

**NORTHUMBERLAND COUNTY COUNCIL PENSION FUND  
Pension Fund Panel Meeting 28 February 2020**

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**The Pensions Regulator’s 2018/19 cohort review**

**“Governance and administration risks in public service pension schemes: an engagement report**

*Findings from our engagement with 10 local government funds, selected from across the UK, to understand scheme managers’ approaches to a number of key risks. As part of each engagement we fed back on good practice and suggested improvements that could be made.*

*The engagement took place between October 2018 and July 2019 following the results of our annual governance and administration survey, in which we identified that improvements being made across the Local Government Pension Scheme (LGPS) had slowed down. We were pleased to note that scheme managers were already sharing good practice with their LGPS peers and hope that working with us offered scheme managers a new perspective on their funds.*

*We carried out this review at a high level based on meetings with scheme managers to understand the challenges they face. The meetings were supplemented by a review of some fund documentation and examples of communications sent to members, prospective members and beneficiaries.*

*It is not a comprehensive evaluation of the funds’ operations and is not intended to replace audit requirements, nor is it to be considered as regulatory assurance or an endorsement of the fund by The Pensions Regulator (TPR).”*

<b>Key</b>	<b>NCCPF:</b>	<b>the Scheme Manager</b>
	<b>STC Administration:</b>	<b>the shared administration service carried out by STC on behalf of NCCPF and TWPF</b>

<b>Recommendation</b>	<b>Response</b>
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**Area of focus: Record-keeping**

1. Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate.	<p>As part of GDPR compliance STC Admin undertook a data audit.</p> <p>Annual Common and Scheme Specific reviews are in place. An ongoing data improvement plan is in place this is reviewed regularly and tasks prioritised as appropriate.</p>
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Recommendation	Response
<p>2. The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found.</p>	<p>Annual Common and Scheme Specific reviews are in place. An ongoing data improvement plan is in place this is reviewed regularly and tasks are prioritised as appropriate.</p> <p>Reports on a data quality and improvement plans are provided to the Board.</p>
<p>3. Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the PAS and ensure it will stand up to challenges from employers.</p>	<p>NCCPF's PAS, adopted in January 2018, mirrors TWPF's PAS. It sets out employer responsibilities clearly.</p>

**Area of focus: Internal controls**

<p>4. A risk register should be in place and cover all potential risk areas. It should be regularly reviewed by the pension board.</p>	<p>NCCPF's risk register covers all known risk areas. It was reviewed by the Board in July 2019. Merger risk register was reviewed by the Board in October 2019.</p>
<p>5. The scheme manager should take a holistic view to risks and understand how they are connected.</p>	<p>NCCPF takes a holistic view of risks and regularly discusses risk with STC Administration.</p>
<p>6. The pension board should have good oversight of the risks and review these at each pension board meeting.</p>	<p>The Board considers risk at each of its quarterly meetings.</p>
<p>7. Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels.</p>	<p>Process notes are in place and updated. STC Admin strives to prevent silos and actively encourages cross working and knowledge sharing. Process map within the administration system guides the work through. User manuals are also in place.</p>

Recommendation	Response
8. The scheme manager should ensure all processes are documented and reviewed on a regular basis.	Process map guides the work through the pension administration system. Process notes and guidance notes are maintained.
9. Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate.	Minutes of Panel and Board meetings are readily available. NCCPF's Annual Action Plan also records agreed actions.

**Area of focus: Administrators**

10. Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should agreed standards not be met.	STC Admin works toward compliance with Disclosure target. In addition it has set local performance indicators. These are under review and will be enhanced to include performance targets in line with CIPFA guidance.
11. Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator.	The Shared Service Agreement, effective from Jan 2018, is for 12 years with options to extend.
12. It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided.	The Head of STC Administration (or a substitute) attends Board meetings, and has done so since the start of the shared service.
13. Scheme managers should hold regular meetings with their service providers to monitor performance.	Quarterly meetings (at officer level) are held to review the service.

Recommendation	Response
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**Area of focus: Member communication**

14. Information sent to members should be clear, precise and free from jargon.	STC Admin adopts the principles of Plain English.
15. There should be senior oversight of communications sent to members and prospective members.	All communications are reviewed by Senior officers and management.
16. It is often helpful for scheme managers to measure the effectiveness of their communication with savers, e.g. measuring website traffic and running surveys.	STC Admin uses Google Analytics to measure web traffic. This is a recent development and reporting will improve through time. Member surveys are also used.

**Area of focus: Internal Dispute Resolution Procedure (IDRP)**

17. There should be a clear internal policy on how to handle complaints, including escalation to suitable senior members of staff.	NCCPF (in effect) adopted TWPF's IDRP policy at the start of the shared service.
18. People entitled to use the IDRP should be given clear information about how it operates.	The IDRP leaflet explains the process clearly. It was reviewed by the Board in July 2019.
19. This information should be easily available, eg on the fund website.	The IDRP leaflet is available from NCCPF's and TWPF's websites.
20. The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house.	A summary of IDRP complaints and outcomes known to the administering authority were brought to the Board in July 2019. Where a stage 1 appeal (conducted by WYPF) is against the employer and referred back to the employer, the administering authority may not be aware of the outcome.
21. Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.	Analysis of IDRP outcomes carried out in July 2019 did not indicate the need for any changes to improve operations.

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**Area of focus: pension boards**

22. The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance.	Training takes place on a timely basis, internal and external training opportunities are offered to members, training records are kept, and a TNA (by individual) is undertaken.
23. Individual pension board member training and training needs should be assessed and clearly recorded.	As above.
24. The pension board should meet an appropriate number of times a year, at least quarterly.	The Board meets quarterly. It can also hold meetings by email in between the quarterly meetings if necessary.

<b>Recommendation</b>	<b>Response</b>
25. Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager.	The Board's ToR contains procedures to deal with this scenario.
26. Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.	NCCPF is aware of this risk and takes pre-emptive action, where possible.
27. Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund.	The Board Chair attends Panel meetings and has an annual meeting with the S151 Officer.
28. The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency.	The Board Chair attends Panel meetings and receives all papers. The Panel Chair has attended Board meetings and receives all papers. The Board feeds back outcomes and recommendations to the Panel on a quarterly basis.
29. Pension board members should be fully engaged and challenge parties where appropriate.	Board members are fully engaged and provide effective challenge to NCCPF and STC Administration.

**Area of focus: Employers and contributions**

30. Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus.	NCCPF undertakes covenant risk reviews every three years, and more frequently for "at risk" employers, and when new information comes to light.
31. Employer solvency should be considered on an ongoing basis and not just at the time of each valuation.	As above.

Recommendation	Response
32. Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier.	NCCPF engages as soon as officers are aware of a change of payroll provider.
33. Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations.	NCCPF has very few employers that could exit NCCPF without a successor body. Exits are handled on a case by case basis to maximise recovery of deficit.
34. Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees.	NCCPF requests a bond in certain circumstances, and is aware of the pros and cons of the available options.
35. Scheme managers should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security.	Where relevant, NCCPF has considered different security types, recognising the limitations and cost of maintaining security for certain options.
36. Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets.	To date, all NCCPF employers have paid their contributions on time, or at worst, a few days late.
37. Where security is in place, Scheme Managers should have a policy on when the security should be triggered.	NCCPF has only one bond in place. Renewal has been chased by STC Administration.

**Area of focus: Cyber security**

38. Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register.	Cyber security and controls feature on TWPF's (and NCCPF's) risk register which is reviewed quarterly. Regular reports and training is provided. STC Admin works closely with STC's ICT service who has responsibility for the network.
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Recommendation	Response
39. Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks.	Regular penetration testing is in place. A test is undertaken each time new web software is uploaded into the live system. STC (and NCC) is public service network compliant and adheres to Government policy and guidance.
40. Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the procedure and ensure the fund's requirements are met.	STC Admin works closely with STC's ICT service and meets on regular basis. Policies are understood with assurances sought by STC Admin.
41. Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data.	STC Admin has requested this information from its suppliers.

**Area of focus: Internal fraud and false claims**

42. Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud.	STC Admin participates in the National Fraud Initiative. Fraud is reviewed within the Audit Program.
43. A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment.	A two signature system by authorised users is in place .Within the pension administration system all processes and payments are check by another individual. All transactions and data changes have an auditable trail.
44. A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver.	STC Admin reviews each case on an individual basis. Senior managers are involved in the decision making process on action taken.
45. Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence.	Each case is reviewed for lessons learnt and actions put in place.

<b>Recommendation</b>	<b>Response</b>
46. When paper records are being used they should be held securely to prevent the risk of loss or mis-appropriation.	STC Admin stores all information electronically and securely. However if paper is used policies and procedures are in place for safe storage. STC Admin operates a clear desk policy and all officers take responsibility for complying with this. Monitoring of the policy takes place.