

## WIRRAL COUNCIL

### PENSION COMMITTEE

4 NOVEMBER 2019

<b>SUBJECT:</b>	<b>The Pensions Regulator's Engagement with Local Government Pension Funds</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report updates members on the Pensions Regulator (TPR) review of governance and administration risks across the LGPS.
- 1.2 The catalyst for the review was the slowdown of improvements that emerged in the findings from TPR's Annual Governance and Administration survey published in 2018.
- 1.3 In order to understand the challenges facing LGPS funds, TPR undertook a formal engagement exercise with ten LGPS funds between October 2018 and July 2019.
- 1.4 The key findings from the engagement are summarised within a TPR report published on 19 September 2019, suggesting that focus needs to be placed on policies, processes and people.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 As good governance is a fundamental requirement to ensure the effective running of all pension schemes, the strength of governance across the LGPS is a key focus for both TPR and the Scheme Advisory Board (SAB).
- 2.2 LGPS Stakeholders have welcomed appropriate scrutiny from TPR to help drive forward continual improvement. Particularly in an environment of continuing uncertainty with the 'McCloud Case', the Cost Cap process, an increasingly complex benefit regime and a growing number of scheme employers.

## **TPR Engagement Strategy**

- 2.3 The growing relationship between the LGPS and TPR materialised in a “Cohort engagement” exercise, providing TPR with insight into the administrative challenges of the LGPS and the opportunity for funds to understand the Regulator’s expectations and programme of intended action. This key area of work aligns closely with the Scheme Advisory Board’s Good Governance project covered as an earlier agenda item.
- 2.4 In order to understand the challenges facing LGPS funds, TPR undertook a formal engagement exercise with ten LGPS funds between October 2018 and July 2019.
- 2.5 The engagement exercise was informed by the Regulators’ Code of Practice No 14; the selected cohort funds were interviewed with a focus on nine risk areas, covering operational processes and overall governance measures which were tested against published standards.
- 2.6 The reviews were carried out at a high level by meetings with scheme managers along with an assessment of fund policies, documents and member communications.
- 2.7 There were five meeting with each fund covering key themes as follows:
- Record Keeping, administrator and member communication risk
  - Internal controls and the internal dispute resolution
  - Employer risks maintaining contributions and affordability
  - The Pension Board and knowledge & understanding
  - Cyber security, pension liberation and the misappropriation of assets.
- 2.8 The final report published on 19 September 2019 can be accessed from the following link:

<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report#0beb0d2047954672b2a73de451ef7eab>

## **Synopsis of Key Findings**

- 2.9 TPR highlighted some areas of good practice and noted that many funds strive to provide the best outcomes for scheme members. Although several concerns were identified, there is a clear expectation that scheme managers will improve to reach required standards against Code of Practice No 14.
- 2.10 TPR acknowledge that ‘one size does not fit all’ as LGPS Funds differ by staffing structure, available budget and the level of separation from the host authority; the latter point determines the level of independence to shape strategies and policies.

- 2.11 The over reliance of funds on the host authority's policies and procedures is discouraged, with explicit directives for Funds to establish its own policies and procedures with the support from Local Pension Boards.
- 2.12 TPR promotes the benefits of partnership working between scheme managers to discuss common challenges and solutions either through formal events or ad hoc engagements to improve governance standards.
- 2.13 It is noted that the presence of good quality data and effective record keeping standards underpin all aspects of the successful running of an LGPS fund. This includes the requirements for data improvement plans to address any concerns regarding data quality and the requirement of formal reporting on the quality of scheme data to TPR.
- 2.14 There is an emphasis on the operation and vigour of internal controls and the need for regular review in recognition of the evolving risks to funds with specific reference to employer covenants, pension scammers and cyber-attacks.

### **Recommendations Emerging From findings**

- 2.15 Overall TPR's acknowledgement of the different Fund structures across the LGPS is helpful, along with recognition that there are a variety of equally valid approaches to mitigating risks across the scheme.
- 2.16 Notwithstanding their understanding of varied structures across the LGPS, several general recommendations relating to the nine risk focus areas were made to improve policies, processes and decision making by having an appropriate people strategy as outlined below:
  - a) **Record Keeping** - accuracy of member data should be measured correctly, regularly reviewed and understood by the scheme manager and pension board. Ensuring an administration strategy in place will assist in setting our roles and responsibilities and consequences of non-compliance.
  - b) **Internal Controls** - Funds should have a risk register in place that should be reviewed by the pension board. Funds should also record all internal controls and processes, reducing the possible impact of key-person risks.
  - c) **Administrators** - Performance targets should be agreed, measured and underperformance challenged.
  - d) **Member Communications** - All communications should be clear, precise and free from jargon. Consideration should also be given to measuring the effectiveness of all material to ensure it is understood by the audience.

- f) **Internal Dispute Resolution** – Information on the dispute resolution process should be readily available along with complaint handling policies with the pension board having oversight of complaints and outcomes. Complaints should be used of means of improving the service.
- g) **Pension Boards**- Funds should ensure individual training plans are in place and ensure appropriate training is available and attended. A process should exist for dealing with ineffective pension board members.
- h) **Employers and Contributions**. Funds require a greater understanding of the financial position of employers with the need for regular reviews of covenant strength. An admission and cessation policy can help in managing the introduction of new employers, security required and dealing with employer exits.
- i) **Cyber Security** – Funds should record on risk registers, carry out penetration testing and not rely solely on Local Authority security processes and systems.
- j) **Internal Fraud** - Funds should ensure procedures are in place to minimise the risk of fraud, including the actions to be taken when a fraud is uncovered.

2.17 The Engagement Report's findings and recommendations will be discussed in detail at the Scheme Advisory Board meeting on 6 November 2019. The findings will feed into consideration of the options report emerging from the interrelated workstreams under the 'Good Governance Project', which is scheduled for discussion at the same meeting.

2.18 In the meantime, Fund Officers have been tasked to assess MPF's policies, strategies and procedures against the findings within the report to ensure any areas for improvement are addressed and built into the sections' work streams.

### **3.0 Relevant Risks**

3.1 The failure of the administering authority to assess the Pension Fund's governance structure, policies and procedures against the findings within the Engagement Report could lead to the risk of censure from the TPR and loss of confidence in the governance and fiduciary management of the Fund for all scheme stakeholders

### **4.0 Other Options Considered**

Not relevant for this report.

## **5.0 Consultation**

5.1 Not relevant for this report

## **6.0 Outstanding previously approved actions**

6.1 None associated with the subject matter.

## **7.0 Implications For voluntary, community And Faith Groups**

7.1 There are none arising from this report.

## **8.0 Resource Implications: Financial: IT; Staffing and Assets**

8.1 TPR advocates within its findings, that in order to achieve good governance of the scheme, robust strategies and policies are essential along with a clear plan of delivery of those strategies.

8.2 Good business planning, risk management, performance monitoring and the ability to make informed decisions by involving the right people, with the right attitude along with the appropriate skills and knowledge is of paramount importance to ensure the effective administration of the scheme.

8.3 TPR and industry commentators support the finding that Funds require independence in these areas to ensure good governance and outcomes for all scheme stakeholders is acknowledged to be essential for 21st Century fund management.

## **9.0 Legal Implications**

9.1 There are none arising from this report.

## **10.0 Equalities Implications**

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because MHCLG undertake equality impact assessments with regard to the governance and fiduciary management of the LGPS.

## **11.0 Carbon Reduction and Environmental Implications**

11.1 There are none arising from this report

## **12.0 Planning And Community Safety Implications**

12.1 There are none arising from this report

## **13.0 Recommendation**

13.1 That Committee Members:

- a) Note the key findings and recommendations within TPR's Engagement Report following its high-level review of ten LGPS funds, based on the Regulators Code of Practice No 14.
- b) Note the planned activity of officers to undertake an analysis of Fund policies and strategies against the findings, to ensure any areas for improvements are incorporated into the section's work streams.

## **14.0 Reason/s for Recommendations**

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

### **REPORT**

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