



Pensions Committee

21 June 2017

Report title	Risk and compliance monitoring 1 January to 31 March 2017	
Originating service	Pension Services	
Accountable employee(s)	Jennifer Picken	Compliance and Risk Officer
	Tel	01902 552092
	Email	jennifer.picken@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The top ten risks for West Midlands Pension Fund. (appendix 1)
2. The compliance monitoring for the quarter and the resolutions put in place to address non-compliance.
3. The Trustee Training program for 2017/18
4. The work of the Fund to ensure its compliance with the Pensions Regulator's guidance regarding Defined Benefit (DB) schemes.

1.0 Purpose

- 1.1 To provide the Pensions Committee with the quarterly update of compliance monitoring for the Fund for the period 1 January 2017 – 31 March 2017.

2.0 Risk register

- 2.1 Each quarter the Fund's compliance team reviews the top ten risks which are drawn from detailed risk registers separately maintained for each department of the Fund. The Risk register is an active document which is regularly monitored to ensure it reflects the most recent activity of the Fund. The reporting period for risks is the most current quarter (March to June) as it is looked upon as both a reactive and proactive document to ensure risks are immediately mitigated.
- 2.2 The Fund's risks are assessed using a 5 x 5 scoring matrix to decide how likely they are to occur and how much of an impact they would have. The scoring is based on 1 being the lowest impact or likelihood with 5 being the highest impact or likelihood of the risk occurring. The scores for both impact and likelihood are multiplied together to create an overall rating (scores 1-4 low rating (4 being an even rating of 2 for impact and 2 for likelihood), 4-12 medium rating (4 being a high impact and low likelihood or vice versa) and 15-25 high rating). The Fund scores each risk for both pre and post-implementation of mitigating controls, this enables the Fund to identify any weaknesses in the controls and provide assurance that its risks are reduced as much as possible.
- 2.3 The top 10 risks for this quarter are highlighted in Appendix 1 together with the actions taken by the Fund to mitigate those risks. The top 10 risks remain the same as those reported to Pensions Committee in March 2017 with no new issues identified. Any changes or additional mitigating controls are noted in Appendix 1.
- 2.4. TPR Key Risks

The Pensions Regulator has published their risk landscape for the 2017-2020 as part of their Corporate Plan. The plan details 5 areas of risk and what focus the TPR will have during the upcoming months and years.

Disorderly scheme failures

As part of the Pension Schemes Bill, there will be reforms in the market to help underpin the consumer confidence of multi-employer pension schemes. This will potentially encompass a more concentrated look into how Fund's administer a high number of employers and ensure the impact of failing employers does not fall onto other participating employers' interests.

WMPF has an employer covenant monitoring program in place to assess the strength and potential weakness of our employers, and where necessary, guarantees are obtained to protect the wider employer group.

Poor data integrity and security

The TPR will be focusing on the quality of record keeping by both public and private sector funds for the foreseeable future. This is due to the increase in data security incidents reported in the market and the rise in reliance on electronic working and data transfers.

The Fund has in place a data improvement plan which seeks to address issues of data quality both in terms of those received from employers and historical data held by the Fund. The Fund also has in place a work programme for the implementation of the General Data Protection Regulation (GDPR) Project due May 2018.

Economic and market outlook

The regulator will be paying particular focus to the economic and market outlook of funds due to the ever changing financial environment, for example, the upcoming Brexit deals and changing political conditions in the UK and overseas which all can have a potential impact on the markets and our economies.

The Fund in discussion with its advisors has in place an appropriate investment strategy with regular reporting and training delivered to Trustees on key issues which might affect the investments of the Fund.

Poor standards of stewardship

The TPR have been focusing on the governance and administration of pension funds closely since the inception of the Code of Practice and will continue their research and reviews until a high standard is achieved across the board. The TPR will not only be reviewing the governance and administration arrangements but also the employer and member expectations of providing our services.

The Fund is constantly reviewing and assessing its adherence to governance and administration requirements under the TPR Code of Practice and has in place a compliance monitoring program aligned specifically to the Code of Practice.

Sub-scale schemes

The TPR will be paying close attention to both sub-scale DB and DC scheme in the small and medium enterprise markets due to risks surround poor performance and outcomes. This does not pose any issues or direct impact on the Fund and its administration.

3.0 Compliance monitoring programme

- 3.1 The Fund has in place a programme, which aims to ensure its internal and external operations meet acceptable standards and best practice.

- 3.2 The programme is directly linked to the risk register; testing the effectiveness of the controls in place.
- 3.3 The results of the tests carried out for the January to March 2017 quarter are summarised below on an exception reporting basis. For compliance monitoring purposes the period reviewed is commenced at the end of each quarter, therefore the latest information available is for the January to March 2017 quarter which was tested during April and May 2017.

3.4 **Exception reporting**

Out of all of the tests carried out, the following was found:-

3.4.1 Governance

Clear desk policy – as part of the Information governance program, which includes preparing for the changes to Data Protection, compliance conduct random clear desk reviews of officer workstations. This quarter the test was conducted and flagged no immediate risk to information. Officers are regularly reminded of the policy and staff presentations on protecting information are being delivered throughout June in preparation for the new data protection regulation (GDPR).

Trustee training hours – there were 2 Trustees who did not record the minimum 22 hours during 2016-2017 year. This has been raised by the Chair of the Pensions Committee and it was suggested that some Committee Members are not recording hours spent on reading and research, Trustees have been reminded of the importance of recording hours with the Trustee Management Officer.

Pension Board training hours – there were 6 members that did not record the minimum required number of continuous professional development (CPD training) hours during 2016-2017 financial year. Action taken includes the circulation of a work-plan for the coming year informing the Board of training dates together with information on web-sites to use for background reading and research.

3.4.2 Investments

Late trade – there was 1 late trade instruction during the period. This was due to the custodian not recalling the stock in time for it to settle. There was no financial detriment to the Fund and the dialogue between the Fund and custodian continues to be monitored through monthly calls.

3.4.3 Cyber Security

On the 12th May the NHS became the highest profile victim of a global cyber attack, when tens of thousands of PCs in almost 100 countries were affected by Ransomware software known as WannaCry. The City of Wolverhampton PCs were not affected by this attack and there was no impact on our desktop or business applications. The Fund has taken the decision to remove its microfiche scanner due to it being outdated with current

system requirements in light of the recent cyber security concerns, discussion are ongoing with suppliers to secure an alternative solution.

The council's ICT Services have a rolling programme of testing the latest Microsoft Windows patches and then automatically deploying them across all PCs on the network. Following news of the global problem additional checks were undertaken throughout the weekend to scan all devices to ensure they were at the highest recommended software levels by Microsoft and that there was no evidence of WannaCry in our systems. There was no remedial work identified as part of these additional checks and the council's normal patching process continues.

4.0 The Pensions Regulator (TPR) Code of Practice compliance monitoring

- 4.1 The code of practice sets out the legal requirements for public service pension schemes and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
- 4.2 In response to this, the Fund has compiled a compliance monitoring programme to evaluate its compliance in line with the Pensions Regulator Code of Practice. This is the first quarter the Fund has commenced testing under this program and are pleased to confirm that no issues have been identified.
- 4.3 The general compliance monitoring programme. The tests cover fund administration (i.e. pensions administration, internal disputes, publishing information etc.), finance (i.e. payment of contributions etc.), governance arrangements (i.e. Pensions Committee and Pensions Board arrangements, conflicts, breaches and risk) and investments (i.e. maintaining investment returns to cover liabilities etc.).

5.0 General Data Protection Regulation

- 5.1 The European Union have issued a directive to replace the existing Data Protection Act creating the new General Data Protection Regulations (GDPR). This directive is required to be implemented with effect from 25 May 2018.
- 5.2 The Fund has created a work plan/project management document on the stages needed to be fully implemented by 25 May 2018. Delivery of this will be overseen by the Local Pensions Board and progress will be reviewed in July 2017 and January 2018 with an update on its final implementation to Pensions Committee in March 2018.
- 5.3 The Fund is currently completing a data mapping and cleansing exercise and has set up a project group to manage the work plan for implementation, it is also working with a number of other pension funds across the country to formulate standard and template information to be issued to members.

6.0 TPR guidance on Defined Benefit (DB) schemes

- 6.1 In March 2017, the TPR issued new guidance on the legal duty of Trustees of Defined Benefit Schemes aimed at providing practical information and example approaches to decisions which may arise when investing scheme assets. The Responsible Investment elements are addressed in a separate report; other aspects are summarised below.
- 6.2 The guidance requires Trustees to
- Have a basic understanding of the legal principles around pension scheme investment
 - Work with investment advisors to obtain relevant investment advice
 - Collaborate with scheme employers when writing the Investment Strategy Statement (ISS)
- 6.3 Committee will recall the recent work the Fund undertook to translate our Statement of Investment Principles to the new ISS and the consultation conducted with relevant stakeholders, including the Trade Unions through the committee representatives. While the production of the ISS is outside the remit of our stakeholders' role it is helpful for them to understand the process undertaken. In addition, the Fund delivers presentations from our investment advisors on a regular basis to Committee to assist in the decision-making process and are grateful to Trustees for their commitment to meeting the Regulator's expectation as outlined in the Guidance.

7.0 Trustee and Pension Board Training

- 7.1 As part of the compliance monitoring program, the Fund monitors the Trustee and Pension Board member's adherence to their statutory duty also in ensuring they have the capacity and knowledge to undertake their role.
- 7.2 The Trustee training policy sets out details of training expectations of the Fund's Trustees and Pension Board Members. During 2016/17 training hours achieved by Trustees continued to increase with most Trustees achieving the target of three days (22 hours).
- 7.3 The Training program for 2017/18 focuses on the relevant knowledge and skills needed to comply with the Funds governance arrangements while taking into account forthcoming changes to current legislation and pension regulations. The training presents these changes and facilitates the continued development of Trustee's knowledge. It is relevant to all members of the Pensions Committee and the Pensions Board.
- 7.4 The 2017/18 proposed training includes:
- Induction training
 - Regular updates at Committee and Board meetings

- Mid-Year review and Annual General meeting
- Regulatory updates – in house structured training
- External conferences
- Trustee toolkit and background reading
- Monthly media roundup

- 7.5 The program starts with an Induction Course aimed at members new to the committee and those wanting an update for their own knowledge and development. Scheduled training is aimed at achieving a balance between internal factors affecting the Fund and the wider external factors within the pensions industry. There may be changes to the program to include training on legislative or regulatory changes that affect the Fund throughout the year.
- 7.6 In addition to this, Trustees and Board members are encouraged to complete the Pensions Regulator's Trustee Toolkit available on the Pensions Regulator web site. This is a free, interactive training program that enables Trustees and Board members to meet the level of knowledge and understanding required.
- 7.7 As a supplement to the scheduled structured training and the Trustee Toolkit, Trustees and Board members are encouraged to develop background knowledge by reading industry related publications and researching relevant web sites such as:
- The Pensions Regulator (tPR)
 - The Local Government Pension Scheme (LGPS)
 - Local Government Association (LGA)
 - Local Authority Pension Fund Forum (LAPFF)
 - Pensions and Lifetime Savings Association (PLSA)
 - Department for communities and Local Government (DCLG)
 - The Local Government Pension Scheme Advisory Board
- 7.8 A personal training record should be kept by all Trustees and reported to the Trustee Management Officer on a quarterly basis.

8.0 Scheme Advisory Board Key Performance Indicators (SAB KPI's)

- 8.1 In 2015 the Fund took part in a pilot scheme by the Scheme Advisory Board to produce a set of KPI's for LGPS funds, requesting to provide evidence and comments to support our scoring.
- 8.2 The KPI document has been circulated for update in line with 2016/17 targets. This is to be submitted to the Scheme Advisory Board by 31 May 2017. SAB have stated that the responses will be analysed throughout July 2017 and feedback will be provided to the funds. Once feedback has been presented to Funds the SAB team will be working with

GAD (Government Actuaries Department) and DCLG (Department for Communities and Local Government) to provide support and assist Funds accordingly. Further details on this is provided in another report.

9.0 Financial implications

- 9.1 The budget for Trustee training is incorporated within the Fund's administration budget.
- 9.2 Failure by the Fund to adhere to regulatory changes could result in fines being imposed on the Fund by either the Pensions Regulator or the Information Commissioner.

10.0 Legal implications

- 10.1 The need for effective risk management is reflected throughout guidance and regulation in the LGPS, notably in Regulation 7(2) of the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*.
- 10.2 The Pensions Committee, as the body charged with governance of the administering authority's pensions operations, takes the responsibility for ensuring that there is effective risk management over those operations.
- 10.3 The requirements for Trustee training are set out in the Regulator's code of practice and CIPFA guidance. Trustees and Board members have a legal duty to ensure they have the required knowledge and skill to undertake their roles. Failure to adhere to these duties may result in challenge from external parties. There is also a possibility of intervention from the Pensions Regulator.

11.0 Equalities implications

- 11.1 This report contains no direct equalities implications.

12.0 Environmental implications

- 12.1 This report contains no direct environmental implications.

13.0 Human resources implications

- 13.1 The report contains no direct human resource implications.

14.0 Corporate Landlord

- 14.1 There are no corporate landlord implications.

15.0 Schedule of background papers

15.1 General Data Protection Regulations

<https://ico.org.uk/for-organisations/data-protection-reform/overview-of-the-gdpr/>

15.2 Pension Regulator's Toolkit

<https://trusteetoolkit.thepensionsregulator.gov.uk/>

15.2 Pension Regulator's Code of Practice

<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>

15.3 Pension Regulator's Guidance for DB schemes

<http://www.thepensionsregulator.gov.uk/guidance/db-investment.aspx>

16.0 Schedule of Appendices

16.1 Appendix 1 – Risk Register Summary