

# Pension Board AGENDA

**DATE:** Thursday 14 June 2018

**TIME:** 2.00 pm

**VENUE:** Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY

**MEMBERSHIP** (Quorum 3, including at least one Employer representative and one Scheme Member representative).

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**Chair:** Mr R Harbord

**Board Members:**

Councillor James Lee	- Harrow Council
Gerald Balabanoff	- Scheme Members' Representative - Pensioners
Sudhi Pathak	- Employer Representative - Scheduled and Admitted Bodies
John Royle	- Scheme Members' Representative - Active Members
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**Contact:** Manize Talukdar, Democratic and Electoral Services Officer  
Tel: 020 8424 1323 Email: [manize.talukdar@harrow.gov.uk](mailto:manize.talukdar@harrow.gov.uk)

## **Useful Information**

### **Meeting details:**

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:  
<http://www.harrow.gov.uk/site/scripts/location.php>.

### **Filming / recording of meetings**

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

### **Meeting access / special requirements.**

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

**Agenda publication date: Wednesday 6 June 2018**

## **AGENDA - PART I**

### **1. DECLARATIONS OF INTEREST**

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

### **2. APPOINTMENT OF VICE CHAIR**

To appoint a Vice-Chair for the 2018/19 Municipal Year.

### **3. MINUTES (Pages 5 - 10)**

That the minutes of the meeting held on 22 March 2018 be taken as read and signed as a correct record.

### **4. PUBLIC QUESTIONS \***

To receive any public questions received in accordance with Committee Procedure Rule 17.

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

**[The deadline for receipt of public questions is 3.00 pm, Monday 11 June 2018. Questions should be sent to [publicquestions@harrow.gov.uk](mailto:publicquestions@harrow.gov.uk)**

**No person may submit more than one question].**

### **5. PETITIONS**

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

### **6. DEPUTATIONS**

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

### **7. PERFORMANCE MONITORING TO 31 MARCH 2018 (Pages 11 - 18)**

Report of the Director of Finance.

### **8. WORK PROGRAMME 2018-19 AND THREE YEAR REVIEW (Pages 19 - 38)**

Report of the Director of Finance.

### **9. ANY OTHER BUSINESS**

Which cannot otherwise be dealt with.

## **AGENDA - PART II - NIL**

### **\* DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

**[Note:** The questions and answers will not be reproduced in the minutes.]

# PENSION BOARD MINUTES

## 22 MARCH 2018

<b>Chair:</b>	* Mr R Harbord	
<b>Board Members:</b>	† Councillor Kiran Ramchandani	Employer Representative - London Borough of Harrow
	* Gerald Balabanoff	Scheme Members' Representative – Pensioners
	* Sudhi Pathak	Employer Representative - Scheduled and Admitted Bodies
	* John Royle	Scheme Members' Representative - Active Members

- \* Denotes Member present
- † Denotes apologies received

### 130. Attendance by Reserve Members

**RESOLVED:** To note that there were no Reserve Members in attendance.

### 131. Declarations of Interest

**RESOLVED:** To note that there were no declarations of interests made by Members.

### **132. Minutes**

**RESOLVED:** That the minutes of the meeting held on 8 November 2017, be taken as read and signed as a correct record.

### **133. Public Questions, Petitions and Deputations**

**RESOLVED:** To note that none were received.

## **RESOLVED ITEMS**

### **134. Pension Fund Committee Meetings November 2017 and March 2018**

The Board received a report of the matters considered by the Pension Fund Committee at its meetings on 21 November 2017 and 7 March 2018.

The Board reviewed the Communications Policy Statement, Funding Strategy Statement, Investment Strategy Statement and Governance Compliance Statement. It was noted that the Statements were revised subsequent to actuarial revaluation or a change in direction or strategy. The officer advised that the only major change had been the allocation review updating of the Investment Strategy and changes to the corresponding tables.

In regard to the Governance Compliance Statement, the Board expressed the view that it could not be fully effective in undertaking its role without access to all the discussions of the Pension Fund Committee. The Chair referred to the legal advice from HB Public Law that had prevented his attendance during the private (Part II) part of the Pension Fund Committee meetings. The Board reiterated its disagreement with the ruling stating that other Authorities allowed such attendance. The Chair undertook to discuss the matter with CIPFA and report back on the view of the Pensions Panel. The Panel agreed to the inclusion of a further report on Governance on the agenda for the next meeting to enable consideration of feedback from other authorities.

In response to questions from the Board it was noted that the Pension Fund Committee met quarterly and that any decisions required between meetings were delegated to officers in consultation with the Chair and reported to the next meeting of the Committee. In response to a request from the Chair, the officer undertook to ensure that the minutes of the Pension Board were regularly included on the agenda to the Pension Fund Committee

In response to questions on the impact of the transfer of Harrow College to the London Borough of Hillingdon Pension Fund, members were advised by the Chair that at the time of transfer it was fiscally neutral although no modelling of future demographics had taken place. The assets of Harrow College at the calculated transfer date had been valued at 3% of the Harrow Pension Fund at £30.4m. It was noted that the part liquidation of assets had helped fund the transfer with the balance met from cash.

An officer stated that there was one item that he wished to bring to the attention of the Board: the exemption to the Currency Hedging Regulatory

Implications of European Market Infrastructure Regulation (EMIR) had resulted in the continuation of the status quo.

Following questions and comments from Board Members the officer advised that:

- the Board's relationship with the London Collective Investment Vehicle (CIV) was by way of the Pension Fund Committee. Due to a restructure, the main group of 33 representatives (one per Borough) had been replaced by a smaller group of eight members and four treasurers together with an annual meeting of all member boroughs. The Chair stated that the London CIV had got off to a fast start prior to agreement of the pension pool regulations. It remained to be seen how the smaller representation could be agreed to the satisfaction of all boroughs. The Chair undertook to circulate a presentation from a session that he had attended on the pension boards and pooling;
- the Board did not have a risk register but tended to review the Pension Fund Committee risk register. The Chair stated that the main risk was not reporting breaches that the Board was aware of.

**RESOLVED:** That the report be noted.

### **135. Performance Monitoring to 31 December 2017**

The Board received a report of the Director of Finance which set out performance monitoring information for the quarter ending 31 December 2017, together with an updated appendix.

Following questions and comments from Board Members, the officer advised that:

- the appendix indicated performance against both the national benchmarking targets and the more rigorous Harrow targets. Compliance with national benchmarking targets had been achieved;
- the officer undertook to review any complaints regarding delays and to report back to the Board with regard to both formal complaints and complaints on the standard of service. The Chair suggested that the annual report discussion include the review of complaints;
- the Board requested the statistics regarding the number of ill health retirements in the past year.

The Board expressed appreciation of the good Harrow performance and commended the officers involved.

**RESOLVED:** That the report be noted.

### **136. Pension Fund Bank Account Controls and Segregation of Funds**

The Board considered a report, requested at its last meeting, which provided further information on the segregation of pension fund monies and the controls over funds not processed initially through the pension fund bank account. It outlined how funds due to the Pension Fund were accounted for and controlled prior to the transfer to the Pension Fund Bank Account.

The officer presented the General Fund Reconciliation for February 2018 and the Reconciliations and Controls Summary. It was noted that the Council paid the Pension Fund for interest earned on funds due to the Pension Fund but held temporarily in the Council's main bank account. The Board was informed that, in closing the 2016/17 report, the external auditor had accepted that it was not cost effective for the administering authority to maintain a complete separation of all accounting transactions.

In response to questions, the Board noted that:

- the contribution sum paid varied from month to month due to Pension Fund expenses;
- the transfer of funds from the Harrow Pension Fund to the Hillingdon Pension Fund with regard to Harrow College had been a separate transfer;
- Pension PAYE costs in relation to pension payroll was paid from the Council's bank account but recharged monthly to the Pension Fund;
- the officer undertook to clarify the reason for the increase in the October 2017 balance in comparison to other months;
- the £11.85 miscellaneous code identified any sums not allocated to a specific code.

**RESOLVED:** That the report be noted.

### **137. Work Programme 2018-19**

The Board considered its work programme up to the end of the 2018/19 financial year.

An officer summarised the achievements in the 2017-18 financial year and updated the current position. The Chair highlighted that consideration of environmental, social and governance issues should be included for future meetings. As the work programme content for 2018-19 would be influenced by the needs of any newly appointed Pension Board Members, Board Members were asked whether they wished to continue to serve on the Board. All indicated that they would be willing to continue.

Pension Board meeting dates for the 2018/19 municipal year were noted. The Chair stated that the optimum timings were prior to Pension Fund



Committee and such as to enable comment on reports being submitted to the Committee. The Board agreed that agenda items for the meeting on 14 June should include: a review of the previous three years with clear objectives for going forward, training and succession planning. The minutes of the 14 June meeting would be submitted to the Pension Fund Committee on 27 June 2018.

**RESOLVED:** That the report be noted.

### **138. Any Other Business**

The Board agreed that discussion on training and succession planning should be considered as items of any other business.

#### Training

The Board agreed that proposals for a programme of training for 2018/19 should be considered at the next meeting. The officer undertook to notify the Board Members of any suitable training opportunities in the interim. Members were asked to identify any training needs for inclusion in the programme.

The Chair stated that he had not yet completed the online training available on the Pension Regulator's website but would do so. The officer undertook to resend the link to the training to the other Board Members. The Chair reported that he had sent the officer a copy of his training log and suggested that all members of the Board maintain such a log. The officer undertook to circulate a template for recording training.

A training session arranged for 27 June 2018 on investments for new Members of the Council was noted.

#### Succession planning

In response to a question, the Board was advised that members of the Pension Board were appointed for three years. Members were appointed on a rotational basis with effect from April 2017. A Member of the Board stated that the Harrow Board was smaller than most which made the achievement of a quorum and succession planning more difficult.

A discussion arose on the remuneration paid to the Board. The Chair stated that the remuneration varied greatly across Local Authorities with many paying a similar sum to Harrow. He suggested that the next annual report refer to the increase in the number of meetings from two to four a year and to set out how the Board's services could be better used.

(Note: The meeting, having commenced at 2.00 pm, closed at 3.42 pm).

(Signed) RICHARD HARBORD  
Chair

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**REPORT FOR: Pension Board**

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<b>Date of Meeting:</b>	14 June 2018
<b>Subject:</b>	Information Report – Performance Monitoring
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No
<b>Wards Affected:</b>	All
<b>Enclosures:</b>	Appendix 1 Performance Monitoring Q4 to 31 <sup>st</sup> March 2018.  Appendix 2: Annual Performance Monitoring 2017-18.

## **Section 1 – Summary**

### **Summary**

This report presents the Board with performance monitoring information for the quarter and year ending 31<sup>st</sup> March 2018.

### **For information**

## **Section 2 – Report**

1. At several of their meetings the Board has rightly suggested that it sees part of their role as monitoring the service performance of the Fund. Whilst to date it has received a substantial amount of performance information through the Fund's Annual Report and Accounts, the Scheme Advisory

Board's Benchmarking and Key Performance Indicators return and reports on the triennial actuarial valuation .It has been monitoring comparative pensions administration indicators since June 2017.

2. Pensions administration performance statistics measured against national benchmarks for the last quarter to 31 March 2018 and for 2017-18 are set out in Appendices 1 and 2.The Board is invited to comment on this performance.
3. Table 1 below sets out the membership of the Pension Fund in the current year to March 2018 with previous years as a comparator. The percentage of active members in the fund is one indicator of the maturity of the fund.

Table 1 Pension Members to 31 March 2018				
	31 March 2018	31 March 2017	31 March 2016	31 March 2015
Pensioners	5,760	5,576	5,438	5,294
Deferred	7,115	6,925	6,700	6,323
Active Members	5,557	5,659	5,561	5,526
% Active Members	30.1%	31.2%	31.5%	32.2%
Total	18,432	18,160	17,699	17,143

#### **Requirement to Report Breaches of Law**

4. There have been no known breaches of law in the current financial year.

#### **Internal Disputes Cases and Complaints**

5. No internal disputes have been raised in the current financial year. One complaint has been referred to the Pensions Ombudsman. The administering authority set out the justification for its decision. The adjudication decision will be reported to Pension Board when it is received.

#### **Issue of Annual Benefit Statements**

6. All benefit statements were published and distribution in August before the 31 August 2017 deadline

#### **Payment of Employer Contributions**

7. Employer contributions are required to be paid in arrears by the 19<sup>th</sup> of each month. All employer contributions have been paid on time in the year to date. Employers are contacted if payment has not been received by the date.
8. The Board is asked to consider whether the information discussed in this report would meet its requirements for regular performance monitoring and to comment as it sees fit.

## Financial Implications

9. Whilst the provision of performance monitoring information should assist in the efficient and effective management of the Pension Fund there are no financial implications arising from this report.

## Risk Management Implications

11. All risks are included within the Pension Fund Risk Register.

## Equalities implications

11. There are no direct equalities implications arising from this report.

## Council Priorities

12. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

## Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date:	5 June 2018		

<b>Ward Councillors notified:</b>	<b>Not applicable</b>
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## Section 4 - Contact Details

**Contact:** Iain Millar, Treasury and Pensions Manager 0208 424 1432

## Background Papers – None



**Appendix 1 Q4 Performance Monitoring 01/01/2018 – 31/03/2018**

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<b>SERVICE</b>	<b>Harrow Performance Actual against Target</b>	<b>National Benchmarking Target</b>	<b>National Actual Performance %</b>
Issue letter notifying of dependent's benefit in 5 days	<b>14/14</b>	<b>5 days</b>	<b>100</b>
Calculation and notification of ill health estimate within 7 days	<b>1/1</b>	<b>10 days</b>	<b>100%</b>
Calculation and notification of retirement benefits estimate in 7 days	<b>48/48</b>	<b>10 days</b>	<b>100</b>
Issue letter to new pension provider detailing transfer-out quote in 9 days	<b>15/15</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of deferred benefits in 8 days	<b>132/132</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of retirement benefits in 3 days	<b>27/28</b>	<b>5 days</b>	<b>96.43</b>
Process refund and issue payment within 5 days	<b>34/34</b>	<b>5 days</b>	<b>100</b>
Calculation and notification of actual ill health benefits within 3 days	<b>2/2</b>	<b>5 days</b>	<b>100</b>
Contact next of kin on notification of death in 3 days	<b>5/5</b>	<b>3 days</b>	<b>100</b>
Issue statutory notification on receipt of transfer funds in 8 days	<b>16/16</b>	<b>10 days</b>	<b>100</b>

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## Appendix 2 Performance Monitoring 2017-18

<b>SERVICE</b>	<b>Harrow Performance Actual against Target</b>	<b>National Benchmarking Target</b>	<b>National Actual Performance %</b>
Issue letter notifying of dependent's benefit in 5 days	<b>34/34</b>	<b>5 days</b>	<b>100</b>
Calculation and notification of ill health estimate within 7 days	<b>5/5</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of retirement benefits estimate in 7 days	<b>154/154</b>	<b>10 days</b>	<b>100</b>
Issue letter to new pension provider detailing transfer-out quote in 9 days	<b>30/30</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of deferred benefits in 8 days	<b>429/429</b>	<b>10 days</b>	<b>100</b>
Calculation and notification of retirement benefits in 3 days	<b>116/123</b>	<b>5 days</b>	<b>94.31</b>
Process refund and issue payment within 5 days	<b>101/101</b>	<b>5 days</b>	<b>100</b>
Contact next of kin on notification of death in 3 days	<b>50/50</b>	<b>3 days</b>	<b>100</b>
Calculation and notification of actual ill health benefits within 3 days	<b>17/18</b>	<b>5 days</b>	<b>94.44</b>
Issue statutory notification on receipt of transfer funds in 8 days	<b>9/9</b>	<b>10 days</b>	<b>100</b>

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**REPORT FOR: PENSION BOARD**

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**Date of Meeting:** 14 June 2018

**Subject:** **Information Report** – Work Programme  
2018-19 and Pension Board Three Year  
Review

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No

**Wards affected:** All

**Enclosures:** None

**Section 1 – Summary**

This report reviews the Boards actions over the last three years and invites the Board to comment on a suggested work programme for 2018-19

**For Information**

## Section 2 – Report

1. At its meeting on 8<sup>th</sup> March 2018, Pension Board agreed that agenda items for the meeting on 14 June should include: a review of the previous three years with clear objectives for going forward, training and succession planning.
2. A review of Pension Board activity is set out in Appendix 1.
3. The summary of the Pensions Regulator 2018 public service governance and administration survey is attached as Appendix 2. The Pensions Regulator has been invited to send a representative to address September Pension Board to set out its expectations of local government schemes.
4. Pension Board met quarterly during 2017-18. At its meeting on 22 March 2018 the Board considered a work programme for the remainder of the 2017-18 financial year which, together with an update on the Board's current position, is as follows:

<b>Matter for Consideration</b>	<b>Board Position</b>
Pensions Administration – Performance monitoring	Proposals developed 12 July 2017 .Quarterly report from 8 November 2017
Review of Internal Controls at fund managers	2016 reports: reviewed 12 July 2017 and 12 September 2017. 2017 reports from 22 March 2018
Risk Register	Pension Fund Risk Register considered on 12 July 2017. Pension Board Risk Register for 22 March 2018
Annual Report and Financial Statement for year ended 31 March 2017 including External Audit report	Draft Report 20 July External Audit Report 8 November Meeting
Scheme Advisory Board Local Pension Board Survey	Reviewed 12 July and 8 September 2017 and survey response submitted on time.
Use of CIPFA Pension Administration Benchmarking Club	Use of performance indicators and benchmarking service reviewed 12 July 2017
Latest Pension Fund Committee Meeting	Considered at each meeting of Board
Knowledge and skill requirements	Reviewed 12 September 2017
London CIV and its approach to Environmental, Social and Governance Issues	Presentation from London CIV to Pension Board 12 September 2017. Update at 22 <sup>nd</sup> March 2018
External Audit Plan	Reviewed 22 <sup>nd</sup> March 2018
Training Programme 2017-18	Reviewed on 2 November 2016
Environmental, Social and Governance Issues	To be considered at future meetings
Funding Strategy Statement	Reviewed on 22 March 2018
Long term cashflow and funding	Considered by Pension Fund Committee at each meeting and by Board on 12 September 2017

Investment Strategy Statement	Reviewed on 22 March 2018
Governance Compliance Statement	Reviewed on 22 March 2018
Communications Policy Statement	Reviewed on 22 March 2018
Latest Pension Fund Committee Meeting	Considered at each meeting of Board Reviewed on 22 March 2018 for two previous meetings of Pension Fund Committee
Pension Board referral to Pension Fund Committee	Pension Board Minutes to be reported formally to Pension Fund Committee

### **Meetings of Pension Board in 2018-19**

5. A suggested work programme for 2018-19 on which the Board's comments are invited is as follows:

#### **Pension Board Meetings 2018-19**

14 June 2018  
20 September 2018  
5 November 2018  
28 March 2019

#### **Proposed Workplan**

- Review of 2018 Public Governance and administration survey
- Introduction Knowledge and Skills for Pension Board
- Annual Report to Council
- Annual Report and Financial Statement for year ended 31 March 2018 including External Audit report
- Long term cashflow and funding
- Review of Governance Statements
- Review of Risk Register
- Latest Pension Fund Committee Meeting
- Pensions Administration – Performance monitoring
- Review of Internal Controls at fund managers
- Environmental, Social and Governance Issues
- Training Programme 2018

#### **Pension Fund Committee meetings 2018-19**

Wednesday 27 June 2018  
Wednesday 12 September 2018  
Tuesday 27 November 2018  
Tuesday 12 March 2019

All members of the Board are invited to attend the training session starting at 17.30 and the public part of Committee at 18.30.

### **Financial Implications**

5. There are no financial implications arising directly from this report.

### **Risk Management Implications**

6. The Pension Fund has its own risk register .which covers all risks which might arise from this report.

### **Equalities implications**

7. There are no direct equalities implications arising from this report.

### **Council Priorities**

6. Whilst the financial health of the Pension Fund and the employer's contribution affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## **Section 3 - Statutory Officer Clearance**

Name Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 5 June 2018		

<b>Ward Councillors notified:</b>	<b>NO</b>
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## **Section 4 - Contact Details**

**Contact:** Iain Millar, Treasury and Pensions Manager 0208 424 1432

**Background Papers - None**

# **LONDON BOROUGH OF HARROW PENSION BOARD**

## **THREE YEAR REVIEW JUNE 14 2018**

### **Background**

The Local Pension Board was set up by 1 April 2015 in accordance with the requirements of the Public Service Pensions Act 2013.

The Act provides for the membership to be of equal numbers of “employer representatives” and “member representatives”. In addition we have an Independent Member who is currently the Chair of Pension Board.

Our Terms of Reference require us to present a report on our work to the Full Council once a year.

### **Meetings**

We held our first meeting on 25 June 2015 and Richard Harbord and Gerald Balabanoff were re- appointed as Chair and Vice-Chair respectively for the remainder of the 2016-17 Municipal Year. Richard and Gerald were re-appointed to their posts on 28 June 2016

Pension Board has met quarterly since its inception

All five members of the Board have attended all except one of the meetings.

Themes arising during the year were:

#### Role and Terms of Reference

We understand our role and are generally happy with the generic nature of the Terms of Reference. However, our view is that we should meet more than twice a year and that the periods of office of the various members be staggered to avoid the potential loss of too much experience at one time.

We have also requested that all reports from Pension Fund Committee including exempt report be made available for review by Pension Board on a timely basis.

We have also confirmed the insurance arrangements to cover Pension Board members in relation to dealings with the Pension Fund.

## Knowledge and Understanding of the Local Government Pension Scheme

To assist in our understanding and to assist in our scrutiny role, we have been provided with a large amount of information about the Scheme, usually with an officer's commentary, including:

- Annual Report and Accounts
- Governance Compliance Statement
- Communication Policy Statement
- Funding Strategy Statement
- Investment Strategy Statement
- Actuarial Valuation Reports from the Fund Actuary
- Pension Fund Register
- Policy for Reporting Breaches of Law
- Investment Manager Internal Control Reports

## Relationship with Pension Fund Committee

At each meeting, the Board have been advised of the agendas of, and decisions taken by, the Pension Fund Committee at its recent meetings. Our views have, in turn, been reported to the Committee. The Board has also been explicitly invited to attend the Committee meetings and the training sessions held prior to each meeting.

Both the Board and the Committee have emphasised the importance of maintaining good relationships between the two bodies. The Chairs of the Committee and the Board have met and our Chair has been invited to speak at the Committee.

A recurring theme throughout the year has been legal advice that members of the Board are not entitled to remain at the Committee's meetings when exempt papers are discussed even though Board members are expected to abide by the Council's Code of Conduct. A compromise was eventually reached whereby Board members could see all exempt papers other than those involving personal information of officers.

From 2018-19 Pension Board will be referring Pension Board minutes and recommendations to Pension Fund Committee.



## Annual Report and Financial Statements

At several of our meetings we have been invited to consider the Annual Report and Financial Statements for the last two years together with their various attachments and the reports of the Auditor. The areas in which we expressed particular interest have been:

- Actuarial assumptions and actuarial valuation results
- Employer contributions
- The prospect of the funding deficit being recovered in 20 years
- The performance of the Fund and the way it is discussed in reports to facilitate the scrutiny process
- The effectiveness of investment managers internal controls
- Local Government Pension Scheme Pooling Arrangements through the London Collective Investment Vehicle (LCIV)
- Pension Fund Bank Account segregation and control of funds

We have received reports and presentations from the Actuary and from the London Collective Investment Pooling arrangements.

## Investment and Management Expenses

We reviewed in detail the management expenses of the Fund and requested benchmarking details.

## Benchmarking and key performance indicators

We have shown particular interest in benchmarking and key performance indicators.

Traditionally, reliable benchmarking and comparison information covering all administering authorities has not been available. However, recent Government requirements in the context of the pooling arrangements have necessitated the provision of relatively consistent information from all administering authorities and Harrow's results were considered by us on 28 June 2016.

We have also asked for refinement to pension administration reporting to better understand performance against key performance indicators. KPI's have been considered as a standing item since June 2017. Pension Board receives confirmation of breaches of law and has been assured that annual benefit statements are issued on time.

### Environmental, Social and Governance Issues (ESG)

The Board supports the Committee's stance in expecting fund managers to adopt appropriate codes of practice and that they are required to provide an explanation when they do not. We have also requested information on the LCIV approach to ESG

### **Training**

Pension Board has requested further trainings to cover the following:

- Governance and Key Legislation
- Actuarial and Funding Matters
- Investment and LGPS Pooling

### **Conclusion**

The regulations governing Pension Boards were contained in the 2015 Regulations (SI2015/57)

The main provisions are:

“(1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it -  
(a) to secure compliance with -

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme, and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme.

Essentially the role of the Pension Board is one of Scrutiny and our role is wholly advisory.

The third year has been one of further training, understanding the role and scrutinising the arrangements for the actuarial valuation and areas of key interest such as management fees internal control reporting, compliance with external audit recommendations and maintaining good pension administration performance.

The Board looks forward to consolidating performance in the fourth year and developing its role as an effective body for scrutiny and improvement.

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# Public service governance and administration survey

Summary of results and commentary

## Background

We regulate the governance and administration of public service pension schemes, which provide pensions for over 16.7 million civil servants, members of the judiciary, local government, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces.

Our Code of Practice no. 14, available at [www.tpr.gov.uk/code14](http://www.tpr.gov.uk/code14), sets out the standards of conduct and practice we expect from public service pension schemes.

We open cases based on the risks we see in schemes and in response to breach of law and whistleblowing reports. Where standards are not being met and issues are not being resolved we consider enforcement action, including the use of improvement notices and civil penalties.

To help us focus our efforts, we surveyed public service pension schemes in autumn 2017 to assess how they were being run. This built on previous surveys in autumn 2016 and summer 2015. In this latest survey we have further examined certain risks and areas of underperformance that schemes identified in previous years.

As in previous years, the survey was an online self-completion questionnaire which was sent for the attention of each scheme contact. We received responses from 191 of the 207 public service pension schemes, covering 98% of memberships. This allows us to draw robust conclusions from the results. This policy summary also draws from the engagement we have undertaken with schemes over the past year through casework, board meetings, training sessions, conferences and speaking events.

This report sets out how we have interpreted the findings, our expectations of those involved in running the schemes and what we will be doing over the next year to address these issues. It accompanies the full research report which shows the responses to all survey questions.

## Summary

The survey supports our existing assessment that the top risks in this landscape are around scheme governance, record-keeping and internal controls, but identifies significant improvements in these areas. Many more schemes are now meeting the basic governance standards, allowing us to focus on building further improvements.

Overall, we were pleased by the significant improvements in performance across most of the areas addressed in the survey, in particular the much improved governance reported by the Police and Fire schemes. While they continue to lag behind their peers, we anticipate that these schemes will continue to show improvements across all governance areas in 2018.

In the third year of having a statutory deadline, 60% of schemes reported that all members had received their annual benefit statement on time. This is a commendable improvement on the previous year when less than half (43%) of schemes met the deadline.

We are pleased to see increased engagement from scheme managers and pension boards in running the schemes. However, the survey shows that over two-fifths (43%) of schemes hold fewer than four meetings a year. In our view, this provides inadequate opportunity for pension boards to effectively carry out their role and raises concerns about the quality of governance.

We also see signs that that process improvements have stalled in some Local Government schemes. This group was also the one that was least likely to respond to the survey and we are concerned about the risks of disengagement. Because of the specific challenges faced by Local Government schemes, we expect to focus casework activities on this group in the coming year.

## Scheme governance

The results of this year's survey have shown encouraging improvements in scheme governance. The Police and Fire schemes deserve a particular mention for the improvements they have made over the last year, from a low base. It is also noticeable that the group of centrally administered schemes has also shown improvements in governance, which is pleasing given that they are generally large and complex arrangements.

All six of the key processes monitored by us have improved since 2015, and three have shown improvements since 2016. Of these six processes, the most notable increase has been in schemes that have a documented policy to manage board members' conflicts of interest. This was in place in 92% of schemes, an increase of 11 percentage points since 2016.

A similar improvement was seen in schemes with documented procedures for assessing and managing risks. These are now present in 83% of schemes, an increase of 11 percentage points since 2016.

These items are basic features of scheme governance and we expect this year's improvements to continue. By the end of the year, all schemes should have a conflicts of interest policy and procedures for assessing and managing risks in place.

One of our main messages to public service schemes over the past year has been about the importance of good quality scheme data. It is therefore disappointing to see an apparent fall in the number of schemes with processes to monitor records for accuracy and completeness. This year, 15% of schemes stated that they did not have these in place, a decline of four percentage points since 2016. This suggests that schemes may have reviewed the processes they believed they had in place and have found them either absent or inadequate.

Only 58% of schemes have all six key processes in place. This leaves over 4.8 million members (29%) in a scheme that does not have a complete set of basic governance features in place.

Good governance is essential to pension schemes delivering good member outcomes. This is a key focus for us, through our ongoing programme on 21st century trusteeship and governance, which can be found at [www.thepensionsregulator.gov.uk/21st-century-trusteeship](http://www.thepensionsregulator.gov.uk/21st-century-trusteeship).

We are pleased that there appears to be a greater awareness of their governance duties among scheme managers and pension boards<sup>1</sup>. However, we remain concerned that scheme managers are not always working well with pension boards. While 85% of surveys were completed

<sup>1</sup> Further information regarding the roles and responsibilities of those involved in governing public service pensions schemes can be found at [www.thepensionsregulator.gov.uk/public-service-schemes/roles-and-responsibilities.aspx](http://www.thepensionsregulator.gov.uk/public-service-schemes/roles-and-responsibilities.aspx)



with the involvement of the scheme manager, the pension board chair was only involved in 45% of responses, and pension board members in just 16%. This may lead to a biased or unbalanced view of the performance and risks facing the scheme.

We also have doubts about the commitment shown towards scheme governance. Encouragingly, while 88% of scheme managers or their representatives now attend every pension board meeting, these meetings occur less than quarterly in 43% of schemes. This appears to only be an issue in locally administered schemes, and is independent of the size or structure of a scheme. We do not believe that schemes can be governed effectively through occasional meetings, particularly given the time dependent nature of many of the issues to be addressed.

The infrequent nature of meetings in many schemes may result in a superficial assessment of the challenges they face. Despite four-fifths (80%) of schemes saying they had the resources and knowledge needed to run the scheme effectively, a third (31%) do not actually regularly evaluate the performance or effectiveness of the board.

Over the coming year we will continue to focus on improving governance in public service pension schemes. In addition to our 21st century governance work, we will continue to educate scheme managers and pension boards through face-to-face meetings, and we will work with scheme advisory boards and other stakeholders to reach disengaged scheme managers. The vast majority of respondents have used the resources on the public service section of our website and have found them useful. We would encourage schemes to make further use of them. Materials online include practical guidance on how to comply with legal requirements such as an example risk register, an internal controls checklist and a self assessment tool enabling schemes to identify issues and ways to address them.

Engagement by TPR was identified by 43% of schemes as a driver of improved governance and administration in the last year. We believe by clearly communicating about the standards we expect from all parties, and by providing tools to help schemes meet these standards, we can continue to support improvements in governance and administration. Schemes and other interested parties may request a speaker from TPR at their events by using our speaker request form at <https://secure.thepensionsregulator.gov.uk/speaker-request.aspx>.

## Record-keeping

Failure to maintain complete and accurate member records will affect a scheme's ability to carry out its most basic function; paying the right members the right benefits at the right time. Record-keeping issues in public service schemes are well known and 39% of respondents identified this as a top risk to their scheme. Schemes reported that almost a fifth (18%) of breaches of law were caused by a failure to maintain records or rectify errors.

### Data

We have made our expectation clear that all schemes should do an annual data review. However, 17% of schemes had not carried out a data review in the last twelve months, and a further 8% were not sure. The value of regular data reviews is clear; 69% of schemes carrying them out identified issues, an increase of 9% from last year. However, the survey still raises concerns about how effective some of the data reviews have been. It is questionable that just over a quarter (28%) that had carried out a review did not identify any issues.

We are aware that some schemes have embarked on a multi-year process intended to review and reconcile their data and we welcome this activity. While the scope of these plans is not clear, we are not surprised that few schemes have completed the rectification of their data (7%), given the scale of the projects to be undertaken. It may be difficult and uneconomic to rectify all data issues at one time, and we support schemes that prioritise the work in a structured, sequential way.

In the past year, we have set out our expectations around data security and provided additional guidance on developing a good data improvement plan. We will consider enforcement action where scheme managers fail to demonstrate that they are taking appropriate steps to improve their records, including having a robust improvement plan in place.

For the first time, the 2018 scheme return will ask schemes to report on their common and scheme specific data scores. While our research indicates that a good proportion of schemes are familiar with these terms, we will be producing further material for scheme managers on this subject. We also intend to work with scheme advisory boards this year to encourage the creation of common data standards that can be adopted by employers to ease the problems faced by schemes and their employers.

Employer compliance with data standards continues to be an issue for schemes and was recognised as a barrier to improving governance and administration by 28% of schemes. Timely data was provided to all employers in just 37% of schemes, and accurate data was received from all employers by less than a third (30%) of schemes. Scheme managers should work with employers to ensure processes are effective and fit for purpose, and take action to rectify issues in the first instance. The use of penalties by schemes remains low, and we would encourage schemes to take all reasonable measures available to them before asking us to intervene with our own powers.

## Administration

Pension boards should pay close attention to the performance of their scheme administrators, since they are critical to the good running of the scheme. It is notable that two of the top three causes of complaints received by schemes<sup>2</sup> have a basis in poor administration and poor record-keeping.

We have made it clear that schemes and pension boards should focus on administration as a key influence on data quality and member outcomes. It is therefore disappointing that administrators operate without service level agreements in place in over a quarter (26%) of schemes and that only a fifth (20%) of schemes use penalties where service or contractual standards are not met. This lack of accountability by administrators is most noticeable in the 46% of schemes that are managed in-house, or where administration is outsourced to another public body (24%).

Schemes should ensure that administration is a feature of every pension board meeting (24% currently do not), so they have sight of emerging issues and trends. Administrators can also provide regular reports to the scheme manager (17% of schemes do not do this). Schemes may wish to consider whether to obtain assurance reports on the performance of their administrators, or to commission assurance reports themselves.

<sup>2</sup>  
Inaccuracies or disputes around pension value or definition (31%) and slow or ineffective communication (30%)

## Internal controls

Scheme managers, pension board members and other parties have a duty to report breaches of the law to us in certain circumstances. Nine out of ten schemes (90%) now have procedures in place to identify (92%) and report (91%) breaches of law. This is a significant improvement from previous years. Fewer schemes had identified or reported any breaches of law this year, and we attribute this to the improvement in producing annual benefit statements. However, we remain concerned that schemes may be choosing not to report material breaches in certain circumstances as they are concerned about the potential consequences.

## Member communications

Public service schemes must provide annual benefit statements to active members by a specific deadline, generally 31 August. This year, respondents reported that 92% of members received their annual benefit statement on time, a significant improvement on the 75% seen in 2016. However, only 60% of respondents reported that all their members received their statements on time. We recognise that public service pension schemes initially faced challenges meeting their new duties. However, we expect schemes to have made significant progress by now and will have much less tolerance for shortcomings this year.

## Taking action

Scheme managers should be aware that we are more likely to use our enforcement powers this year. Where we open cases, we will work with the schemes involved to resolve gaps in their risk and breach of law processes. When considering action or setting fines, we will take into account a party's co-operation with us, and their efforts to put things right. For example, those who fail to report breaches to us quickly could receive a higher penalty for a breach, and an additional penalty for a failure to report. You can find further information in our monetary penalty policy at [www.tpr.gov.uk/ps-monetary](http://www.tpr.gov.uk/ps-monetary).

We have taken, and will take, enforcement action where scheme managers have not taken sufficient action to address issues or meet their duties. In line with our compliance and enforcement policy (found at [www.tpr.gov.uk/strategy](http://www.tpr.gov.uk/strategy)), we will continue to publish reports of our regulatory activities - including enforcement activity - to encourage higher standards.

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Free online learning for those running public service schemes

## Public service governance and administration survey

Summary of results and commentary

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