

Pensions Board

3 July 2018

Report title	Annual Governance Report 2018	
Originating service	Pension Services – Governance and Corporate Services	
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Recommendation for noting:

The Board is asked to note the contents of the report

1.0 Purpose

- 1.1 To update the Pensions Board on the work undertaken by the Fund in relation to its governance.

2.0 Background

- 2.1 The Local Pension Board's role is to assist in the effective governance of the scheme in its adherence to legislation and best practice.
- 2.2 This year has seen a number of changes to the Fund as it began transition to Investment Pooling and continued to develop working practices to enhance scheme record keeping to meet standards set by the Pensions Regulator.

3.0 Risk Register

- 3.1 An effective Governance structure ensures risks are known and managed. The Fund has in place a Risk Register and maintains an overview noting the key areas of focus for the Fund over the 2018 year. This is reflective of the key challenges and priorities highlighted in our Service Plan 2018 – 2023. A copy of the Fund's risk register overview is attached at Appendix 1. 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 key risks the fund is focused on managing at this time.
- 3.2 The transition of Fund assets 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.
- 3.3 The Fund has recently added one new risk to the main register.

1) Loss of experience on pension committee and/or local pensions board through election/nomination cycle and change in member roles.

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 change and build knowledge to support members in their roles.

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.

4.0 Engagement with the Pensions Regulator (TPR)

- 4.1 During the 2017/18 year 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.
- 4.2 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 maximise production of active benefit statements to be issued in 2018 and thereafter. In parallel with this, the Fund continues to escalate and liaise with employers to resolve the issues identified.
- 4.3 The Fund will maintain close dialogue with TPR regarding the case investigation and most recently met with representatives of TPR's Case Management Team on 18th June 2018.
- 4.4 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. The Scheme Advisory Board is currently taking an active interest in measures which could be taken to support Scheme administration, recognising the additional burden the new CARE scheme and increasing employer numbers and payroll providers has placed on the Scheme.
- 4.5 Through its own transition to monthly returns, the Fund has engaged widely with employers, payroll providers and administration system providers, many of whom are still developing tools to work with the scheme and the data requirements for LGPS (which now include, for example, multiple pensionable pay figures to administer pre and post 2014 benefits). 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 and develop best practice.

5.0 Compliance monitoring

5.1 Pooling and Custodian Reconciliation

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

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's activities providing further assurance of the service provider.

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

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.

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.

There has been no detriment to the Fund assets values following the transition to the new LGPS Central sub funds.

5.2 Contributions

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.

The revised process will enable the Fund to more quickly identify any late or incorrect payments and initiate employer dialogue at an earlier stage.

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.

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

5.3 Governance

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.

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.

6.0 Key Performance Indicators during 2017/18

- 6.1 Attached at Appendix 2 is an overview of the Fund's annual performance against its Key Performance Indicators. The overall review shows a marked increase in the Fund's performance for all service areas and is a reflection of the dedication of Fund employees to deliver a high-quality service to our members.
- 6.2 Over the year the Fund has seen notable improvements in the service delivery for Members with increased performance in processing time for retirements (including benefits payable to dependents) and transfers. This is of significance as these areas provide members with the ability to plan for their financial future and facilitate decisions about their future life. In reviewing the actions taken in 2017 and to continue to improve the service delivery for our members, the Fund developed tools to assist in the production of retirement options while awaiting the upgrade of the Pension Administration System, this helped to improve our performance in this area into the early part of 2018/19.
- 6.3 A number of areas are subject to ongoing development through various initiatives targeting improvements data quality and increased production of benefit statements. Linked to this is the Fund's Data Improvement Plan and Customer Engagement Strategy which will seek to enable to Fund to respond move quickly to requests received from members and create efficiencies in working practices. This in turn seeks to control the average cost per member as members increase, noting the increase this year was expected following investment in service development, including the successful appointment to staffing posts which were partly vacant during the 2017/18 year.
- 6.4 A key focus for the Fund in 2017/18 was to invest in our employee and Trustee development, ensuring the Fund is well equipped to manage change and respond to increasing complexity and oversight. The KPIs show an increase in the number of employees holding a relevant qualification as well as an increase in the total number of training undertaken by our Trustees and Pension Board members. Although attendance rates for Trustee and Board Members has reduced, their commitment to

their roles is evident in the recorded hours study. The Fund is in the process of preparing its Trustee and Pension Board training plan for the 2018/19 year in consideration of feedback received to ensure these events are scheduled to maximise attendance.

7.0 Developing the Service Plan

- 7.1 In preparation for the Service Plan 2018 – 2023 the Fund engaged with colleagues and stakeholders to consider the drivers for change and challenges faced by both the Fund and the industry as well as considering what goals and objectives it wanted to achieve for individual services areas, together with the measurable outcomes.
- 7.2 With this in mind, the Fund has reflected on its objectives for 2017 – 2022 refreshing its outlook to ensure it delivers on our members' and employers' expectations of the services provided. The Fund headed into 2018 with a continued focus on improving scheme data, employer and fund administration performance, enhancing member communication and ensuring sound financial management through investment strategy and funding monitoring.
- 7.3 The Fund's core objectives have been reviewed and updated. Our core objectives reflect how we propose to work to continue to deliver the Fund's mission to ensure pension benefits for our members' future.
- 7.4 The Service Plan 2018 – 2023 provides information on:
- A) Our mission and core objectives
 - B) The operating environment
 - C) Our corporate priorities for 2018-2023 and beyond
 - D) The key performance indicators that the Fund will use to measure its progress towards achieving its objectives and priorities
 - E) The resourcing implications of the Service Plan, expressed in terms of both staffing and finances.
- 7.5 The LGPS landscape continues to be fast-changing, and the Fund needs to ensure it positions itself to respond proactively to changes in its operating environment. The Fund manages change through ongoing horizon-scanning through active involvement at a national level on new initiatives and policy and regularly reviews its position, resource and approach to ensure it is able to meet and deliver change for its customers.

- 7.6 This year, the Fund has identified 8 drivers for change and sets out in the Service Plan how it proposes to manage these drivers:
- a) Delivering a smooth transition to LGPS Central
 - b) Continue to develop our Responsible Investment Framework
 - c) Changes to data protection and the introduction of the General Data Protection Regulations
 - d) Continued focus on maintaining records and data quality
 - e) The Age of the Digital Customer
 - f) Monitoring employer changes
 - g) Funding and cost efficiencies
 - h) Continual complexities in scheme rules

- 7.7 The Key Performance Indicators that the Fund uses to monitor its progress in achieving core objectives and corporate priorities are set out in the Service Plan. These provide assurance to our customers on the ongoing monitoring and review of Fund performance.

8.0 National Scheme Advisory Board Update

- 8.1 In line with its Regulatory duty, the national Scheme Advisory Board (SAB) every year produces its Scheme Annual Report highlighting national averages in areas such as investment returns, asset allocation, funding and governance.

- 8.2 The SAB produces its report based on published annual report and accounts of all LGPS Funds across England and Wales. It is therefore produced retrospectively each year. This latest report highlights the Scheme-wide position from the individual fund 2017 year-end annual reports, and is a useful point of reference for a variety of stakeholders.

- 8.3 Key LGPS Highlights for 2017 as noted by the SAB include:

- The total membership of the LGPS grew by 394,000 (6.9%) to 5.6m members in 2017 from 5.2m in 2016.
- The total membership of employers increased from 12,915 in 2016 to over 14,000 in 2017.
- The total assets of the LGPS increased to £263bn (a change of 21.2%). These assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), as well as other asset classes (6%).
- The Local Authority return on investment over 2016/2017 was 19.5%. This was reflective of the better market conditions during the year and set against the UK Return of 22%.
- The scheme maintained a positive cash-flow position overall. Scheme income was lower than total scheme outgoings by £484m; this was excluding investment income, however.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.

- Over 1.6m pensioners were paid over the year. Fewer than 39 formal complaints about scheme benefit administration were determined and less than 13% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.

8.4 In comparison, WMPF's (Main Fund) highlights for the year to 31 March 2017 show

- The total membership grew from 287,874 to 296,542 (2.92%)
- Employers increased from 536 to 586 (8.5%)
- The Fund's total assets increased from £11.6billion to £15.5 billion (25%)
- The total number of pensioners paid during the year was 87,979
- Throughout 2016/17 the Fund received 631 complaints of which only 3 were referred to the Pension Ombudsman.

8.5 For the West Midlands Integrated Transport Authority Fund it is difficult to use the national average as a comparator due to the closed status of the Fund and it having only 2 employers. The majority of those members are in receipt of their pension benefits with just over half being supported by the purchase of an annuity buy-in contract held in the name of the Fund.

9.0 Social Responsibility

9.1 Throughout 2017/18 the Fund undertook a number of events to raise money for various local and national charities and raised £1071.28. The staff forum set the charities each year based upon suggestions and feedback from colleagues with a focus on two local and two national charities each year.

10.0 Financial implications

10.1 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.

11.0 Legal implications

11.1 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*.

11.2 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.

12.0 Equalities implications

12.1 There are no implications

13.0 Environmental implications

13.1 There are no implications

14.0 Human resources implications

14.1 There are no implications

15.0 Corporate landlord implications

15.1 There are no implications

16.0 Schedule of background papers

16.1 Service Plan 2018 – 2023

<http://wolverhampton.moderngov.co.uk/documents/s68493/Service%20Plan%202018-2023.pdf>

17.0 Schedule of Appendices

17.1 Appendix 1 - Risk Register Overview – June 2018

17.2 Appendix 2 - Key Performance Indicators

17.3 Appendix 3 - Charities for who the Fund-raised money during 2017/18