

London Borough of Hammersmith & Fulham

Report to: Pension Fund Committee

Date: 20/06/2022

Subject: Code of Practice 14 Requirements and Compliance Review

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Responsible Director: Phil Triggs, Director of Treasury and Pensions

Summary

As part of the independent review, it was recommended that a report be produced outlining the key themes and requirements of the TPR Code of Practice 14, and a review of the Fund's current compliance with each guideline be carried out.

The below report addresses both recommendations.

Recommendations

1. The Pension Fund Committee is requested to note the report.

Wards Affected: None

LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none">• Being ruthlessly financially efficient	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

DETAILED ANALYSIS

Background

1. The Code of Practice 14 was issued by The Pensions Regulator (tPR), which is the body that regulates UK occupational and personal pension schemes provided through employers.
2. This code of practice is directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. The code came into effect from 1 April 2015.
3. The Pension Regulator's statutory objectives are to:
 - protect the benefits of pension scheme members;
 - reduce the risks of calls on the Pension Protection Fund (PPF);
 - promote and improve understanding of the good administration of work-based pension schemes;
 - maximise compliance with the duties and safeguards of the Pensions Act 2008;
 - minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the Regulator's functions under Part 3 of the Pensions Act 2004 only).
4. The regulator has a portfolio of regulatory tools, including the issuance of codes of practice, to enable it to meet its statutory objectives. Codes of practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions.
5. The Code of Practice 14 is not a statement of the law and adherence to it is not necessary in every circumstance. Alternative approaches to those appearing in the code of practice are acceptable, although they must still meet the underlying legal requirements of the relevant legislation.
6. The Public Service Pensions Act 2013 (the 2013 Act) introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the regulator.
7. The regulator is required to issue one or more codes of practice, covering specific matters relating to public service pension schemes. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
8. This code of practice is split into four sections, each with subsections:
 1. Governing your scheme
 - a. Knowledge and understanding required by pension board members

- b. Conflicts of interest and representation
 - c. Publishing information about schemes
- 2. Managing risks
 - a. Internal controls
- 3. Administration
 - a. Scheme record-keeping
 - b. Maintaining contributions
 - c. Providing information to members
- 4. Resolving issues
 - a. Internal dispute resolution
 - b. Reporting breaches of the law
- 9. To review the code of practice in full please visit:
<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice>
- 10. The following is an assessment of the London Borough of Hammersmith and Fulham Pension Fund's compliance with each section.

Governing your scheme

Knowledge and understanding required by pension board/committee members

1. The LBHF Pension Fund Knowledge and Skills policy sets out clear guidance on training standards, and sessions are regularly provided, both before committee meetings and ad hoc sessions, to ensure members skills and knowledge are kept up to date.
2. Therefore, compliance with this requirement has been met.

Conflicts of interest and representation

3. Conflicts of interest should be identified, monitored, and managed. A register of interests should provide a simple and effective means of recording and monitoring dual interests and responsibilities. Schemes should also capture decisions about how to manage potential conflicts of interest in their risk registers or elsewhere. The register of interests and other relevant documents should be circulated to the pension board for ongoing review and published, for example, on a scheme's website. Conflicts of interest should be included as an opening agenda item at board meetings and revisited during the meeting where necessary. This provides an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising.

4. Members of the Pension Fund Committee and Local Pension Board are required to complete and sign a register of interests declaration which is published on the LBHF website and renewed as required. During all committee/board meetings, there is an opportunity for those present to declare any conflicts of interest and remove themselves from certain parts of the agenda where this may have an impact. Legal advice can be sought on whether certain matters should be declared. Where a conflict of interest has been declared, this is recorded in the minutes of the meeting.
5. Therefore, compliance with this requirement has been met.

Publishing information about schemes

6. The scheme manager for a public service scheme must publish information about the pension committee/board for the scheme and keep that information up-to-date.
7. The information must include:
 - who the members of the pension committee/board are;
 - representation on the committee/board of members of the scheme; and
 - the matters falling within the pension board's responsibility.
8. Details of this information is published on the LBHF website and is kept up-to-date.
9. Therefore, compliance with this requirement has been met.

Managing risks

Internal controls

1. Internal control is a process for assuring an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. Broadly, internal control involves everything that controls risk to an organisation.
2. Internal controls consist of segregation of duties, organisational structures, implementation of authorisation and approval of transactions, protection of physical assets, management procedures, accounting structures, personnel management and arrangements for supervision.

In order to mitigate against risk, the Pension Fund:

- makes arrangements and procedures to be followed in the administration and management of the scheme;
- provides systems for monitoring that administration and management have been implemented as required;
- makes arrangements and procedures to be followed for the safe custody and security of the assets of the scheme; and

- subjects itself to regular internal audit, such that advice can be taken as to the presence of and adherence to internal controls.

3. Current processes in place:

- the Fund currently maintains a risk register that is reviewed and updated quarterly and presented to the Pension Fund Committee and the Pensions Board;
- the Fund has a risk policy statement that dictates how risks are managed;
- members of the Committee are provided with adequate training to ensure the appropriate management of risk and to ensure there is appropriate challenge for investment decisions;
- external legal advisors review investment manager documentation where relevant to minimise legal risk;
- all funds are held with a global custodian, Northern Trust, to ensure the safe custody and security of the scheme assets;
- any transactions carried out with the global custodian require authorisation from two signatories on a pre-approved list and two factor authentication for online payments;
- officers review manager accounting records to the global custodian records to ensure they match and investigate any discrepancies;
- LBHF ensures that all pension fund bank account payments are checked and verified before processing payment within the internal team;
- fund payments to suppliers must be made with valid purchase orders and suppliers verified through the IBC system
- internal audit regularly checks the systems of internal controls to ensure that they are adequate and adhered to;
- officers reconcile the bank account quarterly and contributions on a monthly basis;
- external audit review the Council's accounts and processes annually, with audit committee responsible for reviewing the audit findings report;
- officers review each investment managers statement of internal controls as part of the final accounts process;
- officers maintain procedure notes for investment processes and provide training for new members of staff, ensuring appropriate handover processes;
- a new process for capturing journal evidence has been established to ensure easier efficiency for year end to journal evidence audit processes.

4. Therefore, compliance with this requirement has been met.

Administration

Scheme record-keeping

1. Schemes must keep records of member information, transactions, and pension board meetings and decisions. A failure to maintain complete and accurate record and put in place effective internal controls can affect the ability of schemes to carry out basic functions.

2. The Scheme follows processes to aid in achieving the above such as:
 - working with an external administration provider (LPPA) to maintain, review and update member information on a regular and ongoing basis, and to ensure quality and completeness in the data;
 - transactions are reconciled monthly between the bank statement, the ledger, and the remittance advice slips submitted by scheme employers;
 - minutes are recorded and published for all committee meetings, which include decisions made.
3. Therefore, compliance with this requirement has been met.

Maintaining contributions

4. Schemes should monitor pension contributions, resolve payment issues and report payment failures, as appropriate, so that the scheme is administered and managed in accordance with the scheme regulations and other legal requirements.
5. The Scheme carries out the following:
 - the Scheme maintains a payment tracker to monitor payment of employer and employee contributions in line with statutory regulations;
 - these are reported to the Pension Administration team each month who then take appropriate action. Where a payment deadline has been missed, the team has the option to send reminders, issue fines, or report any regular, material missed contributions to the Regulator;
 - there are occasionally late payments from month to month, particularly when the 19th day falls on a weekend, but these are generally resolved within a couple of days and are generally immaterial;
 - the payment tracker is updated each month and aids in highlighting discrepancies although there have been none in recent years to report.
6. Therefore, compliance with this requirement has been met.

Providing information to members

7. The law requires schemes to disclose information about benefits and scheme administration to scheme members and others.
8. The Scheme provides members with information regarding their benefit statements via an online portal. Members are notified via email when their statement is ready and prompted to login to view it. Additionally, there is a central hub where members can visit to find more information about the Scheme at <https://lbhfpensionfund.org/resources/>.
9. Therefore, this requirement has been met.

Resolving issues

Internal dispute resolution

1. The Scheme must make and implement dispute resolution arrangements to cover matters relating to the scheme between the managers and one or more people with an interest in the scheme.
2. The Scheme has a guide on internal dispute resolution procedures published at <https://www.lbhfpensionfund.org/resources/internal-dispute-resolution-procedure-idrp/> which members are able to access.
3. Therefore, this requirement has been met.

Reporting breaches of the law

4. Certain parties are required to report breaches of the law to the Regulator where they have reasonable cause to believe that:
 - a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with;
 - the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions.
5. The Pension Fund has in place a Breaches Policy that provides instruction on classification of when a breach has occurred and how/who by it should be reported.
6. Therefore, compliance with this requirement has been met.