

Pensions Committee

12 December 2018

Report title	Governance Update September to December 2018	
Originating service	Pension Services	
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Recommendations for noting:

The Committee 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 the Fund's Trustee and Pension Board members year to date.
7. The completion of the Pension Regulators scheme return
8. The progress 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 Background

- 2.1 Each year Committee are asked to review and agree the Fund's operational policies. Some of these policies are required by statute. Others are adopted for operational purposes and to provide our customers with information about the Fund and the service they can expect to receive. In line with the Fund's Policy Review timetable a number of policies were presented to Committee for approval at its meeting in June 2018.
- 2.2 Since the delegation from the West Midlands Combined Authority to the Pension Committee, the Fund has developed its policies to take account its management of both the Main Fund and WMITA Pension Fund.

3.0 Fund policy in relation to "exit credits"

- 3.1 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 approval next year.

4.0 Compliance Manual

- 4.1 As reported to Committee in September, following the creation of LGPS Central 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.
- 4.2 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.

5.0 Risk Register

- 5.1 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.
- 5.2 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 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
- 5.3 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.
- 5.4 Further to the review, the top risks are attached at Appendix A which provides assurance to the Committee of the controls in place to protect the Fund and ensure payment of members' benefits.
- 5.5 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 further outlined in the Fund's Internal Controls Framework, noting the interaction of our policies in the management and administration of the Fund.

6.0 Key Performance Indicators

- 6.1 The Fund reported to September committee the impact of the recent regulatory change on 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 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.

- 6.2 The rolling production for benefit statements continues to have an impact on the Fund's aim to maximise accurate statements with the figure increasing by more than 10% since last reported to committee.
- 6.3 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.
- 6.4 A copy of the Fund's key performance indicators are attached at Appendix B.

7.0 Potential and Actual Breaches

7.1 Finance and Investments

Late Trades

The Fund continues to monitor late trades for the period of July to September during which the number of late trades was 34 and the number of failed trades was 33. The reason for the failed trades was due to the counter party details being incorrect. The Fund has received confirmation from HSBC and LGPS Central Ltd that the late and failed trades have resulted in no detriment to the fund.

Contributions

The Finance team continue to engage with employers to ensure contributions are received monthly in line with the Rates and Adjustments Certificate. The procedures for monthly reconciliation of contributions continues to develop and embed within the employer monthly return process. Those employers who do not meet the requirements set out in the Fund's Pension Administration Strategy are managed through the Fund's Employer Engagement Roadmap, which provides for escalation of issues where necessary, including potential reporting to the Pensions Regulator.

During July the Fund had 25 employer contributions (£202,156 in value) late after the due date. Finance and employer services continue to work with the employers with a shortfall in employer contribution payment.

7.2 Governance and Operations

This quarter the Fund received one Freedom of Information request which was responded to within timescales.

The Fund has reported 5 data breaches to the City of Wolverhampton's Information Governance Team. These were in connection with a system error which incorrectly matched member records. This has been raised with Civica and a fix implemented to prevent future occurrences. It was identified that there was no detriment to the individual members, as the breach was contained within the Fund's internal processes.

The Fund has received 3 subject access requests from members of the Fund or their representatives. The Fund has recently seen an increase in these requests following recent pension fraud scandals. The Fund has implemented a fraud risk policy to mitigate potential harm to members.

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 to exceed those expected for an LGPS Fund highlighting this an area of good governance and complementary to the strategic direction of the Fund, set by 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 which was presented to Committee at the start of the year. 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 Trustee Training Hours

- 9.1 So far this year the Fund is reporting Trustee training hours as 669.50, an average of 33.48 hours per Trustee. This is an increase on training from this time last year with an additional 100.5 hours recorded, an average of 5.03 additional hours per Trustee.
- 9.2 The Fund continually reviews its Trustee training programme to ensure the Committee and the Local Pension Board 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 is currently in the process of collating 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 Committee at the next meeting in March.

11.0 Benefit Statements 2018

- 11.1 Following the report to Committee in September, 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 70% 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.

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 Financial implications

13.1 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.

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

14.0 Legal implications

14.1 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*.

14.2 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.

14.3 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.

15.0 Equalities implications

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

16.0 Environmental implications

16.1 There are no implications

17.0 Human resources implications

17.1 There are no implications

18.0 Corporate landlord implications

18.1 There are no implications

19.0 Schedule of Background Papers

19.1. Fraud Risk Policy

19.2 Internal Controls Framework

19.3 Compliance Manual

19.4 AON Hewitt report on the Fund's Data Improvement Strategy.

20.0 Schedule of Appendices

20.1 Appendix A: Risk register top risks

20.2 Appendix B: Key Performance Indicators