

# **Royal County of Berkshire Pension Fund**

## **Annual Report and Accounts**



**2013/2014**

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## **PENSION FUND PANEL**

Chairman	Councillor J Lenton
Vice Chairman	Councillor D Hilton
Other members	Councillor G Hill Councillor P Comber Councillor S Dudley

## **PENSION FUND ADVISORY PANEL**

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

Councillor D Worrall (Bracknell Forest Borough Council)  
Councillor P Ruhemann (Reading Borough Council) (to 21/7/13)  
Councillor B Tickner (from 22/7/13)  
Councillor M Sharif (Slough Borough Council) (to 5/5/13)  
Councillor M Rasib (Slough Borough Council) (from 6/5/13)  
Councillor A Law (West Berkshire Council)  
Councillor R Stanton (Wokingham Borough Council) (from 29/5/12)  
Ms Kamaljit Dhoot (University of West London) (to 31/5/13)  
Mr P Fuller (University of West London) (from 1/6/13)  
Mr I Menzies-Conacher (Thames Valley Probation Board)  
Ms S Nicholls (UNISON)  
Mr F Minal

## **ADVISERS**

Actuary	Barnett Waddingham LLP
Independent Investment Adviser	Mr P Read (to 31/12/12) The Law Debenture Pension Trustee Corporation (Mr J Nestor from 19/7/13)
Independent Strategy Advisers (to the Investment Working Group)	Ms A Devitt (from 1/11/12) Mr W Bourne

## **Global Custodian**

JP Morgan Worldwide Securities Services

## **Additional Voluntary Contribution Provider**

Prudential Assurance Company

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

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

## **CHAIRMAN'S INTRODUCTION**

It gives me great pleasure as Chairman of the Pension Fund Panel and the Pension Fund Advisory Panel to present the Annual Report and Accounts for the financial year ended 31<sup>st</sup> March 2014 for the Royal County of Berkshire Pension Fund.

As most readers will know the Royal Borough of Windsor & Maidenhead administers the Fund on behalf of the 6 Berkshire unitary authority members and around 200 other public sector body members with similar but smaller pension arrangements. This number continues to grow largely due to schools moving from LEA control to independent academy status. I am once again most grateful to the administration team for the training they have provided to schools converting to academy status as well as the additional training given to all employers ahead of the introduction of auto-enrolment into the Fund for qualifying employees.

A major focus during the year was preparing for the significant changes to the Local Government Pension Scheme as it moved from a final salary to a Career Average Revalued Earnings scheme. This has involved extensive working in updating information and training employers. The move has been largely uneventful and this is largely due to the professionalism exhibited by the staff involved.

In addition at the end of 2013 the Government announced a re-organisation of the Probation service and the transfer of the associated pensions services to the Greater Manchester Pension Fund from 1<sup>st</sup> June 2014. As a result of this move Mr Ian Menzies-Conacher will step down from the Pension Fund Advisory Panel and Investment Working Group. I would like to thank him for his most valuable services to the Fund over several years.

The Fund is administered by the Pension Fund Panel, which comprises five Councillors from the Royal Borough of Windsor & Maidenhead. Invaluable support to the Panel is provided by the Pension Fund Advisory Panel, which consists of representatives from the other five unitary authorities within the fund, two representatives from the larger non-local authority employers, two trade union representatives and two member representatives.

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

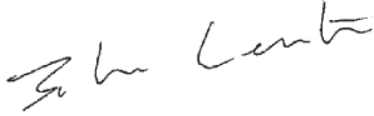
Investment markets continued to be resilient during the financial year despite the US Federal Reserve reducing the pace at which it injects liquidity into the US bond market. A noticeable exception was the equity and bond markets in Emerging Markets which were noticeably weak as investors worried over the potential impact on those economies if foreign investment in those countries was to decline. The Fund managed an investment return of 6.9% over the year and on an annualised basis 7.0% per annum over the last three years. The Panel agreed that investment performance should be measured in real terms against a long-term investment target and that the target return should exceed the real discount rate used by the Actuary in the 2013 Actuarial Valuation. Accordingly the real return target for the Fund's investments is 4.0% per annum. The real investment return achieved of 4.1% over 1 year and 4.0% over three years was in-line with the long term investment return target and comfortably exceeded the real discount rate used by the Actuary in the valuation.

The result of the triennial actuarial valuation of the Fund as at 31 March 2013 was received during the year. Following the valuation, which involved a significant strengthening of assumptions, a Rates and Adjustments Certificate with new employer contribution rates effective from 1 April 2014 was issued. On the same date new employee contribution rates were introduced following the move to a Career Average Revalued Earnings scheme..

Our administration team was busy throughout the year not only with paying benefits and dealing with member enquiries but also ensuring that high quality data was submitted to the Actuary for

the valuation and preparing for the change in benefits from 1 April 2014. Use of “myPension Online” allowing members to receive communications electronically and update their details as required has continued to grow.

Finally I would like to thank Nick Greenwood, our Pension Fund Manager and the Pension Fund Team for their hard and skilful work over the last twelve months in providing members and other stakeholders in the Fund with a friendly and very efficient service.

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

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

# SCHEME ADMINISTRATION REPORT

## INTRODUCTION

The Royal Borough of Windsor and Maidenhead acts as the administering authority for the Royal County of Berkshire Pension Fund – the pension fund for local government employees in the County of Berkshire. Benefits for members of the Fund are set by regulation, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended).

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

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

<b>Name</b>	<b>Number of Meetings eligible to attend</b>	<b>Attended</b>
Councillor Lenton (Chair)	4	4
Councillor Hilton (Vice Chair)	4	2
Councillor Comber	4	3
Councillor Dudley	4	2
Councillor Hill	4	4

Royal Borough councillors may delegate designated substitute members to attend a Panel meeting if they are unable to attend. Councillor Bathurst attended one meeting as a substitute.

In addition to the invaluable support and advice offered by the Pension Fund Advisory Panel the Pension Fund Panel is assisted by a variety of advisers including the Law Debenture Pension Trustee Corporation (Mr J Nestor from 19/7/13) and Mr Graeme Muir of Barnett Waddingham, the Actuary to the Fund. The Investment Working Group, a sub-group of the panels, is independently advised by Mr William Bourne and Ms Aoifinn Devitt. Additional advice from other professional advisers is sought as necessary. Many of the duties of the Panel are delegated to Officers in accordance with the Royal Borough's constitution.

## CUSTOMER SATISFACTION

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

The 1 April 2014 saw a significant change to the Local Government Pension Scheme with the introduction of a career average scheme, fundamentally different to the final salary scheme currently in place. This event undoubtedly made the Scheme more complex to administer with far greater scrutiny placed on all Pension Funds by The Pensions Regulator.

During the last year in an effort to ease the transition to the new Scheme the administration team has become ever more proactive and faced the communication challenges head not only to ensure members are aware of the impact the changes will make to their pension benefits but to ensure employers are fully educated and understand their responsibilities to provide timely and accurate information and the consequences of their failure to do so. No doubt the forthcoming changes will continue to provide challenges over the year, as work progresses on the finer detail and we will continue to work closely with our members and employers to support them.

## **Compliance with Communications Policy Statement**

Under Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008 The Royal Borough of Windsor & Maidenhead, in its role as administering authority to The Royal County of Berkshire Pension Fund, is required to publish a statement of policy concerning communications.

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

The administering authority keeps the policy statement under review. The following section of this report shows the activities the Pension Fund has undertaken during the last year in maintaining its communication policy:

### **➤ Communication with Employers**

#### Annual Employers Meeting

A meeting of all employers was held on 14 March 2014. Employers were provided with an actuarial update of the Pension Fund, and presentation by *heywood*, the Pension Fund's *altair* software provider, regarding a package called i-Connect aimed at assisting employers with the submission of monthly data electronically by interfacing between payroll and pension administration systems.

#### Quarterly Employer Group Meetings

The Pension Fund chose not to undertake any meeting of this type during the year, as main issues were discussed at the Annual Employers Meeting open to all employers.

#### Training for Employers

The administration team held special training sessions to inform employers of their increased responsibilities in relation to the Scheme changes from 1 April 2014. These sessions were attended by 240 individuals (from over 100 participating employers) with 79.63% believing the training met their expectations.

In addition ad-hoc training sessions were held throughout the year on request.

#### Regular Updates on the LGPS

Bulletins and global emails have been distributed on a regular basis.

### Pension Fund website

The Pension Fund website is under constant review and update. There is a dedicated employer section that contains all information, including standard forms, which an employer needs to administer the LGPS. The website address is [www.berkshirepensions.org.uk](http://www.berkshirepensions.org.uk)

### General Guidance and Assistance

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

### Promotional Services

The Pension Fund continues to produce and publish scheme guides and factsheets relating to specific pension topics all of which are available for download from the Pension Fund website. All scheme guides and leaflets have recently been reviewed and updated.

## ➤ **Communication with All Members**

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

Providing scheme members with access to their own pension record 'my pension ONLINE' continues to prove popular with members.

### Welcome Pack

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

### Annual Benefit Statements

Each active and deferred member of the pension scheme receives an annual benefit statement. We made all Annual Benefit Statements available before 30 September 2013 and with the implementation of 'my pension ONLINE' these statements are now available for viewing, downloading or printing on-line.

The Annual Benefit Statement provides details of benefits built up to 31<sup>st</sup> March the previous year, death in service benefits, details of the members nominated beneficiaries, a service history and details, when available, of their State Pension entitlement, which includes the date from which their State Pension is payable.

### Pension Surgeries

During the year two pension surgeries were held at each of the six Unitary Authorities with additional pension surgeries being held at other employer locations upon request. These pension surgeries provide opportunity for members to discuss any aspect of their pension benefits. The administration team met with 843 scheme members across the 30 pension surgeries held.

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



### Newsletters

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

### Pension Fund Website

The website contains sections dedicated to the following:

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

The site received over 38,000 visits from members and employers during the year and has been described as easily accessible and having many links making navigation user friendly.

In consideration of the significant changes to the Scheme from 1 April 2014 the administration team extensively reviewed and remodelled the website to ensure members are aware of the impact the changes will make to their pension benefits but to ensure a point of reference for employers to help educate and understand their responsibilities.

### Annual Meeting

A meeting took place on 13 November 2013 held at the Town Hall in Maidenhead. At the same time, the pension team invited members to attend an open day at the same location. In attendance were members of the administration and payroll teams, representatives from Barnett Waddingham (the Pension Fund Actuary), Prudential (the Fund's approved Additional Voluntary Contribution provider), and representatives from Age Concern Berkshire.

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

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

### Pension Payslips

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

### P60s

The administration team issued P60s to all pensioner and dependant members in April 2014 well in advance of the HMRC deadline. The Retirement Members area of the Pension Fund website provides a detailed explanation of a P60, which was also our Spring edition of 'The Scribe'. Since the implementation of 'my pension ONLINE' payslips are available for viewing, downloading and printing on-line.

### Annual Pension Increase Letter

The administration team issued a notification to all pensioner and dependant members in April 2014 providing details of the 2.7% increase awarded from 7 April 2014 in line with the Consumer Price Index.

## MANAGEMENT PERFORMANCE

### Key Administration Performance Indicators

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

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

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

Performance for these key procedures over the year was 90.78%, which is a decrease of 7.27% on the 2012/13 year. A summary of achievement in each area is shown in the table below:

Administration Team Performance		2012/13			2013/14		
		Number received	Number within target	% within target	Number received	Number within target	% within target
Case Type	Target (working days)						
Inputting of new members	20	3157	3090	98%	5828	5060	87%
Processing of early leavers	20	2113	2039	97%	2574	2512	98%
Payment of retirement benefits	7	947	925	98%	847	824	97%
Payment of transfer values	15	56	48	86%	43	40	93%

The provisions of the Pensions Act 2011 which introduced the automatic enrolment of employees not contributing to a qualifying pension scheme caused an increase to the number of notifications received from employers confirming new contributors to the Scheme. This resulted in the administration team not achieving the performance standard 'Inputting of new starters'.

The provision also contributed to an increase in the number of notifications received advising us of those employees leaving the scheme. However, an improvement of 1% to the performance standard 'Processing of early leavers' was achieved in the year.

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

<b>Administration Team Performance</b>		<b>2012/13</b>			<b>2013/14</b>		
<b>Case Type</b>	<b>Target (working days)</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>
Employee estimate requests	7	1154	1063	92%	1254	1156	92%
Employer estimate requests	5	469	449	96%	483	451	93%
Changes to personal details	15	1545	1536	99%	2442	2411	99%
Changes to hours and/or weeks	15	2435	2417	99%	2794	2737	98%
Issue of 'my pension ONLINE' Activation Keys	5	723	723	100%	2203	2089	95%
Transfers in	20	172	164	95%	130	119	92%

## Complaints

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

The complaints are monitored in two distinct ways:

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

The table below shows the number of complaints in each category. These represent a minimal percentage of over 27,000 procedures we carried out in 2013/14.

<b>Administration Team Performance</b>		<b>2012/13</b>			<b>2013/14</b>		
<b>Case Type</b>	<b>Target (working days)</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>	<b>Number received</b>	<b>Number within target</b>	<b>% within target</b>
Service	10	7	7	100%	2	2	100%
IDRP	n/a	4	n/a	n/a	2	n/a	n/a

## Key Staffing and Membership Numbers

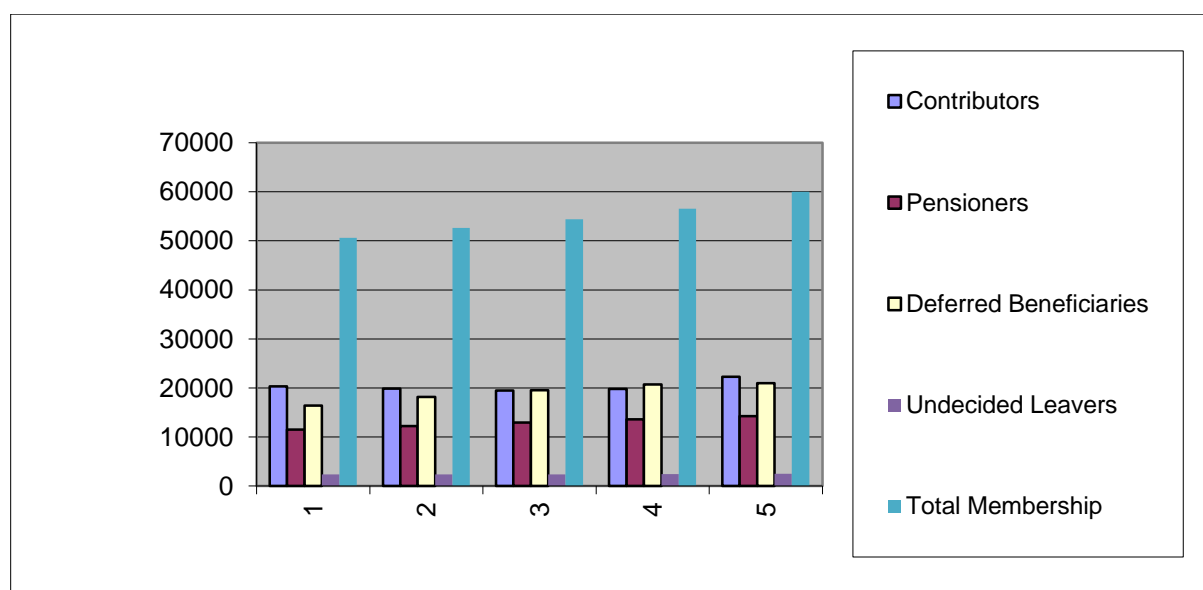
### Staffing

The administration team is made up of the following members:

Year	2012/13	2013/14
Pension Administration Manager	1.0	1.0
Deputy Pension Administration Manager	0.0	1.0
Senior Pension Manager	3.0	1.0
Senior Pension Administrators		0.4
Pension Administrators	6.5	4.8
Trainee Pension Administrators		3.0
Payroll Supervisor	1.4	0.7
Clerical Support	0.6	1.0
<b>Total</b>	<b>12.5</b>	<b>12.9</b>

### Membership

Membership of the Pension Fund continues to grow. The chart and table below show the number of contributors, deferred beneficiaries and Pensioners (including dependants) and Undecided Leaver member records (individuals may have more than one membership record) over the last five years to 31 March 2014.



<b>Total Membership</b>	<b>31 March 2010</b>	<b>31 March 2011</b>	<b>31 March 2012</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
<b>Contributors</b>	20,314	19,859	19,476	19,791	22,276
<b>Pensioners</b>	11,502	12,228	12,939	13,634	14,254
<b>Deferred Beneficiaries</b>	16,416	18,146	19,559	20,672	20,960
<b>Undecided Leavers</b>	2,359	2,380	2,408	2,441	2,503
<b>Total</b>	<b><u>50,591</u></b>	<b><u>52,613</u></b>	<b><u>54,382</u></b>	<b><u>56,538</u></b>	<b><u>59,993</u></b>

## NOTES:

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

The result is a large Pension Fund being administered by a small team. The administrator to scheme member ratio (1:4,650) is well above average and yet the administration team continues to provide a highly regarded and professional service across the entire membership.

The increase in membership experienced during the last year of 3,455 is also reflected in the increased number of procedures completed during the year in comparison to 2012/13 as shown in the table below:

Year	Procedures completed per year	Procedures completed per month per administrator
2012/13	21396	142.64
2013/14	27153	175.41

## Benchmarking

The Pension Fund has not taken part in any formal benchmarking exercise since 2006 but we did take the opportunity during 2011 to compare ourselves against our local neighbours who are of a comparable size in terms of membership.

## Gathering Assurance

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

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

## THE FUTURE

The Public Service Pensions Act 2013 will bring significant changes and challenges for the Pension Fund in terms of scheme benefits and delivery risks in meeting service standard expectations given the additional administrative complexity these changes will bring.

We will remain committed and focus our efforts on communicating the changes to both members and employers when they become available and ensure that members understand and appreciate the value of the Scheme, which forms a significant part of the pay and reward package provided by their employer.

Ensuring the timely and accurate submission of data from employers is crucial to the administration team continuing to deliver the quality service to members. In an effort to achieve this we aim to introduce an on-line system allowing employers to upload data securely to our pension administration system. This should help to ensure membership data is updated more frequently and the service to members is improved. It should also reduce the administrative burden and deliver efficiencies for both the administration team and employers.

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

## Investment Report

The overall investment strategy of the Fund is the responsibility of the Pension Fund Panel. In 2008/2009, it was agreed to establish an Investment Working Group to closely monitor and review the performance of the Fund and individual fund managers as well as the Fund's asset allocation. A separate Liability Management Working Group was also established to formulate proposals for the hedging and efficient management of the Fund's liabilities, strengthening the Fund's governance further.

Two external investment advisors were also appointed to report and assist the Investment Working Group with monitoring global investment market developments. Advisors also make recommendations for changes to the Fund's asset allocation and investment strategy, which after consideration of the Investment Working Group might be brought to the Panel for approval in a timely manner. The Investment Working Group also requested the amendment to the Royal Borough Constitution regarding the powers delegated to the Chairman and Vice-Chairman of the Panel to take urgent action if required within the limits authorised by the Panel.

The separate Statement of Investment Principles for the Fund lays down the framework under which the Fund's investments are managed in more detail.

In the first quarter of 2009, the Panel approved a new investment strategy with emphasis on much greater diversification across asset classes, geographies and manager styles. Following the adoption of the new investment strategy, a number of changes were made to the allocations and managers previously used by the Fund, decreasing the amount managed in-house and increasing allocations to both externally managed funds and alternative investments. The structure of the investments and managers for the Royal County of Berkshire Pension Fund as at 31st March 2014 and previous year end is shown in the table below:

	31-Mar-14			31-Mar-13	
Asset Class	Value £m	% Fund		Value £m	% Fund
Global Equities	665.7	41.1%		643.7	37.7%
Bonds	243.4	15.0%		259.6	17.6%
Absolute Returns	275.5	17.0%		271.4	17.9%
Property	195.0	12.0%		153.5	9.7%
Commodities	138.5	8.5%		153.1	9.6%
Infrastructure	64.3	4.0%		73.2	4.2%
Other Current Assets / Liabilities	38.1	2.4%		18.7	3.3%
	1,620.5	100.0%		1,573.2	100.0%



As at 31 March 2014, the Fund employed the following external managers (excluding General Partners of Limited Partnerships in which the Fund has a partnership interest):

<b>Asset Class</b>	<b>Managers</b>
Global Convertible Bonds	Aviva Investors Blue Bay Asset Management
UK & Global Property	Aviva Investors Global Services
Global Equities	Informed Portfolio Management AB Kames Capital
Emerging Markets Equity	Fidelity International First State Investments Morgan Stanley Investment Management Nomura Asset Management (UK) Wellington Capital Management William Blair International
Absolute Returns	Grosvenor Capital Management
Commodities	Gresham Investment Management Royal Bank of Scotland (structured deposit)

JP Morgan Worldwide Securities Services is the global custodian for the Fund assets and is also responsible for other ancillary activities and the performance measurement for the overall Fund and selected constituents and composites. The Statement of Investment Principles includes more details about the planned asset allocation and management structure, the duty of investment managers, the custodian and other service providers as well as other issues such as socially responsible investments. Proxy voting is delegated to the fund managers unless non-routine matters are brought to the attention of the Fund. The Fund is a member of the NAPF to stay in touch with our members and benefit from the provision of other valued services and policy solutions that help raise standards and improve understanding.

The Fund managed an investment return of 6.9% over the year as calculated by JP Morgan and on an annualised basis 7.0% per annum over the last three years. Investment markets continued to be resilient during the financial year despite the US Federal Reserve reducing the pace at which it injects liquidity into markets resulting in weakness in emerging countries' stock markets.

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

- Restructuring the absolute return portion of the Fund's portfolio as advised by Grosvenor Capital.
- Investing in an UK Real Estate Recovery Fund managed by AVIVA.
- Investing in a credit opportunity fund managed by Grosvenor Capital Management.
- Investing in a new fund targeting opportunities in the food and water value chain globally advised by WP Global.

Following the completion of the 2013 triennial actuarial valuation, the Panel agreed that investment performance should be measured in real terms against a long-term investment target and that the target return should exceed the real discount rate used by the Actuary in the 2013 Actuarial Valuation. Accordingly the real return target for the Fund's investments was set at 4.0% per annum. The real investment return achieved of 4.1% over 1 year and 4.0% over three years was in-line with the long term investment return target and comfortably exceeded the real discount rate used by the Actuary in the valuation. The two tables below show a

geographical exposure and income receipt analysis (excluding reinvested income) by asset class of the Fund assets as at the reporting date:

Geographical exposure of the Fund assets by asset class as at 31 March 2014

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	0	0	513.8	513.8
Bonds	16.3	0	227.1	243.4
Property (direct holdings)	0	0	0	0
Alternatives	82.9	0	742.3	825.2
Cash and cash equivalents	0	0	38.1	38.1
Other	0	0	0	0
Total	99.2	0	1,521.3	1,620.5

Income analysis of the Fund assets by asset class as at 31 March 2014

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	0.1	0.0	3.2	3.4
Bonds	0.1	0.0	0.0	0.1
Property (direct holdings)	0.0	0.0	0.0	0.0
Alternatives	2.4	0.0	3.4	5.7
Cash and cash equivalents	0.1	0.0	0.0	0.1
Other	0.0	0.0	0.0	0.0
Total	2.7	0.0	6.6	9.3

In the light of the 2013 actuarial valuation, a revised strategy was agreed by the Pension Fund panel. Going forward the portfolio will be divided into two 'buckets', one whose purpose is to generate income, and the other whose purpose is to generate growth in assets. This will not dramatically alter the Fund's exposure to any particular asset class, though it will involve reorganising its equity portfolios.

A combination of the LGPS Regulations 2013 and the results of the 2013 actuarial valuation meant that both employee and employer contributions rates required amending with effect from 1 April 2014. The implementation of the employee contributions rates rests with each of the Scheme employers all of whom are required to notify their scheme members when changes in the rate are required. With effect from 1 April 2014 nine contribution rates were introduced across 9 salary bands with each scheme employee's rate being applied in accordance with the actual annual rate of pensionable pay earned as assessed by the Scheme employer.

Scheme employers were notified in advance of the April payroll of their employer contribution rate as set out in the rates and adjustment certificate included as part of the 2013 actuarial valuation report. All rates have been implemented in line with the actuary's certificate and contribution payments are monitored to ensure prompt and accurate payment each month.

Whilst there were only two 'admitted' bodies joining the pension scheme in 2013/14 there were numerous additional scheduled bodies as schools converted to academies and free schools and University Technical Colleges joined the scheme. All of the bodies making up the membership of the pension fund are monitored and kept under scrutiny with a covenant assessment being undertaken to identify those most at risk. In all instances the 'parent' authority is required to either act as a guarantor to the pension fund or the 'new' Scheme employer is required to provide a bond or indemnity to the level calculated by the actuary.

## Financial Performance

### Movement in Net assets of the scheme

During the financial year, the value of the net assets of the scheme decreased by £11 million.

### Timeliness of Receipt of Contributions

	2013/14	2012/13	2011/12
Percentage of contributions received on or before the due date	99.20%	99.34%	96.89%

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

### Income and Expenditure

	2013/14 Actual £000's	2013/14 Forecast £'000's
<b>Employee/Employer Contributions</b>	81,272	79,912
<b>Employer additional contributions for early retirements</b>	2,602	6,000
<b>Transfer Values Received</b>	5,924	5,000
<b>Pensions Payable</b>	-66,591	-73,069
<b>Retirement Lump Sums and Death Grants</b>	-16,818	-19,000
<b>Transfer Values Paid and Refund of Contributions</b>	-5,641	-5,000
<b>Administration Costs</b>		
- Staff	-483	-447
- Premises	0	0
- IT	-288	-205
- Supplies and Services	-275	-311
- Costs of democracy	0	0
- Any other costs and income	-6	-9
- Unit Recharges	-83	-81
<b>Investment income (net of taxes on income)</b>	16,594	12,000
<b>Investment management expenses</b>	-3,424	-2,500

### Forecast Income and Expenditure

	2014/15 Forecast £000's	2015/16 Forecast £000's
<b>Employee/Employer Contributions</b>	81,900	84,352
<b>Employer additional contributions for early retirements</b>	1,000	1,000
<b>Transfer Values Received</b>	6,000	6,000
<b>Pensions Payable</b>	-71,500	-72,644

<b>Retirement Lump Sums and Death Grants</b>	-17,000	-17,000
<b>Transfer Values Paid and Refund of Contributions</b>	-62,500	-5,000
<b>Administration Costs</b>		
- Staff	-447	-447
- Premises	0	0
- IT	-205	-205
- Supplies and Services	-311	-311
- Costs of democracy	0	0
- Any other costs and income	-9	-9
- Unit Recharges	-81	-81
<b>Investment income (net of taxes on income)</b>	16,000	16,000
<b>Investment management expenses</b>	-2,500	-2,500

### Forecast Asset Values

	Actual Market value 31 March 2013	Actual Market value 31 March 2014	Forecast Market value 31 March 2015	Forecast Market value 31 March 2016
	£000	£000	£000	£000
<b>Fixed interest securities</b>	16,573	16,281	17,247	17,584
<b>Equities</b>	98,930	82,804	102,953	104,965
<b>Pooled investments</b>	1,290,846	1,300,392	1,343,340	1,369,588
<b>Pooled property investments</b>	147,321	193,118	153,312	156,308
<b>Derivative contracts:</b>				
- Futures	-2,015	-	-2,097	-2,138
- Forward currency contracts	-9,297	-1	-9,675	-9,864
- Longevity Insurance Policy	8,925	-54,829	9,288	9,469
<b>Other investment balances:</b>				
- Cash deposits	15,747	25,399	16,387	16,708
- Amount receivable for sales of investments	4,669	-	4,859	4,954
- Investment income due	1,462	661	1,521	1,551
- Amounts payable for purchases of investments	-	-	-	-
<b>Net investment assets</b>	<b>1,573,161</b>	<b>1,563,825</b>	<b>1,637,136</b>	<b>1,669,124</b>

## RISK MANAGEMENT

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

### Operational risk

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

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

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

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

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

	performance.
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## Strategic risks

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

<b>Risk</b>	<b>Mitigating Action</b>
Investment returns being unsatisfactory and/or volatile	The Fund has a broadly diversified portfolio with no one asset class dominating.
Members living longer than anticipated in the Actuarial valuation	Panel noted that a 1 year improvement in life expectancy adds 5% to the Fund's liabilities. In December 2009 the Fund announced that it had entered into longevity insurance covering its liabilities to pensioners as at 31 <sup>st</sup> July 2009. The Panel continues to investigate how to protect the Fund against increasing longevity and reviews the cost of insuring the longevity risk of pensioners retired since July 2009 at regular intervals.
Currency risk – value of investments overseas are affected by unrelated changes in foreign exchange rates	In April 2012 the currency hedging policy was amended so that currency exposures are managed against a strategic currency benchmark. This is expected to assist in reducing the volatility of investment returns in the medium to long term.
Interest Rate Risk – changes in long-term interest rates affects the net present value of the Fund's liabilities	Panel have considered how long-term interest rate risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.
Inflation – benefits paid to members are linked (upwards only) to changes in the Consumer Price Index	Panel have considered how long-term inflation rate risk can be hedged and authorised officers to investigate how this can be achieved within the constraints of the LGPS regulations.
Employer Covenant – inability of employers to meet their obligations	The vast majority of the Fund's liabilities are the direct responsibility of the 6 unitary authorities. A large proportion of the rest lie within the public sector. A small proportion is with community admission bodies

	<p>whose entry into the Fund has to be approved by the Panel and with transferee admission bodies who apply for membership of the scheme as part of a scheme employer's transfer of staff under a TUPE arrangement.</p>
Governance of the Fund	<p>We regularly review the staffing of the pension fund team.</p> <p>The composition of the Pension Fund Panel and Pension Fund Advisory Panels is reviewed regularly. New members to both Panels receive a comprehensive members' handbook and are offered training.</p> <p>Law Debenture have been appointed as an independent Governance Advisor to both Panels.</p> <p>Officers arrange training on specific matters as required during the year.</p>



# Royal County of Berkshire Pension Fund

Actuary's Statement as at 31 March 2014

Barnett Waddingham  
Public Sector Consulting

29 April 2014

## Introduction

The last full triennial valuation of the Royal County of Berkshire Pension Fund ("the Fund") was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the 2013 valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

For reference, the Annual Report and Accounts for 2013/2014 is available to [view here](#).

## 2013 Valuation

The results for the Fund at 31 March 2013 were as follows

- The Fund as a whole had a funding level of 75% i.e. the assets were 75% of the value that they would've needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £527m which is higher than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 27 years, a total contribution rate of 19.3% of pensionable salaries would be needed.
- However, the contribution rate for each employer was set based on the cost of new benefits plus any adjustment (expressed either as a percentage of payroll or as a lump sum payment) required to pay for their individual deficit.

## Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

Assumption	31 March 2013	31 March 2014
Discount rate	6.1% p.a.	6.2% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	1% until 31 March 2016 then 4.5% p.a.	1% until 31 March 2016 then 4.6% p.a.
Mortality	100% of the S1PMA tables for males and 90% of the S1PFA tables for females with projected improvements based on the CMI 2012 model and a long-term rate of improvement of 1.5% p.a	

Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

The effect of the change in the assumptions over the year is discussed in the final section.

## Assets

At 31 March 2013, the value of the assets used was £1,562m and this has increased over the year to an estimated £1,624m.

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

## Updated position

The estimated funding position at 31 March 2014 is a funding level of 75% which is the same as the position at 31 March 2013.

The assets have returned about 3.3% over the year, which is lower than what had been allowed for. However, employers paying in contributions towards the deficit has meant that the funding level has stayed roughly stable.

The discount rate is slightly higher than it was at March 2013 causing the value of the liabilities to reduce slightly. This, together with the returns experience, has had a neutral effect on the funding level overall.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

**Mark Norquay FFA**

**Associate, Barnett Waddingham LL**

## **Independent auditor's report to the members of the Royal Borough of Windsor and Maidenhead**

We have audited the financial statements of the local government pension fund administered by the Royal Borough of Windsor and Maidenhead for the year ended 31 March 2014 on 25 to 44. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

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

The Head of Finance is responsible for the preparation of the pension fund financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and for being satisfied that they give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

***Darren Gilbert***

**for and on behalf of KPMG LLP, Appointed Auditor**

*Chartered Accountants*

KPMG LLP, 15 Canada Square, Canary Wharf, London, E14 5GL

September 2014

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

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

The Royal Borough is required:

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

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

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

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

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



Andrew Brooker  
Head of Finance

## PENSION FUND ACCOUNTS

### The Royal County of Berkshire Pension Fund Account

2012/13 £000		Notes	2013/14 £000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(78,536)	Contributions	7	(83,874)
(5,808)	Transfers in from other pension funds	8	(5,924)
(84,344)			(89,798)
81,916	Benefits	9	83,408
5,509	Payments to and on account of leavers	10	5,641
1,248	Administration expenses	11	1,135
88,673			90,184
4,329	Net (additions)/withdrawals from dealings with members		386
	<b>Returns on investments</b>		
(14,510)	Investment income	12	(16,594)
-	Taxes on income	13	666
(120,637)	Profits and losses on disposal of investments and changes in the market value of investments	15	23,471
2,357	Investment management expenses	14	3,424
(132,790)	Net return on investments		10,967
(128,461)	Net (increase)/decrease in the net assets available for benefits during the year		11,353

### Net Assets Statement for the year ended 31 March 2014

2012/13 £'000		Notes	2013/14 £'000
1,570,395	Investment assets	15	1,594,449
15,747	Cash deposits	15	25,399
1,586,142			1,619,848
(12,981)	Investment liabilities	15	(56,023)
1,573,161	<b>Net investment assets</b>		1,563,825
10,156	Current assets	20	12,760
(1,997)	Current liabilities	21	(6,618)
1,581,320	<b>Net assets of the Scheme available to fund benefits at the period end</b>		1,569,967

The Fund's financial statements do not take account of liabilities to pay pensions and others benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

## NOTES TO THE PENSION FUND ACCOUNTS

### Notes to the Royal County of Berkshire Pension Fund Accounts for the year ended 31 March 2014

#### 1 Description of Fund

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

The following description of the Fund is a summary only. For more detail, reference should be made to the Royal County of Berkshire Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

##### a) General

The fund is governed by the Superannuation Act 1972. During the financial year the fund was administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

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

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

##### b) Membership

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

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

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

There are 156 active employer organisations within the Royal County of Berkshire Pension Fund including the administering authority itself, as detailed below:

	31 March 2013	31 March 2014
<b>The Royal County of Berkshire Pension Fund</b>		
Number of employers with active members	147	156
<b>Number of employees in scheme</b>		
Administering authority	2,644	2,866
Unitary authorities	11,541	13,049
Other employers	5,731	6,542
<b>Total</b>	<b>19,916</b>	<b>22,457</b>
<b>Number of pensioners</b>		
Administering authority	1,308	1,392
Unitary authorities	6,510	6,928
Other employers	5,651	5,835
<b>Total</b>	<b>13,469</b>	<b>14,155</b>
<b>Deferred pensioners</b>		
Administering authority	2,890	3,147
Unitary authorities	12,346	13,205
Other employers	5,484	5,871
<b>Total</b>	<b>20,720</b>	<b>22,223</b>



## NOTES TO THE PENSION FUND ACCOUNTS

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. During 2013/14, employer contribution rates ranged from 12% to 31% of pensionable pay.

### d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Royal County of Berkshire Pension Fund's website: <http://www.berkshirepensions.org.uk>

Benefits are index-linked in order to keep pace with inflation. Increases are set each year by the Government via the pensions increase order. In June 2010, the Government announced that the method of indexation would change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This change took effect from 1 April 2011.

### e) LGPS 2014

From the 1<sup>st</sup> April 2014 the fund will be administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- the LGPS (Management and Investment of Funds) (Amendment) Regulations 2013.

Pension benefits under LGPS 2014 are based on a Career Average Re-valued Earnings (CARE) basis, summarised below:

	Service post 1 April 2014
<b>Pension</b>	Each year worked is worth 1/49 x current year actual pensionable pay.
<b>Lump Sum</b>	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Members of the scheme can also elect to pay half their normal monthly contributions to receive half the pension benefit they would normally have accrued.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Royal County of Berkshire Pension Fund's website: <http://www.berkshirepensions.org.uk>

Benefits are index-linked in order to keep pace with inflation. Increases are set each year by the Government via the pensions increase order. In June 2010, the Government announced that the method of indexation would change from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This change took effect from 1 April 2011.

## 2 Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

## **NOTES TO THE PENSION FUND ACCOUNTS**

### **3 Summary of significant accounting policies Fund**

#### **account - revenue recognition**

##### **a) Contribution income**

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

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

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

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

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

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

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. There were no bulk transfers during 2013/14.

##### **c) Investment income**

###### **i) Interest income**

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

###### **ii) Dividend income**

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

###### **iii) Distributions from pooled funds**

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

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

Changes in the net market value of investments (including investment properties) are recognised in the fund account as income and comprise all realised and unrealised profits/losses during the year.

#### **Fund Account - expense items**

##### **d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be payable during the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities (Note 21).

##### **e) Taxation**

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

##### **f) Administration expenses**

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

## NOTES TO THE PENSION FUND ACCOUNTS

### **g) Investment management expenses**

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2013/14, £0.3 million of fees is based on such estimates (2012/13: £0.2 million).

The cost of obtaining investment advice from external consultants is included in investment management charges (Note 14).

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

### **Net Assets Statement**

### **h) Financial assets**

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

The values of investments as shown in the net assets statement have been determined as follows:

#### **i) Market-quoted investments**

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

#### **ii) Fixed interest securities**

Fixed interest securities are recorded at net market value.

#### **iii) Unquoted investments**

The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in shares in unlisted companies, trusts and bonds. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity.

#### **iv) Limited partnerships**

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers.

#### **v) Pooled investment vehicles**

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

### **i) Foreign currency transactions**

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

## **NOTES TO THE PENSION FUND ACCOUNTS**

### **j) Derivatives**

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

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### **k) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits.

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

### **l) Financial liabilities**

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

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

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

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

### **n) Additional voluntary contributions**

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

The fund previously used Equitable Life and Clerical Medical as its AVC providers.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

## **4 Critical judgements in applying accounting policies**

### **Unquoted private equity investments**

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are based on forward-looking estimates and judgements involving many factors including historic data. Unquoted private equities are valued by the investment managers using guidelines set out by the International Private Equity and Venture Capital Board. The value of unquoted private equities at 31 March 2014 was £354 million (£353 million at 31 March 2013).

### **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

## NOTES TO THE PENSION FUND ACCOUNTS

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the financial statements and notes at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £53 million. A 0.1% increase in the long term salary increases assumption would increase the value of liabilities by approximately £8 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £102 million.
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with the International Private Equity and Venture Capital Board guidelines. These investments are not publicly listed and as such values are estimated.	The total private equity investments in the financial statements are £354 million. There is a risk that this investment may be under- or overstated in the accounts.
<b>Longevity Insurance Policy</b>	The longevity insurance policy is valued by a firm of consulting actuaries. This valuation is the difference between the discounted cash flows relating to the amounts expected to be reimbursed to the fund and the inflation linked premiums expected to be paid by the fund.	The effect of changes in individual assumptions on the valuation of the longevity insurance policy can be measured. For instance, a 0.1% increase in the discount rate assumption would result in an increase in the valuation of the contract by £616k. A 0.1% decrease in the discount rate assumption would decrease the valuation of the contract by £627k and a one-year increase in assumed life expectancy would increase the valuation of the contract by approximately £27 million.

### 6 Events after the balance sheet date

There have been no events since 31 March 2014, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

### 7 Contributions receivable

#### By category

2012/13		2013/14
£000		£000
56,014	Employers	60,200
22,522	Members	23,674
<b>78,536</b>		<b>83,874</b>

#### By authority

2012/13		2013/14
£000		£000
72,073	Scheduled bodies	77,252
4,274	Admitted bodies	4,061
2,189	Transferee admission body	2,561
<b>78,536</b>		<b>83,874</b>

### 8 Transfers in from other pension funds

2012/13		2013/14
£000		£000
5,680	Individual transfers from other pension funds	5,733
128	AVC to purchase scheme benefits	191
<b>5,808</b>		<b>5,924</b>

# **NOTES TO THE PENSION FUND ACCOUNTS**

## **9 Benefits payable**

### **By category**

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
63,302	Pensions	66,591
16,576	Commutation and lump sum retirement benefits	14,600
2,038	Lump sum death benefits	2,217
<b>81,916</b>		<b>83,408</b>

### **By authority**

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
75,590	Scheduled bodies	76,650
5,361	Admitted bodies	5,497
965	Transferee admission body	1,261
<b>81,916</b>		<b>83,408</b>

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

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
16	Refunds to members leaving service	9
5,493	Individual transfers to other pension funds	5,632
<b>5,509</b>		<b>5,641</b>

## **11 Administrative expenses**

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
467	Employee Costs	483
551	Support Services	424
107	Printing and publications	62
26	External audit fees	25
97	Actuarial fees	141
<b>1,248</b>		<b>1,135</b>

## **12 Investment income**

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
167	Fixed interest securities	82
1,077	Equity dividends	3,576
5,111	Pooled property investments	6,556
8,108	Pooled investments	6,224
47	Interest on cash deposits	156
<b>14,510</b>		<b>16,594</b>

## **13 Taxes on income**

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
-	Withholding tax - equities	174
-	Withholding tax - pooled property investments	492
<b>-</b>		<b>666</b>

## **14 Investment expenses**

<b>2012/13</b>		<b>2013/14</b>
<b>£000</b>		<b>£000</b>
2,005	Management fees	3,113
39	External Consultants	52
313	Custody fees	259
<b>2,357</b>		<b>3,424</b>

# **NOTES TO THE PENSION FUND ACCOUNTS**

## **15 Investments**

Market value 31 March 2013		Market value 31 March 2014
£000		£000
	<b>Investment assets</b>	
16,573	Fixed interest securities	16,281
98,930	Equities	82,804
1,290,846	Pooled investments	1,300,392
147,321	Pooled property investments	193,118
1,553,670	Investments excluding derivative contracts	1,592,595
	Derivative contracts:	
1,669	- Forward currency contracts	1,193
8,925	- Longevity Insurance Policy	
15,747	Cash deposits	25,399
1,462	Investment income due	661
4,669	Amounts receivable for sales	-
1,586,142	<b>Total investment assets</b>	<b>1,619,848</b>
	<b>Investment liabilities</b>	
	Derivative contracts:	
(2,015)	- Futures	-
(10,966)	- Forward currency contracts	(1,194)
-	- Longevity Insurance Policy	(54,829)
(12,981)	<b>Total investment liabilities</b>	<b>(56,023)</b>
1,573,161	<b>Net investment assets</b>	<b>1,563,825</b>

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

	<b>Market value 1 April 2013</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Change in market value during the year</b>	<b>Market value 31 March 2014</b>
	<b>£000</b>	<b>£000 -</b>	<b>£000 -</b>	<b>£000</b>	<b>£000</b>
Fixed interest securities	16,573	17,564	(35,817)	(292)	16,281
Equities	98,930	527,579	(552,802)	2,127	82,804
Pooled investments (including treasury management)	1,290,846			34,769	1,300,392
	<b>147,321</b>	<b>55,392</b>	<b>(11,438)</b>	<b>1,843</b>	<b>193,118</b>
	<b>1,553,670</b>	<b>600,535</b>	<b>(600,057)</b>	<b>38,447</b>	<b>1,592,595</b>
Derivative contracts:					
- Futures	(2,015)	1,875	-	140	-
- Forward currency contracts	(9,297)	31,262	(28,154)	6,188	(1)
- Longevity Insurance Policy*	8,925	4,034	-	(67,788)	(54,829)
	<b>1,551,283</b>	<b>637,706</b>	<b>(628,211)</b>	<b>(23,013)</b>	<b>1,537,765</b>
Other investment balances:					
- Cash deposits	15,747			(458)	25,399
- Amount receivable for sales of investments	4,669				-
- Investment income due	1,462				661
- Amounts payable for purchases of investments	-				-
<b>Net investment assets</b>	<b>1,573,161</b>			<b>(23,471)</b>	<b>1,563,825</b>

\*Following the triennial actuarial valuation of the Pension Fund as at 31 March 2013 Barnett Waddingham, the Fund's Actuary, revalued the longevity insurance contract with ReAssure Limited in the light of death experience to date and their assumptions regarding future mortality. The value of the contract is shown as an asset rather than being included in liabilities thereby reducing the value of the Pension Fund assets shown in the balance sheet.

**NOTES TO THE  
PENSION FUND ACCOUNTS**

	Market value 1 April 2012	Purchases during the year and derivative payments	Sales during the market year and derivative value receipts during the year	Change in	Market value 31 March 2013
	£000	£000 -	£000	£000	£000
Fixed interest securities	42,208	81,480	(27,651)	2,016	16,573
Equities	30,646	392,619	(18,036)	4,840	98,930
Pooled investments (inc. treasury management)	1,184,869		(400,719)	114,077	1,290,846
Pooled property investments	138,432	15,244	(7,790)	1,435	147,321
	1,396,155	489,343	(454,196)	122,368	1,553,670
Derivative contracts:					
- Futures	(2,392)	-	-	377	(2,015)
- Forward currency contracts	(665)	16,492	(15,088)	(10,036)	(9,297)
- Longevity Insurance Policy	(807)	3,525	-	6,207	8,925
	1,392,291	509,360	(469,284)	118,916	1,551,283
Other investment balances:					
- Cash deposits	49,646			1,721	15,747
- Amount receivable for sales of investments	-				4,669
- Investment income due	1,343				1,462
- Amounts payable for purchases of investments	-				-
<b>Net investment assets</b>	<b>1,443,280</b>			<b>120,637</b>	<b>1,573,161</b>

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £36k (2012/13: £3k). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

**b) Analysis of investments (excluding derivative contracts)**

31 March 2013		31 March 2014
£000		£000
	<b>Fixed interest securities</b>	
	<b>UK</b>	
16,573	Public sector quoted	16,281
<b>16,573</b>		<b>16,281</b>
	<b>Equities</b>	
	<b>UK</b>	
19,498	Quoted	4,788
	<b>Overseas</b>	
79,432	Quoted	78,016
<b>98,930</b>		<b>82,804</b>
	<b>Pooled investments - additional analysis</b>	
	<b>UK</b>	
251,600	Unit Trusts	187,327
2,999	Private Equity	4,817
	<b>Overseas</b>	
686,136	Unit Trusts	758,691
276,871	Private Equity	285,214
73,240	Infrastructure	64,343
<b>1,290,846</b>		<b>1,300,392</b>
147,321	Pooled property investments	193,118
<b>147,321</b>		<b>193,118</b>
<b>1,553,670</b>		<b>1,592,595</b>

**Analysis of derivatives**

**Objectives and policies for holding derivatives**

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

**Futures**

The fund purchased dividend future contracts as an alternative way to capture dividends in an efficient manner without taking the risk of changes in market values of the underlying stock. The economic exposure represents the notional value of dividends purchased under future contracts and is therefore subject to market movements.



## NOTES TO THE PENSION FUND ACCOUNTS

### - Forward foreign currency

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

### - Longevity Insurance Policy

In December 2009 the fund entered into an insurance contract with ReAssure Ltd to cover a closed group of pensioner members. The fund pays ReAssure a pre-determined fixed annual premium and ReAssure reimburses the fund for pensions paid to the insured members. The value of the policy is the difference between the discounted future cash flows relating to the amounts expected to be reimbursed by ReAssure to the fund and the premiums expected to be paid to ReAssure by the fund.

### Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market value 31 March 2013	Economic exposure	Market value 31 March 2014
		£000	£000	£000	£000
<b>Liabilities</b>					
Overseas equity dividends	Less than one year	(21,216)	(2,015)	-	-
<b>Total liabilities</b>			<b>(2,015)</b>		<b>-</b>
<b>Net futures</b>			<b>(2,015)</b>		<b>-</b>

### Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
One to six months	NOK	68,616	GBP	(6,919)		(61)
One to six months	JPY	4,996,686	GBP	(29,170)		(38)
One to six months	CHF	28,187	GBP	(19,390)		(227)
One to six months	CAD	12,795	GBP	(6,919)	26	
One to six months	AUD	12,795	GBP	(6,919)	161	
One to six months	GBP	90,865	EUR	(108,677)	979	
One to six months	USD	5,181	KRW	(5,561,940)		(23)
One to six months	USD	5,181	TRY	(11,865)		(144)
One to six months	USD	5,181	SGD	(6,549)		(16)
One to six months	USD	5,181	MXN	(68,832)		(38)
One to six months	USD	5,181	RUB	(193,614)		(140)
One to six months	USD	5,181	TWD	(156,781)	12	
One to six months	USD	5,181	CNY	(31,934)	15	
One to six months	USD	5,181	INR	(321,929)		(64)
One to six months	USD	5,181	CLP	(2,986,402)		(120)
One to six months	USD	5,181	BRL	(12,444)		(132)
One to six months	GBP	210,859	USD	(351,646)		(191)
<b>Net forward currency contracts at 31 March 2014</b>					<b>1,193</b>	<b>(1,194)</b>
<b>Prior year comparative</b>						
<b>Open forward currency contracts at 31 March 2013</b>						<b>(9,297)</b>
<b>Net forward currency contracts at 31 March 2013</b>						<b>(9,297)</b>

### Investments analysed by fund manager

Market value 31 March 2013			Market value 31 March 2014		
£000	%		£000	%	
1,082,269	68.8%	Royal County of Berkshire Pension Fund in-house investment team	1,249,076	79.9%	
153,454	9.8%	Aviva Global Investors	170,541	10.9%	
81,832	5.2%	Kames Capital	83,876	5.4%	
(9,297)	-0.6%	Record Currency Management	-	0.0%	
-	0.0%	The Cambridge Strategy (Asset Management)	(1)	0.0%	
264,903	16.8%	Royal Bank of Scotland	60,333	3.9%	
<b>1,573,161</b>			<b>1,563,825</b>		

## NOTES TO THE PENSION FUND ACCOUNTS

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

Security	Market value 31 March 2013 £000	% of total fund	Market value 31 March 2014 £000	% of total fund
IPM RAFI Global GBP Fund	167,795	10.7%	203,762	13.0%
Aviva Global Real Estate	82,570	5.2%	112,090	7.2%

### Financial instruments

#### a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2013			31 March 2014		
£000	£000	£000	£000	£000	£000
		<b>Financial assets</b>			
16,573		Fixed interest securities	16,281		
98,930		Equities	82,804		
1,290,846		Pooled investments	1,300,392		
147,321		Pooled property investments	193,118		
10,594		Derivative contracts	1,193		
	18,855	Cash		32,521	
4,669	1,462	Other investment balances	-	661	
	7,048	Debtors		5,638	
<b>1,568,933</b>	<b>27,365</b>	<b>-</b>	<b>1,593,788</b>	<b>38,820</b>	<b>-</b>
		<b>Financial liabilities</b>			
(12,981)		Derivative contracts	(56,023)		
		(1,997) Creditors			(6,618)
<b>(12,981)</b>	<b>-</b>	<b>(1,997)</b>	<b>(56,023)</b>	<b>-</b>	<b>(6,618)</b>
<b>1,555,952</b>	<b>27,365</b>	<b>(1,997)</b>	<b>1,537,765</b>	<b>38,820</b>	<b>(6,618)</b>

#### b) Net gains and losses on financial instruments

31 March 2013		31 March 2014
£000		£000
118,916	Fair value through profit and loss	(23,013)
1,721	Loans and receivables	(458)

#### c) Fair value of financial instruments and liabilities

Carrying value	Fair value	Carrying value	Fair value
31 March 2013		31 March 2014	
£000	£000	£000	£000
	<b>Financial assets</b>		
1,568,933	1,568,933	1,593,788	1,593,788
27,365	27,365	38,820	38,820
<b>1,596,298</b>	<b>1,596,298</b>	<b>1,632,608</b>	<b>1,632,608</b>
	<b>Financial liabilities</b>		
(12,981)	(12,981)	(56,023)	(56,023)
(1,997)	(1,997)	(6,618)	(6,618)
<b>(14,978)</b>	<b>(14,978)</b>	<b>(62,641)</b>	<b>(62,641)</b>

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

## NOTES TO THE PENSION FUND ACCOUNTS

### d) Valuation of financial instruments carried at fair value

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.

#### Level 1

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

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

#### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which The Royal County of Berkshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuation to 31 March as appropriate.

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

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
<b>Values at 31 March 2014</b>				
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	136,143	908,959	547,493	1,592,595
Loans and receivables	39,352	661		40,013
<b>Total financial assets</b>	<b>175,495</b>	<b>909,620</b>	<b>547,493</b>	<b>1,632,608</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(1,194)		(54,829)	(56,023)
Financial liabilities at amortised cost	(6,618)			(6,618)
<b>Total financial liabilities</b>	<b>(7,812)</b>	<b>-</b>	<b>(54,829)</b>	<b>(62,641)</b>
<b>Net financial assets</b>	<b>167,683</b>	<b>909,620</b>	<b>492,664</b>	<b>1,569,967</b>

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
<b>Values at 31 March 2013</b>				
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	150,931	903,977	514,025	1,568,933
Loans and receivables	25,903	1,462	-	27,365
<b>Total financial assets</b>	<b>176,834</b>	<b>905,439</b>	<b>514,025</b>	<b>1,596,298</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(10,966)	(2,015)	-	(12,981)
Financial liabilities at amortised cost	(1,997)	-	-	(1,997)
<b>Total financial liabilities</b>	<b>(12,963)</b>	<b>(2,015)</b>	<b>-</b>	<b>(14,978)</b>
<b>Net financial assets</b>	<b>163,871</b>	<b>903,424</b>	<b>514,025</b>	<b>1,581,320</b>

## NOTES TO THE PENSION FUND ACCOUNTS

### 17 Nature and extent of risks arising from financial instruments Risk and risk

#### management

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

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

#### a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

#### Other price risk

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

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

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

#### Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year the council has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset type	Potential market movements (+/-)
Fixed interest securities	14.6%
Equities	12.0%
Private Equity	7.5%
Convertible Bond Funds	7.0%
Emerging Markets	15.5%
Absolute Return Assets	4.9%
Infrastructure	13.3%
Commodities	16.2%
Pooled Property Funds	5.2%

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

## NOTES TO THE PENSION FUND ACCOUNTS

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

Asset type	Value as at 31 March 2014	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
<b>Cash and cash equivalents</b>	41,664	0.0%	41,664	41,664
<b>Investment portfolio assets:</b>				
Fixed interest securities	16,281	14.6%	18,658	13,904
Equities	286,566	12.0%	320,954	252,178
Private Equity	290,031	7.5%	311,783	268,279
Convertible Bond Funds	88,965	7.0%	95,193	82,737
Emerging Markets	226,153	15.5%	261,207	191,099
Absolute Return Assets	270,396	4.9%	283,645	257,147
Infrastructure	64,343	13.3%	72,901	55,785
Commodities	140,477	16.2%	163,234	117,720
Pooled Property Funds	193,118	5.2%	203,160	183,076
Net derivative liabilities	(54,830)	0.0%	(54,830)	(54,830)
Investment income due	661	0.0%	661	661
Amounts receivable for sales	-	0.0%	-	-
<b>Total</b>	<b>1,563,825</b>		<b>1,718,230</b>	<b>1,409,420</b>

Asset type	Value as at 31 March 2013	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
<b>Cash and cash equivalents</b>	20,703	0.0%	20,703	20,703
<b>Investment portfolio assets:</b>				
Fixed interest securities	16,573	14.6%	18,993	14,153
Equities	266,726	12.0%	298,733	234,719
Private Equity	279,870	7.5%	300,860	258,880
Convertible Bond Funds	106,796	7.0%	114,272	99,320
Emerging Markets	230,171	15.5%	265,848	194,494
Absolute Return Assets	271,434	4.9%	284,734	258,134
Infrastructure	73,240	13.3%	82,981	63,499
Commodities	156,583	16.2%	181,949	131,217
Pooled Property Funds	147,321	5.2%	154,982	139,660
Net derivative liabilities	(2,387)	0.0%	(2,387)	(2,387)
Investment income due	1,462	0.0%	1,462	1,462
Amounts receivable for sales	4,669	0.0%	4,669	4,669
<b>Total</b>	<b>1,573,161</b>		<b>1,727,799</b>	<b>1,418,523</b>

### Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2013	As at 31 March 2014
	£000	£000
Cash and cash equivalents	15,747	25,399
Cash balances	3,108	7,122
Fixed interest securities	16,573	16,281
<b>Total</b>	<b>35,428</b>	<b>48,802</b>

### Interest rate risk sensitivity analysis

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

## NOTES TO THE PENSION FUND ACCOUNTS

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

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents*	25,399	254	(254)
Cash balances*	7,122	71	(71)
Fixed interest securities	16,281	(3,419)	3,419
<b>Total change in assets available</b>	<b>48,802</b>	<b>(3,094)</b>	<b>3,094</b>

Asset type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents*	15,747	157	(157)
Cash balances*	3,108	31	(31)
Fixed interest securities	16,573	(3,480)	3,480
<b>Total change in assets available</b>	<b>35,428</b>	<b>(3,292)</b>	<b>3,292</b>

\* Assumes cash balances are held on floating rates. Sensitivity shows impact on interest receivable for full year.

Note: Change in value of fixed interest securities is derived from average duration of portfolio of 21 years.

### Currency risk

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

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

The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period end: **Currency**

### exposure - asset type

	Asset value as at 31 March 2013	Asset value as at 31 March 2014
	£000	£000
Overseas equities	79,432	78,016
Overseas unit trusts	686,136	758,691
Overseas private equity	276,871	285,214
Overseas infrastructure	73,240	64,343
<b>Total overseas assets</b>	<b>1,115,679</b>	<b>1,186,264</b>

### Currency risk - sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange rate movements to be 8.8% (as measured by one standard deviation).

A 8.8% fluctuation in the currency is considered reasonable based on analysis of long-term historical movements in the month-end exchange rates over a rolling 3 year period.

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

A 8.8% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2014	Change to net assets available to pay benefits	
		8.8%	-8.8%
	£000	£000	£000
Overseas equities	78,016	84,881	71,151
Overseas unit trusts	758,691	825,456	691,926
Overseas private equity	285,214	310,313	260,115
Overseas infrastructure	64,343	70,005	58,681
<b>Total change in assets available</b>	<b>1,186,264</b>	<b>1,290,655</b>	<b>1,081,873</b>



## NOTES TO THE PENSION FUND ACCOUNTS

Currency exposure - asset type	Asset value as at 31 March 2013	Change to net assets available to pay benefits	
	£000	8.8% £000	-8.8% £000
Overseas equities	79,432	86,422	72,442
Overseas unit trusts	686,136	746,516	625,756
Overseas private equity	276,871	301,236	252,506
Overseas infrastructure	73,240	79,685	66,795
<b>Total change in assets available</b>	<b>1,115,679</b>	<b>1,213,859</b>	<b>1,017,499</b>

### b) Credit risk

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

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

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

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

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

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2014 was £48.8m (31 March 2013: £23.8m). This was held with the following institutions:

	Rating	Balances as at 31 March 2013	Balances as at 31 March 2014
		£000	£000
<b>Money Market funds</b>			
JP Morgan	A+	2,682	13,952
Legal & General	A	1,235	1,259
Northern Trust	AA-	1,039	1,054
<b>Bank deposit accounts</b>			
JP Morgan	A+	15,747	21,399
<b>Bank fixed term deposits</b>			
Lloyds	A	-	4,000
<b>Bank current accounts</b>			
Lloyds	A	3,108	7,122
<b>Total</b>		<b>23,811</b>	<b>48,786</b>

### c) Liquidity risk

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those which will take longer than three months to convert to cash. As at 31 March 2014 the value of illiquid assets was £547.5m, which represented 34.9% of the total fund assets (31 March 2013: £500.4m, which represented 31.6% of the total fund assets).

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

### Refinancing risk

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

## NOTES TO THE PENSION FUND ACCOUNTS

### 18 Funding arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at March 2016.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 27 years from the valuation date and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2013 actuarial valuation, the Fund was assessed as 75% funded (81% at the March 2010 valuation). This corresponded to a deficit of £527 million (2010 valuation: £311 million) at that time.

At the 2013 actuarial valuation the average required employer contribution to restore the funding position to 100% over the next 27 years was 19.3% of pensionable pay.

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

#### Financial assumptions

Discount Rate	6.1% per annum
Retail Price Inflation (RPI)	3.5% per annum
Consumer Price Inflation (CPI)	2.7% per annum
Pension and Deferred Pension Increases	2.7% per annum
Short term pay increases	1% per annum for the 3 years to 31 March 2016
Long term pay increases	4.5% per annum

#### Mortality assumptions

Current mortality	100% of the S1PA tables for males and 90% of the S1PA tables for females
Mortality Projection	2012 CMI Model with a long term rate of improvement of 1.5% per annum

#### Commutation assumption

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

### 19 Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2014 was £2,900 million (31 March 2013: £2,772 million). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.



## NOTES TO THE PENSION FUND ACCOUNTS

### Assumptions used

Inflation/pension increase rate assumption	2.8%
Salary increase rate	4.6%
Discount rate	4.5%

### 20 Current assets

31 March 2013		31 March 2014
£000		£000
6,168	- Contributions due	5,107
764	- Sundry debtors	484
116	- Prepayments	47
7,048	Debtors	5,638
3,108	Cash balances	7,122
10,156		12,760

### Analysis of debtors

31 March 2013		31 March 2014
£000		£000
3,878	Other local authorities	3,305
3,170	Other entities and individuals	2,333
7,048		5,638

### 21 Current liabilities

31 March 2013		31 March 2014
£000		£000
(1,869)	Sundry creditors	(1,334)
(128)	Benefits payable	(5,284)
(1,997)		(6,618)

### Analysis of creditors

31 March 2013		31 March 2014
£000		£000
(767)	Central government bodies	(795)
(781)	Other local authorities	(45)
(449)	Other entities and individuals	(5,778)
(1,997)		(6,618)

### 22 Additional voluntary contributions

Market value		Market value
31 March 2013		31 March 2014
£000		£000
12,664	Prudential	13,233
22	Equitable Life	22
71	Clerical Medical	59
12,757	Total	13,314

AVC Contributions of £1.874 million were paid directly to Prudential during the year (2012/13: £1.582 million).

### 23 Related party transactions

#### The Royal Borough of Windsor and Maidenhead

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

The council incurred costs of £1.135m (2012/13 £1.248m) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the third largest employer of members of the pension fund and contributed £7.2m (2012/13 £7.0m).

**Governance** No members of the pension fund panel are in receipt of pension benefits from The Royal County of Berkshire Pension Fund. Each member of the pension fund panel is required to declare their interests at each meeting.

## **NOTES TO THE PENSION FUND ACCOUNTS**

### **Key management personnel**

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

### **24 Contingent liabilities and contractual commitments**

Outstanding capital commitments (investments) at 31 March 2014 totalled £112.724m (31 March 2013: £150.254m).

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

### **25 Contingent assets**

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

# Royal County of Berkshire Pension Fund

IAS26 Disclosures as at 31 March 2014

Barnett Waddingham  
Public Sector Consulting

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# 1. Introduction

We have been instructed by the Royal Borough of Windsor and Maidenhead, the Administering Authority to the Royal County of Berkshire Pension Fund (“the Fund”), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of the Fund as at 31 March 2014.

This report is addressed to the Administering Authority and its advisers; in particular, this report is likely to be of relevance to the Fund’s auditor.

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

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

# Valuation Data

## Data Sources

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

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2014.

Estimated Fund returns based on assets used for the purpose of the funding valuation as at 31 March 2013, a Fund asset statement as at 31 March 2014, and market returns (estimated where necessary) thereafter for the period to 31 March 2014.

- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal Employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

## Fund Membership Statistics

The table below summarises the membership data, as at 31 March 2013 for members receiving funded benefits.

Member Data Summary	Number	Salaries/Pensions	Average Age
		£000's	
Actives	20,060	348,991	46
Deferred Pensioners	24,847	31,164	46
Pensioners	13,666	64,567	70

## Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 4%.

The actual return on Fund assets over the year may be different.

The estimated asset allocation for Royal County of Berkshire Pension Fund as at 31 March 2014 is as follows:

Employer Asset Share - Bid Value	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Gilts	15,718	1%	15,724	1%
Cash	47,155	3%	15,724	1%
Other Bonds	220,056	14%	314,479	20%
Equities	667,842	42%	644,682	40%
Property	188,619	12%	157,239	10%
Target Return	282,929	18%		
Commodities	141,465	9%		
Infrastructure	62,873	4%		
Longevity Insurance	-54,829	-3%	8,925	1%
Alternative Assets			424,547	27%
<b>Total</b>	<b>1,571,828</b>	<b>100%</b>	<b>1,581,320</b>	<b>73%</b>

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2014 is likely to be different from that shown due to estimation techniques.

Assets that were previously grouped as Alternative Assets are now split depending on whether they are part of the Target Return portfolio, they are Commodities or they are an investment in Infrastructure.

We suggest that if further information is required the administering authority is contacted in the first instance.

## Unfunded Benefits

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

# Actuarial Methods and Assumptions

## Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2014, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

The Fund entered into a longevity insurance contract in 2009 and this has been included in the assets. The value of the swap is equal to the value of the premiums due to the insurer as set out in the agreed schedule less the estimated value of the benefits due to the members covered (based on the rolled forward value from the 2013 valuation). This is consistent with the approach taken last year.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2013 without completing a full valuation, including full member data. Although we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2014 should not introduce any material distortions in the results, the value of the longevity insurance contract is very likely to be significantly different from that estimated as it is the difference in value between two very large numbers. However, if the swap value is much higher/lower, this is likely to be because mortality experience has been lighter/heavier than expected and so the increase/decrease in the assets should be roughly matched by an increase/decrease in the liabilities so that the net position should be broadly similar.

## Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.



The assumed life expectations from age 65 are;

Life Expectancy from age 65 (years)		31 March 2014	31 March 2013
Retiring today			
	Males	22.7	23.1
	Females	26.0	25.7
Retiring in 20 years			
	Males	24.9	25.1
	Females	28.3	27.6

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

## Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows:

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.6%	-	3.4%	-	3.3%	-
CPI increases	2.8%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Salary Increases	4.6%	1.0%	4.55%	1.15%	4.45%	1.15%
Pension Increases	2.8%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Discount Rate	4.5%	0.9%	4.6%	1.2%	4.6%	1.3%

These assumptions are set with reference to market conditions at 31 March 2014.

Our estimate of the duration of the Fund's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so we have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.6%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.8%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2013 to 31 March 2016 for salaries to rise at 1.0% per annum.

## **Expected Return on Assets**

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the discount rate.

## Results and Disclosures

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. We estimate that the net liability as at 31 March 2014 is a liability of £1,329,046,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

A handwritten signature in black ink, appearing to read 'M Norquay'.

**Mark Norquay FFA  
Associate**

## Appendix 1      Balance Sheet Disclosure as at 31 March 2014

Net Pension Asset as at	31 Mar 2014	31 Mar 2013	31 Mar 2012
	£000's	£000's	£000's
Present Value of Funded Obligation	2,900,874	2,772,306	2,576,328
Fair Value of Scheme Assets (bid value)	1,571,828	1,581,320	1,444,996
<b>Net Liability in Balance Sheet</b>	<b>1,329,046</b>	<b>1,190,986</b>	<b>1,131,332</b>

\*Present Value of Funded Obligation consists of £2,762,114,000 in respect of Vested Obligation and £138,760,000 in respect of Non-Vested Obligation.

## Appendix 2 Asset and Benefit Obligation Reconciliation for the year to 31 March 2014

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2014	Year to 31 Mar 2013	Year to 31 Mar 2013
	£000's	£000's	£000's
		(had the revised IAS19 standard applied)	disclosed
<b>Opening Defined Benefit Obligation</b>	<b>2,772,306</b>	<b>2,576,328</b>	<b>2,576,328</b>
Current Service cost	93,265	86,455	86,455
Interest cost	126,238	117,142	117,142
Change in financial assumptions	75,071	52,261	combined below
Change in demographic assumptions	(128,608)	-	combined below
Experience loss/(gain) on defined benefit obligation	18,964	-	combined below
Total Actuarial losses (gains)	separated above	separated above	52,261
Losses (gains) on curtailments	combined below	combined below	2,456
Liabilities assumed / (extinguished) on settlements	-	-	-
Estimated benefits paid net of transfers in	(83,125)	(85,144)	(85,144)
Past service cost	combined below	combined below	-
Past service costs, including curtailments	3,090	2,456	separated above
Contributions by Scheme participants	23,673	22,808	22,808
Unfunded pension payments	-	-	-
<b>Closing Defined Benefit Obligation</b>	<b>2,900,874</b>	<b>2,772,306</b>	<b>2,772,306</b>

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to	Year to	Year to
	31 Mar 2014	31 Mar 2013	31 Mar 2013
	£000's	£000's	£000's
		(had the revised IAS19 standard applied)	disclosed
<b>Opening fair value of Scheme assets</b>	<b>1,581,320</b>	<b>1,444,996</b>	<b>1,444,996</b>
Expected return on scheme assets	n/a	n/a	78,934
Interest on assets	72,800	66,320	n/a
Return on assets less interest	(12,037)	78,667	n/a
Other actuarial gains/(losses)	(71,679)	(807)	n/a
Total Actuarial gains/(losses)	n/a	n/a	63,998
Administration expenses	(1,184)	(1,248)	n/a
Contributions by employer including unfunded	62,060	55,728	55,728
Contributions by Scheme participants	23,673	22,808	22,808
Estimated benefits paid plus unfunded net of transfers in	(83,125)	(85,144)	(85,144)
Settlement prices received / (paid)	-	-	-
<b>Closing Fair value of Scheme assets</b>	<b>1,571,828</b>	<b>1,581,320</b>	<b>1,581,320</b>

## Appendix 3 Sensitivity Analysis

Sensitivity Analysis	£000's	£000's	£000's	£000's	£000's
Adjustment to discount rate	+0.5%	+0.1%	0.0%	-0.1%	-0.5%
Present Value of Total Obligation	2,643,668	2,847,404	2,900,874	2,955,401	3,184,521
Projected Service Cost	74,721	81,949	83,868	85,833	94,187
Longevity Insurance Contract Asset Value	-51,859	-54,213	-54,829	-55,456	-58,087
Adjustment to long term salary increase	+0.5%	+0.1%	0.0%	-0.1%	-0.5%
Present Value of Total Obligation	2,940,193	2,908,639	2,900,874	2,893,158	2,862,780
Projected Service Cost	83,868	83,868	83,868	83,868	83,868
Longevity Insurance Contract Asset Value	-54,829	-54,829	-54,829	-54,829	-54,829
Adjustment to pension increases and deferred revaluation	+0.5%	+0.1%	0.0%	-0.1%	-0.5%
Present Value of Total Obligation	3,148,664	2,948,492	2,900,874	2,854,192	2,676,502
Projected Service Cost	94,314	85,864	83,868	81,916	74,536
Longevity Insurance Contract Asset Value	-56,751	-55,204	-54,829	-54,458	-53,019
Adjustment to mortality age rating assumption	+1 Year		None		- 1 Year
Present Value of Total Obligation	2,799,643		2,900,874		3,003,022
Projected Service Cost	81,011		83,868		86,751
Longevity Insurance Contract Asset Value	-81,951		-54,829		-27,464



## STATEMENT OF POLICY CONCERNING COMMUNICATIONS





## 1.0 INTRODUCTION

This statement of policy is formulated by the Royal Borough of Windsor and Maidenhead in its role as the administering authority for the Royal County of Berkshire Pension Fund in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013.



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

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

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

This statement of policy will be kept under review and amended following any material change as regards:

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

Following any revision to the policy statement, the administering authority will publish the statement as revised.

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

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



## **2.0 COMMUNICATION WITH SCHEME EMPLOYERS**

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

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

### **2.1 Decision Making Process**

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

### **2.2 Annual Scheme Employers Meeting**



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

### **2.3 Quarterly Scheme Employer Group Meetings**

Quarterly meetings are held between officers involved in the administration and payroll for the Fund and representatives of the main Scheme employers (the six unitary councils). These meetings involve a detailed discussion of the practical issues regarding Scheme administration and are held not only to supplement the communication process but also to try and improve the standard of service given to individual Scheme members. Any issues that arise from these meetings that may impact on all Scheme employers are communicated through the other channels as outlined in this policy statement.

### **2.4 Training for Scheme Employers**

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



## 2.5 Regular LGPS updates

Regular updates are sent to each Scheme employer from the pension administration team regarding any changes to the Local Government Pension Scheme. These are mainly in the form of Employer Bulletins posted to the Royal County of Berkshire Pension Fund website as well as specific letters or e-mails. Bulletins will be issued as required subject to legislation changes and the need to inform Scheme employers of those changes.

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

Other details that can be found include:

The Royal County of Berkshire Pension Fund

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



Standard Fund documentation (guides, leaflets and forms)

Statement of Accounts for the Pension Fund

Statement of Investment Principles

Funding Strategy statement

Governance Statement

Copies of Newsletters

Links to other web sites

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

## 2.6 General Guidance and Assistance

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

## 2.7 Promotional Services

Promotional guides, factsheets and leaflets are produced by the pension administration team and are available from the Pension Fund website. The pension administration team are also available to attend Scheme Employer Benefits Fairs, Open Days and general drop-in days as arranged by the Scheme employer.

## **2.8 Scheme Member Data**

Wherever possible the pension administration team will accept Scheme member data by electronic transfer in a format as provided to the Scheme employer by the administering authority. Where it is not reasonable to expect a Scheme employer to provide data electronically, standard forms for completion are supplied via the Pension Fund website in both pdf and Word formats. Scheme employers are required to supply data on a monthly basis following the completion of each payroll run. At each year end (31<sup>st</sup> March) Scheme employers must supply a 'year end' return to the administering authority (by 30<sup>th</sup> April) in a specified format to enable annual benefits statements to be produced and supplied to active and deferred members.



## **2.9 Employer Self-Service (ESS)**

The administering authority will make available to each Scheme employer the facility to access member data in respect of their own employees through a secure link to the pension administration software.

## **3.0 COMMUNICATION WITH INDIVIDUAL SCHEME MEMBERS**

Membership of the Royal County of Berkshire Pension Fund covers the active contributors, those members who have left the Fund but still have a deferred pension and retired members and their dependants. The type of member to which the information is applicable is covered as appropriate.

The preferred method of communication with Scheme members is via *myPension ONLINE* a secure member self-service facility provided as part of the pension administration software. *myPension ONLINE* is available to all member types and enables the member to update certain personal details online and provides each member type with access to their annual benefit statements, membership certificates and guides/leaflets relevant to their class of membership.

### **3.1 Welcome Pack**

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

- A membership certificate of entry into the scheme
- An employee guide to the scheme
- A guide to increasing pension benefits
- Transfer request details
- Details on protection for the family
- An expression of wish form for payment of a death grant
- A guide to civil partnerships
- A guide to working part-time
- A copy of the Pension Fund's Service Standards
- A guide to keeping records up to date
- A guide to making contributions following a period of absence
- A guide containing an election form for nominating a co-habiting partner



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

### **3.2 Annual Benefit Statements**

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

- Accrued benefits within the scheme as at the 31<sup>st</sup> March last
- The value of the death grant payable from the Scheme
- The member's nominated beneficiaries for receipt of any death grant
- Membership history including transferred in service from other Schemes

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

### **3.3 Pension Surgeries**

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

### **3.4 Newsletters**



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

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



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



### **3.5 Pre-Retirement Courses**

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

### **3.6 Pension Fund Website**

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



### **3.7 Pension Payslips**

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

### **3.8 P60s**

P60s are available via *myPension ONLINE* but will be sent out to members' home addresses as a matter of course. Every retired member and/or their dependants will receive a P60 each year normally at the beginning of May. A detailed description of a P60 is available on the retired members section of the Pension Fund website.

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

Annual Pension Increase letters are available via *myPension ONLINE* but will be sent out to members' home addresses if preferred. Retired members will receive a pension increase letter each year to inform them of the inflation increase on their pension. This letter will include details of the monetary value of their revised pension and details of the amount to be paid in April. Also contained in the letter will be details of the pension pay dates for the coming year.

### **3.10 Annual Meeting**

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



### **3.11 Ad Hoc Meetings**

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

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

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

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

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

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

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

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





**GOVERNANCE**

**COMPLIANCE**

**STATEMENT**





## INTRODUCTION

The following statement details the compliance of the Royal Borough of Windsor and Maidenhead as the administering authority of the Royal County of Berkshire Pension Fund with the guidance issued for governance of the Local Government Pension Scheme by the Secretary of State for Communities and Local Government. It has been prepared as required 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 regulations 53(4) (scheme managers) of the Local Government Pension Scheme Regulations 2013 (as amended).

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

## STRUCTURE

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

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

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

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

- ii) Representatives of Scheme employers and Scheme members should sit on

the Advisory Panel' to underpin the work of 'the Main Panel'.

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

iii) The structure of the two panels should ensure effective communication across both levels.

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

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

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

## REPRESENTATION

All key stakeholders should be afforded the opportunity to be represented with 'the Main Panel' or 'the Advisory Panel'. To ensure compliance a number of principles have been identified.

The key stakeholders are:

i) Scheme employers.

**Compliant** – The six Berkshire Unitary Authorities and two of the other larger Scheme employers are all represented on 'the Advisory Panel'

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

**Compliant** – 'The Advisory Panel' has two representatives from the major trades unions and two representatives from the active, deferred or retired Scheme membership.

iii) Independent Professional Observers.

**Compliant** – An Independent Adviser attends each meeting of the Panels.

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

**Compliant** – Expert advisers are invited to meetings of the Panels as required. Independent Strategy Advisers attend meetings of the Investment Working Group.

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

**Compliant** – Members of both panels are treated equally in respect of access to papers, meetings and training. All members are given full opportunity to contribute to the decision making process.

## SELECTION AND ROLE OF LAY MEMBERS

Members of both Panels 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 Panels are periodically reminded that it is their responsibility to ensure that Panel members are aware of their responsibilities. The Chair of ‘the Main Panel’ will remind members of both Panels of their responsibilities as required. Each set of papers for every Panel meeting contains a reminder to members of their duty in respect to potential conflicts of interest. Members are expected to declare conflicts of interest and abide by RBWM’s rules on conflicts of interest.

## VOTING

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

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

## 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 are entitled to attend or request training. Members are entitled to request the use of facilities belonging to RBWM in respect of their duties as members of the Panels and reasonable expenses incurred in relation to their membership of the Panels will be reimbursed upon request.

ii) Any policy must apply equally to all members of both Panels.

**Compliant** – No distinction is made between members of either Panel.

## MEETINGS (frequency/Quorum)

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

**Compliant** – Meetings are held quarterly.

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

**Compliant** – Both panels meeting concurrently

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

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

## **ACCESS**

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

**Compliant** – All members of both Panels have equal access to Panel papers, documents and advice that falls to be considered at Panel meetings.

## **SCOPE**

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

**Compliant** – Wider Scheme issues are considered by both Panels on a regular basis. **PUBLICITY**

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

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



## FUNDING STRATEGY STATEMENT

A photograph of a financial table or ledger with multiple columns of numbers. The numbers are arranged in rows and columns, typical of a financial statement or ledger.

## 1 INTRODUCTION

- 1.1 This is the Funding Strategy Statement (“FSS”) for the Royal County of Berkshire Pension Fund (“the Fund”) which is administered by The Royal Borough of Windsor of Maidenhead (“the Administering Authority”). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013.
- 1.2 This statement should be read in conjunction with the Fund’s Statement of Investment Principles (“SIP”).

### *Purpose of the Funding Strategy Statement*

- 1.3 The purpose of the FSS is to explain the Fund’s approach to meeting the employer’s pension liabilities and in particular:
- To establish a clear and transparent Fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;
  - To take a prudent longer-term view of funding those liabilities; and
  - To support the regulatory framework to maintain as nearly constant Scheme employer contribution rates as possible.
- 1.4 The purpose of the Fund is to:
- Collect monies in respect of employee and employer contributions, transfer values and investment income;
  - Facilitate payment of Local Government Pension Scheme (LGPS) benefits, transfer values, costs, charges and expenses; and
  - Accumulate and invest money received and facilitate the management of this.



### *Funding Objectives*

- 1.5 Contributions are paid to the Fund by Scheme members and Scheme employers to provide for the benefits which will become payable to Scheme members when they fall due.
- 1.6 The funding objectives are to
- Set levels of employer contributions that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
  - Build up as required assets in such a way that produces levels of employer contributions that are as stable as possible;
  - Ensure effective and efficient management of employer liabilities; and
  - Allow the return from investments to be maximised within reasonable risk parameters.



## 2 KEY PARTIES

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



### *The Administering Authority*

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

- Collect and account for employee and employer contributions;
  - Pay the benefits to Scheme members and their dependants as they fall due;
  - Invest the Fund's assets ensuring sufficient cash is available to meet the liabilities as and when they become due;
- Manage the Actuarial valuation process in conjunction with the Fund Actuary;
  - Prepare and maintain the FSS and also the SIP (Statement of Investment Principles) after consultation with other interested parties; and
  - Monitor all aspects of the Fund's performance and funding to ensure that the FSS and the SIP are updated as necessary.

### *Scheme employers*

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

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary within the statutory timescales;
- Promptly notify the Administering Authority of any new Scheme members and any other membership changes in accordance with the pension administration service level agreement;
- Promptly notify the Administering Authority of any Scheme member who leaves or retires from their employment in accordance with the pension administration service level agreement;



- Promptly notify the Administering Authority of all Scheme member data and information required by the Administering Authority in accordance with the pension administration service level agreement so that the Administering Authority is able to accurately calculate the value of benefits payable to each Scheme member;
- Exercise any discretions permitted under the Scheme Regulations and to produce, maintain and publish a policy statement with regard to the exercise of those discretions;
- Meet the costs of any augmentations or other additional costs such as Pension Fund strain costs resulting from decisions to release early Scheme members' retirement benefits in accordance with Scheme regulations and agreed policies and procedures;
- Provide any information as requested to facilitate the Actuarial valuation process.

### *Fund Actuary*

Prepare the Actuarial Valuation having regard to the FSS;

- Prepare annual FRS17/IAS19 (accounting standards) reports for all Scheme employers Waddingham LLP. The main responsibilities of the Fund requiring such a report for Actuary are to:

their annual report and accounts;

- Advise interested parties on funding strategy and completion of Actuarial valuations in accordance with the FSS and the Scheme Regulations;
- Advise on other actuarial matters affecting the financial position of the Fund.



## **3 FUNDING STRATEGY**

3.1 The funding strategy seeks to achieve (via employee and employer contributions and investment returns) two key objectives:

- A funding level of 100% as assessed by the Fund's appointed actuary, triennially, in accordance with the Scheme Regulations;
- As stable an employer contribution rate as is practical.

3.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements, actuarial assumptions and investment returns and that the employer contribution has to be adjusted to a level sufficient to maintain the pension Fund's solvency and to achieve a funding level of 100% over the longer term.

3.3 The Actuarial valuation process is essentially a projection of future cash-flows to and from the Fund. The main purpose of the triennial valuation is to determine the level of employers' contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

3.4 The last Actuarial valuation was carried out as at 31<sup>st</sup> March 2013 with the assets of the Fund found to be 75% of the accrued liabilities for the Fund.



### *Funding Method*

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

### *Valuation Assumptions and Funding Model*

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

### *Future Price Inflation*

- 3.11 The base assumption in any triennial valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the valuation date using a point from the Bank of England Inflation Curve. The resultant figure in the 2013 valuation is 3.5% per annum.

### *Future Pay Inflation*

3.12 As benefits accrued before 1<sup>st</sup> April 2014 (and in the case of some protected members after 31<sup>st</sup> March 2014) are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions.

The assumption adopted in the 2013 triennial valuation is that pay increases will, on average over the longer term, exceed price inflation by 1.0% per annum. In the short term in anticipation of Government policy, it has been assumed that pay increases for the 3 year period to 31 March 2016 would only be 1% per annum.

### *Future Pension Increases*

3.13 The 2010 Emergency Budget announced that in future, the pensions increase orders will be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). It was therefore assumed that pension increases will be 0.8% less than the price inflation assumption.



### *Future Investment Returns/Discount Rate*

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

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

3.16 For “open” Scheme employers the discount rate applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields and indicators in the 6 months straddling the valuation date. This discount rate so determined may be referred to as the “ongoing” discount rate. At the 2013 triennial valuation the ongoing discount rate was 6.1%.

3.17 For “closed” employers an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected “termination date”) the Scheme employer either wishes to leave the Fund or the terms of their admission requires it.

3.18 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

3.19 The adjustment to the discount rate is essentially to set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination.

### *Asset Valuation*

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

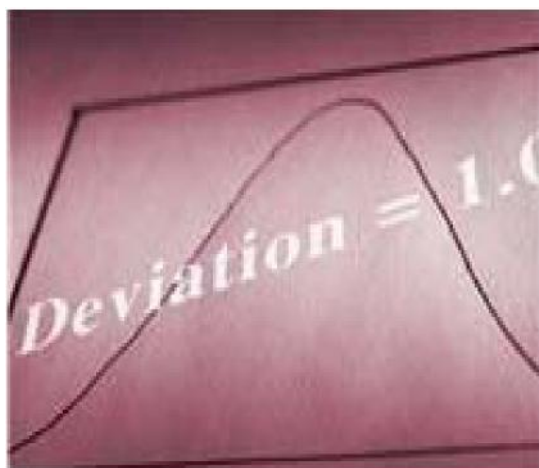
### *Statistical Assumptions*

3.21 The statistical assumptions incorporated into the triennial valuation such as future rates of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual Scheme employers.

### *Deficit Recovery/Surplus Amortisation Periods*

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

3.23 Where the Actuarial valuation discloses a significant surplus or deficit then the levels of required Scheme employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years (set as 30 years from 2011).



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

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

3.25 At the 2013 triennial valuation the period adopted to recover the deficit was:

Type of Scheme Employer	Maximum Length of Recovery Period
Unitary Authorities and Associated Employers	27 years
Housing Associations	17 years
Colleges	17 years
Academies	20 years
Community Admission Bodies	17 years
Transferee Admission Bodies	Future working life of current employees or contract period whichever is the shorter period

3.26 Where a Scheme employer's contribution has to increase significantly then the increase may be phased in over a period not exceeding 6 years although this may only be allowed for some Scheme employer types.

#### *Pooling of Individual Scheme employers*

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

3.28 However, certain groups of individual Scheme employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small. Scheme employers with weak financial covenants would be liable for enhanced contributions.

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

- Colleges
- Academies
- Community Admission Bodies
- Housing Associations



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

#### *Cessation Valuations*

3.31 On the cessation of a Scheme employer's participation in the Fund, the Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the Scheme employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets

and liabilities relating to the Scheme employer will transfer within the Fund to another participating Scheme employer.

- 3.32 In assessing the deficit on termination, the Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous triennial valuation to protect the other Scheme employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

#### *Early Retirement Costs*

- 3.33 The Actuary's funding basis makes no allowance for premature retirement except on grounds of permanent ill health. Scheme employers are required to pay additional contributions whenever an employee retires before attaining the age at which the triennial valuation assumes that benefits are payable. The calculation of these costs is carried out with reference to a calculation approved by the Actuary to the Fund.
- 3.34 The Fund monitors each Scheme employer's ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous triennial valuation by a statistically significant amount, the Scheme employer may be charged additional contributions on the same basis as apply for non-ill health cases.

#### *Triennial Valuation*

- 3.35 The next triennial valuation is due as at 31<sup>st</sup> March 2016.

### **4 LINKS WITH THE STATEMENT OF INVESTMENT PRINCIPLES (SIP)**

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

### **5 RISKS AND COUNTER MEASURES**

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

### *Financial Risks*

- 5.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The triennial valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 8% and decrease/increase the required Scheme employer contribution by around 3.9% of payroll.
- 5.4 The Pension Fund Panel regularly monitor the investment returns achieved by the fund managers and seek advice from Officers and independent advisors on investment strategy. In the inter-valuation period 2010 to 2013 such monitoring activity saw investment returns slightly lower than assumed in the 2010 valuation.
- 5.5 In addition the Fund Actuary provides monthly funding updates between triennial valuations to check whether the funding strategy continues to meet the funding objectives.

### *Demographic Risks*

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

### *Regulatory Risks*

- 5.10 The benefits provided by the Scheme and employee contribution levels are set out in Statutory Regulations as determined by central Government. The tax status of the invested assets is also determined by central Government.

- 5.11 The funding strategy is therefore exposed to the risks of changes in the Statutory Regulations governing the Scheme and changes to the tax regime which increase the cost to individual Scheme employers of participating in the Scheme.
- 5.12 The Administering Authority actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

### *Governance*

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

## **6 MONITORING AND REVIEW**

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

Approved by the Berkshire Pension Fund  
Panel 28 April 2014



## Appendix 3b Rates and Adjustment Certificate

- A4.1 The Common Rate of Contribution as defined by Regulation 36 for the period 1 April 2014 to 31 March 2017 is 19.3% of pensionable payroll.
- A4.2. However, each employer pays contributions based on their particular circumstances and so individual adjustments are made. These give the following minimum total contributions expressed as a percentage of pensionable pay plus the monetary amount where applicable as set out below.

Code	Employer	2013 Funding Pool	2014/15		2015/16		2016/17	
			%pay	£	%pay	£	%pay	£
<b>2</b>	<b>Bracknell Forest Council</b>	<b>Bracknell Forest</b>	<b>12.8%</b>	<b>1,746,000</b>	<b>12.8%</b>	<b>2,076,000</b>	<b>12.8%</b>	<b>2,433,000</b>
9	Bracknell Town Council	Bracknell Forest	16.7%		17.2%		17.7%	
39	South Hill Park Trust	Bracknell Forest	16.7%		17.2%		17.7%	
42	Winkfield Parish Council	Bracknell Forest	16.7%		17.2%		17.7%	
49	Binfield Parish Council	Bracknell Forest	16.7%		17.2%		17.7%	
125	Crowthorne Parish Council	Bracknell Forest	16.7%		17.2%		17.7%	
137	Sandhurst Town Council	Bracknell Forest	16.7%		17.2%		17.7%	
190	Warfield Parish Council	Bracknell Forest	16.7%		17.2%		17.7%	
<b>3</b>	<b>RBWM (non-schools)</b>	<b>RBWM</b>	<b>12.8%</b>	<b>1,541,000</b>	<b>12.8%</b>	<b>1,830,000</b>	<b>12.8%</b>	<b>2,142,000</b>
	<b>RBWM (schools)</b>	<b>RBWM</b>	<b>17.6%</b>		<b>18.2%</b>		<b>18.9%</b>	
15	Cookham Parish Council	RBWM	17.6%		18.2%		18.9%	
18	Sunningdale Parish Council	RBWM	17.6%		18.2%		18.9%	
19	Sunninghill & Ascot Parish Council	RBWM	17.6%		18.2%		18.9%	
51	Cox Green Parish Council	RBWM	17.6%		18.2%		18.9%	
118	Bray Parish Council	RBWM	17.6%		18.2%		18.9%	
127	White Waltham Parish Council	RBWM	17.6%		18.2%		18.9%	
143	Hurley Parish Council	RBWM	17.6%		18.2%		18.9%	
<b>4</b>	<b>West Berkshire Council</b>	<b>West Berkshire</b>	<b>12.8%</b>	<b>1,641,000</b>	<b>12.8%</b>	<b>2,071,000</b>	<b>12.8%</b>	<b>2,537,000</b>
11	Thatcham Town Council	West Berkshire	16.1%		16.8%		17.4%	
20	Tilehurst Parish Council	West Berkshire	16.1%		16.8%		17.4%	
47	Theale Parish Council	West Berkshire	16.1%		16.8%		17.4%	
75	The Downs School	West Berkshire	16.1%		16.8%	-	17.4%	
88	Newbury Town Council	West Berkshire	16.1%		16.8%		17.4%	
120	Stratfield Mortimer Parish Council	West Berkshire	16.1%		16.8%		17.4%	
136	Hungerford Town Council	West Berkshire	16.1%		16.8%		17.4%	
147	Burghfield Parish Council	West Berkshire	16.1%		16.8%		17.4%	
<b>5</b>	<b>Reading Borough Council</b>	<b>Reading</b>	<b>12.0%</b>	<b>3,144,000</b>	<b>12.0%</b>	<b>3,600,000</b>	<b>12.0%</b>	<b>4,092,000</b>
66	The Blessed Hugh Faringdon School	Reading	17.2%		17.7%		18.2%	
68	Reading Girls School	Reading	17.2%		17.7%		18.2%	
<b>6</b>	<b>Slough Borough Council</b>	<b>Slough</b>	<b>11.7%</b>	<b>2,403,000</b>	<b>11.7%</b>	<b>2,714,000</b>	<b>11.7%</b>	<b>3,048,000</b>
14	Britwell Parish Council	Slough	17.9%	-	18.4%		18.9%	
61	Holy Family School	Slough	17.9%		18.4%		18.9%	
62	Priory School	Slough	17.9%		18.4%		18.9%	
119	Pippins School - Slough	Slough	17.9%		18.4%		18.9%	
122	Wexham Court Parish Council	Slough	17.9%		18.4%		18.9%	
<b>7</b>	<b>Wokingham Borough Council</b>	<b>Wokingham</b>	<b>12.6%</b>	<b>1,472,000</b>	<b>12.6%</b>	<b>1,691,000</b>	<b>12.6%</b>	<b>1,927,000</b>
10	Earley Town Council	Wokingham	17.7%	-	18.2%	•	18.7%	
12	Wokingham Town Council	Wokingham	17.7%		18.2%	••	18.7%	
21	Woodley Town Council	Wokingham	17.7%		18.2%	:-	18.7%	
43	Wargrave Parish Council	Wokingham	17.7%		18.2%	•	18.7%	
52	Swallowfield Parish Council	Wokingham	17.7%		18.2%		18.7%	
73	All Saints CE (Aided) Primary School	Wokingham	17.7%		18.2%		18.7%	



# Barnett Waddingham

## Public Sector Consulting

Code	Employer	2013 Funding Pool	2014/15		2015/16		2016/17	
			% pay	£	% pay	£		
96	Shinfield Parish Council	Wokingham	17.7%		18.2%		18.7%	
97	Barkham Parish Council	Wokingham	17.7%		18.2%		18.7%	
117	Finchampstead Parish Council	Wokingham	17.7%		18.2%		18.7%	
129	Winnersh Parish Council	Wokingham	17.7%		18.2%		18.7%	
159	Twyford Parish Council	Wokingham	17.7%		18.2%		18.7%	
70000	Wokingham Borough Council (Schools)	Wokingham	17.7%		18.2%		18.7%	
79	Housing Solutions Ltd	Housing Associations	18.4%		19.2%		20.0%	
80	Windsor Housing	Housing Associations	19.6%		21.7%		23.7%	
83	Dimensions UK Ltd	Housing Associations	18.9%		20.2%		21.5%	
104	Housing Solutions Ltd	Housing Associations	16.2%		16.2%		16.2%	
132	Bracknell Forest Homes	Housing Associations	18.7%		19.8%		20.9%	
212	Radian Support	Housing Associations	18.1%		18.6%		19.2%	
53	Newbury College	Colleges	18.1%		19.6%		21.1%	
55	Bracknell & Wokingham College	Colleges	18.5%		20.4%		22.3%	
57	East Berkshire College	Colleges	18.0%		19.4%		20.9%	
58	Berkshire College Of Agriculture	Colleges	18.0%		19.4%		20.9%	
156	University of West London	Colleges	18.3%		20.1%		21.8%	
23	Berkshire County Blind Society	Admitted Bodies	19.3%		22.1%		24.9%	
26	Age Concern Berkshire	Admitted Bodies	17.9%		19.3%		20.8%	
28	Elizabeth Fry Hostel	Admitted Bodies	17.0%		17.4%		17.4%	
30	Mary Hare Grammar School	Admitted Bodies	16.9%		17.4%		17.8%	
35	School of St Helen & St Katharine	Admitted Bodies	17.6%		18.7%		19.8%	
37	Slough Council For Voluntary Service	Admitted Bodies	17.4%		18.4%		19.4%	
38	AOSEC	Admitted Bodies	17.2%		18.0%		18.8%	
40	Reading Voluntary Action	Admitted Bodies	17.8%		19.1%		20.5%	
93	Slough Community Transport & Shopmobility	Admitted Bodies	19.4%		22.3%		25.2%	
95	Berkshire Maestros	Admitted Bodies	16.9%		17.3%		17.7%	
98	Woodley Age Concern	Admitted Bodies	18.3%		20.1%		22.0%	
105	PACT	Admitted Bodies	16.9%		17.4%		17.9%	
121	SECBE	Admitted Bodies	16.3%		16.3%		16.3%	
131	Learning Plus UK	Admitted Bodies	15.8%		16.1%		16.4%	
134	Social Enterprise Berkshire	Admitted Bodies	18.1%		19.8%		21.5%	
44	Reading Transport Ltd	Individual	20.2%	981,000	20.2%	1,025,500	20.2%	1,072,100
48	Sovereign Housing Association	Individual	21.9%	360,400	21.9%	376,700	21.9%	393,800
59	CIBT Berks Careers Guidance	Individual	15.9%	32,800	15.9%	68,800	15.9%	108,100
90	Berkshire Fire & Rescue Service	Individual	13.7%	138,700	13.7%	145,000	13.7%	151,600
100	Corn Exchange Trust	Individual	20.4%		20.4%		20.4%	
103	Slough Community Leisure	Individual	15.6%		15.6%		15.6%	
106	Thames Valley Probation Board	Individual	12.0%	885,000	12.0%	925,100	12.0%	967,100
107	Interserve (Facilities Services Slough) Ltd	Individual	21.5%		21.5%		21.5%	
110	Slough Enterprise Ltd	Individual	18.0%		18.0%		18.0%	
113	Northgate Ltd	Individual	27.4%		27.4%		27.4%	
114	Holroyd Howe Ltd	Individual	24.8%	3,200	24.8%	3,300	24.8%	3,500
115	MITIE	Individual	13.0%	9,000	13.0%	9,400	13.0%	9,800
126	John Madejski Academy	Individual	12.4%		12.4%		12.4%	
128	Greenwich Leisure Ltd	Individual	15.8%		15.8%		15.8%	
135	Langley Academy	Individual	12.1%		12.1%		12.1%	
138	Berkshire Fire & Rescue (Training) Ltd	Individual	26.0%		26.0%		26.0%	
139	Volker Wessels Ltd	Individual	22.3%	20,900	22.3%	21,800	22.3%	22,800
140	Care UK	Individual	20.4%		20.4%		20.4%	
145	Library Services (Slough) Ltd	Individual	12.0%		12.0%		12.0%	
149	Northgate Information Solutions Wokingham	Individual	25.8%		25.8%		25.8%	
150	Busy Bee Cleaning Services Ltd	Individual	19.7%		19.7%		19.7%	
151	RM Education PLC	Individual	6.2%		6.2%		6.2%	
154	Vinci Park Services Ltd (Slough)	Individual	0.0%		0.0%		0.0%	

# Barnett Waddingham

## Public Sector Consulting

Code	Employer	2013 Funding Pool	2014/15		2015/16		2016/17	
			% pay		pay		% pay	E
155	Vinci Park Services Ltd (Bracknell)	Individual	9.1%		9.1%		9.1%	
160	Optalis Limited	Individual	14.0%		14.0%		14.0%	
162	Rethink	Individual	19.2%	7,200	19.2%	7,500	19.2%	7,900
177	Creative Support Ltd	Individual	7.8%		7.8%		7.8%	
178	Northgate Information Solutions	Individual	18.5%		15.5%		15.5%	
184	Arvato	Individual	12.9%		12.9%		12.9%	
188	KGB Cleaning Ltd	Individual	21.5%		21.5%		21.5%	
192	People Potential Possibilities (P3)	Individual	13.5%	7,100	13.5%	7,500	13.5%	7,800
193	Adviza	Individual	15.2%		15.2%		15.2%	
202	Ridge Crest Cleaning Services	Individual	12.9%		12.9%		12.9%	
204	Elior UK plc	Individual	13.7%		13.7%		13.7%	
209	Hayward Services Limited	Individual	12.8%		12.8%		12.8%	
211	Creative Support Limited	Individual	16.2%		16.2%		16.2%	
144	Highdown School and 6th Form Centre	Academies	16.6%		16.6%		16.6%	
146	Churchend Academy	Academies	16.6%		16.6%		16.6%	
148	Kennet Academy	Academies	16.6%		16.6%		16.6%	
152	Lowbrook Academy Trust	Academies	16.6%		16.6%		16.6%	
153	Maiden Erlegh School	Academies	16.6%		16.6%		16.6%	
157	Park House School Newbury	Academies	16.6%		16.6%		16.6%	
158	The Piggott C of E Academy	Academies	16.6%		16.6%		16.6%	
161	The Holt School	Academies	16.6%		16.6%		16.6%	
163	Baylis Court School	Academies	16.6%		16.6%		16.6%	
164	Slough & Eton C of E School	Academies	16.6%		16.6%		16.6%	
165	The Avenue Academy	Academies	16.6%		16.6%		16.6%	
166	Ranelagh School	Academies	16.6%		16.6%		16.6%	
167	Langley Hall Primary Academy	Academies	16.6%		166%		16.6%	
168	Kendrick School	Academies	16.6%		16.6%		16.6%	
169	Langley Grammar School	Academies	16.6%		16.6%		16.6%	
170	Lynch Hill School Primary Academy	Academies	16.6%		16.6%		16.6%	
171	Prospect School Reading	Academies	16.6%		16.6%		16.6%	
172	Slough Grammar School	Academies	16.6%		16.6%		16.6%	
173	Reading School	Academies	16.6%		16.6%		16.6%	
174	St Bartholomew's School	Academies	16.6%		16.6%		16.6%	
175	Cox Green School	Academies	16.6%		16.6%		16.6%	
176	Furze Platt Senior School	Academies	16.6%		16.6%		16.6%	
179	Datchet St Mary's C of E Primary School	Academies	16.6%		16.6%		16.6%	
180	Denefield School	Academies	16.6%		16.6%		16.6%	
181	All Saints Junior School Reading	Academies	16.6%		16.6%		16.6%	
182	Herschel Grammar School	Academies	18.6%		16.6%		16.6%	
183	Westgate School	Academies	16.6%		16.6%		16.6%	
185	Cippenham Primary School	Academies	16.6%		16.6%		16.6%	
186	Cippenham Infants School	Academies	16.6%		16.6%		16.6%	
187	Marish Primary School	Academies	16.6%		16.6%		16.6%	
189	Oakbank Free School	Academies	16.6%		16.6%		16.6%	
191	Altwood School	Academies	16.6%		16.6%		16.6%	
194	Trinity School	Academies	16.6%		16.6%		16.6%	
196	White Waltham School	Academies	16.6%		16.6%		16.6%	
197	Godolphin Junior School	Academies	16.6%		16.6%		16.6%	
198	Godolphin Infant School	Academies	16.6%		16.6%		16.6%	
199	Castleview School	Academies	16.6%		16.6%		16.6%	
200	Charters School	Academies	16.6%		16.6%		16.6%	
201	Desborough School	Academies	16.6%		16.6%		16.6%	
203	Meadow Park Academy	Academies	16.6%		16.6%		16.6%	
205	Ryvers School	Academies	16.6%		16.6%		16.6%	
206	Battle Primary Academy	Academies	166%		16.6%		16.6%	
207	Willow Primary School	Academies	166%		16.6%		16.6%	
208	Fir Tree Academy Trust	Academies	16.6%		16.6%		16.6%	

## Notes

- A4.3. Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumptions discussed with us.
- A4.4. The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.
- A4.5. The certified contribution rates assume payments are made throughout the year. If an employing authority wishes to prepay any part of their contribution an adjustment may be made to allow for the difference in the timing.

## Projected New Benefits

- A4.6. The following table shows the amount of new pension and lump sum benefits (excluding early retirement benefits due to redundancy) projected to come into payment during the period 1 April 2014 to 31 March 2017.

Year to	Retirement Benefits £(000)
31 March 2015	15,709
31 March 2016	18,421
31 March 2017	21,459

## New Employers

A5.1 The below employers have joined the Fund since 31 March 2013 and their rates were certified at their date of joining and will continue as set out until 1 April 2017 when they will be assessed as part of the next formal valuation.

Certified rates for new employers in the Fund since 1 April 2013					
Code	Employer	Funding Pool	2014/15 % pay	2015/1 6% pay	2016/17 % pay
210	Colnbrook Primary School	Academies	16.6%	16.6%	16.6%
213	St Marys Catholic Primary School	Academies	16.6%	16.6%	16.6%
214	Forest School Academy Trust	Academies	16.6%	16.6%	16.6%
215	James Elliman Academy	Academies	16.6%	16.6%	16.6%
217	The Palmer Academy	Academies	16.6%	16.6%	16.6%
218	The Specialist Academy Trust	Academies	16.6%	16.6%	16.6%
219	Theale Green School	Academies	16.6%	16.6%	16.6%
221	The NAS Academy Trust	Academies	16.6%	16.6%	16.6%
223	Whitelands Park Academy	Academies	16.6%	16.6%	16.6%
224	Montem Academy	Academies	16.6%	16.6%	16.6%
225	Foxborough Academy School	Academies	16.6%	16.6%	16.6%
216	Chiewley Parish Council	West Berkshire	16.1%	16.8%	17.4%
220	Slough Learning Partnership	Slough	17.9%	18.4%	18.9%
222	Mott MacDonald	IndisAdual	12.2%	12.2%	12.2%
226	BBOWT	Individual	19.7%	19.7%	19.7%

## Notes

- A5.2. Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumptions discussed with us.
- A5.3. The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.
- A5.4. The certified contribution rates assume payments are made throughout the year. If an employing authority wishes to prepay any part of their contribution an adjustment may be made to allow for the difference in the timing.




## STATEMENT OF INVESTMENT PRINCIPLES



## **1.0 INTRODUCTION**

- 1.1 This is the Statement of Investment Principles adopted by the Royal Borough of Windsor and Maidenhead acting as the administering authority for the Royal County of Berkshire Pension Fund.
- 1.2 This document contains a compliance statement as regards the Government Code of Investment Principles and also provides information on all the Fund's service providers (investment managers, custodian and advisers) along with the nature of the services they provide.
- 1.3 The practices described within this document form the basis of the decision making for the Fund. The document is kept under continuous review.

## **2.0 MANAGEMENT STRUCTURE**

- 2.1 The Royal Borough of Windsor and Maidenhead (RBWM) is the Administering Authority for the Royal County of Berkshire Pension Fund in accordance with Part 1 of Schedule 3 of the Local Government Pension Scheme Regulations 2013 (as amended) and, therefore, has overall responsibility for any decisions taken that impact on the running of the Pension Fund. RBWM recognises, however, that in its role as custodian of the Royal County of Berkshire Pension Fund assets it is important that the views of other employers including the other five unitary councils in Berkshire, individual Scheme contributors and retired members are taken into account. For this reason two Panels are operated by the Council namely a Pension Fund Panel (consisting of five elected members RBWM) and a Pension Fund Advisory Panel (consisting of the five members of the Pension Fund Panel, one representative from each of the other five unitary councils within the Fund, two representatives representing the other employers, two trade union representatives representing active members and two representatives drawn from the membership of the Fund (one representing active members the other deferred and pensioner members)).
- 2.2 The Pension Fund Panel and Pension Fund Advisory Panel meet together to discuss items of decision and monitoring. These meetings are held on a quarterly basis together with additional meetings as required. The Pension Fund Panel is the executive body.
- 2.3 The 'Terms of Reference' of the Pension Fund Panel and the Pension Fund Advisory Panel are contained in the Constitution of RBWM, Part 6 (D1) 'Berkshire Pension Fund Panel'.
- 2.4 Management of the Pension Fund by officers of RBWM is carried out in accordance with Part 5A 'Scheme of Delegation' in the Constitution of RBWM.

of

### ***Investment Managers***

- 2.5 The day to day management of the Fund's investment portfolios has been delegated to the Fund's investment managers. Their duties include:



- Purchase and sale of assets of the Fund;
- Preparation of quarterly reporting including a review of investment performance.
- Reporting personally to the Pension Fund and Pension Fund Advisory Panels as requested.
- Providing administrative and accounting data concerning the investment portfolio and transactions.

### ***Custodian (JP Morgan Worldwide Securities Services)***

- 2.6 The Fund operates with a global custodian who is responsible for the settlement of all investment transactions, collection of income, tax reclaims and corporate action administration.

### ***Scheme Actuary (Barnett Waddingham)***

- 2.7 The scheme actuary is responsible for:
- Undertaking a triennial valuation of the Fund's assets and liabilities.
  - Setting the scheme employer contribution rates.
  - Undertaking FRS17 valuations annually for each employing body.
  - Providing advice as requested.

### ***Independent Advisors***

- 2.8 The Pension Fund Panel's independent advisor has no specific duties but attends meetings of the Panel and gives general advice on the topics under consideration. The Investment Working Group (a working group of The Pension Fund Panel) has two independent strategy advisors who give advice on the asset allocation of the Fund.

## **3.0 OBJECTIVES**

- 3.1 The primary objective of the Fund is to provide the members pension and lump sum benefits on their retirement or for their dependants benefits on death before or after retirement, on a 'defined benefits basis'. In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.





## ***Funding Objectives***

- 3.2 To fund the Pension Fund in such a manner that in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contributions is agreed by the administering authority and each employer body to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.



The assumptions used correspond with the assumptions used in the latest actuarial valuation. The funding position will be reviewed on a regular basis but at least at each triennial actuarial valuation. The Panel will be advised on the effect of any material changes to the Fund during the inter-valuation period.

## ***Investment Objective***

- 3.3 The Pension Fund Panel has agreed a strategic asset allocation to achieve the long term investment returns to meet the Fund Objective.

## ***Investment Philosophy***

- 3.4 In January 2012 the Pension Fund Panel adopted an investment philosophy which states that the objective of the portfolio is to return the Fund to a funding ratio of 100% whilst minimising contributions. The actuarial assumption is that this will be achieved by 2040 (being the 27 year recovery period assumed for the major employers in the 2013 actuarial valuation). In doing this the aim is to minimise any risk of upward changes in employers' contribution rates.

We will seek to achieve this objective by setting the following investment aims:

- To deliver a total return of 4.0% (net income plus capital gain) over the annualised rate of UK inflation (as measured by the change in the Consumer Prices Index) on assets whilst aiming to deliver an investment income yield of 2% (being our best estimate of the level of income required to avoid eroding capital to meet the gap between contributions received and benefits payable).
- To minimise the impact of interest rate and inflation expectation changes on the funding ratio.
- To keep asset value drawdowns to a minimum.





To achieve these aims, we will invest according to the following tenets:

- We will diversify the portfolio across a range of different return seeking assets.
- We will manage the portfolio over the investment cycle with an expected normal time horizon for investments of at least 3 years.
- We will aim to minimise transaction costs and fund managers' fees.
- Low volatility is preferred to high volatility.
- We acknowledge that there will be periods when equities will produce significant capital gains or losses. Over the long term the return achieved may not adequately compensate investors for the higher volatility.
- We consider that there is little value to be gained from short-term active management in highly efficient markets but that there may exist opportunities to extract value from asset allocation and/or minor inefficiencies within markets.
- We consider that active managers can add value (net of their fees) relative to index-tracking managers by taking a long-term view and/or exploiting inefficiencies within markets.
- We will use benchmarks to monitor rather than to manage performance.
- We will manage currency exposure separately from the underlying asset exposure and in accordance with our bespoke currency benchmark.

### ***Currency Benchmark***

3.5 The Pension Fund Panel has agreed that the currency exposure of the portfolio should be managed against a fund specific benchmark. This benchmark was introduced in April 2012 and revised in April 2013 the current benchmark is:

<b>Currency</b>	<b>Benchmark Weighting %</b>
Sterling	59
Euro	2
US Dollar	16
Japanese Yen	2
Swiss Franc	2
Developing Market Currencies	15
Commodity Currencies	4
Total	100



## **4.0 ASSET ALLOCATION AND MANAGER STRUCTURE**

- 4.1 The main objective of the investment of the Fund's assets is to achieve a return which is sufficient, over the long-term, to meet the funding objectives set out above.
- 4.2 To achieve these objectives the following strategies have been agreed.

## ***Asset/Liability Study***

- 4.3 The overall asset allocation strategy adopted for the Fund is regularly reviewed by way of an asset/liability study carried out by a suitably qualified adviser. The latest study completed in 2008 was based on the results of the 2007 Actuarial Valuation and took account of the following:

- Long term funding considerations.
- The Liability profile of the Berkshire Fund.
- The solvency of the Berkshire Fund.
- Expected investment returns.
- The volatility and correlation of returns.

The recommendation of the 2009 study was that the asset allocation of the Fund be broadened to include allocations to absolute return funds (including hedge funds), active currency funds, commodities, emerging market and yield debt, global property and infrastructure funds. A formal tender process to appoint managers to manage the allocations to these asset classes commenced in June 2008 and was finished by April 2009. Following the appointment of managers for these allocations the asset allocation is regularly reviewed and adapted to take into account of market conditions at the time. New allocations may be made from time to time and Investment Managers are added to, removed or changed as necessary.



The return assumptions required to achieve and maintain the Fund objective are set out in the Actuarial Valuation. The strategic benchmark adopted by the Fund is designed to achieve that return in the long term. It is recognised, however, that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

## ***Tactical Asset Allocation***

- 4.4 The Investment Working Group reviews the Fund's asset allocation at each meeting and will recommend changes to the asset allocation in light of prevailing market conditions.

## ***Investment Managers and Stock Selection***

- 4.5 The current structure of investment management comprises of a number of specialist mandates. Each manager has a specific benchmark and target to reflect their specific mandate. Managers may either be granted a segregated account mandate or the Fund may invest in a pooled fund managed by that manager.



The external managers appointed by the Fund are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) to manage the assets of the Fund.

A management agreement is in place for each Investment Manager that sets out the relevant target benchmark, performance target, and any restrictions as determined. Where investment is made via a pooled fund the Fund will ensure that any subscription agreement entered into sets out the relevant target benchmark, performance target and any investment restrictions.

Each manager is given full discretion over the choice of individual securities and funds and is expected to maintain a diversified portfolio.

The Pension Fund Panel requires each external manager to report, in person, on their performance and transactions at a frequency that ensures that those managers whose performance is causing concern are seen on a regular basis.

Each manager is expected to achieve an excess return on the assets under their management greater than the relevant benchmark. In assessing performance of each manager the Pension Fund Panel takes in to account the long-term nature of the investment process and returns are judged primarily on an annualised basis over a rolling three-year period. The Pension Fund Panel formally reviews the appointment of each manager at least every three years or such shorter period as may be necessary.

The fee scale charged by each manager is considered by the Pension Fund Panel on their appointment and is compared to that of other submissions in the tender process.

Although fees are not the primary determinant in making an appointment they are related to the expectation of performance levels. The most suitable fee base is chosen and this may be on an ad-valorem or performance-related basis.

### ***Realisation of investments***

- 4.6 The majority of investments held directly or indirectly through pooled vehicles, by the Fund and its Investment Managers are quoted on the major stock markets of the world and may be realised quickly if required. The Fund does, however, invest in limited partnerships and some less liquid pooled funds but these are a small portion of the Fund's assets. Notwithstanding this, the Fund maintains sufficient investment in liquid assets to meet its liabilities in the short and medium term as they fall due.

### ***Risk***

- 4.7 The adoption of a long-term strategic benchmark and tactical asset allocation policy may limit the Fund from achieving the required long-term investment returns whilst at the same time achieving suitable investment diversification.

Particular reference to investment risk is outlined in the management agreement of the appointment of each investment manager. To the extent any unexpected deviation from the expected excess returns or the controls in place on the actions of individual investment managers occurs, the manager will be reviewed and may be removed or changed as necessary.



## 5.0 OTHER ISSUES

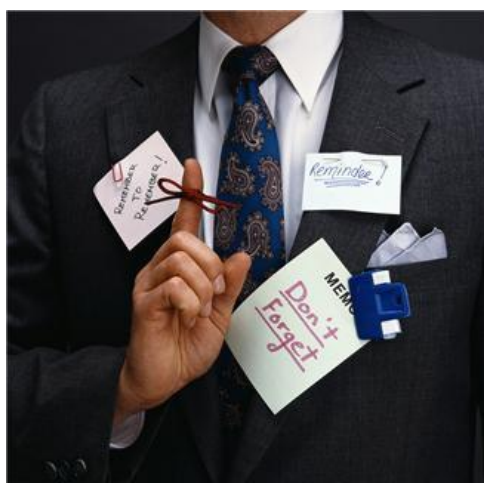
### *Socially Responsible Investment*

- 5.1 In considering the extent to which social, ethical and environmental issues are taken into account in the investment process the members of the Pension Fund Panel consider that they should, at all times, act in the best financial interests of the Fund, within the risk parameters of a diversified portfolio.

By such action they seek to maximise the returns in order to minimise the effect of meeting liabilities on the individual employer contribution rates of each of the member bodies.

Subject to the above consideration, however, the Pension Fund Panel are of the opinion that non-adherence to sound practice in this area, by the companies in which the Fund is invested, could lead to a considerable financial impact on their future earnings in the event of breaches in acceptable standards. The Pension Fund Panel, as responsible shareholders, seeks to encourage best practice in the following manner:

- a) By asking their investment managers to consider social, ethical and environmental issues within their investment process where the manager considers it appropriate.



Consideration of such issues should not, however, deflect from the primary aim of the manager of meeting the performance target as specified in their management agreement.

- b) By engaging in dialogue with companies and voting on specific items in relation to social, ethical and environmental issues affecting the companies whose shares are held by the Fund. Specific attention is drawn to such issues in the voting policy of the Fund.

- c) By offering members who wish to subscribe to an AVC arrangement offered by the approved providers to the Fund an alternative of linking the investment of their AVC contributions to an investment policy that screens

investment on an ethical or environmental basis. Such investment policies are a matter of choice for the individual contributor and the investment policy of the approved AVC provider.

### *Corporate Governance*

- 5.2 The Pension Fund Panel is committed to act as a responsible shareholder with reference to the exercising of any voting rights attaching to the assets of the Fund. To this effect all such rights are exercised in accordance with the voting policy agreed by the Pension Fund Panel at its meeting on the 16 March 2000 and any amendments approved by subsequent meetings. Relevant independent advice from appropriate bodies will be considered in the exercising of any such voting rights.



## **Stock Lending**

- 5.3 The Fund does not lend any stock. However, it is recognised that pooled fund managers may lend stock from funds in which the Fund is invested.

## **AVC Arrangements**

- 5.4 Members have the opportunity to, where applicable, invest in AVC Funds.

## **6.0 GOVERNMENT CODE OF INVESTMENT PRINCIPLES COMPLIANCE STATEMENT**

### **Principle 1 – Effective decision making**

Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

### **Response – Fully Compliant**

*The Berkshire Fund operates within the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009.*

*The decision making process, bodies and delegation of responsibilities are outlined in the 'Statement of Investment Principles' for the Fund and the Constitution of RBWM which acts as administering authority for the Fund.*

*Members of the Pension Panel and Advisory Panel of the Fund receive training as appropriate. All new members receive an introduction manual and are offered individual training to meet their requirements.*

### **Principle 2 - Clear Objectives**

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

### **Response – Fully Compliant**

The objectives and risk parameters of the Fund are contained within the Statement of Investment Principles. The Fund has specific performance targets for each area of management.

### **Principle 3 – Risk and Liabilities**

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.



### **Response – Fully Compliant**

*In adopting an investment strategy for the Fund a detailed asset liability study was completed in 2008 and repeated in 2009. The Fund monitors the expected return from the assets held and the required rate of investment return needed to achieve full funding. Asset allocation is reviewed quarterly with these parameters in mind.*

*In December 2009 the Fund entered into a longevity insurance contract to insure the Fund against further improvements in the longevity of its pensioners (as at 31<sup>st</sup> July 2009) and continues to monitor the development of the longevity risk market to take advantage of any attractive opportunities to hedge more of its longevity risk.*

### **Principle 4 – Performance Assessment**

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

### **Response – Fully Compliant**

*The Fund formally measures the performance of investments, investment managers and advisors.*

### **Principle 5 – Responsible Ownership**

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents;
- Include a statement of their policy on responsible ownership in the statement of investment principles;
- Report periodically to scheme members on the discharge of such responsibilities.

### **Response – Fully Compliant**

*All equity managers are aware of their responsibilities.*

### **Principle 6 – Transparency and Reporting**

Administering authorities should:

- Act in a transparent way, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to scheme members in the form they consider most appropriate.

### **Response – Fully Compliant**

The Fund uses a variety of communications with stakeholder and scheme members including newsletters, the annual report and accounts, a dedicated website and meetings for both stakeholders and scheme members.



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

## INTRODUCTION

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

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

STATUTORY INSTRUMENTS	
2013 No. 2356	
PUBLIC SERVICE PENSIONS, ENGLAND AND WALES	
The Local Government Pension Scheme Regulations 2013	
Made	12th September 2013
Laid before Parliament	10th September 2013
Coming into force in accordance with regulation 1	
CONTENTS	
PART 1	
Membership, contributions and benefits	
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This document has been prepared as a service level agreement between the administering authority and the pension administration team and sets out service standards or 'promises' of the level of service that the team will provide to ensure that the administering authority achieves its statutory responsibilities.

### 1.0 ADMINISTRATION OF THE LGPS

The pension administration team will:

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

1.2 Provide an efficient, effective and courteous administration service.



1.3 Calculate member benefits in accordance with Scheme regulations.

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

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



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



## 2.0 SCHEME COMMUNICATIONS

The pension administration team will:

### The Royal County of Berkshire Pension Fund

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



2.1 Maintain and update a website for all members of the LGPS and provide a dedicated area for Scheme employers to assist them in administering the scheme on behalf of their employees.

2.2 Inform all scheme members of significant changes to the LGPS by way of a bi-annual newsletter.

2.3 Produce, publish and maintain a suite of scheme guides and fact-sheets to assist scheme members in understanding their pension rights and options.

2.4 Offer pension surgeries, presentations and open days to be held across the County of Berkshire.

2.5 Respond to letters and emails within 10 working days.

## 3.0 COMPLAINTS PROCEDURE

- 3.1 The pension administration team has a commitment to put things right if they go wrong and will investigate any complaint received within 10 working days.
- 3.2 If the team are unable to resolve a complaint the member has a right to appeal under the Internal Disputes Resolution Procedure (IDRP) which is a 3-stage appeal process set out in the regulations.

## **4.0 GENERAL**

The pension administration team will:

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

## Appendix 6 - Contributions Received 2013/14

Employer	Employee £'000	Employer £'000
Age Concern Berkshire	12.4	26.9
All Saints Junior School Reading	2.5	7.4
Altwood School (Academy Status)	29.9	83.8
Arvato	163.1	488.0
Association of SE Colleges	5.5	16.0
Barkham Parish Council	0.6	1.4
Battle Primary Academy	23.8	95.7
Baylis Court School	48.0	122.5
Berks, Bucks & Oxfordshire Wildlife Trust	2.7	7.5
Berkshire College Of Agriculture	128.6	268.0
Berkshire County Blind Society	0.9	2.5
Berkshire Fire & Rescue (Training) Ltd	1.5	3.9
Berkshire Fire & Rescue Service	267.4	674.5
Berkshire Maestros	29.7	78.0
Binfield Parish Council	2.4	6.3
Bracknell & Wokingham College	149.1	379.5
Bracknell Forest BC	3,008.3	7,403.8
Bracknell Forest Homes	223.4	611.1
Bracknell Town Council	32.0	82.4
Burghfield Parish Council	2.8	6.6
Busy Bee Cleaning Services Ltd	2.7	8.2
Care UK	8.4	29.0
Castleview School (Academy Status)	27.6	74.5
Cfbt Berks Careers Guidance	4.7	10.5
Charters School (Academy Status)	72.1	201.2
Chieveley Parish Council	0.3	0.8
Churchend Academy	9.6	20.3
Cippenham Infants School (Academy Status)	6.9	19.2
Cippenham Primary School (Academy Status)	24.9	72.0
Colnbrook Primary School ( Academy Status )	8.9	26.1
Computacentre	16.1	-1.8
Connexions Thames Valley	187.4	439.4
Corn Exchange Trust	3.9	9.3
Cox Green Parish Council	0.7	1.8
Cox Green School (Academy Status)	39.1	113.4
Creative Support Ltd	1.4	3.0
Creative Support Ltd (Altair 00211)	14.3	35.3
Crowthorne Parish Council	3.2	8.2
Datchet St Mary's C of E Primary School	12.7	34.9
Denefield School (Academy Status)	41.1	120.0
Desborough School (Academy Status)	34.8	91.9
Dimensions UK Ltd	8.5	23.4
Earley Town Council	27.8	65.7
East Berkshire College Ext 3302	214.4	586.8

Elior UK plc	2.1	5.9
Elizabeth Fry Hostel	19.4	47.2
Enterprise plc	41.0	108.2
Finchampstead Parish Council	1.5	3.6
Fir Tree Academy Trust	5.7	24.3
Fitzpatrick	1.1	4.6
Foxborough Primary School (Academy Status)	8.8	24.7
Furze Platt Senior School (Academy Status)	53.4	153.1
Godolphin Infant School	16.8	49.6
Godolphin Junior School	13.5	38.5
Greenwich Leisure Ltd ext 4076	16.8	43.1
Hayward Services Ltd	0.6	1.9
Herschel Grammar School (Academy Status)	30.2	89.7
Highdown School	49.1	137.7
Holroyd Howe Ltd	0.7	2.1
Holt School (Academy Status)	46.3	145.5
Holy Family School	10.3	27.4
Housing Solutions Ltd	222.9	561.4
Hungerford Town Council	2.5	6.0
Hurley Parish Council	0.6	1.5
Interserve (Facilities Services Slough) Ltd	40.9	144.3
James Elliman School (Academy Status)	39.8	113.7
John Madejski Academy	88.3	225.6
Kendrick School (Academy Status)	30.1	85.6
Kennet Academy	66.8	181.5
KGB Cleaning Ltd	0.6	2.5
Langley Academy	75.3	147.7
Langley Grammar School (Academy Status)	38.3	115.1
Langley Hall Primary Academy	16.4	37.3
Learning Plus UK	18.8	27.4
Library Services (Slough) Ltd	32.1	32.4
Lowbrook Academy Trust	7.6	20.7
Lynch Hill School Primary Academy	24.2	68.7
Maiden Erlegh School	97.7	257.2
Maidenhead Housing Association	0.0	15.5
Marish Primary School (Academy Status)	27.6	79.4
Mary Hare Grammar School	122.4	317.5
Meadow Park Academy	12.2	35.2
MITIE	1.2	6.5
Montem Academy	11.1	30.1
Mott MacDonald	81.9	149.6
National Car Parks Ltd	0.0	-12.5
Newbury College	82.9	219.1
Newbury Town Council	17.9	39.1
Northgate UK Ltd (Altair Code 00113)	12.4	23.7
Northgate UK Ltd (Altair Code 00178)	4.7	9.8
Oakbank Free School	11.6	33.0

Optalis Limited	205.0	589.6
Pact	26.0	66.0
Park House School Newbury	39.4	106.1
People Potential Possibilities (P3)	0.7	2.6
Priory School	31.9	86.1
Prospect School Reading (Academy Status)	54.3	164.8
Ranelagh School	36.1	105.2
RBWM	2,871.7	7,197.2
Reading Borough Council	4,062.9	11,056.3
Reading Girls School	34.7	87.3
Reading School (Academy Status)	31.1	95.6
Reading Transport Ltd	54.0	262.4
Reading Voluntary Action	6.3	15.9
Rethink	0.8	2.0
Rethink Wokingham	0.5	2.0
Ridge Crest Cleaning Services	2.1	7.5
RM Education PLC	2.9	5.3
Ryvers School (Academy Status)	24.5	72.9
S.E.Centre for the Built Environment Ltd	7.9	18.4
Sandhurst Parish Council	3.4	8.0
School of St Helen & St Katharine	31.8	77.4
SEBEPB	0.5	1.3
Shinfield Parish Council	2.9	7.5
Slough & Eton C of E School	42.2	115.8
Slough Borough Council	2,387.5	6,475.1
Slough Community & Leisure Ltd	55.4	130.9
Slough Community Transport & Shopmobility	2.6	6.2
Slough Council For Voluntary Service	6.8	36.8
Slough Grammar School (Academy Status)	40.2	142.8
Slough Learning Partnership	1.3	4.4
South Hill Park Trust	10.3	23.2
Sovereign Housing Association	30.1	263.9
St Bartholomew's School (Academy Status)	55.8	152.5
St Mary's Catholic Primary School (Academy)	9.1	25.5
Stratfield Mortimer Parish Council	1.5	3.6
Sunningdale Parish Council	6.4	7.7
Sunninghill & Ascot Parish Council	3.1	7.9
Swallowfield Parish Council	1.9	4.9
Thames Valley Probation Board	890.4	1,909.8
Thatcham Town Council	7.6	18.0
The Avenue Academy	68.2	183.2
The Blessed Hugh Farringdon School	27.8	73.1
The Forest School Academy Trust	31.1	83.6
The National Autistic Society Academy Trust	5.6	12.5
The Palmer Academy	12.0	33.8
The Piggott C of E Academy	50.5	129.4
The Specialist Education Trust	34.3	93.9

Theale Green School (Academy Status)	35.3	81.0
Theale Parish Council	1.8	4.3
Tilehurst Parish Council	5.7	13.8
Trinity School (Academy Status)	31.6	81.3
Turnstone Support	1.4	3.9
Twyford Parish Council	0.7	2.1
University of West London	105.5	255.2
Vinci Park Services Ltd (Bracknell)	2.6	5.8
Vinci Park Services Ltd (Slough)	1.5	0.0
Warfield Parish Council	1.1	2.8
West Berkshire DC	3,080.6	6,956.5
Westgate School (Academy Status)	44.4	134.0
Wexham Court Parish Council	0.8	2.0
White Waltham Parish Council	3.6	8.6
White Waltham School (Academy Status)	8.1	23.4
Whitelands Park Primary School (Academy)	2.6	6.7
Willow Primary School	10.2	29.8
Windsor Housing	9.6	26.0
Winkfield Parish Council	9.5	23.9
Winnersh Parish Council	3.0	7.8
Wokingham Borough Council	2,516.4	6,182.0
Wokingham Town Council	36.4	43.0
Woodley Age Concern	7.1	16.8
Woodley Town Council	29.4	73.9
<b>TOTAL</b>	<b>23,673.8</b>	<b>60,200.5</b>

### **Former Fund employers with no active members**

Age Concern Bracknell  
 Amey BPO Ltd  
 Apetito Ltd  
 Berks & Bucks Enterprise Agency  
 Berkshire Archaeological Trust  
 Berkshire College of Arts & Design  
 Berkshire Community Service Council  
 Berkshire Disability Information Network  
 Bracknell PC  
 Bray PC  
 Central Parking Systems  
 Commission for the New Towns  
 Connexions Berkshire  
 Cookham PC  
 Datchet PC  
 Day Centre at William Street  
 Didcot PC

Easthampstead & Wokingham Joint Golf Course Comm  
Family Action  
Fox IT Ltd  
Johnson Control Systems Ltd  
Lifetime Training Solutions Ltd  
Magistrates Courts Committee  
Manor Lodge Hostel  
National Police Courts Commission  
Oxford Diocesan Council for the Deaf  
People 1st Slough  
Shinfield Park Day Nursery  
Slough Community Centre Trust  
St Benedict's School  
St Crispin's Sports Centre  
Valuation Tribunal Service  
Wargrave PC  
Westminster College  
Whitelocke Infant School  
Wolseley UK Ltd

## Appendix 7 - AVC Arrangements

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

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

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

### Lifestyling

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