


Non-Executive Report of the: Pensions Board 16 October 2017	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
The Pensions Regulator Code of Practice for Public Sector Pensions Compliance Checklist For Tower Hamlets Pension Fund	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All wards

Summary

From 1st April 2015 the Pensions Regulator (TPR) assumed responsibility for public service pension schemes and put in place codes of practice for public service pension schemes covering a number of areas relating to the management of schemes. The Code of Practice for Public Service Pension Schemes came into force from 1st April 2015 and all schemes must now consider whether they comply with the Code.

This report covers an updated Compliance Checklist for the London Borough of Tower Hamlets Pension Fund.

Recommendations:

The Pensions Board is recommended to:

- Note the Code of Compliance Checklist and where further work is required and being undertaken.

1. REASONS FOR THE DECISIONS

- 1.1 There has been much greater focus on whether the governance of LGPS pension funds is appropriate. The introduction of Local Pension Boards and focus on increased training are just two areas of the greater focus. The Pensions Regulator (TPR) now has greater legal powers of oversight that extend this further and the Code of Practice is a useful means to understand what good practice looks like in respect of pension funds.
- 1.2 A good standard of governance is crucial in minimising the key risks involved in managing the Pension Fund. Although there are clear benefits for many schemes of the greater oversight powers that have been given to TPR, ensuring compliance with these areas and the much greater focus on governance results in additional work for officers and advisers of the Fund. Any costs associated with delivering the requirements of this Code and the related legal changes are not material in the context of the Pension Fund and any such costs are recharged to the Pension Fund.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options.

3. DETAILS OF REPORT

- 3.1 Although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, the code will be used as a core reference document when deciding appropriate action.
- 3.2 In recent years there has been much greater focus on whether the governance of LGPS pension funds is appropriate. The introduction of local Pension Boards and focus on increased training are just two areas of the greater focus. TPR's greater legal powers of oversight extend this further and the Code of Practice is a useful means to understand what good practice looks like in these areas.
- 3.3 The Pensions Regulator's Policy on compliance and enforcement sets out the powers and the consequences of not meeting the requirements under the Code which could have financial consequences and could in extreme cases lead to financial penalties.
- 3.4 The matters covered by Code 14 are:
- knowledge and understanding for members of pension boards;
 - conflicts of interest;
 - publication of information about pension boards, governance and administration;
 - internal controls;
 - record-keeping;
 - late payment of employer and employee contributions;
 - information about member benefits and disclosure of information to members;
 - internal dispute resolution, and
 - reporting breaches of the law.

- 3.5 In light of the legal powers that have now been placed with TPR and the increasing focus on the governance of public service pension schemes, it is appropriate to consider whether the management of the London Borough of Tower Hamlets Pension Fund meets the overriding legal requirements and the recommended ways of working outlined in TPR's Code of Practice.
- 3.6 An updated checklist as at August 2017 is attached at Appendix 1 for review and comment by the Board. The Fund is generally able to demonstrate good levels of compliance with the Code and these are highlighted in green. Two areas stand out as having more items that need further attention which are highlighted in red. These are Internal Dispute Resolution and Providing Information to Members Others. The item in respect to Internal Dispute Resolution (IDRP) relates largely to the need to update the IDRP to ensure it includes all required and additional helpful information. The current version is based on old Communities and Local Government Department (DCLG) sample. This is in progress and the target is to have this completed before the next Board meeting in November.
- 3.7 A number of items requiring attention (highlighted in red) can also be found in Section H: Providing Information to Members and Others. Most are in progress and relate to the source and format of information. The principal area of concern relates to the despatch of the Annual Benefits Statements. The Fund failed to meet the requirements of the Code because Annual Benefits Statements for 348 active scheme members were issued late last year. For this year, the pension administration team are yet to complete and despatch the statements for active members. The reasons for the lateness are discussed in the following paragraphs.
- 3.8 The legislation specifies that annual statements should be issued by 31st August. The 2016 statements were issued to active scheme members between 1st October 2016 and 30th November 2016 which is effectively between two and three months late. Apology letters were sent to those scheme members that were affected. The delay was caused by out of date addresses in the pension administration system (Altair) and the need to use spreadsheets to draw data from both Altair and addresses from the payroll system. Errors in the process resulted in wrong addresses being identified for 348 scheme members.
- 3.9 The process used to generate the annual benefit statements had been used successfully for many years and carried out by an experienced officer. However, during 2016, the absence of the Pensions Manager resulted in additional duties falling on the two team leaders. This resulted in the process to issue the annual benefits statements being started late and rushed in an attempt to meet the statutory deadline. This resulted in errors being made.
- 3.10 The Council takes this breach very seriously and Internal Audit has undertaken a review of the circumstances that resulted in the breach. The conclusion of the review was that the root cause of the error was that addresses in Altair were not completely up to date and as a result the manual intervention was not done correctly which resulted in the error..

- 3.11 Action has been taken to avoid any repetition of this problem. Annual benefit statements will in future be produced directly from Altair, dispensing with the need to manipulate spreadsheets to draw addresses from payroll. Procedures are now in place to ensure change of address notifications are promptly updated in Altair. An exercise to match addresses held in Altair to those held in payroll is underway to ensure that Altair holds current addresses for all scheme members.
- 3.12 The Council has also commissioned the supplier of Altair, Aquila Haywood, to undertake a health check to ensure that the system is being used in the most efficient manner and to advise on what further work needs to be undertaken. The report is expected shortly. We are also investigating the use of Member Self Service. This will enable scheme members to log directly into the system to access their own pension records, update contact details and have the capability to produce on line annual benefit statements. This will reduce and ultimately remove the need to produce paper statements.
- 3.13 A formal breach report was submitted to TPR January 2017; no action has been taken on this occasion. The matter was also raised with the Information Commissioner's Office who has concluded their review and will be taking no action against the Council because of the corrective action that has been taken.
- 3.14 The 2017 Statements to deferred members were issued 18th August 2017 and it is envisaged that the statements to active members will be issued by 6th September 2017.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 There are no immediate direct financial consequences arising as a result of this report. However, understanding the risks that exist in respect of the Pension Fund and the management of those risks is important to the overall strategic management of the Pension Fund and the governance role of this Board. Not all risks are quantifiable from a financial perspective however should they not be appropriately managed they could impact on the reputation of the Fund or of the Council.

5. LEGAL COMMENTS

- 5.1 The Pensions Regulator Code of Practice for Public Sector Pensions came into force on the 1st April 2015. The Code introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the regulator. 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 of those who exercise the functions. It is essential the Pensions Committee undertakes regular monitoring of the management and performance of the fund and use of the compliance checklist will assist with this.

5.2 The regulator is required under section 90(2) of the Pensions Act 2004, to issue one or more codes of practice covering specific matters relating to public service pension schemes. The Code is not a statement of the law and there are no penalties for failure to comply with its provisions. However the Authority must ensure that it complies with the underlying legal duties in respect of those matters specified in section 90(2). It is possible to adopt an alternative approach to that set out in the Code, however any such approach must meet any underlying legal duties of the scheme manager. Failure to do so may result in a penalty being imposed and the regulator also has the power to issue an improvement notice under section 13 of the Pensions Act 2004. The notice may be drafted with reference to the code of practice.

5.3 When exercising its functions, the Pensions Board, must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The Pension Fund Accounts demonstrate financial stewardship of the fund's assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive for the Council.

7. BEST VALUE (BV) IMPLICATIONS

7.1 Any costs associated with delivering the requirements of this Code and the related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 A good standard of governance is crucial in minimising the key risks involved in managing the Pension Fund. Although there are clear benefits for many schemes of the greater oversight powers that have been given to TPR, ensuring compliance with these areas and the much greater focus on governance results in additional work for officers and advisers of the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no any Crime and Disorder Reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – LBTH Compliance Checklist as at 31st August 2017

Local Government Act, 1972 Section 100D (As amended)**List of “Background Papers” used in the preparation of this report**

- The Pensions Act 2004
- The Pensions Regulator’s Code of Practice

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