Public Document Pack

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LOCAL PENSION BOARD

Thursday, 4th October, 2018 at 2.30 pm in the Conference Room, Civic Centre, Silver Street, Enfield, EN1 3XA

Membership:

co : Ayfer Orhan, Andy Milne, Vicki Pite and Bishop

AGENDA – PART 1

1. WELCOME & INTRODUCTION

The Chair and Fay Hammond (Director of Finace) to Welcome and Introduce members of the Local Pension Board.

a. Apologies

2. STANDING ITEMS (Pages 1 - 4)

The Chair to Present the following;

a. Pension Board minutes - 31 July 2018

b. Register of breaches of the law - None

c. Conflicts of interest register (Declaration of interests) - None

d. Risk Register

3. GOVERNANCE REVIEW (Pages 5 - 16)

To consider the work commissioned to update the review of the governance arrangements in place for the Enfield Pension Scheme review the Pension.

4. PENSIONS ADMINISTRATION BUSINESS UPDATE

Update on staff training and work priorities.

(TO FOLLOW)

5. REVIEW OF THE PENSION, POLICY & INVESTMENT COMMITTEE MINUTES - 1 AUGUST 2018 (Pages 17 - 20)

To consider the latest work of the PPI & IC 7 draft agenda for the next meeting.

6. PROPOSALS FOR LGPS FUNDING REPORTING IN A 'POOLED WORLD' (Pages 21 - 24)

To receive an overview of the proposal for LGPS
Funding reporting within the context of pooling investments.

7. THE PENSIONS REGULATOR'S 21ST CENTURY TRUSTEESHIP CAMPAIGN (Pages 25 - 46)

To consider the key themes of the Pension Regulator's discussion paper on 21st Trusteeship and Governance.

8. PENSIONS REGULATOR SURVEY (Pages 47 - 60)

To receive the regulators commentary on the results of the Public Service Pension Providers survey.

9. PENSION FUND TRAINING SESSION

Pension Fund Governance and key legislation.

10. DATE OF NEXT MEETING

20th December 2018

LOCAL PENSION BOARD MINUTES: TUESDAY, 31ST JULY, 2018

MEMBERS: Councillors Ayfer Orhan and Vicki Pite

Officers:

Paul Reddaway (Head of Pension Investments), Fay Hammond (Director Of Finance), Tim O'Connor (Pension Manager), Tariq Soomauroo (Governance & Scrutiny Officer), Julie Barker (Head of Exchequer Services), Paul Bishop (UNISON), Pauline Kettles (LPB Member) and Dionne Findley (Graduate Trainee)

Also Attending:

Councillor Taylor (Observer)

1. WELCOME & INTRODUCTION

Fay Hammond (Director of Finance) welcomed and introduced the members of the Local Pension Board.

2. ELECTION OF CHAIR & VICE CHAIR

Councillor Orhan was appointed the chair of the Local Pension Board committee.

Paul Bishop (UNISON) was appointed as Vice Chair of the Local Pension Board committee.

3. DECLARATION OF INTERESTS

Councillor Taylor (Observer) stated that he is a Governor at Capel Manor College.

STANDING ITEMS:

a. Pension Board minutes 20th February 2018 **AGREED.**
b. There were no Risk Register updates.
c. There were no of breeches of the law.

4. PENSION BOARD TERMS OF REFERENCE

Paul Reddaway presented the Local Pension Board terms of reference to the committee.

Noted:

- The terms of reference were updated last year by the previous chair Councillor Simon
- The Terms of Reference have been tailored specifically to Enfield
- Amendments were made to the Terms of Reference to make it less jargonised

5. MINUTES FROM THE PENSION POLICY & INVESTMENT COMMITTEE MEETING: 5TH JULY 2018

Councillor Taylor (Chair of the Pension Policy and Investment committee) presented the minutes from the Pension Policy and Investment committee meeting 5th July 2018.

6. EXTERNAL AUDIT REPORT ON 2017/18 PENSION ACCOUNTS & ANNUAL REPORT

Paul Reddaway (Head of Finance) presented the External Audit Report on the 2017/2018 Pension Accounts and Annual Report.

Noted:

- It was noted that Enfield worked well with the auditors with only two trivial errors found which had no effect on the statement of accounts
- Audits were on transfers in and transfers out
- The auditors BDO are in a position to sign off both the statement of accounts and annual report.
- The formal audit was completed on the 16th July 2018, but we are still waiting on the Council's main audit to be completed

7. PENSION POLICY & INVESTMENT COMMITTEE WORK PLAN

Paul Reddaway went through the work plan and training programme.

Noted:

- Formal training and a continued Professional Development plan will be developed. Enfield will ensure that they will be in line with good practice.
- The Pensions regulator provides an extensive online training programme.
- LGA training will take place this Autumn 2018

  It was stated that evening training sessions will be available if committee members are unable to attend the daytime training sessions.

8. PENSION ADMINISTERING AUTHORITY

Julie Barker (Head of Exchequer Services) and Tim O'Connor (Pension Manager) presented a power point presentation on the Pension Administering Authority.

9. LONDON BOROUGH OF ENFIELD PENSION FUND

Councillor Taylor (Chair of Pension Policy and Investment Committee) and Paul Reddaway presented an introduction to the Enfield Pension Fund presentation.

Noted:

- Outline of the corporate governance within the LGPS
- Explanation of the inter-relationship of various bodies connected to the governance and management of the fund
- The ISS (Investment Strategy Statement) sets out responsibilities relating to the overall investment policy of the Fund including asset allocation, restrictions on investment types, method of investment management and performance monitoring.
- The key issues facing the Pension Fund over the coming year

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10. LB ENFIELD QUARTERLY INVESTMENT REPORT Q1 2018

Paul Reddaway presented the LBE Quarterly Investment Report (Quarter 1. 2018).

Noted:

- The asset performance was negative over the First Quarter
- Markets have recovered in the Second Quarter
- Asset Value 31st March at £1.1 Billion.

Key developments

- Received capital back from hedge fund manager

- The equity transition will be completed in July.

11. DATE OF NEXT MEETING

Thursday 4th October 2018.

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Aon Hewitt

London Borough of Enfield Pension Fund Governance Review

Date: 20 July 2018

Prepared for: Fay Hammond
Director of Finance
London Borough of Enfield

Prepared by: Michael Ferguson
Laura Caudwell
Aon Hewitt

Proposal for the Review of Pension Fund Governance

Introduction

We are delighted to have the opportunity to provide a proposal for reviewing the Governance arrangements of the London Borough of Enfield Pension Fund (the "Fund") administered by London Borough of Enfield (Enfield Council, the “Administering Authority”).

This paper sets out our proposal for undertaking this governance review, and our suggested pricing.

The approach we propose to take is to compare the Administering Authority's practices against the Aon Hewitt governance framework, as set out in the following section.

There are a range of options for the scope of our review and we have set those out later in this proposal.

We believe we have the right team with the right skills and the right attitude to ensure that you get the most out of this governance review, both in terms of understanding your strengths and weaknesses, and in terms of identifying any areas you could and should focus on improving going forwards.

Our Proposal

We set out below our proposal broken down into the following sections:

- Aon Hewitt Governance Framework
- Scope of Governance Review
- Personnel
- Proposed Work Plan
- Timing and Cost

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Aon Hewitt Governance Framework

There are some key benefits from having effective governance in place, and we highlight these below.

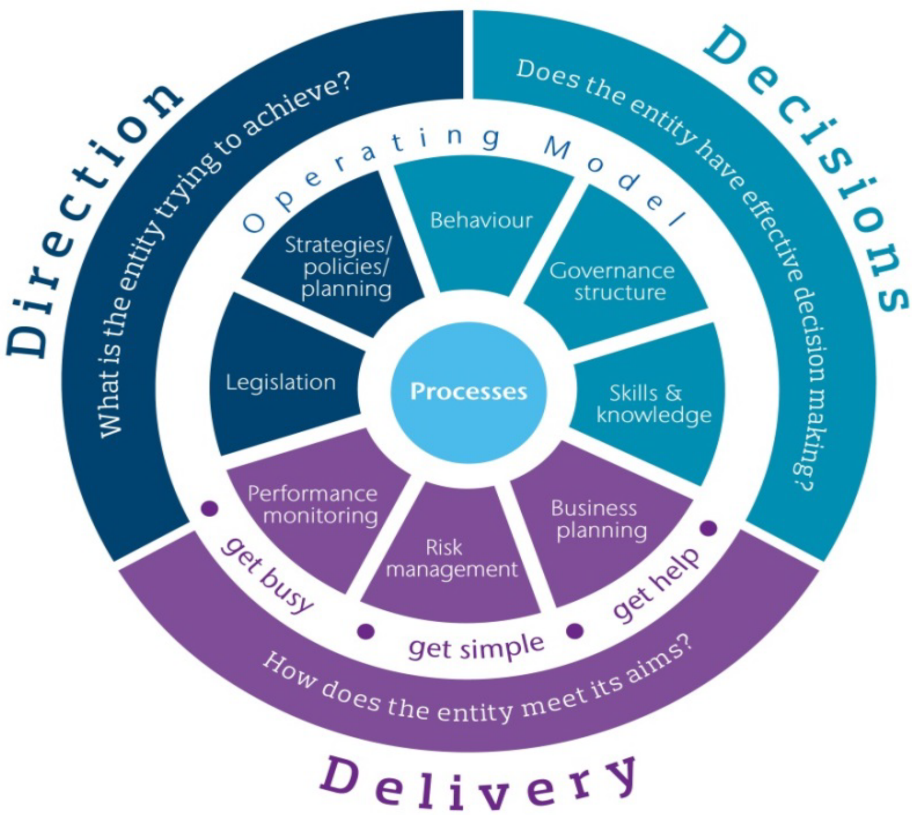
Benefits of effective governance

- Robust risk management that can assist in avoiding issues arising or at least reducing their impact
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated by Enfield Council.

At Aon Hewitt, we have a number of beliefs when it comes to achieving good governance including:

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management, ensure effective and efficient delivery
- Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is key.

These beliefs are shown in the following diagram and described in more detail in the work plan section of this proposal.



Scope of Governance review

We set out the scope of our review below,

Part 1 – Overall Governance

Documentation

The starting point for the review will be to document the current arrangements, including:

- The role of the Pension Policy & Investment Committee (the "Committee") and the effectiveness of its decision making
- The extent to which the Committee takes proper advice on those matters which require specialist input
- The key reports, statements and policies governing the scheme i.e.:
  - Statement of Investment Principles
  - Policy on Discretions
  - Compliance Statement on the Myners Principles
  - Communication and employer and employee engagement
  - Process for reporting breaches of legislation
  - Funding Strategy Statement
  - Training policy
  - Conflict of interest policy
  - Administration Strategy

Review

The purpose of this review is to highlight areas of good practice in relation to the governance of the Fund and also to recommend any potential areas for improvement.

The approach we will take to the review will be to compare the Administering Authority's current practices against the Aon Hewitt governance framework.

The framework considers the following key areas:

- Direction – What is the Fund trying to achieve?
  - Legislation
  - Strategies and Policies
- Delivery – How does the Fund meet its aims?
  - Business Planning
  - Performance Monitoring
  - Risk Management
- Decisions – Does the Fund have effective decision making?
  - Governance Structure
  - Behaviour
  - Pensions Skills and Knowledge

More detail is provided in the work plan section of this proposal.

This approach will enable us, more specifically, to:

- Examine the existing governance framework and identify the main risks associated with the governance of the Fund

- Comment on whether the Administering Authority have assessed their ability to meet the requirements of the Pension Regulator's Code of Practice (we note an updated assessment is due to be carried out in October 2018 with the assistance of Aon).
- Identify whether the administering authority has evolved to meet recent changes in legislation relating to governance matters
- Provide any other recommended actions to improve the governance of the Fund.

This part of the review would not only provide a template for future review, but also provide a significant amount of information which can be used in other ways to improve the management and governance of the Fund. For example, the findings could feed into a risk register, into setting new internal controls or could be used as evidence when reviewing Compliance with the Pension Regulator's Code of Practice, which we note you have already arranged to take place over the month of October 2018. It will also be a useful reference point for the Pension Board to assist them in considering the effective and efficient governance and administration of the Fund.

Part 2 – Local Pension Board and Asset Pooling

The recommendations from the second part of review would provide our views on whether the governance structure needs to evolve based on the effectiveness of the Local Pension Board and the introduction of asset pooling.

Specifically we would consider what would be the best structure for the Local Pension Board to ensure that it adds value and operates effectively.

To do this we would:

- Use some of the findings in part 1 of the review e.g. considering the terms of reference of the Board and any areas that have been escalated from the Board to the Committee
- Review recent Board agendas, papers and minutes
- Attend Board meeting to better understand what takes place at meetings and behaviours
- Carry out effectiveness questionnaires for Board members.

We would suggest that you also review the governance structure you have put in place to allow you to manage your investments through the London Collective Investment Vehicle (CIV).

We would consider whether the changes that have been made to the Fund's governance are adequate and appropriate to allow for the move to asset pooling, considering areas such as how you will manage your voting rights and clarity of roles. We will also check any key policies and strategies that we would expect to have evolved as a result of the introduction to asset pooling and highlight if changes have not been made (or should be considered in the future). As part of our report we would make recommendations about any further changes that might be made to the governance structure for the fund and how best to manage the various internal and external relationships.

Our review and recommendations of the effectiveness of the Board and the governance changes relating to the London CIV would be provided in a separate report from the Part 1 governance review.

Personnel

We set out below the CVs of the key members of our team who would be assigned to work on this Governance review, along with their role in relation to this project.

In particular, we would like to highlight that the proposed team has carried out very similar governance reviews for other administering authorities including North Yorkshire County Council, the London Borough of Barking and Dagenham, the London Borough of Croydon, London Borough of Southwark, Middlesbrough Council and Cornwall Council.

Michael Ferguson – Senior Benefits and Lead Governance Consultant

Michael has over 25 years of experience working with pension funds in the Public and Private Sector. He is a Senior Governance Consultant within the Public Sector team and joined the Firm in 2016 from Hymans Robertson where he was Head of LGPS Client Development. Michael specialises in governance matters, working closely with Karen and the team.

Michael started his career in 1988 at Standard Life specialising in Annuities and then moving on to providing consulting advice to private and public sector pension funds, latterly Michael was responsible for the Corporate side of Standard Life’s direct salesforce. He then Joined HSBC consulting actuaries in a business development role working across the DC, DB and Investment practices, from here he moved to AEGON specialising in private sector DB consulting and then to Hymans Robertson.

His recent experience includes

- Managing LGPS Frameworks.
- Developing and delivering Aon Hewitt's training programmes for Administering Authorities including to LGPS Pension Committee and Pension Board members.
- Undertaking governance reviews of LGPS funds (similar to the review proposed in this document).
- Reviewing funds' compliance with the TPR code of conduct.
- Contributing to the production of the CIPFA Investment Pooling Governance Principles.

Michael has presented at a number of national events including at the CIPFA Pensions Workshops on the governance arrangements for the new investment pools in the LGPS, PLSA pension board training events and also at the LGPC Fundamentals Training on the importance of good governance.

Michael's main focus is on helping public sector schemes to ensure they have robust, high quality governance arrangements in place, with a particular focus on the governance of asset pools.

Michael would be the lead consultant responsible for the provision of this governance advice to you, working closely with the rest of the proposed team and the wider firm as necessary.

Daniel Kanaris – Senior Benefits and Governance Consultant

Dan is a Senior Benefits and Governance Consultant within the Public Sector team. He joined the Firm in 1999 after graduating from Warwick University, and has over 18 years of experience of advising on the LGPS. Dan specialises in benefit and governance matters, working closely with Karen McWilliam, the Head of Public Sector Benefits and Governance Consulting.

His recent experience includes:

- Undertaking governance reviews for a number of LGPS Funds (similar to the review proposed in this document).
- Working with funds to help them ensure the provisions of the 2014 scheme have been implemented correctly via an audit of their benefit administration services
- Supporting Administering Authorities in relation to the establishment and ongoing running of the new Pension Boards
- Developing guidance and compliance checklist to ensure adherence to the Pensions Regulator's Code of Practice – in particular Dan jointly carried out this review for the Enfield Fund in late 2015/early 2016, which resulted in a number of suggestions for improvements in the governance and administration of the Fund.
- Helping Administering Authorities in specialist calculations for senior LGPS staff, particularly focussing on changes in the Annual Allowance and the Lifetime Allowance and their interaction with various protections
- Developing policies with Administering Authorities, including drafting and amending various policy documents including Conflicts of Interest, Training, Risk Management, Reporting of Breaches, Administration, Communications and Discretions.

Dan’s clients include London Borough of Southwark, Shropshire County Council, Swansea County Borough Council and the Environment Agency.

Until recently Dan sat on the Administration and Communications Sub Committee of the Interim Scheme Advisory Board, and was also part of recent national governance round table events that Aon Hewitt hosted. Dan has presented at a number of national events including at the CIPFA Pensions Workshops on the implementation of the new governance arrangements in the LGPS and also at the LGPC Fundamentals Training on the importance of good governance.

Dan would support Michael in all aspects of the governance review, having previous experience in working with Enfield Council on governance matters.

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Laura Caudwell FIA – Senior Benefits and Governance Consultant, and Actuary

Laura joined Aon in 2009. She has an honours degree in Mathematics and Statistics from the University of Bath and qualified as an actuary in 2009. She now has over 12 years of pensions experience.

Laura currently provides governance and benefits consulting support to a number of LGPS funds, including the Clwyd Pension Fund, the Environment Agency pension funds, and the London Boroughs of Hackney and Southwark Funds.

Laura is currently heavily involved in helping several clients ensure they are meeting the requirements of the new Pensions Regulator's Code of Practice for public sector schemes.

Laura also specialises in annual and lifetime allowance implications for scheme members

In July 2018, Laura worked with Michael to design and deliver benefits and governance induction training sessions to new Committee and Pension Board members, and officers, for several London Boroughs. Earlier in the year Laura designed and delivered Aon's "Hot Topics" Seminars covering Governance and Longevity which were held in various locations around the country.

Laura also recently arranged and presented in Aon's June 2018 webcast on the topical subject of Data Quality in the LGPS which is another of Laura's key areas of expertise.

Laura would support the team in all aspects of the review, and in particular provide support in relation to the clarification of any funding/actuarial aspects as she is on the team advising the Fund in funding and actuarial matters.

Laura is also likely to be involved in the review of the Fund's compliance against the Regulator's Code of Practice in October so can ensure the two projects are carried out as efficiently as possible in terms of shared information, but also maintaining a suitable level of independence between the two reviews where appropriate.

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Karen McWilliam – Partner and Head of Public Sector Benefits and Governance Consulting

Karen has 32 years of experience working with LGPS administering authorities. She joined Aon in February 2013 as the Head of Public Sector Benefits and Governance Consulting and is currently Lead Consultant to Clwyd Pension Fund, the London Borough of Hackney Pension Fund and EAPF (the Environment Agency Pension Funds).

Karen is a well-known speaker at LGPS events and a contributor to national LGPS development, including:

- being the main author of the CIPFA Asset Pooling Governance Principles guidance
- being a member of the LGPS Scheme Advisory Board Investment, Engagement and Governance Sub-Committee
- being a key contributor in the development of the LGPS National Third Party Administration Framework
- being a major contributor to the national Scheme Advisory Board Pension Board's guidance and
- writing the LGPS tax guide for LGE.

She joined Hymans Robertson in 2002 where she established the UK's first team providing benefit and governance services to LGPS administering authorities. Karen started her career in 1986 at Highland Council where she trained as a pensions administrator and was then appointed as the Pensions Manager, with responsibility for managing the administration of the LGPS, Police and Fire Schemes.

During this period Karen embraced a number of wider roles, many of which she undertook in her personal time, including:

- Secretary to the Scottish Pensions Liaison Group
- Scottish representative on the National LGPS Technical Group
- Tutor and Author for the CIPFA LGPS Administration Qualification
- Member of national working groups relating to HMRC limits and pension sharing on divorce

In her final year, Karen project managed the implementation of the Council's new payroll and personnel devolved management IT system.

She has the CIPFA Certificate in LGPS Pensions Administration and is a Practitioner of PRINCE2.

Karen's role will be to have a general oversight of the project and provide specialist expertise in specific governance matters (for example, in relation to pooling) where required.

Work Plan, Timing and Cost

We set out below an overview of our suggested work plan for the governance review exercise, and our proposed timescales and costs.

Part 1 – Overall Governance

Option 1

We set out below our proposals to carrying out Part 1 of this project in three main areas. Firstly, the 'basic' option is where we carry out a desktop review and supplement this with informal discussions with the key personnel at Enfield Council. We refer to this as Option 1 below.

The broad areas we would include in our investigations and report follow those in the Aon governance framework, as set out in the following table.

Legislation	The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.
Strategies and policies	The Fund's strategies and policies should provide the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies: ▪ should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself ▪ should be clearly articulated, to provide a framework within which those managing the Fund are able to operate ▪ should provide the focus for all future decisions and plans ▪ should be agreed by those responsible for governing the Fund.
Governance structure	There is no one 'correct' governance structure. The Administering Authority's structure should: ▪ have clear terms of reference ▪ have a clearly documented scheme of delegation ▪ allow decision making at the appropriate level ▪ allow quick decision making where appropriate ▪ involve well-presented information/reports ▪ allow sufficient time for discussion where necessary ▪ have good quality administration (e.g. issuing meeting papers in good time) ▪ involve a process for managing conflicts ▪ provide transparency to stakeholders where appropriate.

Behaviour	A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should: ▪ have a high level of attendance at meetings ▪ demonstrate integrity in relation to their Fund role ▪ be engaged and provide appropriate challenge ▪ be accountable for the decisions made ▪ highlight any potential conflicts they may have ▪ for a Chairperson, manage the meetings fairly without any bias to individuals or self ▪ prepare adequately for meetings.
Skills and knowledge	A critical element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should: ▪ clearly articulate the knowledge and skills requirements in a Fund policy ▪ provide ongoing training in an effective and suitable manner to meet those requirements ▪ regularly review whether knowledge aspirations are being met ▪ ensure they rely appropriately on officers and advisers to provide expert knowledge.
Business Planning	Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities: ▪ should be driven by the Fund's strategies and policies ▪ will include activities driven by changes in overriding legislation.
Performance Measurement	Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should: ▪ illustrate whether the Fund's aims are being achieved ▪ illustrate whether the Fund's business plan is being achieved ▪ be updated in accordance with appropriate timescales ▪ be presented in a manner that is easy to follow and understandable to those governing the Fund ▪ assist in identifying changes to the Fund's business plan, strategies, polices and aims.
Risk Management	Effective risk management is critical to minimise the impact and/or probability of unfortunate events and to maximise the realisation of opportunities. It should be: ▪ aligned with the Fund's aims ▪ a key consideration in decision making ▪ systematic or structured ▪ an integral part of the Administering Authority's processes and procedures on a daily basis.

Option 2

We believe that this review described above for Option 1 would be significantly enhanced if we were to attend (in an observing capacity) a Pension Policy & Investment Committee meeting to ascertain whether they are working effectively and in line with their Terms of References. We refer to this as Option 2 below.

Option 3

In addition, as part of the review of Fund's governance arrangements we recommend that an effectiveness questionnaire is given to all the existing Pension Policy & Investment Committee members and officers/advisors involved with Pensions.

The questionnaire would focus on what actually happens at Pension Policy & Investment Committee meetings including areas such as the length of the meetings, how topics are presented, whether the members feel confident when making recommendations or decisions, how well they feel they understand risk and strategy, etc. The results of the questionnaire are analysed and then feed into the recommendations of the governance review. We refer to this as Option 3 below.

We appreciate a significant proportion of the Pension Policy & Investment Committee may be new members following the recent elections. We would therefore suggest that the effectiveness review be carried out after a couple of Committee meetings have taken place, once the Committee members are more established in their role and the proceedings.

We would be happy to provide sample output for the effectiveness questionnaire or to meet with you to discuss and to demonstrate how useful this can be, if required.

We would recommend choosing to complete options 1, 2 and 3 as much of our findings from these options will be used in helping us with part 2 of the review.

Timing and Cost

If we are successful in being appointed to carry out this work, we will agree timescales with you.

The cost for carrying out this would is as follows:

- For Option 1, the cost will be £7,000 before VAT.
- Option 2 could be undertaken concurrently with the work in Option 1 (subject to the timings of the Pension Policy & Investment Committee meeting(s)). The cost for this will be as for Option 1 plus £2,500 before VAT per day for meetings.
- Option 3 would be as for Option 1 plus £4,000 before VAT (plus an additional £2,500 per day for meetings if Option 2 is also selected).

Accordingly, assuming you agree our recommendation to carry out the full review so this can feed into the Part 2 report, the total cost would be £13,500 plus VAT assuming attendance by one person to observe at one Pension Policy & Investment Committee meeting.

- There would also be an additional cost of £1,500 before VAT for attending meetings with officers to discuss the results or the Pension Policy & Investment Committee meeting (if required) to present the results of our findings. This assumes each meeting is no longer than three hours.

If we are required to carry out any additional work in relation to the governance review which is outside of the initially agreed scope, (for example, the drafting or redrafting of a policy or procedure that was found to need improvement), then we would be happy to agree further fixed fees in advance for any such work.

Alternatively, additional work can be charged on a time cost basis using our standard hourly rates if you prefer, which we can provide if necessary.

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Part 2 - Local Pension Board and Asset Pooling

Much of the work to carry out Part 1 of the governance review would feed into the conclusions we arrive to for this additional Part 2 report. In addition, we would need to attend as observers at a Local Pensions Board and we would expand the effectiveness questionnaire to as questions specific to the Local Pensions Board, which we would recommend should be completed by Pensions Policy & Investment Committee members too.

The review of the governance proposals for the fund participating in the London CIV would be a desk based review, supplemented with conversations with key individuals.

Timing and Cost

If we are successful in being appointed to carry out this work, we will agree timescales with you.

The total cost of providing this additional report would be £9,500 before VAT, which relates to the following:

- The cost of the main investigation work and preparation of the report will be £5,000 before VAT
- Attendance at a Local Pensions Board meeting - £2,500 before VAT
- Extending the effectiveness questionnaire to cover the work the Local Pensions Board, and resulting analysis of results, would be £2,000 before VAT.

The cost of additional meetings or any work carried out which his out of scope is as described within the costs for Part 1.

Additional services following the review

We offer a range of governance and benefits consulting services which as a result of carrying out the review, you may be interested in.

You have already arranged for Aon to assist with an updated compliance review against the specific requirements in the Regulator's Code of Practice (after your first review carried out in 2015/16).

The other services you may be interested in include:

- Providing training to pension board, committee members or officers
- Providing an interactive risk heat map tool, and
- Providing a committee, board and officer training planning and monitoring tool (several of our tools also have reporting functionality options).

If you are interested in any of our additional services such as our governance related tools, we would be happy to provide a demonstration of these and the cost upon request.

Next steps

We look forward to discussing this proposal with you. Should you have any queries please contact Michael Ferguson on 07798 841 776 (Michael.ferguson@aon.com) or Laura Caudwell on 0117 948 5020 (Laura.Caudwell@aon.com).

MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON WEDNESDAY 1ST AUGUST, 2018

MEMBERS: Councillors Mahmut Aksanoglu, Derek Levy, Terence Neville and Doug Taylor (Chair)

Officers:
Fay Hammond (Director of Finance), Paul Reddaway (Head of Finance) and Tariq Soomauroo (Governance & Scrutiny)

Also Attending:
Daniel Carpenter (Aon), Katherine Finnimore (Aon) and Carolan Dobson (Independent Advisor)

Councillor Orhan (Observer)

WELCOME & INTRODUCTION
Councillor Taylor welcomed everyone to the meeting

Apologies for absence received for Councillor Stewart, Councillor Eren and Rohan Meswani (Aon).
Apologies for lateness received from Councillor Neville

MINUTES OF THE PREVIOUS MEETING
Minutes from the meeting held on 5th July 2018 were agreed without amendment

MATTERS ARISING
Fay Hammond (Director of Finance) also advised that Southwark Council are happy to meet with the Chair explain their approach to fossil fuels within their Pension Fund.

BOND PORTFOLIO REVIEW OVERVIEW

RECEIVED Bond Portfolio Review (AON)
NOTED
Aon representatives Daniel Carpenter and Katherine Finnimore presented the document.

The Fund conducted an investment strategy review in 2017. The Committee discussed the overall investment strategy, in particular the fact that the Fund's equity allocation is the largest source of risk in the Fund and strong recent returns present an opportunity to crystallise funding level gains and reduce risk in the investment strategy.

It was discussed and agreed that the Fund could reduce its equity weighting by c.5%, which would bring it closer to its strategic allocation.

The proceeds could be utilised within the fixed income portfolio which would in turn bring the fixed income portfolio towards its strategic allocation. Fixed income was deemed an appropriate area to invest given its lower risk profile and role as a defensive asset for the Fund.

As a reminder, over the period since the previous strategy was set in 2014, the Fund has had an overweight position to equities, expressed predominantly via an underweight to bonds, as a result of:

– A medium term view on the relative attractiveness of equities versus bonds;

– The general strong performance of equity markets.

The Committee agreed that the additional allocation (c.6% of total assets) to fixed income should be allocated to a multi asset credit mandate in order to reposition the bond portfolio to the strategic allocation.

A MAC fund is available on the London CIV and it was agreed that this fund would be considered. The Committee has previously received a presentation from the London CIV on its bond offerings.

The Committee also asked Aon to put forward a “Buy rated” MAC manager for comparison. Aon provided a paper containing a comparison between the London CIV fund and JP Morgan’s Multi Sector Credit fund.

The Committee agreed to meet both the London CIV and JP Morgan on 1 August to consider their multi asset credit offerings.

RECAP ON MULTI ASSET CREDIT ("MAC")

RECEIVED the training on Multi Asset Credit (“MAC”) by Katherine Finnimore AON - C*PD 30 minutes accredited*

NOTED

A Multi Asset Credit (“MAC”) strategy is a fixed income strategy seeking to add value by capturing the credit premium across different credit sectors.

Either by finding better companies or by exposure to different credit sectors at different times, a manager hopes to enhance an investor’s return over and above a traditional core credit approach confined to one sector.

A MAC strategy provides the following characteristics

- Increase returns by widening the opportunity set within credit
- Reduction of volatility by actively diversifying across credit sectors
- MAC products have less sensitivity to interest rate changes than core fixed income products and can produce returns in a rising interest environment.

The Chair thanked Katherine Finnimore for a very informative presentation.

BREAK

MANAGER BRIEFING

NOTED:
AON presented an overview of the two MAC managers being interviewed

LCIV Overview
NOTED:
Presented: Kevin Cullen (Head of Client Services) & Larissa Benbow (Head of Fixed Income)

The LCIV provided an update of their recently revised governance structure, including their responsible investment strategy. They updated members on the current pooling landscape.

LONDON CIV MAC FUND CQS

RECEIVED LCIV presentation pack
LCIV presented Kevin Cullen (Head of Client Services) Larissa Benbow (Head of Fixed Income) and a marketing representative from CQS.

Larissa Benbow apologised that the CQS portfolio manager was unable to attend.
The LCIV/CQS – presented an overview of their product. The Chair thanked them for attending.

JP MORGAN MULTI SECTOR CREDIT FUND

RECEIVED: JP Morgan presentation pack
A presentation was received from Paul Farrell (Managing Director) and Usman Naeem (Portfolio Manager).

The Committee thanked Paul and Usman for their presentation.

LUNCH

1. DISCUSSION AND DECISION

The Committee noted the following:

Both presentations had merit and represented credible MAC strategies.

AGREED
Members were not wholly convinced by CQS and were disappointed that the presentation was led by a marketing person and not a senior fund manager.
Members were asked to provide to Paul by the end of the following week any thoughts on the best way to progress. The chair also asked for comparative performance data net of fees.

DATE OF NEXT MEETING - Monday 29th October 2018

ITEM 6

London Borough of Enfield

REPORT TO;	**Local Pension Board 4TH October 2018**
SUBJECT:	**Proposals for LGPS Fund reporting in a 'Pooled World'**
LEAD OFFICER	**Paul Reddaway**

1. **RECOMMENDATIONS**

1.1 To note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report describes the proposal for LGPS fund reporting within the context of pooling investments.

3 DETAIL

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have put forward a proposal for revised reporting for Local Government Pension Scheme (LGPS) Funds. This report describes those proposals. There are a number of objectives that this proposals should help achieve:

3.1.1 Government requirements for:

- measuring progress by funds in transitioning assets into pools;
- transparent reporting of costs and performance by the LGPS funds and pools;
- demonstrating that active management of investments provides added value to the scheme; and
- measuring increased capacity for cost-effective investment in infrastructure.

3.1.2 To take forward the aims of the Code of Transparency in reporting costs.

3.1.3 To develop the current asset allocation reporting in order to avoid the majority of assets being consolidated into the Pooled Investment Vehicles (PIV) line within the pension fund accounts.

3.2 The intention of this proposal is that this information will be reported in the Pension Fund's annual report.

3.3 There are four principles under-pinning this proposal:

- To disclose fully all investment costs impacting on the return available to the fund,

- To analyse costs to an appropriate level of granularity ensuring an effective balance between regulatory requirements, usefulness to readers, resource demands on fund officers and commercial sensitivity;
- To report costs and performance in a consistent manner which meets the government's requirements and enables the LGPS Scheme Advisory Board to consolidate reporting of those items to the pool and scheme level; and
- To separate effectively the set-up and ongoing costs of asset pools at fund level.

3.4 Pooled assets are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers – has been contractually transferred to a third party out with the individual pension fund's control. How these requirements (the four principles) are applied in practice must depend on the operating model the authority has chosen to adopt.

3.5 The proposal sets out detailed suggestions for reporting the activities underlying the objectives set out in paragraph 3.1 ff. These include:

- Measuring transition of assets to asset pools.
- Cost reporting (set up costs; commissions, fees and taxes; and ongoing investment management costs).
- Ongoing Investment Management Costs.
- Asset allocation and performance. Here the proposal is that gross and net return are reported by asset class and against both the performance of the relevant passive index and against the local performance benchmarks as set out in the pension fund's investment strategy. It is proposed that performance should be measured over one-, three- and five-year timeframes.

3.6 The proposal suggests that the pools are analysed into the following categories

- Active listed equity
- Active fixed income
- Passive listed equity
- Passive listed income
- Private debt
- Property
- Unlisted equity
- Infrastructure
- Cash
- Multi-Asset Funds/ Diversified Growth Funds
- Other

3.7 Finally the proposal suggests a definition of infrastructure, which is a key aspect of the pooling agenda.

3.7.1 Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- substantially backed by durable physical assets;
- long life and low risk of obsolescence;
- identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;
- revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry; and returns to show limited correlation to other asset classes.

3.7.2 Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

3.7.3 Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be. Infrastructure service companies would not normally be included.

CONTACT OFFICER: Paul Reddaway, Head of Pension Investment & Treasury
BACKGROUND PAPERS: None
APPENDICES: None

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ITEM 7

London Borough of Enfield

REPORT TO;	**Local Pension Board 4th October 2018**
SUBJECT:	**The Pensions Regulator's 21st Century Trusteeship Campaign**
LEAD OFFICER	**Paul Reddaway**

1. **RECOMMENDATIONS**
1.1 Members of the Board are asked to note the contents of this report.

1. RECOMMENDATION

2. EXECUTIVE SUMMARY

2.1 This report considers the key themes of the Pension Regulator's discussion paper on 21st Century Trusteeship and governance. In order to drive up standards of governance and administration the Regulator intends to focus on targeted education and setting out what is expected from adopting higher standards.

3 DETAIL

3.1 During 2016 the Pension Regulator's office published a discussion paper on 21st Century Trusteeship and governance. This looked at standards among trustees could be raised to improve the way that pension schemes are managed. The Regulator also carried out research showing that many pension schemes aren't meeting the governance standards that are expected. This is dealt with by a report elsewhere on this agenda. Consequently the Regulator has decided to launch a programme to raise the standards of governance across all pension schemes.

3.2 The 2016 discussion paper considered a number of key themes, which included:

- **Board effectiveness and the importance of diversity**: To be effective, boards need a diverse mix of trustees who bring a balance of skills and experiences, professional backgrounds and interests.
- **The role of the chair**: Chairs of trustees were said to play a vital role in setting the approach to governance and scheme management. Their role required good leadership, communication, negotiation and people management and mentoring skills in addition to pensions knowledge.
- **Meeting Trustee Knowledge and Understanding (TKU) standards and the role of training and development**: An interest and desire to take on the role of trustee was seen as the most important quality. Basic understanding of how pensions work was considered crucial but detailed knowledge was seen as less important than personal attributes.

- **Managing conflict of interests**: Some professional trustees explained that they can be under pressure to prioritise the employer's interest, although their professional integrity ensured that they acted impartially.
- **Engagement with key governance activities and working with third parties**.
- **Administration and investment governance**: Trustee boards described a wide range of approaches to key governance activities such as administration and investments.
- **Working with advisers**: Nine in ten schemes employed advisers but one in ten schemes reported they could rarely or never afford to appoint advisers – those tended to be small schemes. • Trustees rarely disagreed with advisers although many scrutinised advice in detail. However, not all lay trustees were confident in their ability to challenge professional advisers.

3.3 The Regulator has now published a response to this discussion paper. This response is appended to this report.

3.4 This response sets out the approach that the Regulator intends to drive up standards of governance and administration, and the competence of those managing schemes, including public service schemes, going forwards. Firstly, more targeted education and tools to raise the standards of trustees; then by setting out clearly what is meant in practice by the higher standards already expected of professional trustees and the specific qualities and skills expected from chairs; and finally tougher enforcement against trustees who fail to meet the required standards.

CONTACT OFFICER: Paul Reddaway, Head of Pension Investment & Treasury
BACKGROUND PAPERS: None
APPENDICES: Appendix A: 21st Century Trusteeship & Governance Discussion paper response, the Pensions Regulator, December 2016.

21st Century Trusteeship and Governance

Discussion paper response

December 2016

The Pensions Regulator

Introduction

Our discussion paper '21st Century Trusteeship and Governance'[1] was designed to stimulate a dialogue about how government, regulatory bodies and the pensions industry can raise standards of trustee competence and improve the governance and administration of pension schemes. The paper focused on private sector trust-based defined contribution (DC) and defined benefit (DB) schemes, but the insights and feedback received clearly apply to the whole of our regulated landscape, including the pension boards of public service schemes.

Drawing on our trustee landscape research, observations of trustee meetings and discussions with our stakeholders, we presented what we had learned and asked you to respond with your ideas and views on a range of topics.

We wanted to gather views on how we could help trustees manage their schemes efficiently.

We described the importance of the diversity and effectiveness of the board as a whole, along with the crucial and multi-faceted role of the chair. We asked for views and ideas on a number of areas relating to the competence of trustees. This included how to ensure trustees – particularly new ones – can acquire and maintain sufficient knowledge and understanding (TKU), and demonstrate they have the competence required to fulfil their role (eg through qualifications). We also asked whether minimum standards or barriers to entry should apply to chairs of trustee boards and professional trustees, given the evidence of the added value a good chair and professional trustee can bring to pension boards.

We also outlined the difficulties some trustees appear to have with:

- engaging with their advisers and service providers
- key investment and administration activities
- managing conflicts of interests.

We asked how you thought these challenges should be overcome.

We wanted to gather views on the additional support we could provide to trustees, for instance by way of guidance and tools, to help them manage their schemes efficiently.

And finally, we asked what steps could be taken in cases where trustees are unwilling or unable to meet the required standards, and if those schemes affected by poor trusteeship should be encouraged or required to exit the market or consolidate into better governed schemes, such as authorised master trusts.

1 www.tpr.gov.uk/21c-trustee

A full list of the discussion questions is included in Appendix 1.

We received 74 responses from lay and professional trustees, chairs of trustee boards, pension managers, public service scheme board members, advisers, consultants, industry stakeholder organisations and trade bodies. A full list of the respondents is included in Appendix 2. We are grateful to everyone who responded to the discussion paper.

In this response we provide a high-level summary of the responses we received and explain what we intend to do next.

What you said

Trusteeship and governance

There was consensus that good governance is essential to pension schemes delivering good member outcomes and strong support among respondents for our drive to improve standards. However, many respondents emphasised that we should not impose unnecessary regulatory burden on well-run schemes. They believed our focus should be on the trustees who need our support, through education, and on increased use of our enforcement powers, targeted at poorly-run schemes.

Many also stressed the importance of diversity on trustee boards – a key benefit of the trustee model – and that any solutions to governance challenges should not create barriers or discourage, exclude or deter good trustees.

A number of respondents thought that employers needed to do more to help trustees govern their schemes effectively, such as providing time off for trustee duties and training and sufficient resources to secure the necessary advice and help.

A number or respondents thought employers needed to do more to help trustees.

Trustee competence and board effectiveness

Minimum qualifications for chairs and lay trustees

While many respondents supported some form of barriers to entry for professional trustees, few thought that mandatory qualifications would be appropriate for lay trustees or chairs.

Respondents thought minimum qualifications could not adequately test and measure the broad range of experience, skills, knowledge and attitude required of trustees on an ongoing basis. In particular, the qualities of a good chair were seen as more behavioural in nature and qualifications or registration with a professional body would not necessarily demonstrate competence for the role.

There were also concerns that requiring qualifications would discourage people from becoming or remaining as trustees or chairs, and therefore hinder diversity on boards. Some respondents also stressed the importance of focusing on the competence of the board as a whole. Qualifications were thought to be too standard and not sufficiently flexible to meet the needs of trustee boards.

Continuous professional development (CPD)

Respondents thought it was more important to ensure ongoing trustee training and development, although most opposed the introduction of a formal continuous professional development (CPD) framework, particularly for lay trustees. Many respondents pointed out that mandatory CPD would create a disproportionate burden on trustees and employers. Others highlighted the challenges of setting up and maintaining such a framework, particularly the effort required to identify and certify suitable training provision. There were also concerns that such a formalised framework would not be sufficiently flexible to reflect the complexity of scheme specific requirements and would lead to a tick-box approach to training and development.

Many respondents thought it would be more appropriate to promote voluntary take-up of existing CPD frameworks or encourage trustees to focus on having the appropriate framework to facilitate regular training (see below).

Mandatory completion of the Trustee toolkit or equivalent

While the Trustee toolkit was widely thought to be a high-quality, useful learning tool for trustees, many thought completion of the toolkit or an equivalent should not be mandatory. They argued it would not guarantee competence, would be disproportionate – particularly for those trustees already meeting the standards of the toolkit – and was not sufficiently flexible to reflect scheme-specific circumstances.

Trustee probation

A small number of respondents were in favour of introducing a probationary period for new trustees. However, many respondents were opposed to the idea, on the grounds that it would:

- be burdensome to administer and difficult to monitor and enforce
- be incompatible with the legal requirements for trustees to be competent from day one
- create legal and governance issues in relation to trustee decision-making, for example lack of quorum, delays in decision-making, validity of indemnity provisions, democratic election of member nominated trustees (MNTs)
- deter potential trustees from applying for the role

Professional trustees

Given the increased reliance of pension boards on professional trustees and the unregulated nature of this market, most respondents were in favour of barriers to entry for these trustees and thought they should uphold higher standards and be able to demonstrate their expertise.

However, many respondents who were in favour of greater regulation of professional trustees recognised the challenge of defining an appropriate minimum standard. It was argued that any requirements would have to be sufficiently broad and flexible to take account of the varied experience and skills professional trustees possess, recognising the wide range of roles and specialisations they can have. In particular, many thought formal qualifications were not necessarily appropriate because they were unlikely to measure the experience or skills required to be a competent professional trustee, which were seen as equally or more important than technical knowledge.

Those who favoured registration of professional trustees were divided as to who should oversee this regime. Some thought existing professional bodies were best placed to set professional, technical and conduct standards and have disciplinary procedures in place. Others thought we should regulate the profession. Many ideas were put forward for other means of setting minimum standards for professional trustees.

Some respondents were opposed to formal barriers to entry of any sort, arguing for instance that competitive market forces would be sufficient to ensure adequate standards.

Professional trustees should uphold higher standards and be able to demonstrate their expertise.

Alternatives to formal barriers to entry were suggested, such as encouraging rigorous trustee appointment processes (including seeking evidence of CPD being undertaken). Other alternatives included regularly assessing the competence of the professional trustees on the board, a voluntary assurance framework and setting clear standards and expectations through guidance.

In particular, respondents called for the definition of 'professional trustee' to be clarified. They argued it was not helpful to define professional trustees solely on the basis of remuneration, given the growing practice of remunerating lay trustees who do not provide commercial trustee services or hold multiple scheme appointments.

Solutions to raising standards of trusteeship

Many suggestions were made as to what more could be done to ensure the competence of trustee boards, instead of mandating minimum qualifications:

a) Robust selection processes

Rigorous selection and appointment processes of the trustees on the board, focused on the competence of the candidates and the current and future needs of the board in terms of knowledge and skills, were seen as crucial.

b) Effective chair

There was broad agreement that chairs play a vital leadership role in helping to ensure the collective competence of the board and that appropriate governance processes are in place. Because of this, nearly all respondents were in favour of all DB schemes having to appoint a chair, similar to the new requirements for DC schemes, although it was noted that most DB schemes already had a chair.

A few respondents argued that, while the chair had an important role to play to ensure board effectiveness, they should not define the board's operations singlehandedly or be expected to make up for board deficiencies. Over-emphasising the role of the chair could also lead to other trustees becoming disengaged or avoiding taking responsibility for their own development.

c) Board evaluations

Respondents stressed the collective nature of the trustee board and the importance of the board as a whole regularly assessing skills and knowledge gaps and its own effectiveness and taking action to address weak areas.

d) Greater transparency and accountability

Many respondents thought that greater transparency and accountability through reporting (eg of how TKU requirements are being met) can lead trustees to be more focused on governance and making improvements.

In that context, many respondents were in favour of aligning the requirement to report on compliance with governance requirements across trustees of DC and DB schemes. However, respondents thought it was important to ensure that such a requirement did not place a disproportionate burden on trustees. It should fit within existing reporting frameworks, be designed so that it adds value, should not end up as a box-ticking exercise, and should be tailored to the specific nature of DB schemes.

Other respondents thought trustees of DB schemes should not be required to report on governance, as it would be a burden on those who are already performing well. They didn't see what additional benefit there would be for member outcomes, and preparing and reviewing statements would often involve engaging advisers and associated costs.

Other respondents advocated alternatives to chair statements, such as greater use of the scheme return for compliance reporting and gathering information on governance activities.

Engaging with third parties and managing conflicts of interests

Respondents set out the many challenges trustees face in engaging effectively with third party providers and advisers, including lack of strategic oversight by trustees, lack of trustee knowledge and time, poor understanding of roles and responsibilities, unclear trustee delegation structures and lack of clarity as to what is expected of third parties. Respondents said these challenges could be amplified in small schemes due to more significant time and resource constraints.

Others suggested that conflicts of interest, opaque fees and charging structures, and a limited market resulting in a lack of competitive tendering (especially for bundled services) made it difficult for trustees to deliver good governance.

Respondents made various suggestions that could help trustees engage with advisers and providers and focus on the key areas of investment and administration more effectively, including:

- regular adviser and administrator attendance at trustee meetings
- using service level agreements and regular monitoring of third-party performance
- managing adviser and provider conflicts of interest
- appointing trustees with a diverse mix of skills, knowledge and experience
- using sub-committees with the specialist knowledge to challenge the governance in these areas
- regular board effectiveness reviews
- agreeing roles, responsibilities and delegated authorities
- appointing an independent or professional trustee
- making use of independent procurement advisers and reviewing advisers

On conflicts of interests, respondents said these were inherent to pension boards and can result from individuals bringing valuable experience and knowledge to the board. Respondents considered that for these reasons, it would be difficult, or even inappropriate, to seek to eliminate potential conflicts entirely and that these could be effectively managed and mitigated through both the composition and processes of the trustee board. Suggestions included:

- open and transparent recruitment and selection of trustees to ensure a diverse mix of knowledge, skills, interests and motivation, including recruitment of independent trustees where appropriate
- chairs taking an active role to ensure views and concerns can be raised at meetings and conflicts of interest dealt with in a prompt and open fashion
- appropriate processes and protocols to identify, monitor and manage conflicts, and regular review of these processes – these should cover all key participants in the scheme, including advisers and providers

Respondents also offered ideas as to what we could do to further promote effective conflicts management. These included further promotion of our existing guidance (which was thought to be useful), providing best practice examples and further guidance on managing conflicts in specific circumstances (eg conflicts relating to master trusts or independent trustees), requiring annual reporting on how conflicts have been managed, and targeted intervention supported by the publication of intervention reports.

Unwilling/unable schemes

We asked what should be done with schemes unwilling or unable to deliver good governance and whether they should be required to exit the market or consolidate into better governed, probably, larger scale provision.

There was broad consensus among respondents that our primary focus should be on providing education and support for trustees, particularly those not meeting the standards we expect, and increased use of our enforcement powers targeted at poorly-run schemes.

The majority of respondents offered qualified support for consolidation. They thought it could help improve member outcomes but some also believed consolidation can be associated with potentially significant risks and practical difficulties. While many considered the consolidation of small, poorly-run DC schemes into quality master trusts to be possible, desirable and already taking place, many were concerned that the costs of consolidation should not fall on members.

Many were concerned that the costs of consolidation should not fall on members.

For DB schemes, differing benefit structures, the importance of continuing sponsor support, and issues around funding levels and s75 debts were seen as key barriers to amalgamation.

There was some support for leaving market forces alone to promote consolidation and for encouraging trustees to consider, through reporting and benchmarking, whether lack of scale was an issue and take steps accordingly. However, most respondents considered that legislative or regulatory intervention would be required to facilitate the consolidation process or guard against detrimental impacts. Suggestions to encourage consolidation of DC schemes included:

- simplify transfers without member consent
- replace actuarial certification with a 'long-term best-interests' test

- a statutory override of a scheme's trust deed and rules to allow trustees to trigger a wind-up of the scheme
- ensure regulation of master trusts is fit for purpose so there are quality schemes for members of small schemes to be transferred to

Other suggestions to improve scheme efficiency and governance included providing benchmarks or rankings to allow comparison of schemes, using more case studies, and facilitating collaboration between boards (for example, sharing services or pooled investments).

Education

Many respondents agreed we have an important role to play in supporting trustees boards to be effective. In addition to encouraging the activities and providing the guidance mentioned in the sections above, it was suggested that we could do the following:

- Encourage trustees to understand the benefits of good governance rather than seeing it as a compliance exercise.
- Provide further guidance and tools on soft skills, trustee appointments and induction, key roles and responsibilities, succession planning, board performance assessments, appointing and monitoring third-party advisers and service providers.
- Improve how we communicate TKU requirements, for instance regular communications emphasising the importance of TKU, including more targeted communications aimed at new trustees.
- Provide best practice examples, scenarios and case studies to bring guidance to life and help trustees understand its application in practical scenarios.
- Use more graphics and short summaries of guidance.
- Update the TKU framework and allow it to be more flexible.
- Provide more training for trustees, through seminars and webinars or encourage trustees to access the training offered by industry providers.
- Facilitate a trustee network to share knowledge and best practice.
- Set out clear expectations of advisers and providers and encourage them to provide clear accessible advice.

While the quality of our material (such as the Trustee toolkit) was praised, many respondents thought existing material was too voluminous or difficult to find and that consolidating, simplifying and reducing existing guidance and making the website easier to navigate would make information more accessible. Our DC code and guidance were cited as a good approach, supported by clear language and practical examples.

Most respondents supported our proposed approach of producing overarching guidance applicable across all schemes, arguing that common guidance on governance and effective boards would bring a welcome consistency across schemes and would be helpful for schemes with multiple benefit-types.

Some remained neutral and a minority did not agree overarching guidance would be useful, as it would not cater for scheme specifics.

All members have the right to expect that their retirement savings are being looked after properly.

What we will do next

Good governance matters – it is the bedrock of a well-run pension scheme. Having the right people, structures and processes in place to manage a scheme leads to effective decision-making and increases the likelihood that it will deliver good outcomes for members. Past research[2] has shown the 'poor-good' governance gap to be worth at least 1-2% of additional return per annum.

It's clear from our research and case experience that the quality of governance and administration is patchy and that not all schemes are meeting the standards we expect. We take the view that it is unacceptable that some members are at greater risk of poor outcomes in later life purely because they happen to have been employed by an employer with a poorly run pension scheme, and we are not prepared to stand by as a compromised, second class membership emerges. All members of occupational pension schemes have the right to expect that their retirement savings are being looked after properly by the trustees. In addition, poor trustee stewardship will impact the funding costs of DB schemes and translate into poor value for sponsoring employers. In short, poor governance and administration is not a victimless phenomenon – it's bad for members and it's bad for employers too.

2
'Pension Fund Governance Today: Strengths, Weaknesses, and Opportunities for Improvement', Financial Analysts Journal 2006.

3
See paragraph 44 at **www.tpr.gov.uk/code13** and **www.tpr.gov.uk/dc-policy**

4
See **www.tpr.gov.uk/trustee-board**

That is why we're determined to drive up standards of governance and administration, and the competence of those managing private sector DC, DB trust-based occupational pension schemes and public service schemes. We will do this in three ways, through:

- more targeted education and tools to raise the standards of poor trustees
- setting out clearly what we mean in practice by the higher standards we already expect of professional trustees[3] and the specific qualities and skills we expect chairs to bring to trustee boards[4]
- tougher enforcement against trustees who fail to meet the required standards

We are encouraged by the high level of engagement and support we've received on the 21st century trusteeship initiative. The responses to the discussion paper showed a wide range of opinions and ideas. These will help us shape our future regulatory approach.

Back to basics

We're not seeking to impose new standards of governance and administration but we expect trustees or managers who are not meeting the standards to start doing so, and after over ten years of our 'educate and enable' strategy, we now expect trustees who have so far failed to meet these standards to do so very quickly. We will focus on the fundamentals of good governance and the building blocks that need to be in place to ensure effective management of the scheme, such as:

- board competence (with greater focus on skills), including recruitment and succession planning, skills and knowledge assessments, performance reviews, action plans and ongoing training and development
- clear roles, responsibilities and accountabilities of key scheme participants (chairs, professional trustees, other trustees, scheme managers, pension board members, scheme secretaries, employers, advisers, service providers etc)
- effective governance structures and decision-making processes
- effective business planning

In particular, we'll set out clearly the standards we expect in practice of chairs and professional trustees, given the crucial role they play on boards. In the first part of next year, we also plan to clarify our definition of professional trustees as part of a consultation on our penalty policy. This does not detract from the vital role lay trustees play – the most effective boards have a diversity of skills, points of view and expertise to draw upon – and we will continue to expect lay trustees to meet standards and will support them to do so.

In addition, we'll focus on the key areas we think are vital for good member outcomes and which our research indicates trustees are finding challenging or are not sufficiently engaging with. This includes investment governance, conflicts of interest, administration and record-keeping. We're publishing extensive guidance on good investment governance for all pension schemes (building on the current DC guide) in the first part of next year.

We will signpost trustees, scheme managers and others to existing material and create further practical tools and products to help those managing pension schemes apply our messages to their own circumstances and take action (eg checklists, templates, best practice examples and case studies).

We note respondents' comments about the volume and accessibility of material on our website and agree that this is an area for improvement. We will start to make changes next year to streamline our guidance and improve the functionality of our website. In particular, we intend to consolidate some of our guidance into key overarching pieces of guidance to cover the principles or issues common to all pension schemes.

We will make better use of our data (for instance scheme return data, scheme return compliance patterns or research information) to segment schemes and trustees or managers so we target our efforts and resources on those schemes that pose higher risk or require more support. This will also enable us to tailor our messages and products to the characteristics or needs of our audience. We will also consider how we can use behavioural insight techniques to make our communications more effective.

Other key parties such as employers, advisers and service providers have their role to play in ensuring a scheme is well run. We will therefore consider how we can engage with those parties and their representative bodies to improve scheme governance.

We expect to start our education campaign in spring next year.

Enforcement

We'll take enforcement action where trustees or managers are unable or unwilling to meet the standards of governance and competence we expect, despite the additional support we provide. We will be updating our compliance and enforcement policy as necessary.

We expect trustees to meet basic administrative duties and have already fined trustees for failing to complete the scheme return, and for failing to prepare a chair's statement. We intend to look more closely at trustees who consistently fail to meet our expectations around broader competence and governance standards. We will consider using our powers more widely, including (but not limited to) penalty notices, improvement notices, independent trustee appointments and trustee prohibitions, where we find governance and administration standards are poor. To educate and help other trustees or managers improve standards we will publicise our regulatory actions through intervention reports under section 89 of the Pensions Act 2004.

The longer term

Many respondents have told us that mandatory qualifications are not the best way of ensuring and measuring board competence. We agree that, on their own, they are unlikely to address failures to comply with competence and governance expectations. We think a more holistic approach is needed. In the first instance, as we explained, we'll provide greater clarity on our expectations around board competence and good governance, supported by greater targeted enforcement. We'll then consider the evidence from our drive to improve standards of competence and governance as to whether a 'Fit and Proper' regime, including barriers to entry, may help, further taking into account the experience from the new master trust authorisation regime, IORP2 requirements and the experience of other regulators both here and abroad.

In parallel to refocusing our education and enforcement approach, we are considering what other solutions, such as consolidation and greater transparency, could help address governance and administration failings and raise standards.

We'll engage with DWP and industry to identify barriers to consolidation and how they can be overcome.

Consolidation

As part of our education and enforcement drive, we'll encourage trustees, particularly those of small DC schemes, to assess whether they fall short of the required standards and if they can't improve or find it difficult to achieve value for members, to consider whether alternatives such as consolidating their scheme into another scheme may be more beneficial.

We recognise, however, that consolidation is a complex issue, as highlighted in the responses, and that it's important to guard against member detriment. We'll engage with the Department for Work and Pensions (DWP) and industry to identify barriers to consolidation and how they can be overcome. We will explore the range of viable options available from shared service platforms, to consolidated trustee boards, to full scheme consolidation within, for example, authorised master trusts.

Reporting on governance

Greater accountability and transparency can improve board effectiveness and many respondents have advocated greater reporting on compliance with governance standards. We have recently announced that we would ask trustees to report on record-keeping in their scheme return to help improve standards and enable us to target our interventions more specifically at those failing in their duties. The new requirement for DC trustee boards to prepare a chair's statement outlining how the scheme meets good governance in areas such as TKU, investments and value for members will also encourage the trustees of these schemes to focus on scheme governance and board competence.

There is currently no such requirement for DB schemes. We'll consider with DWP how best to encourage DB schemes to deliver good governance and value for money for their sponsoring employer, and explore which framework – eg scheme return reporting or a more formal governance statement – may work best in the context of DB schemes' specific circumstances and existing reporting requirements.

Ongoing engagement

We'll continue to engage actively with government partners and industry, and welcome thoughts and comments on any aspect of pension scheme governance at 21Ctrustees@tpr.gov.uk.

Appendix 1

Discussion questions at a glance

1. There are currently no barriers to entry for professional trustees. Should there be? For example, should all professional trustees be required to be qualified or registered by a professional body?

2. Do you think it is the role of the chair of trustees to support trustees and use their leadership skills to improve the likelihood of appropriate scheme processes being put in place? Given the crucial role played by chairs, do you think more needs to be done to raise the standards of trustee chairmanship? For instance, do you think that chairs should be required to meet a minimum standard through having minimum qualifications or experience or belonging to a professional body?

3. Should the requirement to appoint a chair and report on compliance with governance standards be introduced for DB schemes?

4. How can we help trustees to be aware of, understand and apply the TKU framework?

5. Do you have any views as to how we can help new trustees bring their knowledge and skills up to the required standard within the statutory period? For instance would it be useful to make completion of the Trustee toolkit or other equivalent learning tool within six months mandatory? Or would the introduction of a six-month probationary period for new trustees help to meet standards of TKU? What are the difficulties associated with these options and how could these be solved?

6. How can trustees demonstrate they have the minimum level of competence required to fulfil their role? For instance, do you think holding relevant qualifications is the right way to demonstrate competence? What are the difficulties associated with this option and how could these be solved? Are there other options?

7. Do you have a view as to whether a CPD framework would assist trustees to meet the challenges of scheme governance? What are the difficulties associated with this option and how could they be solved?

8. What further education tools and products would you find useful to receive from us?

9. What do you think is the best way of managing conflicts of interests? How could the system be improved to reduce the likelihood of conflicts arising in the first place?

10. What do you think are the key challenges faced by trustees in engaging effectively with administration and investment governance and third party providers and advisers? What could we do to help them in addition to what we outline above?

11. What should be done with those schemes that are unwilling or unable to deliver good governance and member outcomes? In particular, should small schemes be encouraged or forced to exit the market or to consolidate into larger scale provision? Is regulatory intervention required to facilitate this or can it be achieved through existing market forces?

12. Would you find it useful to see overarching guidance covering issues common to all schemes, with more specific issues being covered in technical guidance?

13. Do you have any other thoughts on the issues raised in this paper or on how standards of trusteeship and quality of governance?

Appendix 2

List of respondents

100 Group Pensions Committee

Allan Martin

Allen & Overy LLP

Association of Member-nominated Trustees (AMNT)

Andrew Ramsay

Aon Hewitt

Association of Pension Lawyers (APL)

Association of Professional Pension Trustees (APPT)

Baker & McKenzie

Barnet Waddingham

BESTrustees

Bob Jackson

BT Pension Scheme Management Limited

Capita

Capital Cranfield Trustees

Cardano

Centre for Financial Regulation and Innovation (University of Strathclyde Business School)

Certified Financial Analyst (CFA) Society of the UK

ClientEarth

CMS Cameron McKenna LLP

Dalriada Trustees

David Blair

Derek Scott

Doug Hunt

Eversheds LLP

Frank Purdy

Frank Shore

Glenn Fallows

Gordon Blum

Gowling WLG

HR Trustees

Hymans Robertson LLP

Independent Trustee Services

Institute of Chartered Accountants in England and Wales (ICAEW)

James Meenan

Jeffrey Carruthers

JLT Employee Benefits

Kingfisher pension scheme

Lloyds Banking Group Pensions Trustees Limited

mallowstreet

Martin Vasey

Mercer

Muse Advisory

Nick Hogwood

Nim Maradas

NOW: Pensions

Peter Sparkes

Pensions and Lifetime Savings Association (PLSA)

Pensions Management Institute (PMI)

Pi Consulting

PSIT Independent Trustees

PTL

PwC

Railways Pension Trustee Company Limited (RPTCL) and RPMI Limited (RPMI)

Rothesay Life

Sacker & Partners LLP

Sarah Franklin

ShareAction

Society of Pension Professionals (SPP)

Squire Patton Boggs (UK) LLP and The Trustee Corporation Limited

Stella Girvin

Superannuation Arrangements of the University of London (SAUL) Trustee Company

Susan Sayce, Norwich Business School

Tesco

The Law Debenture Pension Trust Corporation

The People's Pension

Trades Union Congress (TUC)

Transparency Task Force

UK Power Networks

UK Sustainable Investment and Finance Association (UKSIF)

UNPRI (Principles for Responsible Investment)

Welplan Pension Trustees

Whitbread Group plc

Willis Towers Watson

How to contact us

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www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

21st Century Trusteeship and Governance
Discussion paper response

The Pensions Regulator

ITEM 8

London Borough of Enfield

REPORT TO;	**Local Pension Board 4TH October 2018**
SUBJECT:	**Pensions Regulator Survey**
LEAD OFFICER	**Paul Reddaway**

1. **RECOMMENDATIONS**

1.1 To note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 The Pensions Regulator has undertaken a survey of public service pension providers. This looked at governance and administration. This report summarises the Regulator's commentary on the results of the survey.

3 DETAIL

3.1 The Pension Regulator regulates 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.

3.2 The Regulator's Code of Practice no. 14 sets out the standards of conduct and practice expected from public service pension schemes. To help focus their efforts, they 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 they 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. Responses were received from 191 of the 207 public service pension schemes, covering 98% of memberships. This allowed robust conclusions from the results. This policy summary also draws from the engagement undertaken with schemes over the past year through casework, board meetings, training sessions, conferences and speaking events.

3.3 Their report sets out how they have interpreted the findings, their expectations of those involved in running the schemes and what will happen over the next year to address these issues. The summary of results and the Regulator's commentary is brief and attached as an appendix to this report. Readers are directed to the Pensions Regulator's website for the fully detailed document: http://www.thepensionsregulator.gov.uk/docs/public-service-research-2018.pdf.

3.4 The survey suggests that the top risks are around scheme governance, record-keeping and internal controls. The Regulator however does note that there has been an improvement in the number of annual benefit statements sent out on time and an increased engagement from scheme managers and pension boards, both being considered positives worth highlighting.

3.5 There is a concern though that with local authorities the improvement process has stalled and the Regulator states that activity will focus on this during the coming year.

Scheme governance

3.6 The Regulator reports encouraging improvements and focusses this section on the six key processes that have been monitored:

- policy to manage conflicts of interest;
- procedures to assess and manage risks;
- procedures to identify, assess and report breaches of the law;
- processes to monitor member records for accuracy and completeness;
- access to knowledge, understanding & skills needed to run scheme; and
- process for resolving payment issues & report failures to TPR.

3.7 There have been marked improvements in having documented policies to manage conflicts of interest and assessing and managing risks but statistically significant weakness in processes to monitor member records for accuracy and completeness. The survey highlighted that scheme managers are not always working well with Pension Boards. One measure of the commitment to scheme governance is the frequency of board meetings, which may indicate a superficial assessment of the challenges facing the scheme.

Record Keeping

3.8 All schemes should undertake an annual data review. It is not considered feasible to address all errors and omissions immediately and the approach this authority has adopted, in common with many others, is to prioritise rectification in a structured, sequential fashion. Key to the success of this approach is the existence of a robust improvement plan. The performance of the scheme administrators should be considered at every Board meeting.

Internal Controls

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

3.10 Finally, the Regulator highlights the fact that public service schemes must provide annual benefit statements to active members by a 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. The Regulator stated that they expect schemes to have made significant progress by now and will have much less tolerance for shortcomings this year. In summary, the Pensions Regulator is sending out a clear message that action, in the form of using enforcement powers, is more likely where there are short-comings in following procedures to assess and manage risk and also reporting breaches of law.

APPENDICES: Appendix A: Public service governance and administration survey. Summary of results and commentary. The Pensions Regulator, May 2018

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Public service governance and administration survey

Summary of results and commentary

May 2018

The Pensions Regulator

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**, 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 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**.

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

1
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**

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[2] 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.

2
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**.

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**), we will continue to publish reports of our regulatory activities - including enforcement activity - to encourage higher standards.

How to contact us

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www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

Public service governance and administration survey
Summary of results and commentary

The Pensions Regulator

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