

Report Title:	<b>Pension Fund Governance Progress</b>
Contains Confidential or Exempt Information	No - Part I
Cabinet Member:	Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel
Meeting and Date:	Pension Fund Committee and Advisory Panel – 6 December 2021
Responsible Officer(s):	Damien Pantling, Head of Pension Fund
Wards affected:	None

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## **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 and also the external auditor's report from 2019/20.

The progress matrices can be found at Appendices 1 and 2

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

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

- i) **Notes the report and agrees to sign off all remaining items in both progress matrices at Appendices 1 and 2 as being completed subject to the 4 outstanding items contained within the independent governance progress matrix at Appendix 1 where dates for action have been confirmed.**

### **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 In addition, a number of recommendations were made by the external auditor following the 2020 audit of the Fund and this report sets out the progress also made in this regard.
- 2.4 The relevant progress matrices can be found at Appendices 1 and 2.

### 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

**Table 1: Impact of risk and mitigation**

<b>Risk</b>	<b>Level of uncontrolled risk</b>	<b>Controls</b>	<b>Level of controlled risk</b>
Changes to LGPS Regulations along with failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage - and pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	Medium	<ol style="list-style-type: none"><li>1) Fund will respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.</li><li>2) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.</li><li>3) Officers maintain knowledge of legal framework for routine decisions.</li><li>4) Eversheds retained for consultation on non-routine matters.</li><li>5) Maintain links with central government and national bodies to keep abreast of national issues.</li><li>6) Fund officers to ensure there are regular internal audits and that both internal and external audit recommendations are adhered to</li></ol>	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 2 appendices:
- Appendix 1 – Governance progress matrix
  - Appendix 2 – External Audit progress matrix

## 11. BACKGROUND DOCUMENTS

- 11.1 This report is supported by 0 background documents:

## 12. CONSULTATION

Name of consultee	Post held	Date sent	Date returned
<i>Mandatory: Statutory Officers (or deputy)</i>			
Adele Taylor	Executive Director of Resources/S151 Officer	23/11/2021	25/11/2021
Emma Duncan	Deputy Director of Law and Strategy / Monitoring Officer	23/11/2021	23/11/2021
<i>Deputies:</i>			
Andrew Vallance	Head of Finance (Deputy S151 Officer)	23/11/2021	25/11/2021
Elaine Browne	Head of Law (Deputy Monitoring Officer)	23/11/2021	
Karen Shepherd	Head of Governance (Deputy Monitoring Officer)	23/11/2021	
<i>Other consultees:</i>			

Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Committee	23/11/2021	
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## REPORT HISTORY

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

Report Author: Kevin Taylor, Pension Services Manager, 07792 324393
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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 Committee 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 2022	Following the Pension Board's consideration of the Governance Review, it received and agreed a report from the Chair to make various governance changes to set periodical reviews to individual membership, and create flexibility between 6 & 8 members overall (i.e. 3 or 4 each of employer/member representatives). Two additional employer substitute members from the education sector (with different perspectives of the issues) have subsequently been recruited to the Board and are attending, and the Chair is currently attempting to recruit appropriate trades union representation.	
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 Committee have been agreed by the Council.	

	<b>Recommendation</b>	<b>Timeline</b>	<b>Progress</b>	
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.	
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 2022	Updating the ISS has been postponed. The content of the ISS will be fully reviewed. A revised ISS is not statutorily required to be approved until 2022 and will be brought to Committee in 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 effective from 1 September 2021	
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 2022	The discussions with LPP took place in March 2020.  The management agreement with LPPI will be reviewed early in 2022 in conjunction with LPPI's other clients to ensure best practice.	
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.	March 2022	The Pension Fund Committee on 14 December 2020 agreed to commence a procurement exercise for the appointment of a Custodian, with the new contract to commence in 2022. A full procurement exercise will commence early in 2022.	
13.	Review any arrangements RBWM has for meetings and decisions to be taken electronically. The review	October 2020	This issue relates to the Sub-Committee which has been abolished.	

	<b>Recommendation</b>	<b>Timeline</b>	<b>Progress</b>	
	should include the requirement for an accurate record of how decisions are taken.			
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 individual is either an Officer or Member of the Council, or earlier should the Council decide.	October 2020	This will be implemented for any future appointments.	
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.	March 2022	A procurement exercise will be undertaken early in 2022 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.	

	<b>Recommendation</b>	<b>Timeline</b>	<b>Progress</b>	
21.	The Pension Fund Committee should receive the External Audit report in respect of the RCBPF.	March 2021	The External Audit report will be presented to the Pension Fund Committee on 20 September 2021.	



## 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>					
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.