

Pensions Board

25 September 2018

Report title	Annual Governance Report 2018	
Originating service	Pension Services	
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Recommendation for approval:

The Board is recommended to:

1. Approve its Terms of Reference for the 2018/19 year.

Recommendations for noting:

The Board is asked to note:

1. The Fund's risk register and the mitigations in place to manage risk at the Fund
2. The proposed training throughout the year with reference to the knowledge and skills framework
3. The progress of the Fund in delivering benefit statements to members
4. The feedback analysis from the Fund's Customer Engagement Strategy.

1.0 Purpose

- 1.1 To update the Pensions Board on the work undertaken by the Fund in relation to its governance throughout the 2017/18 year and preparation for 2018/19 year.

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 Pension Board Annual Governance

Terms of Reference

- 3.1 On the creation of the Local Pensions Board in 2015 the Fund was required to develop terms of reference for the Board setting out the rules and structure for how the Board would be constituted and operate on a day-to-day basis. This included the number of meetings per year and the quorum required for an effective meeting.
- 3.2 In line with the regulatory requirement the Board are asked on an annual basis to review its terms of reference to ensure they remain effective and relevant to its ongoing evolution as a new body created by statute.
- 3.3 Following informal discussion with Local Pension Board members on 3 July, initial observations from the Scheme Advisory Board survey and wider review of practice within Local Pension Boards now established across the LGPS, a draft revised Terms of Reference is presented for the Board's consideration, with a view to agreeing terms for 2018/19. Proposed changes include
- Increasing frequency of meetings to a minimum of four per year – this aligns more with practice elsewhere and, given the volume of activity, is proposed to enable the Board to keep more up to date with developments during the year. It is proposed that meetings will be kept to half-day, including an element of training.
 - Reduced meeting quorum to four, with balanced representation – recognising both the size of the Board (larger than average), the increase in meeting frequency and having sought advice and considered practice elsewhere, the reduction is proposed to enable the Board to continue its business, with expected minimum levels of attendance retained.
 - Clarified expectations for meeting attendance and training – members are expected to attend a minimum of 2 meetings per year, one structured training event and attain at least 22 hours training (including own reading) each year.

- 3.4 A copy of the draft terms of reference, showing tracked changes to the current terms is attached at Appendix 1. An additional change which has been incorporated is a clarification on the application of the nominations process for Trade Union and Employer representatives.

Skills and Knowledge

- 3.5 In compliance with the Public Service Pensions Act 2013, the Fund develops on an annual basis its training programme for Trustees and Pensions Board Members ensuring the development of their knowledge and skills in line with the CIPFA knowledge and skills framework.
- 3.6 To assess the training delivered by the Fund an analysis has been undertaken of the training provided to date, the subjects covered, and the level delivered against the CIPFA framework. A training schedule has been devised to cover the key areas as highlighted by the analysis, also taking into consideration topics that are currently relevant within the Industry and to the Fund (such as the upcoming 2019 Valuation). A copy of the draft training schedule is attached at Appendix 2 which notes the areas for proposed training throughout the remainder of the 2018/19 year.

4.0 Risk Register

- 4.1 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.
- 4.2 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.
- 4.3 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.
- 4.4 Further to the review, the full risk register is attached at Appendix 3.

5.0 Engagement with the Pensions Regulator (TPR)

- 5.1 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.

- 5.2 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.
- 5.3 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.
- 5.4 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.
- 5.5 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 the 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.

6.0 Investment Pooling and compliance monitoring

Investment Pooling

- 6.1 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.
- 6.2 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.
- 6.3 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.

6.4 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

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

6.6 Finance and Investments

Late Trades

6.7 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

6.8 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.

6.9 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.

Information Governance

6.10 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.

6.11 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.

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

Compliance Manual Review

6.13 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.

6.14 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.

7.0 Key Performance Indicators

7.1 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.

7.2 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.

7.3 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.

7.4 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.

7.5 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.

7.6 A copy of performance relative to KPIs is attached at Appendix 4.

8.0 Developing the Service Plan

8.1 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.

- 8.2 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.
- 8.3 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.
- 8.4 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.
- 8.5 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.
- 8.6 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
- 8.7 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.

- 8.8 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.
- 8.9 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.
- 8.10 Ongoing monitoring of the Fund's corporate objectives continues as we deliver service improvement, the latest update is attached at Appendix 5.

9.0 National Scheme Advisory Board Update

- 9.1 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.
- 9.2 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.
- 9.3 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.

9.4 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.

9.5 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.

10.0 Social Responsibility

10.1 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.

11.0 Financial implications

11.1 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.

12.0 Legal implications

12.1 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*.

12.2 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.

13.0 Equalities implications

13.1 There are no implications

14.0 Environmental implications

14.1 There are no implications

15.0 Human resources implications

15.1 There are no implications

16.0 Corporate landlord implications

16.1 There are no implications

17.0 Schedule of background papers

17.1 Service Plan 2018 – 2023

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

18.0 Schedule of Appendices

18.1 Appendix 1: DRAFT Pension Board Terms of Reference 2018/19

18.2 Appendix 2: DRAFT Pensions Board Training Schedule 2018-19

18.3 Appendix 3:
(A) Full Risk Register
(B) Top Risks

18.4 Appendix 4: Key Performance Indicators

18.5 Appendix 5: Corporate Priorities Update 2018