

PENSION BOARD			
REPORT TITLE	Compliance Review Results		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Principal Accountant – Treasury & Pensions		
CLASS	Part 1	Date:	May 2019

Lateness: This report was not available for the original dispatch date due to late receipt of the results of the review.

Urgency: The report is urgent and cannot wait until the next meeting of the Pensions Board, to enable members to consider the results of the review and agree an action plan.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. PURPOSE

1.1. The purpose of this report is to:

1.1.1. present the results of the compliance review undertaken by Aon;

1.1.2. highlight and explain areas identified as non-compliant; and

1.1.3. identify and prioritise for redress the key areas of non-compliance/partial compliance to the Pension Regulator's ('TPR') Code of Practice No 14: Governance and Administration of Public Service Pension Schemes ('the Code'), and Scheme Advisory Board guidance on the creation and operation of Local Pension Boards ('the Guidance').

2. RECOMMENDATIONS

2.1. Members are recommended to:

2.1.1. Review the compliance checklist included at Appendix 1 and note the contents of this summary report;

2.1.2. Agree with the priority items for redress identified by officers at section 3.9;

2.1.3. Agree with the action plan for addressing those items at Appendix 2; and

2.1.4. Agree to address non-compliance internally in the first instance before seeking external assistance, as per section 5.3.

3. COMPLIANCE REVIEW

Background and Process

3.1. At the meeting of the Board held in January 2019, officers presented Board members with a report outlining three scopes and quotes for the undertaking of a compliance review of the pension fund in relation to the Code and other relevant guidance. The Board recommended the procurement of Aon, and as such officers proceeded to engage and undertake the review with Aon's specialist team.

3.2. In late March 2019 representatives from Aon visited the Council and spent a day with pension fund officers asking questions and seeking evidence to satisfy the areas of best practice set out in the Code. Further queries were made by email in the following weeks, and the final results were delivered on the 25 April.

Report Format

3.3. The results of the review are attached at Appendix 1. The report uses a red-yellow-green approach to indicate non-compliance, partial compliance, or full compliance, and a summary dashboard on page three presents a snapshot of compliance across all eleven areas tested.

3.4. Each separate area of the Code is then explored in detail within the report, broken down into a series of requirements where the Council's approach is explained and the level of compliance indicated. Additional notes, recommendations, and actions are shown next to each requirement based on Aon's experience and understanding of the Code and Lewisham's current practices.

3.5. As noted in the report's introduction, the Code applies equally to all public service pension schemes and is therefore generic in nature. As a result, there may be a number of elements that are more specifically stipulated within LGPS legislation, although it is not the purpose of this compliance checklist to consider that level of detail.

Headline Results

3.6. There are 98 separate requirements measured against in the report; 83 relating to the Code and 15 relating to the Scheme Advisory Board's Guidance (one requirement under section G is not relevant to this Authority and as such compliance cannot be measured).

3.7. Table A below summarises the results of the review by numbers, showing 84% full or partial compliance against the Code and Guidance. Of the 98 requirements measured against, there are 16 instances of non-compliance identified by Aon.

Table A – Summary of Compliance

Report Section	No. of Requirements	Level of Compliance		
		Fully Compliant	Partially Compliant	Non-Compliant
A: Reporting Duties	4	3	1	-
B: Knowledge and Understanding	12	2	10	-
C: Conflicts of Interest	11	7	4	-
D: Publishing Information About Schemes	4	1	2	1
E: Managing Risk and Internal Controls	8	-	5	3
F: Maintaining Accurate Member Data	11	8	2	1
G: Maintaining Contributions	8	3	4	1
H: Providing Information to Members and Others	13	5	7	1
I: Internal Dispute Resolution	9	3	3	3
J: Reporting Breaches of the Law	3	-	1	2
K: Scheme Advisory Board Guidance	15	4	7	4
Totals	98	36	46	16
% Compliance	100%	37%	47%	16%

Key Areas of Non-Compliance

- 3.8. Many items identified as partially compliant can be readily addressed and resolved by officers, such as ensuring policies and procedures are uploaded to the Fund's website, ensuring those policies are dated and reviewed regularly, and updating those policies where they fail to fall completely in line with the regulations.
- 3.9. Additionally, many partially compliant and non-compliant items are duplicated across the report due to falling under more than one section of the Code or Guidance; as a result, the main areas of non-compliance can be grouped into four key findings:
1. The requirement to create a Risk Policy, a more comprehensive Risk Register, and to more regularly review risks at Board meetings (see E1, E2, E6, K6);
 2. The requirement to update the Internal Dispute Resolution Process (IDPR) to ensure it is in line with current regulations and is regularly reviewed (see I2, I3, I8);
 3. The requirement to create a pension fund specific Governance Compliance Statement (see B6, K6, K15); and

4. The requirement to develop and adopt a Breaches of the Law Policy, to ensure this documents processes to assess payment failures of a material nature and when to report them to the Regulator, and to provide appropriate breaches training (See G8, J1, J2, K6, K13).
- 3.10. Officers will prioritise these four areas to address and work towards achieving a higher level of compliance. In the main they require the creation and updating of policies, and where possible templates provided by the TPR or other best practice guidance will be used to develop these policies and bring them to the Board for approval and formal adoption.

Summary by Section

- 3.11. The following paragraphs summarise the other main findings of partial and non-compliance, where recommendations for improvement action have been put forward by Aon.

B: Knowledge and Understanding – there should be formal documentation of new member induction processes, a measurable requirement for training hours should be put in place for members, and a delegated person should be documented as responsible for developing and implementing the learning framework.

D: Publishing Information about Schemes – more information about Pension Board and Investment Committee members should be published on the Fund's website in line with the requirements of the Code.

E: Managing Risk and Internal Controls – audit findings should be reported to both the Investment Committee and Pension Board to ensure adequate review of information provided, an Administration Strategy should be created, and internal procedure notes should be created to document various Lewisham specific processes in relation to the administration and management of the pension fund.

F: Maintaining Accurate Member Data – a Data Improvement Plan should be created and monitored with a defined end date, to address areas where member data is incomplete or potentially inaccurate.

G: Maintaining Contributions – processes for monthly payroll/contribution checks should be documented and efforts made to reduce manual data uploads.

H: Providing Information to Members and Others – Annual Benefit Statements should be reviewed to ensure their content is in line with HMT Directions, KPIs should be developed and monitored for the timely issue of benefit statements, and a plan should be put in place to address the current communication backlog which in some cases means the legal timescales are not being met. In addition, member communication in general needs to be improved and effectively monitored, with statistics to monitor engagement published online.

I: Internal Dispute Resolution – in addition to the findings identified in section 3.9 above, the Authority should ensure that all employers within the pension fund are fully aware of the appropriate process for IDR, which should be included in all relevant communication.

K: Scheme Advisory Board Guidance – the Board’s Knowledge and Understanding framework should clearly set out the objectives of the policy and how training will be developed and monitored, including how the information in members’ learning needs analyses is collated and used. More internal training should be provided, including specific training on conduct and conflicts, and the Board should be made aware of the Authority’s processes for dealing with Freedom of Information requests.

- 3.12. These additional areas of partial and non-compliance will be addressed over the next year such that, on next review, progress against those areas can be measured and reported to the Board.

4. SUMMARY ACTION PLAN

- 4.1. Appendix 2 suggests an action plan and timeline for prioritising and addressing the four key areas of non-compliance identified at section 3.9.

5. POST REVIEW

- 5.1. The compliance checker model provided and completed by Aon has now been passed to officers and is the Authority’s to own and update going forward. The model has an expiry date of April 2020, although at that point it needs to be returned to Aon for them to check it still complies with their internal standards; it is then returned to the Authority with a new expiry date. These checks are included in the purchase price of the model.
- 5.2. Aon are able to provide assistance in those areas identified as non-compliant should the Board or officers deem it useful or necessary, at cost. Areas where they can assist creating something from scratch include the Governance Compliance Statement, the Breaches Procedure/Policy, the Administration Strategy, and Data Improvement Plan. They are also able to assist with updating our Training Policy, Risk Register and IDPR Policy.
- 5.3. Officers recommend that work is undertaken internally to address areas of non-compliance within the Authority as a first step where possible, and should difficulties present themselves or the Board are not content with the results/would prefer external assurance, then assistance should be sought from Aon or another external provider at that point.
- 5.4. Aon recommend that the compliance check is undertaken annually. As advised in the January procurement paper, Aon are able to provide an alternative version of the model which will monitor all changes when the report is updated and show direction of travel (i.e. those items which have moved from non-compliant to partially compliant or compliant, or vice versa.). Should this option appeal to the Board then details around timescales and costs can be provided ahead of undertaking the next review.
- 5.5. In addition, Aon have suggested they can provide training on a particular area if requested, such as Breaches training (one of the key items of non-compliance identified in the action plan at Appendix 2). Officers will consider the best resource for this training per the action plan and notify the Board accordingly.

6. FINANCIAL IMPLICATIONS

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

7. LEGAL IMPLICATIONS

7.1. Section 5 of the Public Service Pensions Act 2013 and Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended) makes provision for the establishment of a Pension Board, with responsibility for assisting the scheme manager in relation to:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- Such other matters as the scheme regulations may specify.

7.2. Each section of the compliance tool includes a summary of the legal requirements in relation to that particular area, and the Board should note and be aware of those requirements in the context of their responsibilities.

8. CRIME AND DISORDER IMPLICATIONS

8.1. There are no crime and disorder implications directly arising from this report.

9. EQUALITIES IMPLICATIONS

9.1. There are no equalities implications directly arising from this report.

10. ENVIRONMENTAL IMPLICATIONS

10.1. There are no environmental implications directly arising from this report.

APPENDICES

Appendix 1 – Pension Regulator’s & Scheme Advisory Board Compliance Checklist
Appendix 2 – Action Plan

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

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