

NOTICE  
OF  
MEETING  
**BERKSHIRE PENSION FUND COMMITTEE**

will meet on

**MONDAY, 14TH JUNE, 2021**

**At 4.00 pm**

by

**GREY ROOM - YORK HOUSE, AND ON [RBWM YOUTUBE](#)**

TO: MEMBERS OF THE BERKSHIRE PENSION FUND COMMITTEE

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

ADVISORY MEMBERS: COUNCILLORS LAW, LOVELOCK, SAFDER ALI, KAISER AND  
LEAKE.

SUBSTITUTE MEMBERS

COUNCILLORS GERRY CLARK, DAVID COPPINGER, GEOFF HILL,  
ANDREW JOHNSON AND SIMON WERNER

Karen Shepherd – Head of Governance - Issued: 04/06/2021

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](http://www.rbwm.gov.uk) or contact the Panel Administrator **David Cook** david.cook@rbwm.gov.uk

**Recording of Meetings** – In line with the council's commitment to transparency the Part I (public) section of the 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. If you have any questions regarding the council's policy, please speak to Democratic Services or Legal representative at the meeting.

## **AGENDA**

### **PART I**

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1.	<b><u>APOLOGIES</u></b>  To receive any apologies for absence.	-
2.	<b><u>DECLARATIONS OF INTEREST</u></b>  To receive any declarations of interest.	5 - 6
3.	<b><u>MINUTES</u></b>  To approve the Part I minutes of the meeting held on 22 March 2021.	7 - 12
4.	<b><u>EMPLOYER FLEXIBILITIES</u></b>  To consider the report.	13 - 66
5.	<b><u>EXTERNAL AUDITORS FINAL REPORT 2019/20 AND AUDIT PLAN 2020/21</u></b>  To consider the report.	67 - 124
6.	<b><u>PENSION GOVERNANCE PROGRESS REPORT</u></b>  To consider the report.	125 - 130
7.	<b><u>GOOD GOVERNANCE IN THE LGPS</u></b>  To consider the report.	131 - 166
8.	<b><u>ADMINISTRATION REPORT</u></b>  To consider the report.	167 - 178
9.	<b><u>LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF THE PRESS AND PUBLIC</u></b>  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"	

## **PART II - PRIVATE MEETING**

<b><u>ITEM</u></b>	<b><u>SUBJECT</u></b>	<b><u>PAGE NO</u></b>
i.	<b><u>MINUTES</u></b>  To consider the Part II minutes of the meeting of 22 March 2021.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	179 - 182
i.	<b><u>RESPONSIBLE INVESTMENT REPORT Q1 2021 LPPI</u></b>  To consider the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	183 - 202
i.	<b><u>INVESTMENT PERFORMANCE REPORT Q1 2021 LPPI</u></b>  To consider the report.  <b><i>(Not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972)</i></b>	203 - 226

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## 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 COMMITTEE

MONDAY, 22 MARCH 2021

PRESENT: Councillors Julian Sharpe (Chairman), David Hilton (Vice-Chairman), Shamsul Shelim, Simon Bond, Wisdom Da Costa, Ali, Lovelock, Leake, Kaiser and Alan

Also in attendance: Cllr Lovelock, Cllr Ali, Cllr Kaiser, Alan Cross, Rothan Worrall, Keith Bray, Aiofinn Devitt, Andrew Harrison.

Officers: Adele Taylor, Ian Coleman, Kevin Taylor, David Cook and Andrew Vallance

### APOLOGIES

There were no apologies for absence received.

### DECLARATIONS OF INTEREST

There were no declarations of interest received.

### MINUTES

The Part I minutes of the meeting held on 14 December 2020 were approved as a true and correct record.

### LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS

The Committee considered a presentation regarding services provided by Pensions and Investment Research Consultants for pension performance analytics.

Ian Colman, Interim Pension Fund Manager, informed that members had requested the provision of comparative performance information so they could assess the performance of the Fund. LAPPAs were the only providers of such a service and the Committee were asked if they wished to re-subscribe to the service.

Karen Thrumble, PIRC LAPPAs, informed the Committee that the group comprised of more than 60 funds that included all Welsh Pools, all of London (except Croydon), the Northern Pool and all other pools except Central. They had more than 30 years history.

Some of the things the group look to answer were how the LGPS were performing and over the long term they were doing a good job. Although Covid had an impact this was not as high as expected and the funds were still above inflation. You could also look at the spread of performance and analysis why some funds were doing better than others. You can examine how much volatility some take on compared to performance.

A chart of high level asset allocation was shown, you could see that over the last decade equity allocation was down with more being moved into alternative investments. The Committee were also shown how each of the funds in the universe were performing in comparison of each other, with return and volatility being shown. Since 2015 UK equities have underperformed against global equities that had a drag on performance of those funds that retained a high percentage in that sector.

Examples of performance for diversified growth were shown and how the expected diversification was not as expected. Diversified growth and equity performance followed a similar trend. The key driver in funds had been stock selection.

At a fund level the performance was shown for the past year at being negative 2.6% that was better than the average negative 4.8%. This put the fund in the top quartile. The fund's structure compared to other funds was shown.

If the Committee wished to join data would be required quickly as they finalised by the end of May 2021. The cost of joining would be £4,900 for this year.

In response to questions the Committee were informed that officers recommended that the fund joined as it was the only way of getting comparative performance data that the Committee have asked for. This was a different service to the forum that the fund had signed up to a year ago that discussed investments; this compared performance. It was noted that it would be useful to have comparative data with the other LPP Funds.

**Resolved unanimously: that the Pension Fund Committee notes the report and:**

- i) Agrees to subscribe to the Local Authority Pension Performance Analytics service.**

## **RESPONSIBLE INVESTMENT POLICY**

The Committee considered the report regarding the adoption of a Responsible Investment Policy.

Ian Coleman, Interim Pension Fund Manager, informed the Committee that the fund was required to have a Responsible Investment Policy. This draft policy complied with the requirements under the LGPS Management and Investment of Funds Regulations 2016. The Responsible Investment Policy, if approved, would be deliverable by Local Pensions Partnership Investments (LPPI), the investment manager for the Fund.

Cllr Da Costa said that whilst we approve this statement now he would like to see Committee members involved in the discussion when it is reviewed later in the year and we also open it up to other voices. He wanted to have a collaborative approach.

Cllr Bond said after receiving the reports pack he attended an all party meeting on LGPS. He felt that a lot of this policy was now out of date and could have been consulted upon earlier.

Mr Cross mentioned that the Pension Board had also reviewed the document and agreed that it would need a review when more guidance had been issued. There was a need to balance people's interests and the Fund's return.

The Chairman said that this is a draft policy that can be used as a starting point to be evolved in the future.

Cllr Law agreed that this was an evolving document and requested that the Advisory group also be consulted on future versions. He was empathetic about ethical investment however it should be recognised that the main driver is returns for the Fund.

Cllr Kaiser mentioned that a lot of Council's were declaring environmental emergency and consideration to this should be given when making investments.

Cllr Bond said that the policy did have balance, instead of ethical investment we could talk about managing climate change risk and that the Lancashire fund was one of the top performing but also one of the lowest investors in fossil fuel.



Cllr Leake mentioned that the success of the green agenda will be technology lead. We have to make sure our financial obligations are not forgotten. The strategy should be reviewed in light of new guidance and industry developments.

Mrs Devitt mentioned that you could talk about building climate change resilience to ensure the portfolio is resilient and adaptable. Instead of ethical investment we now talk about engagement and escalation. We should focus on resilience.

**Resolved unanimously: that the Pension Fund Committee notes the report and:**

- i) Agrees a Responsible Investment Policy as drafted at Appendix 1.**

#### VOTING AND ENGAGEMENT POLICY

The Committee considered the report regarding the proposed Voting and Engagement Policy to be used by the Local Pensions Partnership Investments.

Ian Coleman, Interim Pension Fund Manager, informed that the Pensions Regulator expects pension funds to have a Voting and Engagement Policy. Such a policy forms an integral element of a Responsible Investment Policy. The Voting and Engagement Policy will have to be deliverable by Local Pensions Partnership Investments (LPPI), therefore, it is recommended that the committee approved adoption of the LPPI Shareholder Voting Policy.

Cllr Da Costa asked if we would be able to inform LPPI how we wish to vote. Mr Cross said that the Pension Board understood that LPPI could exercise the vote differently to the three clients views but as per previous item there should be some engagement.

Richard Tomlinson informed that LPPI would report back about voting after the event in regards to what voting had taken place. They took on board clients policies, but it would not be possible to consult prior to every vote. There were two parts engagement and voting, there engagement partners would be talking to companies in the equity portfolio.

**Resolved unanimously: that the Pension Fund Committee notes the report and:**

- i) Agrees a Voting and Engagement Policy as provided at Appendix 1.**

#### PENSION GOVERNANCE PROGRESS REPORT - PROGRESS UPDATE

The Committee considered the report regarding the update on the progress made on the independent report presented to Committee on 19 October 2020 into the governance arrangements of the Pension Fund. Progress against the recommendations were shown in appendix A and were on track.

Mr Cross mentioned that the Pension Board had approved the recommendations and were in the process of recruiting to the employee and trade union representatives.

Cllr Leake said that at section 6.1 under the risk table and asked why the uncontrollable risk was at medium. He was informed that if the scheme was not governed in line with legislation they could be action. It's not a high risk that returns would collapse but in the medium term there could be implications on the management of the fund. This will become a low risk with the changes being implemented.

**Resolved unanimously: that the Pension Fund Committee:**

- i) Notes the paper and progress matrix at Appendix 1.**

#### DELOITTE ISA260 PAPER FOR 2019-20 AUDIT

The Committee considered the report regarding the progress of the 2019-20 Pension Fund external audit.

Andrew Vallance, Head of Finance and Deputy Section 151 Officer, informed that there had been delays due to Covid and the evaluation of some assets due to late changes. The final version is due very soon and we should also have the annual audit letter to go to Audit and Governance in May 2021. Officers were still awaiting recommendations and when received an action plan will be implemented.

IN a response to a question from Cllr Da Costa it was noted that the external audit did not look at performance but governance issues.

**Resolved unanimously that: Pension Fund Committee:**

- i) Notes the report and external auditor's ISA260 paper at Appendix 1.**

### **ADMINISTRATION REPORT**

The Committee considered the latest administration performance report.

Philip Boyton, Pension Administration Manager, informed that report deals with the administration of the Pension Fund for the period 1 October 2020 to 31 December 2020. He highlighted the following points:

- Page 76, point 1.4 I-Connect connection. There was now 86% of scheme membership uploaded. The Academies, RBWM and Reading Council's. the drop for the aforementioned councils was due to a drop in resourcing due to the pandemic.
- Page 79, point 1.6, due to the pandemic the number of pension surgeries had dropped, arrangements were being made to have these held on line.
- Page 79 point 1.7 there had been a drop in website hits since RBWM changed its website provider. Hits were being reported differently then before so they were working with ICT.

In response from a question from the Chairman it was confirmed that following the McCloud judgement, reported at the last meeting, the work over the coming month would be resource intensive.

Cllr Da Costa mentioned that the pandemic had added pressures as well as the projects mentioned, he asked if the were resource issues if say all of Reading's data come in. in response the he was informed that the administration team had remained resilient and the administering authority had provided support. Reading were providing data monthly but not always in line with the SLA.

Mr Cross mentioned that the Pension Board had also discussed the late data from the two council's and had been informed that the data was a day late but provided in full.

**Resolved unanimously: that the Committee notes the report and:**

- (i) All areas of governance and administration as reported.**
- (ii) All key performance indicators.**

### **BUSINESS PLAN 2021/22**

The Committee considered the proposed Pension Fund Business Plan for 2021/22 and medium term strategy for 2022 to 2025.

Cllr Da Costa asked if it would be possible to include elements of the BSG in the investment policy. He was informed that the Pension Board had mentioned that the plan was heavily weighted to administration so there would be room to add more on investment side.

The Chairman said that he saw this as a report about the administration of the Fund and not investment as this was in the Investment Strategy.

Cllr Da Costa asked if we had a work programme picking up work other the next few months. He was informed that there was the risk register and this document was an evolving plan that picked up addition bits of work that come in such as the pension cap. A Pension Committee forward plan could be developed.

**Resolved unanimously: that the Pension Fund Committee notes the report and:**

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

### **PUBLIC SECTOR EXIT PAY REFORM**

The Committee considered the report regarding the update to the Public Sector Exit Payment Reform.

Kevin Taylor, Pension Services Manager updated the Committee on the £95,000 exit cap. He said the Treasury had issued the revocation of the regulations at the end of the previous week; prior to that, guidance to employers and scheme members relating to the disapplication of the exit cap had also been issued. The revocation meant the Berkshire Pension Fund would be able to continue to pay full benefits to scheme members aged 55 and over who had been made redundant or retired for reasons of business efficiency, while expecting the employer to pay the full strain cost. Members were told the policy whereby scheme members could either reduce or defer pension payments, which had been approved by the Committee in December, was now void as a result of the Treasury implementing the revocation regulations.

There had been no cases where we had to pay reduced pensions or given deffered benefits. There were a few ongoing but these will refer back to the previous position.

**Resolved unanimously: that the Committee noted the report.**

### **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 4.00 pm, finished at 6.40 pm

CHAIRMAN.....

DATE.....

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Report Title:	<b>Employer flexibilities</b>
Contains Confidential or Exempt Information	No - Part I
Cabinet Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel.
Meeting and Date:	14 June 2021
Responsible Officer(s):	Kevin Taylor, Pension Services Manager
Wards affected:	None



## REPORT SUMMARY

The government amended the Local Government Pension Scheme (LGPS) Regulations 2013 in September 2020 introducing new powers for administering authorities to review employer contributions, spread exit payments and set up Deferred Debt Agreements (DDA) referred to as 'Employer Flexibilities'.

This report sets out the administering authority's responsibilities with regard to the amended LGPS Regulations and provides draft policies in the attached appendices.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That Committee notes the report and:

- i) Approves the policies set out in the appendices to the report; and
- ii) Authorises Officers to correct any identified typographical errors and consult with scheme employers regarding the content of the policies as agreed.

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

- 2.1 The LGPS, the Berkshire Pension Fund included, has a large and diverse employer base covering both public and private sector employers. As a result, employers join and leave the scheme every year and the circumstances of employers may change significantly between valuations, affecting both funds and employers.
- 2.2 For some employers, a significant issue has been the cost of exiting the Scheme, which can be prohibitive. Prior to September 2020, the LGPS Regulations 2013 required an exit payment to be made when the last active member of a Fund employer left the Scheme, or an employer otherwise ceased to be an employer in the Fund, and the employer was in deficit at the time of their exit. The introduction of deferred employer status allows an administering authority to defer the triggering of an exit payment for a Fund employer where the authority deems this appropriate, has had regard to actuarial advice and has set out its policy in its Funding Strategy Statement. While this arrangement is in place, deferred employers will continue to pay contributions to the Fund as required by the administering authority, as revised from time to time following actuarial valuations. Additionally, a new alternative

power of spreading an exit payment allows an administering authority to recover an employer's exit payment over a period of time. This may be of use where an administering authority does not consider that granting deferred employer status is in the interests of the Fund and other employers.

- 2.3 Administering authorities and employers may also face issues created by changes in the circumstances of employers. The contribution rates of Fund employers are normally assessed and set at Fund valuations, every three years. Administering authorities, working with their actuary, will consider a variety of factors in setting an employer's contribution rate during valuations. But there may be significant changes between Fund valuations, for example due to a change in covenant strength or workforce composition following a reorganisation. The September 2020 Regulations broaden the circumstances in which an administering authority may amend an employer's contribution rate between valuations to cover the following situations:
  - 2.3.1 where it appears likely to the administering authority that the Fund employer's liabilities have changed significantly since the previous valuation,
  - 2.3.2 where it appears likely to the administering authority that there has been a significant change in a Fund employer's ability to meet their statutory obligations (e.g. payment of employer contributions), or
  - 2.3.3 where a Fund employer has requested a review and undertaken to meet the costs of that review.
- 2.4 The introduction of the new powers is intended to help administering authorities manage their liabilities, ensuring that employer contribution rates are set at an appropriate level and that exit payments are managed, with steps taken to mitigate risks, where appropriate.
- 2.5 Whilst there is no requirement on an administering authority to use any of the new powers, the amendments to the LGPS Regulations 2013 made by the 2020 Regulations require that an authority may do so only where it has set out its policy in its Funding Strategy Statement (FSS). This is to ensure consistency and transparency.
- 2.6 Statutory guidance on the FSS, produced by CIPFA, requires administering authorities to identify the risks that inevitably arise from managing employers including many private sector providers whose covenants may vary in strength. As set out in the CIPFA guidance, the purpose of the FSS is to document the processes by which the administering authority establishes a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward. Any policies on the use of the new powers that administering authorities may wish to include should be guided by this over-arching purpose.
- 2.7 The input of the Fund actuary is important in reviewing and setting the FSS and associated policies. Officers have engaged with the actuary and the proposed amendments to the existing FSS, employer contribution and employer exit policies can be found in appendices 1 to 3 to this report.

### **3. KEY IMPLICATIONS**

- 3.1 In developing new policies for inclusion in their funding strategy statement (FSS) and in using the new powers the administering authority should aim to ensure:
  - 3.1.2 consistent use of any new policies in relation to all employers within the Fund, and that
  - 3.1.3 the process of applying any new policies is clear and transparent to all Fund employers.
- 3.2 The FSS is a high-level statement of an administering authority's approach to funding strategy. It must be kept under review and revised whenever there is a material change in the authority's policy on the matters covered by the document. However, supporting information or detail may be set out elsewhere, rather than in the FSS itself, in order to avoid frequent minor changes. Where authorities choose to do this, clear and up to date links to and means of accessing such documentation or information should be included.
- 3.3 The administering authority is also required to consult persons they consider appropriate on any material changes to the FSS. Given the potential impact on fund employers resulting from the use of the new powers to manage and mitigate employer risk, it is expected that all Fund employers would be considered as appropriate for this purpose and included in consultation on changes to the FSS.
- 3.4 When deciding whether to make use of any of the new powers in relation to a specific employer, the administering authority should consider that employer's views, but without prejudice to the administering authority's ultimate decision-making responsibility.
- 3.5 The administering authority should ensure that, where it has utilised the powers contained in the new Regulations, appropriate records are held to ensure that these arrangements can be effectively audited for compliance.

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

- 4.1 Whilst the administering authority does not have to make use of the new powers now contained within the LGPS Regulations, failure to do so could result in financial loss to the Fund and additional costs being incurred by certain Fund employers.

### **5. LEGAL IMPLICATIONS**

None

### **6. RISK MANAGEMENT**

- 6.1 Fund employer risk is a key part of managing Fund liabilities and so whilst not statutorily required to use the new powers offered under the amendment LGPS

Regulations, the administering authority would be at greater risk of Fund employers being unable to meet the cost of their statutory liabilities by not adopting the revised and new policies recommended in this report.

## **7. POTENTIAL IMPACTS**

- 7.1 Equalities. Equality Impact Assessments are published on the [council's website](#). N/A
- 7.2 Climate change/sustainability. N/A
- 7.3 Data Protection/GDPR. N/A

## **8. CONSULTATION**

- 8.1 Fund employers once policies have been reviewed and approved by Committee.

## **9. TIMETABLE FOR IMPLEMENTATION**

Immediate.

## **10. APPENDICES**

- 10.1 This report is supported by 3 appendices:

- Appendix 1 - Tracked revised Funding Strategy Statement
- Appendix 2 – Employer contribution policy
- Appendix 3 - Deferred Debt Agreement (DDA) and Debt Spreading Agreement (DSA) policies.

## **11. BACKGROUND DOCUMENTS**

- 11.1 This report is supported by 0 background documents:

## **12. CONSULTATION (MANDATORY)**

<b>Name of consultee</b>	<b>Post held</b>	<b>Date sent</b>	<b>Date returned</b>
Cllr Julian Sharpe	Chairman Berkshire Pension Fund Committee		
Adele Taylor	Executive Director of Resources/S151 Officer		
Andrew Vallance	Head of Finance		
Ian Coleman	Interim Head of Pension Fund		

## **REPORT HISTORY**

<b>Decision type:</b>	<b>Urgency item?</b>	<b>To follow item?</b>
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Pension Fund Committee decision	Yes/No	Yes/No
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Report Author: Kevin Taylor, Pension Services Manager, 07792 324393
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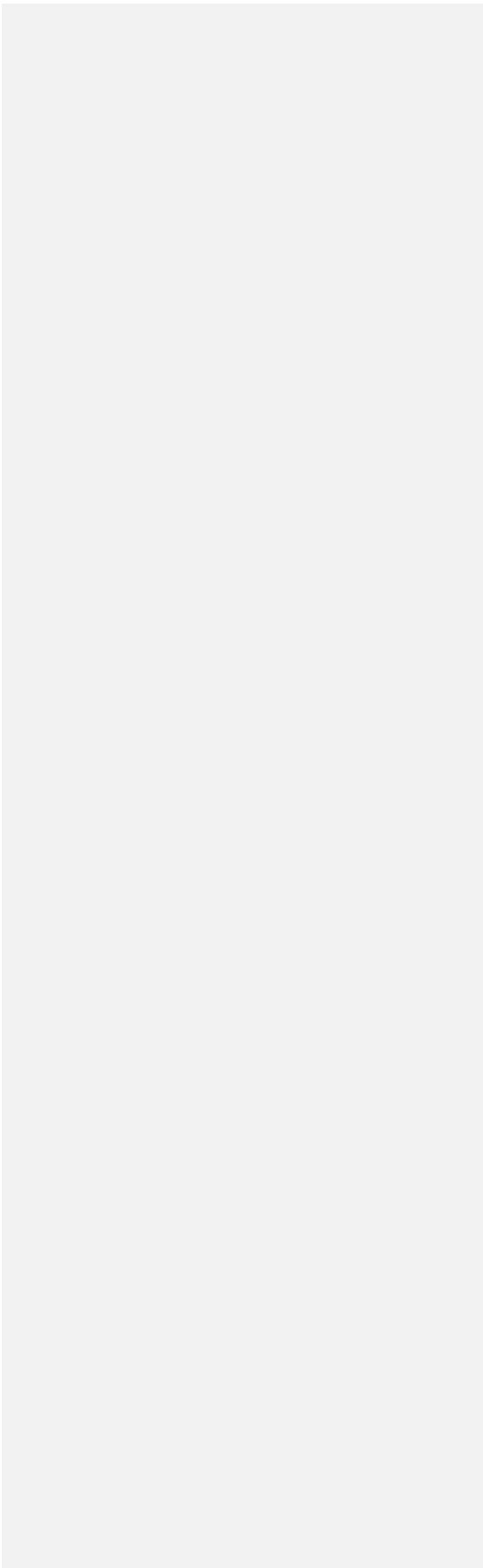


## FUNDING STRATEGY STATEMENT



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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).

### *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 all future benefit payments from 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 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*



2.2 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 31<sup>st</sup> March 2019 with the assets of the Fund found to be 78% 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 valuation, CPI was assumed to be 1.0% per annum lower than RPI, giving a CPI inflation assumption of 2.6% per annum.

3.12 This assumption was reviewed following the Chancellor's November 2020 announcement on the reform of RPI and is now assumed to be 0.4% p.a. lower than the 20 year point on the inflation curve. This change will be fully reflected in the ongoing funding assumptions from 31 December 2020. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns. This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.



### *Future Pay Inflation*

**3.4213** As benefits accrued before 1<sup>st</sup> April 2014 (and in the case of some protected members after 31<sup>st</sup> March 2014) are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. The assumption adopted in the 2019 valuation is that pay increases will, on average over the longer term, exceed CPI by 1.0% per annum.

### *Future Pension Increases*

**3.4314** Pension increases are assumed to be linked to CPI. [Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.](#)

[This assumption was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above. From 31 December 2020 CPI inflation is assumed to be 0.4% p.a. lower than the RPI assumption \(i.e. a total of 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve\). This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change how RPI is calculated to bring it in line with the Consumer Prices Index including Housing costs \(CPIH\). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.](#)

### *Future Investment Returns/Discount Rate*

**3.4415** 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.

**3.4516** 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 2019 valuation was set to be 0.7% p.a. This gave a discount rate of 5.3% per annum for all employers.

**3.4617** 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.



3.4718 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

3.4819 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*

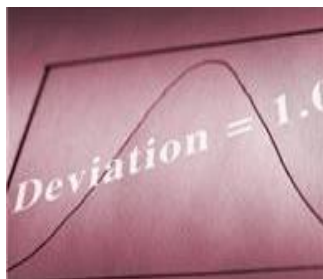
3.4920 The asset valuation is a market value of the accumulated Fund at the triennial valuation date adjusted to reflect average market conditions during the 6 months straddling the triennial valuation date.

#### *Statistical Assumptions*

3.2021 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 2019 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*

3.2422 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 2019 valuation, a deficit was revealed and contributions were set to recover this deficit over a period no longer than 21 years.

3.2223 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.

3.234 At the 2019 triennial valuation the period adopted to recover the deficit was:

Type of Scheme Employer	Maximum Length of Recovery Period
Unitary Authorities and Associated Employers	21 years
Housing Associations	11 years
Colleges (excluding the University of West London)*	8 years
Academies	12 years
Community Admission Bodies	11 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

3.2425 Where a Scheme employer's contribution has to increase significantly then the increase may be phased in over a period not exceeding 3 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*

3.2526 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.

3.2627 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.

3.2728 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



3.2829 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.

3.2930 Prior to the 2016 valuation the Fund had a pool for the Housing Associations which has been disbanded due to only two employers remaining in the pool following one employer exiting 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*

**3.3031** 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.

### *New Academies*

**3.3132** 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.

### Contribution reviews between actuarial valuations

- 3.33 It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.
- 3.34 A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:
- (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
  - (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
  - (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.
- 3.35 Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out in the Fund's separate [Contribution review policy which can be accessed here](#). This includes details of the process that should be followed where an employer would like to request a review.
- 3.36 Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.
- 3.37 Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.
- 3.38 With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

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### Cessation Valuations

- 3.3239 On the cessation of a Scheme employer's participation in the Fund, the Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the Scheme employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the Scheme employer will transfer within the Fund to another participating Scheme employer.

3.340 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*

3.341 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.

#### *Managing exit payments*

3.42 Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering



authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

- 3.43 Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.
- 3.44 Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.
- 3.45 Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.
- 3.46 Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document [here](#). This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

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#### Bulk transfers

- 3.472 Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.
- 3.483 The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).
- 3.494 A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

#### Consolidation of Multi Academy Trusts (MATs)

- 3.5045 Where an academy is transferring into or out of the Fund as part of a MAT consolidation exercise, the Fund generally expects that this will proceed through a Direction Order from the Secretary of State. In these situations and subject to the terms agreed between the Fund Actuary to both LGPS Funds, typically all the assets attributable to the academy in the ceding Fund are transferred to the receiving Fund.
- 3.5146 The Fund's preference would be for any transfer to include all members, including deferred and pensioner members. Should a situation arise where an academy is transferring out of the Fund and only active members are transferring, the Fund would seek to retain a level of assets to be at least sufficient to fully fund any deferred and

pensioner members left behind, as measured by the Fund's ongoing funding basis at the transfer date.

3.5247 Where the academy is transferring into the Fund, where appropriate, the academy will become part of the Fund's Academy pool. However, the Fund would not accept a transfer in which would lead to a deterioration in its overall funding level, and in particular as a minimum receive a transfer amount that was no less than the equivalent individual CETVs for the transferring members, based on Government Actuary factors in force at the transfer date. The agreed basis of transfer could take into account the funding basis of the Fund and a top up payment could be made to ensure the Fund would not be significantly worse off or be subject to an unacceptable level of risk.

### *Early Retirement Costs*

3.35348 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.



3.3554 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*

3.36545 The next triennial valuation is due as at 31<sup>st</sup> March 2022.

## **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 0.5% of payroll.



- 5.4 The Pension Fund Committee 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 2016 to 2019 such monitoring activity saw investment returns higher than assumed in the 2016 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.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. 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 23 March 2021, the government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching SPA beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found at: <https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation>.

~~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

- 5.15 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.

5.16 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.

5.17 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: 14 June 2021

Next Review date: June 2022



## EMPLOYER CONTRIBUTION REVIEW POLICY

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## Introduction

This document sets out The Royal County of Berkshire Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.

The Royal County of Berkshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, The Royal Borough of Windsor and Maidenhead, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rates and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

## The review process

The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

### Timeline where initiation is made by the administering authority

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the Triggering a contribution review section), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 28 days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 3 months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

### Timeline where initiation is made by the Scheme employer

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review section.

The administering authority will aim to provide a response to the Scheme employer within 28 days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

## Responsibility of costs

Where the review of contributions has been initiated by the administering authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

## Triggering a contribution review

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

- (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

### (i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of staff
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform the administering authority of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the administering authority may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

### (ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution

- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the administering authority due to behaviour by a Scheme employer's, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the administering authority over a significant period of time.

The administering authority monitors the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority will commission an employer risk review report from the Fund Actuary on a regular basis. Through this analysis, the administering authority can identify any Scheme employers that might be considered as high risk and whether any Scheme employers have had a significant change in riskiness. This in turn may affect the administering authority's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

### (iii) request from the Scheme employer for a contribution review

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Any requests not arising from either of these conditions will not be considered by the administering authority.

Requests by a Scheme employer are limited to one review per calendar year.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored in to the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next rates and adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

### Information required from the Scheme employer

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:
  - Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
  - The most recent annual report and accounts for the Scheme employer
  - The most recent management accounts
  - Financial forecasts for a minimum of three years
  - The change in security or guarantee to be provided in respect of the Scheme employer's liabilities

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis.

## Assessing the appropriateness of a review

The following general considerations will be taken into account by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required, and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case by case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process is set out later in this document

### Appropriateness of a review due to change in liabilities

This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the administering authority's assessment of the ability of the Scheme employer to meet its obligations.

### Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist

- The perceived change in the value of the indemnity to the administering authority, relative to the size of the Scheme employer's liabilities

It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case by case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.



## Method used for reviewing contribution rates

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

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

	General approach
Member data	<p>In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point.</p> <p>In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment.</p> <p>Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.</p>
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.

Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Funding target	The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.
Surplus/deficit recovery period	The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.

The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the administering authority and the Fund Actuary.

## Appeals process

In the event of any dispute relating to this policy and the administering authority's use of the new powers set out in The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020, Scheme employers will have a right of appeal under the 'normal' Internal Dispute Resolution Procedures (IDRP) as set out in Regulations 74 to 79 of the LGPS Regulations 2013. A guide to the IDRP process along with an application form can be found [here](#). (Please note the process will be adapted to account for the nature of the appeal being made by a Scheme employer as opposed to being made directly by a Scheme member).

### General Principles

A Scheme employer may appeal against any decision taken by the administering authority to change, amend or update their employer contribution rate at any time in line with this policy. The administering authority will have regard to the following principles at all times:

- (i) The process and any amendments to the appeals process will be subject to consultation with employers;
- (ii) The appellant will be granted a reasonable period to make any appeal following a decision by the administering authority in order to prepare the basis of their appeal;
- (iii) The process, including the timescales and requirements for evidence will be easily accessible, clearly signposted and transparent; and
- (iv) Any review of a decision will be considered independently from those directly involved in the original decision.

In making an appeal, the Fund employer will be required to evidence one of the following:

- (i) A deviation from the published policy or process by the administering authority that has led to their appeal; and/or
- (ii) Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the administering authority.

Approved by the Pension Fund Committee:

Date of next review:



## DEFERRED DEBT AND DEBT SPREADING AGREEMENT POLICIES

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## Introduction

This document sets out The Royal County of Berkshire Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

The Royal County of Berkshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement.

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

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

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

This policy document sets out the administering authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

## Approach for exiting employers

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The administering authority makes the exiting employer aware an exit payment is due by providing a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's Funding Strategy Statement (FSS).

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 21 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 28 days as per the Fund's Pension Administration Strategy.

Where possible, the administering authority encourages employers who are approaching exit and suspect they will have a deficit to engage with the administering authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

## Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then perhaps a suspension notice may be more appropriate;
- the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;

- the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pensions risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;
- the employer has ample resources to make the payment within the near future but not immediately; and/or
- the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

### Managing of costs

On receiving a request the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up-to-date with any increases. The administering authority will provide information on how and when payments should be made.

### Internal dispute resolutions

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from the employer, please refer to the Fund's internal dispute resolution procedures document which is available from the Pension Fund's [website](#).



# Deferred Debt Agreements (DDAs)

## Entering into a DDA

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

### Information required from the employer

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

### Assessing the proposal

The administering authority will make a decision on whether to enter into a DDA within 21 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

### Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the administering authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;

- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

## Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.

The administering authority will monitor a DDA in the following ways:

### Changing funding position

The administering authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

### Changing employer covenant

The administering authority monitors the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority commissions an employer risk review report from the Fund Actuary each actuarial valuation cycle which includes obtaining credit ratings from credit rating agencies.

Once an employer enters into a DDA, the administering authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

### **Timeliness of payments**

The agreement will set out whether payments are made on a monthly or annual basis, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

### **Strength of guarantee or security**

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

### **Notifiable events from the deferred employer**

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

## **Terminating a DDA**

### **Events that may terminate a DDA**

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrolls new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

### **Process of termination**

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out

the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's FSS.

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable as determined by the administering authority and in line with the Fund's exit credit policy.

# Debt Spreading Agreements (DSAs)

## Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

### Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

### Assessing the proposal

The administering authority will make a decision on whether to enter into a DSA within 21 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

### Setting up a DSA

The administering authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 14 days of agreeing the structure of the schedule of payments with the exiting employer.

### Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there



is a change in the exiting employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

### **Changing employer covenant**

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

### **Timeliness of payments**

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

### **Strength of guarantee or security**

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

### **Notifiable events from the exiting employer**

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

## **Terminating a DSA**

### **Events that may terminate a DSA**

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.



In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

### Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a deferred debt agreement.

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

Approved by the Pension Fund Committee:

Date of next review:

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Report Title:	<b>Deloitte ISA 260 Final Report for 2019-20 audit and Planning Report for 2020-21 Audit</b>
Contains Confidential or Exempt Information	No - Part 1
Lead Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee and Advisory Panel – 14 June 2021
Responsible Officer(s):	Andrew Vallance, Head of Finance and Deputy Section 151 Officer
Wards affected:	None



## REPORT SUMMARY

This report presents to Members an update on the progress of the 2019-20 Pension Fund audit and a planning report for the 2020-21 Fund audit.

Deloitte's ISA260 paper as presented to the Audit and Governance Committee on 17 May 2021 can be found at Appendix 1. An action progress matrix can be found at Appendix 2. The planning report for the 2020-21 audit can be found at Appendix 3.

### 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That the Pension Fund Committee:

- i) Notes the report
- ii) The external auditor's final ISA260 report at Appendix 1
- iii) The action progress matrix at Appendix 2
- iv) The planning report for the 2020-21 audit at Appendix 3.

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

- 2.1 The Royal Borough of Windsor & Maidenhead (RBWM) is the administering authority for the Royal County of Berkshire Pension Fund (RCBPF).

### 3. KEY IMPLICATIONS

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of Delivery
Date when accounts are published, the audit opinion and the number of	Published later than 30 Sept' or receive a qualified opinion or > 5	Published on or before 30 September With an unqualified opinion	Published on or before 30 September with an unqualified opinion	n/a	30 September 2020

changes required by auditors	material changes	and 1-4 material changes.	and no changes.		
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#### **4. FINANCIAL DETAILS / VALUE FOR MONEY**

- 4.1 The accounts and ISA260 were presented to the Audit and Governance Committee on 17<sup>th</sup> May 2021.
- 4.2 The final ISA260 report is attached as Appendix 1.

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

- 5.1 In producing, reviewing, auditing and approving the accounts the Council is meeting its legal obligations

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

- 6.1 Table 1: Risk Analysis

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
Possibility of qualified vfm statement	Medium	Update for issues arising during audit	Low

#### **7. POTENTIAL IMPACTS**

- 7.1 Equalities: Equality Impact Assessments are published on the [council's website](#) . N/A
- 7.2 Climate change/sustainability: N/A
- 7.3 Data Protection/GDPR. N/A

#### **8. CONSULTATION**

- 8.1 N/A

#### **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 Ongoing.

#### **10. APPENDICES**

- 10.1 This report is supported by 1 appendix:
- Appendix 1 – Deloitte final ISA260 report

- Appendix 2 – Action progress matrix
- Appendix 3 – Deloitte planning report for the 2020-21 audit

## 11. BACKGROUND DOCUMENTS

11.1 This report is supported by 0 background documents:

## 12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee		
Adele Taylor	Director of Resources and Section 151 Officer		
Ian Coleman	Interim Pension Fund Manager		

## REPORT HISTORY

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

Report Author: Andrew Vallance, Head of Finance and Deputy s151 Officer
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## **Royal County of Berkshire Pension Fund**

Final report to the Audit & Governance Committee for the year  
ended 31 March 2020

Issued on 11 May 2021 for the meeting on the 17 May 2021

**Deloitte Confidential: Government and Public Services – For Approved External Use Only**

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# Introduction

## The key messages in this report

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.

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We have pleasure in presenting our final report to the Audit & Governance Committee of Royal Borough of Windsor & Maidenhead (the "Committee") for the 2019/20 audit of the Royal County of Berkshire Pension Fund (the "Fund"). The scope of our audit was set out within our planning report presented to the Corporate Oversight & Scrutiny Panel in May 2020.

### **Status of the audit – Pension Fund**

At the date of issue of this report, our audit of the pension Fund for the year ended 31 March 2020 is nearing completion. We have set out on page 4 the procedures that are in progress. Responses have been provided for all IAS 19 requests from auditors of other Fund employers, including two late requests for 2018/19 for Reading Borough Council and Slough Borough Council. Following the conclusion of some of the issues outstanding at the date of our previous report, and at the request of these auditors, we are in the process of reissuing letters in respect of the 2019/20 requests.

Significant changes have been made to the audit timetable we presented in our planning report as a result of delays experienced in receiving information from the Fund and its third party service organisations across many key areas of testing. Some of the delays were the result of the COVID-19 pandemic. Where delays were due to weaknesses in governance or controls, we have included our comments on this within the control observations and other findings section of the report.

The investment manager, Local Pensions Partnership ("LPP"), has found it difficult to obtain and provide some of the requested information for our testing of the alternative investment funds. This included audited financial statements of the funds, without which it was not possible for us to conclude on our testing. We have now received all the information we require in respect of the alternative investments.

On investigation, the alternative investment portfolio was materially overstated in the draft financial statements by £31.5m. This was due to the use of stale valuations that had not been adjusted to reflect the negative performance experienced by many funds during the first quarter of 2020 as a result of COVID-19. This is the second year we have performed the audit of the Fund and we have identified material misstatements in both years (£74.5m overstatement in 2018/19). We therefore draw your attention to the high priority recommendations on pages 8 to 13.

Following the receipt of the draft financial statements for the Fund as at 31 March 2020, we revised our materiality from £14.5m to £20.3m. The initial materiality calculation had been based on an estimate that net assets would be 70% of what they were at 31 March 2019, as an estimate of the potential effect of COVID-19 on investment values. In contrast, the draft reporting for 2019/20 showed a much higher net asset balance than predicted. Our reporting threshold has also been updated from £0.3m to £1.02m, which is in line with our revised materiality.



# Introduction

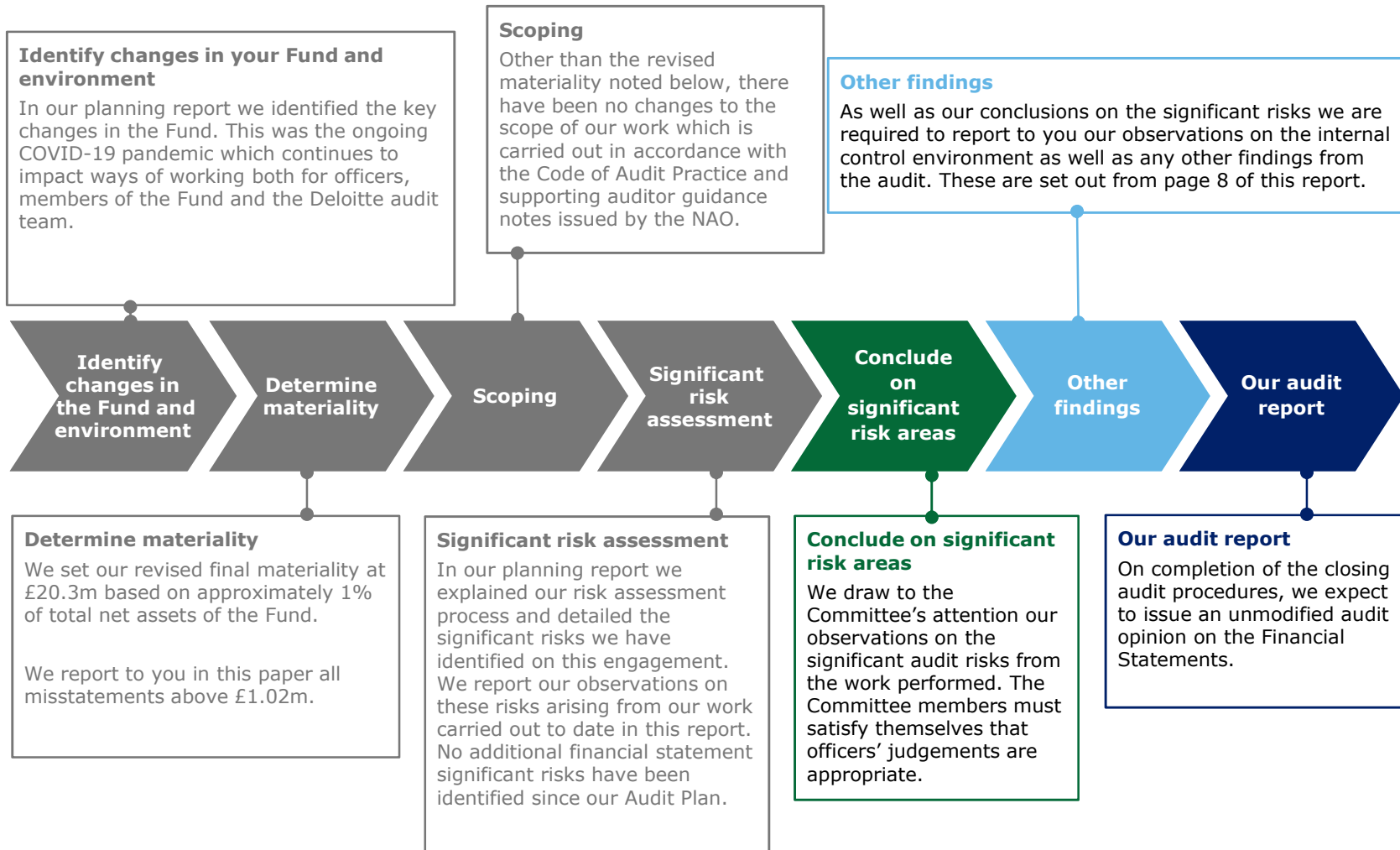
## The key messages in this report (continued)

<b>Conclusions from our testing</b>	<p>We have set out a summary of misstatements and disclosure deficiencies identified on pages 19 and 20 of this report. The main adjusted misstatement relates to the overstatement of alternative investments as noted above. The corrected disclosure misstatements relate to an undisclosed material uncertainty of property fund valuations and an undisclosed related party transaction of an overnight loan of £1.2m made by the Fund to the Royal Borough of Windsor and Maidenhead ("the Authority"). There is an uncorrected disclosure misstatement relating to the absence of an adjustment to the IAS 26 disclosure to account for the expected impact of the Goodwin case on the Fund's future liabilities.</p> <p>We note that following consideration of the permissibility of the overnight loan and the associated control weakness, the Fund has reported the issue to the Pensions Regulator. More details are provided on page 11.</p>
<b>Audit procedures outstanding</b>	<p>The following audit procedures are ongoing at the time that this report was released:</p> <ul style="list-style-type: none"><li>• Receipt of evidence of one bank payment authorisation;</li><li>• Finalisation of our internal quality review procedures;</li><li>• Update of our subsequent events procedures; and</li><li>• Receipt of the signed representation letter.</li></ul>
73 <b>Management representations</b>	<p>We will obtain written representations from the Section 151 Officer on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the representation letter has been issued ahead of signing the financial statements.</p>
<b>Audit fee</b>	<p>As explained in our 2019/20 fee letter, our audit fee is based on assumptions about the scope and required time to complete our work. For the reasons set out above, our audit was not concluded by the original 31 July deadline, or the extended 30 November deadline, and it has required substantial further input. The audit has also required additional procedures in response to COVID-19. We continue to discuss the impact on the audit fee with the Authority and Public Sector Audit Appointments ("PSAA"). The final fee amount will be communicated to the Committee.</p>

# Our audit explained

## We tailor our audit to your organisation

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# Significant risks

## Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override of controls is always a significant risk. This risk area includes the potential for officers to use their judgement to influence the financial statements as well as the potential to override the Fund's controls for specific transactions.

### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Fund's draft financial statements were overstated by approximately £31.5m due to the inclusion of 55 alternative investment funds at values that had not taken account of the impact of COVID-19 on performance.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### *Significant and unusual transactions*

We note that the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. We have seen no evidence that the loan was authorised by the Fund. A control weakness has been noted on page 11 and the matter has been reported to the Pensions Regulator. We have not identified any other significant transactions outside the normal course of business nor any transactions where the business rationale was not clear in the current year.

### *Journals*

We have performed design and implementation testing of the controls in place for journal approval. We also performed an assessment of the mandates in place for the transactions with the custodian and with the Fund's bank account.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. This included consideration of related party transactions.

We have tested the appropriateness of a sample of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting, including making enquiries of individuals involved in the financial reporting process.

### *Accounting estimates*

We have performed a review of the accounting estimates.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest.

We have reviewed the draft financial statements' accounting estimates for biases that could result in material misstatements due to fraud.

We also considered the impact of COVID-19 on the level of risk associated with potential frauds and adjusted our procedures accordingly.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources. The findings from our work on the longevity swap valuation are included on page 7 of this report.

### Issues identified

- We have identified control deficiencies, set out on pages 8 to 13;
- Other than the undisclosed loan noted above, we have not identified any significant bias in the key judgements made by officers based on work performed; and
- We have not identified instances of management override of controls in the current year in our work to date.

# Significant risks (continued)

## Valuation of the longevity hedge

### Risk identified

The Fund holds a material longevity insurance policy to hedge longevity risk. A longevity hedge is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. Valuation of longevity hedges are sensitive to relatively small movements in the key assumptions used in the actuarial calculations. The setting of these assumptions involves judgement. The longevity hedge was valued as a liability of £103.8m in the 2018/19 Statement of Accounts and £121.8m in the 2019/20 Statement of Accounts presented for audit and is therefore quantitatively material. As a result of this we consider the valuation of the longevity hedge to be a significant risk.

### Key judgements and our challenge of them    Deloitte response

The Fund's practice is to obtain a valuation from the Fund's actuary as at each year end. The actuary also reviews the assumptions relating to the overall Fund's liability on a triennial basis. The most recent triennial valuation was completed as at 31 March 2019.

During the audit the balance was revised by £2.08m (initial draft liability was £123.9m) due to the actuary issuing an updated report.

Key judgements include:

- The discount rates used in discounting the estimated cash flows associated with the instrument; and
- The mortality improvement assumptions.

We have:

- Performed an assessment of the actuarial expert in respect of their knowledge and experience in this area;
- Identified an absence of the review control that we recommended in our 2018/19 audit report with respect to the valuation of the longevity swap;
- Tested the design and implementation of the valuation review control in place at the actuary;
- Obtained a valuation report directly from the actuary and reconciled this to the financial statements disclosure;
- Reviewed 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;
- Engaged 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
- Compared 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.

### Deloitte view

Following review by our internal specialists we conclude that the assumptions used are in line with the market and that the value included in the financial statements is within an acceptable range based on the present value of the cash flows provided.

It is recommended that the actuary:

- monitors the mortality experience of the swap and tests the ongoing appropriateness of assuming the base mortality is in line with the pension Fund assumptions.
- continues to perform an Analysis of Change which will provide an additional layer of control on the results.
- challenges the premium schedule inputs from ReAssure (counterparty) should they change unexpectedly as this will provide an additional layer of control on the results.

We have identified a **control weakness** in this area and made recommendations for management to consider when valuing the longevity hedge in future. Our recommendations have been summarised from page 8.

# Control observations

During the course of our audit we have identified internal control findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit to date and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant deficiencies we identify during the conclusion of our audit work in our final audit report.

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Area	Observation
<b>Valuation of the longevity swap</b>	<p>In our final report on the 2018/19 audit, we recommended that the Authority 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. Discussions with officers of the Fund during the 2019/20 audit revealed that, while the longevity swap valuation had been discussed with Barnett Waddingham, there was no formal control design documented and no recorded evidence of implementation of the control. We have been informed that the discussion with Barnett Waddingham took place after inclusion of the valuation in the financial statements.</p> <p>This is a significant control weakness and we recommend that the Authority 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. We recommend that evidence of this review and assessment is clearly documented.</p>
<b>Valuation of the convertible bond</b>	<p>In our final report on the 2018/19 audit, we recommended that the Authority ensures that the valuation of all bespoke investments is understood by the investment manager and that controls are designed and implemented to ensure an appropriate challenge is made of valuations received from any service organisation. In the current year the fair value of the bond included in the draft financial statements was very close to the final value in the 31 March 2019 financial statements. The value presented in the draft financial statements was £2.3m (2018/19: £2.2m), but given the complexity involved in valuing this instrument, we made enquiries of the Fund to ensure that there was an evidence-based rationale for this value. On investigation it was noted that there was no formal support for the decision to leave the value unchanged in the draft financial statements and no evidenced-based rationale had been prepared. Following discussions with management, a paper was provided by the investment manager to support the valuation decision.</p> <p>We recommend that the Committee ensures that the valuation of all bespoke investments is understood by the investment manager before completion of the draft financial statements, and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organisation. We recommend that evidence of this review and assessment is clearly documented.</p>

## Control observations (continued)

Area	Observation
<b>Valuation of the private equity portfolio and other alternative funds</b>	In our final report on the 2018/19 audit, we recommended that the Authority review the terms and conditions of its relationship with all investment service providers and seek assurance that controls are in place to ensure that the most recent audited financial statements of each investment fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. Our standard testing approach for alternative investment funds includes obtaining the most recent audited financial statements of the investment fund along with information about capital committed and any capital transactions that occurred since the date of the audited financial statements. Obtaining the specific information we require and receiving this in a timely manner has continued to be difficult during the current year audit and we have experienced delays. This had a direct impact on the progress of this testing. It also continues to indicate the absence of robust controls around the management of these funds. We are aware that the Fund has taken steps to better understand the processes, controls and responsibilities of the investment service providers and that consideration is being given to how best to address this finding.
	Testing in the 2019/20 year audit revealed that the alternative funds were overstated in the draft financial statements by approximately £31.5m. This error was adjusted in the final financial statements. In discovering and resolving this misstatement it was noted that there was no process or control in place to determine the valuation of stale price funds as at the year end, or to update the financial statements if new information came to light before they were signed.
	These matters represent significant control weaknesses. We recommend that the Fund continues to review the terms and conditions of its relationship with all investment service providers and takes steps to ensure that controls are in place such that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. We recommend that the Fund also ensures that controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used in the draft financial statements and that material changes to the investment balances that come to light before signing are reflected in the financial statements. Where the Fund does not have the appropriate resource within its staff, it should provide clear instructions to LPP or the custodian to perform the processes and controls required.
<b>Retrospective review of investment decision making</b>	In our final report on the 2018/19 audit 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. This was to include an historic review of the arrangements with respect to the specific assets that were adjusted significantly to identify the lessons that can be learned and to embed this learning into the new arrangements. The outcome from these reviews was to be reported to both the Corporate Oversight & Scrutiny Committee and the pension Fund Panel. We note that the scope of the work did include these considerations and that the final report was provided to the Authority in July 2020.

## Control observations (continued)

Area	Observation
Review of financial statements	<p>The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings. We also noted that for the 2019/20 financial statements there was no evidence of a formal review and, at the time of testing this control, there was a lack of awareness of any review process. Furthermore, there was no evidence that the CIPFA checklist had been used in the accounts preparation process, or in any review that may have taken place. This weakness in control increases the likelihood of misstatements in the financial statements.</p>
	<p>We recommend that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p>
79	<p>The design of the control for review of journal postings does not include a formal description of the review process. There was no clear evidence available that a review took place over journal postings for a month selected. We also noted that some of the monthly investment posting updates did not occur within a reasonable timeframe. Furthermore, during journal testing it was noted that there were multiple errors in original journal postings that had to be adjusted in subsequent journal entries. This suggests that any control implemented over journal review was deficient.</p>
	<p><b>Review of journals</b></p> <p>Given that management override of controls is a significant risk of material misstatement and that we use journals testing to detect fraud and error, it is critical that this control weakness is addressed. We recommend that the design of the journal posting review control is amended to include a well defined scope, for example a checklist. We also recommend that it is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p>
<b>Administration system editing rights</b>	<p>From the work performed on controls around member data, we noted that the system super-users have the access rights to edit their own member records and those of each other. Whilst any editing of the system can be reviewed in a system audit report, there is no formal regular review of this editing activity and no evidence was available of any other mitigating controls. On review of the system audit report for a two year period ended 31 March 2020, it was noted that both super-users had edited either their own or the other super-user's records. We performed additional procedures to determine if any of this activity had resulted in an alteration to the records that was inconsistent with the 2018/19 information submitted to the actuary. Nothing other than minor updates were noted.</p>
	<p>We recommend that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced.</p>

## Control observations (continued)

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Area	Observation
<b>No evidence of authorisation for overnight loan prior to payment</b>	As noted on page 6, the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. The amount was returned to the Fund in full on the 28 June 2019. Officers of the Fund have made it clear that they were aware of and approved the transaction at the time. However, there was no evidence available to demonstrate that the Fund authorised this transaction in advance of the payment to the Authority, nor was there a formal record of the business rationale from the perspective of the Fund for such a transaction. We have not noted any other similar transactions during the 2019/20 year.
	We also consider this transaction to be qualitatively material and therefore should be disclosed as a related party transaction in the notes to the Financial Statements of the Fund. This disclosure was not present in the initial draft, but has now been added following our audit recommendation.
	We recommend that the Fund implements a control to record and review the rationale for all transactions outside the normal course of business, including consideration of any relevant laws, regulations and conflicts of interest. We also recommend that sufficient appropriate evidence is retained, demonstrating that the control has operated for all such transactions.
	We consider that the lack of control over cash leaving the Fund is an indication of poor governance and is therefore a red breach which should be reported to the Pensions Regulator. The Fund has informed the Regulator. We recommend that the Fund does not enter into similar transactions in the future, at least not without appropriate consideration by those charged with governance.
<b>Separation of the Fund from the Authority</b>	In reconciling the journal activity for the year, it was noted that some journal postings included activity for both the Fund's financial statements and those of the Authority. On reviewing the journal population as a whole for both the Fund and the Authority we concluded that the population was complete for the year ended 31 March 2020. We also noted that some payments made to the Authority by the Fund for costs incurred on behalf of the Fund, were not formally invoiced by the Authority and that there was no evidence of formal authorisation available for these transactions.
	We recommend that the general ledgers of both entities are maintained in isolation. We also recommend that formal documentation is prepared by the Authority to request payments from the Fund, and that this is reviewed by the Fund before payments are made. Furthermore, sufficient appropriate evidence should be retained demonstrating that the control has operated for all such transactions.



## Control observations (continued)

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Area	Observation
<b>Benefit calculations</b>	There were issues noted with the control environment for benefit calculations, and updating records for member deaths.
	There is no evidence of what has been checked by the reviewer of benefit calculations e.g. a checklist or printout of the calculation and its inputs with tickmarks. Instead the reviewer confirms they have checked the inputs of the calculation on the administration system. While the reviewer will have much experience of the process and what to check, this is not documented and there is no formal process to ensure every figure has been checked, or if there are other matters to consider.
	No periodic review of the benefits system calculation is in place. We note that large pension schemes typically have a process in place whereby administrators regularly review the system calculation, or the actuary periodically reviews and tests the system calculation, to ensure it is calculating members' benefits accurately in line with the scheme's rules.
	For the audit year 2019/20, the control over updates to the pensioner member records on death was not implemented correctly in the year due to the absence of the administration team member who processes these updates. The person was absent due to illness from November 2019 to January 2020. The screening process was restarted after this.
	We recommend that a formal record is retained of the points checked by the reviewer of benefit calculations, that a periodic review of the calculations produced by the benefits system is scheduled and carried out by a suitably qualified person and that contingencies are put in place to ensure benefits controls continue to operate in the event of personnel absences.

## Control observations (continued)

Area	Observation
<b>Monthly investments update review delayed</b>	<p>During the year to the 31 March 2020, there were occasions that the implementation of the review control over the monthly investments update did not occur within a reasonable timeframe. The update of the monthly investments reconciliation for January 2020 was not performed until May 2020, which is 4 months after the month in which it relates. This delay in ensuring the investments' accounting records are up to date could result in management decisions and reporting being based on out of date information. We acknowledge that the Fund was seeking to appoint a replacement accountant during that part of 2020. A finding relating to continuity planning has been included on the next page.</p> <p>We recommend that the accounting records are updated on a timely basis to ensure management information is sufficiently up to date to correctly inform decision making.</p>
82 <b>IT control – Altair audit trail of changes</b>	<p>Part of the work of our IT specialists included a review of aspects of the Altair audit trail of changes. It was noted that the filtering on the 'End Date/Time' for the report does not ensure all changes for each month are extracted as 2 minutes from each month are missed. The Audit Trail Of Changes can be extracted for each month to show all the changes made to the Altair system. Whilst we acknowledge that 2 minutes per month is a very small portion not covered, onscreen inspection showed that the report produced for the audit was not filtered to include all changes in the report extraction as 2 minutes of each month were missed due to insufficient filtering of the 'End Date/Time' parameter. We performed additional procedures to gain comfort over the Altair editing by super-users as noted on page 10 and did not detect any unusual changes to the records.</p> <p>We recommend that the annual review of the Altair audit trail include ensuring that completeness of the reports generated for review.</p>
<b>Administration system – segregation of duties controls</b>	<p>As part of our review of controls around the retirement benefits system it was noted that the system did not prevent individuals signing off their own work as reviewed. We did not find any evidence that an individual has prepared work and signed it off as reviewed, but the possibility exists within the current system.</p> <p>We recommend that controls are implemented within the system to ensure that work prepared must be sent to someone with review responsibilities.</p>

# Other Findings

During the course of our audit we have identified findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant findings we identify during the conclusion of our audit work in our final audit report.

Area	Observation
<b>Lack of continuity plans in relation to absence of key individuals</b>	We have noted during our audit that the departure in early 2020 of the Fund accountant has led to delays in providing a number of elements of documentation. This may also have contributed to the failure of some financial statement controls as noted above. The impact of the departure may have been more significant if not for the assistance provided by the outgoing accountant, months after he had left his post. We note that accounting is not the only area of the Fund's operations that could be susceptible to changes in key personnel. Therefore we recommend that continuity plans be developed for all key roles within the Fund's operations.
<b>Internal audit and monitoring of controls</b>	It was noted that there was no formal internal audit review of the controls of the Fund for the year to 31 March 2020. In place of a review by internal audit, the Fund performed an overall governance review, including a pensions governance report commissioned by the Authority. However, given the number of control deficiencies noted above, we recommend that the internal audit function of the Authority is engaged annually to assess the operation of controls at the Fund.
<b>Compliance with LGPS regulations and the regulator</b>	Within the administration strategy document, it is noted that there should be clear procedures laid out in relation to confirming compliance with LGPS regulations and the regulator. No evidence was available to demonstrate that formal procedures exist. We recommend that procedures are developed in response to the requirements, and which ensure that the Fund meets its statutory obligations and regulatory requirements.

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## Other Findings (continued)

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Area	Observation
<b>Approach to the pension liability disclosure</b>	<p>Our actuarial specialists reviewed aspects of the IAS 26 disclosure of the Fund's future liabilities. Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS. It was noted that no allowance has been made by the Fund actuary in the liability valuation for the Goodwin case. Our actuarial specialists confirmed that this assumption is not reasonable and there is an estimated cost of approximately £8m (0.2% of the liability). This has been included within this report as an unadjusted misstatement.</p> <p>Furthermore it was noted that the approach taken by the Fund actuary towards member data cleansing and checks was not in line with best practice.</p> <p>We recommend that the Fund takes steps to ensure that all non-trivial adjustments to the liability are included at each valuation and that it satisfies itself that appropriate procedures are in place at the actuary to cleanse and check the member data used in each valuation.</p>
<b>IAS 19 cash flows incomplete</b>	<p>In performing procedures relating to our response to IAS 19 letter requests from the auditors of scheduled bodies, we noted that the cash flow information provided to the actuary for the year to 31 March 2020 was incomplete. The report produced on the 2 June 2020 indicated that it covered all 12 months of the year and the actuary had used it as the basis for the cash flow elements of the IAS 26 and IAS 19 disclosures. However on inspection it was clear that some contributions cash flows had not been included of approximately £8.5m, and the March 2020 pensions payroll and the bulk transfer out were missing from the benefits cash flows. These differences have been reported to the auditors of the scheduled bodies who requested an IAS 19 response.</p> <p>We also noted as part of the IAS 19 work that there was an absence of a formal review control associated with the provision of information to the actuary. We have been informed some aspects of the information upload were reviewed, but there was no formal review process or record of the informal review.</p> <p>We recommend that the cash flow reporting is reviewed carefully and checked for reasonableness against expectations before it is provided to the actuary.</p>
<b>Lack of procedures to detect subsequent events</b>	<p>Following enquiry we were informed by the Fund that there are no formal procedures in place to detect and deal with subsequent events. Material subsequent events should be disclosed in the notes to the financial statements and therefore we recommend that a process is implemented to consider this up to the date of signing of the financial statements.</p>

## Other Findings (continued)

Area	Observation
Maintenance of records	As part of our testing of the bulk transfer out we noted that no detailed member by member calculation was available to support the total valuation presented by the actuary for the bulk transfer, and no official confirmation communications from the receiving scheme were available.
	We also noted that lump sums can be paid as part of the pensioner payroll. Furthermore, due to the way in which lump sums are recorded on the accounting ledgers, the Fund was unable to provide a definitive list of payees for some of the accounting entries sampled as part of our testing.
	It is important that the Fund ensures that adequate records are created and retained to evidence the rationale for all payments leaving the Fund.
Bank and custodian mandates	We examined the mandates provided for the bank account and for investment/disinvestment transactions with the custodian. On review of the list of names on the mandates it was noted that they included personnel within RBWM who were not officers of the Fund. We also noted that they included the names of personnel who were no longer employed by RBWM.
	We recommend that all mandates are reviewed and updated accordingly to ensure they are complete and contain only relevant personnel. We also recommend that they are updated on an annual basis, or as soon as signatories leave office.

# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Audit & Governance Committee and the Fund discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

## What we don't report

As you will be aware, our audit was 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, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee, 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.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Jonathan Gooding**

for and on behalf of Deloitte LLP  
St Albans  
11 May 2021

# Appendices

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# Audit adjustments

## Uncorrected misstatements

No adjustment has been made to the IAS 26 disclosure of the Fund's liability in light of the Goodwin case. We estimate the value of the disclosure misstatement to be approximately £8m (0.2% of the total liability).

There are no other misstatements that have been identified up to the date of this report which have not been corrected by officers of the Fund.

## Corrected misstatements

The following misstatements have been identified which have been corrected by officers. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

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		Debit/ (credit) Fund account £m	Debit/ (credit) in Net asset statement £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>				
Overstatement of investments from stale priced alternative funds	[1]	(31.5)	31.5	Yes
Overstatement of longevity swap liability	[2]	2.1	(2.1)	No
<b>Total</b>		<b>(29.4)</b>	<b>29.4</b>	
<b>Misstatements identified in prior years – see prior year ISA 260 for details</b>				
Revaluation of longevity swap		40.3	(40.3)	Yes
Revaluation of convertible bond		34.2	(34.2)	Yes
<b>Total</b>		<b>74.5</b>	<b>(74.5)</b>	

(1) 55 alternative funds had been included within the draft financial statements at stale prices, unadjusted for market movements up to the year end. Valuations received during the audit showed that these funds had decreased in value in aggregate by a material amount.

(2) During the audit, the actuary updated the longevity swap valuation.



# Audit adjustments (continued)

## Disclosures

### Disclosure misstatements

The following disclosure misstatements have been identified which officers have corrected.

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#### Disclosure

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##### Material uncertainty of property fund valuations

In our planning report dated the 21 May 2020, we identified that property valuers had experienced difficulties in assessing the market value of properties as at the 31 March 2020 due to the restrictions in force as a response to COVID-19. This was an industry wide issue and, following guidance issued by the Royal Institute for Chartered Surveyors, it was 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. Our plan included assessing the extent to which this issue affected the Fund.

As part of the audit we received more information about the material property funds. We consulted with our Deloitte Real Estate Specialists, including consideration of the type and nature of the properties held. On review of the evidence received it was concluded that a material uncertainty did exist over the valuation of the Fund's property funds as at 31 March 2020. Given the value of the property funds included within the Fund's financial statements (approximately £292m), the presence of a material uncertainty over these valuations should be disclosed in the financial statements. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

##### Related party transaction

As noted within our controls findings on page 11, the Fund made an overnight loan to the Authority of £1.2m on 27 June 2019. We are considering the permissibility under the relevant regulations of the overnight loan made by the Fund to the Authority, but we consider this transaction to be qualitatively material and requiring disclosure as a related party transaction. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

##### Critical judgements and estimates

On review of the critical judgements and estimates disclosed in notes 4 and 5 of the financial statements we noted that the disclosures were not in line with the applicable International Financial Report Standards. Both notes 4 and 5 required significant changes to the wording during the audit as a result of the issues we identified. The changes have been made in full.

##### Concentration of investments

Note 14 to the financial statements includes disclosure of investment instruments that are greater in value than 5% of the Fund's net assets. The draft accounts did not include the longevity swap within this list. The swap was in a liability position with a magnitude of approximately 6.1% of the Fund's net assets as at the 31 March 2020. The longevity swap has now been included within the disclosure appropriately.

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

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



### Audit work performed:

In our planning we identified valuation of the longevity hedge, valuation of the convertible bond and management override of controls as key audit risks for the Fund.

During course of our audit, we have had discussions with officers and those charged with governance.

In addition, we have reviewed officers' own documented procedures regarding fraud and error in the financial statements.

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### Required representations:

We have asked the Fund to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Fund.

We have also asked the Fund to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

# Independence and fees

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

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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.
Audit fees	<p>The scale fee for the 2019/20 audit of the Pension Fund was £19k. This is the same scale fee as the 2018/19 audit. Our audit fee is based on assumptions about the scope and required time to complete our work.</p> <p>As noted earlier in this report, our audit was not concluded by the original 31 July deadline and it has required substantial further input. We continue to discuss the impact on the audit fee with the authority and Public Sector Audit Appointments ("PSAA"). The final fee amount will be communicated to the Committee once agreed.</p>
Non-audit fees	There were audit related services carried out regarding the issuance of assurance letters to the auditors of participating employers. The fees for this work are being considered as part of the discussions around the main audit fee. There are no other non-audit fees.
Independence monitoring	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.
Relationships	We have no other relationships with the Fund, its members, officers and affiliates. We have not supplied any services to other known connected parties.
Ethical Standard 2019	The FRC has 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 more than 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.



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## Appendix E: Action Plan for issues identified on the ISA260 for RCBPF 2019/20 Statement of Accounts

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
	<b>CONTROL OBSERVATIONS</b>					
93	1. <b>Valuation of the longevity swap:</b>	This is a significant control weakness and we recommend that the Authority 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. We recommend that evidence of this review and assessment is clearly documented.	An independent actuarial valuation of the longevity swap to be obtained each year. The method of conducting this valuation will be discussed and agreed with the actuary in advance of the valuation.	Ongoing	Head of Pension Fund	Will show as a control observation in the 2020/21 ISA260 report.
	2. <b>Valuation of the convertible bond</b>	We recommend that the Committee ensures that the valuation of all bespoke investments is understood by the investment manager before completion of the draft financial statements, and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organisation. We recommend that evidence of	The convertible bond converted to an equity investment during 2020/21. Historic bespoke investments will remain until such time as it becomes viable for them to be terminated. LPPI as investment manager monitors this closely.	Ongoing	Head of Pension Fund	The issue of the convertible will not arise again although until such time as the legacy assets have been pooled issues surrounding so-called bespoke investments may recur.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
		this review and assessment is clearly documented.				
3.	<b>Valuation of the private equity portfolio and other alternative funds</b>	We recommend that the Fund continues to review the terms and conditions of its relationship with all investment service providers and takes steps to ensure that controls are in place such that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. We recommend that the Fund also ensures that controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used in the draft financial statements and that material changes to the investment balances that come to light before signing are reflected in the financial statements. Where the Fund does not have the appropriate resource within	LPPI, as the investment manager for the Fund, maintains an ongoing relationship with all of the individual investment managers. The latest available valuations are included in the pension fund accounts. Problems arose with the preparation of the accounts during 2020/21 due to the impact of the covid pandemic resulting in a sudden fall in asset valuations at the end of March 2020. This situation is not expected to recur.	31 May 2021	Head of Pension Fund	Not applicable.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
		its staff, it should provide clear instructions to LPP or the custodian to perform the processes and controls required.				
4.	<b>Retrospective review of investment decision making</b>	In our final report on the 2019 audit 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. This was to include an historic review of the arrangements with respect to the specific assets that were adjusted significantly to identify the lessons that can be learned and to embed this learning into the new arrangements. The outcome from these reviews was to be reported to both the Corporate Oversight & Scrutiny Panel and the Pension Fund Panel. We note that the scope of the work did include these considerations and that the final report was provided to the Authority in July 2020.	The governance of the Pension Fund was restructured in October 2020. All decisions are the responsibility of the Pension Fund Committee. If an urgent decision is required then responsibility is delegated to the Executive Director of Resources.	31 May 2021	Head of Pension Fund	Not applicable.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
5.	<b>Review of financial statements</b>	We recommend that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.	Financial statements are now completed in line with the CIPFA checklist.	31 May 2021	Head of Pension Fund	Not applicable.
6.	<b>Review of journals</b>	We recommend that the design of the journal posting review control is amended to include a well-defined scope, for example a checklist. We also recommend that it is communicated clearly to all those involved in the preparation and review process and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and	A Borough project plan has been developed to improve the process of journal posting and approval.	31 March 2022	Head of Pension Fund	Will show as a control observation in the 2020/21 ISA260 report.



	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
		this evidence should be retained for a sufficient period.				
7.	<b>Administration system editing rights</b>	We recommend that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced.	<p>The system used, altair, is maintained by a third party provider, Heywood. The majority of Local Authority Pension Funds use this system and so any system amendments have to be agreed across all system users. Procedures are being developed to ensure super-users do not amend their own records and that where amendments are made to super user records, a third independent person will review. The same person will undertake an annual review of the system audit file to check that all instances of super-user record access are within required controls.</p> <p>With specific regard to the prevention of 'Super-users' editing their own records it would be necessary to liaise with the Fund's heywood Client Manager. Actions</p>	31 August 2021	Head of Pension Fund	Subject to ongoing conversations with system provider.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
			are under consideration as to the possibility of using a 'User Specific Filter' facility where super-users' own NI Numbers could be added so that records access to their own records is set to 'Read Only'.			
8.	<b>No evidence of authorisation for overnight loan prior to payment</b>	We recommend that the Fund implements a control to record and review the rationale for all transactions outside the normal course of business, including consideration of any relevant laws, regulations and conflicts of interest. We also recommend that sufficient appropriate evidence is retained, demonstrating that the control has operated for all such transactions.	This matter has been reported to the Pensions Regulator.	May 2021	Head of Pension Fund	Not applicable.
9.	<b>Separation of the Fund from the Authority</b>	We recommend that the general ledgers of both entities are maintained in isolation. We also recommend that formal documentation is prepared by the Authority to request payments from the Fund, and that this is reviewed by the	A project plan is in place for the Pension Fund to have its own ledger account.	1 April 2022.	Head of Finance	Will show as a control observation in the 2020/21 ISA260 report.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
		Fund before payments are made. Furthermore, sufficient appropriate evidence should be retained demonstrating that the control has operated for all such transactions				
10.	<b>Benefit calculations</b>	We recommend that a formal record is retained of the points checked by the reviewer of benefit calculations, that a periodic review of the calculations produced by the benefits system is scheduled and carried out by a suitably qualified person and that contingencies are put in place to ensure benefits controls continue to operate in the event of personnel absences.	As a direct result of the Coronavirus pandemic the process of reviewing and checking inputs has successfully become driven by altair Task Management without the need to print Benefit Summary Documents and Letters. There is not an over reliance on the system, those processing the work and those checking are able to manually check the system output and flag any potential inaccuracies in the system output with the Technical Analyst and Assistant Technical Analyst. Those responsible for checking are knowledgeable in the areas they are responsible for checking.	Ongoing	Head of Pension Fund	Subject to ongoing conversations with system provider.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
			<p>It is acknowledged there was a key period of absence during the year and efforts will continue to be made to build greater resilience into processing all areas of administration and payroll.</p> <p>Altair includes a reportable workflow management system that identifies the stages of an administration process and the user who undertook the relevant task. Heywood, as the system provider, maintains the system on behalf of multiple Pension Fund users and provides system upgrades as required to ensure that the requirements of scheme regulations are met.</p>			
11.	<b>Monthly investments update review delayed</b>	We recommend that the accounting records are updated on a timely basis to ensure management information is sufficiently up to date to correctly inform decision making.	Financial and performance management information is made available on a monthly basis.	31 May 2021	Head of Pension Fund	Not applicable.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
12.	<b>IT control – Altair audit trail of changes</b>	We recommend that the annual review of the Altair audit trail include ensuring that completeness of the reports generated for review	Any adjustment to the filtering parameters would need to be undertaken by the system provider, Heywood, and therefore apply to all users of the system.	Ongoing	Head of Pension Fund	Subject to ongoing conversations with system provider.
13.	<b>Administration system – segregation of duties controls)</b>	We recommend that controls are implemented within the system to ensure that work prepared must be sent to someone with review responsibilities.	Controls have been set up by a super user based on the user profiles contained in the system. However, ongoing discussions will be had with the system providers to consider what changes could be made to improve this functionality with the proviso that the system is used by Pension Funds and bespoke amendments may not be financially viable.	Ongoing	Head of Pension Fund	Subject to ongoing conversations with system provider.
<b>OTHER FINDINGS</b>						
14.	<b>Lack of continuity plans in relation to absence of key individuals</b>	We recommend that continuity plans be developed for all key roles within the Fund's operations.	This will be reviewed as part of the ongoing governance review.	31 March 2022	Head of Pension Fund	Not applicable.
15.	<b>Internal audit and monitoring of controls</b>	We recommend that the internal audit function of the Authority is engaged annually	An Internal Audit report for the year 2020/21 that covers Pension Payroll and	30 June 2021	Head of Pension Fund	Not applicable.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
		to assess the operation of controls at the Fund.	Administration is near completion.			
16.	<b>Compliance with LGPS regulations and the regulator.</b>	We recommend that procedures are developed in response to the requirements, and which ensure that the Fund meets its statutory obligations and regulatory requirements.	The Fund complies with all LGPS regulations and takes notice of all recommendations from The Pensions Regulator. The annual work plan for the Pension Fund Committee includes regular reviews of all statutory policies.	31 May 2021	Head of Pension Fund	Not applicable.
17.	<b>Approach to the pension liability disclosure</b>	We recommend that the Fund takes steps to ensure that all non-trivial adjustments to the liability are included at each valuation and that it satisfies itself that appropriate procedures are in place at the actuary to cleanse and check the member data used in each valuation.	We will discuss with actuary.	31 December 2021	Head of Pension Fund	Not applicable.
18.	<b>IAS 19 cash flows incomplete</b>	We recommend that the cash flow reporting is reviewed carefully and checked for reasonableness against expectations before it is provided to the actuary.	A review process will be put in place and documented.	31 December 2021	Head of Pension Fund	Not applicable.

	Area of issue	Issues identified	Actions required	Timeline	Lead Officer	Impact on 2020/21 Statement of Accounts
19.	<b>Lack of procedures to detect subsequent events</b>	We recommend that a process is implemented to consider this up to the date of signing of the financial statements.	Formal procedures will be put in place.	31 December 2021	Head of Pension Fund	Not applicable.
20.	<b>Maintenance of records</b>	It is important that the Fund ensures that adequate records are created and retained to evidence the rationale for all payments leaving the Fund.	Adequate records are maintained although it is not always possible to provide reports in 'unfamiliar' formats.	31 May 2021	Head of Pension Fund	Not applicable.
21.	<b>Bank and custodian mandates</b>	We recommend that all mandates are reviewed and updated accordingly to ensure they are complete and contain only relevant personnel. We also recommend that they are updated on an annual basis, or as soon as signatories leave office.	Mandates have been reviewed and have been updated.	30 April 2021	Head of Pension Fund	Not applicable.



## **Royal County of Berkshire Pension Fund**

Planning report to the Audit Committee for the year ended 31 March 2021

Issued 7 May 2021 for the meeting on 17 May 2021

**Deloitte Confidential: Government and Public Services – For Approved External Use Only**



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# Introduction

## The key messages in this report:

We have pleasure in presenting our Planning Report to the Audit Committee (“the Committee”) for the 2021 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:

<p>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:</p> <ul style="list-style-type: none"><li>• A robust challenge of the key judgements taken in the preparation of the financial statements.</li><li>• A strong understanding of your internal control environment.</li><li>• A well planned and delivered audit that raises findings early with those charged with governance.</li></ul>	<p><b>Scope</b></p>	<p>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 (“the Code”) issued by CIPFA and LASAAC. We will be performing procedures to inform an opinion on the Fund accounts, which form part of the Council’s Statement of Accounts, and we will be performing procedures to inform an opinion on the consistency between those financial statements and the Pension Fund Annual report.</p> <p>Additionally, we perform IAS19 procedures to support the local authority's audit of the pension liability in its statement of accounts.</p>
	<p><b>Status of our 2020 audit</b></p>	<p>At the date of issue of this report, our audit of the pension Fund for the year ended 31 March 2020 is nearing completion and our final audit report for the 2020 audit has been submitted to you for consideration at this meeting. The audit opinion for 2020 can be signed on completion of the following points:</p> <ul style="list-style-type: none"><li>• Receipt of evidence of one bank payment authorisation;</li><li>• Finalisation of our internal quality review procedures;</li><li>• Update of our subsequent events and going concern procedures; and</li><li>• Receipt of the signed representation letter.</li></ul>
	<p><b>Audit Quality</b></p>	<p>Our audit approach is tailored to providing the Audit Committee with an audit which is designed to provide assurance and insight over the Fund control environment.</p> <p>Our audit quality is managed by using dedicated pension scheme audit specialists within the team. This is supplemented by our IT teams, actuarial specialists and longevity swap valuation specialists. This structure allows us to challenge key judgements taken in the preparation of the financial statements.</p> <p>We plan and deliver an audit that raises findings early with those charged with governance. This is underpinned by mutually agreed timetables, detailed audit request lists and frequent communications with management and the Audit Committee.</p>

# Introduction (continued)

## The key messages in this report:

### 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:

Across the year under audit, coronavirus (COVID-19) and Brexit have continued to cause disruption and volatility to financial markets. In line with the 2019/20 financial year, we will expect a discussion with management to assess the going concern of the Fund including the continuing impact of COVID-19 and impact of UK leaving the European Union.

We have reviewed each of the key account balances as part of our 2021 risk assessment. The uncertainty in the property market has subsided and as a result we do not expect their to be a material uncertainty in the valuation of the pooled funds.

Operationally we expect to complete the 2021 audit remotely and have discussed this approach with the Fund’s management. We will remain alert that controls may be operating differently throughout our audit.

We will be using our Deloitte portal for the secure transfer of audit information and have compiled a detailed schedule of information required as part of the audit. In addition, we will utilise Microsoft Teams to hold video calls to update our process documentation and will utilise the functionality to share screens and inspect audit information. We have good experience of delivering audits remotely and are fully prepared to react and adapt to COVID-19 restrictions.

### Significant audit risks

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 Committee 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 9 and 10 for full details.

# Introduction (continued)

## The key messages in this report:

### Significant issues identified last year

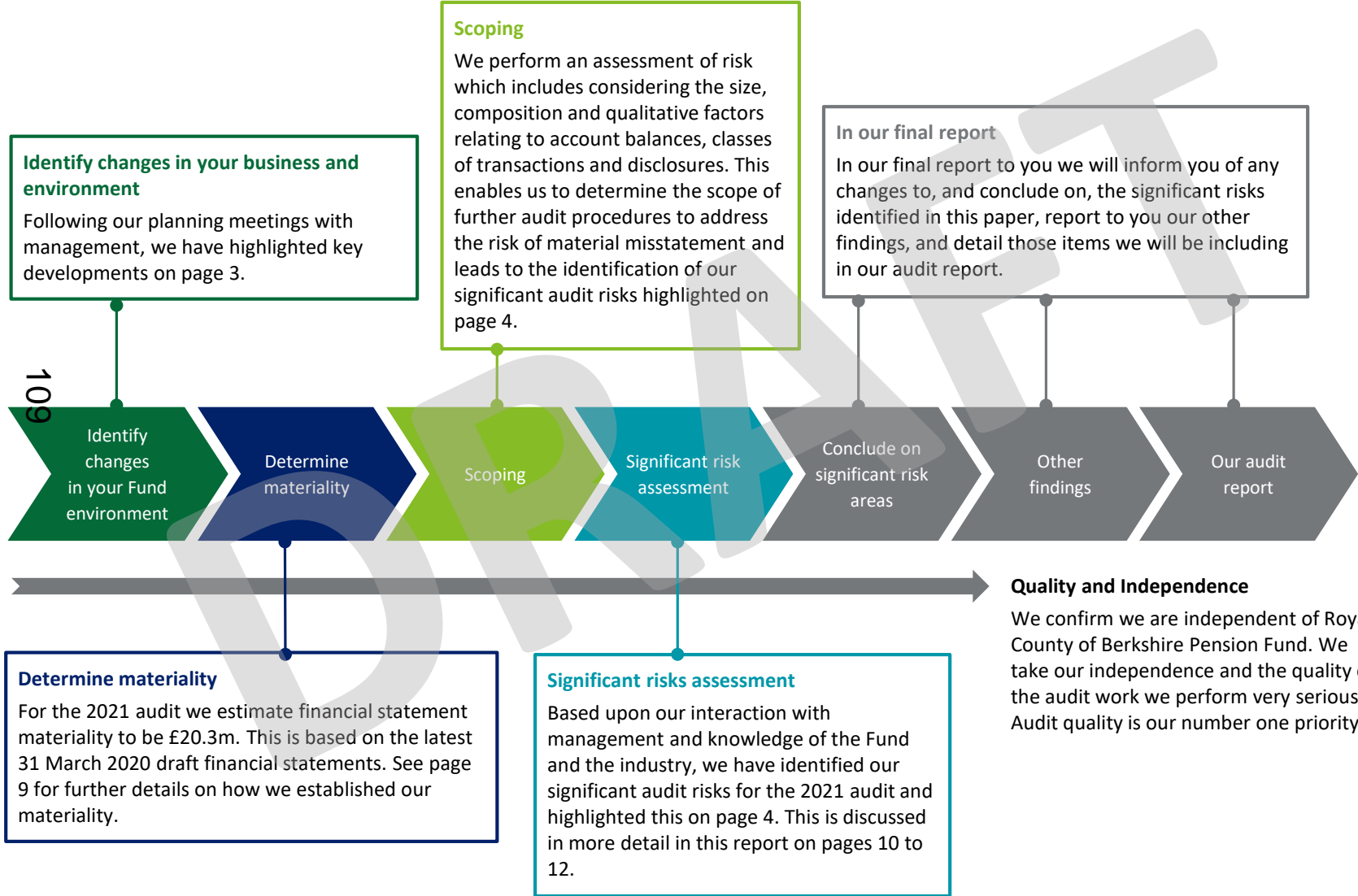
In our 2020 final audit report, we noted the following significant issues:

- A material error of £31.5m in the value of alternative funds arising from the absence of a controls to determine the valuation of stale price funds and to update the financial statements if new information came to light. We recommended that the Fund ensures controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used and that material changes to the investment balances are reflected in the financial statements;
- In our final report on the 2019 audit, we recommended that the Authority ensures that the longevity swap valuations provided by the actuary are reviewed and that the assumptions are understood and agreed before inclusion in the financial statements. Procedures performed during our 2020 audit revealed that, while the longevity swap valuation had been discussed with Barnett Waddingham, there was no formal control design documented and no recorded evidence of implementation of the control. We recommended that evidence of this review and assessment is clearly documented;
- We noted that administration system super-users have the access rights to edit their own member records and those of each other. Whilst any editing of the system can be reviewed, there is no formal review of this editing activity and no evidence was available of any other mitigating controls. We recommended that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced;
- The Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. The amount was returned to the Fund in full on the 28 June 2019. We recommended that the Fund does not enter into similar transactions in the future, at least not without appropriate consideration by those charged with governance and a breach has been reported to the Pensions Regulator;
- The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings, nor was there evidence of formal review of this. We recommended that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process; and
- The design of the control for review of journal postings does not include a formal description of the review process. There was no clear evidence available that a review took place through testing performed. We recommended that the design of the journal posting review control is amended to include a well defined scope. We also recommended that this amendment is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system.

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

# Our audit explained

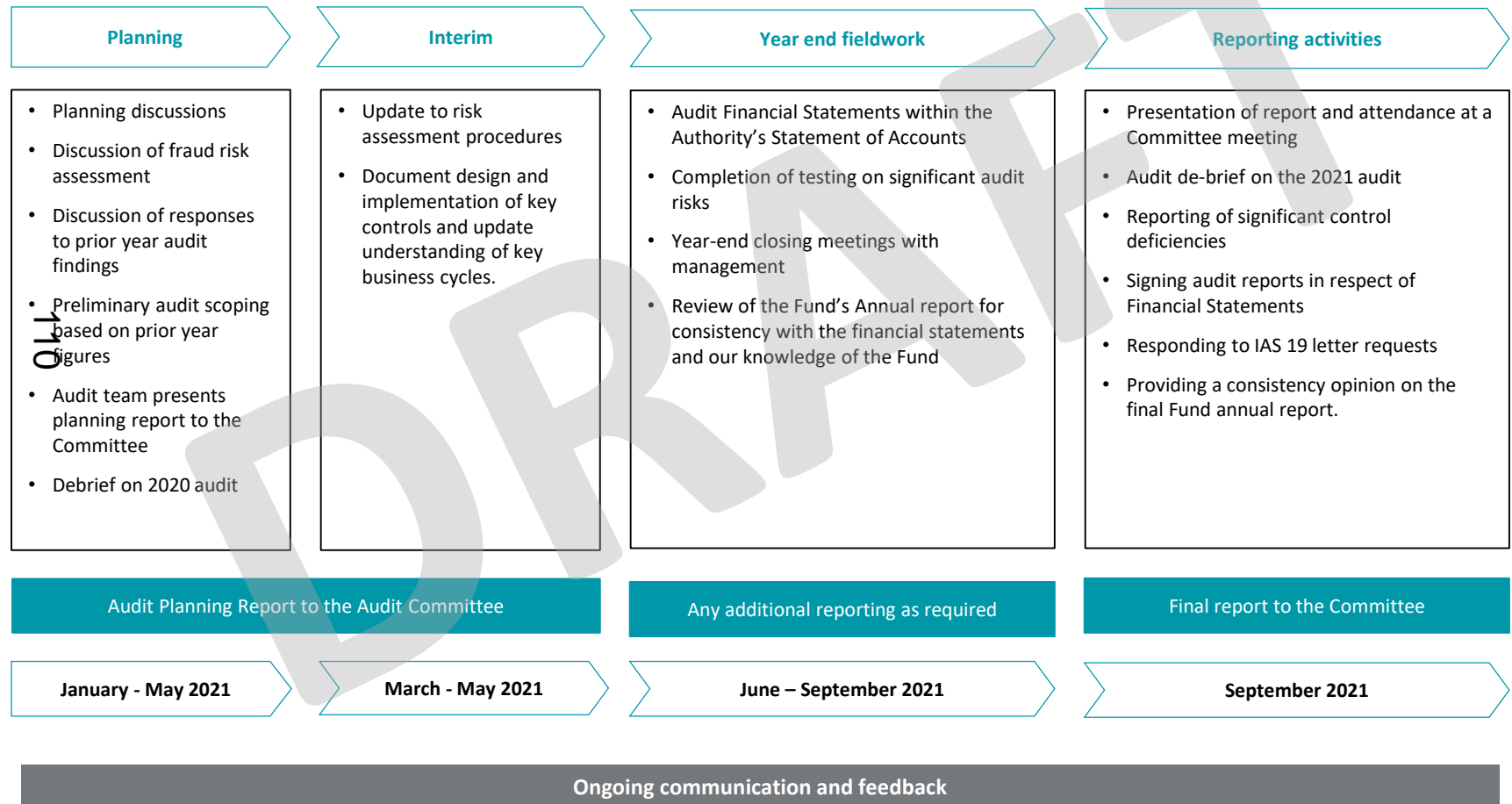
We tailor our audit to your fund:



# 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.



# Impact of COVID-19 on our audit

## Covid-19 outbreak - How is Deloitte responding?:

Deloitte have continued to monitor and manage our response to the COVID-19 situation 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.

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### Impact on our audit and our response

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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 Connect (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 Deloitte Connect 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.

# Impact of COVID-19 on our audit (continued)

## 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"> <li>• Unavailability of personnel.</li> <li>• Increase in demand for some services and challenges in delivering such services</li> </ul>	<ul style="list-style-type: none"> <li>• Principal risk disclosures</li> <li>• Fair value measurements based on unobservable inputs</li> <li>• Changes to the fair value hierarchy disclosure of some investments</li> <li>• Events after the end of the reporting period</li> <li>• Consider the impact on the Fund's going concern assessment and consider the need to enhance disclosures with respect to going concern</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on key areas of material change and uncertainty</li> <li>• 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</li> </ul>

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### 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 September 2021 for all local authority bodies.

**Discussions with management indicated the need to defer the original audit scheduling which aimed for the majority of work to be completed in July 2021.**

**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 Deloitte Connect, 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.**



# 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.

# Materiality

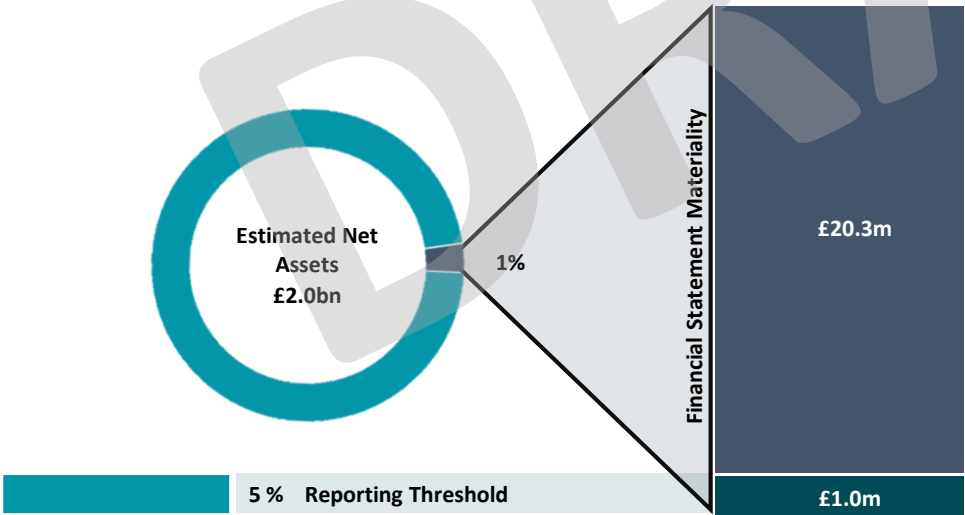
## Our approach to materiality:

### Basis of our materiality benchmark

- We have estimated financial statement materiality as £20.3m 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 adjustment 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 Audit Committee.
- We will apply a factor of 1% (compared with 1% for the 2020 audit) to the selected benchmark of Fund net assets. As year end information is not yet available, we have used the draft net assets value as at 31 March 2020. Potential investment movements across the year have been considered against benchmarks, however we have deemed prior year to be appropriate at this stage following the completion of these procedures.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of 5% of materiality, we will report to you misstatements below this threshold if we consider them to be material by nature.
- We will review materiality for the 2021 audit on receipt of the draft 2021 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 Committee members must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



# 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;
- 115 Perform a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- 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;
- 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; and
- 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 (continued)

## 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 draft financial statements the value was (£123.9m) 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 Committee, 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 | 17 May 2021

# 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 Committee, 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 Committee:

- 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

## 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 Committee 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 Committee

- How the Committee 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 Committee has knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of the Committee on the most significant fraud risk factors affecting the entity.

## Appendix 2: Independence and fees

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 Committee for the year ended 31 March 2021 in our final report to the Committee.
Fees	<p>The audit scale fee for the year ended 31 March 2021 is £19,120 however this is subject to change. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we are in discussion with the Fund regarding the current level of fee which we deem to be too low given the size and complexity of the body.</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. We have estimated a fee of £2,500 per letter, which totals £15,000 for our 2021 audit.</p> <p>The above fees exclude VAT and include out of pocket expenses.</p>
Non-audit fees	<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>
Independence monitoring	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.
Ethical Standard 2019	The FRC has 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 more than 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.



# Appendix 3: Our approach to quality

## Responding to challenges in the current audit market:

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit	<ul style="list-style-type: none"><li>• Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)</li><li>• Deloitte fully supports an independent review into the role of auditors</li><li>• The Government's Brydon Review will consider UK audit standards and how audits should evolve</li></ul>
Would it be better to have audit only firms?	<ul style="list-style-type: none"><li>• Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit</li><li>• Our investment in audit innovation, training and technology is greater because of the multidisciplinary model</li></ul>
Is the current audit market uncompetitive?	<ul style="list-style-type: none"><li>• We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders</li><li>• There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering</li><li>• The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies</li></ul>
Independence and conflicts from other services	<ul style="list-style-type: none"><li>• Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients</li><li>• Deloitte invests heavily in systems, processes and people to check for potential conflicts</li><li>• We have governance in place to assess any areas of potential conflict, including where required to protect the public interest</li><li>• Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)</li></ul>
Deloitte	<ul style="list-style-type: none"><li>• Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest</li><li>• Our Impact Report and Transparency Report are available on our website <a href="https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html">https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html</a></li><li>• Our response to the latest AQR report is on page 22.</li></ul>

# Appendix 3: Our approach to quality

## AQR team report and findings:

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### **The AQR’s 2019/20 Audit Quality Inspection Report on Deloitte LLP**

We reviewed 17 individual audits this year and assessed 13 (76%) as requiring no more than limited improvements. Of the 10 FTSE 350 audits we reviewed this year, we assessed nine (90%) as achieving this standard.

We have highlighted in this report aspects of firm-wide procedures which should be improved, including strengthening the monitoring of the firm’s audit quality initiatives.

#### **Our key findings related principally to the need to:**

- Improve the extent of challenge over cash flow forecasts in relation to the impairment of goodwill and other assets.
- Enhance the effectiveness of substantive analytical review and other testing for revenue.
- Improve the assessment and extent of challenge regarding management’s estimates, particularly for model testing.

#### **The firm has taken steps to address the key findings in our 2019 public reports, with actions that included focused training and standardising the firm’s audit work programmes.**

We have identified improvements, for example in the audit of potential prior year adjustments and related disclosures, a key finding last year. We also identified good practice in a number of areas of the audits we reviewed (including effective group oversight and robust risk assessment) and in the firm-wide procedures (including the firm’s milestone programme, with expected dates for the phasing of the audit monitored by the firm).

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Report Title:	<b>Pension Fund Governance Progress Report</b>
Contains Confidential or Exempt Information	No - Part 1
Lead Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee and Advisory Panel – 14 June 2021
Responsible Officer(s):	Andrew Vallance, Head of Finance and Deputy Section 151 Officer
Wards affected:	None



## REPORT SUMMARY

This report presents to Members an update on the progress following the recommendations made in an independent report presented to Committee on 19 October 2020 into the governance arrangements of the Pension Fund.

A progress matrix can be found at Appendix 1.

### 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That the Pension Fund Committee:

i) Notes the paper and progress matrix at Appendix 1.

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

2.1 The Royal Borough of Windsor & Maidenhead (RBWM) is the administering authority for the Royal County of Berkshire Pension Fund (RCBPF). RBWM has a statutory duty to maintain the Fund in accordance with The Public Services Pension Schemes Act 2013, associated Local Government Pension Scheme (LGPS) Regulations and wider pension legislation.

2.2 Following on from an independent governance report presented to Members on 19 October 2020, which contained a number of recommendations as to how governance could be improved, this report sets out the progress made in implementing the recommendations made.

2.3 A progress matrix can be found at Appendix 1.

### 3. KEY IMPLICATIONS

3.1 Failure to consider, review and implement a robust governance structure could lead to sanctions being imposed on RBWM by the Pensions Regulator when it comes to its management of the Pension Fund.

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

- 4.1 Failure to monitor investment performance in line with appropriate strategies could lead to an increased Fund deficit resulting in employers having to pay more.

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

- 5.1 The 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**

- 6.1 Table 1: Risk Analysis

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
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.
- 7.2 Equalities: Equality Impact Assessments are published on the [council's website](#) . N/A
- 7.3 Climate change/sustainability: N/A
- 7.4 Data Protection/GDPR. N/A

#### **8. CONSULTATION**

- 8.1 N/A

#### **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 Ongoing.

#### **10. APPENDICES**

- 10.1 This report is supported by 1 appendix:

- Appendix 1 – Governance progress matrix

## 11. BACKGROUND DOCUMENTS

11.1 This report is supported by 0 background documents:

## 12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee		
Adele Taylor	Director of Resources and Section 151 Officer		
Ian Coleman	Interim Pension Fund Manager		

## REPORT HISTORY

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

Report Author: Andrew Vallance, Head of Finance and Deputy s151 Officer
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## Independent Governance Report Actions

	Recommendation	Timeline	Progress	
1.	The size of the Pension Fund Advisory Panel should be reduced so that it only includes Councillor representatives.	October 2020	The membership of the Advisory Panel has been reduced as agreed by the Pension Fund Panel on 19 October 2020.	
2.	Training records need to be completed annually.	December 2020	A training framework and workplan was agreed by the Pension Fund Committee on 14 December 2020. Training records will be maintained for all members of the Pension Fund Committee, the Pension Fund Advisory Panel and the Pension Board.	
3.	The Pension Board membership should be reviewed to reflect the possible reduced size of the Pension Fund Advisory Panel and membership amended accordingly.	March 2021	This forms a subsequent stage of the governance review, following agreement of the governance recommendations on 19 October 2020. An initial discussion took place at the Pension Board on 20 November 2020 with further discussions on 4 March 2021. Details to be finalised at Board meeting of 27 May 2021	
4.	The membership of the Pension Fund Panel Sub-Committee (Investment Group) should be four Councillors, and its future reviewed in two years' time.	October 2020	The Pension Fund Panel Sub-Committee has been abolished.	
5.	Advisers as appointed by the Council should be entitled to attend and speak but not to vote.	October 2020	Advisers will be requested to attend and speak, but not to vote, at the Pension Fund Committee. The decision to abolish the Sub-Committee will mean that the Advisers will no longer attend these meetings.	
6.	The governance changes should be approved in line with the Council Constitution.	October 2020	The governance recommendations from the Pension Fund Panel have been agreed by the Council.	
7.	All meetings should be properly clerked and minuted, and the minutes checked prior to publication. In addition, details of all meetings should appear on the Council website with reasons why meeting items, or the meeting itself, are classified as exempt information.	October 2020	This recommendation relates only to the Sub-Committee, which has been abolished.	



	Recommendation	Timeline	Progress	
8.	The decision to approve an updated Investment Strategy Statement (ISS) should be postponed and, before the ISS is approved, it should be checked to ensure that it meets the requirement to provide a performance level that will reduce the funding deficit for the RCBPF.	Autumn 2021	Updating the ISS has been postponed. The content of the ISS will be fully reviewed. A revised ISS is not required to be approved until 2022.	
9.	Arrangements should be made to provide officer support to enable RCBPF to meet its residual direct functions post pooling.	Spring 2021	The creation of a post of Head of Pension Fund was agreed by the Pension Fund Panel on 19 October 2020. An appointment has been made.	
10.	Discussions should take place with the Custodian, Deloitte and LPP to ensure that for those assets still within the legacy custodianship, arrangements are in place to ensure that the 2019/20 Audit runs smoothly.	March 2020	These discussions took place in March 2020.	
11.	Discussions should take place with LPP to agree timescales and processes for valuations during Accounts closure and to ensure that the agreement is formally amended to reflect these processes and timescales.	March 2020 Spring 2021	The discussions with LPP took place in March 2020.  The management agreement with LPP should be reviewed in 2021.	
12.	Discussions should take place with the legacy Custodian and other providers including the LPP Custodian to determine the most economical course of action for Custodian services for the legacy mandates.	December 2020	The Pension Fund Committee on 14 December agreed to commence a procurement exercise for the appointment of a Custodian, with the new contract to commence in Autumn 2021.	
13.	Review any arrangements RBWM has for meetings and decisions to be taken electronically. The review should include the requirement for an accurate record of how decisions are taken.	October 2020	This issue relates to the Sub-Committee which has been abolished.	
14.	Ensure that for any organisation where RBWM appoints a director or trustee that declarations of interests are completed, and that both the organisation and the individual are aware that the appointment is only for the period of time that the	October 2020	This will be implemented for any future appointments.	

	Recommendation	Timeline	Progress	
	individual is either an Officer or Member of the Council, or earlier should the Council decide.			
15.	The future model of investment advice should be one firm and one Independent Adviser to advise both the Investment Group and the Pension Fund Panel and that this advice should be procured and evaluated in a clear and transparent process.	Summer 2021	A procurement exercise will be undertaken in 2021 to appoint Independent Advisers to advise the Pension Fund Committee.	
16.	Advisers should attend both meetings but not be formal members with voting rights.	October 2020	With the decision to abolish the Sub-Committee, then the Independent Advisers will attend the Pension Fund Committee but will not have voting rights.	
17.	With regard to the longevity swap, RCBPF should put in place arrangements to review the assumptions used by the Actuary in calculating the value of the swap.	April 2020	This was undertaken as part of the closure of the Accounts for 2019/20.	
18.	RCBPF will need to review the application of any change in accounting standards.	April 2021	This will occur if and when there are any changes to accounting standards. The changes to accounting standards that were being discussed for implementation in 2020 were deferred due to the onset of Covid.	
19.	With regard to the valuation of other illiquid or non-market assets, revised arrangements should be put in place involving the Custodian, Deloitte, LPP, RBWM and RCBPF.	March 2020	Arrangements were discussed and agreed in March 2020 prior to the commencement of the Audit for 2019/20. Obtaining valuations for illiquid assets as at 31 March 2020 was severely impacted by the onset of covid.	
20.	RCBPF should arrange a meeting with LPP and Deloitte to ensure that responsibilities are clear for the 2019/20 Audit. This could be held at the same time as the meeting above.	March 2020	This meeting was held in March 2020.	
21.	The Pension Fund Committee should receive the External Audit report in respect of the RCBPF.	March 2021	The External Audit report should be available to be presented to the Pension Fund Committee on 14 June 2021.	

Report Title:	<b>Good Governance in the LGPS</b>
Contains Confidential or Exempt Information	No - Part 1
Lead Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee and Advisory Panel – 14 June 2021
Responsible Officer(s):	Kevin Taylor, Pension Services Manager
Wards affected:	None



## REPORT SUMMARY

This report presents to Members an update on the ‘Good Governance in the LGPS’ project and provides a copy of the Phase 3 report produced by Hymans Robertson as presented to the Scheme Advisory Board as supporting documentation.

### 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION: That the Pension Fund Committee:**

**i) Notes the paper and supporting report.**

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

- 2.1 The Royal Borough of Windsor & Maidenhead (RBWM) is the administering authority for the Royal County of Berkshire Pension Fund (RCBPF). RBWM has a statutory duty to maintain the Fund in accordance with The Public Services Pension Schemes Act 2013, associated Local Government Pension Scheme (LGPS) Regulations and wider pension legislation.
- 2.2 The origins of the good governance project can be traced back to the Shadow Scheme Board that was established in 2012 to assist in the design of the new 2014 scheme. The then Board agreed to consult on proposals to separate the pensions function from administering authorities to resolve the perceived conflict of interest of elected members acting in the best interest of their local authority rather than scheme members.
- 2.3 The separation project as it was called was put on hold while asset pooling was in its initial stages in 2015. However, in June 2018 the Scheme Advisory Board agreed to its re-commencement as the good governance project. The objective was to identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role.
- 2.4 Following a procurement exercise the Scheme Advisory Board appointed Hymans Robertson in January 2019 to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward.

- 2.5 The final 'Phase 3' report has now been produced and published by Hymans Robertson is attached to this report as supporting documentation. Whilst further guidance will be issued in due course the final report sets out the key issues to be considered by the administering authority.

### **3. KEY IMPLICATIONS**

- 3.1 MHCLG are expected to issue statutory guidance to administering authorities later this year that will require them to effectively implement the proposals set out in the Good Governance report. Failure to consider, review and implement the statutory guidance could lead to sanctions being imposed on RBWM by MHCLG or the Pensions Regulator when it comes to its management of the Pension Fund.

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

- 4.1 Failure to maintain good governance and apply the requirements set out in statutory guidance could lead to sanctions being imposed on RBWM that could have a financial bearing on the Fund and its scheme employers.

### **5. LEGAL IMPLICATIONS**

- 5.1 The 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**

- 6.1 Table 1: Risk Analysis

<b>Risks</b>	<b>Uncontrolled Risk</b>	<b>Controls</b>	<b>Controlled Risk</b>
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 and statutory guidance could result in the Administering Authority being reported to the Pensions Regulator where failure is deemed to be of a material significance.
- 7.2 Equalities: Equality Impact Assessments are published on the [council's website](#) . N/A
- 7.3 Climate change/sustainability: N/A

7.4 Data Protection/GDPR. N/A

## 8. CONSULTATION

8.1 N/A

## 9. TIMETABLE FOR IMPLEMENTATION

9.1 Ongoing.

## 10. APPENDICES

10.1 This report is supported by 0 appendix:

## 11. BACKGROUND DOCUMENTS

11.1 This report is supported by 1 background documents:

- Good Governance: Phase 3 Report to SAB

## 12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee		
Adele Taylor	Director of Resources and Section 151 Officer		
Andrew Vallance	Head of Finance and Deputy S151 Officer		
Ian Coleman	Interim Pension Fund Manager		

## REPORT HISTORY

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

Report Author: Kevin Taylor, Pension Services Manager, 07792 324393

# Good Governance: Phase 3 Report to SAB

February 2021

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## Good Governance: Phase 3

### Report to SAB

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Appendix 1 - Senior officer organisational structures
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Appendix 4 - Summary of the Independent Governance Review

## Introduction

The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2 on 3 February 2020 and requested that the project team and working groups provide further detail on the implementation of these proposals. The project has suffered delays as a result of COVID and the requirement for key stakeholders in their main roles to focus on and prioritise the response to the pandemic. However, some meetings were held early in 2020 and working papers and notes have been circulated over the last months to collate feedback and reflect the wide range of views from the group.

We considered that some proposals from Phase 2 didn't need further detail in order to progress with implementation and focussed on the proposals which needed further analysis or consideration ahead of implementation. We have provided additional details on these proposals for the consideration of the SAB. This paper should be read in conjunction with the paper from Phase 2.

For reference, all the proposals from Phase 2 are listed below and we have indicated with a \* the proposals addressed further in this report.

Area	Proposal
A. General	<b>*A.1</b> MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	<b>*A.2</b> Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	<b>A.3</b> Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	<b>*B.1</b> Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	<b>*B.2</b> The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB – <b>now updated*</b>
C. Representation	<b>*C.1</b> Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	<b>*D.1</b> Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	<b>*D.2</b> Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	<b>*D.3</b> Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	<b>*D.4</b> CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E. Service Delivery for the LGPS Function	<b>E.1</b> Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of



	delegation and constitution and be consistent with role descriptions and business processes.
	<b>*E.2</b> Each administering authority must publish an administration strategy.
	<b>*E.3</b> Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	<b>*E.4</b> Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F. Compliance and improvement	<b>*F.1</b> Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	<b>F.2</b> LGA to consider establishing a peer review process for LGPS Funds.

### Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

### Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended;

**Administering authority** refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example "Each administering authority must publish an annual report".

**Committee** a committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example "The pensions committee should have a role in developing the business plan".

**Host authority** refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example "Delivery of the LGPS function must be consistent with and comply with the constitution of the host authority"

**The fund** carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example "Taking this course of action will improve the fund's administration".

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years”.

# Further Discussion on Recommendations

## A General

***A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).***

The intention throughout this review has been that any SAB recommendations should be enacted via the introduction of new statutory governance guidance which will supersede current guidance<sup>1</sup>. It was felt that this approach would be quicker and more responsive than relying on changes to secondary legislation. The LGPS regulations contain a provision<sup>2</sup> that allows the secretary of state to issue guidance on the administration and management of the scheme.

We have noted that the outcome of The Supreme Court’s judgment on LGPS boycotts (The Palestinian Case)<sup>3</sup> may impact the extent to which future changes are enacted through guidance rather than changes to legislation.

***A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).***

This is one of the core recommendations in Phase 2 report and we have provided further detail on the proposal below, including details on the core requirements of the role, organisational guidelines and personal competencies for individuals.

### Core Requirements

The role of the LGPS senior officer is to lead and take responsibility for the delivery of the LGPS function. The core requirements include but are not limited to:

- Following appropriate advice, developing the fund’s strategic approach to funding, investment, administration, governance and communication;
- Ensuring that there is a robust LGPS specific risk management framework in place which embeds risk management into the culture of the fund and identifies, assesses and mitigates the risks facing the fund;
- Ensuring the pension fund is organised and structured in such a way as to deliver its statutory responsibilities and compliance with The Pensions Regulator’s codes of practice;
- Managing delivery of the LGPS function to meet service level agreements;
- Providing advice to members of committees that have a delegated decision-making responsibility in respect of LGPS matters;
- Providing advice and information to members of local pensions board to assist them in carrying out their responsibilities;
- Ensuring that the role of the pension fund and LGPS matters are understood and represented at the local authority’s senior leadership level;

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<sup>1</sup> [LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE COMPLIANCE STATEMENTS STATUTORY GUIDANCE – NOVEMBER 200](#)

<sup>2</sup> See Regulation 2(3A)

<sup>3</sup> [R \(on the application of Palestine Solidarity Campaign Ltd and another\) \(Appellants\) v Secretary of State for Housing, Communities and Local Government \(Respondent\)](#)

- Working with partner funds and the pool company (if appropriate) to ensure effective governance in respect of investment pooling arrangements;
- Where the LGPS Senior Officer is not themselves the local authority's s151 officer, support the s151 officer to ensure the proper administration of the fund's financial affairs; and
- Acting with the highest integrity in the interests of the fund's members and employers.

### Underpinning principles and characteristics

This section considers what needs to be in place for an LGPS senior officer to successfully deliver the role. It is split into the organisation principles that the administering authority should consider when drawing up the role of Senior Officer as well as the personal characteristics and competencies that the individual should exhibit.

#### Organisational Principles

In appointing a LGPS senior officer, administering authorities should have consideration of the following organisational principles.

**Representing the fund at a senior level.** The Senior Officer should be of sufficient seniority to ensure that pension issues can be brought the attention of the senior leadership team as necessary. This also ensures that the Senior Officer is close enough to the strategic direction of the host organisation and able to influence decisions where they impact on the management of the fund. It is unlikely that the Senior Officer role could be carried out effectively by an individual lower than third tier in the organisation.

**Capacity.** The role of Senior Officer is demanding and those undertaking it should be able to give it the necessary attention. While the Senior Officer might have some other responsibilities within the organisation, these should not be of a scale that they impact adversely on the ability to ensure the effective delivery of the LGPS function. When considering capacity, it would be appropriate to consider both the Senior Officer role and the capacity and seniority of their direct reports working in the LGPS.

**Reporting Lines.** As the individual with responsibility for delivering the LGPS function, it is appropriate that those with key LGPS functions come under a reporting structure which falls under the Senior Officer's supervision.

From time to time the fund will employ resource and expertise from other areas of the authority, for example project management, IT or legal services. It is not the intention that all that all of these functions should fall under the Senior Officer, however the expectation is that key functions such as investment, administration, employer liaison, communications, fund accounting etc do.

**Resourcing.** The senior officer is responsible for the delivery of the LGPS function and as such must be able to ensure that they run an operation that is sufficiently resourced. The intention is that the Senior Officer is responsible for drawing up the fund's budget and agreeing it with the Pension Committee.

In doing so the Senior Officer needs to be cognisant of the need to maximise the value of any spend from the public purse.

## Personal Competencies

The following are the personal and professional attributes that should be embodied by the LGPS Senior Officer.

**An ability to build strong relationships and influence.** The Senior officer will be expected to influence matters at the highest levels of the organisation. They should be comfortable dealing with elected members and understand the requirements of working in a political environment.

The Senior Officer will need to build and maintain strong relationships with employers within the Fund as well as partners within the investment pool.

The Senior Officer will also need the ability to build strong relationships with professional advisers, including challenging them when appropriate and work to enable the effective operation of the pension board

The Senior Officer will also be expected to represent the fund at a national level.

**Strong technical skills.** There is no requirement for an LGPS senior officer to have a specific professional qualification, although a relevant qualification (accounting, investment, actuarial, pensions management, legal) may be advantageous. They should have a strong understanding of all aspects of the LGPS. The Senior Officer should have a good grasp of the funding, investment and regulatory matters that impact the fund. They should also be able to explain and simplify difficult concepts to non-technical audiences.

**Strategic thinking.** It is the role of the Senior Officer to set the strategic direction of the fund. This requires an individual who can synthesise information from a broad range of sources, learn from experiences and bring new ideas to the table. The LGPS senior officer should develop a strong idea of how the delivery of the service will change over time and how the fund can be ready to meet new challenges.

**Operational effectiveness.** The Senior Officer should be leader with the ability to drive improvement within the organisation and motivate others to buy into their vision. They will need to put plans in place to deliver effective services yet be flexible enough to deal with a volatile pensions landscape.

**Strong ethical standards.** The LGPS environment can produce the potential for conflicts of interest to arise. The Senior officer should be an individual who embodies the highest ethical standards and acts in the interests of the fund's members and employers. They demonstrate and positively promote the seven principles of public life.

## Organisational Structure

Appendix 1 contains examples of how the Senior officer role could be incorporated into various organisational structures.

***A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.***

In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority's s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

It should be noted that the current LGPS regulations<sup>4</sup> require that administering authorities publish an annual governance compliance statement concerning matters relating to delegation and representation on pension committees. We recommend that amendments are made such that all requirements are incorporated into a single governance compliance statement.

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<sup>4</sup> See Regulation 55 “Administering Authorities: Governance Compliance Statement”

## B Conflicts of Interest

***B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.***

One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts. In doing so, the SAB was of the view that the democratically accountable nature of the LGPS be maintained.

Since almost all LGPS funds are rooted in local authority law and practice, those elected members who serving on pension committees are subject to local authority member codes of conduct<sup>5</sup>. These will require members to register existing conflicts and to recognise when conflicts arise during the course of their duties and how to deal with them. Elected members must also comply with the Seven Principles of Public Life (often referred to as the Nolan Principles). Non-elected members sitting on committees and local pension boards should be subject to the same codes and principles.

There are, however, specific conflicts that can arise as a result of managing a pension fund within the local authority environment. The intention of this recommendation is that all administering authorities publish a specific LGPS conflicts of interest policy. This should include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS and will be listed in The Guidance. The expectation is that the areas covered will include:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations;
- Contribution setting for the administering and other employers;
- Cross charging for services or shared resourcing between the administering authority and the fund and ensuring the service quality is appropriate for the fund;
- Dual role of the administering authority as an owner and client of a pool;
- Investment decisions about local infrastructure; and
- How the pension fund appropriately responds to Council decisions or policies on global issues such as climate change.
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or cabinet should be disclosed.

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<sup>5</sup> Similar codes apply for non-local authority administering authorities.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded; and
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.

In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

The Guidance should require each fund to make public its conflicts of interest policy.

***B.2 The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees.***

There are no immediate plans for SAB to opine on or publish a statement on fiduciary duty given the conflict between Nigel Giffin's opinion and those of the Supreme Court in the Palestine case. Therefore, this recommendation has been updated.



## C Representation

***C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.***

One of the key principles of the Good Governance Review is the recognition that each administering authority knows its own situation best and that The Guidance should avoid being overly prescriptive and limiting. In the matters of delegating responsibilities and appointing members to committees, most administering authorities must comply with the Local Government Act 1972. Nothing within The Guidance can, or should, override or limit the provisions of the 1972 Act. The intention behind this recommendation is simply that administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

The SAB's view is that **it would expect** scheme managers to have the involvement employers and member representatives on any relevant committees.

In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

## D Skills and training

***D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.***

There was widespread agreement throughout the Good Governance Review process that those making decisions about billions of pounds of public money and the pension provision of millions of members should be properly trained to carry out the responsibilities of their role. The level of knowledge and understanding of technical pensions topics will vary according to role.

The Guidance should require the Administering Authority to identify training requirements for key individuals having regard for:

- topics identified in relevant frameworks or in publications by relevant bodies (e.g. CIPFA, TPR etc)
- the workplan of the Administering Authority; and
- current or topical issues.

The Administering Authority should develop a training plan to ensure these training requirements are met and maintain training records of key individuals against the training plan. These records should be published in the Governance Compliance Statement.

### Pension Committees

The private sector has seen an increasing move towards the professionalisation of trustees and the introduction in to the LGPS in recent years of TPR, local pension boards and MIFID have made knowledge and skills for committees and boards a greater focus.

The membership of committees typically includes some or all of the following:

- administering authority elected members;
- other local authority elected members;
- other employer representatives; and
- scheme member representatives.

Training requirements for pensions committees apply to all members.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to pension committees. As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

A pension committee member is not being asked to be a subject matter expert or act operationally. Instead the role involves receiving, filtering and analysing professional advice in order to make informed decisions.

A pension committee member should put aside political considerations, act in the interest of all employers and members and act within a regulatory framework.

When considering what training is appropriate for committee members, it might help to consider how pension committee operate and what makes an effective committee. To carry out the role effectively a committee member must have the following;

- An ability to focus on the issues that make the most difference and produce the most value and not be distracted by lower order issues;
- Access expert professional advice in the form of external advisers and administering authority officers; and
- An ability to seek reassurance, challenge the information provided and bring their own experiences to bear in decision making.

***D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.***

Treasury Guidance<sup>6</sup> requires that all government departments should have professional finance directors and that “It is good practice for all other public sector organisations to do the same, and to operate to the same standards”.

Professionally qualified in this context refers to both being a qualified member of one of the five bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland; and having relevant prior experience of financial management in either the private or the public sector.

The intention behind this recommendation is that an understanding of the LGPS should be a requirement for s151 officers (or those aspiring to the role). During the Good Governance project itself the view was put forward by some the profession that requiring an element of LGPS training could form part of an individual’s ongoing continuous professional development requirements. This would have the advantage of ensuring the topics covered remain current and relevant.

The expectation would be that an appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS in order that they can understand issues relating to the participation of their own organisation, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority.

***D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.***

Many funds already publish training strategies which set out training strategies which establish how members of the Pension Committee, Pension Board and fund officers will attain the knowledge and understanding they need to be effective and to challenge and effectively carry out their decision making responsibilities. The intention is that all LGPS funds should produce a strategy which should set out how those involved with the fund will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified;
- ensure that knowledge is maintained; and
- evidence the training that is taking place

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<sup>6</sup> See Managing Public Money (July 2013), Annex 4.1

***D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.***

The intention is that SAB engage with the professional accountancy bodies to develop LGPS training modules for accountancy professionals operating within local authorities.

## E Service delivery for the LGPS Function

### ***E.2 Each administering authority must publish an administration strategy.***

This proposal has been progressed by the Cost Management, Benefit Design and Administration subcommittee to the SAB. When it met on the 6<sup>th</sup> January 2020 the following proposals were discussed:

- Changing the status of Regulation 59 from discretionary to mandatory and introduce the requirement for Pension Administration Strategy statements to be prepared and maintained in accordance with new statutory guidance
- Reviewing the remainder of Regulations 59 and 70 to identify whether any additional changes should be made;
- Exploring the scope for empowering administering authorities to penalise inefficient scheme employers in a more effective way;
- Recommending that MHCLG publishes new statutory guidance including :-
  - Minimum standards of performance;
  - Assessment of inefficiency costs;
  - Timescales for submitting scheme data
- Extending Regulation 80 to include a duty on all scheme employers to comply with the new Pension Administration Strategy statements.
- Changing the name of the statement to make it clear that it is wholly relevant to scheme employers.

### ***E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.***

The working group considered this and recommend that rather than attempting to define a universal set of standards for administration across the LGPS. the KPIs should focus on ensuring that each fund has defined service standards, and has the governance in place to monitor their service standards and to benchmark those standards against other funds where appropriate.

## Governance KPIs

Subject Area	KPI	Notes
<b>Breadth of representation</b>	1. Percentage make-up (employer/member) on committee and board and number of LPB representation	
	2. Average attendance level at meetings (percentage) – split between absence and vacancies	<i>1. and 2. may be incorporated in the Governance Compliance Statement (GCS) by including a clear statement of committee members and their attendance at meetings</i>
<b>Training and expertise</b>	3. Hours of relevant training undertaken across panel/board in last year	
	4. Relevant experience across senior management team	A qualitative statement on the LGPS Senior Officer and their direct reports (or other senior pensions staff) to include professional qualifications and financial services/pension/LGPS experience. Also include % time spent on pension fund business by each person
<b>Compliance/ Risk</b>	5. Number of times risk register reviewed annually – number of times on agenda at committee/board.	This is not measuring the quality of the register but the expectation that it will be viewed regularly at the committee should also improve quality.
	6. Number of times carried out business continuity testing and/or cyber security penetration testing	<i>Key focus of TPR</i>
<b>Appropriate governance time spent on key areas</b>	7. Split of committee/board spent on administration/governance/investment	How should this be measured, is it just by number of items on the agenda keeping in mind it needs to be auditable?

## Administration KPIs

		Notes
<b>Data quality</b>	1. Common/conditional data score, in line with TPR expectations	
	2. Annual Benefit Statement percentage as at 31 August	<i>Include explanation where less than 100%.</i>
<b>Service standards/SLAs</b>	3. Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe	
	4. Does the Fund monitor and report its own standards?	Y/N
	5. Percentage of calls to customer helpline answered and resolved at first point of contact	
<b>Engagement and communication – capabilities and take-up</b>	6. Specify which online services are available to members/employers	<i>Measuring services provided by Fund online, perhaps against an agreed standardised list.</i>
	7. Percentage of members registered for the fund's online services and the percentage that have logged onto the service in the last 12 months split by status	<i>Measuring take up of services</i>
	8. Number of employer engagement events and/or briefings held in last 12 month and percentage take-up	<i>Percentage take-up could be weighted to size of employer.</i>
<b>Customer satisfaction</b>	9. Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS fund (this could be obtained via a simple questionnaire of no more than 5 questions).	<i>Members and employers should be measured separately, and funds should also report the number completing the questionnaire to ensure appropriate coverage. For consistency in comparison we suggest a general question is drafted and Funds told to incorporate into their surveys – e.g. “The service was excellent – Strongly Disagree/Disagree/Agree/Strongly Agree.”</i>

***E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.***

Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund's budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund's officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund's business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year's budget by an inflationary measure or specify an "available" budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund's business plan, but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority's scheme of delegation and constitution.

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard.

If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.



## F Compliance and Improvement

***F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.***

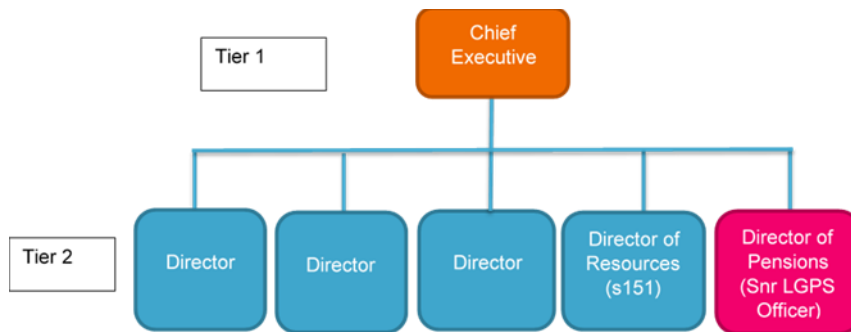
IGR reports to be assessed by a SAB panel of experts.

The Phase 2 report sets out the key features required in the Independent Governance Review. A sample outline for further discussion is included in Appendix 3.

## Appendix 1 - Senior officer organisational structures

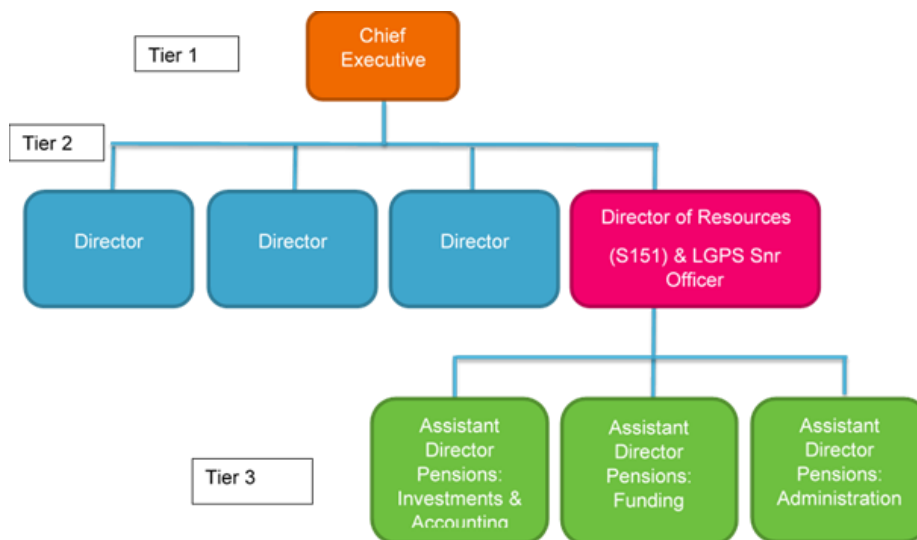
The following organisational structure charts show where the LGPS senior officer role may sit.

Example 1



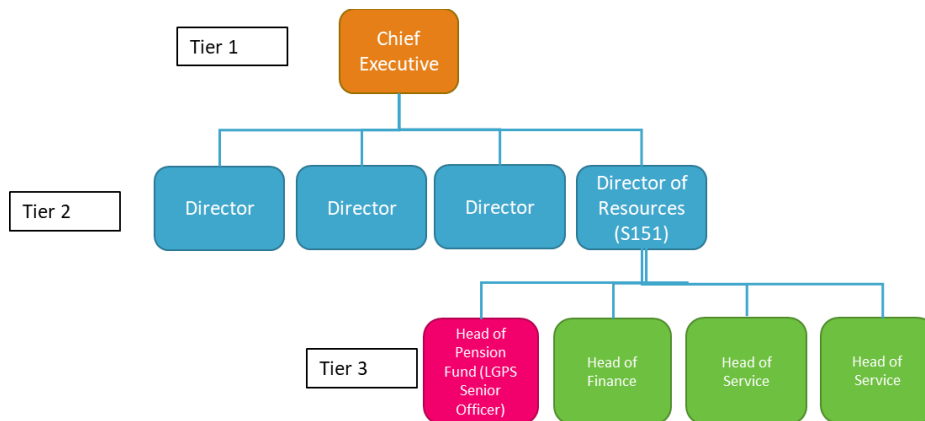
In this structure the LGPS Senior Officer is the Director of Pensions. As a tier 2 officer in the organisation the Director of Pensions will have the appropriate seniority for the role and with only LGPS responsibilities they will have the capacity to focus solely on delivery of the LGPS function.

Example 2



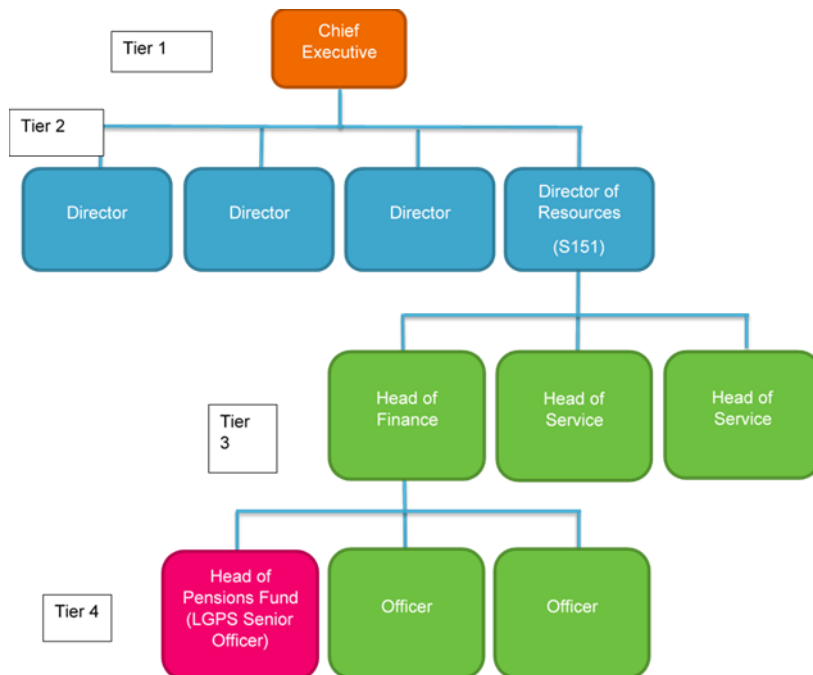
In this model the LGPS Senior Officer is a Tier 2 Director with significant other responsibilities. The diagram shows the LGPS Senior Officer as the Director of Resources and s151 officer, but a similar situation could arise if pension responsibilities lay within another Directorate, for example under a director with responsibility for legal/governance (in which case the LGPS Senior Officer would likely be the monitoring officer as well). Although the Senior officer has other responsibilities in this scenario, they are supported by a senior team of assistant directors, who are themselves tier 3 officers. The strength of the management team in this case is likely to mean that the LGPS Senior Officer has the ability to delegate aspects of LGPS delivery to an appropriately senior team, while retaining the ability to influence the strategic direction of the fund.

Example 3



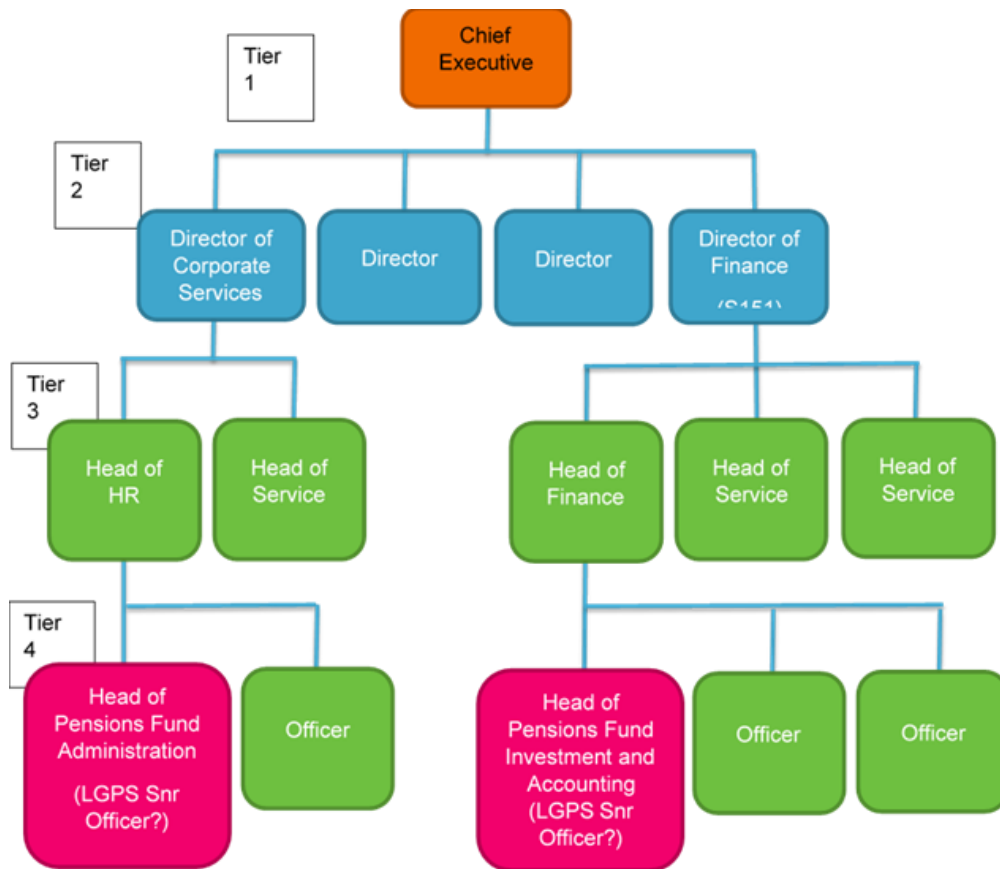
Under this structure the Head of Pensions is a Tier 3 officer reporting to the S151 officer.

Example 4



Under this structure the Head of Pensions sits at tier 4 with a reporting line that runs through the Head of Finance, Director of Resources (s151) and to the Chief Executive. As long as the reporting lines are clear and there is sufficient support for the Head of Pensions from senior officers this structure may provide an appropriate level of seniority and capacity for the Senior officer. However, some members of the working group expressed the view that in order to manage the scope and exert the required influence, the LGPS Senior Officer role should be held by an individual no lower than Tier 3.

Example 5



In this structure it becomes difficult to identify where the LGPS Snr officer should sit. While the investment and accounting functions sit within the function at tier 4, the administration of the fund is delivered by a fourth tier officer in the corporate services directorate who reports to the Head of HR. such an arrangement makes it difficult to for any one person to have full sight of all LGPS functions. Separate reporting lines in this fashion militate against a joined strategy and decision making for the fund.

## Appendix 2 - Governance compliance statement

The following is an example of a governance compliance statement. It is recognised that under the current LGPS regulations, administering authorities must prepare, publish and maintain a statement on the following matters;

- (a) whether the authority delegates its functions, or part of its functions under the LGPS regulations to a committee, a sub-committee or an officer of the authority;
- (b) if the authority does so-
  - (i) the terms, structure and operational procedures of the delegation,
  - (ii) the frequency of any committee or sub-committee meetings,
  - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

These matters should continue to form part of each administering authority's governance compliance statement.

It is recommended that the new governance compliance statement incorporates the existing requirements alongside the recommendations arising from this review.

### A Conflicts of interest

#### A1. Conflicts of Interest Policy

The Fund has published a conflict of interest policy which sets out:

- How it identifies potential conflicts of interest (including those set out in recommendation B1)
- How it ensures that understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, members of the local pension board and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

The Governance Compliance Statement includes a link to this policy.

## A2. Conflicts of Interest Process

The fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular training to members of the pension committee, pension board and officers on identifying and managing potential conflicts of interest;
- Ensuring a record is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring that a declaration of interests forms part of the agenda for all pension committee and pension board meetings and that an annual declaration of interests is completed;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

## A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an admissions policy which details its approach to admitting new employers to the Fund. This includes its approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted in to the Fund.
- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are taken to the Pension Committee who then make recommendation to the S151 officer.

## **B Clarity of Roles and Responsibilities**

### **B.1 Clear decision making**

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Committee.

The Pension Board's terms of reference and the membership and terms of reference for any sub-committees are also published.

The scheme of delegation is supported by:

- clearly documented role and responsibilities for the LGPS Senior Officer, S151 and pension fund officers / Head of Pension Fund; and
- a decision matrix which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The terms of references for the Committee & Board are publicly available and should be reviewed on a regular basis.

## **C Sufficiency of resources for service planning and delivery**

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

### **C.1 Business planning and budget setting**

The Fund operates a 3 year business plan which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund (including backlogs of work) and anticipated regulatory changes.

The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan.

The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published in the Fund's annual report and accounts.

### **C.2 Service delivery**

The Fund publishes an administration strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of the structures and processes in place for the delivery of the pension administration function;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to training and development of staff;

- the Fund's approach to the use of technology in pension administration.

### C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

- Performance against KPIs is reported to the Pension Committee and Pension Board on a regular and agreed basis. KPI performance is reported in the Fund's annual report. Plans to address any backlogs added to business planning process above.
- Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for review are agreed in advance with the Pension Committee and findings are reported to them.
- This year the internal audit also included an assessment of the Fund's performance against the requirements of The Pension Regulator's Code of Practice 14. The assessment recognised that the Fund is fully compliant in most areas but did make a number of suggestions about how the Fund could improve its internal controls for managing data. These suggestions have been adopted into the Fund's data improvement plan.
- Last year the Pension Board assisted the committee by undertaking an independent review of the sufficiency and appropriateness of the Fund's governance and operational resources. The review found that the Fund was for the most part properly resourced although the use of regular staff to tackle a backlog of aggregation cases was causing the backlog project to fall behind and having an adverse impact on business as usual. The review suggested procuring additional temporary resource in order to address the backlog issue.
- The Fund also participates in national benchmarking exercises which provides information on how costs, resource levels and quality of service compare with other LGPS funds and private sector schemes. The benchmarking did not identify any significant areas of concern.

### D. Representation and engagement

The Fund has published a Policy on representation and engagement.

#### D.1 Representation on the main decision making body

The policy recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain a majority of voting members on the Pension Committee. The present Pension Committee is constituted as follows;



**Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)**

	Administering Authority / Employer / Member representative / Other	Meeting Date				Attendance (%)
		MM/YY	MM/YY	MM/YY	MM/YY	
Voting Members						
Cllr A (chair)	Administering Authority	Y	N	Y	Y	75%
Cllr B (vice-chair)	Administering Authority	Y	Y	Y	Y	100%
Cllr C	Administering Authority	Y	N	Y	Y	75%
Cllr D	Administering Authority	N	Y	Y	N	50%
Cllr E	Administering Authority	Y	Y	Y	Y	100%
F	Employer representative	Y	Y	N	Y	75%
G	Member representative	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
Average attendance (including vacancies) %						78%
Average attendance (excluding vacancies) %						69%
Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
Non-Voting Members						
H	Member representative	Y	Y	Y	N	75%
I	Member representative	Y	Y	Y	Y	100%

**D.2 Membership of the Local Pension Board**

The Local Pension Board is constituted as follows;

- 4 employer representatives comprising;
  - 2 elected members of the Council
  - 1 elected member of the District Council
  - 1 member representing all other employers
- 4 scheme member representatives comprising;
  - 1 member appointed by trade unions
  - 3 members representing active, deferred and pensioner Scheme members (to be appointed by an open election process)
- 1 independent chair

With the exception of the Chair, all members are full voting members.

The Pension Board has an independent adviser.

**D.3 Engagement with employers**

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's Communication strategy and include:

- An Annual Employer Forum which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;

- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and
- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

#### **D.4 Engagement with members**

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointments, by phone or at our offices, with members of the pension team to discuss specific matters.

### **E. Training**

#### **E.1 Training Strategy**

The Fund has adopted a training strategy which establishes how members of the Pension Committee, Pension Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

#### **E.2 Evidencing standards of training**

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in the Fund's annual report and in this statement.

Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

The CIPFA requirement for continuous professional development for s151 officers now includes a regular LGPS element. This requirement applies to the s151 officer for the Council as well as the district and borough councils within the Fund. The fund has complied fully with this requirement.

#### Pensions Committee – Training for Financial Year YYYY/YY

Training Completed (hours)		Subject				Total (hours)
		Governance	Investment	Pensions Administration	Other (specify)	
Pensions Committee						
Cllr A (chair)		2	5	1	1	9
Cllr B (vice-chair)		2	4	1	1	8
Cllr C		4	5	2	2	13
Cllr D						
Cllr E						
F						
G						
Vacancy						
Sub-Total						130
Pensions Board						
R (chair)		2	5	1	1	9
S (vice-chair)		2	4	1	1	8
T		4	5	2	2	13
U						
V						
W						
X						
Sub-Total						100
Officers						
LGPS Senior Officer		6	8	3	4	9
X						
Y						
Z						

## Appendix 3 - KPI Reporting

This appendix includes example tables for reporting committee structure and training KPIs.

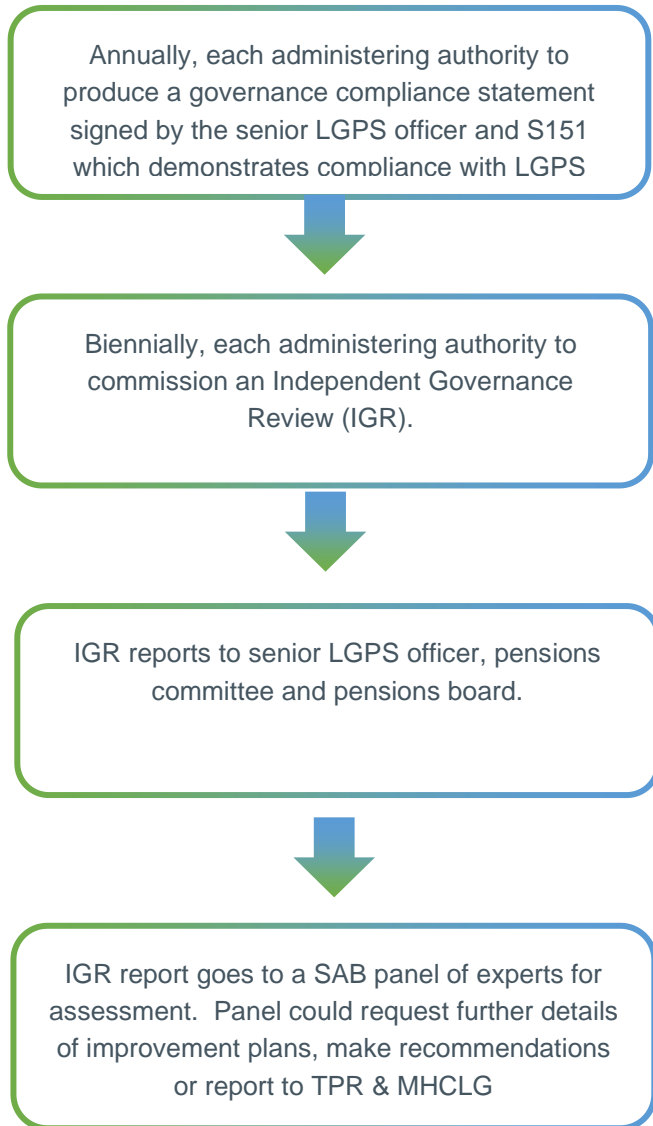
### Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)


	Administering Authority / Employer / Member representative / Other	Meeting Date				Attendance (%)
		MM/YY	MM/YY	MM/YY	MM/YY	
Voting Members						
Cllr A (chair)	Administering Authority	Y	N	Y	Y	75%
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Cllr C	Administering Authority	Y	N	Y	Y	75%
Cllr D	Administering Authority	N	Y	Y	N	50%
Cllr E	Administering Authority	Y	Y	Y	Y	100%
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Average attendance (including vacancies) %						78%
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Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
Non-Voting Members						
H	Member representative	Y	Y	Y	N	75%
I	Member representative	Y	Y	Y	Y	100%

## Pensions Committee – Meeting Content (Governance KPI 7)

			Meeting Date				Number of times item considered
			MM/YY	MM/YY	MM/YY	MM/YY	
Meeting duration (hours)			3.0	2.5	4.0	2.5	
Governance							
	Declaration of Conflicts of Interest		X	X	X	X	4
	Policies/Strategies			X	X		2
	Business Planning					X	1
	Budget setting					X	1
	Annual report and accounts			X			1
	Governance Compliance Statement			X			1
	Audit matters (internal/external)		X	X	X		3
	Risk Register		X	X	X	X	4
	Business Continuity			X			1
	Data Security				X		1
	Breaches		X	X	X	X	4
	Regulatory Update			X		X	2
	Update from Pension Board		X				1
	Pool Governance issues			X		X	2
	Review of Effectiveness		X				1
	Training		X		X		2
	Other [to be specified]						
Funding							
	Actuarial Valuations		X	X			2
	Funding Strategy Statement		X	X			2
	Interim Funding Update				X	X	2
	Other [to be specified]						
Investment							
	Strategy review				X		
	Policies/Strategy (Investment Strategy Statement, Responsible Investment)				X	X	
	Strategy implementation - Asset Pooling - Investment manager appointments		X		X	X	3
	Monitoring of investments - Market update - Investment managers - Performance		X	X	X	X	4
	Other [to be specified]						
Pensions Administration							
	Administration Strategy					X	1
	Communications Strategy						0
	Performance Indicators		X	X	X	X	4
	Updates on Projects			X		X	2
	Other [to be specified]						

## Appendix 4 - Summary of the Independent Governance Review



Report Title:	<b>Administration Report</b>	<a href="http://www.rbwm.gov.uk">www.rbwm.gov.uk</a> 
Contains Confidential or Exempt Information?	NO - Part I	
Member reporting:	Councillor Sharpe, Chairman Berkshire Pension Fund Committee and Pension Fund Advisory Panel	
Meeting and Date:	Berkshire Pension Fund Committee and Pension Fund Advisory Panel – 14 June 2021	
Responsible Officer(s):	Kevin Taylor, Pension Services Manager, Philip Boyton, Pension Administration Manager	
Wards affected:	None	

## REPORT SUMMARY

This report deals with the administration of the Pension Fund for the period 1 January 2021 to 31 March 2021. It recommends that Members (and Pension Board representatives) note the Key Administrative Indicators throughout the attached report.

Good governance requires all aspects of the Pension Fund to be reviewed by the Administering Authority on a regular basis. There are no financial implications for RBWM in this report

### 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That Committee notes the report and:

- (i) All areas of governance and administration as reported
- (ii) All key performance indicators

Please note that Administration Reports are provided to each quarter end date (30 June, 30 September, 31 December and 31 March) and presented at each Committee meeting subsequent to those dates.

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

- 2.1 The Berkshire Pension Fund Committee has a duty in securing compliance with all governance and administration issues.

### 3. KEY IMPLICATIONS

- 3.1 Failure to fulfil the role and purpose of the Administering Authority could lead to the Pension Fund and the Administering Authority being open to challenge and intervention by the Pensions Regulator.

### 4. FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 Not applicable.

## **5. LEGAL IMPLICATIONS**

5.1 None.

## **6. RISK MANAGEMENT**

6.1 None.

## **7. POTENTIAL IMPACTS**

7.1 Equalities: Equality Impact Assessments are published on the [council's website](#)  
N/A

7.2 Climate change/sustainability: N/A

7.3 Data Protection/GDPR. N/A

## **8. CONSULTATION**

8.1 Not applicable.

## **9. TIMETABLE FOR IMPLEMENTATION**

9.1 Not applicable.

## **10. APPENDICES**

10.1 This report is supported by 0 appendices

## **11. BACKGROUND DOCUMENTS**

11.1 This report is supported by 0 background documents.

## **12. CONSULTATION (MANDATORY)**

<b>Name of consultee</b>	<b>Post held</b>	<b>Date issued for comment</b>	<b>Date returned with comments</b>
Cllr. Julian Sharpe	Chairman – Berkshire Pension Fund Committee		
Adele Taylor	Director of Resources and s151 Officer		
Andrew Vallance	Head of Finance and Deputy s151 Officer		
Ian Coleman	Interim Pension Fund Manager		



## REPORT HISTORY

<b>Decision type:</b>	<b>Urgency item?</b>	<b>To follow item?</b>
Pension Fund Committee decision	<del>Yes</del> /No	<del>Yes</del> /No

Report Author: Kevin Taylor, Pension Services Manager 07992 324393
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## **ADMINISTRATION REPORT**

**QUARTER 4 – 2020/21**

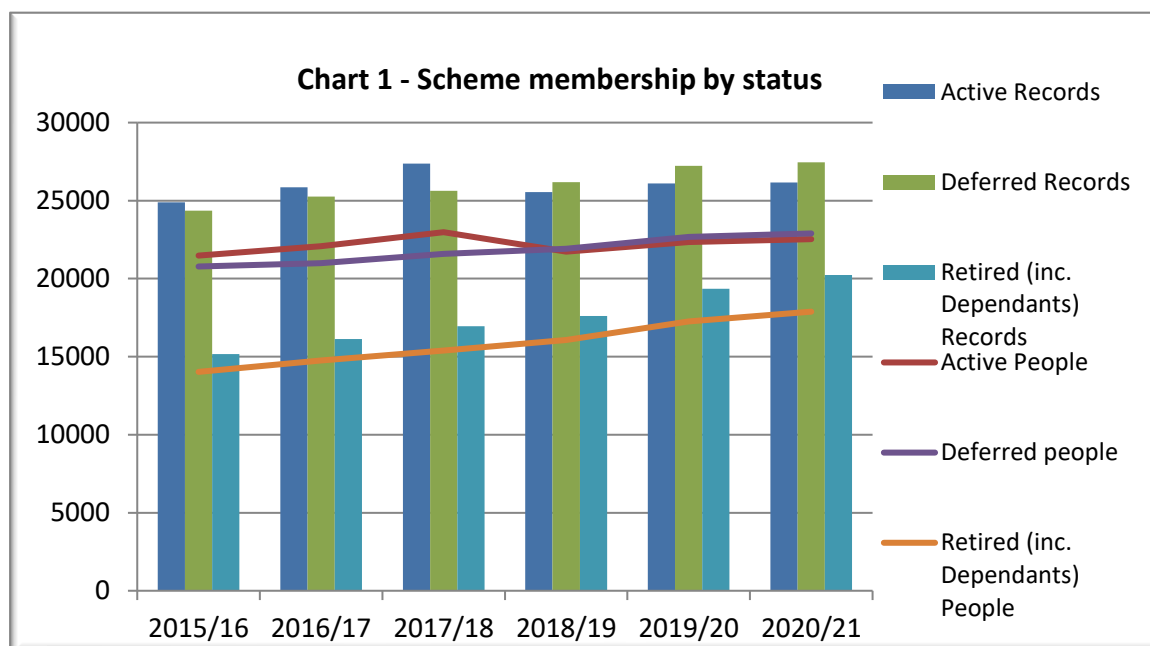
**1 January 2021 to 31 March 2021**

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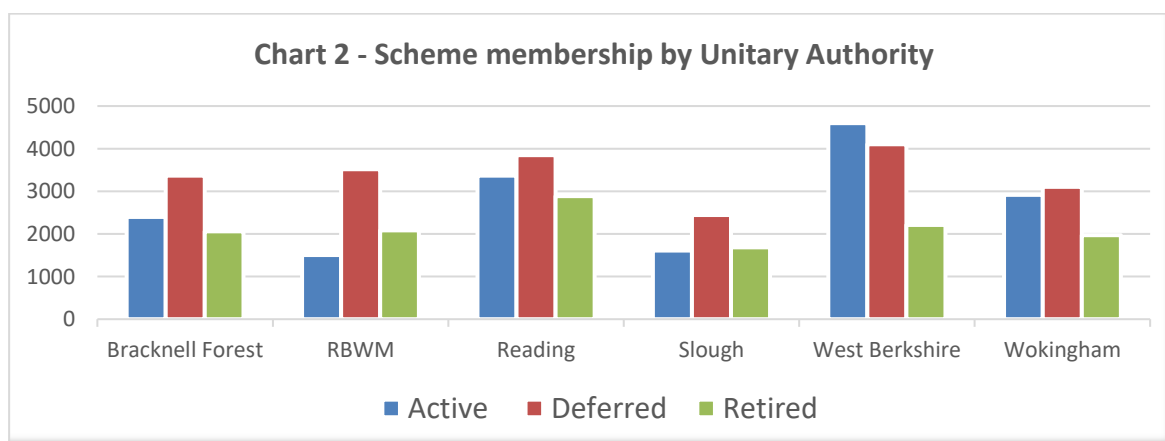
## 1. ADMINISTRATION

### 1.1 Scheme Membership



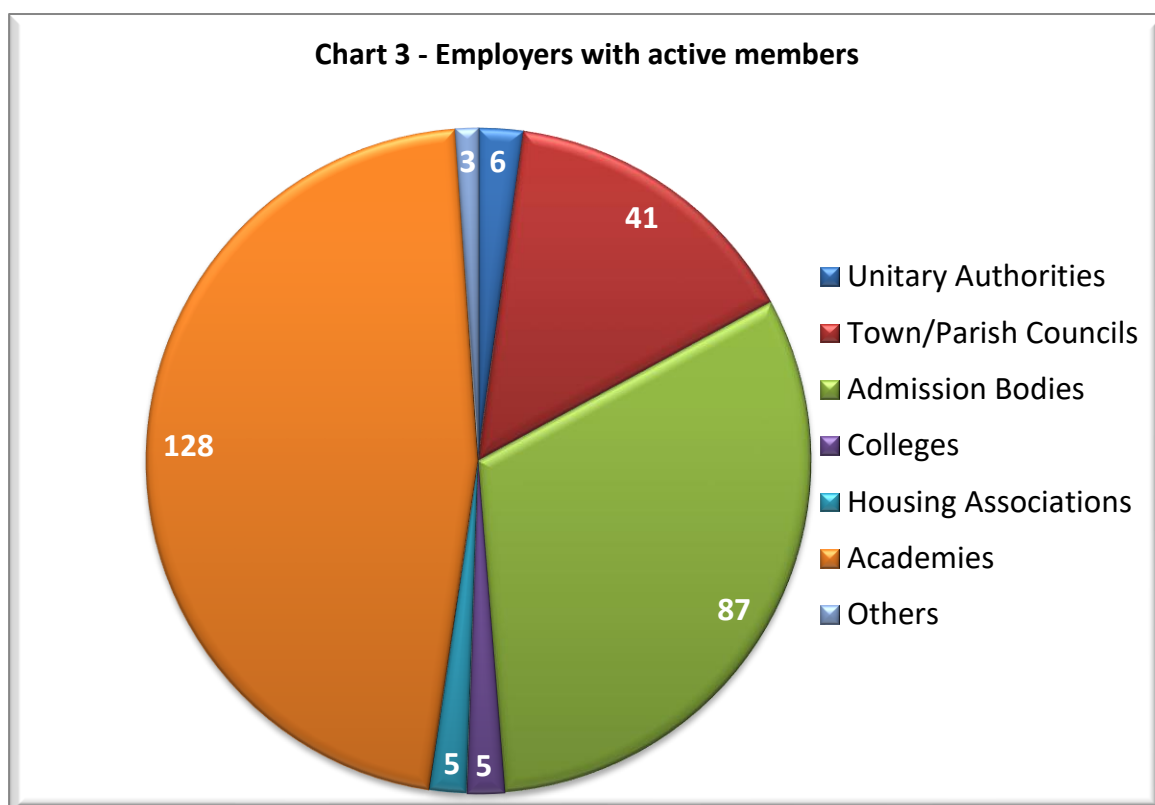
TOTAL MEMBERSHIP			
Active Records	26,154	Active People	22,524
Deferred Records	27,451	Deferred People	22,898
Retired Records	20,227	Retired People	17,855
<b>TOTAL</b>	<b>73,832</b>	<b>TOTAL</b>	<b>63,277</b>

### 1.2 Membership by Employer



Membership movements in this Quarter (and previous Quarter)						
	Bracknell	RBWM	Reading	Slough	W Berks	Wokingham
Active	+27 -39	-10 +3	+19 -1	-61 -22	+13 +221	-13 -31
Deferred	-23 -27	+3 -32	-6 -35	-22 -49	-18 -1	-11 -3
Retired	+27 +80	+24 +53	+29 +101	+10 +46	+31 +96	+32 +72

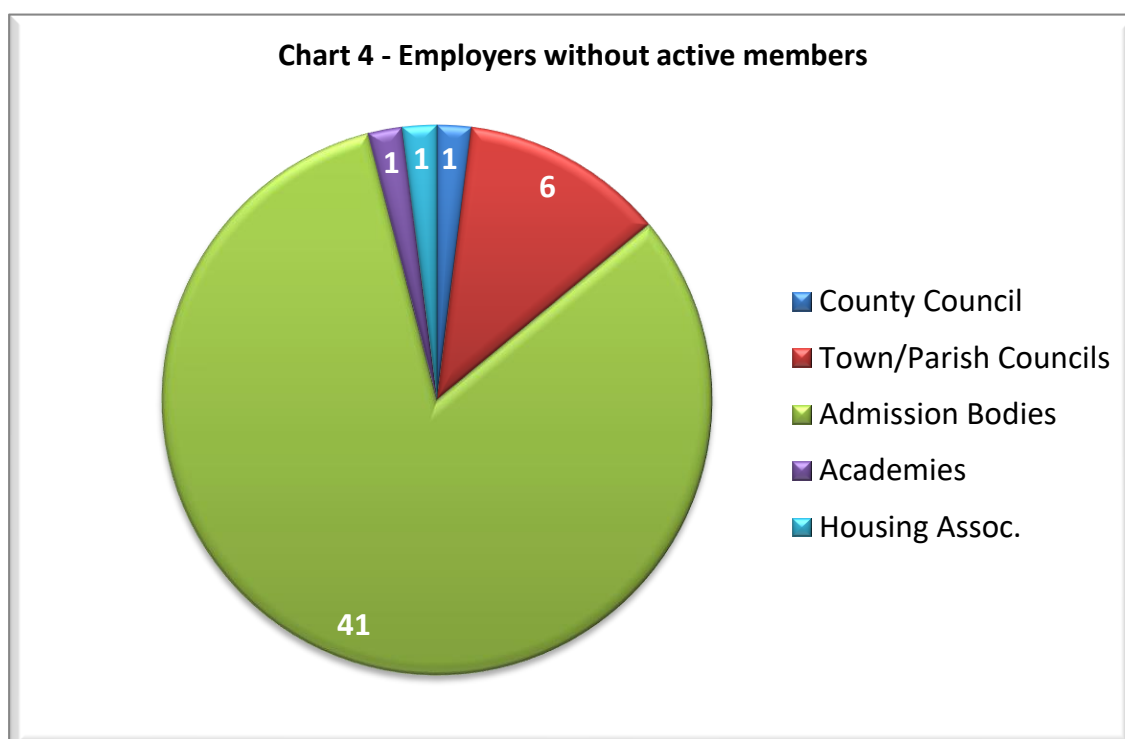
### 1.3 Scheme Employers



New employers since last report:

**Admission Bodies:** Thomas Coram Foundation

**Academies:** Khalsa Primary School



**Exiting employers:** Northgate Information Solutions

## 1.4 Scheme Employer Key Performance Indicators

Table 1A – i-Connect users Quarter 4 (1 January 2021 to 31 March 2021)					
Employer	Starters	Leavers	Changes	Total	Submission Received Within Specification
Bracknell Forest Cncl	134	75	232	441	100%
RBWM	93	75	146	314	100%
Reading BC	157	101	279	537	100%
Slough BC	50	94	132	276	100%
West Berks Council	288	193	401	882	100%
Wokingham BC	145	51	244	440	100%
Academy/ School	399	374	3,100	3,873	75.80%
Others	92	93	173	358	96.25%
<b>Totals</b>	<b>1,358</b>	<b>1,056</b>	<b>4,707</b>	<b>7,121</b>	

**NOTES:** Table 1A above shows all transactions through i-Connect for the fourth quarter of 2020/2021. Changes include hours/weeks updates, address amendments and basic details updates.

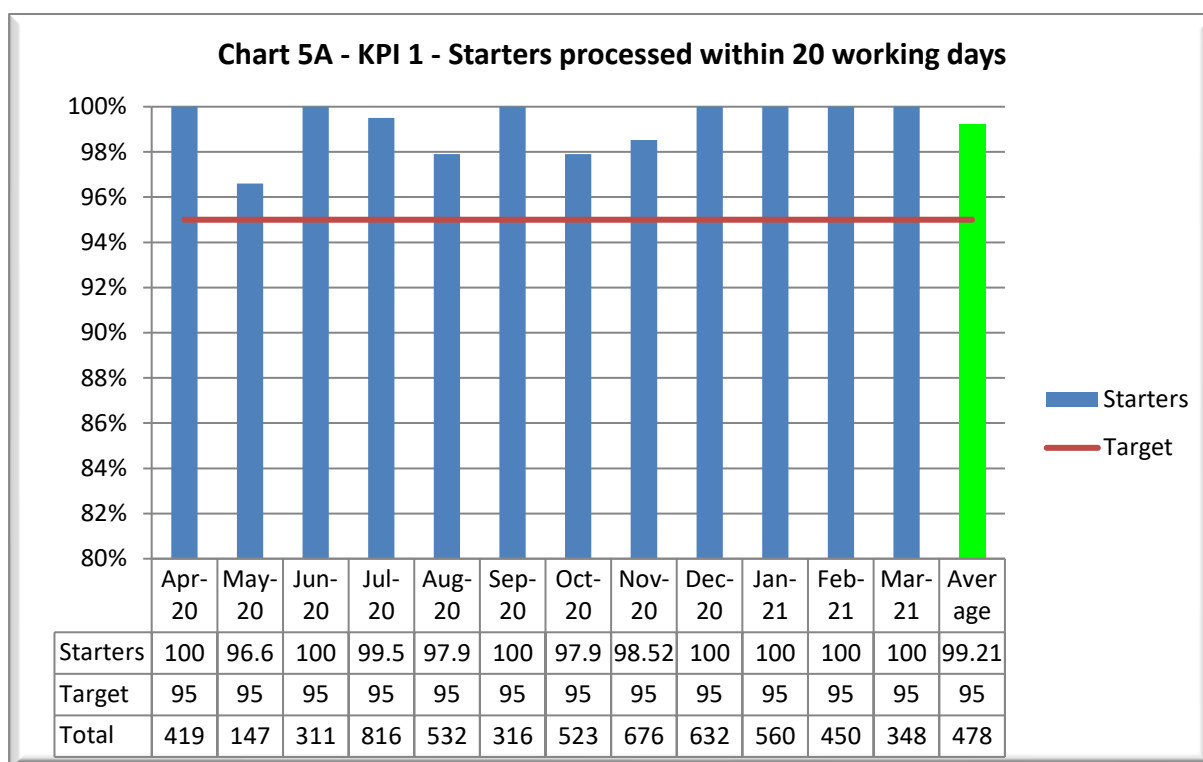
The benefits of i-Connect are:

- 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.

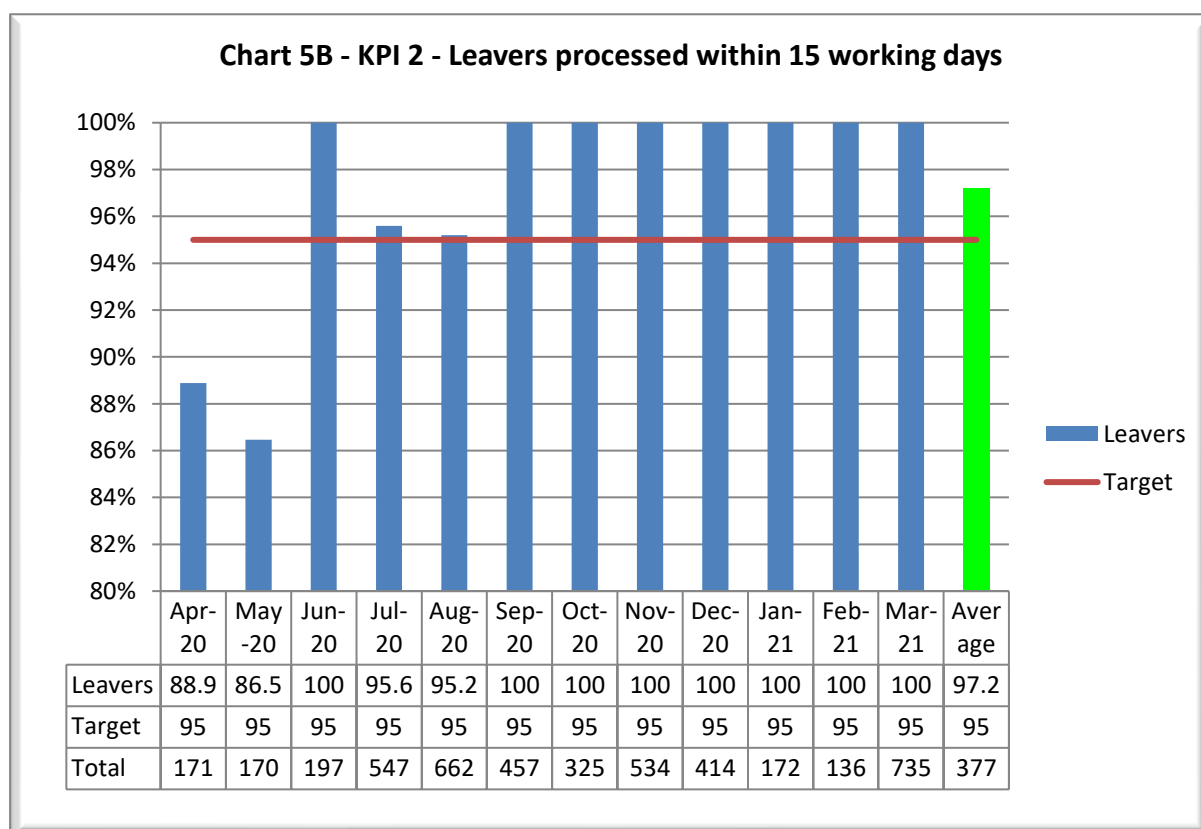
144 scheme employers are yet to on board i-Connect. Of these 31 individual scheme employers have more than 10 scheme members. In addition, we have 34 academies across 13 Multi-Academy Trusts (MATs) still to on-board making a total of 65 employers. (Please note that we treat the MAT as the employer so strictly there are 47 scheme employers with more than 10 scheme members still to on board but 65 employer locations held on the administration system).

The Pension Fund is committed to having all scheme employers with 10 or more scheme members uploaded to i-Connect by 31 March 2022. Scheme employers with fewer than 10 scheme members (79 employers) will also be given the option of using an on-line portal version of i-Connect by that date.

## 1.5 Key Performance Indicators

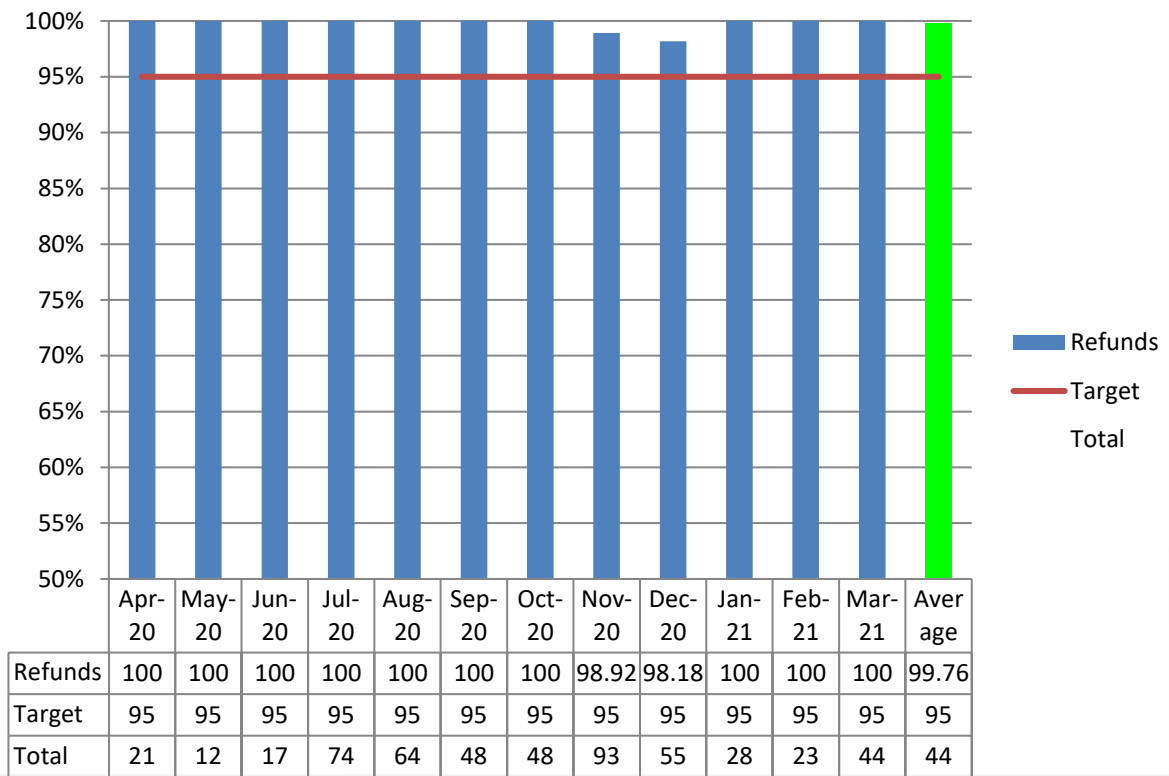


**CIPFA Benchmark:** Two months from date of joining the scheme or if earlier within one month of receiving jobholder information.



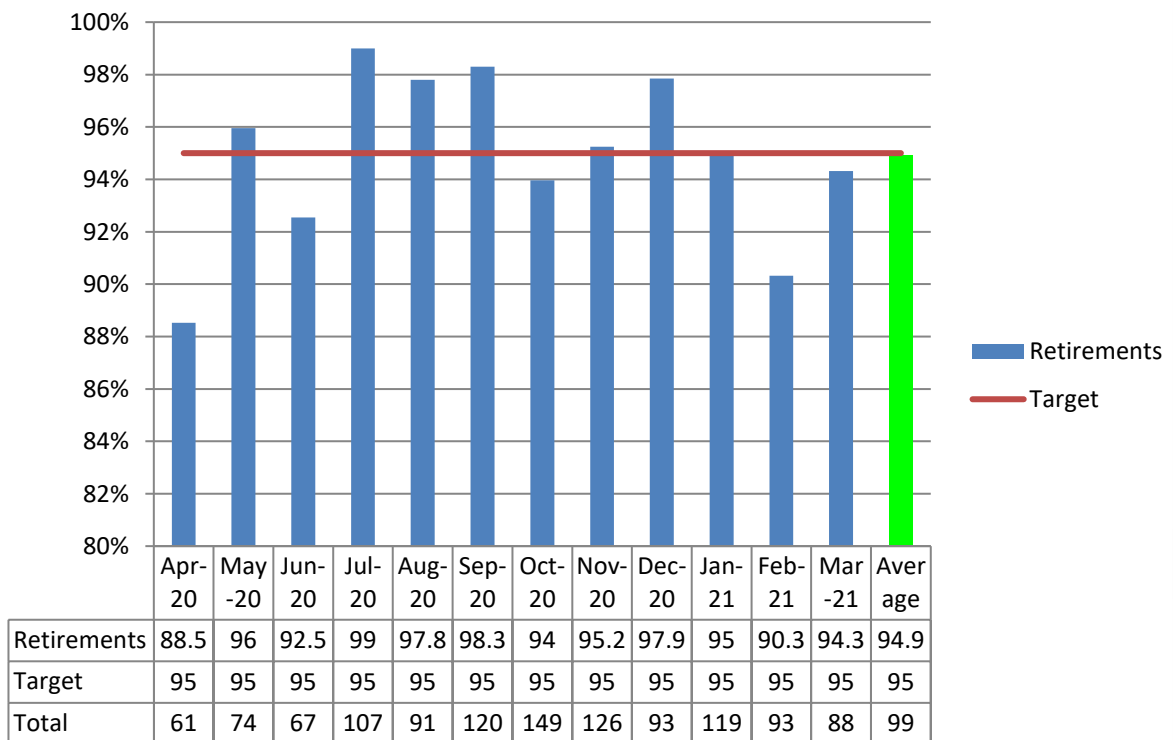
**CIPFA Benchmark:** As soon as practicable and no more than two months from date of notification from scheme employer.

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



**CIPFA Benchmark:** To be confirmed.

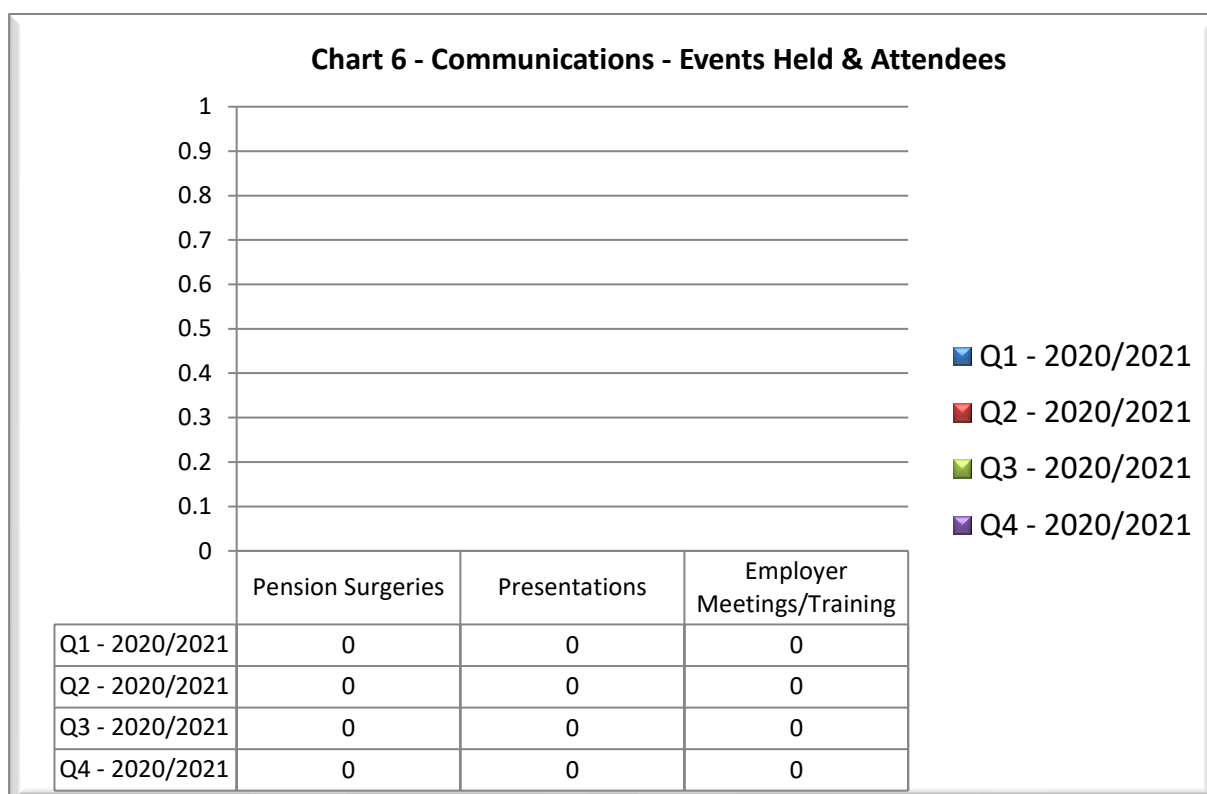
**Chart 5D - KPI 4 - Retirements processed within 5 working days**



**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 – Not reporting on these events currently



## 1.7 Stakeholder Feedback

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

Date Received	Method	Feedback
10/03/2021	E-mail	There is no need to apologise, once again excellent service from Berkshire Pensions. The problem lies entirely with the Prudential, I'm surprised they've got themselves into such a mess.
06/05/2021	Email	I also want to put on record my thanks to [NAME] for his support, advice and patience with my never-ending questions during the last 12/14 months in relation to the drafting of the Admission Agreement.

## 2 SPECIAL PROJECTS

### 2.1. McCloud Judgement

In 2014 the Government introduced reforms to public service pensions, meaning most public sector workers were moved into new pension schemes in 2014 and 2015.

In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' pension schemes, as part of the reforms, gave rise to unlawful discrimination.

On 15 July 2019 the Chief Secretary to the Treasury made a written ministerial statement confirming that, as 'transitional protection' was offered to members of all the main public service pension schemes, the difference in treatment will need to be removed across all those schemes for members with relevant service.

The changes to the LGPS include transitional protection for members who were within 10 years of their Final salary Scheme normal pension age on 1 April 2012, ensuring that they would receive a pension that was at least as high as they would have received had the scheme not been reformed to a Career Average Revalued Earnings scheme from 1 April 2014.

Like all LGPS Pension Funds we are currently analysing the membership whilst working closely with both our actuary, Barnett Waddingham, and pension software provider, heywood Limited, to identify those members impacted by this judgement leading to a recalculation of deferred and in payment scheme member benefits.

## **2.2**     *Year End 2021 Processing*

In consideration of the three administrative parts of year end processing Officers can report the following to Members:

### ➤ Pension Increase – Deferred Pensioners and In Payment Scheme Members

Following the successful increase to deferred pensioner records Annual Benefit Statements were issued on 12 April 2021, the same day all deferred pensioner benefits increased by 0.5% in line with the Consumer Price Index (CPI).

Following the successful increase to in payment scheme member records a Pension Increase Booklet was issued to all in payment scheme members before the last working day of April 2021.

### ➤ Active Contributors

During week commencing Monday, 8 February 2021 Officers e-mailed those scheme employers yet to onboard i-connect the year end requirements for scheme year ending 31 March 2021. Scheme employers are asked to provide a response to the year-end requirements no later than 1 May 2021.

Annual Benefit Statements will be made available as soon as each scheme employers reconciliation is complete. Progress will be reported to Members at the next Pension Fund Committee meeting.

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

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