

Pensions Committee

5 September 2018

Report title	Governance Update April – September 2018	
Originating service	Pensions Services	
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Recommendations for noting:

The Committee is asked to note:

1. The work underway with LGPS Central and Partner Funds to establish a robust and consistent approach to monitoring compliance in the investment pool.
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 delivery of the Fund's objectives to date and an update on our corporate objectives as noted in the Fund's Service Plan 2018 – 2023
5. The progress of the Fund in delivering benefit statements to members.

1.0 Purpose

- 1.1 To provide Committee 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 Investment Pooling and compliance monitoring

2.1 Investment Pooling

Following the transition of passively managed equity assets into newly launched LGPS Central sub funds, discussions have been underway with Partner Funds in relation to the internal assurance provided by the Company on the direct management of assets and activity undertaken under discretionary and advisory investment management agreements.

Officers from Internal Audit departments of the 8 Partner Funds recently met with the Company to discuss the expected standard of reporting and the format that might be received from the Company, with the aim of collaborating on a single approach which will provide assurance to the Funds.

Discussions continue in this area, as the operator Company, LGPS Central Limited, looks to establish its own audit framework and develop more products and services. It is noted that further transparency is needed to meet the expectations and reporting requirements of Partner Funds and dialogue is ongoing to ensure this is delivered.

- 2.2 The Fund has in place a compliance programme which aims to ensure its internal and external (including LGPS Central) operations meet acceptable standards and best practice. This programme is directly linked to the Fund's risk register, testing the effectiveness of controls in place

The results of the tests carried out for the period April to June 2018 are summarised below on an exception basis.

Finance and Investments

Late Trades

The Fund continues to monitor late trades and for the period of April and May the number of late trades was 7, to which there was no detriment to the Fund.

Contributions

The Finance team continue to engage with employers to ensure contributions are received on a monthly basis and in line with the Actuary's rates and adjustment certificate. The procedures for monthly reconciliation of contributions have been revised with an enhanced process and this continues to be embedded within the monthly return process.

During May the Fund received 92 employer contributions (£1,842,029 in value) after the due date. Investigations continue to determine whether these are attributable to the high turnover of employers at year end.

2.3 Information Governance

This quarter the Fund is reporting 2 data breaches in connection with the management of information together with 4 recorded 'near misses'. Following the implementation of the Data Protection Act 2018, the Fund now records near misses the same as a data breach to ensure learning and controls are actioned appropriately.

In relation to the data breaches, the Fund determined there was no material impact or detriment to the individuals as information was incorrectly shared with statutory/professional bodies whose compliance with Data Protection Law meets that level expected by law.

The Fund have received no Freedom of Information requests this quarter and no Subject Access Requests.

2.4 Compliance Manual Review

Following the transition of assets to LGPS Central the Fund has reviewed its Compliance Manual to reflect the internal controls in place in the management of the Fund's assets.

While the Fund retains control for setting investment strategy, asset allocation and a wide range of investment decision making, trading is now carried out by LGPS Central Limited. As such, stricter controls previously implemented by the Fund in relation to personal dealing and front running are no longer applicable to the majority of Fund employees. This requirement now only rests with specific senior and investment roles. The manual has therefore removed detailed reference to the Financial Conduct Authority's regulations and instead focused on the Fund's obligations in relation to pension regulation. This continues to be developed as we further develop the relationship with Central's compliance team and our understanding of the expectations of the Pensions Regulator.

3.0 Risk Register

3.1 The funds risk register has been compiled to represent all known and perceived risks. The risk register has recently undergone a comprehensive review with the inclusion of operational risk maps linking into the main risk register on a quarterly basis. The additional risk maps have expanded the control framework with a capture of risks and associated controls at a stakeholder level.

3.2 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 (March to June) as it is looked upon as both a reactive and proactive document to ensure risks are immediately mitigated.

3.3 The Fund has added three new risks to the main register this quarter which has included the risk of failing to produce benefit statements by 31 August 2018.

3.4 Further to the review, the full risk register is attached at Appendix A (1) which provides assurance to the Committee of the controls in place to protect the Fund and ensure payment of members' benefits.

4.0 Key Performance Indicators

4.1 The Fund continues to note year on year improvements across almost all service areas for our Key Performance Indicators and the significant progress in managing retirement quotations in the early part of 2018.

4.2 The Fund continues its project of maximising benefit statements and has seen a reduction in the number of complaints received from members compared to the same time last year. The production of deferred benefit statements has increased from last year with work ongoing to reduce large volumes of work in the leaver processes.

4.3 This quarter the Fund has seen an impact on the production of retirement quotes for active members as the team were maintaining the production of deferred member quotes which has seen a comparative increase. Both spikes in demand are largely driven by the recent member disclosure mailings, providing an update on LGPS regulations and the potential impact on member benefit options.

4.4 This quarter the Fund has developed its system reports for assessing the common and conditional data held by the Fund in line with tPR standards. Work continues to progress in this area for the conditional data report, where guidance is shortly expected to be issued by the Scheme Advisory Board to enable and encourage standardisation across the LGPS.

4.5 Work continues to develop the Fund's performance monitoring framework and review not only the reporting of performance but also the activities measured to ensure the Fund reports on elements key to the service delivery for our members.

4.6 A copy of our KPIs is attached at Appendix B.

5.0 Service Plan 2018 – 2023

5.1 In line with the Fund's objectives and corporate priorities, the Fund has continued to develop its services, transforming the way it engages with customers. In July, the Fund received confirmation of its ongoing accreditation of Customer Service Excellence, achieving 4 areas of compliance plus, the highest standard of accreditation with the Member Services Team achieving this level for a second year running. The Fund's new format Pensions Portal was also recognised as compliance plus, together with our overall approach to the monitoring and delivery of our Customer Journey. The work of the Fund has been recognised at a national level, having been shortlisted for 2 awards for our system development and Scheme Governance. The ceremonies to be held later this month.

- 5.2 In meeting our challenges and drivers for change for 2018 – 2023, the Fund continues to work with our national partners in shaping the LGPS for our customers. Officers from the Fund have been invited to sit on numerous working groups, including the LGPS procurement Framework assessment groups, where tenders are being re-let. Officers also continue to work with the Scheme Advisory Board and the Pension Regulator, responding to surveys and consultations. Most recently the Fund responded to a survey from the Pension Regulator on creating a consistent approach to the management of data across the LGPS and our Head of Pensions sits on the tPR working group across the Metropolitan Authority pension funds within the LGPS.
- 5.3 Ongoing monitoring of the Fund's corporate objectives continues as we deliver service improvement, the latest update is attached at Appendix C.

6.0 Benefit Statements 2018

- 6.1 This year, the Fund has seen one of the biggest transformations in its data management through the introduction of monthly returns, with the aim of increasing benefit statement production year on year achieved through the improved quality of data received from employers. In addition, the Fund has seen an impact of volumes of work created by the recent disclosure mailing to deferred members and the delay with some employers in submitting monthly files. To assist in managing the work, the Fund has diverted resource to focus on the monthly submissions program, which includes focussed resource on system testing. All of this work has enabled the Fund to develop a rolling benefit statement production for 2018, with the aim of maximising production throughout September and October maintaining the program of delivery through to December.
- 6.2 The Fund has engaged with employers on the production of benefit statements with communications and support offered to help manage member expectations with communications placed on our website. A face-to-face meeting with employers has been arranged to discuss the program of work and how they can help the Fund going forward to maximise benefit statement production.

7.0 Governance Assurance Framework

- 7.1 As part of its annual Governance Compliance, the Fund has undertaken a self-assessment of its management and administration arrangements in line with the Pension Regulator's Code of Practice and this will be a focus of work for the Fund and the Local Pensions Board as we continue to develop our services in line with the expectation set by tPR and the Scheme Advisory Board.
- 7.2 This year, the Fund is reporting areas of non-compliance due to developed understanding of the expectation of performance and delivery from our statutory partners. Moving forward the Fund will focus on the continued development of its services in the areas of:
- Management of internal controls and the delivery of our policies

- Developing training and self-assessment tools for our Trustees and Pension Board members
- Effective management of data
- Employer performance

8.0 Financial implications

- 8.1 Poor management of the Fund's assets can result in detrimental investment returns. Effective monitoring of the management arrangements is required to ensure the Fund is well placed to ensure the delivery of its investment strategy.
- 8.2 Failure by the Fund to meet statutory requirements of effective governance and administration could result in fines imposed by the Pensions Regulator.

9.0 Legal implications

- 9.1 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*.
- 9.2 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.
- 9.3 Failure by the Fund to comply with statutory requirements of effective governance and administration could result in further action by the Regulator, including legal notices and enforcement powers.

10.0 Equalities implications

- 10.1 There are no implications

11.0 Environmental implications

- 11.1 There are no implications

12.0 Human resources implications

- 12.1 There are no implications

13.0 Corporate landlord implications

- 13.1 There are no implications

14.0 Schedule of background papers

- 14.1 Service plan 2018 – 2023

14.2 The Pension Regulator's Code of Practice annual assurance and compliance monitoring self – assessment.

15.0 Appendices

15.1 Appendix A - (1) Risk register and (2) top ten risks

15.2 Appendix B - Key Performance Indicators

15.3 Appendix C - Corporate Priorities Update 2018 - 2023