

Sixty second summary

TPR headline conclusions:

- TPR recognises that not all funds are the same and there are equally valid approaches to the mitigation of risk across LGPS funds
- Clear benefits to the operation of LGPS funds when there is an engaged s.151 (E&W) or s.95 (Scotland) officer who is directly involved
- Robust internal controls and risk management are required to ensure the scheme is administered and managed in accordance with scheme rules and the wider requirements of the law
- Good quality data and record keeping underpins a successful LGPS fund

TPR 'deep dive'

Back in Autumn of 2018, The Pensions Regulator (TPR) announced plans to conduct engagement sessions with 10 LGPS funds throughout the latter half of 2018 and into summer 2019. These sessions were sparked as TPR identified a slowdown in improvements across LGPS funds and wanted to gain a better understanding of the reasons for this. The reviews were to be completed at a high level and were, in the main, based on the Code of Practice 14: Governance and administration of public service pension schemes. Each Fund completed 5 meetings with TPR on various risk areas:

- Administration, data and communication
- Internal controls and complaint handling
- Contributions, employer compliance and funding affordability
- Pension Board knowledge and understanding, relationship between Board and Scheme manager and conflicts of interest
- Fraud, mitigation of scams and cyber security

These meetings gave TPR a strong insight into current governance and administration practice and standards at LGPS funds. In order to be "Regulator ready", our recent 60 Second Summary suggested focus needs to be placed on the 3 P's – Policies, Processes and People. This messaging has been backed up in the findings set out in TPR's recently published engagement report which covers feedback from its meetings with the 10 LGPS funds.

Conclusions of TPR engagement – lots for funds to consider and action

As part of the recent Good Governance project we undertook on behalf of the SAB, there is recognition that a universal structure and mandated policies and processes may hinder, rather than help, good outcomes at LGPS funds. This is reflected in TPR's findings, where it is recognised that one size does not fit all. They also recognise that an engaged s.151 officer leads to better run funds. Even so, as you might expect, a number of recommendations are made across each element covered as part of TPR's engagement with funds, and the key points are summarised below.

Record keeping – accuracy of member data should be measured correctly, regularly reviewed and, importantly, understood by the scheme manager and pension board. Ensuring you have an administration strategy in place can assist in clearly setting out roles and responsibilities and consequences of non-compliance.

Internal controls – while taking a holistic view of risk funds should have a risk register in place, that should be regularly reviewed by the pension board. Funds should also record all internal controls and processes, reducing the possible impact of key-person risks

Administrators – whether in-house or outsourced, performance targets should be agreed, measured and if required challenged if not met. Funds should have an open dialogue with the service provider to monitor performance.

Member communication – ensure all communication is 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.

Internal dispute resolution – information on the dispute process should be easily available for those who might use it. Funds should have a policy on dealing with complaints, with the pension board having regular oversight on them, along with their outcomes. Learning lessons from complaints, and compliments, should be used as a means of improving the service.

Pension Boards – funds should ensure individual training plans are in place and ensure appropriate training is available and, importantly, attended. A process should exist for dealing with ineffective pension board members.

Employers and contributions – funds should have a greater understanding of the financial position of their participating employers. Reviewing strength of covenant should be considered more regularly than at each formal valuation. An admissions and cessation policy can help in managing the introduction of new employers, security required and dealing with employers when they exist the scheme.

Cyber security – funds should put this on their risk registers, carry out penetration testing and not rely solely on Local Authority security processes and systems.

Internal fraud and false claims – funds should ensure procedures are in place to minimise the risk of fraud, including the actions to be taken where a fraud has been uncovered.

Conclusion

TPR's findings continue the theme and trends that we hear daily from LGPS funds – their push to improve their Policies, Processes and People. It is pleasing TPR confirms that many of the governance and administration conversations and actions happening in the LGPS are heading in the direction expected of them, although there is always room for further improvement.

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