

NOTICE OF MEETING

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BERKSHIRE PENSION FUND PANEL

will meet on

MONDAY, 22ND JUNE, 2020

at

4.00 pm

In

VIRTUAL MEETING - ONLINE ACCESS, RBWM YOUTUBE

TO: MEMBERS OF THE BERKSHIRE PENSION FUND PANEL

COUNCILLORS DAVID HILTON (VICE-CHAIRMAN), JULIAN SHARPE (CHAIRMAN), JOHN STORY, SIMON BOND AND WISDOM DA COSTA

ADVISORY MEMBERS: MARK BUTCHER, CLLR LAW, CLLR LOVELOCK, CLLR SAFDER Ali, CLLR KAISER, CLLR LEAKE, PATRICK FULLER AND ASIA ALLISON

Karen Shepherd – Head of Governance
Issued: 12/06/2020

Members of the Press and Public are welcome to attend Part I of this meeting.

The agenda is available on the Council's web site at www.rbwm.gov.uk or contact the Panel Administrator **David.Cook@rbwm.gov.uk**

The Part I (public) section of this virtual meeting will be streamed live and recorded via Zoom. By participating in the meeting by audio and/or video you are giving consent to being recorded and acknowledge that the recording will be in the public domain.

AGENDA

PART I

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1.	<u>APOLOGIES</u> To receive any apologies for absence.	-
2.	<u>DECLARATIONS OF INTEREST</u> To receive any declarations of interest.	5 - 6
3.	<u>MINUTES</u> To approve the Part I minutes of the meeting held on 16 December 2019.	7 - 8
4.	<u>PENSION FUND PANELS ANNUAL WORKPLAN</u> To consider the following reports: Appendix 1 – Funding Strategy Statement Appendix 2 - Pension Fund Business Plan 2020-21	9 - 46
5.	<u>ADMINISTRATION REPORT</u> To consider the report.	47 - 56
6.	<u>DATA QUALITY EXERCISE – YEAR 2</u> To consider the report.	57 - 62
7.	<u>RISK ASSESSMENT REGISTER- EXCEPTIONS REPORT</u> To consider the report.	63 - 68
8.	<u>EXTERNAL AUDIT PLANNING REPORT 2020</u> To consider the report.	69 - 90
9.	<u>LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PRESS AND PUBLIC</u> To consider passing the following resolution:- “That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting whilst discussion takes place on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act”	

PRIVATE MEETING - PART II

<u>ITEM</u>	<u>SUBJECT</u>	<u>PAGE NO</u>
10.	<u>MINUTES</u> To approve the Part II minutes of the meeting held on 16 December 2019. <i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i>	91 - 94
11.	<u>INVESTMENT PERFORMANCE UPDATE – LPPI</u> To consider the report. <i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i>	95 - 108

MEMBERS' GUIDE TO DECLARING INTERESTS IN MEETINGS

Disclosure at Meetings

If a Member has not disclosed an interest in their Register of Interests, they **must make** the declaration of interest at the beginning of the meeting, or as soon as they are aware that they have a DPI or Prejudicial Interest. If a Member has already disclosed the interest in their Register of Interests they are still required to disclose this in the meeting if it relates to the matter being discussed.

A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in the discussion or vote at a meeting.** The speaking time allocated for Members to make representations is at the discretion of the Chairman of the meeting. In order to avoid any accusations of taking part in the discussion or vote, after speaking, Members should move away from the panel table to a public area or, if they wish, leave the room. If the interest declared has not been entered on to a Members' Register of Interests, they must notify the Monitoring Officer in writing within the next 28 days following the meeting.

Disclosable Pecuniary Interests (DPIs) (relating to the Member or their partner) include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any licence to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where:
 - a) that body has a piece of business or land in the area of the relevant authority, and
 - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

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

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

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

Prejudicial Interests

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

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

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

Personal interests

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

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

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Agenda Item 3

BERKSHIRE PENSION FUND PANEL

MONDAY, 16 DECEMBER 2019

PRESENT: Councillors David Hilton (Vice-Chairman), Julian Sharpe (Chairman), John Story, Simon Bond and Wisdom Da Costa

Officers: Philip Boyton, David Cook and Kevin Taylor. Local Pension Partnership (LPP) representatives Tony Williams and Richard Tomlinson, Law Debenture: Andrew Harrison. Investment Group: Rohan Worrall and Aoifinn Devitt. Pension Board: Alan Cross

APOLOGIES

Apologies for absence were received by Cllr Law, Cllr Lovelock and Mr Finlay.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

Resolved unanimously: that the Part I minutes of the meeting held on 23 September 2019 were approved as a true and correct record.

TERMS OF REFERENCE

The Pension Services Manager informed the Panel that at the last meeting the terms of reference were presented for new members. It was agreed that they would be amended and were being presented to this meeting with tracked changes. The amended version would need to go to RBWM Council for approval and adoption.

Cllr Da Costa asked why the changes were being recommended and was informed that it was due to pooling with LPP.

Cllr Bond questioned why emergency powers were required to change investments. Cllr Hilton replied that it was unlikely that the investment group would use the emergency powers especially now we were joined with LPP, however there remained some legacy investments that were not pooled so it was prudent to have emergency provisions in place.

The Panel noted the revised terms of reference.

PENSION FUND PANELS ANNUAL WORK PLAN

The Pension Services Manager introduced the report that detailed a number of Administering Authority policy statements for review as set out on the Panel's work programme.

Cllr Da Costa asked for the main points of the service level agreement and provision of expertise to meet them. He was informed that it covered the key areas of the work the Administering Authority undertook to fulfil statutory duties and that training was provided and performance monitored via KPI's in the Administration Report.

Resolved unanimously: that the Panel notes the report and:

- i) Subject to any amendments being proposed, approves the policy statements set out in Appendix 1 to the report as continuing to be fit for**

purpose.

ii) Request that officers produce and publish the approved policy statements on the Berkshire Pension Fund website.

ADMINISTRATION REPORT

The Pension Administration Manager introduced the latest Administration Report for the period covering 1 July 2019 to 30 September 2019. Pages 45 onwards detailed the performance against key performance indicators.

Cllr Story asked for clarification on what admission bodies were and was informed that they were private companies who were admitted to the Fund as part of a service outsourcing with scheme members whose employment was TUPE transferred retaining a right to membership of the pension scheme, for example Optalis.

The Chairman asked why it was taking so long to get everyone using i-Connect and was informed that about 79% of scheme records were currently covered by it but there remained issues such as third party payroll providers still not able to use the system. The unitary authorities were all on board with remaining employers scheduled for upload by March 2021.

Resolved unanimously: that Panel notes the report and:

- **All areas of governance and administration as reported**
- **All key performance indicators**

LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED UNANIMOUSLY: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1-7 of part I of Schedule 12A of the Act.

The meeting, which began at 5.00 pm, finished at 7.00 pm

CHAIRMAN.....

DATE.....

Report Title:	Pension Fund Panel Work-plan
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Sharpe, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 22 June 2020
Responsible Officer(s):	Kevin Taylor, Pension Services Manager
Wards affected:	None

REPORT SUMMARY

1. This report brings to Members' attention a number of Administering Authority policy statements for review as set out in the work-plan approved previously by Members.
2. Members are asked to consider the items listed in the appendices to this report and either suggest any amendments or (re-) approve the policy statements as currently written. Please note that no amendments have been made to the previous versions of these documents.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

- i) **Subject to any amendments being proposed, approves the policy statements set out in the appendices to the report as continuing to be fit for purpose.**
- ii) **Request that officers produce and publish the approved policy statements on the Berkshire Pension Fund website.**

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

- 2.1 In accordance with Regulation 53 of the Local Government Pension Scheme Regulations 2013 ("the Regulations") and as listed in Part 1 of Schedule 3 of the Regulations, RBWM is an Administering Authority (Scheme Manager) required to maintain a Pension Fund for the Scheme.
- 2.2 An Administering Authority is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate Administering Authority under the Regulations.
- 2.3 The Pension Fund Panel as set out in RBWM's Constitution acts as the Scheme Manager and is therefore responsible for ensuring that the Administering Authority fulfils its statutory responsibilities in accordance with the Regulations and the Public Service Pension Act 2013

- 2.4 The purpose of this paper is to identify for Panel members a number of policies for their consideration and review as set out in the work-plan for 2019-20 in order to meet certain Administering Authority statutory requirements set out in the Regulations.

3 KEY IMPLICATIONS

- 3.1 The Administering Authority (Scheme Manager) is required by law to maintain the Royal County of Berkshire Pension Fund in accordance with the Regulations and all other associated legislation. Failure to do so could result in the Pensions Regulator issuing fines to the Authority where he deems it to have failed in areas of scheme governance, risk management and administration.

4 FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 Not applicable.

5 LEGAL IMPLICATIONS

- 5.1 The Local Government Pension Scheme Regulations 2013 (as amended) set out the statutory requirements of the Administering Authority.

6 RISK MANAGEMENT

- 6.1 Failure to maintain the Pension Fund in line with statutory legislation could result in a scheme member or scheme employer reporting the Administering Authority to the Pensions Regulator for failing to fulfil its statutory responsibilities.

7 POTENTIAL IMPACTS

- 7.1 Failure to maintain the Pension Fund in accordance with statutory legislation could result in a loss of confidence in the Administering Authority.

8 CONSULTATION

N/A

9 TIMETABLE FOR IMPLEMENTATION

4.1 Implementation timetable

Date	Details
Q1 2020/21	1 – Funding Strategy Statement 2 – Pension Fund Business Plan 2020/21
Q2 2020/21	1 – Investment Strategy Statement 2 – Governance Compliance Statement 3 - Communications Policy 4 – Pension Administration Policy
Q3 2020/21	1 – Pension Fund Annual Report & Accounts 2 – Audit Reports 3 – Risk Management Policy

Date	Details
	4 –Full Risk Assessment Register
Q4 2020/21	1 – Reporting Breaches of the Law 2 – SLA Between RBWM and RCBPF 3 - Abatement Policy 4 – Terms of Reference

10 APPENDICES

10.1 The appendices to the report are as follows:

- Appendix 1 – Funding Strategy Statement
- Appendix 2 – Pension Fund Business Plan 2020/21

11 BACKGROUND DOCUMENTS

11.1 Local Government Pension Scheme Regulations 2013 (as amended)

11.2 Public Service Pensions Act 2013

11.3 The Pensions Regulator's Code of Practice No. 14

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Panel		
Adele Taylor	Director of Resources and s151 Officer		
Ian Coleman	Interim Pension Fund Manager		



FUNDING STRATEGY STATEMENT

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1 INTRODUCTION

- 1.1 This is the Funding Strategy Statement (“FSS”) for the Royal County of Berkshire Pension Fund (“the Fund”) which is administered by The Royal Borough of Windsor and Maidenhead (“the Administering Authority”). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013.
- 1.2 This statement should be read in conjunction with the Fund’s Investment Strategy Statement (“ISS”) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition*) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).^[k1] ^[BM2]

Purpose of the Funding Strategy Statement

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



Funding Objectives

- 1.5 Contributions are paid to the Fund by Scheme members and Scheme employers to provide for the benefits which will become payable to Scheme members when they fall due.
- 1.6 The funding objectives are to
- Set levels of employer contributions that will build up a fund of assets sufficient to ensure the solvency of the Fund and the payment of ~~that will be sufficient to meet~~ all future benefit payments from the Fund ~~and ensure the solvency of the Fund;~~

- Set contributions which maximise the long-term cost efficiency. Broadly, this means that paying contributions as soon as possible so that any deficit is addressed quickly is preferable;
- Build up the required assets in such a way that produces levels of employer contributions that are as stable as possible;
- Minimise the risk of employers ~~leaving~~ exiting the Fund with unpaid deficits, which then fall to the other employers;
- Ensure effective and efficient management of employer liabilities; and
- Allow the return from investments to be maximised within reasonable risk parameters.

2 KEY PARTIES

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

The Administering Authority



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

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

Scheme employers

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

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



Fund Actuary

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

- Prepare the Actuarial Valuation having regard to the FSS and the Scheme Regulations;



- Prepare annual FRS102/IAS19 (accounting standards) reports for all Scheme employers requiring such a report for their annual report and accounts;
- Advise interested parties on funding strategy and completion of Actuarial valuations in accordance with the FSS and the Scheme Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Advise on other actuarial matters affecting the financial position of the Fund.

3 FUNDING STRATEGY

- 3.1 The funding strategy seeks to achieve (via employee and employer contributions and investment returns) two key objectives:
- A funding level of 100% as assessed by the Fund's appointed Actuary, triennially, in accordance with the Scheme Regulations;
 - As stable an employer contribution rate as is practical.
- 3.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements, actuarial assumptions and investment returns and that the employer contribution has to be adjusted to a level sufficient to maintain the Pension Fund's solvency and to achieve a funding level of 100% over the longer term.
- 3.3 The Actuarial valuation process is essentially a projection of future cash-flows to and from the Fund. The main purpose of the triennial valuation is to determine the level of employers' contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.
- 3.4 The last Actuarial valuation was carried out as at 31st March 2019⁹⁶ with the assets of the Fund found to be 78³% of the accrued liabilities for the Fund.

Funding Method

- 3.5 The funding target is to have sufficient assets to meet the accrued liabilities for each Scheme employer in the Fund. The funding target may, however, also depend on certain Scheme employer circumstances and will, in particular, have regard to whether a Scheme employer is an "open" employer (which allows new recruits access to the Fund) or a "closed" employer (which no longer permits new employees access to the Fund). The expected period of participation by a Scheme employer in the Fund may also affect the chosen funding target.

- 3.6 For all Scheme employers the Actuarial funding method adopted considers separately the benefits in respect of service completed before the Valuation date ("past service") and benefits in respect of service expected to be completed after the Valuation date ("future service"). This approach focuses on:
- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities whereas a funding level of less than 100% indicates a deficit.
 - The future funding rate i.e. the level of contributions required from the individual Scheme employers which together with employee contributions are expected to support the cost of benefits accruing in the future.
- 3.7 For "open" Scheme employers, the Projected Unit method is used which, for the future service rate, assesses the cost of one year's benefit accrual.
- 3.8 For "closed" Scheme employers the funding method adopted is known as the Attained Age Method. This gives the same results for the past service funding level as the Projected Unit Method but for the future cost it assesses the average cost of the benefits that will accrue over the remaining working lifetime of the active Scheme members.

Valuation Assumptions and Funding Model

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

Future Price Inflation

- 3.11 The base assumption in any triennial valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the valuation date using a point from the Bank of England RPI Inflation Curve. This gives an assumption for Retail Prices Index (RPI) inflation, which is then adjusted to get an assumption for Consumer Prices Index (CPI) inflation. At the 2019~~6~~ valuation, CPI was assumed to be 1.00~~9~~% per annum lower than RPI, giving a CPI inflation assumption of 2.64% per annum.



Future Pay Inflation

- 3.12 As benefits accrued before 1st April 2014 (and in the case of some protected members after 31st March 2014) are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. The assumption adopted in the 2019⁹⁶ valuation is that pay increases will, on average over the longer term, exceed CPI by 1.05% per annum. ~~In the short term in anticipation of Government policy, it has been assumed that pay increases for the 4 year period to 31 March 2020 would be limited to CPI.~~

Future Pension Increases

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

Future Investment Returns/Discount Rate

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



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

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

The level of prudence at the 2019⁹⁶ valuation ~~differed between the major councils and the remaining employers, to reflect the difference in covenant strength was set to be 0.7% p.a.~~ This gave a discount rate of 5.37% per annum ~~for the unitary authorities (and the employers pooled with them) and of 5.5% per annum for the other employers for all employers.~~

- 3.16⁷ 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.

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

- 3.18⁹ 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

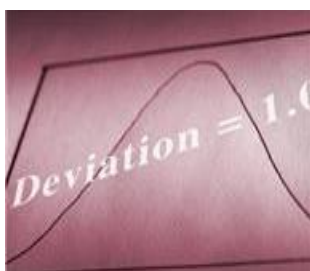
- 3.19²⁰ The asset valuation is a market value of the accumulated Fund at the triennial valuation date adjusted to reflect average market conditions during the 6 months straddling the triennial valuation date.

Statistical Assumptions

3.204 The statistical assumptions incorporated into the triennial valuation such as future rates of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual Scheme employers. For the 20169 valuation, the Fund received a bespoke analysis of the pensioner mortality and the results of this analysis were used to aid in setting a suitable assumption for the Fund.

Deficit Recovery/Surplus Amortisation Periods

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



3.23 Where the Actuarial valuation discloses a significant surplus or deficit then the levels of required Scheme employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years. At the 20196 valuation, a deficit was revealed and contributions were set to recover this deficit over a period no longer than 214 years.

3.224 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.

3.235 At the 20196 triennial valuation the period adopted to recover the deficit was:

Type of Scheme Employer	Maximum Length of Recovery Period
Unitary Authorities and Associated Employers	214 years
Housing Associations	114 years
Colleges (excluding the University of West London)*	814 years
Academies	127 years
Community Admission Bodies	114 years (for the majority of employers, but this may differ for some depending on individual circumstances)
Transferee Admission Bodies	Future working life of current employees or contract period whichever is the shorter period

3.246 Where a Scheme employer's contribution has to increase significantly then the increase may be phased in over a period not exceeding 36 years although this may

only be allowed for some Scheme employer types or if the increase in contributions would increase the risk of an employer insolvency, leaving an unpaid deficit and adversely affecting other employers' contributions and the solvency of the Fund as a whole.

Pooling of Individual Scheme employers

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

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

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

- Colleges (with the exception of the University of West London)*
- Academies
- 'Community' Admission Bodies

◆ *Housing Associations*



3.2830 The main purpose of pooling is to produce more stable Scheme employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled Scheme employers.

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

3.29 ~~Prior to At the 2016 valuation the Fundwe also had a pool for the Housing Associations in the Fund. However, this has beenwhich has been disbanded due to only due to only two employers remainingbeing left in the pool following one employer exiting the ceasing to exist in the Fund, and another employer leaving the pool.~~

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

New employers joining the Fund

3.30 Admission bodies - Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

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

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

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

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

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

3.31 New Academies - When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right. On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities. The new academy will join the existing academy pool.

The contribution rate for a new academy will be in line with the rate paid by the other academies in the academy pool, as calculated at the most recent actuarial valuation.

Cessation Valuations

3.324 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.

~~The Fund and Actuary are formulating a policy with regards to exit credits following the latest amendment to the Regulations. Once agreed this will be reflected in the FSS.~~

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

Exit Credit policy

Following the recent Regulations coming into force on 20 March 2020 which are effective from May 2018, the Fund has set out their exit credit policy as follows.

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements and any employer that is participating in the Fund where the ceding employer is the deemed employer. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- Exit credits will only be paid if the ceasing employer has a surplus on the minimum risk basis at the cessation date. Allowance will be made for additional liabilities incurred as a result of redundancies.
- Any exit credit payable will be the lower of the surplus on the minimum risk basis above and the actual employer contributions paid into the Fund. Where risk sharing arrangements are in place, any contributions made or required to be made to meet additional liabilities incurred as a result of redundancies, ill health retirement strains, excessive salary increases or anything else covered in the risk sharing agreement will not be included in the calculation of any exit credit payable.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has absolute discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Early Retirement Costs

3.343 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.



3.354 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

3.365 The next triennial valuation is due as at 31st March 202219.

4 LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

4.1 The main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

4.2 As explained above the ongoing discount rate adopted in the Actuarial valuation is derived by considering the expected return from the underlying investment strategy and so there is consistency between the funding strategy and the investment strategy.

5 RISKS AND COUNTER MEASURES

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

5.2 The major risks for the funding strategy are financial risks although there are external factors including demographic risks, regulatory risks and governance risks.

Financial Risks

5.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The triennial valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the liabilities by 2% and decrease/increase the required Scheme employer contribution by around 0.54-0% of payroll.

5.4 The Pension Fund Panel regularly monitor the investment returns achieved by the fund managers and seek advice from Officers and independent advisors on investment strategy. In the inter-valuation period 20163 to 20196 such monitoring activity saw investment returns ~~slightly lower~~ higher than assumed in the 20163 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

5.13- The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost

cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary has reduced the discount rate assumption by 0.1% to allow for the possible impact.

- 5.14 As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

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: ~~11 March 2019~~

Next Review date: March 202~~1~~9



BUSINESS PLAN 2020-21

And

MEDIUM-TERM STRATEGY 2021/2024



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1.0 INTRODUCTION

This document is intended to outline how the Royal County of Berkshire Pension Fund will deal with its key responsibilities during 2020/21 and the over the medium-term from 2021 to 2024. The Administering Authority to the Royal County of Berkshire Pension Fund is the Royal Borough of Windsor & Maidenhead (RBWM).

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

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

2.0 STRATEGIC INTENT – MISSION STATEMENT

The Royal County of Berkshire Pension Fund aims:

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

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

3.0 BUSINESS OBJECTIVES

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

Business Aim	Business Objective
Stakeholder Satisfaction	To deliver an effective pension service that meets the expectations of Scheme members and other stakeholders as measured by a low number of complaints and adherence to agreed KPIs.
Value for Money	To set an investment strategy that achieves the medium-term investment return objective. Achieve value for money in all contracts. Manage all other direct Fund costs associated with the Fund and paying pension benefits.

	To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.
<i>Equip Ourselves for the Future</i>	<p>To manage staff effectively in order to deliver high levels of morale, ensuring all staff are effectively performance managed and developed.</p> <p>To transform, develop and improve the Pension Team through creating an evidence-based continuous improvement culture and ensuring that all agreed projects and other initiatives are delivered to time and budget and achieve the expected benefits.</p>
<i>Delivering Together</i>	To work together with Elected Members to deliver the goals and objectives of the Pension Fund Panel, to be measured by positive feedback from Lead Members.

4.0 VALUES

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

- There will be no 'ambushing' or surprises - discuss first before raising in public;
- We will always be realistic when negotiating timescales and be considerate of other's priorities and time;
- Everyone's view matters and we will always give credit where it is due;
- We will share information, be inclusive and supportive and back each other up;
- We will always consider Scheme members and other stakeholders in everything we do;
- We will always look to do something rather than find ways not to do it and we will always look to support a reasonable request;
- We will accept being challenged and only challenge ideas not people;
- We will always deal with issues and not let them fester;
- We will always lead by example;
- We will use electronic/digital forms of communication wherever possible but will always use a stakeholder's preferred method of contact where possible whether that be face to face, via telephone or email;
- We will always respect each other and work together to meet the Fund's objectives;

- We will promote and celebrate success;
- We will take full responsibility for our actions.

5.0 BUSINESS TARGETS 2020/21

Pension Team Business Objective	2020/21 Target
To deliver an effective pensions service that meets the expectations of members and other stakeholders as measured by a low number of complaints and adherence to agreed KPIs.	<p>All annual benefits statements to be issued on time.</p> <p>95% of critical service standards achieved (stretch 100%).</p> <p>90% of non-critical service standards to be achieved (stretch of 95%).</p>
To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.	<p>Positive feedback from internal and external auditors that controls are better than in previous years.</p> <p>To maintain robust business continuity, disaster recovery and emergency plans for all areas.</p> <p>Reduce risk profile of the Pension Fund.</p>
To incorporate Integrated Risk Management into the management of the Fund	Develop a Risk Dashboard with Local Pensions Partnership and identify at risk scheme employers.
To manage staff effectively in order to deliver high levels of morale, ensuring all staff are effectively performance managed and developed by ensuring sickness rates are low, aligned objectives are set for all staff, performance appraisals are undertaken and poor performers are dealt with appropriately.	All staff appraisals to be undertaken within required deadlines and areas for improvement identified with relevant objectives being set and monitored by managers.
To transform, develop and improve the pension teams through creating an evidence-based continuous improvement culture and ensuring that all agreed projects and other initiatives are delivered to time and budget and achieve the expected benefits.	<p>Deliver 90% of tasks within the pension teams' operational plan (stretch of 95%).</p> <p>Deliver all agreed programmes and projects to time and budget.</p>
To work together with Elected Members to deliver the goals and objectives of the Pension Fund Panel, to be measured by positive feedback from Lead Members.	Positive feedback from Lead Members on performance and engagement.
To work with the Fund's Investment Manager, (LPPI) to ensure the Investment Strategy is successful.	Investment aims are met and in line with the Investment Strategy Statement and Asset Allocation requirements.

6.0 KEY ASSUMPTIONS AND RISKS

The following are the key business assumptions used in the compilation of the 2020/21 budget:

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

7.0 CASH-FLOW SUMMARY

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

	Year to 31/03/18 (actual) £'000's	Year to 31/03/19 (actual) £'000's	Year to 31/03/20 (forecast) £'000's
Contributions – employees	26,650	26,400	26,400
Contributions – employers normal	61,089	57,963	74,954
Contributions – employers deficit	18,602	16,251	29,523
Transfers In	13,403	6,600	6,600
Employers additional contribution for early retirements	2,250	1,800	1,800
Investment Income via Custodian	37,734	34,700	32,500
Pensions Paid (Gross)	-86,959	-85,902	-87,800
Retirement Lump Sums	-20,428	-21,200	-21,200
Transfers Out	-10,184	-6,500	-6,500
Investment Management Costs	-7,816	-7,363	-7,484
Employee & Other Costs	-1,388	-1,300	-1,300
Net Cash Flow	32,953	21,499	47,493

8.0 KEY INITIATIVES 2020/21

Business Objective	Key Initiatives
<p>To deliver an effective pensions service that meets the expectations of members and other stakeholders as measured by a low number of complaints and adherence to agreed KPIs.</p>	<p>Ensure that Pension Administration Software is kept up to date.</p> <p>To continue to work with Scheme employers to increase the percentage of member records administered via i-Connect from 85% at March 2020 to 100% at 31 March 2021.</p> <p>Annual review of the Pension Administration Strategy.</p> <p>Annual review of Communications Policy with the continuing aim to provide Scheme information digitally wherever possible.</p> <p>Keep members up to date via newsletters and Scheme employers up to date via bulletins.</p> <p>Run Pension Surgeries at least twice annually for each Unitary Authority and at least once a year for other Scheme employers upon request.</p> <p>Continue to provide training and literature for Scheme employers to assist them in administering the Scheme on behalf of their employees.</p> <p>Continue to provide presentations and literature for Scheme members to provide greater understanding of their Scheme.</p> <p>Maintain the Pension Fund website to the highest standards ensuring that all information is current and accurate.</p> <p>Ensure the continued development and best use of Member Self Service to the highest possible standard primarily in line with scheme and pension software supplier changes but also endeavouring to reduce printing and postal costs.</p> <p>Continue the promotion and development of Employer Self Service (ESS) to enable Scheme employers to access the pension details of their own employees.</p>

	Continue to improve data quality in line with tPR recommendations in respect of Common and Scheme Specific data.
To set an investment strategy in such a way as to achieve the medium-term investment return objective with minimal loss of capital, achieve value for money in all contracts and manage all other direct costs in managing the fund and paying benefits.	<p>Continue to be an Investment Client of Local Pensions Partnership Investment Limited (LPPI) and ensure they implement the Investment Strategy as agreed by the Pension Fund Panel.</p> <p>Ensure that no fire-sale of assets is required to meet benefit payments.</p>
To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.	<p>Produce Annual Financial Statements so they can be published by 1 December 2020.</p> <p>Complete contributions reconciliation.</p> <p>Achieve a clean audit.</p> <p>Complete Year End procedures in advance of 31 August 2020 to enable prompt issue of annual benefit statements.</p> <p>Annual Benefit Statements (Active and Deferred members) to be issued by 31 August 2020.</p> <p>Apply Pensions Increase and HMT Revaluation Orders.</p> <p>Issue P60's and payslips by 31 May 2020 in line with statutory legislation.</p> <p>Service the Berkshire Pension Board to ensure they receive the information they require to discharge their obligations.</p> <p>Ensure that all Pension Fund policies are current.</p> <p>Ensure continuing compliance with the Pensions Regulator's Code of Practice number 14.</p> <p>Ensure continued compliance with General Data Protection Regulation (GDPR).</p> <p>Complete GMP Reconciliation in respect of Active and Deferred scheme members by 31 March 2021.</p>

To manage staff effectively in order to deliver high levels of morale, ensuring all staff are performance managed with aligned objectives being set for all staff.	Monitor staff requirements to ensure a high-quality service is provided to stakeholders.
To transform, develop and improve the Pensions Team through creating an evidence based continuous improvement culture and ensuring that all agreed projects and other initiatives are delivered to time and budget and achieve the expected benefits.	Ensure that staff receive appropriate training internally and from external providers.
To work together with Elected Members to deliver the goals and objectives of the Pension Fund Panel, to be measured by positive feedback from Lead Members.	<p>Ensure Pension Fund Panel, Pension Fund Advisory Panel and Pension Board members receive appropriate training.</p> <p>Ensure that Pension Fund Panel, Pension Fund Advisory Panel and Pension Board members understand the Fund's strategy.</p>

9.0 REVIEW OF 2019/20 KEY INITIATIVES

In 2019/20 we said that we would:

Business Objective	Key Initiatives	Outcome
To deliver an effective pensions service that meets the expectations of members and other stakeholders as measured by a low number of complaints and adherence to agreed KPIs.	Ensure that Pension Administration Software is kept up to date.	Achieved
	Apply for PASA accreditation by April 2019 and to become fully accredited by December 2019.	Not achieved. To be reviewed by 31 March 2021 with an aim to achieve by 31 March 2023.
	To continue to work with Scheme employers to increase the percentage of member records administered via i-Connect from 70% at March 2019 to 85% by March 2020.	Achieved.
	Continual review of Service Level Agreements to ensure they remain current.	Achieved.
	Annual review of the Pension Administration Strategy.	Not Achieved as meeting cycle changed during 2019/20.
	Annual review of Communications Policy with the continuing aim to provide Scheme information digitally wherever possible.	Not Achieved as meeting cycle changed during 2019/20.
	Keep members up to date via newsletters and Scheme employers up to date via bulletins.	Achieved.
	Run Pension Surgeries at least twice annually for each Unitary Authority and at least once a year for other Scheme employers upon request. Continue to provide training and literature for Scheme employers to assist them in administering the Scheme on behalf of their employees.	Achieved.

	<p>Continue to provide presentations and literature for Scheme members to provide greater understanding of their Scheme.</p> <p>Maintain the Pension Fund website to the highest standards ensuring that all information is current and accurate.</p> <p>Ensure the continued development of Member Self Service to the highest possible standard and in line with scheme and pension software supplier changes.</p> <p>Continue the promotion and development of Employer Self Service (ESS) to enable Scheme employers to access the pension details of their own employees.</p>	<p>Achieved.</p> <p>Achieved.</p> <p>Achieved.</p> <p>Achieved.</p>
To set the Investment Strategy of the Fund and determine the allocation assets.	<p>Implement Investment Strategy as agreed by the Pension Fund Panel.</p> <p>Ensure that no fire-sale of assets is required to meet benefit payments.</p>	<p>Achieved.</p> <p>Achieved.</p>
To ensure we always remain compliant with legislative and regulatory requirements, avoiding any financial penalties or negative publicity, identifying and reducing business risks and minimising any negative internal and external audit comments and feedback.	<p>Produce Annual Financial Statements so they can be published by 1 December 2019.</p> <p>Complete contributions reconciliation.</p> <p>Achieve a clean audit.</p> <p>Complete Year End procedures in advance of 31 August 2019 to enable prompt issue of annual benefit statements.</p> <p>Annual Benefit Statements</p>	<p>Not achieved due to extension of external audit procedures.</p> <p>Achieved.</p> <p>Achieved for internal audit only.</p> <p>Achieved.</p> <p>Achieved.</p>

	<p>(Active and Deferred members) to be issued by 31 August 2019.</p> <p>Apply Pensions Increase and HMT Revaluation Orders. Issue P60's and payslips by 31 May 2019 in line with statutory legislation.</p> <p>Service the Berkshire Pension Board to ensure they receive the information they require to discharge their obligations.</p> <p>Ensure that all Pension Fund policies are current.</p> <p>Ensure continuing compliance with the Pensions Regulator's Code of Practice number 14.</p> <p>Ensure compliance with General Data Protection Regulation (GDPR) by 25 May 2018 and ensure continued compliance.</p>	<p>Achieved.</p> <p>Achieved.</p> <p>Achieved – Pension Panel work-plan introduced September 2019.</p> <p>Achieved – internal audit confirmed compliance.</p> <p>Achieved.</p>
To manage staff effectively in order to deliver high levels of morale, ensuring all staff are performance managed and developed by ensuring sickness rates are reduced, aligned objectives are set for all staff, performance appraisals are undertaken and poor performers are appropriately dealt with.	Monitor staff requirements to ensure a high-quality service is provided to stakeholders.	Achieved.
To transform, develop and improve the Pensions Team through creating an evidence based continuous improvement culture and ensuring that all agreed projects and other initiatives are delivered to time and budget and achieve the expected benefits.	Ensure that staff receive appropriate training internally and from external providers.	Achieved.

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

10.0 MEDIUM TERM PLAN 2021/24

The following table details the medium-term plan for the Pension Fund for the period 2021 to 2024.

Objective	Rationale	Timescale
Investment Pooling.	Required by the Ministry for Housing, Communities and Local Government (MHCLG).	All investments to be pooled with Local Pensions Partnership Investments Limited (LPP) by the mid-2020's.
Attain accreditation to the Pensions Administration Standards Association (PASA).	Accreditation will confirm that the Pension Administration Team are adhering to industry best practice.	Accreditation to be achieved by 2023.
Identify key employer risk to protect the Fund against loss incurred by the insolvency of admission bodies.	Protects the Fund against losses incurred when admission bodies become insolvent and they are unable to meet their cessation liabilities.	Full review to completed by 31 March 21.
i-Connect	Will lead to improved quality of data held by Fund and increased efficiency of the service	100% (or maximum viable) achieved by 31 March 2021
Data Quality	High standards of data quality ensure correct calculation of pension benefits and provides all stakeholders with accurate real-time information.	Complete full data checking by March 2021.
Maintain sufficient cash-flow to avoid fire-sale of assets to meet benefits payable	Avoid sale of assets at low process negatively impacting long-term sustainability of the Fund	On-going
Continuous review of investment strategy	Ensure that investment strategy is "fit for purpose"	On-going

Approved by Berkshire Pension Fund Panel: 22 June 2020
Date for review: March 2021

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ADMINISTRATION REPORT

QUARTER 4 – 2019/20

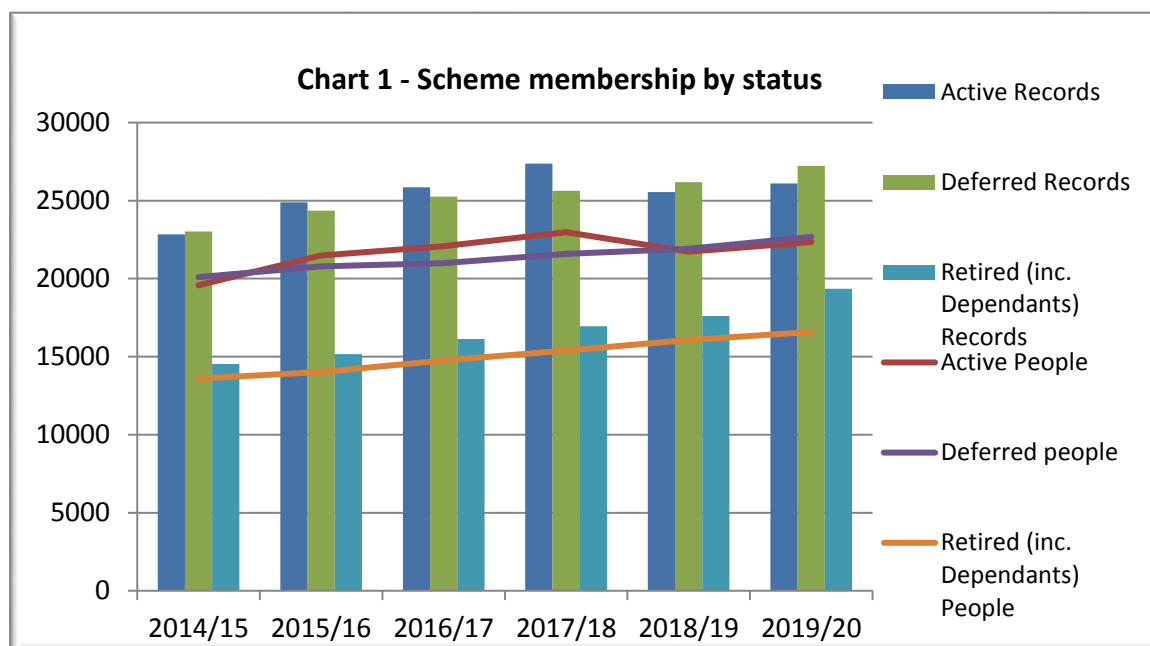
1 January 2020 to 31 March 2020

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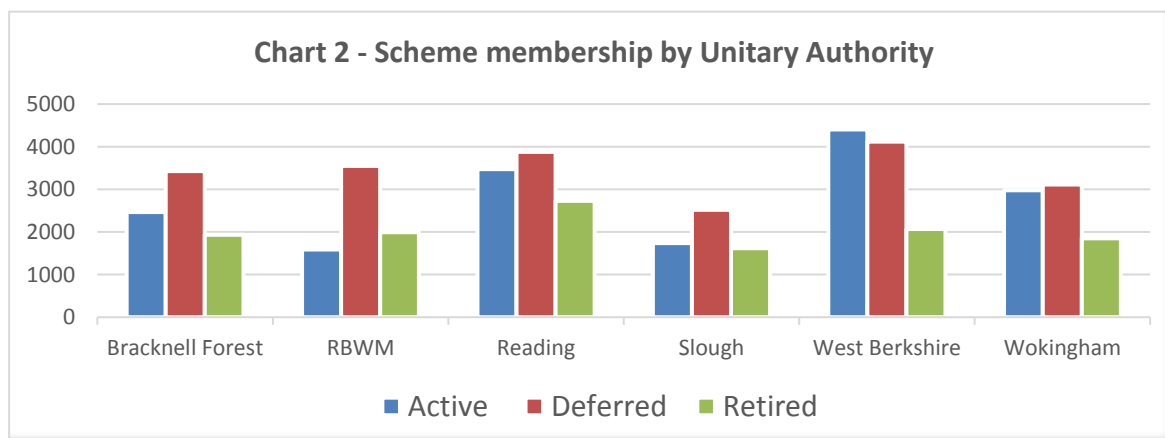
1. ADMINISTRATION

1.1 Scheme Membership



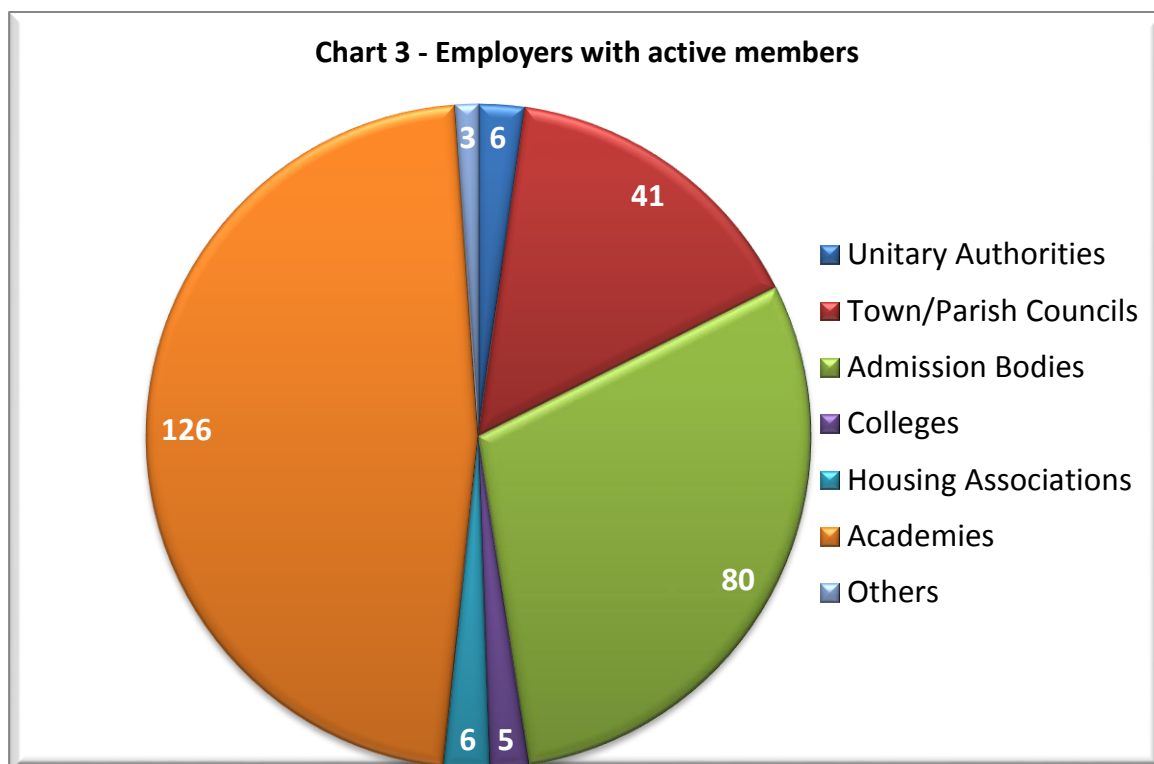
TOTAL MEMBERSHIP			
Active Records	26,108	Active People	22,357
Deferred Records	27,233	Deferred People	22,678
Retired Records	19,345	Retired People	17,255
TOTAL	72,686	TOTAL	62,290

1.2 Membership by Employer



Membership movements in this Quarter (and previous Quarter)						
	Bracknell	RBWM	Reading	Slough	W Berks	Wokingham
Active	+12 +67	+16 +4	+63 +51	+51 +146	+89 +434	+2 +175
Deferred	+19 -1	-13 -41	+4 -14	-2 -19	+6 +1	+23 -8
Retired	+15 +9	+25 +33	+22 +31	+8 +27	+39 +24	+26 +20

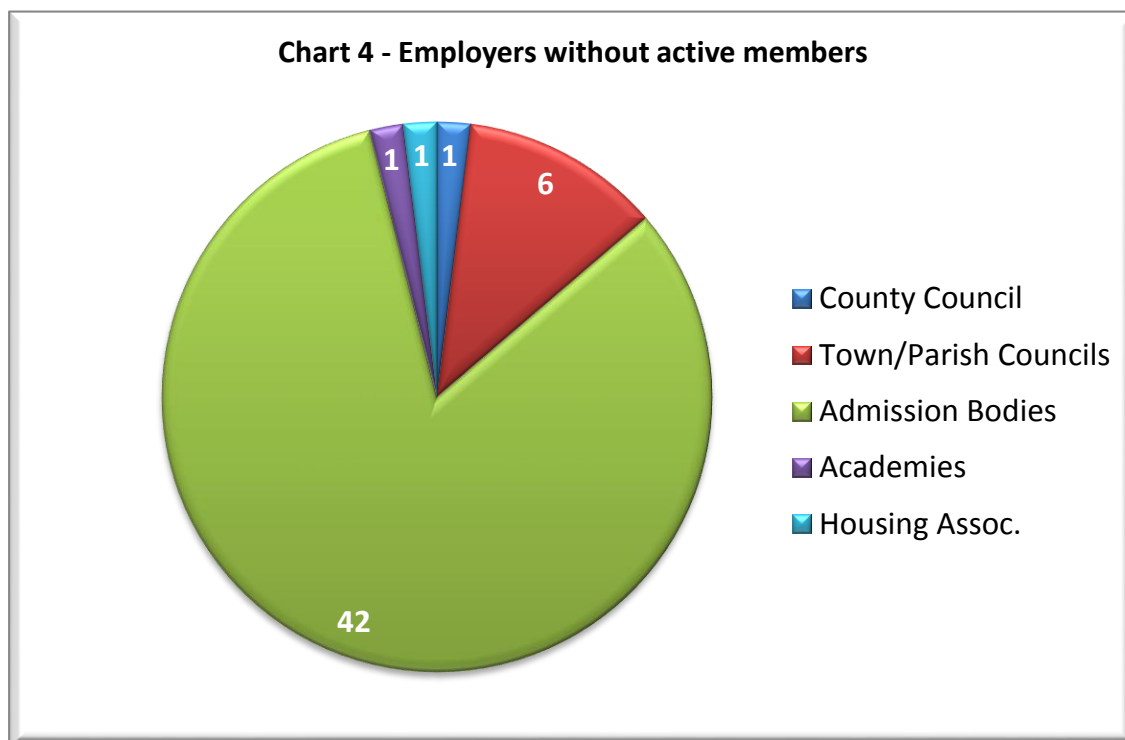
1.3 Scheme Employers



New employers since last report:

Admission Bodies: Energy Kidz Ltd (Katesgrove School, Reading), Horton Parish Council

Academies: None



Exiting employers: Housing Solutions

1.4 Scheme Employer Key Performance Indicators

Table 1A – i-Connect users Quarter 4 (1 January 2020 to 31 March 2020)					
Employer	Starters	Leavers	Changes	Total	Achieved
Bracknell Forest Cncl	127	115	178	420	98.95%
RBWM	150	95	202	447	99.21%
Reading BC	307	284	644	1235	98.41%
Slough BC	162	109	228	499	94.56%
West Berks Council	344	187	554	1085	98.21%
Wokingham BC	125	40	76	241	99.75%
Academy/ School	249	154	1767	2170	92.03%
Others	69	72	271	412	95.24%
Totals	1533	1056	3920	6509	97.04%

NOTES: Table 1A above shows all transactions through i-Connect for the fourth quarter of 2019/20. Changes include hours/weeks updates, address amendments and basic details updates.

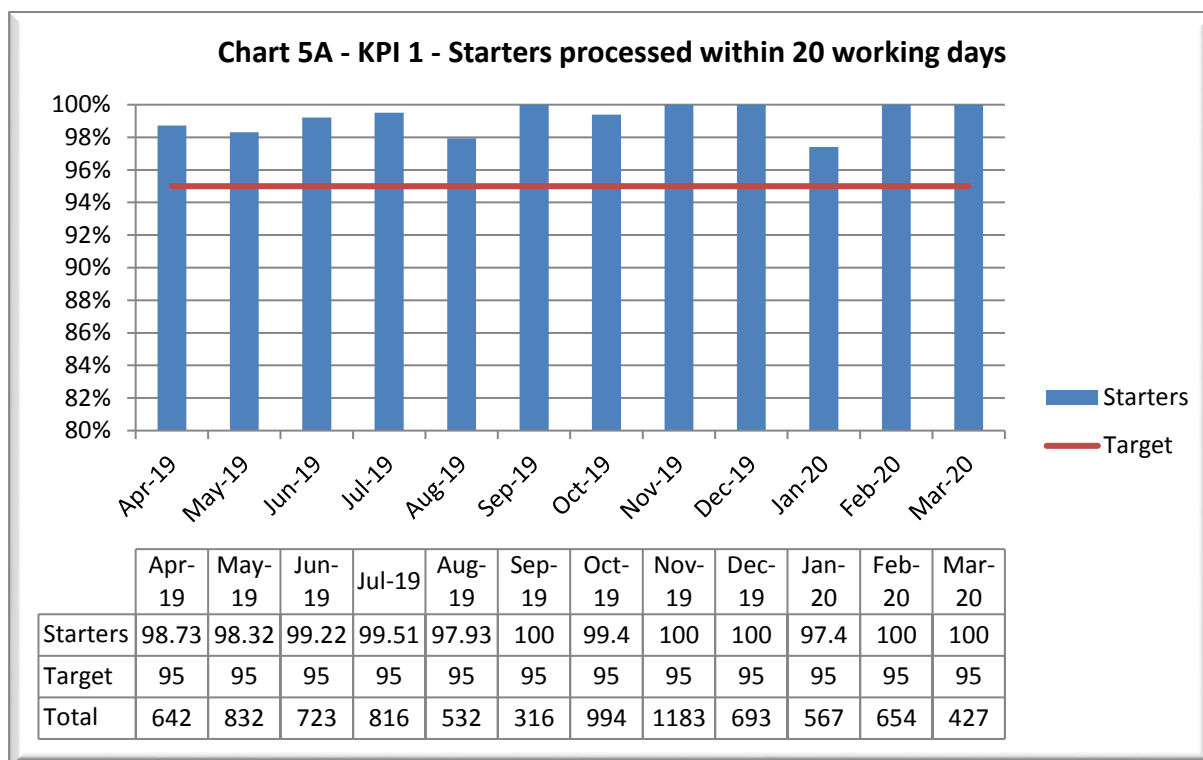
The benefits of i-Connect are:

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

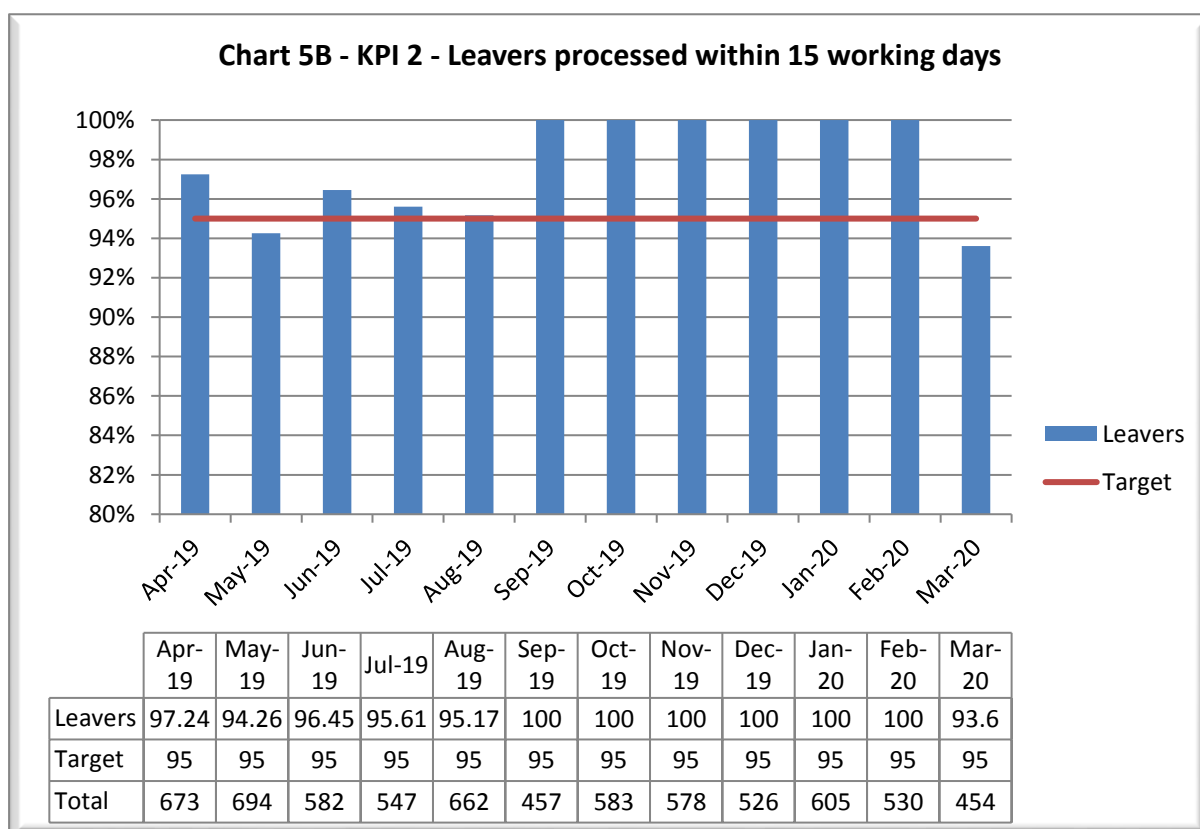
179 scheme employers are yet to be uploaded to i-Connect. It was previously reported that 57 of those would be uploaded by 31 March 2020 but unfortunately due to staffing issues and the Covid-19 pandemic it has proven impossible to meet that target.

However, the Pension Fund is committed to having all scheme employers with 10 or more scheme members uploaded to i-Connect by 31 March 2021. Scheme employers with fewer than 10 scheme members will also be given the option of using an on-line portal version of i-Connect by that date.

1.5 Key Performance Indicators

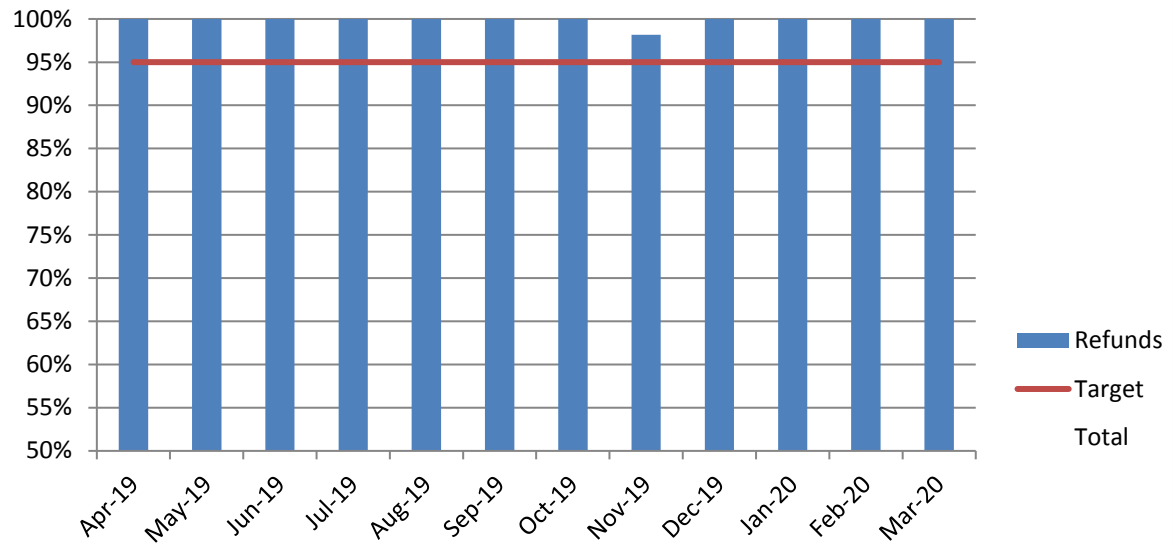


CIPFA Benchmark: Two months from date of joining the scheme or if earlier within one month of receiving jobholder information.



CIPFA Benchmark: As soon as practicable and no more than two months from date of notification from scheme employer.

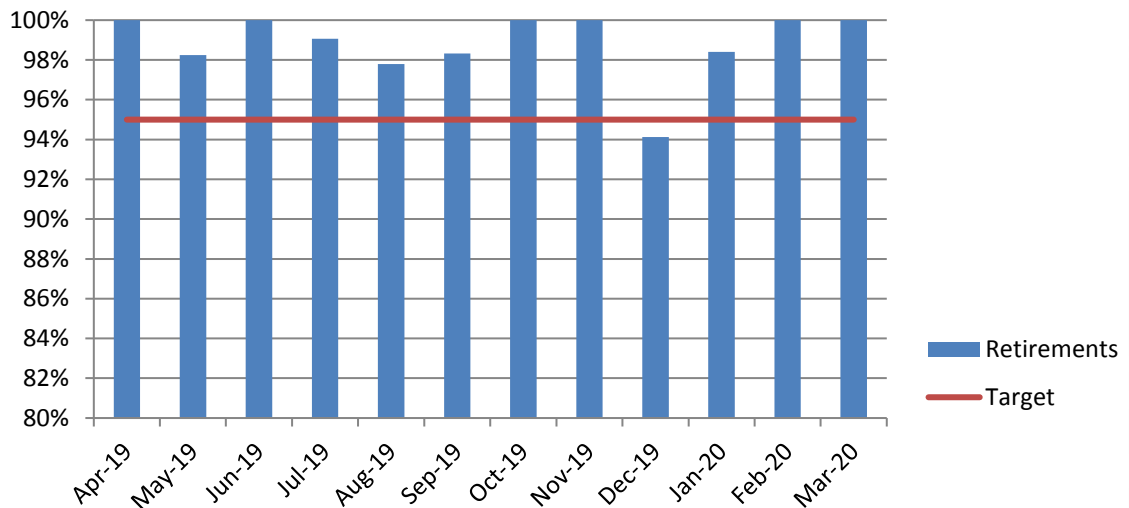
Chart 5C - KPI 3 - Refunds processed within 10 working days



	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Refunds	100	100	100	100	100	100	100	98.18	100	100	100	100
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	64	82	73	74	64	48	69	55	32	78	66	172

CIPFA Benchmark: To be confirmed.

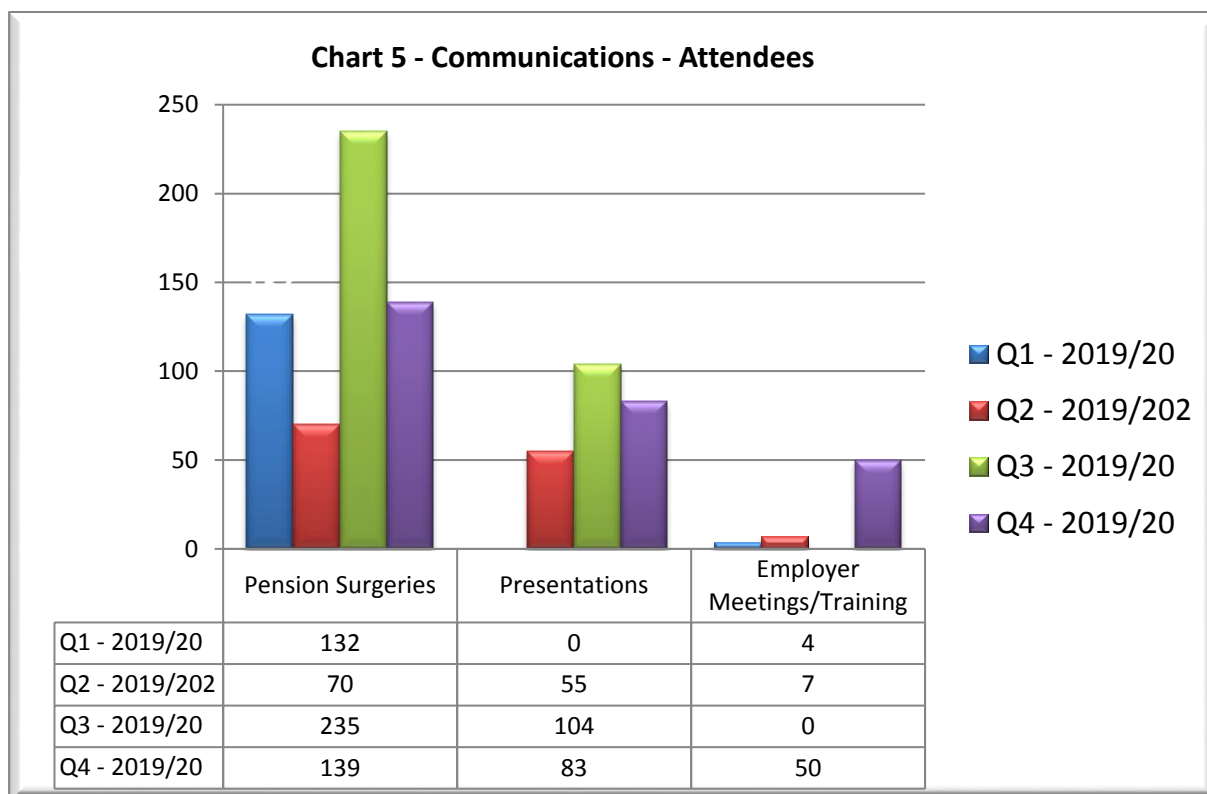
Chart 5D - KPI 4 - Retirements processed within 5 working days



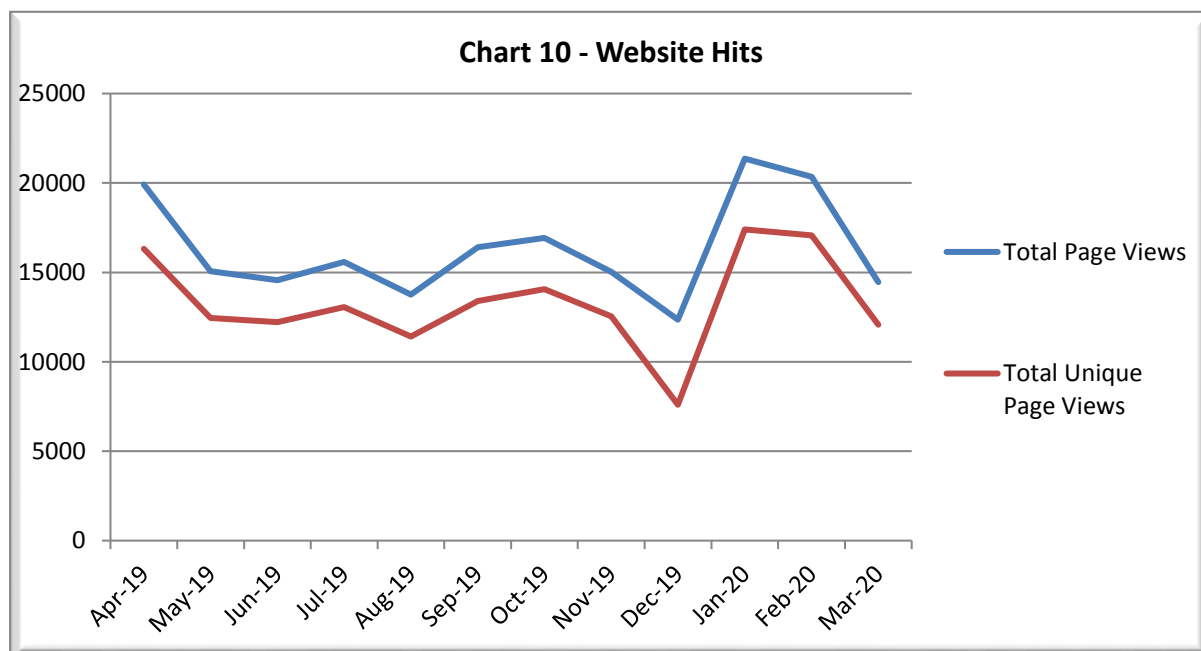
	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Retirements	100	98.25	100	99.07	97.8	98.33	100	100	94.12	98.4	100	100
Target	95	95	95	95	95	95	95	95	95	95	95	95
Total	125	114	98	107	91	120	126	95	68	121	85	67

CIPFA Benchmark: One month from date of retirement if on or after normal pension age or two months from date of retirement if before normal pension age.

1.6 Communications



1.7 Website Page Views



1.8 Stakeholder Feedback

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

There is no feedback to report.

2 SPECIAL PROJECTS

2.1 *Guaranteed Minimum Pension (GMP) Reconciliation*

Following the end of contracting out in April 2016, HM Revenue & Customs (HMRC) intended to send during December 2018 a statement to all individuals affected stating the amount of Guaranteed Minimum Pension (GMP) they will receive at State Pension Age and which public or private sector pension scheme is responsible for paying it.

Ahead of this Officers had opportunity to review the GMP values held for scheme members with those calculated by HMRC to ensure that the correct values are being paid and to rectify any instances where discrepancies were identified, the outcome being that going forward the Royal Borough of Windsor & Maidenhead as the Administering Authority for the Royal County of Berkshire Pension Fund (RCBPF) is responsible for making payment of the correct GMP liabilities.

Officers completed the project in respect of pensioner and dependant scheme members in February 2018 and it was acknowledged by the Local Government Association (LGA) that the Pension Fund was the first LGPS Pension Fund to do so.

Due to the volume of queries received by HMRC from UK pension schemes a statement was not issued and unfortunately Officers have experienced significant difficulties receiving responses from HMRC to queries raised in respect of active and deferred scheme members.

The total number of queries it has been necessary for Officers to raise with HMRC is 13,424, of which 4,965 remain outstanding. This represents 10.67% of the total overall active and deferred scheme membership at 31 December 2019.

The significant difficulties are not preventing Officers from calculating and paying benefits quickly and accurately due to the availability of HMRC's online service that is readily accessible to all LGPS Pension Fund's.

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Report Title:	Data Quality Exercise – Year 2
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Sharpe, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels 22 June 2020
Responsible Officer(s):	Philip Boyton, Pension Administration Manager
Wards affected:	None

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REPORT SUMMARY

1. This report provides Panel Members with an overview of The Pensions Regulator's requirements around data quality and accuracy.
2. It provides details of the findings from the second data quality exercise undertaken in line with the Regulator's guidance and reporting specifications.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the report and:

- i) **Monitors the quality of data through future administration reports, and**
- ii) **Recognises the importance placed upon the Scheme Manager (Administering Authority) in meeting the standards imposed by the Pensions Regulator.**

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

- 2.1 Members have in the past been presented with details of the role that The Pensions Regulator (tPR) now has in overseeing Public Service Pension Schemes since the introduction of the Public Service Pensions Act 2013. All public service schemes, of which the LGPS is one, are required to keep specific data on members and beneficiaries and must be able to demonstrate that the data they hold is of the highest quality and standard.
- 2.2 tPR expects all UK pension schemes to measure the presence and accuracy of the data they hold and put plans in place to resolve discrepancies where they find them. tPR require an annual return to be completed so that they can track the progress of schemes as they incorporate the standards that tPR expect of all schemes. By measuring certain data tPR can determine behaviours which contribute to schemes being well run.
- 2.3 tPR expect Scheme Managers (Administering Authority) to measure data at least once a year and whilst enforcement action will not be taken on the basis of scores alone, tPR may, if they have concerns that legal requirements or certain standards are not being met, engage with Scheme Managers and take action where Scheme

Managers fail to demonstrate that they are taking appropriate steps to improve their records.

- 2.4 There are two types of data that tPR monitor, Common Data and Scheme Specific Data (formerly known as Conditional Data). Common Data is a subset of member and beneficiary data as set out in regulations whereas scheme-specific data refers to the rest of the data a public service scheme needs to run a scheme i.e. the remaining member and transaction fields.
- 2.5 The tPR annual return measures data accuracy as well as the presence of data. tPR expects the Scheme Manager (Administering Authority) to understand the controls their scheme administrators have put in place to ensure the quality of data, have confidence that these are sufficient for the needs of the scheme and receive regular reports on the data.
- 2.6 As previously reported, the Pension Fund has signed an initial 3-year agreement with *heywood's*, the provider of the Pension Fund's administration software, to begin a data cleansing exercise to identify any data discrepancies. This exercise will be performed annually and will demonstrate to tPR how serious the Administering Authority is with regard to holding accurate data on behalf of its scheme members and beneficiaries.
- 2.7 This report sets out at Appendix the results of the first data quality exercise recently undertaken.
- 2.8 Action is already being taken to identify the means by which the data discrepancies identified can be corrected.

3 KEY IMPLICATIONS

- 3.1 The Scheme Manager (Administering Authority) is required by law to maintain the Royal County of Berkshire Pension Fund in accordance with the LGPS Regulations and all other associated legislation. Failure to do so could result in the Pensions Regulator issuing fines to the Authority where it is deemed to have failed in areas of administration.
- 3.2 The Scheme Manager (Administering Authority) has a responsibility to manage the administration of the Scheme on behalf of all Scheme members ensuring that all aspects of administration are effective, efficient and that benefits are calculated accurately in accordance with the scheme regulations.

4 FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 The 3-year contract entered into with *heywood's* is valued at a cost of £5,000 per annum although the Pension Fund negotiated the service for free for the first three years. tPR may impose fines ranging from a £400 fixed penalty to a varying daily escalating penalty from £50 to £10,000. The contract cost is deemed to be good value for money.

5 LEGAL IMPLICATIONS

- 5.1 The Local Government Pension Scheme Regulations 2013 (as amended) set out the statutory requirements of the Administering Authority in maintaining a Pension Fund.

6 RISK MANAGEMENT

- 6.1 Fines imposed by tPR can be severe not only financially but reputationally. This risk is kept to a minimum by taking the steps necessary to annually review member data ensuring that records are maintained to the highest standard possible.

7 POTENTIAL IMPACTS

- 7.1 Failure to maintain the Pension Fund in accordance with statutory legislation could result in fines being imposed by tPR and a loss of confidence in the Scheme Manager (Administering Authority).

8 CONSULTATION

Not applicable.

9 TIMETABLE FOR IMPLEMENTATION

- 9.1 Data quality check to be undertaken annually each September from 2018 to 2020 and then reviewed.

10 APPENDICES

Appendix 1 – Overview and results of the September 2018 data quality exercise.

11 BACKGROUND DOCUMENTS

- 11.1 Public Service Pensions Act 2013
11.2 Local Government Pension Scheme Regulations 2013 (as amended)
11.3 tPR annual return.

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Panels		
Adele Taylor	Director of Resources and Section 151 Officer		
Ian Coleman	Interim Pension Fund Manager		

APPENDIX 1

LOCAL GOVERNMENT PENSION SCHEME DATA QUALITY REPORT

This report is split into two sections, Common Data and Scheme Specific Data. In both cases a benchmark has been applied to the results based on the following categories and thresholds:

Category	Pass Threshold
Blue	Pass rate \geq 98%
Green	95% \leq Pass rate $<$ 98%
Amber	90% \leq Pass rate $<$ 95%
Red	Pass rate $<$ 90%

These benchmarks are illustrated in the background of the results graph.

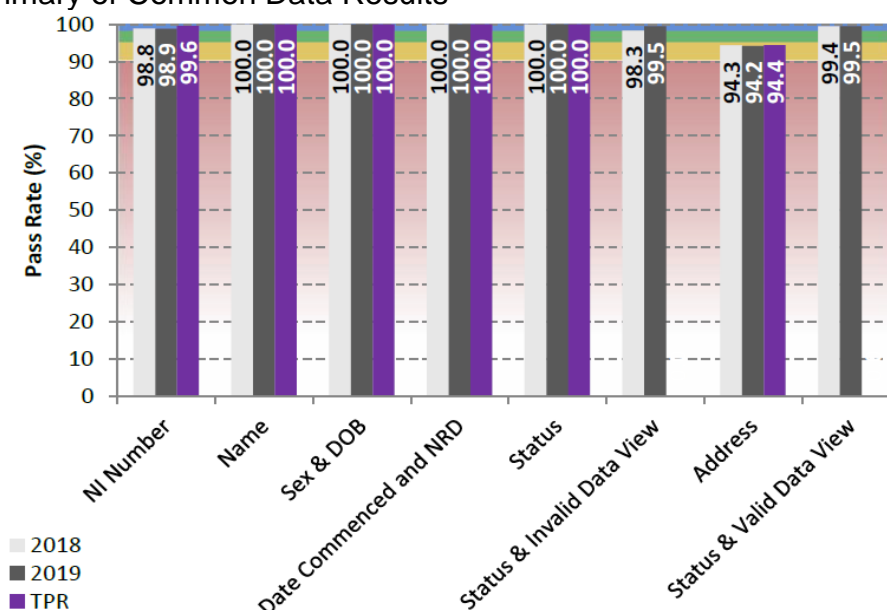
The 2019 tests were conducted across 90,580 scheme member records, an increase of 2,931 on the 2018 tests.

1.0 COMMON DATA

1.1 Common Data items

In total there are 11 items of Common Data that all UK pension schemes are expected to hold for all their current and former scheme members'.	
Address	Last Status Event
Current Membership Status	NI Number
Date of Birth	Normal Pension Age
Date Pensionable Service Started	Postcode
Forename(s) or Initial(s)	Surname
Gender	

1.2 Summary of Common Data Results



1.3 Analysis

DATA ITEMS	TOTAL ITEMS 2019	MEMBER RECORDS WITHOUT A SINGLE FAILURE 2019
Conditions tested	724,640	-
Conditions passed	717,455	-
Conditions failed	7,185	-
Pass percentage	99.00% (+0.16%)	92.40% (+1.1%)

1.4 Data Correction Plan

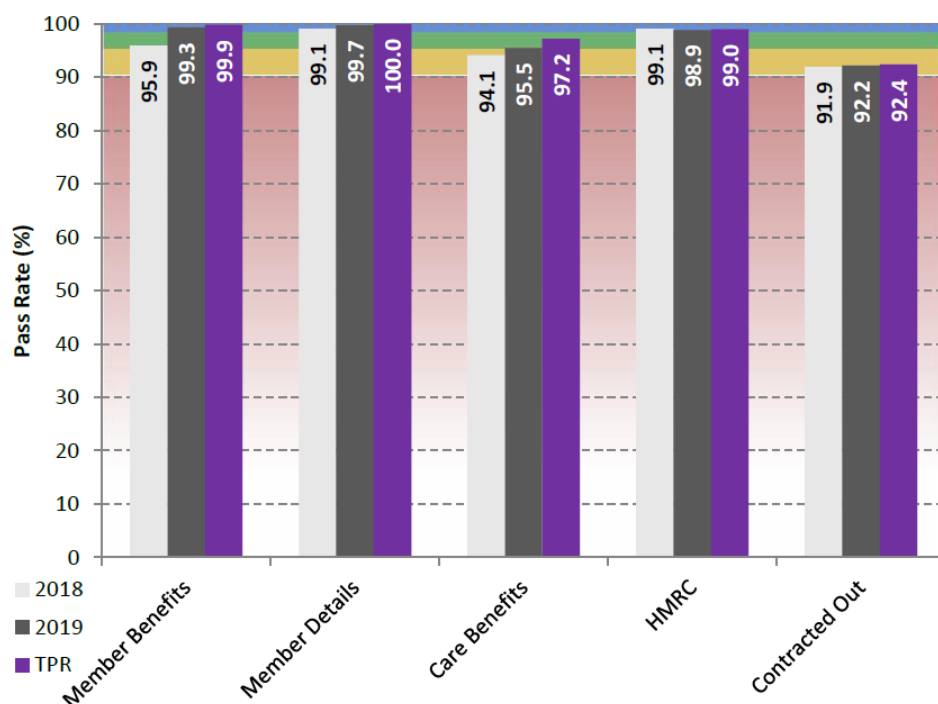
CATEGORY	PRIORITY				Total
	Very high	High	Medium	Low	
NI Number	-	-	-	996	996
Name	-	-	-	-	0
Sex/ Date of Birth	-	10	-	-	10
Date Commenced and NRD	-	1	-	-	1
Status	-	-	-	-	0
Status and Invalid Data View	-	487	-	-	487
Address	-	-	5,247	-	5,247
Status and Valid Data View	6	-	-	438	444
Total	6	498	5,247	1,434	7,185

2.0 SCHEME SPECIFIC DATA

2.1 Scheme Specific items

In total there are 60 items of Scheme Specific Data that tPR are measuring across all Local Government Pension Funds. A selection of these items is provided below.	
Annual Allowance	Post 1 April 2014 Career Pay
Date Contracted Out	Post 1 April 2014 Career Pay Revaluation
Date Joined Scheme	Pre 6 April 1988 Guaranteed Minimum Pension (GMP)
Date of Leaving	Post 6 April 1988 Guaranteed Minimum Pension (GMP)
Employee and Employer Additional Pension Contributions History	Scheme Year Benefit Crystallisation Event
Employee and Employer Basic Pension Contributions History	Total Original Deferred Benefit
Employer Name	Tranches of Original Deferred Benefit
Lifetime Allowance	Total Gross Annual Pension
Membership History	Tranches of Total Gross Annual Pension
NI Contributions/ Earnings History	Total Gross Dependant Annual Pension
Pension Sharing Order (PSO)	Tranches of Total Gross Dependant Annual Pension
Pre 1 April 2014 Final Pay	Transfer In Details

2.2 Summary of Scheme Specific Data Results



2.3 Analysis

DATA ITEMS	TOTAL ITEMS 2019	MEMBER RECORDS WITHOUT A SINGLE FAILURE 2019
Conditions tested	848,270	-
Conditions passed	835,211	-
Conditions failed	13,059	-
Pass percentage	98.46% (+0.88%)	91.3% (+5.2%)

2.4 Data Correction Plan

CATEGORY	PRIORITY				
	Very high	High	Medium	Low	Total
Member Benefits	59	720	-	-	779
Member Details	369	864	-	180	1,413
CARE Benefits	-	2,310	-	-	2,310
HMRC	-	542	383	34	959
Contracted Out	-	3,589	4,009	-	7,598
Total	428	8025	4392	214	13,059

Report Title:	Risk Assessment Register- Exceptions Report
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Julian Sharpe, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 22 June 2020
Responsible Officer(s):	Kevin Taylor, Pension Services Manager
Wards affected:	None

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REPORT SUMMARY

1. This report provides Members with an exceptions report from the Risk Assessment Register.
2. Medium and high risks are identified for review at every Panel meeting.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel

- i) Considers and notes the Risk Exception Report and puts forward any suggested amendments as may be felt necessary;
- ii) Authorises Officers to update the Risk Assessment Register as agreed by Panel; and
- iii) Approves publication of the final version on the Pension Fund website.

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

2.1 The Scheme Manager (Administering Authority) has a legal duty to establish and operate internal controls. Failure to implement an adequate and appropriate risk assessment register could lead to breaches of law. Where any breaches are considered to be materially significant, the Pension Regulator must be notified in accordance with the Scheme Manager's (Administering Authority's) policy on reporting breaches of the law.

2.2 Currently there are no high risks but 5 medium risks have been identified:

- 2.2.1. PEN 004: Failure to maintain a high quality member database: Remains a medium risk whilst the Pension Team continues with its strategy to have all scheme employers using i-Connect by March 2021.
- 2.2.2. PEN 011: Loss of key staff: There is always a risk that key staff could leave but a potential risk has been identified in 2023. An appropriate succession plan will be developed and discussed between senior managers in the coming months.
- 2.2.3. PEN 017: Inability to return the Funding Level to 100%: The Government Actuary's Section 13 report red flagged the Berkshire Pension Fund's

funding level at the 2016 triennial valuation with the equivalent report awaited in respect of the 2019 triennial valuation.

- 2.2.4. PEN 025: Inability of Scheme employers to meet their obligations: The Panel agreed to enter into a risk management contract with LPPI at its meeting on 14 January 2019. Results were reported at the Panel meeting of 16 December 2019 and officers have committed to discussing funding options with the Scheme employers identified as being most at risk.
- 2.2.5. PEN030: Cyber-attack. The Pension Fund uses a third-party supplier for its pension software packages, Aquila Heywood. Systems are hosted off-site at 2 separate locations and backed-up every evening. At the Panel meeting of 16 December 2019, Members received information from Aquila Heywood setting out their approach to Information Security and Quality, and were supplied with their Certificates of Compliance with industry standards and Summary Penetration Test Report.
- 2.2.6. Please note a request has been made to the Borough's Head of HR, Corporate Projects and ICT for equivalent evidence to be provided with regard to the Pension Fund's reliance on Borough ICT systems. Once received a further report will be presented to Panel.

3 KEY IMPLICATIONS

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

4 FINANCIAL DETAILS / VALUE FOR MONEY

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

5 LEGAL IMPLICATIONS

- 5.1 The Scheme Manager (Administering Authority) is required to govern and administer the Pension Scheme in accordance with the Public Service Pensions Act 2013 and associated Local Government Pension Scheme Regulations. Failure to do so could lead to challenge.

6 RISK MANAGEMENT

Table 1: Risk Analysis

Risks	Uncontrolled Risk	Controls	Controlled Risk
Pension Scheme not governed in line with legislation	Medium	Internal and External Audits	Low

7 POTENTIAL IMPACTS

- 7.1 Failure to comply with Pension legislation could result in the Administering Authority being reported to the Pensions Regulator where failure is deemed to be of a material significance.

8 CONSULTATION

- 8.1 Not Applicable.

9 TIMETABLE FOR IMPLEMENTATION

- 9.1 Immediate.

10 APPENDICES

- 10.1 Not applicable.

11 BACKGROUND DOCUMENTS

- 11.1 Local Government Pension Scheme Regulations 2013 (as amended)
11.2 Public Service Pensions Act 2013
11.3 The Pensions Regulator's Code of practice No. 14

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Panel		
Adele Taylor	Director of Resources and Section 151 Officer		
Ian Coleman	Interim Pension Fund Manager		

Royal County of Berkshire Pension Fund – Risk Assessment Register Exceptions Report

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Next Review Date
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 004	Failure to maintain a high quality member database.	Operational	Poor or non-existent notification of member data by Scheme employers.	Incorrect records, incorrect benefit estimates, potentially incorrect pension benefits being paid. Scheme members access wrong information via self-service. Loss of reputation, more complaints, poor performance.	Director of Resources and s151 Officer	Fund continues to work with employers to improve data quality. Pro-active checks when benefits are calculated. Membership information is checked as part of year-end processing	4	2	8	Medium	Key aim of the Pension Administration Strategy is to engage employers in the use of i-Connect.	Kevin Taylor Philip Boyton	March 2021	4	1	4	Low	March 2020
PEN 011	Loss of key staff.	Operational	The specialist nature of the work means some staff have become experts in the LGPS regulations and investment policies.	If someone leaves or becomes ill a big knowledge gap is left behind.	Director of Resources and s151 Officer	In the event of a knowledge gap external consultants and independent advisors can help in the short-term.	4	2	8	Medium	Loss of key staff in 2023 has been highlighted at an early stage in order to consider appropriate succession planning.	Kevin Taylor	Ongoing	2	2	4	Low	March 2020
PEN 017	Inability to return the Funding Level to 100%.	Strategic	Lack of proper strategy to achieve 100% funding level. Actual investment returns fail to meet expected returns.	Fund remains underfunded and employer contribution rates increase.	Director of Resources and s151 Officer	Fund has published Funding Strategy Statement. Deficit recovery plan implemented following 2010 valuation. Fund regularly monitors investment returns and the Actuary provides a funding update each month.	4	2	8	Medium	Regular performance updates received from LPPI Ltd.	Kevin Taylor	Ongoing	4	1	4	Low	March 2020
PEN 025	Inability of Scheme employers to meet their obligations.	Strategic	When a Scheme employer no longer has any active members a cessation valuation is triggered and an exit payment required if a funding deficit exists to meet future liabilities.	Failure to collect cessation payments means the cost of funding future liabilities will fall to the Fund and therefore all Scheme employers that remain in it meaning a potential increase in employer contributions.	Director of Resources and s151 Officer	The Pension Fund Panel has authorised officers to take appropriate steps to review employer covenants and take the necessary action to mitigate the impact that the failure of one Scheme employer can have on all other Scheme employers.	3	2	6	Medium	LPPI Ltd assessing risks.	Kevin Taylor	Ongoing	3	1	3	Low	March 2020

Royal County of Berkshire Pension Fund – Risk Assessment Register Exceptions Report

Ref	Risk	Risk Category	Cause	Impact	Risk owner	Controls in place to manage the risk	Current risk rating				Further actions necessary to manage the risk	Risk action owner	Date Complete	Target risk rating				Next Review Date
							I m p a c t	L i k e l i h o o d	S c o r e	Level of risk				I m p a c t	L i k e l i h o o d	S c o r e	Level of risk	
PEN 030	Cyber attack	Strategic	Systems not protected from unauthorised access or being otherwise damaged or made inaccessible.	Complete breakdown of services with potential permanent loss of personal data.	Director of Resources and s151 Officer	System provider has robust accredited solutions in place to ensure any cyber-attack can be identified and prevented.	4	2	8	Medium	Aquila Heywood continuously monitor and test systems to ensure compliance with expected standards.	Kevin Taylor Philip Boyton	Ongoing	4	1	4	Low	March 2020

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Report Title:	External Audit Planning Report
Contains Confidential or Exempt Information?	YES - Part I
Member reporting:	Councillor Sharpe, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 22 June 2020
Responsible Officer(s):	Kevin Taylor, Pension Services Manager
Wards affected:	None



REPORT SUMMARY

The purpose of this report is to bring to Members' attention the External Audit Plan for the Pension Fund for year ending 31 March 2020 as produced by Deloitte on 21 May 2020 and presented to the Corporate Overview and Scrutiny Panel on 27 May 2020

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel notes the Audit Plan at Schedule 1.

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

The Pension Panels have a duty in securing compliance with all statutory, governance and administration issues.

3. KEY IMPLICATIONS

To receive an audit opinion that the statutory accounts of the Berkshire Pension Fund have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 as issued by CIPFA and LASAAC.

4. FINANCIAL DETAILS / VALUE FOR MONEY

Not applicable.

5. LEGAL IMPLICATIONS

None.

6. RISK MANAGEMENT

None.

7. POTENTIAL IMPACTS

None.

8. CONSULTATION

Not applicable.

9. TIMETABLE FOR IMPLEMENTATION

Not applicable.

10. APPENDICES

Audit planning report.

11. BACKGROUND DOCUMENTS

None.

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr. Julian Sharpe	Chairman – Berkshire Pension Fund Panel		
Adele Taylor	Director of Resources and s151 Officer		
Ian Coleman	Interim Pension Fund Manager		



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Royal County of Berkshire Pension Fund

Planning report to the Corporate Overview and Scrutiny Panel for
the year ended 31 March 2020

Issued 21 May 2020 for the meeting on 27 May 2020

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Introduction

The key messages in this report:

We have pleasure in presenting our Planning Report to the Corporate Overview and Scrutiny Panel ("the Panel") for the 2020 audit of the Royal County of Berkshire Pension Fund ("the Fund"). We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Fund prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code") issued by CIPFA and LASAAC.

Key developments

As part of our audit planning procedures to date, we have held planning meetings with key members of management to develop our understanding. The key developments are:

- There have been discussions between the Fund management, the investment manager and the custodian regarding investment controls and governance. The discussions are ongoing and we await the conclusion in relation to the current year's investment reporting.
- An independent party carried out a governance review in relation to the Fund as part of the response to the prior year audit findings. The final report from this review has not yet been shared with us.
- We conducted an interim visit to the Fund's office to perform testing on the design and implementation of controls including those addressing contributions and benefits operations.
- A new pension Fund accountant took up post in early April and is receiving handover support from the previous post holder.
- The current COVID-19 pandemic has had a significant impact on a range of markets. Financial markets experienced a sharp drop in value during February and March 2020 and have continued to experience volatility with significant market swings occurring on a daily basis. Furthermore the pandemic has made it difficult to value many properties due to a lack of transactions in the market, and many property funds are now gated and are reporting a material uncertainty over their year-end valuations. It is possible that the Fund will be affected by one or both of these issues and discussions are ongoing to determine the extent of the impact. In addition, officers will need to assess the disclosures included within the annual report and accounts with respect to the risks associated with COVID-19. They will also need to consider whether there is any impact on the going concern assessment and whether additional disclosure in the annual report and accounts is required in that regard, and we will assess the officers' conclusions and the adequacy of disclosures in this area.

The key messages in this report:

The ongoing COVID-19 crisis continues to impact ways of working both for officers, members of the Fund and the Deloitte audit team. The situation will have an impact on financial reporting for all local government pension schemes. This includes adjustments to the central timetable for accounts submission. We include further detail on this on pages 9 to 10 of this planning paper.

Our planning procedures are still in progress. We will continue to assess the audit risks throughout the audit and we will inform you of any changes.

As we continue to accumulate knowledge of the Fund we have developed our risk assessment so that our plan reflects those areas which we believe have a greater chance of leading to material misstatement of the financial statements.

Based on procedures performed to date, we summarise below the areas of significant audit risk we have so far identified, these may be subject to change following completion of our remaining planning work. We will update the Panel on any changes to our risk assessment at the next meeting. The significant risks currently identified are:

- Management override of controls; and
- Valuation of the longevity swap.

Auditing Standards include a presumption that management override of controls and revenue recognition are significant risks for all our audits.

We have rebutted the presumption of risk of fraud in revenue recognition for the Fund, as we consider that there is little incentive or opportunity for revenue (including investment income, transfers and contributions) to be fraudulently misstated and therefore there is limited risk of material misstatement arising due to fraud in this area.

Please refer to pages 12 to 14 for full details.

Introduction (continued)

The key messages in this report:

Significant issues identified last year

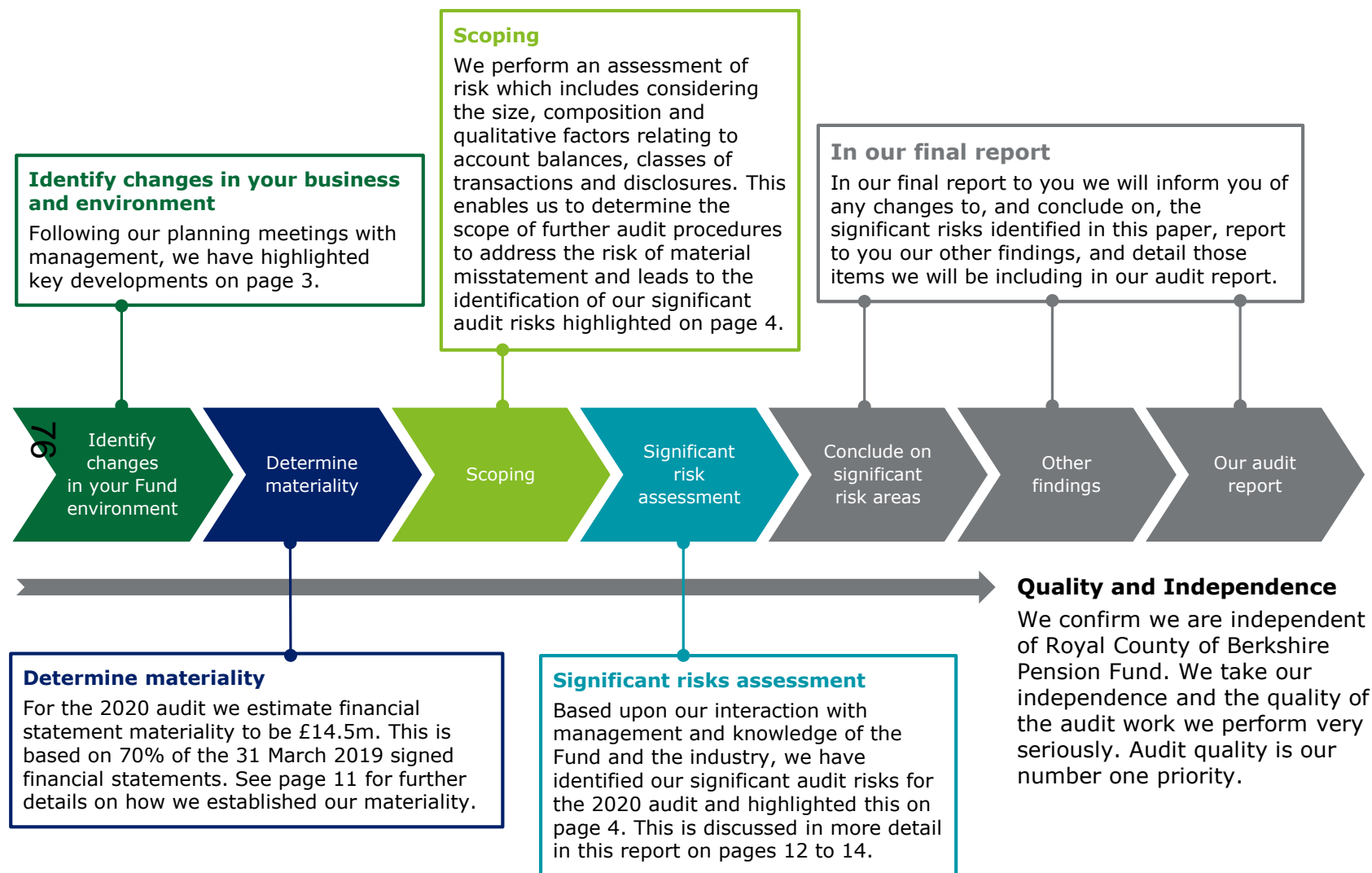
In the prior year audit we reported the following significant issues:

- A material error of £40.3m in the value of the longevity swap arising from the absence of a control to challenge the assumptions used by the actuary in producing the valuation. We recommended that the Panel ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements.
- A material error of £34.2m in the value of the convertible bond arising from a lack of understanding within the Fund of who was providing pricing and the valuation approach adopted. We also identified the absence of a control to challenge the valuation. We recommended that the Panel ensures that the valuation of all bespoke investments is understood by the investment manager and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organization.
- Unadjusted misstatements of £2.0m and £1.2m relating to alternative investment fund values arising from an absence of controls to challenge the valuation of alternative investment funds and to check existence.
- We recommended that the Fund review the terms and conditions of its relationship with all investment service providers and seek assurance that suitable controls are place.
- We also recommended that the Fund perform a review of the arrangements around pension asset investment decision making, monitoring and reporting of the valuation of those investments.

The Fund's responses to the above findings will be reviewed as part of this year's audit work.

Our audit explained

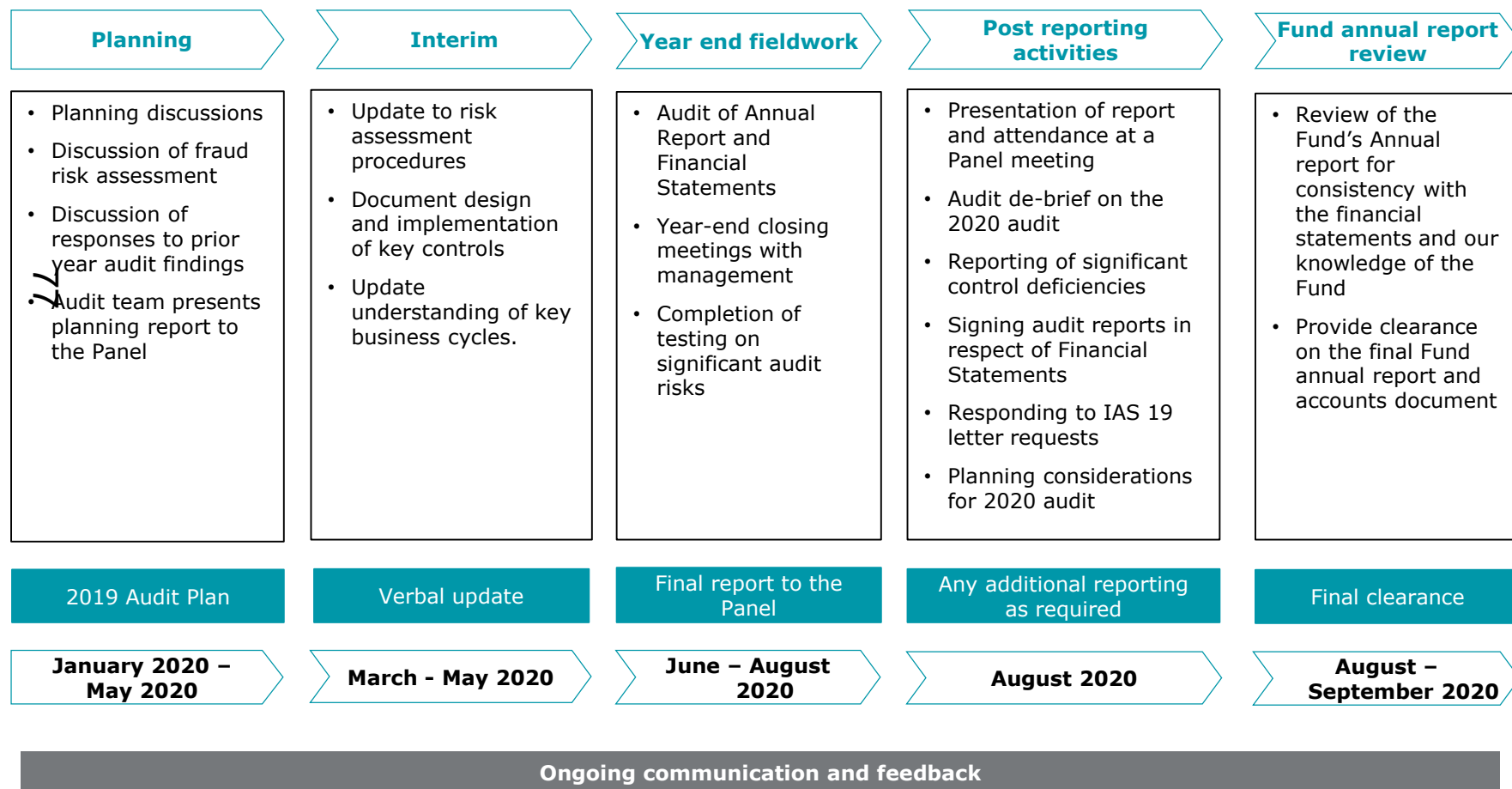
We tailor our audit to your Fund



Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn and initial comments from the interim and final visits will be shared with management as required. The following sets out the expected timing of our reporting to and communication with you.



Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Committee's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Fund completes the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Scoping and risk assessment

Our scoping and risk assessment procedures are in progress and they will be updated when year-end numbers are available. If this changes our assessment of the significant risks we will inform the panel accordingly.

Scope of work and approach

Coronavirus (Covid-19) outbreak - How is Deloitte responding?

Deloitte has been closely monitoring and managing our response to the COVID-19 situation since its inception in order to be able to respond as necessary. The health and safety of our people is paramount, but we are doing our utmost to ensure we can complete audits to required timetables. We summarise below how we are responding.

Impact on our audit and our response

We have Business Continuity Plan ('BCP') arrangements which align to ISO 22301. Our BCP for the firm has been enacted to consider and mitigate the impact of COVID-19 across our operations. The health and safety of our people and those we work with comes first. This includes the provision of advice and support to staff and associates, development of response plans, and upgrades to our IT infrastructure to increase capacity for secure remote working.

We have the capability to work remotely with our audited entities, utilising a number of collaboration tools, including Deloitte Online/Sharepoint (a tool that facilitates secure two-way dialogue between the Deloitte team and management to effectively manage engagement co-ordination) and MS Teams allowing us to collaborate and supervise activities.

We have adequate server capacity for all our people to work remotely and technological infrastructure such as our Sharepoint site that we have already been using with officers.

We are in regular contact with regulators as well as other Deloitte Member Firms to co-ordinate and understand the impact locally so we can execute global audits.

Internally, we have travel restrictions in place and the audit is therefore planned to be completed remotely. We are also reviewing team compositions to try to minimise the risk of full teams being disrupted.


Scope of work and approach

Coronavirus (COVID-19) outbreak - Impact on our audit

The first table below reflects some general considerations. The second table reflects some impacts specific to the local government context and how the Fund plans to respond to this.

Impact on the Fund	Impact on the Fund's Statement of Accounts	Impact on our audit
<ul style="list-style-type: none"> • Unavailability of personnel. • Disruptions in or stoppages of non-essential business travel. • The closure of facilities • Increase in demand for some services and challenges in delivering such services 	<ul style="list-style-type: none"> • Principal risk disclosures • Fair value measurements based on unobservable inputs • Changes to the fair value hierarchy disclosure of some investments • Events after the end of the reporting period • Consider the impact on the Fund's going concern assessment and consider the need to enhance disclosures with respect to going concern 	<ul style="list-style-type: none"> • Focus on key areas of material change and uncertainty • Resource planning • Timetable of the audit • Logistics regarding travel and meetings with Fund personnel • We will review the Fund's going concern assessment and consider the adequacy of disclosures in the annual report and accounts with regards to going concern

Specific changes impacting local government and how the Fund audit plan will respond (bold text)

 The publication date for final, audited, accounts has moved from 31 July to 30 November 2020 for all local authority bodies.

Discussions with management indicate an intention to adhere to the original audit scheduling (see p. 10) which aimed for the majority of work to be completed in June and July 2020. It is acknowledged that within this there may be 1-2 weeks slippage past 31 July due to potential absences of key staff on both teams and the expected inefficiencies of working remotely. This plan also assumes that third party reports such as the pension report from the actuary and investment manager reports are made available within this timeframe.

There will be disclosure requirements related to the impact of COVID-19.

Management are aware of this. We will evaluate the disclosures made by officers to determine whether they comply with the relevant disclosure requirements.

Audit is to be conducted remotely

Our team will be using technology such as Microsoft Teams to facilitate the delivery of the audit whilst working remotely. We have an established practice with the finance team of transacting information over Sharepoint, our secure information storage portal, from last year's audit where we used this tool.

Potentially heightened risks of fraud

The team have received extra training and will maintain professional scepticism. Management should also consider any gaps in the control framework under the current circumstances giving greater rise to fraud risk.

There may be material uncertainties to disclose in regard to property and other asset valuations

We will evaluate this once the final valuation reports are provided.

Materiality

Our approach to materiality

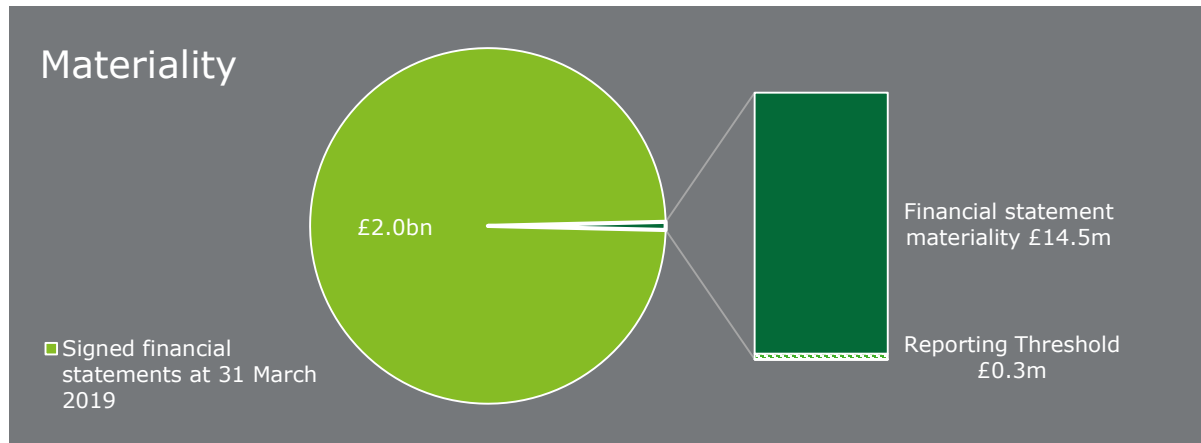
Basis of our materiality benchmark

- We have estimated financial statement materiality as £14.5m based on professional judgement, the requirement of auditing standards, and the net assets of the Fund. As we complete our remaining planning procedures, we will consider further, together with the Royal Borough of Windsor and Maidenhead audit team, whether any reduction is required to the level of materiality applied to the Fund. If any changes are made to our assessment of materiality we will communicate those to the Corporate Overview and Scrutiny Panel.
- We have applied a factor of 1% (compared with 1% for the 2019 audit) to the selected benchmark of Fund net assets. As year end information is not yet available, we have used the net assets value as at 31 March 2019, reduced by 70% as the value of the benchmark due to our expectation that the value of the investments

portfolio is likely to have decreased from the 31 March 2019 due to the impact of COVID-19 on global markets.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £300k. We will report to you misstatements below this threshold if we consider them to be material by nature.
- We will review materiality for the 2020 audit on receipt of the draft 2020 financial statements, and report any changes to those charged with governance in our subsequent audit reports.
- Materiality calculation: Although materiality is the judgement of the audit partner, the Panel members must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



Significant risks

Our risk assessment process

Changes to prior year in risks identified as significant audit risks

The risks we have identified as significant audit risks are summarised on the following pages. Our risk assessment reflects the following changes from the prior year:

In the prior year, we identified a convertible bond held by the Fund as a significant risk, initially included within the draft financial statements as at 31 March 2019 at a value of £36.4m. Convertible bonds are considered more difficult to price due to the embedded optionality, the effect of multiple underlying characteristics and the use of complex calculation models. In the prior year we focused the significant risk on this part of the investment portfolio. However, following a revaluation of the instrument in response to our audit procedures during the 2019 audit, the value of the convertible bond had decreased to approximately £2.2m. In initial conversations for this year's audit, the investment manager noted that there are no indications that the value of the bond will have improved significantly. Given the expected immaterial value as at the 31 March 2020, the valuation of the bond is not considered to be a significant risk of material misstatement for the 2020 audit.

Other significant risk considerations

In the current year, we are in the process of assessing the risk arising from the potential impact on some of the Fund's investments of the COVID-19 pandemic. Property valuers have experienced difficulties in assessing the market value of properties. This is an industry wide issue. Following guidance issued by the Royal Institute for Chartered Surveyors, it is expected that all valuers will report a material uncertainty over the value of property assets held at 31 March 2020 as a result of Covid-19 factors. In response to the valuation uncertainties, many property funds were gated as at 31 March 2020.

The extent to which this issue will affect the Fund will be assessed as we receive more information about the funds. We will also consult with our Deloitte Real Estate Specialists, including consideration of the type and nature of the properties held. The authority, and we, will need to assess whether a material uncertainty clause in the property valuation is fundamental to user's understanding of the financial statements.

In doing so, we will consider the proportion of the total pension assets that are affected by the material uncertainty clause, as well as materiality when making this determination. Where it is determined to be fundamental, an emphasis of matter may be necessary in our audit opinion referring to this material uncertainty.

Currently, we have not assigned a significant risk level to property-based investments, however we will update the Panel should this position change.

Furthermore, the COVID-19 pandemic has had a significant impact on a number of global markets and many of the major indices used to measure the performance of equities and bonds fell sharply in February and March 2020. Any alternative investment funds for which stale prices are used in the year end valuation could potentially be affected as true market value may be a lot lower than the stale valuation reporting. A stale price refers to a valuation that is prepared to a date earlier than the Fund's year end. It is not yet clear the extent to which this may affect the Fund in the current year, but we will continue to assess the impact of this issue as the audit progresses. This issue may be avoided if the timetable on this part of the audit allows for stale prices to be updated. As it stands we have not assigned a significant risk level to alternative investment funds, however we will update the Panel should this position change.

Presumed risk of fraud in revenue recognition

Auditing standards also presume there is a risk of fraud in revenue recognition. Following an analysis of the Council's income streams, we have rebutted this presumption. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles. Our conclusion is the same as that reached in our audit last year.

Significant risks


Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Deloitte response management override of controls risk identified

In order to address the significant risk our audit procedures will consist of the following:

- Use Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted by the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
-  Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Understand the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Check whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Test the design and implementation of controls around the journals process and investment and disinvestment of cash during the year;
- Review of related party transactions and balances to identify if any inappropriate transactions have taken place; and
- Review the accounting estimates for bias, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.
- We will consider whether the conditions resulting from COVID-19 impact the level of risk associated with potential frauds and adjust our procedures accordingly.

Significant risks

Valuation of the longevity swap

Risk identified

The Fund holds a material longevity swap to hedge longevity risk. A longevity swap is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. Valuation of longevity swaps are sensitive to relatively small movements in the key assumptions used in the actuarial calculations. The setting of these assumptions involves judgement. Based on last year's audited accounts the value was (£103.8m) and we expect the value to be material in size this year.

As a result of this we consider the valuation of the longevity swap to be a significant risk.

Deloitte response to the risk identified

In order to address this area of significant audit risk, we will perform the following audit procedures:

- Perform an assessment of the actuarial expert in respect of their knowledge and experience in this area;
- Test the design and implementation of the key controls with respect to the valuation of the longevity swap;
- Obtain a valuation report directly from the actuary and reconcile this to the financial statements disclosure;
- Review the underlying documentation for the policy, including the population covered, the assumptions and other key inputs used in the calculation, and the agreed cash flows;
- Engage in-house actuarial specialists to challenge and assess the reasonableness of the valuation of the policy based on the underlying terms of the contract and the forecast cash flows; and
- Compare our expectation of the value with that reported by the actuary, investigating any differences identified that are outside the range of results that we consider to be reasonable.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies." The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

Use of this report

This report has been prepared for the Audit and Performance Review Panel, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Fund.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.



Jonathan Gooding

for and on behalf of Deloitte LLP
St Albans | 21 May 2020

Appendix 1: Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the Panel, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the management override of controls and the valuation of the longevity swap as the key audit risks for the Fund.

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Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Panel:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to the Panel regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

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Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



The Panel

- How the Panel exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether the Panel has knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Panel on the most significant fraud risk factors affecting the entity.

Appendix 2: Independence and fees

A Fair and Transparent Fee

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund and will reconfirm our independence and objectivity to the Panel for the year ended 31 March 2020 in our final report to the Panel.
Fees	<p>The scale fee for the Pension Fund audit is £19.120. Following recent discussions with both the Council and PSAA, there are expected to be increases in this fee for both 2019/20 and 2020/21. We will confirm final fee levels to the Panel once these have been agreed.</p> <p>Our fees for issuing IAS 19 assurance letters to other auditors in respect of participating employers are not included in the above audit fee and will be communicated separately.</p> <p>The above fees exclude VAT and include out of pocket expenses.</p>
Non-audit fees	There are no non-audit fees.
Independence monitoring	<p>In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy.</p> <p>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.</p>
Ethical Standard 2019	The FRC has recently released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.



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