types of investment;***
  - ***Objective 7.2(c): The authority’s approach to risk, including ways in which risks are to be measured and managed;***
  - ***Objective 7.2(d): The authority’s approach to pooling investments, including the use of collective investment vehicles;***
  - ***Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;***
  - ***Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments***
- 1.4.** Each of the above objectives are dealt with in turn in Section 3 of the ISS
- 1.5.** The Pension Fund Committee (the “Committee”) oversees the management of the Fund’s assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.
- 1.6.** The relevant terms of reference for the Committee within the Council’s Constitution are as follows:
- To exercise the general powers and duties of an Administering Authority in the maintenance of the Royal County of Berkshire Pension Fund as may be required in accordance with the Superannuation Fund Act 1972, The Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations existing under those Acts including, but not restricted to the following;*
- (i) *Setting of the Investment Strategy and Funding Strategy Statements and determination of the Strategic Asset Allocation of the Pension Fund’s assets in the light of professional advice and other suitably qualified independent advice, legislative constraints and Codes of Practice.*

- (ii) *Responsibility for the statutory policies and administration of the Royal County of Berkshire Pension Fund maintained by the Administering Authority in accordance with the Local Government Pension Scheme Regulations, The Local Government Pension Scheme (Management of Investment of Funds) Regulations, all other associated legislation and Pension Regulator Codes of Practice.*
- (iii) *Determination of the arrangements for obtaining appropriate investment advice including the appointment of a suitably qualified independent person or persons to give expert advice on Pension Fund investment and management arrangements.*
- (iv) *The periodic review and monitoring of the Pension Fund's investment performance in line with the Advisory and Management Agreement entered into with the Local Pensions Partnership (Investments) Limited (LPPI).*
- (v) *To consider the Annual Report and Accounts of the Fund.*
- (vi) *The reporting of any breaches of the law to the Pensions Regulator.*

- 1.7.** The Director of Resources (S.151 officer) , the Head of Finance (Deputy S.151 officer), the Head of Pension Fund, the appointed independent advisors and actuaries support the Committee. The day-to-day management of the Fund's assets in accordance with this strategy is delegated to LPPI ("the Investment Manager").
- 1.8.** This ISS will be reviewed at least once every three years as per the statutory guidance, or more frequently as required - in particular following actuarial valuations, future asset/liability studies, performance reviews, or legislation changes (e.g. Taskforce for Climate Related Financial Disclosures ("TCFD")) which may indicate a need to change investment policy, or significant changes to the Funding Strategy Statement ("FSS").
- 1.9.** The Strategic Asset Allocation, as detailed in Section 4 of this document may be changed from time to time without full review and consultation of the ISS.. The mechanics for this such an amendment will be a separate review and approval of **Schedule 1: RCBPF Strategic Asset Allocation** by the Committee.
- 1.10.** The Administering Authority confirms (on accordance with Regulation 7(4) of the Investment Regulations) that the Fund has no investments in entities that are connected with the authority but if in future it chooses to do so, these will be limited to no more than 5% of the Fund's assets.
- 1.11.** The Administering Authority confirms (in accordance with Regulation 7(8) of the Investment Regulations) that the Fund will invest, in accordance with its investment strategy, any Fund money that is not needed to make payments from the Fund. Section 4 of the ISS sets the strategic allocation targets and maximum percentage of total Fund value for Fund Cash holdings.
- 1.12.** The Funds Investment Strategy applies to all Fund assets in respect of all employers, for the avoidance of doubt the ISS does not enable bespoke investment strategies for individual or groups of employers under any circumstances. Should this be considered in the future, the ISS will be required to be revised and consulted on again.



## 2. Investment Principles

- 2.1.** Governing all investment decisions are the Committee's core investment principles, beliefs and philosophy. They have been established based on the views of the Committee members, based on the expert advice of the Investment Manager and the Fund's independent advisors, these are listed as follows:

### *Principle 1: Investment Governance*

- 2.1.1.** The Fund has access to the necessary skills, expertise, and resources to manage the whole Fund, as well as managing the Fund's cash needs internally.
- 2.1.2.** The Investment Manager, independent advisors, officers and the local pension board are a source of expertise and research to inform and assist the Committee's decisions.
- 2.1.3.** The ultimate aim of the Fund's investment activities is to pay pension liabilities when they become due. The Committee will therefore work with the Investment Manager to ensure that the liquidity profile of the Fund is appropriate to ensure the long-term ability of the Fund to meet these obligations.
- 2.1.4.** The Fund is continuously improving its governance structure through bespoke training to make well informed strategic allocation decision but acknowledges that it is not possible to achieve optimum market timing or to predict future financial market outcomes.
- 2.1.5.** All meetings and investment decisions relating to the setting of Investment Strategy and Strategic Asset Allocation will be minuted.

### *Principle 2: Long Term Approach*

- 2.1.6.** The strength of the majority of employers' covenant allows the Fund to take a long-term approach to its investment strategy, enabling the investment in less liquid assets and the ability to assess the performance of the Investment Manager in these asset classes over a longer-term time frame.
- 2.1.7.** The most important aspect of risk is not the volatility of returns, but the risk of absolute loss of capital over the medium and long term. An important focus for the Fund is to ensure stability and affordability of employer contributions over the long-run.
- 2.1.8.** Illiquidity is a risk which offers a potential source of additional compensation to the long-term investor. As a long term investor, the Fund seeks to be a liquidity provider which presents opportunities in times of market stress.
- 2.1.9.** Over the long term, equities are generally expected to outperform other liquid assets, particularly government bonds and cash. The Fund seeks to invest a significant portion of assets in high quality equity or equity-like securities.

### *Principle 3: Environmental, Social and Governance ("ESG") factors*

- 2.1.10.** Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
- 2.1.11.** All things being equal, well governed companies that manage their business in a responsible manner



are generally less vulnerable to idiosyncratic downside risk and may therefore produce higher returns over the long term.

- 2.1.12.** In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they significantly invest in.
- 2.1.13.** The Fund's Responsible Investment (RI) Policy reflects the urgency of the threat that ESG risks present to the Fund and includes the expectation that the Investment Manager will pursue a policy of active, effective engagement with companies in which ownership stakes are held.
- 2.1.14.** The Committee recognises the Administering Authority's net-zero commitment along with that of many of the other scheme employers. The Committee also recognises that a growing number of scheme members want to see significant weight given to these issues. Due consideration to these issues shall be made throughout the investment process and in line with the Fund's RI Policy.

#### *Principle 4: Asset allocation*

- 2.1.15.** Allocations to asset classes other than equities, cash and government bonds (e.g., corporate bonds, private markets, property, infrastructure and diversifying strategies) offer the Fund other forms of risk premia (e.g., additional solvency risk/liquidity risk).
- 2.1.16.** Diversification across asset classes and asset types that have low correlation with each other across the market cycle will tend to reduce the volatility of the overall Fund return.
- 2.1.17.** As the funding level improves, the Committee may look to specific lower risk strategies to reduce the volatility of the Fund's actuarial funding level.
- 2.1.18.** With the aim of reducing longevity risk (the risk of increases in mortality rates beyond unhedged actuarial expectations (pensioners living longer than anticipated and therefore benefits extending longer than planned)), a longevity insurance contract has been entered into covering all pensioner members of the Fund who had started receiving their pension by the end of July 2009 including their dependants.

#### *Principle 5: Management Strategies*

- 2.1.19.** Active management will typically incur higher investment management fees but can provide additional return. Fees should be carefully considered and aligned to the best interests of the Fund.
- 2.1.20.** Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment thesis, perceived value-add and process on appointment are being delivered and that continued appointment is appropriate.
- 2.1.21.** Employing a range of management styles can reduce the volatility of overall Fund returns.
- 2.2.** The Fund has an overall return objective of 6% annually (paragraph 3.13) and will aim for an appropriate level of risk within its asset allocation to deliver that return, so as to achieve a long-term funding aim while aiming to deliver an appropriate investment income yield to maintain a positive Fund cash-flow position (paragraph 2.4).
- 2.3.** The Fund aims to, where possible, ensure that the portfolio is inflation resilient through its asset

allocation activities.

- 2.4.** The Fund aims to keep asset value drawdowns to a minimum, recognising the positive non-investment cashflows through contributions employer deficit recovery payments, plus an appropriate minimum investment income yield. Based upon the 2022 Triennial Valuation the Fund is expected to remain net cash-flow positive in the near term, although progressively, and likely following the next triennial valuation, this position is expected to change.
- 2.5.** Cash balances should be diligently managed to ensure they remain within the ranges set in the strategic asset allocation by employing a strict treasury management processes. Where cash balances are held, an appropriate return is targeted of at least SONIA or other relevant interbank overnight rate of return. It should be noted that whilst cash offers the benefit of liquidity, it generally creates a drag on fund performance so must be managed and invested appropriately.
- 2.6.** The Fund may, from time to time, use derivatives or other complex financial instruments to meet its investment objectives and/or appropriately manage various investment risks provided adequate professional advice is sought and the risks are fully and prudently considered by the Committee. An example is the use of forward rate agreements to obtain synthetic currency exposure.
- 2.7.** The Fund may, from time to time, use borrowing or other debt-type instruments to help meet its liquidity requirements and/or appropriately manage various investment risks provided adequate professional advice is sought and the risks are fully and prudently considered by the Committee. An example is the use of short-term borrowing to fund cash-flow requirements in lieu of receiving a known dividend distribution.

### 3. ISS Objectives

#### *Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments*

- 3.1.** Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.
- 3.2.** To mitigate investment risk, the Committee recognises that the Fund should have an investment strategy that has:
- 3.2.1.** Exposure to a diverse range of sources of return, such as market return, manager skill and using illiquid holdings.
  - 3.2.2.** Exposure to a range of instruments for specific risk hedging purposes to be used where appropriate (longevity, currency etc.).
  - 3.2.3.** Diversification in the asset classes used.
  - 3.2.4.** Diversification in the approaches to the management of the underlying assets.
  - 3.2.5.** Adaptability to be able to maintain liquidity for the Fund.
- 3.3.** The Fund's approach to diversification is to divide its assets into seven distinct categories; public equities, fixed income, credit, infrastructure, private equity, real estate and cash as well as entering into a longevity insurance contract. The size of the assets invested in each category will vary, the strategic asset allocation is detailed in Section 4 of this ISS. It is important to note that each category is itself diversified. As a result, the Fund's assets are invested in a wide range of instruments.
- 3.4.** The main risk the Committee are concerned with is to ensure the long-term ability of the Fund to meet pension and other benefit obligations in full as they fall due. As a result, the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Committee considers excessive.
- 3.5.** The Fund currently has a positive cash flow position, however, the gap between contributions received and benefits paid is narrowing and consequently the Fund will progressively evolve to being cash-flow negative. The Fund may at times have a negative cash flow position, consequently the Fund liquidity must be closely monitored by the Investment Manager and Fund officers. In addition, a portion of the Fund's assets are invested to generate an income yield.
- 3.6.** At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are in the best long-term interest of Fund beneficiaries and seeks appropriate advice from the Investment Manager and independent investment advisors as appropriate.
- 3.7.** To mitigate these risks the Committee regularly (at least on a quarterly basis) reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its asset class return objectives as well as its overall return objective as defined in paragraph 3.13. The Committee will keep the Investment Manager and this ISS under review to ensure that the approaches are consistent.
- 3.8.** The Fund aims to allocate up to 5% of its Assets for investment in local projects which support local areas, subject to all suitability criteria in Objective 7.2(b) being met and the Fund having no conflict in undertaking its fiduciary duty to scheme members and employers.

***Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment***

- 3.9.** Suitability is a critical test for whether a particular investment should be made. When assessing the suitability of investments, the Investment Manager (as delegated by the Committee) considers the following from its due diligence:
- 3.9.1.** Prospective return
  - 3.9.2.** Risk
  - 3.9.3.** Concentration
  - 3.9.4.** Risk management qualities the investment has when the portfolio as a whole is considered
  - 3.9.5.** Geographic and currency exposures
  - 3.9.6.** Possible correlation and interactions with other investments in the portfolio
  - 3.9.7.** Whether the management of the asset meets the Fund's ESG criteria.
- 3.10.** Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.
- 3.11.** The Committee monitors the suitability of the Fund's asset allocations on a quarterly basis. The Committee do not have access to data on individual investments and therefore monitor performance at the asset class level unless LPPI report exceptions. To that end LPPI monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk whilst the Committee consider these wholistically at the asset-class and whole-fund level. This latter point being to ensure the risks caused by interactions between investments within the portfolio are properly understood and considered.
- 3.12.** Where comparative statistics are available for presentation by the Investment Manager or other external body, the Committee will also compare the Fund's asset performance with those of similar funds. The Committee relies on external advice in relation to the collation of the statistics for review.
- 3.13.** The Fund targets a long-term absolute return of 6% per-annum, a rate advised by the actuary at the last triennial valuation (equivalent to 2.9% (long-term CPI assumption) + 3.1% at 31 March 2022). This is referred to by the Fund as the 'Actuarial Benchmark', or the required rate of annual return to achieve a 100% funding level at the end of the deficit recovery period (31 March 2040) without additional deficit recovery (secondary) contributions from employers. This rate is subject to further change and shall be revised at the next triennial valuation. For the avoidance of doubt – this is not the actuarial discount rate. The term 'actuarial Benchmark' may be used interchangeably with the term 'overall return objective'.
- 3.14.** The Fund will aim for an appropriate level of risk within its asset allocation, so as to achieve a long-term funding aim. No explicit volatility target is set in this Investment Strategy Statement.
- 3.15.** Investments are assessed by the Investment Manager to determine suitability considering all factors but not limited to; consideration of the long-term absolute return target, portfolio volatility and the suitability indicators as listed in paragraph 3.9

**Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed**

- 3.16.** The Fund has adopted the CIPFA (2018) framework for managing risks in the LGPS, to assist it in risk identification, assessment, and mitigation. In line with best practice, the Fund maintains a risk register with all known material risks, each with several mitigation/control measures and several carefully calculated risk scores. The main risks to the Fund, however, are highlighted within the FSS.
- 3.17.** The Committee recognises that there are many risks involved in the investment of the assets of the Fund. Several of these key investment risks are highlighted below along with how the Fund seeks to mitigate them:

*Investment Manager risk:*

- 3.17.1.** Selection of investment strategies is delegated to the Investment Manager. The Investment Manager selects and monitors underlying investment managers on behalf of the Fund. This oversight includes manager performance and associated risks. The Investment Manager regularly reviews the risk and return objectives of these investment managers, evaluates their performance and appraises management processes

*Geopolitical and political risks:*

- 3.17.2.** Geopolitical risks are considered, where appropriate, by the Investment Manager. They are expected to be managed by the avoidance of high levels of concentration in specific geographical areas.
- 3.17.3.** Political risks are considered, where appropriate, by the Investment Manager. They are expected to be managed by pursuing investments in countries that the "rule of law" prevails and the institutional set up is strong. Avoiding high levels of concentration risk is also a route to managing these risks.

*Currency risks:*

- 3.17.4.** Currency risks are tolerated and managed within the parameters set in the Fund's Risk Appetite Statements (within the Fund's risk management policy). Currency risk is incorporated in any analysis that guides the Fund's strategic asset allocation and thus ultimately is considered as part of pursuing the Fund's long term funding objectives.
- 3.17.5.** The Fund maintains the ability to manage currency exposure through the use of derivatives alongside its strategic asset allocation, effectively targeting specific currency weights – the Fund refers to this process as strategic currency allocation(SCA). Any SCA if introduced after the date of approving this ISS , if approved by the Committee shall be documented in **Schedule 1: RCBPF Strategic Asset Allocation**.

*Solvency and mismatching risk:*

- 3.17.6.** This risk is monitored and managed, taking into account the Fund's risk appetite statement, through an assessment of the expected development of the liabilities relative to the expected development of the current and alternative investment policies; and
- 3.17.7.** Is monitored by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

### *Liquidity risk:*

- 3.17.8.** This is a function of liquid asset holdings and expected portfolio income relative to the level of cash flow required over a specified period and in stress events; and
- 3.17.9.** Is managed by assessing the level of cash held and payable/receivable over a period of time in order to limit the impact of the cash flow requirements from the unplanned sale of investments.

### *Custodial risk:*

- 3.17.10.** This is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.
- 3.18.** The risks to the Fund concerned with the investment of Fund assets are controlled in the following ways:
  - 3.18.1.** The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the Investment Manager from deviating significantly from the intended approach while permitting the flexibility to enhance returns.
  - 3.18.2.** The appointment of more than one manager by the Investment Manager with different mandates and approaches provides for the diversification of manager risk.
- 3.19.** The Advisory Management Agreement (AMA) agreement constrains the Investment Manager's actions in areas of particular risk and sets out the respective responsibilities of both the Investment Manager and the Fund.
- 3.20.** The Committee are aware investment risk is only one aspect of the risks facing the Fund.
- 3.21.** The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is appropriate and will continue to be so. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate. Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them.
- 3.22.** To help manage risk, the Committee has agreed a risk management policy (including specific investment and funding risk appetite statements) alongside this statement. Within the risk appetite statements, the Investment Manager is engaged to monitor and manage the risk focusing on four key parameters; funding level, contributions, liquidity and asset allocation.
- 3.23.** When reviewing the investment strategy on a quarterly basis the Committee considers advice from their Independent Advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this the risk register is updated on a quarterly basis.
- 3.24.** At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

## **Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles**

- 3.25.** The Government requires LGPS funds to pool their investments as a solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost. The Funds approach to pooling arrangements meet the criteria set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.
- 3.26.** The Fund became an investment client of LPPI as part of the Government's pooling agenda on 1 June 2018, outsourcing all active day-to-day asset management activities along with pooling funds into LPPI's investment "buckets" as appropriate. LPPI was launched in December 2015 by two pension funds; the Lancashire County Pension Fund (LCPF) and the London Pensions Fund Authority (LPFA) with the Fund later joining in 2018. LPPI now has circa £23bn under direct management, with seven funds launched as at March 2023.
- 3.27.** The Fund has transitioned c.80% of assets to the LPPI pooled investment vehicles as of March 2023. Going forward the Fund will look to transition further assets as and when there are suitable investment opportunities available that meet the needs of the Fund and where there are no excessive cost, legal or other restraints such as those caused by the legacy investments in illiquid private market investments. As such, the remaining c20% is currently held outside of LPPI pooled funds but are externally managed by LPPI as the Investment Manager under the terms of the AMA. The Committee is aware that certain assets held within the Fund have limited liquidity and disposing/transferring them would come at a disproportionate cost. The position is periodically reviewed by the Investment Manager
- 3.28.** LPPI's Investment Committee, which is independent of clients and shareholders in terms of both its directive and membership, is responsible for scrutinising the actions of its investment team, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, RI and emerging issues. The LPPI Investment Committee meets on a quarterly basis. LPPI regularly hosts investment/client conferences, to which all members and clients are invited. External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the Department for Levelling Up, Housing and Communities (DLUHC).

## **Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

- 3.29.** The Committee (following the recommendation of the Responsible Investment working group ("the task and finish group")) approved a revised RI policy in October 2022. This RI policy is available for viewing on the Fund's website and is kept continuously under review. The Fund's RI policy sets out in detail how ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- 3.30.** The RI policy sets out the Fund's values and principles in respect of RI, its priorities in respect of ESG and its approach to RI implementation. One of the underpinning values of the RI policy and in deed the Fund's approach to investment and governance in general is continuous improvement. Consequently, the Fund seeks to ensure it is continuously adapting to changes in this multi-faceted and complex area to ensure it achieves best outcomes.
- 3.31.** Taskforce for Climate Related Financial Disclosures ("TCFD") implementation in the LGPS is expected from late 2024 (pending legislative guidance) and will require statutory disclosures by the Fund. The Fund's RI policy enables compliance with TCFD, however, may be revised as appropriate as guidance becomes available.

## Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

- 3.32. The Committee has delegated the Fund's voting rights to the Investment Manager, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the Investment Manager to vote in the best interests of the Fund. In addition, the Fund expects its Investment Manager to work collaboratively with others, particularly other LGPS Investment Managers, if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.
- 3.33. As the role of voting and engagement is outsourced to LPPI, the Fund has included the Investment Manager's shareholder voting policy on the Fund's website, which was last approved in December 2022 and shall be kept under review.
- 3.34. The Fund through its participation with LPPI and through other means will work closely with other LGPS Funds to enhance the level of engagement both with external managers and the underlying companies in which it invests.
- 3.35. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners.
- 3.36. Ongoing voting and engagement is covered within the Funds RI Policy
- 3.37. The Committee expects LPPI and any other directly appointed asset managers to comply with the Stewardship Code (2020) and this routinely monitored.

## 4. Strategic Asset Allocation

- 4.1. Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (Regulation 7(3)), "The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment."
- 4.2. *Schedule 1: RCBPF Strategic Asset Allocation* sets out the Target Allocation for each asset class, along with the minimum and maximum Tolerance Ranges, the investment return benchmark and the target rate of return (or investment objective) for each asset class.
- 4.3. The Fund entered a Longevity insurance contract in 2009 with the aim of hedging longevity increases for all retired members and their dependants as at the time of entering into the contract. Changes in longevity and mortality assumptions present liquidity strain. This has been considered in setting the Funds SAA.



## Schedule 1: RCBPF Strategic Asset Allocation

**Table 1: SAA (TO BE REVISED ONCE A DECISION IS TAKEN ON AGENDA ITEM 13 – March 2023 COMMITTEE)**

Asset Class	Target Allocation	Tolerance Range	Benchmark	Investment Objective
Global Equity	50%	45%-55%	MSCI All Country World (net dividends reinvested) Index (GBP)	Benchmark plus 2%
Private Equity	15%	10% -20%	MSCI World SMID (net dividends reinvested) Index (GBP)	Benchmark plus 4% - 6%
Fixed Income	1.5%	0% - 3%	Bloomberg Barclays Global Aggregate Bond Index (GBP Hedged)	Benchmark plus 0.5%
Credit	12.5%	7.5% - 17.5%	50% S&P/LSTA Leveraged Loans Index (GBP Hedged), 50% Bloomberg Barclays Multiverse Corporate Index (GBP Hedged)	Benchmark plus 3% - 5%
Real Estate	7.5%	2.5% - 12.5%	MSCI UK Quarterly Property Index (GBP)	Benchmark plus 2%
Infrastructure	12.5%	7.5% - 17.5%	UK CPI + 4% p.a	Benchmark plus 2%
Cash	1%	0% - 3%	SONIA	Benchmark

**1.1.** The Fund does not currently operate a Strategic Currency Allocation



## GOVERNANCE

## COMPLIANCE

## STATEMENT

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## 1. INTRODUCTION

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

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

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

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

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

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

## 2. STRUCTURE

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

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

- i. The management of the administration of benefits and strategic allocation of fund assets.

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

- ii. Representatives of Scheme employers should sit on 'the Advisory Panel' to underpin the work of 'the Committee'.

**Compliant** – Membership of 'the Advisory Panel' includes one Elected Member from each of the other five Berkshire Unitary Authorities.

- iii. The structure of 'the Committee' and 'the Advisory Panel' should ensure effective communication across both levels.

**Compliant** – 'The Advisory Panel' meets concurrently with 'the Committee' with both receiving the same information.

- iv. At least one seat on 'the Committee' should be allocated for a member of 'the Advisory Panel'.

**Compliant** – All five seats on 'the Committee' are allocated to the five RBWM members of 'the Advisory Panel'.

- v. The structure of 'the Pension Board' must consist of an equal number of Scheme member and Scheme employer representatives all of whom have voting rights.

**Compliant** – Membership of 'the Pension Board' consists of three Scheme member representatives and three Scheme employer representatives.

### 3. REPRESENTATION

All key stakeholders should be afforded the opportunity to be represented by 'the Committee', 'the Advisory Panel' and 'the Pension Board'. To ensure compliance, a number of principles have been identified.

The key stakeholders are:

- i. Scheme employers.

**Compliant** – The six Berkshire Unitary Authorities are represented through membership of 'the Committee' and 'Advisory Panel' which meet concurrently. In addition, three Scheme employer representatives make up membership of 'the Pension Board'

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

**Compliant** – 'The Advisory Panel' has representatives from the major employers and in addition 3 Scheme member representatives sit on 'the Pension Board'

- iii. Independent Professional Observers.

**Compliant** – From March 2022, two Independent Advisers attend each meeting of 'the Committee' and 'the Advisory Panel' (formerly three independent advisors). Independent Advisers are also required to attend meetings of 'the Pension Board' as may be requested.

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

**Compliant** – Expert advisers are invited to meetings of 'the Committee' and 'the Advisory Panel' as required. In addition, expert advisers are required to attend meetings of 'the Pension Board' as may be requested.

- v. Where lay members sit on either 'the Committee', 'the Advisory Panel' or 'the Pension Board' they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision-making process with or without voting rights.

**Compliant** – Members of 'the Committee', 'the Advisory Panel' and 'the Pension Board' are treated equally in respect of access to papers, meetings and training. All members are

given full opportunity to contribute to the decision-making process although only members of 'the Committee' have voting rights.

#### 4. SELECTION AND ROLE OF LAY MEMBERS

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

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

#### 5. VOTING

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

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

#### 6. TRAINING / FACILITY TIME / EXPENSES

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

**Compliant** – All members of 'the Committee' and 'the Advisory Panel' are entitled to attend or request training. Members of 'the Pension Board' are required to have a working knowledge of the LGPS regulations and other associated legislation as it relates to the governance and administration of the Scheme and so must commit to undertaking the relevant training in order to achieve this requirement. All members of 'the Committee', 'the Advisory Panel' and 'the Board' are entitled to request the use of facilities belonging to RBWM in respect of their respective duties and reasonable expenses incurred will be reimbursed upon request. Furthermore, a training framework/plan is approved by 'the Committee' and training records are held by the Fund.

- ii. Any policy must apply equally to all members of the Committee/Advisory Panel/Board.

**Compliant** – No distinction is made between members of 'the Committee', 'the Advisory Panel' or 'the Board'.

#### 7. MEETINGS (frequency/Quorum)

- i. RBWM will hold meetings of 'the Committee' at least quarterly.

**Compliant** – Meetings are held quarterly. To be quorate two members are required to attend.

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

**Compliant** – Both ‘the Committee’ and ‘the Advisory Panel’ meet concurrently

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

**Compliant** – ‘The Pension Board’ meets quarterly at a satisfactorily and mutually agreed date ahead of each meeting of ‘the Committee’ and ‘the Advisory Panel’. To be quorate at least 50% of the Scheme Member representatives and Scheme Employer Representatives must attend with at least one member being present from each group.

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

**Compliant** – ‘The Pension Board’ has three lay member (scheme member) representatives. An annual meeting for scheme members is held in November/December along with a scheme employer meeting being held in March/April. In addition, pension surgeries and employer training events are held throughout the year.

## 8. ACCESS

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

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

## 9. SCOPE

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

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

## 10. PUBLICITY

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

**Compliant** – The Governance Policy Statement and governance structure is published on the Royal County of Berkshire Pension Fund website ([www.berkshirepensions.org.uk](http://www.berkshirepensions.org.uk)) and is available on request from the Pension Fund. The Royal Borough of Windsor and Maidenhead’s constitution including terms of reference for the relevant decision-making bodies are available on the council’s website

## ANNEX 1 – TRAINING RECORDS

BERKSHIRE PENSION FUND COMMITTEE / ADVISORY PANEL - TRAINING LOG												
Training Framework	Committee					Advisory Panel						
	JS	DH	SB	WD	SS	SA	GD	MG	AL	IL		
<b>Essential Training: TPR's Public Sector Online Toolkit (7 modules):</b>												
Conflicts of Interest												
Managing Risk and Internal Control												
Maintaining Accurate Records												
Maintaining Member Contributions												
Providing Information to Members and Others												
Resolving Internal Disputes												
Reporting Breaches of the Law												
<b>Date</b>	<b>Additional Training</b>											
20/09/2020	Pension Fund Governance											
10/08/2021	Asset Classes (June/Sept Intra-quarter LPPI session - SAA health check)											
01/09/2021	Strategic Asset Allocation (SAA) (June/Sept Intra-quarter LPPI session - SAA health check follow-up)											
02/11/2021	High Level Hedging - Currency Focus (SCA) - (Sept/Dec intra-quarter LPPI session)											
16/12/2021	An introduction to (LPPI) (LPPI Session at AGM)											
16/12/2021	Reporting Investment Performance (LPPI Session at AGM)											
16/12/2021	The role of the Actuary (Barnett Waddingham session at AGM)											
21/01/2022	Liability discounting technical session and valuation process											
03/02/2022	Real assets portfolio overview (Real estate & infrastructure classes) - LPPI training session											
01/03/2022	LPPI Investment Conference - Day 1 - General investment training											
02/03/2022	LPPI Investment Conference - Day 2 - General investment training											
21/04/2022	Risk Appetite Statement Training - LPPI											
27/04/2022	Longevity Contract Training - BW											
25/04/2022	Responsible Investment Training (RI working Group Session 1) - LPPI											
10/05/2022	Responsible Investment Training (RI working Group Session 2) - LPPI											
13/06/2022	Responsible Investment Training (RI working Group Session 3) - LPPI											
01/08/2022	Responsible Investment Training (RI working Group Session 4) - LPPI											
16/11/2022	Triennial valuation training and results - at AGM - Barnett Waddingham											
01/12/2022	Annual report audit overview - Deloitte - at Committee pre-meet											
06/12/2022	Triennial valuation training session and results overview - Barnett Waddingham											
01/03/2023	LPPI Investment Conference - Day 1 - General investment training											
02/03/2023	LPPI Investment Conference - Day 2 - General investment training											

<b>Key:</b>	JS: Cllr Julian Sharpe (RBWM)
	DH: Cllr David Hilton (RBWM)
	SB: Cllr Simon Bond (RBWM)
	WD: Cllr Wisdom Da Costa (RBWM)
	SS: Cllr Shamsul Shelim (RBWM)
	SA: Cllr Safdar Ali (Slough)
	GD: Cllr Glenn Dennis (Reading)
	MG: Cllr Maria Gee (Wokingham)
	AL: Cllr Alan Law (West Berkshire)
	IL: Cllr Ian Leake (Bracknell Forest)

Approved by Pension Fund Committee – 13 March 2023  
 Last approved – 7 March 2022

**BERKSHIRE PENSION BOARD - TRAINING LOG**

<b>Training Framework</b>	<b>AC</b>	<b>AP</b>	<b>JF</b>	<b>NC</b>	<b>JC</b>	<b>KF</b>
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<b>Key:</b>	AC: Alan Cross
	AP: Arthur Parker
	JF: Jeff Ford
	NC: Nikki Craig
	JC: Julian Curzon
	KF: Kieron Finlay

**TPR's Public Sector Online Toolkit (7 modules): <https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes>**

Conflicts of Interest						
Managing Risk and Internal Control						
Maintaining Accurate Records						
Maintaining Member Contributions						
Providing Information to Members and Others						
Resolving Internal Disputes						
Reporting Breaches of the Law						

**Additional TPR modules**

Pension scams						
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<b>Date</b>	<b>Training Items April 2022 to March 2025</b>					
22/06/2022	Barnett Waddingham LGPS Local Pension Board Members' All Day Event					
14/07/2022	CIPFA Conference					



# Equality Impact Assessment

For support in completing this EQIA, please consult the EQIA Guidance Document or contact [equality@rbwm.gov.uk](mailto:equality@rbwm.gov.uk)

www.rbwm.gov.uk



## 1. Background Information

Title of policy/strategy/plan:	Statutory Policies
Service area:	Finance
Directorate:	Pension Fund

### **Provide a brief explanation of the proposal:**

- What are its intended outcomes?
- Who will deliver it?
- Is it a new proposal or a change to an existing one?

13 March 2023 Committee Meeting –

This report covers three key statutory documents as required by the LGPS regulations which are brought back to the Pension Fund Committee for periodic review and re-approval.

Appendix 1 covers the Fund's Funding Strategy Statement (FSS), Appendix 2 covers the Fund's Investment Strategy Statement (ISS) and Appendix 3 covers the Fund's Governance Compliance Statement and annual report of training records.

## 2. Relevance Check

### **Is this proposal likely to directly impact people, communities or RBWM employees?**

- If Yes, state 'Yes' and proceed to Section 3.
- If No, please explain why not, including how you've considered equality issues.
- Will this proposal need a EQIA at a later stage? (for example, for a forthcoming action plan)

No, full assessment not required as this report is unlikely to have a specific impact on individuals or groups of people with protected characteristics

If 'No', proceed to 'Sign off'. If unsure, please contact [equality@rbwm.gov.uk](mailto:equality@rbwm.gov.uk)

### 3. Evidence Gathering and Stakeholder Engagement

**Who will be affected by this proposal?**

For example, users of a particular service, residents of a geographical area, staff

**Among those affected by the proposal, are protected characteristics (age, sex, disability, race, religion, sexual orientation, gender reassignment, pregnancy/maternity, marriage/civil partnership) disproportionately represented?**

For example, compared to the general population do a higher proportion have disabilities?

**What engagement/consultation has been undertaken or planned?**

- How has/will equality considerations be taken into account?
- Where known, what were the outcomes of this engagement?

**What sources of data and evidence have been used in this assessment?**

Please consult the [EQIA Evidence Matrix](#) for relevant data. Examples of other possible sources of information are in the Guidance document (Section 2.3).

## 4. Equality Analysis

Please detail, **using supporting evidence**:

- How the protected characteristics below might influence the needs and experiences of individuals, in relation to this proposal.
- How these characteristics might affect the impact of this proposal.

Tick positive/negative impact as appropriate. If there is no impact, or a neutral impact, state 'Not Applicable'.

More information on each protected characteristic is provided in the EQIA Guidance document (available on the intranet).

	Details and supporting evidence	Potential positive impact	Potential negative impact
Age			
Disability			
Sex			
Race, ethnicity and religion			
Sexual orientation and gender reassignment			
Pregnancy and maternity			
Marriage and civil partnership			
Armed forces community			
Socio-economic considerations e.g. low income, poverty			
Children in care/Care leavers			

## 5. Impact Assessment and Monitoring

*If you have not identified any disproportionate impacts and the questions below are not applicable, leave them blank and proceed to Sign Off.*

**What measures have been taken to ensure that groups with protected characteristics are able to benefit from this change, or are not disadvantaged by it?**

For example, adjustments needed to accommodate the needs of a particular group

**Where a potential negative impact cannot be avoided, what measures have been put in place to mitigate or minimise this?**

- For planned future actions, provide the name of the responsible individual and the target date for implementation.

**How will the equality impacts identified here be monitored and reviewed in the future?**

## 6. Sign Off

<b>Completed by:</b> Damien Pantling	<b>Date:</b> 18/02/2023
<b>Approved by:</b>	<b>Date:</b>

If this version of the EQIA has been reviewed and/or updated:

<b>Reviewed by:</b>	<b>Date:</b>
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