

## London Borough of Hammersmith & Fulham

**Report to:** Pension Fund Sub-Committee

**Date:** 3 March 2021

**Subject:** Independent Review of the Governance Arrangements for the Pension Fund

**Report of:** Phil Triggs, Director of Treasury and Pensions

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### Executive Summary

1.1 This paper provides the Pensions Sub-Committee with the report of an independent consultant commissioned by officers reference an independent review of the governance arrangements for the pension fund.

### Recommendations

1. The Pensions Sub-Committee is recommended to note the report which sets out the officer responses to the 32 recommendations made by the review.
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**Wards Affected:** None

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### LBHF Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none"><li>• Being ruthlessly financially efficient</li></ul>	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer.

### Financial Impact

- None

### Legal Implications

- None
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Verified by Phil Triggs

**Background Papers Used in Preparing This Report**

Consultant report

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## DETAILED ANALYSIS

### 1. Background

- 1.1. A Tri-Borough Treasury and Pensions review was commissioned in 2019 and a report published early in 2020. The review concluded that the Tri-Borough arrangement for Treasury and Pensions should continue and a further recommendation determined that officers should carry out an independent governance review of the LBHF Pension Fund.
- 1.2. An experienced LGPS practitioner was appointed, John Raisin, ex S151 officer of LB Waltham Forest.
- 1.3. John completed his governance report in November 2020 and the report is attached as Appendix 1.
- 1.4. The report conclusion on page 3, which relates to the approach of the Pensions Sub-Committee, states that its Members have "...sought to discharge their responsibilities diligently."
- 1.5. The Tri-Borough Treasury and Pensions Team and LBHF officers have spent much time digesting the report and its 32 recommendations, many of which are very easily implemented, some of which will need to be carried out after the implementation of the new pensions administration service, and some which will require further consideration as necessary.
- 1.6. This report summarises where officers stand on the recommendations and the suggested way forward on each of the 32 recommendations.

## REPORT RECOMMENDATIONS

### 2. Changes to the Committee Structure

#### Recommendation 1

- 2.1. The Council give consideration to the removal of all reference to the Pensions function from the Terms of Reference of the Audit and Pensions Committee and that this Committee be renamed the Audit Committee.

**The Director of Resources and Head of Governance have indicated their agreement to this change.**

**Timeline: immediate. Separate report for 3 March 2021 agenda.**

#### Recommendation 2

- 2.2. The Council give consideration to revising the Constitution to place all responsibility for the LGPS pensions function with the Pension Fund Sub-

Committee and that this be renamed “The Pension Fund Committee” and that its elected member membership be 6 voting councillors.

**The Director of Resources and Head of Governance have agreed to the renaming of the Pension Fund Sub-Committee which will be renamed “The Pension Fund Committee” in order to bring the Council’s approach in its decision making in line with the vast majority of other LGPS Administering Authorities across England and Wales. The membership will increase from four to six.**

**Timeline: immediate. Separate report for 3 March 2021 agenda.**

Recommendation 3

- 2.3. To amend the Responsibilities of the Pension Fund Sub-Committee (The Pension Fund Committee) as set out in Appendix 2 of this report.

**The Director of Resources and Head of Governance have agreed to the updated terms of reference (attached as Appendix 2) to more broadly cover investment issues, governance and pensions administration, and to reflect changes in the LGPS Regulations 2013 and the LGPS (Management and Investment of Funds) Regulations 2016.**

**Timeline: immediate. Separate report for 3 March 2021 agenda.**

Recommendation 4

- 2.4. The Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt one or two non-administering authority non-voting members in order that Employers beyond the LBHF may participate in the decision making forum of the LBHF Pension Fund.

**The Director of Resources and Head of Governance regard this as good practice as indicated in the 2008 Statutory Guidance.**

**Timeline: immediate.**

Recommendation 5

- 2.5. The Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt a non-voting Employee representative.

**The Director of Resources and Head of Governance regard this as good practice as indicated in the 2008 Statutory Guidance.**

**Timeline: immediate.**

### **3. Changes to Pensions Administration**

Recommendation 6

- 3.1. The Officers involved in preparing future LBHF Pension Fund Annual Reports specifically ensure both the inclusion and consideration of the Pension Administration Strategy as required by the LGPS Regulations and relevant Statutory Guidance.

**The Tri-Borough Director of Treasury of Pensions agrees.**

**The Pensions Manager agrees.**

**Timeline: immediate**

Recommendation 7

- 3.2. The Pensions Sub-Committee seek assurance from the Officers that the Annual Report and Statement of Accounts for 2019/20 have been prepared taking careful account of relevant Statutory Guidance (particularly that relating to preparing the Annual Report) and that in future years the Officers confirm this in the covering report presenting the draft Annual Report and Accounts.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager agrees.**

**Timeline: immediate**

Recommendation 8

- 3.3. A Training Needs Assessment is urgently completed in respect of all Pension Board Members and that a comprehensive programme of training to address identified needs (including coverage of recent and current developments in the LGPS) be provided as soon as practical.

**The Tri-Borough Director of Treasury and Pensions agrees. A comprehensive programme of training to address identified needs (including coverage of recent and current developments in the LGPS) will be provided as soon as practical.**

**The Pensions Manager agrees.**

**Timeline: immediate**

Recommendation 9

- 3.4. That consideration be given to paying an allowance to Local Pension Board Members for actual attendance at Board Meetings (including any training held before a Board meeting).

**The Director of Resources and Head of Governance have agreed that, in line with the Council's Members allowance scheme, Local Pension**

**Board members should be paid a flat rate allowance of £504 per annum payable by equal monthly instalments of £42.00 on the 15th of each month. Any allowances approved would be payable from the Pension Fund.**

**Timeline: immediate**

Recommendation 10

- 3.5. A report and procedure relating to reporting Breaches of the Law, which is in accordance with the relevant guidance in The Pension Regulator's Code of Practice No 14, is urgently prepared for consideration and approval by the Pension Fund Sub-Committee.

**The Tri-Borough Director of Treasury and Pensions agrees. A draft will be prepared in collaboration with the Pensions Manager.**

**The Pensions Manager agrees but delivery will be challenging with the current priorities and will aim to present this to the Committee and Board in the coming scheme year 2021/22.**

**Timeline: by 31 March 2022**

Recommendation 11

- 3.6. Training on reporting Breaches of the Law is provided jointly for both Members of the Pension Fund Sub-Committee and the Local Pension Board as a matter of urgency.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager agrees.**

**Timeline: by 31 March 2022**

Recommendation 12

- 3.7. A Breaches of the Law Log be maintained and is presented on a quarterly basis to the Pension Fund Sub-Committee and to each meeting of the Pension Board.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager agrees.**

**Timeline: immediate**

Recommendation 13

- 3.8. The LBHF Knowledge and Skills Self-Assessment form (for Sub-Committee and Pension Board Members) be expanded to include a specific new section on Pensions Administration.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager agrees.**

**Timeline: by 31 March 2022**

Recommendation 14

- 3.9. Appropriate training in respect of Pensions Administration be provided to both Sub-Committee and Local Pension Board Members as soon as practical.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager agrees, though this should be provided by an external source.**

**Timeline: by 31 March 2022**

Recommendation 15

- 3.10. That consideration is given to scheduling regular training sessions, immediately before Pension Fund Sub-Committee meetings.

**The Tri-Borough Director of Treasury and Pensions agrees. This already takes place routinely. The Tri-Borough team is also arranging its third half-day session in 2020/21 (across the Tri-Borough authorities), to be held on 25 February 2021.**

**The Pensions Manager agrees.**

**Already implemented**

#### **4. Finance and Risk**

Recommendation 16

- 4.1. A comprehensive LBHF Pension Fund Medium Term Business Plan incorporating an Annual Plan and a detailed Annual Budget, is developed and approved annually by the Pension Fund Sub-Committee and formally monitored on a quarterly basis.

**The Tri-Borough Director of Treasury and Pensions agrees. The business plan and budget 2021/22 are an agenda item for the 3 March 2021 committee meeting.**

**The Pensions Manager agrees.**

**Timeline: included within agenda for 3 March 2021**

Recommendation 17

- 4.2. The LBHF Pension Fund annual budget should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and Employers.

**The Tri-Borough Director of Treasury and Pensions agrees. The business plan and budget 2021/22 are an agenda item for the 3 March 2021 committee meeting.**

**The Pensions Manager agrees.**

**Timeline: included within agenda for 3 March 2021**

Recommendation 18

- 4.3. That a Pensions risk policy be prepared for approval by the Pension Fund Sub-Committee which sets out the Pension Funds approach to risk. This should include a clear statement on the responsibilities of Officers in relation to Risk Management.

**The Tri-Borough Director of Treasury and Pensions agrees. Risk registers are already routinely published for every committee and board meeting. A risk policy is being compiled in partnership with the Pensions Manager and the Council's Risk Manager.**

**The Director of Audit, Fraud, Risk and Insurance agrees and the risk policy should be aligned to the Council's overall risk policy, as well as being designed to cover the purpose and objectives of the Pension Fund. Key risks from the Pension Fund Risk Register will also be considered for inclusion in the Council's Corporate Risk Register.**

**Timeline: by 31 March 2022**

Recommendation 19

- 4.4. Officers review the Risk Management process to seek to ensure that any revised process results in the effective implementation and utilisation of a Risk Management Cycle.

**The Tri-Borough Director of Treasury and Pensions agrees. The Risk Management Cycle is set out in pages 4 to 7 of the CIPFA publication "Managing Risk in the Local Government Pension Scheme." (December 2018). This will be incorporated in the Risk Policy documentation.**

**The Pensions Manager agrees.**



**The Director of Audit, Fraud, Risk and Insurance agrees and the Council's Risk Manager will advise and support Pension Fund officers with this review. Following the implementation of the updated Risk Management Cycle, an internal audit review will be undertaken to provide independent assurance.**

**Timeline: by 31 March 2022**

Recommendation 20

- 4.5. The Risk Register is redesigned with risks listed under each of the seven headings in the CIPFA Guidance on managing risks in the Local Government Pension Scheme, issued in 2018.

**The Tri-Borough Director of Treasury and Pensions agrees. The Risk Register will be redesigned.**

**The Pensions Manager agrees and will collaborate on the redesign.**

**The Director of Audit, Fraud, Risk and Insurance agrees and the Council's Risk Manager will advise and support Pension Fund officers with the redesign of the Risk Register.**

**Timeline: by 31 March 2022**

## **5. Audit**

Recommendation 21

- 5.1. The LBHF Pension Fund have a separate and specific Annual Internal Audit Plan, approved by the Pension Fund Sub-Committee which includes a focus on Pension Administration issues in their broadest sense, both those carried out by the LBHF Pension Fund directly and those delegated to a third-party Pensions Administrator.

**The Tri-Borough Director of Treasury and Pensions agrees and will liaise with both Internal Audit and the Pensions Manager.**

**The Pensions Manager agrees.**

**The Director of Audit, Fraud, Risk and Insurance will ensure that, following discussions with the Tri-Borough Director of Treasury and Pensions and Pensions Manager and a review of the Pension Fund Risk Register, that items will be included in the Internal Audit Plan presented to the Audit Committee. The elements of the Internal Audit Plan relating to the Pension Fund will also be reported to the Pensions Sub-Committee.**

**Timeline: to be incorporated into the Internal Audit planning cycle for 2021/22, where the plan will be reviewed on a quarterly basis**

Recommendation 22

- 5.2. The Annual Internal Audit Plan should include Audits undertaken/Assurance reports commissioned by the LBHF Pension Fund from the Internal Audit service of the external Pensions Administration provider.

**The Tri-Borough Director of Treasury and Pensions agrees and will liaise with Internal Audit.**

**The Pensions Manager agrees.**

**The Director of Audit, Fraud, Risk and Insurance will liaise with the Internal Audit service of the external Pensions Administration provider to establish the scope and nature of the work they plan to carry out on the service or have already completed. This will help to determine what reliance they can place on this work in planning work to be undertaken by the Council's Internal Audit Team.**

**Timeline: to be incorporated into the Internal Audit planning cycle for 2021/22, where the plan will be reviewed on a quarterly basis**

**6. External Employer Membership**

Recommendation 23

- 6.1. A report to the Pension Fund Sub-Committee be prepared in respect of any "Community Admission Body" in the LBHF Pension Fund which specifically identifies the current position regarding their covenant with the Fund and which makes proposals for the ongoing monitoring and, as appropriate, strengthening of these covenant arrangements.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager agrees.**

**Timeline: by 31 March 2022**

**7. Communications and Administration**

Recommendation 24

- 7.1. Given the Communications Policy has not been updated since 2016 it should be reviewed and updated as a matter of urgency and a new version presented to the Pension Fund Sub-Committee for their consideration and approval.

**The Tri-Borough Director of Treasury and Pensions agrees**

**The Pensions Manager agrees, but delivery will be challenging with the current priorities, and will aim to present this to the Committee and Board in the coming scheme year 2021/22.**

**The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pension Manager's assessment.**

**Timeline: by 31 March 2022**

Recommendation 25

- 7.2. As the Pensions Administration Strategy dates from 2016, it should be thoroughly and comprehensively reviewed as soon as practical including meaningful consultation with all Scheme Employers and Members of the Pension Board.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager hopes to present a revised administration strategy in line with the LGPS guidance in the coming scheme year, but is mindful of large scale priority reference the change of administration provider. The impact of this on the in-house team should not be underestimated.**

**The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pension Manager's assessment and notes that a new suite of KPIs (which are a key element of an administration strategy) will be agreed with the new service provider as part of the Delegation Agreement before the service goes live on 1 February 2022.**

**Timeline: by 31 December 2022**

## **8. The Pensions Regulator (tPR) and Code of Practice 14**

Recommendation 26

- 8.1. As a matter of urgency the Pension Fund Sub-Committee, and the Pension Board, receive a report and briefing from Officers on the requirements of The Pension Regulators Code of Practice No 14 "Governance and administration of public service pension schemes" of April 2015 and the implications and requirements of subsequent statements, surveys and reports issued by The Pensions Regulator applicable to the LGPS since 2015.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager notes the independent review by Gareth Hopkins, the implementation of a Pensions Taskforce, the recruitment of an inhouse pension administration team and the confirmation and selection of a new pension administration provider will already address**

**key issues. Therefore, it would be more appropriate to revisit this after the implementation of the new pension administration provider in 2022.**

**The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pensions Manager's assessment.**

**Timeline: by 31 December 2022**

Recommendation 27

- 8.2. As a matter of urgency, a review of compliance with the requirements of Code of Practice No 14, and any subsequent requirements of The Pensions Regulator, be commissioned and recommendations agreed to address areas of limited or non-compliance.

**The Tri-Borough Director of Treasury and Pensions agrees.**

**The Pensions Manager notes the independent review by Gareth Hopkins, the implementation of a Pensions Taskforce, the recruitment of an in-house pension administration team and the confirmation and selection of a new pension administration provider will already addresses key issues. Therefore, it would be more appropriate to revisit this after the implementation of the new pensions administration provider in 2022.**

**The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pensions Manager's assessment.**

**Timeline: by 31 December 2022**

## **9. Fund Actuary**

Recommendation 28

- 9.1. That the Fund Actuary should be fully appraised of the situation relating to the state and quality of the data/records of LBHF Pension Fund members as held by the Pensions Administration service provided by Surrey County Council and be asked for their comments, observations and suggestions with regard to this issue.

**The Tri-Borough Director of Treasury and Pensions agrees. Data quality and its improvement is a major consideration and the Pensions Manager is very aware of the need for continual improvement. Such progress and the journey to quality improvement can be measured by the actuary.**

**The Pensions Manager is aware of the data issues in the Fund and is engaging with a third party, ITM, to address these in the coming year. The Pensions Manager is aware of the commentary and services that the actuary can provide and already carries out. This applies especially at**

the time of the triennial valuation, when the actuary provides detailed information on gaps and faults in membership data.

**Timeline: by 31 March 2022 (date of the actuarial valuation)**

## 10. Tenders and Contract Awards

Recommendation 29

- 10.1. That appropriate expertise specifically relating to the LGPS, including as necessary, external support should be available in the formulation of the contract/tender documentation, actual contract award process and subsequent monitoring arrangements for the new external Pensions Administration service provider. Cognisance should also be taken of relevant CIPFA Guidance including “Administration in the LGPS A guide for pensions authorities” (November 2018) and “Managing Risk in the LGPS” (December 2018).

**The Tri-Borough Director of Treasury and Pensions agrees. Work is currently being undertaken reference the contract documentation following the selection and appointment of a new pensions administration provider.**

**The Pensions Manager confirms that the Pensions Taskforce have already engaged with independent consultant, Gareth Hopkins, and are also consulting with Pension Fund legal advisors, Eversheds.**

**The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, confirms that appropriate internal and external specialist advice and support have been engaged to support the implementation of a delegation agreement for the service to be provided by Local Pensions Partnership (LPP), an experienced LGPS pensions administration provider.**

**Timeline: immediate**

## 11. Management Structure

Recommendation 30

- 11.1. The LBHF Pension Fund carefully and seriously consider combining all activity of the Fund under a single senior officer.

**This item needs discussion. The current responsibilities pertaining to the governance of the pension fund encompass two departments currently and a single officer responsibility will need to take account of this, as well as taking account of arrangements at the other Tri-Borough authorities.**

**The Pensions Manager notes that this recommendation has wider implications for the Tri-Borough service and the structure of both the Director of Resources and the Director of Finance team. A separate investigation is required if it is something that the Committee wishes to explore but the Committee should be mindful of the timing of such an investigation/implementation to ensure it avoids change saturation.**

**Timeline: not urgent and not subject to any deadline**

Recommendation 31

- 11.2. Should the scope of the role of an existing officer be expanded to cover all the activity of the Pension Fund proper consideration be given to reviewing and consequently enhancing their terms and conditions of service including remuneration.

**See 11.1.**

**Timeline: not urgent and not subject to any deadline**

## **12. Advisors**

Recommendation 32

- 12.1. The Pension Fund Sub-Committee consider the appointment of an Independent Advisor with a remit across the Governance, Investment, Funding, Pensions Administration and Training activity of the LBHF Pension Fund.

**A separate report is included within the agenda.**

**The Pensions Manager agrees in principle that this is good practice but feels this should be periodic engagement rather than continuous, i.e., every two years.**

**Timeline: no deadline stated**

### **List of Appendices:**

Appendix 1: John Raisin Consultant Report (Exempt)

Appendix 2: Pension Fund Committee Proposed Terms of Reference

