Powys Pensions Board 8 November 2019

Feedback report from the Board Chair on the Pensions Regulator's LGPS Cohort Review

1. **Background and Report Layout**

1.1   Ten LGPS Funds were selected for a high level review by the Pensions Regulator (tPR), based mainly on the Code of Practice 14, covering the following risk areas:

Administration, data and communications

Internal controls and complaint handling

Contributions, employer compliance and funding affordability

Pension Board knowledge and understanding, relationship between the Board and the Scheme Manager, and conflicts of interest

Fraud, mitigation of scams and cyber security

1.2   The Regulator's report was published on 19 September 2019 and includes a number of cases studies, and is available at the following url:

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

1.3   The Scheme Advisory Board has published the following statement:-

"The Pensions Regulator has today published its report into the governance and administration risks in public service pension schemes, including the 10 UK local government funds who were engaged with between October 2018 and July 2019. The report summarises the key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards and will be discussed in detail when SAB next meets on the 6th November 2019. In commenting on the report, Chair of the Board, Councillor Roger Phillips said "This key area of work ties in closely with the Board's own Good Governance project. In identifying examples of best practice as well as areas for further improvement the report will undoubtedly be of great assistance to LGPS funds in seeking to enhance their own governance and administration arrangements."

1.4   My report to the Board sets out the key findings (paragraph 2) and tPR's recommendations (paragraph 3), conclusions (paragraph 4) and suggests a way for the Powys Pension Board to take it forward.

2. **Quotes from tPR Executive Summary**

2.1 **Key person risk**: While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.

2.2 **Pension boards**: Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.

2.3 **Fraud / scams**: We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.

2.4 **Employers**: We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets.

3. tPR Recommendations

3.1 **Record-keeping**

- 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.

  Also, although not a legal requirement, a Pensions Administration Strategy (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.

3.2 **Internal controls**

- A risk register should be in place and 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.

3.3 Administrators

- Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should 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.

3.4 Member Communications

- 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

3.5 Internal Dispute Resolution Procedure (IDRP)

- There should be a clear internal policy on how to handle complaints, including escalation to suitable senior 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.

3.6 Pension Boards

- 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 on-going 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.
- 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.

3.7 Employers and contributions

- 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 on going 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 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.

3.8 Cyber Security

- 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 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.

3.9 Internal fraud and false claims

- 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.

4 tPR's Conclusions

4.1   Not all funds are the same and there is a variety of equally valid approaches to mitigating risk used across funds in the LGPS.

4.2   It is important that scheme managers recognise, and maintain, a separation between the fund and Local Authority to avoid an over-reliance on the Local Authority's policies and procedures. When establishing its own policies and procedures a scheme manager should be able to seek assistance from the pension board, meaning steps should also be taken to ensure the pension board is able to fulfil its role. Where this is not possible, scheme managers should feed into creating Local Authority policies to make sure they are fit for purpose.

4.3   There are clear benefits to the operation of the fund where there is an engaged s.151 officer who is directly involved.

4.4   Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority in order to drive good outcomes.

4.5   Scheme managers that have developed and implemented a robust pension administration strategy have found them useful. While not a legal requirement, scheme managers should consider whether this type of document will be useful and look to introduce them where this is the case.

4.6   Measuring governance and administration is challenging and requires more than just an analysis of raw figures. Scheme managers should therefore put in place appropriate reporting measures that they believe capture both quantitative and qualitative assessments. This approach should be tailored to the specific circumstances of their fund.

4.7   Scheme managers should take a holistic approach when considering the governance and administration risks to their fund. Most risks are connected to each other and a scheme manager should understand how a risk materialising will impact on other areas of governance and administration.

4.8   Risks to funds are constantly changing and evolving, for example, the methods used by scammers change over time. Scheme managers should be alert to the changing nature of risks and adapt their approaches accordingly.

4. 9   Many scheme managers have a clear understanding of how their funds operate and want to provide the best experience for savers. Where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards. We encourage such action.

5   The Way Forward for the Powys Board

5.1   In my view, it is important that Powys Pension Fund measures itself against **all** the recommendations shown in a manner that is timely yet realistic. Many of the recommendations are aimed at the Scheme Manager, and it will be for the Board to scrutinise its response. Others recommendations apply directly to the Board.

5.2   At this meeting the Board will consider how best to undertake this study, including the possibility of arranging an additional meeting of the Board with the next stage of the local review perhaps being the only item on that agenda.

5.3   It should be noted that the Scheme Advisory Board is due to have discussed the review at its meeting on 6 November 2019. It seems sensible for any subsequent recommendations by the SAB to be included in the analytical review by the Powys Board.

Recommendation from the Board Chair

That a special meeting of the Pension Board be arranged to give full consideration to all of the recommendations from the Pensions Regulator's review of the LGPS Cohort.

Gerard Moore

Independent Chair of the Powys Pension Board

28 October 2019