

# Pensions Board

22 January 2019

<b>Report title</b>	Governance Update September to December 2018	
<b>Originating service</b>	Pension Services	
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## Recommendations for approval

The Pensions Board is recommended to:

1. Approve the WMPF Local Pensions Board Workplan for 2019/20.
2. Convene an Appointments Panel to receive nominations for the year 2019/20.
3. Confirm the seats for nomination.

## Recommendations for noting:

The Pensions Board is asked to note:

1. The Fund's ongoing review of the policy on Termination for Employers and Funding Strategy Statement following the recent change in legislation.
2. The Fund's risk register and the mitigations in place to manage risk at the Fund.
3. The Fund's Key Performance Indicators.
4. The monitoring of and actions taken to manage potential and actual breaches of the law.
5. The initial outcomes of the AON governance and administration review.
6. The total number of training hours of Pension Board members- year to date.
7. The completion of the Pension Regulator scheme return.
8. The progress in delivering benefit statements to members.

## **1.0 Purpose**

- 1.1 To provide the Board with an update on the work of the Fund in delivering a well governed scheme through the management of effective internal controls and a performance monitoring framework.

## **2.0 Nominations to the Local Pensions Board**

- 2.1 The Board are asked to instigate the nomination process. In line with the terms of reference for the Local Pension Board, it is permissible for those who stand down to be re-nominated by their representative group.
  - 2.2 Elected Councillors of the Administering Authority are nominated each year by Full Council.
  - 2.3 This year, the Fund has received a notice of resignation from Mike Sutton, Employer Representative that will take effect at the close of the current democratic year. This is due to his change in role with his employer which means he is no longer able to sit on the Pension Board. In addition, the Fund has been engaging with one-member representative who has not met the attendance requirements of the Board in line with its Terms of Reference. To date, no correspondence has been received from the member representative, and, in consultation with the Chair it is proposed that their seat be offered as vacant for appointment by the trade union.
  - 2.4 Due to the above vacancies, it is not necessary to invoke the formal appointments process in seeking annual rotation of members to be appointed.
  - 2.5 Pensions Board are recommended to seek one employer nomination to fulfil the vacant seat previously held by Mike Sutton, and one member nomination from the Unite trade union. In line with the Board's Appointments Process, the Board are requested to form an Appointments Panel consisting of the Chair, Vice Chair, one member and one employer representative. Applications will be sought from each of the representative groups with the Appointments Panel to be held in March, prior to the next Pension Board Meeting in April.
- ## **3.0 Pensions Board Workplan**
- 3.1 Attached at Appendix A (1) and A (2) is the proposed workplan for the Pensions Board for 2019/20. It has been designed in consideration of both national and Fund level initiatives and challenges which have been identified throughout the year and which, the Fund believes, will be key areas of focus for the 2019/20 year. Pension Board are requested to review and confirm the workplan for 2019/20.

#### **4.0 Fund policy in relation to “exit credits”**

4.1 Following the release of LGPS Amendment Regulations early this year, which introduced “Exit Credits” governing the return of surplus to employers, officers have been reviewing the Funding Strategy Statement and Termination Policy for Employers. To inform this a review of employer funding surplus has been undertaken, together with expected contract-end dates to identify the scale and timing of potential payments out of the Fund. The Fund has taken actuarial and legal advice in relation to policy change and practical operation of the new regulations, which is not straightforward. Amendments have potentially wider ranging implications, including for example, considerations in relation to employer admission and contractual agreements with the letting authority. Proposals for change continue to be developed and will be subject to employer consultation. Revised policies will be presented to Committee for review and approval at the March meeting.

#### **5.0 Compliance Manual**

5.1 Following the creation of LGPS Central Ltd and the transferring of internally managed assets to the Company, the Fund has undertaken a review of its internal compliance manual which previously had been heavily focussed on operating in an FCA regulated environment.

5.2 The new compliance manual, while acknowledging the financial environment in which the Fund operates, now incorporates guidance from the Pensions Regulator and serves as a manual on both financial and administrative obligations in complying with industry standard and expectation.

#### **6.0 Risk Register**

6.1 The Fund’s risk register has been compiled to represent all known and perceived risks. Each quarter the Fund’s compliance team in conjunction with Senior Managers review the top 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 (July to September) as it is looked upon as both a reactive and proactive document to ensure risks are reviewed and mitigated, as appropriate, as soon as is reasonably practical.

6.2 This quarter risks and controls have been reviewed by Senior Managers in relation to the following key areas:

- Pooling of investments within the LGPS Central Ltd pool
- Market volatility driven by ongoing economic and political risks
- Progress in delivering the Data Improvement Strategy
- Handling increased volumes of processes and contact from scheme members
- Delivery of system change and improvement

- 6.3 Recruitment to specialist roles and close management of a number of critical projects remain a focus within the controls being implemented. Looking ahead, the Fund will be navigating a number of asset transitions and will need to prepare for benefit changes expected from April 2019, following the outcome of the Scheme Cost Cap review.
- 6.4 Further to the review, the top risks are attached at Appendix B which provides assurance to the Board of the controls in place to protect the Fund and ensure payment of members' benefits.
- 6.5 In further developing its Risk Management Framework, the Fund has recently implemented its Fraud Risk Policy in line with the controls noted on the Risk Register to mitigate potential fraud and protect our scheme members. This is outlined in the Fund's Internal Controls Framework, noting the interaction of our policies in the management and administration of the Fund.

## **7.0 Key Performance Indicators**

- 7.1 The Fund's service delivery has been impacted by the recent regulatory change, with a significant increase in requests for deferred retirement quotes. This quarter the Fund has seen a fall in performance for delivery of retirement quotes to deferred members, as the higher volume is processed, with some improvement in the processing of active retirement quotes. Data cleansing work and monthly return processing will help increase the speed at which quotations can be processed going forward. Improvements have been made in the processing of benefits for payment, which are now back within KPI.
- 7.2 The rolling production for benefit statements continues to have an impact on the Fund's aim to maximise accurate statements with the figure continuing to increase above the level issued in 2017.
- 7.3 In delivering its objectives to provide more on demand service for members, the Fund has surpassed its target KPI for Pensions Portal registrations. This is in large due to the work of the Fund's pension services team who have been engaging with customers about the benefits of the online service.
- 7.4 A copy of the Fund's key performance indicators are attached at Appendix C.

## **8.0 AON Review and Data Improvement Plan**

- 8.1 As part of its ongoing Governance Assurance Framework, the Fund recently appointed AON Hewitt to conduct an independent review of our governance and administration processes, ensuring the Fund is meeting, and is able to meet, its ongoing statutory duty as well as being able to prepare for future challenges through its proactive assessment of forthcoming challenges and service development. The initial report from AON notes the good work of the Fund in its administration of pension benefits, commenting that the Fund is forward thinking in its aims and objectives relating to administration. The administration system is robust with automated workflow, providing a transparent audit trail. In addition, it was highlighted that team members appeared confident in their roles with excellent knowledge of processes and pension benefits.

- 8.2 In relation to Governance, AON noted the comprehensive set of policies and strategies in place, noting the range of policies exceeds those expected for an LGPS Fund, highlighting this an area of good governance and complementary to the strategic direction of the Fund, set by the Pensions Committee.
- 8.3 In addition to considering the administration and governance of the Fund, AON were also tasked with reviewing the Fund's Data Improvement Strategy. The Strategy aims to equip the Fund with the full knowledge of its data quality and requirements for delivering services to members, including meeting our statutory duty to provide annual benefit statements.
- 8.4 In conducting its review, AON found the Data Improvement Strategy to be well documented which included the key considerations for good data management in an LGPS Fund. The report particularly noted the "*excellent approach to managing and improving data provided by employers on a regular basis*" through the monthly feedback sheets and end of year data improvement plans provided to employers in an effort to maximise annual benefit statement production.
- 8.5 While noting the good work of the Fund, the report noted some areas for improvement both in relation to the presentation of the Strategy, to make areas of improvement more visible in terms of actions identified and when they are completed as well as including administration work that has been outsourced and the management of data improvement as part of that outsourced work. The Strategy is reviewed on a quarterly basis and will continue to evolve to reflect the outcomes of the review.

## **9.0 Pension Board Training Hours**

- 9.1 So far this year the Fund is reporting Pension Board training hours as 155, an average of 12.9 hours per Pension Board Member.
- 9.2 The Fund continually reviews its Trustee and Pension Board training programme to ensure members receive up to date training on issues relevant to the LGPS. The most recent joint training session on 5 November 2018 considered the governance bodies respective roles and how they complement each other in the governance of the Fund. An update on the work of the National Scheme Advisory Board was provided together with an outline of the challenges currently facing the Fund's investment and funding management. Attendees also received an update on member engagement on Additional Voluntary Contributions and options for additional pension savings.

## **10.0 TPR Scheme Return - Statutory returns and benchmarking**

- 10.1 Every year the Pensions Regulator (tPR) requires every pension fund in both the public and private sector, to complete a scheme return. TPR use the data gathered to help maintain a register of schemes and to identify schemes where there's a risk or potential risk to members' benefits. The information is also used to calculate annual levy charges. In compliance with the requirements, the Fund submitted the scheme return in line with the deadline date. Non-compliance has resulted in a fine being issued to one LGPS Fund.

10.2 In addition, the Fund has completed the Regulator's annual governance and administration survey together with the CIPFA benchmarking survey which highlighted the Fund as being below average on its cost per member when compared to the average LGPS Fund.

10.3 In addition, the Fund has recently submitted data for updating its investment performance and cost comparison as part of the Global CEM Benchmarking exercise. The results of this exercise will be discussed with the Pensions Committee at the next meeting in March.

### **11.0 Benefit Statements 2018**

11.1 The Fund continues to deliver its rolling benefit statement programme for both active and deferred members of the Pension Fund. To date the Fund has achieved 78% of ABS and continues to engage with employers on data improvement plans as well as working with our system provider to enhance the performance and functionality of our UPM system.

11.2 Engagement with the tPR continues following our self-reporting on ABS production in September 2018.

### **12.0 Internal Controls Framework**

12.1 The Fund has developed an overarching Internal Controls Framework, which seeks to bring together all the statutory and best practice policies of the Fund to outline how they collectively support the governance of the Fund.

### **13.0 Regulatory Update**

#### 13.1 Scheme Advisory Board

At its October meeting, concerns were raised by the Scheme Advisory Board about the attention being given to individual administering authorities by the Pensions Regulator and the approach taken, in particular, in relation to record keeping and issuance of annual benefit statements. The Board agreed that the Chair of the Scheme Advisory Board should write to the Pensions Regulator setting out the Board's concerns.

#### 13.2 Changes to legislation

The Board will be aware of the recent changes brought about by the LGPS (amendment) 2018 Regulations and the "unintended" restrictive wording of the regulations which provided members aged 55 to access their deferred benefits. In recognition of the unintended wording, MHCLG launched a consultation to correct the legislation which will provide members *from* the age of 55 to access their deferred benefits. This change will take effect from 10 January and the Fund is currently in the process of considering how best to inform members of this change.

13.3 Statutory guidance on asset pooling

Updated guidance to support further progress for asset pooling within the LGPS was issued for consultation at the beginning of January 2019. This will replace the current guidance dated November 2015, following the 12-week consultation.

**14.0 Financial implications**

14.1 Poor management of the Fund can result in financial loss and additional cost. Effective monitoring of the management arrangements is required to ensure the Fund is well placed to ensure the delivery of benefits to members.

14.2 Failure by the Fund to meet statutory requirements of effective governance and administration could result in fines imposed by the Pensions Regulator.

**15.0 Legal implications**

15.1 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*.

15.2 The Pensions Committee, as the body charged with governance of the administering authority's pensions operations take the responsibility for ensuring that there is effective risk management over those operations.

15.3 Failure by the Fund to comply with statutory requirements of effective governance and administration could result in further action by the Pensions Regulator, including legal notices and enforcement powers.

**16.0 Equalities implications**

16.1 All Fund policies are drafted in consideration of equality impact assessments with no individual category of persons affected by their implementation.

**17.0 Environmental implications**

17.1 There are no implications

**18.0 Human resources implications**

18.1 There are no implications

**19.0 Corporate landlord implications**

19.1 There are no implications

## **20.0 Schedule of Background Papers**

- 20.1. Fraud Risk Policy
- 20.2 Internal Controls Framework
- 20.3 Compliance Manual
- 20.4 AON Hewitt report on the Fund's Data Improvement Strategy.
- 20.4 Scheme Advisory Board October Meeting Actions  
<http://www.lgpsboard.org/index.php/board-publications>

## **21.0 Schedule of Appendices**

- 21.1 Appendix A (1) and (2): Pension Board Workplan 2019/20
- 21.2 Appendix B: Risk register top risks
- 21.2 Appendix C: Key Performance Indicators