London Borough of Hammersmith & Fulham

Report to: **LBHF Pension Board.**

Date: 13/01/2019.

Subject: **Pensions Regulator report into the Governance and Administration of Public Sector pensions.**

Report of: Assistant Director People and Talent

Summary

In September 2019 the Pensions Regulator (TPR) issued a report which followed their survey carried out between October 2018 and July 2019 into the Governance and Administration of Public Sector pensions.

The aim of the survey was to understand scheme managers' approaches to a number of key risks. As part of the report the Pensions Regulator fed back on good practice and suggested improvements that could be made.

The report was not designed to be a comprehensive evaluation of funds operations and was not intended to replace audit requirements, nor was it to be considered as regulatory assurance or an endorsement of the fund by TPR.

The TPR findings and recommendations have been compared to the current governance standards within the LBHF Local Government Pension Scheme (LGPS) fund and conclusions and recommendations have been made.

Recommendations

1. That the Board notes this report and approves the actions detailed in Appendix 1.

Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Building shared prosperity	Continuing to provide assurance regarding the governance of the LGPS thereby encouraging employees to join and/or remain members of the scheme.
• Being ruthlessly financially efficient	To review and assess governance and efficiency of the LGPS, recommending and making changes where necessary.
• Taking pride in H&F	Ensuring a high standard of governance of the LGPS that continues to underpin the retention and recruitment of employees.

Financial Impact

None

Legal Implications

None

Contact Officer(s):

Name: David Coates
Position: Head of Retained Pensions (LBHF and RBKC) and HR Management Information
Telephone: 07962 155364
Email: David.Coates@rbkc.gov.uk

Background Papers Used in Preparing This Report
None

DETAILED ANALYSIS

1.   Proposals and Analysis of Options

1.1.   This report proposes alignment between the current governance standards of the LGPS to those detailed within TPR report issued in September 2018.

1.2.   There have been no other recent reviews of public sector pensions governance standards therefore no other options are available for consideration.

2.   Reasons for Decision

2.1.   The Pensions Board need to be satisfied that the governance of the LGPS is suitable to manage identified risks.

3.   Equality Implications

3.1.   *None*

4.   Risk Management Implications

4.1.   This report seeks to further enhance the governance of the LGPS and reduce the risk of loss as far as practicable.

5.   Other Implications

5.1   None

6.   Consultation

6.1.   None

List of Appendices:

Appendix 1: Governance and administration risks in public service pension schemes comparison report

TPR Findings	TPR Recommendations	LBHF Fund Controls in place and/or actions required as at 5th November 2019	RAG Rating

TPR Findings	TPR Recommendations	LBHF Fund Controls in place and/or actions required as at 5th November 2019	RAG Rating
Many scheme managers have moved from annual to monthly member data collection and found this enabled them to verify data at an earlier stage, with some funds providing monthly reports to employers highlighting the quality of data submitted and action points they need to complete. Well-run funds are aware of the quality of the common and scheme specific data they hold. Where it is not entirely accurate robust and measurable, data improvement plans are in place. Scheme managers of these funds consider a range of methods to improve data quality, including tracing exercises and improving contract management methods. They also generally have a robust Pension Administration Strategy (PAS) in place which detail rights and obligations of all parties to the fund.	• Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate. • The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found. • Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the PAS and ensure it will stand up to challenges from employers.	• The Scheme Manager (Maria Bailey) monitors the level of accuracy and consistency within the pensions data. Discussions are currently ongoing with the Pensions Administrators, Surrey County Council (SCC), regarding the creation of a revised Data Improvement Plan following the data recently being produced for the valuation of the fund. • The revised Data Improvement Plan will be shared with the Pensions Board and the Pensions Sub Committee once agreed with the Pensions Administrator. • Regular monitoring reports will be provided to the Pension Board and the Pensions Sub Committee • A Pension Administration Strategy is already in place which details the rights and obligations of all parties to the fund.	Green
There were a range of approaches to	• A risk register should be in place and	• A fund risk register is in place and reported to the	Amber

TPR Findings	TPR Recommendations	LBHF Fund Controls in place and/or actions required as at 5th November 2019	RAG Rating
identifying, monitoring and mitigating risks to the funds we engaged with. Some funds had detailed risk management frameworks in place and clear, defined procedural documents. Others lack detailed risk registers or do not review the risks to the fund on a frequent basis, with little oversight of work being done to identify or mitigate risks. We found evidence across a number of funds of key person risk, where a long serving member of staff has developed a high level of knowledge about their role and internal processes, but this knowledge is not documented. This leaves these funds exposed to the risk of a sharp downturn in administration and governance standards should the key person unexpectedly leave their role. Funds with an engaged s.151 officer who has a good relationship with the scheme manager are more likely to have clear and robust internal controls	cover all potential risk areas. It should be regularly reviewed by the pension board. • The scheme manager should take a holistic view to risks and understand how they are connected. • The pension board should have good oversight of the risks and review these at each pension board meeting. • Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels. • The scheme manager should ensure all processes are documented and reviewed on a regular basis. • Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate	Pensions Board and the Pensions Sub Committee by the Tri-Borough Investment Team. • To supplement the fund's risk register, the Pension Administrators are creating a risk register focussed solely on Pension Administration risks. This will be shared with the Pensions Board and the Pensions Sub Committee regularly. • The fund's risk register is shared with the Pension Board but not at every meeting. **Action:** Fund's Risk Register to be included in future agendas and the Pension Administration Risk Register to be shared when available. • Some but not all of the fund's controls and processes are recorded. **Action:** A review of the documentation status of the controls and processes to be included in future HR work plans. **Action:** The borough Governance Team to consider the provision of action logs.	
Better performing scheme managers have a close relationship with their administrator,	• Scheme managers must agree targets and have a strong	• The arrangements with the Pension Administrator (Surrey County Council) are covered by a section	Green

TPR Findings	TPR Recommendations	LBHF Fund Controls in place and/or actions required as at 5th November 2019	RAG Rating
whether they use a third-party provider or an internal team. In these instances, robust SLAs are in place which are routinely monitored by senior managers. These scheme managers are also willing to effectively challenge reports from administrators to ensure they fully understand the work being done. Not all scheme managers have clear oversight of the work being done by administrators or question the information provided by them when it is appropriate to do so. This leads to the scheme manager not understanding how well the fund is performing and can act as a barrier between the scheme manager and both participating employers and members. There is a variety of methods used to appoint third party administrators, and scheme managers generally carefully consider the best approach for the individual circumstances of their fund	understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should the agreed standards not be met. • Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator. • It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided. • Scheme managers should hold regular meetings with their service providers to monitor performance.	101 delegation agreement that includes agreed KPIs covering the most important areas of service delivery. • The KPIs are monitored monthly by HR and reported to the Pensions Board at every meeting. • The section 101 delegation agreement is ongoing and has a 12 month notice period on either side. • A Pensions Administrator manager has previously attended the Pensions Board and the Pensions Sub Committee. **Action:** The Pensions Board and the Pensions Sub Committee to consider the future requirement for the Pensions Administrators to attend meetings. • The scheme manager attends quarterly meetings with the Pensions Administrators.	
Some scheme managers have clear procedures in place for recording, and learning from, complaints and disputes they	• There should be a clear internal policy on how to handle complaints, including escalation to suitable senior	• The Fund has an IDRP policy in place which is communicated via the Pensions web site.	Green

receive. They use this information to make changes to the way the fund is run in order to provide the best possible service to beneficiaries. Not all the complaints procedures and the Internal Dispute Resolution Procedure (IDRPs) we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published. This limits the ability of people with an interest in the funds to raise concerns and restricts a useful source of information for scheme managers. Not all scheme managers have a clear definition of a complaint. It is important for scheme managers to act in a consistent manner and if what a complaint looks like is not known this will affect its ability to put things right	members of staff. • People entitled to use the IDRP should be given clear information about how it operates. • This information should be easily available, e.g. on the fund website. • The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house. • Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.	• Details of entitlements and appeals procedures are contained with the IDRP policy. • Numbers of complaints are reported along with the KPIs by the Pensions Administrators and reviewed at the Quarterly Liaison meetings where changes are agreed as necessary to processes to prevent a reoccurrence.	
A number of scheme managers are currently reviewing the documents they send to savers. It is widely appreciated that pensions and retirement provision is complicated, and communication with savers needs to be in plain English. A variety of methods are being used, with the strongest scheme managers in this area working closely with a technical team and also enlisting the assistance of non-technical staff to check readability and whether it is comprehensive. Not all scheme managers fully appreciate the extent of their duties to provide	• Information sent to members should be clear, precise and free from jargon. • There should be senior oversight of communications sent to members and prospective members. • It is often helpful for scheme managers to measure the effectiveness of their communication with savers, e.g. measuring website traffic and running surveys.	• The Head of Retained Pensions (LBHF and RBKC) and HR Management Information signs off significant communications with scheme members. Each are reviewed for effectiveness, clarity and accuracy prior to being sent. **Action:** The scheme manager and the Pensions Administrators to continue to review how to measure the effectiveness of the communications with scheme members, Non-members, Admitted Bodies and Schools.	Green

information to savers, with some not knowing about the legal duty to inform active members where employee contributions are deducted but not paid to the fund within the legislative timeframe.			
Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases, board member rotation is staggered to help preserve knowledge levels. Additionally, some boards have independent chairs, depending on the needs of the individual pension board. We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards to assist them with the operation of the fund. Other scheme managers face challenges around pension board members who routinely fail to attend meetings or complete the training they need to meet the required level of knowledge and understanding. The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.	• The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance. • Individual pension board member training and training needs should be assessed and clearly recorded. • The pension board should meet an appropriate number of times a year, at least quarterly. • Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager. • Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs. • Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund.	• A training needs analysis for Pension Board members and the Pensions Sub Committee has previously been carried out by Tri-Borough Investment Team. • Training has periodically been offered to members of the Pensions Board and the Pensions Sub Committee. **Action:** The Pension Board and the Pensions Sub Committee to consider when a review of the training needs should be carried out next. • The training records of the Pension Board and the Pensions Sub Committee members is held by the Tri-Borough Investment Team. • In 2018 the terms of office of the employee representatives of the Pension Board came to an end and the positions were advertised by the Scheme Manager and appointments made by the Director of Human Resources. • The Chair of the Pension Board attends the Pensions Sub Committee meetings as required.	Amber

	• The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency. • Pension board members should be fully engaged and challenge parties where appropriate.		
Scheme managers monitoring the payment of contributions often face the challenge of payroll providers making a single payment for several employers and delaying sending a breakdown of the amount paid. Some scheme managers have been working with participating employers to encourage them to provide training to payroll providers where the payroll company won't engage with a body it doesn't have a direct contractual relationship with. Changing a payroll provider can cause issues. Early engagement with the employer and provider is helpful to mitigate later problems. Scheme managers have a variety of ways of assessing the risk of employers failing to pay contributions or having a disorderly exit from the fund, depending on the fund's resources. Better resourced and funded scheme managers will carry out detailed covenant assessments of all participating employers, with other scheme managers only reviewing those they believe to pose the highest risk. Most scheme managers seek security from	• Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus. • Employer solvency should be considered on an ongoing basis and not just at the time of each valuation. • Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier. • Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations. • Scheme managers should develop an understanding of the risk and benefits	• Employer and employee contributions from all payroll providers are monitored monthly by the scheme manager and appropriate action taken promptly where inaccuracies or omissions are identified. • All service providers to whom ex-Council employees have been TUPE transferred must become an Admitted Body to the scheme (unless they can demonstrate to the satisfaction of the Actuary that a comparable pension scheme is available to those who have been transferred). • With support and advice from the Councils Legal Advisors (Eversheds) an Admission Agreement is signed under seal by all the major stakeholders detailing the responsibilities of all parties. • It is the policy of the borough that all Admitted Bodies purchase a bond and have it in place to mitigate any loss to the fund in the event that the Admitted Body cannot fulfil its financial liabilities to the pension fund. • The bond is required to be taken out by the Admitted Body with a recognised financial institution to the value calculated by the pension	Green

employers to mitigate the risk of a failure to pay contributions. Some scheme managers rely on guarantees, particularly in relation to participating employers providing outsourced services. Others expect the majority of employers to set up a bond. Only a few scheme managers accepted a wide range of security types, generally those with larger funds. Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.	of a range of security types, such as charges, bonds and guarantees. • Scheme manages should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security. • Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets. • Where security is in place, Scheme Managers should have a policy on when the security should be triggered	fund Actuary (Barnett Waddingham).	
Most scheme managers are heavily reliant on the security systems put in place by the Local Authority, with some not engaging with how the procedures in place affect the fund. Scheme managers of well-run funds have a good understanding of the IT systems in place, even where these are implemented by the Local Authority. Some scheme managers have not given consideration to the risks posed by cybercrime. For these funds, cyber security did not appear on the risk register before our engagement with the scheme manager. Scheme managers that are aware of the risks associated with cybercrime generally	• Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register. • Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks. • Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the	• The pension administration software system is covered by Surrey County Council's annual disaster recovery and penetration cyber security controls. This is also underpinned by requirements in the section 101 delegation agreement. We are satisfied that these controls are sufficiently robust and comprehensive to provide the required level of assurance as proposed by the Regulator.	Green

have robust procedures in place to test the effectiveness of both cyber security and resilience methods.	procedure and ensure the fund's requirements are met. • Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data		Green
Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and external source. We found scheme managers are generally aware of publicised fraudulent activity that have affected other pension schemes and have taken steps to review their own procedures. Scheme managers of well-run funds typically take steps to regularly screen member existence. Their scheme managers are also aware that not all incorrectly claimed pension benefits are the result of an attempt to defraud the fund and can identify when to treat a situation with sensitivity. Most scheme managers have introduced multiple levels of sign offs, with more than one person being required to agree to a payment being made. The scheme managers were also aware of frauds involving other funds, where this had been made public. They had taken steps to reduce their own vulnerability to similar issues.	• Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud. • A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment. • A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver. • Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence. • When paper records are being used, they should be held securely to prevent the risk of loss or mis-appropriation.	• The Scheme Manager has an agreed process in place with the Pensions Administrator that they use a 3rd party to confirm the ongoing identity and validity of pensioners living outside the UK. • A separation of responsibility exists for the payment of lump sums to members of the fund. Calculations are carried by the Pensions Administrator, input by the scheme manager and approved by the Assistant Director People and Talent. • All potential or actual frauds are reported to the Borough's audit services for investigation and recommendation.	Green