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|  | <b>Pension Fund Committee</b><br><b>29 July 2019</b>  |
|   | <b>Title</b> <b>Regulatory Intervention</b>   |
| <b>Report of</b>  | Director of Finance   |
| <b>Wards</b>  | N/A   |
| <b>Status</b>   | Public  |
| <b>Urgent</b>   | No  |
| <b>Key</b>  | No  |
| <b>Enclosures</b>   | Appendix 1 – Draft Improvement Notice<br>Appendix 2 – March 2019 Internal Audit Report<br>Appendix 3 – Plan for annual benefit statements |
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## Summary

The Pension Regulator (TPR) has issued a draft improvement notice to London Borough of Barnet to address weaknesses in the processes and controls within the administration of the Barnet Pension Fund. TPR has given a deadline of 31<sup>st</sup> August 2019 to have implemented improvements in three areas. This paper discusses the areas of improvement and actions underway to address them.

## Officers Recommendations

The Committee are asked to note the content of the Draft Improvement Notice and the actions being taken to comply.

## 1. WHY THIS REPORT IS NEEDED

- 1.1 TPR has issued LBB on 19<sup>th</sup> June 2019 with a draft improvement notice and has stipulated improvements in three main areas by the 31 August 2019.
- 1.2 The Council has 28 days from 19 June to appeal the draft notice. It does not intend to appeal.

### Required Improvements

- 1.3 The steps required by TPR to comply with the draft Improvement Notice are set out in appendix 1. These are:
- (1) The Scheme Manager must by **31 August 2019** have implemented monthly monitoring of contributions and be able to demonstrate that an analytical review is being undertaken in line with the actions agreed in the March 2019 Internal Audit Report carried out by the Fund (the Report). **By this date** the Scheme Manager must have demonstrated to TPR that it has implemented a series of checks on the data received in End of Year Certificates, in line with the agreed action in the March 2019 Internal Audit Report, and that the checks have been carried out. These actions relate to parts 1 b and 1 d of the Report (appendix 2).
  - (2) The Scheme Manager must by **31 August 2019** take all steps necessary to ensure it has completed the first two phases of the Conditional Data Cleanse Plan it provided to TPR on 4 January 2019.
  - (3) The Scheme Manager must by **31 August 2019** have taken all steps necessary to implement and operate adequate internal controls to provide accurate annual benefit statements for financial year 2018/19. This will be evidenced by the Scheme Manager demonstrating that a process is in place to test the quality of calculations used to populate annual benefit statements; that the process was utilised; and that corrections were made where calculation errors were identified. This also relates to action 6b of the March 2019 Report.

### Action Plan

- 1.4 The required actions set out by TPR have been the subject of discussions and planning between the Council and Capita for some time. Council officers have been meeting with the Capita administration team on site (at Darlington) to work through the various action plans with additional regular meetings at senior management level. Capita has prepared a remediation plan that seeks to address the wider process and control issues that have been identified. This plan is in discussion with Barnet Management and will be shared with the Committee when it is agreed.

- 1.5 Specific comments on the areas highlighted by TPR are given below.

#### Contribution Monitoring

- 1.6 The required improvement is that there are checks in place to validate that the correct employers' contribution rate has been applied, that variations in contributions are identified and justified and that late / inaccurate contributions are recorded on the breaches register and considered for reporting to TPR.
- 1.7 Capita have redesigned the forms that employers send each month reporting contributions to include pensionable earnings to enable the above checks to be performed. They have also implemented analytical review of contributions received compared to previous month. A review of the process indicates that 37 of the 88 employers used the new forms for April contributions and that the checking process needs to be expanded in some areas.
- 1.8 The second part of TPR's requirement relates to year end data from employers (mainly earnings), which is required for both the triennial valuation and annual benefit statement. Data has been received from all, apart from three employers, and has been verified by Capita. It will be further checked by validation through the actuary's (Hymans) data portal. Early indications are that the number of critical warning notices has been substantially reduced.

#### Data Quality

- 1.9 The second test from TPR concerns the quality of the data, in particular the resolution of the number of warnings when the data quality was tested. The Committee will be aware that there has been intensive work on the March 2018 data and the number of critical errors is more than 90% reduced. Phase 1 (March 2018 data) has been concluded and the emphasis has switched to phase 2, which is March 2019 data. This is currently being evaluated through the Actuary's portal and in addition it is planned to validate through Capita's independent checking system. An update on progress will be given by the Actuary at the meeting.

#### Annual Benefit Statements

- 1.10 Attached is Capita's plan for the production and issue of annual benefit statements by 31<sup>st</sup> August (Appendix 3). The plan incorporates additional checking of data quality compared with previous years and has been robustly scrutinised. Capita remain confident that the timetable will be achieved.
- 1.11 As TPR has noted, the issues identified are part of a wider concern on the adequacy of processes and internal controls. The Council is discussing with Capita the undertaking of an independent review of the administration processes later in 2019 to provide assurance that all appropriate controls are in place and working effectively.

## **2. REASONS FOR RECOMMENDATIONS**

2.1 The Committee require assurance that the pension fund is meeting its statutory obligations.

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

3.1 Not applicable in the context of this report.

### **4. POST DECISION IMPLEMENTATION**

4.1 Not applicable in the context of this report.

### **5. IMPLICATIONS OF DECISION**

#### **5.1 Corporate Priorities and Performance**

5.1.1 The Committee supports the delivery of the Council's strategic objectives and priorities as expressed through the Corporate Plan, by assisting in maintaining the integrity of the pension Fund by monitoring the administration and compliance of the Fund.

#### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 Not applicable in the context of this report.

#### **5.3 Social Value**

5.3.1 Not applicable in the context of this report.

#### **5.4 Legal and Constitutional References**

5.4.1 The Local Government Pension Scheme Regulations 2013 place responsibility for the local administration of pensions and other benefits under these Regulations on the administering authority, which is the London Borough of Barnet.

#### **5.5 Risk Management**

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met. Good governance is essential to managing the risks of the pension fund.

#### **5.6 Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and

any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements will benefit everyone who contributes to the fund.

## 5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

## 5.8 **Consultation and Engagement**

5.8.1 Where relevant, consultation and engagement is discussed in the paper.

## 5.9 **Insight**

5.9.1 Not applicable in the context of this report.

## 6. **BACKGROUND PAPERS**

6.1 None