

# Pensions Committee

20 June 2018

<b>Report title</b>	Compliance and Risk Monitoring 1 January 2018 – 31 March 2018	
<b>Originating service</b>	Pensions – Governance and Corporate Services	
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## Recommendation for noting:

The Committee is asked to note the contents of the report.

## **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 2018 – 31 March 2018 together with an overview of the Fund's risk management actions as outlined in the risk register.

## **2.0 Risk Register**

- 2.1 A copy of the Fund's risk register overview is attached at Appendix 1 and notes the key risks currently facing the Fund. The risk overview and underlying risk register are active documents with the overview reporting on the most up to date period (March to June). This overview records as "red" status items as the main areas of focus at this time.
- 2.2 The transition to the LGPS Central investment pool and effective delivery of the Fund's Pension Administration Strategy (including work streams to enhance data quality) continue to be a focus of risk management, together with the production of the 2018 Fund report and accounts in a shorter statutory period coinciding with high activity and change for the Fund.
- 2.3 The Fund has added one new risk to the main register this quarter.
- 1) Loss of experience on pension committee and/or local pensions board through election/nomination cycle and change in member roles.*
- 2.4 Both Committee and the Local Pension Board membership have the potential for significant change and the Fund continues to review and ensure policies and procedures are in place to manage transition.
- 2.5 This risk is currently assessed as a medium and controls are in place to mitigate impact including the delivery of a comprehensive trustee induction programme and ongoing training. This does not feature as part of the risk overview but has been considered by Fund officers in preparation of the 2018 induction and training programme.

## **3.0 Compliance Monitoring Programme**

- 3.1 The Fund has in place a compliance monitoring programme which aims to ensure its internal and external operations meet acceptable standards and best practice. The programme is directly linked to the risk register; testing the effectiveness of the controls in place. This quarter the monitoring included data quality, trade settlement and reconciliation of asset transfer and employer contributions.
- 3.2 The results of the tests carried out for this quarter are summarised below. 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 2018 period.

## Governance

- 3.3 This quarter the Fund reported itself to Wolverhampton City Council as Data Controller for data breaches under the Data Protection Act following an error production of information from the administration system which led to a mis-match of 58-member details and incorrect joiner certificates being issued. Dialogue with the affected employer was undertaken at the earliest opportunity and having considered the steps taken by the Fund to mitigate the impact on members and the swiftness of action to rectify the breach, the Council determined no further action was necessary.
- 3.4 The Fund has automated processes and implemented controls to protect member information, following this incident the Fund is further investigating additional measures which could be taken to reduce the future occurrence of data breaches.

## Finance and Investments

- 3.5 Late Trades  
The Fund continues to monitor late trades and for the period of January to March the fund completed 1,465 trades and the number of late trades was 46. This is an increase on the previous quarter from 10. The reasons for the late trades are:
- a) Broker not previously used for European trades during Jan/Feb = 38
  - b) Stock loan = 1
  - c) Broker error = 1
  - d) Custodian error = 6

There was no detriment to the Fund.

From April 2018 day-to-day trading activity will be carried out by LGPS Central and this will be reflected in the next quarter monitoring report where the focus will be on transition of assets and asset allocation.

- 3.6 Pooling and Custodian Reconciliation  
Following the Go-Live of LGPS Central ACS funds and transition of WMPF internally passive equity funds in April, compliance undertook a full reconciliation of assets transferred to LGPS Central sub funds and legacy assets remaining with the WMPF custodian.
- 3.7 Compliance can confirm that all assets held by the fund prior to pooling have been fully reconciled post pooling with the exceptions being identified and reasons for the exception confirmed and noted. A number of pre-April 2018 “legacy assets” remain with the WMPF custodian and new WMPF investments made ahead of further sub funds being launched are also expected to be held with the WMPF custodian.
- 3.8 There has been no detriment to the Fund assets values following the transition to the new LGPS Central sub funds.

## Contributions

- 3.9 The Finance team continue to engage with employers to ensure contributions are received on a monthly basis. The procedures for monthly reconciliation of contributions is being revised and an enhanced process will be implemented for the 2018/2019 contributions period, following the streamlining of monthly contribution notices embedded within the monthly return process.
- 3.10 The revised process will enable the Fund to more quickly identify any late or incorrect payments and initiate employer dialogue at an earlier stage.
- 3.11 During March the Fund received 37 employer contributions (£245,676 in value) after the due date. The total amount expected from employers was less than received and work is ongoing to investigate the discrepancies which are known to be due to part to delay in some employers increasing their contribution rate following the 2016 actuarial valuation and in part due to the high turnover of employers which has seen many new employers joining and leaving during the year.
- 3.12 Where employers have not amended contribution rates to a higher rate due from April 2017, Fund officers follow a process of reporting and escalation. Those who are either paying contributions late or below the level set out in the Rates and Adjustment Certificate set by the Scheme Actuary risk report to the Pensions Regulator.

## Engagement with the Pensions Regulator (TPR)

- 3.13 As confirmed to Committee on 21 March 2018, the Fund self-reported to the Pension Regulator (TPR) on its ability to produce timely and accurate benefit statements. This breach report was submitted in December 2017 as the Fund was unable to produce annual benefit statements for 21% of its eligible active membership.
- 3.14 Since the breach report was filed, the Fund has maintained regular dialogue with TPR on the case investigation. The Fund has since provided further information and analysis, including details of those employers who made up a significant proportion of the 21% and the primary reasons for the failure to issue statements. Details have been shared with TPR on the steps being taken by the Fund to improve data quality with a view to increasing the percentage of active benefit statements to be issued by 31 August 2018. In parallel with this, the Fund continues to escalate and liaise with employers to resolve the issues identified.
- 3.15 The Fund will maintain close dialogue with TPR regarding the case investigation and is due to meet with representatives of TPR's Case Management Team on 18<sup>th</sup> June 2018.
- 3.16 The Fund is not unique in the challenges it faces with regard to obtaining the information and data required to issue benefits statements and administer the scheme.

3.17 Through the monthly returns project, the Fund has engaged widely with employers, payroll providers and administration system providers, many of whom are still developing tools to work with the new post 2014 CARE scheme and the data requirements for LGPS. As a constituent member of the Metropolitan Group of LGPS Funds, the Fund is also engaging with TPR alongside this collective to increase the dialogue with TPR on Public Sector Schemes.

#### **4.0 Compliance monitoring and Investment Pooling**

4.1 The Fund continues to work with LGPS Central Limited to develop a formal process for compliance monitoring which will provide assurance to Committee on the management of Fund assets once transferred to the Company sub funds.

4.2 In addition, the Council's Internal Audit team is working with Partner Funds in LGPS Central to develop a combined approach to auditing LGPS Central providing further assurance of the service provide.

4.3 As part of this work, the Fund is reviewing its compliance manual and associated policies (as noted in the Annual Policy Review report).

4.4 A full overview of these processes will be provided as part of Trustee development once this piece of work has been developed with a full report on the outcomes being presented to September committee.

#### **5.0 Financial implications**

5.1 Failure by the Fund to adhere to regulatory requirements could result in fines being imposed on the Fund by either the Pensions Regulator or the Information Commissioner.

#### **6.0 Legal implications**

6.1 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*.

6.2 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.

#### **7.0 Equalities implications**

7.1 There are no implications

#### **8.0 Environmental implications**

8.1 There are no implications

**9.0 Human resources implications**

9.1 There are no implications

**10.0 Corporate landlord implications**

10.1 There are no implications

**11.0 Schedule of background papers**

11.1 None

**12.0 Schedule of Appendices**

12.1 Appendix 1 - Risk Register Overview – June 2018