

BA CityFlyer Pension Scheme

ANNUAL GOVERNANCE STATEMENT 30 September 2021

This Statement has been prepared by The Trustees of the BA CityFlyer Pension Scheme in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended). It sets out how the Trustees have met the statutory defined contribution (DC) governance standards for The BA CityFlyer Pension Scheme for the year to 30 September 2021.

Governance requirements apply to defined contribution (“DC”) pension arrangements to help members achieve a good outcome from their pension savings. The Trustees of the BA CityFlyer Pension Scheme (the “Scheme”) are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met.

The Scheme is not used to meet the Employer’s auto enrolment duties and is a closed with no further contributions being invested into it.

In preparing this Statement the Trustees have considered the Pensions Regulator’s Code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits and the regulatory guidance for defined contribution schemes.

The statement covers the following key areas of governance:

- The default arrangement and investment options
- Costs and charges borne by members
- Value for money
- Administration Standards and the processing of core financial transactions
- The Trustees’ knowledge and understanding
- Communication with members

The Trustees, with their advisers, have reviewed these areas throughout 2021 to help assess Scheme governance standards, investment performance, value for money and an assessment of the investment options provided to members. The findings are contained within this Statement.

Default Arrangement and Investment Options

As the scheme is not used as a Qualifying Scheme for Auto Enrolment and given that it is paid up with no further contributions being invested, there is no requirement for the Scheme to have a default fund. When it was an active scheme the default fund was the With Profits fund containing a 4% guaranteed annual investment return. There are over 95% of member funds invested in the With Profits fund.

Details of the objectives and the Trustees’ policies regarding the default arrangement can be found in a document called the ‘Statement of Investment Principles’ (“SIP”). The Scheme’s SIP is attached to this annual statement regarding governance.

The Trustees have reviewed the With Profits fund suitability at each Trustee meeting and have concluded that the 4% guaranteed return is valuable to members. The intention is that the scheme

will be wound up and members will be able to carry across the With Profits guarantee to their individual plan. The guaranteed performance of 4% per annum net of charges is deemed a valuable aspect of the With Profits fund, particularly as the membership nears their intended retirement age.

The Scheme is what is termed a 'bundled insured arrangement' and as such the charges levied on the underlying investments cover the costs of the administration of the Scheme.

Further details of the investment arrangements are set out in the Scheme's Statement of Investment Principles contained as **Appendix 1**.

Costs and charges borne by members

In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended), the Trustees are required to calculate the charges and transaction costs paid by members and assess the extent to which these charges paid by members represent good value for money.

The Scheme is a bundled arrangement whereby AVIVA provide the day to day pension administration services. The cost of AVIVA's services are contained within the fund Annual Management Charges paid for each fund under investment, there are no separate charges to this effect levied.

The With Profits fund has a 1% Annual management Charge which is borne by the fund, however, the 4% guarantee return added to members funds is net of any charges.

There are no other explicit charges levied on members' funds. However, early surrender of the With Profits arrangement can result in Market Value Reduction (MVRs) being applied to fund values and loss of attaching enhancements applied which would have been payable on maturity.

On the investment linked funds adopted by less than 5% of the members funds, (mainly as a diversification for members who also have money in the with profits fund), the fees applied to members' fund values are the Annual Management Charge of 1.00% p.a. for each fund currently adopted. This is the standard fee charged and does not differ depending on the fund selected.

All investment funds have "transaction costs" which are taken from the fund before performance is reported and therefore reflected in the performance of the fund and in the overall return received by the member.

AVIVA have historically provided us with the transaction fees which were paid on any of the funds that members have investments in which range from no additional charge on the cash fund to 0.04% on the AV Global Equities Fund.

The Scheme's Statement of Investment Principles provides further details of the funds available for investment. A copy of this statement is contained as **Appendix 1**.

Appendix 2 provides illustrative examples of the cumulative effects over time of charges and costs borne by members. The illustrations are based on an average fund value at different ages of scheme members, and are projected to different ages. These illustrations are shown with and without charges, at retirement and in today's terms.

Value for money

The Trustees consider the combined fees and charges paid by members against the level of governance and service provided, and to assess whether the Scheme represents good value for money for members.

As part of this assessment the annual management charges were considered alongside other pension schemes providing defined contribution benefits.

The Trustees considered the charges paid by the Scheme against those schemes used for qualifying schemes for auto enrolment purposes. The Trustees considered this an appropriate cost comparison measure.

There is a cap on qualifying schemes for auto enrolment purposes of an Annual Management Charge (AMC) at 0.75%. As such the 1% AMC paid by members of this Scheme is likely to be above the level available on the open market. That said, over 95% of member's assets are invested in the With Profits fund which carries a guaranteed investment return of 4% per annum and also has the possibility of the addition of a terminal bonus. Furthermore, a transfer to an alternative arrangement could result in a surrender charge on transferring out, known as a Market Value Reduction factor.

Whilst the Trustees do not consider the charges paid by members to be value for money, the benefit of the 4% annual investment return guarantee is seen as a valuable benefit which could not be replicated in a new arrangement. Overall, the Trustees consider that the Scheme does provide Value for Money for those members whose assets are invested in the With Profits fund when factoring in the 4% guaranteed annual investment return (net of charges).

Given that it is the intention to wind up the Scheme and transfer members into individual arrangements that replicate the terms of the Scheme, the Trustees do not feel there is any merit in undertaking a more detailed value for money assessment.

Core Financial Transactions

The BA City Flyer Pension Scheme is a closed scheme with no further contributions being paid. AVIVA performs the day to day administration.

The Trustees have processes and controls in place with the aim to ensure that all financial transactions are processed promptly and accurately:

- The Trustees use AVIVA, a reputable professional pensions provider.
- Broadstone Corporate Benefits coordinate the day to day administration between the Trustees and AVIVA.
- A sample of financial transactions are subject to annual audit requirements as part the Trustees' Annual Report and Accounts.

In accordance with regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended), the Trustees have reviewed their core financial transactions to ensure that they continue to be processed promptly and accurately. As an example of an issue that required review, escalation and corrective action:

Broadstone Corporate Benefits made the former Trustees aware of instances where AVIVA had dealt with queries directly with members and beneficiaries without going through the Scheme Trustees. This gave rise to areas of confusion for members and breached rules regarding who information could be provided to. This was escalated at AVIVA and training given to relevant staff with systems and controls put in place to help ensure no recurrence.

Each year when the scheme is audited, all details of transfers out of the scheme, and death benefits paid out are checked and recorded. Our advisers deal with all such requests and monitor both AVIVA and the procedures to ensure these are compliant and operate in line with Scheme rules.

The Trustees consider all areas of risk and specifically risk of significant impacts such as fraud (including pension liberation), investment, management of costs, administration, regulatory requirements, operational procedures, communications and member understandings and options at retirement.

In accordance with regulation 24 of the Occupational Pension Schemes (scheme administration) Regulations 1996 (as amended), the Trustees have reviewed their core financial transactions to ensure that they continue to be processed promptly and accurately.

Trustee Knowledge and Understanding

The Pensions Act 2004 requires trustees to have appropriate knowledge and understanding.

In respect of the former Trustees to the Scheme who were in place during the Scheme year for which this Governance statement relates, these requirements have been met in the following ways:

- The former Trustees to the scheme were Andrew Quigley and Caroline Osler. They have completed the Pension Regulator's online Trustee Toolkit and undertook to complete new modules or amended modules as they were added or changed. In addition, they revisited relevant modules to refresh their knowledge periodically as necessary.
- They met at least annually and were in regular contact with their advisers with each meeting incorporating an update on key legislative developments as well as a DC Governance and Administration review.
- They also sought training from their advisers when a particular matter occurred for which they required refresher training.
- They were conversant with the Trust Deed and Rules and the powers granted to them.
- They were conversant with the Statement of Investment Principles for the time being maintained under Section 35 of the Pensions Act 1995.
- They kept up to date with developments in the DC landscape and new guidance issued by the Pensions Regulator.

In respect of the new Trustee appointed on 14 December 2021, these requirements continue to be met in the following ways:

The sole Trustee to the Scheme is a firm of Independent Professional Trustees called 20-20 Trustee Services Limited and the Trustee Director appointed to the Scheme (Chris Halewood) has completed the Pension Regulator's online Trustee Toolkit and undertakes to complete new modules or amended modules as they are added or changed. In addition, he revisits modules to refresh their knowledge periodically as necessary.

The Trustee Director is an Accredited Member of the Association of Professional Pension Trustees and as a Chartered Financial Planner and Fellow of the Personal Finance Society, the Trustee Director is

required to undertake a minimum of 35 hours Continuous Professional Development (CPD) per year, of which at least 21 hours must be 'Structured' CPD (structured CPD is where a pre-determined learning objective has been identified and a reflective statement is required to evidence how the activity undertaken has addressed the specified learning need). Within the membership year to 7th June 2021, the Trustee Director completed 52.05 hours of CPD of which 40.05 hours were structured CPD.

The Trustee Director is conversant with the Trust Deed and Rules and the Statement of Investment Principles for the time being maintained under Section 35 of the Pensions Act 1995, which enables them to properly exercise their functions as the Trustee of the Scheme.

Taking account of the above, it is the view of the Trustee that the requirements of Section 247 and 248 of the 2004 Act (requirement for knowledge and understanding) have been met during the Plan Year and will continue to be met.

Communicating with members

The Trustees endeavour to provide Scheme communications that are accurate, clear, understandable and engaging. The Trustees, with their advisers, carefully consider all member communications. A privacy notice covering General Data Protection Regulation requirements has been issued to all members.

The Trustees rely on the expertise of AVIVA to meet the requirements of Annual Money Purchase Illustrations which are provided to the BA CityFlyer Pension Scheme for distribution to members each year. The Trustees' advisers provide an additional Newsletter with the statement each year to update members on relevant pension topics and understanding of their pension scheme.

The Trustees also rely on AVIVA to provide retirement packs to members via Broadstone Corporate Benefits, covering all disclosure requirements, including clear details of the retirement choices available to them, how they work and details of the Government's Pension Wise service.

This Governance Statement, along with its Appendices has been made publicly available on the Scheme Website and can be accessed at the following site: www.bacf-pension.co.uk



Chris Halewood, Trustee Director, 2020 Trustee Services Limited

On behalf of 2020 Trustee Services Limited, as Trustees of the BA CityFlyer Pension Scheme

19 January 2022