

## Powys Pensions Board

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Meeting Venue  
**Committee Room B - County Hall,  
Llandrindod Wells, Powys**

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Meeting Date  
**Friday, 14 July 2017**

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Meeting Time  
**10.00 am**

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County Hall  
Llandrindod Wells  
Powys  
LD1 5LG

For further information please contact  
Carol Johnson,  
Democratic Services Officer  
carol.johnson@powys.gov.uk

7<sup>th</sup> July, 2017

### AGENDA

<b>1.</b>	<b>APOLOGIES</b>
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To receive apologies for absence.

<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>
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To receive any declarations of interest.

<b>3.</b>	<b>MINUTES OF THE BOARD</b>
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To authorise the Chair to sign the minutes of the previous meeting of the Board held on 10<sup>th</sup> March, 2017 as a correct record.

(Pages 5 - 12)

<b>4.</b>	<b>MATTERS ARISING</b>
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4.1. **Review of Appendix A to the Investment Strategy Statement**

(Pages 13 - 28)

4.2. **Further Explanation re advice received in relation to Hedge Funds**

4.3. **Board Member Indemnity**

4.4. **Review of Communications Strategy Statement**

(Pages 29 - 36)

4.5. **Exercise of Voting Rights**

<b>5.</b>	<b>CHAIRMAN'S ANNOUNCEMENTS</b>
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<b>6.</b>	<b>MINUTES OF PENSIONS AND INVESTMENT COMMITTEE</b>
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To receive the draft minutes of the Pensions and Investment Committee held on 10<sup>th</sup> July, 2017.

(To Follow)

<b>7.</b>	<b>REVIEW OF COMPLIANCE WITH TPR CODE 14</b>
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(Pages 37 - 104)

<b>8.</b>	<b>REVIEW OF RISK REGISTER [STANDING ITEMS]</b>
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- a) PEN030 – amended to include additional controls including the role of a custodian
- b) Legal Status of Pooled Funds
- c) Desktop Review of Current Investment Managers
- d) PEN011 – amended as recommended by Board
- e) PEN013 – amended as recommended by Board
- f) PEN019 – amended as recommended by Board
- g) Admitted Body Insolvency Risk

(Pages 105 - 112)

<b>9.</b>	<b>DATA QUALITY TESTING PROCEDURE POLICY</b>
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(Pages 113 - 122)

<b>10.</b>	<b>WEBSITE CONTENT RE BOARD</b>
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<b>11.</b>	<b>WALES POOL - INVESTMENT POOLING UPDATE [STANDING ITEM]</b>
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<b>12.</b>	<b>AUDIT REPORTS [STANDING ITEM]</b>
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<b>13.</b>	<b>CESSATION OF CONTRACTING OUT - UPDATE [STANDING ITEM]</b>
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<b>14.</b>	<b>BOARD MEMBER TRAINING [STANDING ITEM]</b>
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<b>15.</b>	<b>FUTURE BOARD MEETINGS</b>
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Future meeting dates:

20th October 2017

12th January 2018

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**MINUTES OF A MEETING OF THE POWYS PENSIONS BOARD HELD AT  
COMMITTEE ROOM B - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON  
FRIDAY, 10 MARCH 2017**

## PRESENT

Gerard Moore (Chair)

John Byrne and Mick Hutchison (Member Representatives)

Geoff Petty and Wayne Thomas (Employers Representatives)

Joe Rollin (Secretary to the Board)

Chris Hurst, Pension Administration Manager

<b>1.</b>	<b>APOLOGIES</b>	<b>1</b>
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Apologies for absence were received from Dan Paley Financial Reporting and Policy Accountant.

<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	<b>2</b>
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The Chair advised he was an Associate in The Chartered Institute of Public Finance and Accountancy [CIPFA] and declared an interest if reference was made to CIPFA when discussing the Board's training.

<b>3.</b>	<b>MINUTES</b>	<b>3</b>
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The minutes of the last meeting held on 6<sup>th</sup> January, 2017 were agreed as a correct record.

<b>4.</b>	<b>MATTERS ARISING</b>	<b>4</b>
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## 4.1. Pensioner Payroll

The Board received a report on the arrangements in place to ensure pensioners were paid where there was a failure of the payroll system and mechanisms in place to cover any costs incurred by pensioners in such situations.

<b>RESOLVED</b>	<b>Reason for Decision:</b>
<b>That the Board notes the risk controls in place to ensure the payment of pensioners and the arrangements for dealing with additional costs incurred by pensioners where failures occur.</b>	<b>As per report.</b>

## 4.2. Review of Governance Policy and Compliance Statement

The Committee received the Governance Policy and Compliance Statement.

The Chair stated that the governance process of the Board having an opportunity to consider such documents prior to their consideration by the Pensions and Investment Committee was an appropriate function of the Board. The Board noted the document.

4.3. Review of Appendix A to the Investment Strategy

The Secretary advised that Appendix A of the Investment Strategy would be considered at the next Pension and Investment Committee. The Myners Compliance specified a number of principles which set a minimum standard for Funds. It was noted that this version of Appendix A would replace the first section of Appendix A [page 62 of the agenda pack] of the Investment Strategy Statement [ISS].

The Board noted that the ISS as currently drafted had been approved by the Pensions and Investment Committee at its last meeting and that the latter had agreed that it be delegated to the Section 151 Officer to make any minor changes, prior to publication on 1<sup>st</sup> April, 2017.

After discussion it was agreed that cross references should be included in the document to relevant sections of the ISS and Fund Strategy Statement [FSS]. It was agreed that the last sentence of Principle 4 needed to be reworded.

<b>RESOLVED</b>	<b>Action:</b>
<p><b>That the Secretary:</b></p> <ul style="list-style-type: none"> <li><b>i. redrafts Appendix A to include cross references to relevant sections of the ISS the FSS and that the last sentence of Principle 4 be reworded and</b></li> <li><b>ii. circulates the new draft to the Board for checking prior to its inclusion in the ISS from April 2017.</b></li> </ul>	<b>Secretary</b>

The Chair advised he would provide an Annual Report at the next meeting.

4.4. Board Member Indemnity

The Board received a report on Board Member Indemnity. The Secretary advised that the Welsh Funds had discussed the issue and each was addressing the issue in its own way. The Secretary recommended to the Board the proposed solution.

<b>RESOLVED</b>	<b>Reason for Decision:</b>
<p><b>That the Board notes that the Pension Fund is to purchase an insurance indemnity policy to cover Board members against loss up to a value of £5M.</b></p>	<b>As per report</b>

4.5. Reference to the Board in the Constitution

The Board noted that as it was not a committee of the Council it was not referred to in the Council's Constitution.

<b>5.</b>	<b>CHAIRMAN'S ANNOUNCEMENTS</b>	<b>5</b>
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The Chair reported on the following:

- The Scheme Advisory Board was undertaking a review of Local Pension Boards. The review would be sent to both Administering Authorities and Boards.
- The Pension Regulator had undertaken its second review of Local Government Pension Schemes between November 2016 and January 2017. The report on the review would be available soon. The Secretary advised that the Fund had participated in this review and had also completed the Regulators self-assessment tool.
- The Chair, as Chair of the Mid and West Wales Fire Authority Pensions Board had received a telephone call from the Pension Regulator seeking assurances that the Authorities' website was compliant with the Code of Practice 14.
- A meeting of the Chairs of the Welsh Pension Boards would take place on 28<sup>th</sup> March, 2017 and it was noted that the meeting was open to all Board members.

In response to a question regarding the decision of the Employment Tribunal in relation to the new Judicial Pension Scheme 2015 the Secretary advised this issue had been discussed at a national level but he was not aware of any challenges or of any great concern. The Chair advised that he would review the legislation updates on governance issues which he received and forward any information to members.

<b>6.</b>	<b>MINUTES OF THE PENSIONS AND INVESTMENT COMMITTEE 9 FEBRUARY 2017</b>	<b>6</b>
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The Board received the Pensions and Investment Committee's minutes for 9<sup>th</sup> February, 2017.

In response to a question regarding the Committee's decision, being made in public, regarding moving funds from a qualified rated to a buy rated fund manager, the Secretary advised that the policy regarding such changes was a public document and so the decision was made in public.

#### 6.1. Communications Strategy Statement

The Secretary advised that the Communications Strategy Statement had been reviewed and updated taking into account comments from the Board. It was noted that the Statement would refer to on-line access to the Scheme, when this system was "live".

Concerns were raised regarding the quality of pension's communications. It was suggested that the principles underpinning communication should be stated such as clarity, equity and equality and timely communications.

<b>RESOLVED</b>	<b>Action</b>
<b>The Secretary agreed to review the principles underpinning communication and include this in the statement.</b>	<b>Secretary</b>

The Board noted the Communications Strategy Statement.

6.2. Investment Strategy Statement

The Secretary advised that the Investment Strategy Statement [ISS], as drafted, had been agreed at the last Pensions & Investment Committee. The Committee had also agreed delegated authority to the Section 151 Officer to make any minor changes to the Strategy, prior to its publication on 1<sup>st</sup> April, 2017.

The Board considered that it should receive details of the investment manager(s) who exercise its voting rights.

<b>RESOLVED</b>	<b>Action</b>
<b>details of the investment manager(s) who exercise its voting rights be reported to the next Board meeting.</b>	<b>Secretary</b>

The Board noted the Investment Strategy Statement.

6.3. Funding Strategy Statement

The Secretary advised that the Funding Strategy Statement [FSS] had been agreed at the last Pensions & Investment Committee. In response to a question the Secretary advised that the recovery period for funds is, as agreed with the Fund actuary, set at a limit of 25 years. This limit however, can be extended in exceptional circumstances for employers of sound covenant to an absolute limit of 40 years.

The Board noted the Funding Strategy Statement.

<b>7.</b>	<b>UNAUTHORISED PAYMENTS (VERBAL REPORT)</b>	<b>7</b>
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The Pension Administration Manager advised that unauthorised payments [such as the late payment of a death grant, paid after 12 months of the Fund being notified of a death] are monitored on an annual basis and quarterly reports are made to HMRC. It was noted that no unauthorised payments have been recorded for the Fund.

<b>8.</b>	<b>BREACHES (VERBAL REPORT)</b>	<b>8</b>
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The Secretary advised that at this point in time there had been no recorded or reported breaches. However, there were potential breaches in respect of outstanding deferred benefit awards, which were being investigated. These breaches would be recordable, as the notification of deferred benefits had been made over two months after the Fund had received information about the deferment.

The Board was assured that systems were in place to monitor any breaches.



<b>9.</b>	<b>REVIEW OF COMPLIANCE WITH TPR CODE 14</b>	<b>9</b>
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<b>RESOLVED</b>	<b>Action</b>
<b>To defer consideration of the review of Compliance with TPR Code 14 to the next meeting.</b>	<b>Secretary</b>

<b>10.</b>	<b>REVIEW OF RISK REGISTER (STANDING ITEM)</b>	<b>10</b>
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The Board noted that the Committee had, as recommended by the Board, agreed that where the Fund intends to enter into a contract with a manager to invest Fund assets, that the contract documentation is first scrutinized by the Fund's legal advisers, in relation to the risk associated with investment manager insolvency.

The Board raised the following comments [the numbers shown are the Risk Reference numbers]:

- PEN 030 – It was noted that the Pensions & Investment Committee agreed on 9th February 2017, that when entering into new contractual arrangements with investment managers, contract documentation will be referred to the Fund's legal advisers for review and appropriate due diligence. As a result of this further control it was noted that the risk moved from High to Medium. The Board asked whether the Custodian would feature as a control especially in respect of Pooled Funds. The Secretary advised that further advice would be sought on this issue.
- The legal status of Pooled Funds was questioned and it was agreed that further advice would be sought.
- The Board discussed the merit of asking Burges Salmon to undertake a desktop review of existing contracts to advise on the security of assets if a fund manager were to go into liquidation. The Secretary advised that he would raise this issue with the Pension & Investment Committee due to the cost of such a review. He considered a review could be undertaken and a report be provided by the end of the summer.
- PEN011 Failure to comply with LGPS and other statutory regulations and PEN013 Failure to maintain and hold up to date and accurate pension records – staff training should be included as a control for both of these. Also in respect of PEN013 the consequences of fines by the regulator should be added in as a possible consequence.
- PEN019 Lack of expertise of members of Pensions & Investment Committee – as a control training events should be provided for Committee members after an election.
- It was noted that no reference was included regarding the risk of insolvency of an admitted body. Reference to this would be included in the Risk Register.
- The Risk Register would be updated as required as any strategies etc are updated.

<b>RESOLVED</b>	<b>Action</b>
<b>That advice would be sought on:</b> <b>i. whether the Custodian would feature as a control especially in respect of Pooled Funds.</b>	<b>Secretary</b>

ii. <b>The legal status of Pooled Funds.</b>	
That the Pension & Investment Committee be asked to consider the merit of asking Burges Salmon to undertake a desktop review of existing contracts to advise on the security of assets if a fund manager were to go into liquidation, with a view to receiving assurances by the end of the summer.	Secretary
That the Risk Register: i. in respect of PEN011, PEN013, PEN19 and PEN030 be amended as detailed above ii. refers to the risk of insolvency of an admitted body and iii. be updated as required as any strategies etc. are updated.	Secretary
That the following Excel reports be printed on A3 paper for the Board: • Code of Practice Review • Risk Register • Recording breaches	Clerk

11.	<b>WALES POOL - INVESTMENT POOLING UPDATE (STANDING ITEM)</b>	11
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The Secretary advised that all eight Welsh Authority Pension Funds had formally approved the establishment of a Wales Pool. The formal documentation would now be signed and Carmarthenshire County Council has been appointed as the "host" authority. The Chairs of the eight Welsh Funds will meet and become the Joint Governance Committee. The Secretary explained the bidding and tender process for the appointment of the Pool Operator.

12.	<b>AUDIT REPORT (STANDING ITEM)</b>	12
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The Secretary advised that a report on the Administration of the Pension Fund [processes and procedures] was pending and would possibly be available in July.

The Chair advised that CIPFA was to hold an event on the administration of pension funds.

13.	<b>CESSATION OF CONTRACTING OUT (STANDING ITEM)</b>	13
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The Pension Administration Manager reported that as at 28<sup>th</sup> February, 2017 74.43% of discrepancies had been resolved. Officers were meeting with the company undertaking the review in mid March. As the project was coming to an end the Authority had to decide how to undertake the next stage either internally or externally which needed to be completed by December 2018,

The Board noted the satisfactory progress and asked to receive regular updates.

<b>14.</b>	<b>BOARD MEMBER TRAINING (STANDING ITEM)</b>	<b>14</b>
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The Board raised concerns regarding the level of detail in the Pension Regulator's online training toolkit for members and the Board considered that this was pitched at the wrong level.

The Board had been advised of the post-election Induction training for the Pension & Investment Committee taking place on 30<sup>th</sup> June, 2017.

<b>15.</b>	<b>FUTURE BOARD MEETINGS</b>	<b>15</b>
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The Board noted the following future meeting dates:

14th July 2017

20th October 2017

12th January 2018

Gerard Moore  
Chair

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## **INVESTMENT STRATEGY STATEMENT – March 2017**

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### **1. Introduction**

1.1 Local Government Pension Scheme (LGPS) funds in England and Wales are required to publish an Investment Strategy Statement (ISS)<sup>1</sup> which must address the following:

- to ensure that asset allocation strategies are sufficiently diversified;
- to include the authority's assessment of the suitability of asset classes;
- to include the administering authority's approach to risk, the assessment of risks and how they are to be managed;
- the authority's approach to the pooling of investments, including the use of collective investment vehicles and shared services;
- the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- the administering authority's policy of the exercise of the rights (including voting rights) attaching to investments;
- set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
- review the ISS periodically and at least every three years.

1.2 Further, LGPS funds in England and Wales are required under Guidance from the Secretary of State for the Department of Communities and Local Government (DCLG) to progress plans to pool the investment of assets, which will result in changes in the way that the Powys Pension Fund's (Funds) assets will be managed moving forward.

1.3 Therefore, this ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition the ISS will be reviewed following changes to the investment strategy.

1.4 A copy of this ISS will be made available on request to any interested party.

<sup>1</sup> Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946)

## **INVESTMENT STRATEGY STATEMENT – March 2017**

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### **2. Overall Responsibility**

- 2.1 The County Council is the designated statutory body responsible for administering the Fund on behalf of its constituent scheduled and admitted bodies.
- 2.2 Elected Members have a fiduciary duty to the Fund, Scheme members and local council taxpayers in relation to the delivery of the LGPS. Functions may be delegated to Officers but the Members retain overall responsibility for the management of the Fund and its investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Council's Constitution delegates these functions to the Pensions & Investment Committee.
- 2.3 Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.
- 2.4 The Investment Regulations permit the appointment of one or more investment managers to manage the Fund on behalf of the administering authority, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.
- 2.5 Administering authorities are required to take proper advice to enable them to fulfil their obligations, "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed to be qualified by his ability and practical experience of financial matters".
- 2.6 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Section 151 Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.
- 2.7 There is also a Local Pension Board which provides oversight to ensure the Fund is effectively managed.
- 2.8 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.
- 2.9 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointments).

## **INVESTMENT STRATEGY STATEMENT – March 2017**

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- 2.10 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.
- 2.11 The County Council will use suitable means to assess the advice received from its advisers in terms of its contribution to the decision making process.
- 2.12 Appropriate performance data will be included in the annual report and statement of accounts for the Fund and in the annual members' newsletter.
- 2.13 Investment Committee
- 2.13.1 Powys County Council delegates responsibility for the administering authority role to the Pensions & Investment Committee (The Committee). This includes investing the Fund's assets. The Committee is supported by the Fund Administrator and investment advisors.
- 2.13.2 The Committee is responsible in respect of investment matters:
- a. To determine the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities.
  - b. To keep under review the performance of the Fund and the Fund's managers.
  - c. To approve the appointment of advisers and fund managers (unless the assets are invested in pooled arrangements in which case the latter may be delegated).
  - d. To publicise the stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.
  - e. The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall or asset class specific benchmarks will be undertaken if the Pensions and Investment Committee considers it appropriate.
- 2.14 Investment Managers
- 2.14.1 Each investment manager, or subsequent manager of the Fund's investments, will be responsible for:
- a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.
  - b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.
  - c. Providing the designated provider with the information necessary to calculate performance statistics.

## INVESTMENT STRATEGY STATEMENT – March 2017

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- d. Investment manager(s) are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.
- e. The investment manager(s) are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.
- f. The County Council requires the investment manager(s) to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the investment manager(s), the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.

### 2.15 Investment Consultant

2.15.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

- a. Review of the Investment Strategy Statement.
- b. Presentation and interpretation of investment performance measurement results.
- c. The Potential impact of:
  - any changes in the investment managers' organisations that could affect the interests of the Fund;
  - any changes in the investment environment that could present either opportunities or problems for the Fund.
- d. Investment manager selection, retention and termination (until such time as the investment pool takes over such responsibilities);
- e. Benchmark adjustments;
- f. The appropriate content of investment management and other related Agreements;
- g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary and, in time, discussion with the investment pool.
- h. Ad-hoc project work as required.
- g. The independent investment adviser who attends each Pensions and Investment Committee meeting is required to produce a separate report on investment performance quarterly.



## **INVESTMENT STRATEGY STATEMENT – March 2017**

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### 2.16 Pensions Board

2.16.1 The role of the board is to assist the Powys County Council pension fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

2.16.2 The board members work with the Council in its role as an administering authority and with the pension fund's officers to ensure that your pension scheme is being run properly.

2.16.3 To comply with requirements imposed by regulations which are enforced by the Pensions Regulator, the members of the local pension board are required to maintain their knowledge and understanding of the LGPS and pensions in general, so receive appropriate training.

### **3. Investment Objectives**

3.1 The long term investment objectives of the Fund are to:

- maximise investment returns over the long term within an acceptable level of risk;
- ensure that sufficient assets are readily available to meet liabilities as they fall due;
- aim for long-term stability in the employers' contribution rates;
- achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice;
- employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- the Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

## INVESTMENT STRATEGY STATEMENT – March 2017

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### 4. The Balance Between Different Types of Investments

- 4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the Fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.
- 4.2 The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of our Investment Advisors in order to ensure the balance between expected return and risk is appropriate and the expected return is sufficient. In addition the split between potential asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.
- 4.3 To ensure that asset allocation is sufficiently diversified the Fund's investment strategy has been set using modelling techniques that cover all mainstream asset classes including those most likely to be available through the pooling arrangements available to the Welsh Funds. In addition
- 4.4 The current strategic benchmark is as follows:

<b>Asset Class</b>	<b>%</b>	<b>Maximum %</b>	<b>Benchmark Index</b>
<b>Equities*</b>	<b>47</b>	<b>55</b>	
Active	19		MSCI All Countries World (NDR)
Passive	28		FTSE Developed World
<b>Bonds</b>	<b>30</b>	<b>35</b>	
Corporate Bonds	6		iBoxx Sterling Non-Gilts All Maturities
Index-Linked Gilts	15		FTSE UK Index-Linked over 5 years
Gilts	3		FTSE UK Gilts All Stock
Absolute Return Bonds	6		3 Month GBP LIBOR
<b>Property</b>	<b>10</b>	<b>15</b>	IPD Index
<b>Private Equity</b>	<b>5</b>	<b>10</b>	MSCI AC World ex UK
<b>Hedge Funds</b>	<b>8</b>	<b>15</b>	3 Month LIBOR
<b>Total</b>	<b>100</b>		

\*50% of currency risk from overseas equities is hedged back to Sterling

- 4.5 There is also an agreement to invest 10% of assets allocated to equities in infrastructure when suitable opportunities for investment are available.
- 4.6 In reaching its decisions on asset allocation the County Council will:
- take proper advice from specialist, independent advisers and give consideration to the desirability of receiving advice based on an asset / liability study.
  - consider the volatility of returns which it is prepared to accept.
  - determine the split between matching and returning seeking assets before it gives consideration to any other asset class.
  - have due regard to the diversification and suitability of investments.

## **INVESTMENT STRATEGY STATEMENT – March 2017**

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### **5. Approach to risk, the assessment of risks and how they are managed**

- 5.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.
- 5.2 The main risk arising from the investment strategy will be a fall in the value of the investments relative to the value of the liabilities, potentially leading to higher contributions being required from the County Council and other employers within the Fund.
- 5.3 Other risks include but are not limited to risks such as not having enough liquidity to meet cash requirements and third parties defaulting on contracts.
- 5.4 The operational risk to the Fund is minimised by:
- the use of a regulated, external, third party, professional custodian for custody of assets.
  - having formal contractual arrangements with investment managers.
  - having access to the internal audit service of Powys County Council.
  - the activities of the investment manager(s) being governed by detailed Investment Management Agreements. Investment managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946).
  - having formal agreements in place with admitted bodies.
- 5.5 The investment risks to the Fund are managed by:
- diversification of types of investment.
  - diversification of investment manager(s).
  - the setting of a Fund-specific benchmark informed by asset-liability modelling of liabilities.
  - the appointment of independent professional advisors.
  - the appointed expert investment manager(s) being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
  - investment manager(s) being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.
- 5.6 In order to reduce the risk of assets increasing beyond agreed ranges there is also a Medium Term Asset Allocation (MTAA) project. This project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service has run from 2009. The Pensions & Investment

## INVESTMENT STRATEGY STATEMENT – March 2017

Committee has recently decided to extend the project period, with regular reviews as they see fit. The MTAA service has an artificial benchmark of 49.5% equity / 32% bond / 18.5% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.

### 6. The expected return on investments

- 6.1 The wider strategy has been set to target 5.8% pa over the long term with a volatility of 10.8% pa. This is based on assumptions at 30 September 2016 and will be subject to change depending on changes in market conditions.
- 6.2 The investment manager(s) have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that they will be met in the vast majority of periods under consideration.
- 6.3 The performance targets for the investment manager(s) are shown in the table below:

Investment Manager	Mandate	Benchmark	Objective
Carnegie	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle
Hosking	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle
MFS	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 2% p.a. (gross of fees) over a typical market cycle
Schroders	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-4% p.a. (gross of fees) over a typical market cycle
BlackRock	Balanced	Composite benchmark	To track the benchmark
Aviva Investors	UK Property	IPD/PPFI All Balanced Funds Medium Index	To outperform the benchmark by 1% p.a. over rolling 3 year periods.
Hermes Fund Managers	UK Property	IPD Other Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
Schroders	UK Property	IPD UK All Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
CB Richard Ellis	European Property	UK Retails Price Index (The IPD UK Pooled Property Index will also be used for comparison purposes)	Provide investors with a return of 8-10% p.a., net of fees and expenses.
Insight Asset Management	UK Corporate Bonds	iBoxx Sterling Non-Gilt All Maturities Index	To outperform the benchmark by 0.75% p.a., net of fees

## INVESTMENT STRATEGY STATEMENT – March 2017

Insight Asset Management	Absolute Return Bonds	3 month GBP LIBOR	To outperform the benchmark by 2% gross of fees
Standard Life Investment	Private Equity (European)	MSCI World	To outperform the benchmark by 5% pa over a rolling three year period.
HarbourVest Partners	Private Equity (US)	MSCI World	No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry
Goldman Sachs	Hedge Fund of Funds	3 month USD LIBOR	To outperform the benchmark by 4 – 9% p.a. net of fees
GAM	Hedge Fund of Funds	3 month GBP LIBOR	To achieve an absolute return of 8-13% p.a. over the long term.

6.4 The investment manager(s) benchmarks are based on market indices. The indices used were considered in consultation with the investment adviser and the investment manager(s) and carefully chosen with regard to their strategic suitability. The limits on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the investment manager(s) overall performance objectives.

### 7. The realisation of investments

7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. The Fund is currently paying out more than it receives in contributions meaning the assets need to cover any shortfall. Where possible assets are held in income producing investments. This helps increase cash available to meet outgoings. Also the majority of assets are invested in funds with good liquidity which can be used to meet any outstanding cashflow requirements.

7.2 The vast majority of the Fund's assets are readily marketable. However some investments, such as property and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund.

7.3 The County Council would inform the investment manager(s) of any projected need to withdraw funds in order to enable the investment manager(s) to plan an orderly realisation of assets if this proves necessary.

### 8. Pooling

8.1 The County Council will aim for all assets to be managed under pooled arrangements through the Welsh Funds investment pool.

8.2 Investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Welsh Funds investment pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance. Appropriate advice will be

## **INVESTMENT STRATEGY STATEMENT – March 2017**

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sought on alternative asset classes when setting the strategy and as opportunities arise.

- 8.2 Suitable asset classes include those available through the pooling arrangements as well as any asset class where the Pensions and Investment Committee have resource to understand and monitor the investment. This may include illiquid investments and other asset classes that offer improved risk and return expectations.

### **9. Socially Responsible Investment**

- 9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s).
- 9.2 The County Council's policy is to invest part of the Fund's assets on a passive basis. The County Council does not consider it appropriate for a passive investment manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments.
- 9.3 The County Council's policy in respect of the actively managed portion of the Fund's assets is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers. However the County Council expects that the active investment manager(s) in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.

### **10. The exercise of the rights attaching to investments**

- 10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Investment manager(s) who exercise its voting rights. Votes are cast by proxy. Investment manager(s) provide reports when any voting rights are exercised. Only direct investments in traded equity shares carry such voting rights.

### **11. Corporate Governance**

- 11.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Each investment manager is required to report its actions on a quarterly basis.
- 11.2 The County Council is aware of the UK Stewardship code. Although it has not formally signed up to the Code it aims to abide by the principles of the code where appropriate.
- 11.3 The principles of the UK Stewardship code are included in Appendix A for information.
- 11.4 In addition to the above the Fund is a member of the Local Authority Pension Fund Forum which helps ensure governance is in line with current best practice.

## **INVESTMENT STRATEGY STATEMENT – March 2017**

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### **12. Stock lending**

- 12.1 The Fund, custodian or investment managers do not engage in stock lending on behalf of the Fund.

### **13. Monitoring and Implementing of Investment Policy**

- 13.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each investment manager's portfolio, including past and future policy decisions. The performance of the investment manager(s) will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.
- 13.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.
- 13.3 The appointments of the investment manager(s) will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment manager(s) processes as well as their performance.
- 13.4 The investment manager(s) appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.
- 13.5 If an investment manager(s) performance prompts concerns then the Committee may ask the manager(s) to come to a meeting for a special review meeting.

## Appendix A

### Principles for Institutional Investment Decision Making

#### Compliance with CIPFA Principles for Investment Decision Making in LGPS

##### Principle 1 – Effective Decision Making

*Administering authorities should ensure that:*

- *Decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and*
- *Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

Powys County Council is the Administering Authority with overall responsibility for Powys Pension Fund (PPF), which it delegates to its Pensions & Investment Committee and the Section 151 Officer. This Committee consists of 6 voting members; 1 non-voting member representing Pension Fund employers (elected by those Pension Fund employers); and, 1 non-voting member representing pension scheme members (nominated by the recognised trade unions).

The governance arrangements of the County Council (including the Constitution, Financial Regulations and Contract Standing Orders) apply to the management of the Pension Fund. In addition the, the administering authority is assisted by the Powys Pensions Board which was established under the Public Service Pensions Act 2013.

Members of the Pensions & Investment Committee are required to undertake training and demonstrate competency in accordance with the Knowledge & Skills Framework Policy. The Committee receives what it considers to be proper advice from Fund officers and, in addition, has appointed an external consultant to provide advice on its investment strategy.

The Investment Advisor and Actuary have contracts which are regularly reviewed. The Investment Advisor was tendered in 2016-17, actuarial services are scheduled for 2017/18.

##### Principle 2 – Clear Objectives

*Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.*

The Fund's objectives are set out in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). Both documents are available on the Fund's website. The aims of the Fund in relation to the FSS are set out in 2.2 of that document. To view the Funds Investment objectives view 3 Investment Objective in the ISS.

The approach to risk, the assessment of risks and how they are managed are stated in section 5 of the ISS.



## **INVESTMENT STRATEGY STATEMENT – March 2017**

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The Fund, in accordance with regulatory requirements, has an objective of keeping the employers' contribution rate as level as possible while maintaining its solvency. The investment manager(s) have been given specific performance targets measured. These are displayed in section 6 of the ISS.

The Fund is effectively Government-backed but the Fund impact on stakeholders receives appropriate attention. The Fund monitors each of the participating LGPS employers and admitted bodies.

### **Principle 3 – Risk and Liabilities**

*In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.*

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pensions & Investment Committee.

The Triennial Valuation exercise looks in detail at each participating employer's liability and is used to inform the setting of employers' contribution rates, as well as informing the investment strategy and objectives of the Fund.

The strength of the covenant of participating employers is also considered as part of the exercise establishing contribution rates.

A risk register is monitored monthly and maintained. Pensions and Investment Committee review the Risk Register every 12 months.

Regular internal audit on the adequacy and effectiveness of risk management and internal control is undertaken and outcomes reported to the Pensions & Investment Committee and Pension Board.

The Annual Report and Accounts of the Powys Pension Fund are subject to a separate external audit and an independent audit opinion is given.

Within the FSS, point 6 Key Risks and Controls, summarises the risks and controls under the following headings, investment, solvency, liability, regulatory, employer.

### **Principle 4 – Performance Assessment**

*Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

Advisors provide buy – qualified – sell – quarterly ratings on current managers to the Committee.

## **INVESTMENT STRATEGY STATEMENT – March 2017**

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Investment Managers are measured against their targets shown in the ISS. The Funds advisors report formally on a quarterly basis to the Pensions and Investment Committee their ratings of the incumbent managers. Significant developments between meetings are also communicated by the advisors.

Investment Managers are invited to attend the Pensions and Investment Committee at behest of the Committee.

The Fund maintains a Governance Statement which is available from the Funds website.

Pensions & Investment Committee attendance and training is monitored and reviewed on a quarterly basis.

Advisers are selected competitively, based on performance, price and other factors.

All active and deferred scheme members receive the 'Your Pension' publication along with their Annual Benefit Statements which includes information on the Funds activity and a summary of the accounts; all retired members receive an annual newsletter with information on Fund developments and a summary of the accounts.

The Fund produces a detailed annual report covering all aspects of its performance which is published on the website.

### **Principle 5 – Responsible Ownership**

*Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.*

The Fund's Socially Responsible Investment intention is laid out in section 9 of the ISS. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis.

### **Principle 6 – Transparency and Reporting**

*Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.*

Details of the Fund's Communications Policy and all other key reports – ISS, Annual Report, FSS and Governance Policy Statement are all published on the Fund's website. A newsletter is also published periodically. There is employer and employee representation on the Committee ensuring transparency.

The Fund actively manages risks. Pensions & Investment Committee reviews the risk register on a regular basis.

Pensions & Investment Committee meetings are open to the public. Agendas, papers and minutes are available on Powys County Councils website.

## INVESTMENT STRATEGY STATEMENT – March 2017

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<u>Principle</u>	<u>Compliance</u>
Effective Decision Making	The Fund considers that its practices are compliant with the CIPFA principles
Clear objectives	The Fund considers that its practices are compliant with the CIPFA principles
Risk and Liabilities	The Fund considers that its practices are compliant with the CIPFA principles
Performance Assessment	The Fund considers that its practices are compliant with the CIPFA principles
Responsible Ownership	The Fund considers that its practices are compliant with the CIPFA principles
Transparency and Reporting	The Fund considers that its practices are compliant with the CIPFA principles

### Principles of the UK Stewardship Code

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

## **Appendix B**

### **Background to Medium Term Asset Allocation**

#### **Philosophy**

The Committee recognises that it is possible to take advantage of excessive over/under valuations of markets in order to target additional returns. The Committee in conjunction with the Investment Consultant seeks to identify opportunities to allocate investments away from the strategic benchmark that are designed to add additional return relative to the benchmark return over the medium term (around 1 to 3 years).

#### **Process**

A thorough fundamental analysis of economics and financial markets is carried out to identify and incorporate general investor expectations into views of the different markets. In particular, attention is paid to establishing consensus views and profit is taken from positions which differ from the consensus. A range of appropriate timing indicators are utilised in order to achieve the best entry and exit levels to and from asset classes.

In terms of the practical application, once an opportunity has been identified the Fund's Investment Consultant will notify the Pensions & Investment Committee. The Committee decides whether to pursue the opportunity and if so will work with the Investment Consultant to complete any necessary asset transitions. The Investment Consultant liaises with the investment manager(s) and follows each transaction as it happens to make sure each trade goes through smoothly.

#### **Risk management**

Considerable lengths are taken to assess what correlations are likely to be in the future so as to ensure asset allocation views are truly diversified. The style of the MTAA project is to have a limited number of meaningful positions rather than either a small number of large positions or a large number of small positions. The overall objective is to achieve an additional return of 0.5% p.a. of assets involved in the MTAA project. The Investment Consultant will provide regular reporting to the Pensions & Investment Committee.



# Powys

**CRONFA BENSIWN  
POWYS  
PENSION FUND**

**COMMUNICATIONS STRATEGY  
STATEMENT**

Reviewed March 2017

## **1. Introduction**

- 1.1 Regulation 61 of the Local Government Pension Scheme 2013 (as amended) [SI 2013 No. 2356] requires an administering authority to prepare, publish and maintain a statement that sets out strategy for communication and promotion of the Local Government Pension Scheme.
- 1.2 The Statement is required to include details of policy for communicating with Scheme members and their representatives; prospective Scheme members; and Scheme employers.
- 1.3 In particular, the Statement must set out policy on the provision of information and publicity about the Scheme to Scheme members, their representatives and Scheme employers; the format, frequency and method of distributing such information or publicity; and the promotion of the Scheme to prospective members and their employers.
- 1.4 The Statement must be reviewed and published following any material change relevant to the policy.
- 1.5 An effective communications strategy is vital for any organisation that strives to provide a high quality and consistent service to its customers. The complexity of pensions in general and the LGPS in particular, places communications at the heart of a high quality service provision.
- 1.6 There are six distinct groups with whom Powys Pension Fund needs to communicate:
  - Pension Fund Trustees and local Pension Board Members
  - Scheme Members
  - Prospective Scheme Members
  - Scheme Employers
  - Pension Fund Officers and Staff
  - Other Stakeholders
- 1.7 Set out in this Statement are the mechanisms which are used to communicate with each of these groups, together with a strategy for widening and improving communications and to promote the Scheme amongst non-members.

## **2. Principles Underpinning this Strategy**

- 2.1 The drivers for communicating that underpin this strategy are:

- a) to inform and educate stakeholders and interested parties about the Powys Pension Fund and the Local Government Pension Scheme in an open and transparent manner;
  - b) to better facilitate accountability;
  - c) to promote the engagement of scheme members and employers.
- 2.2 Wherever possible the Pension Fund seeks to make its communications as open and as accessible as are needed by stakeholders. This includes:
- a) the provision of information through the medium of Welsh;
  - b) the provision of information in other languages if required;
  - c) where possible, providing communications in alternative forms for example in large print, via audio etc.
  - d) the increasing use of social media.
- 2.3 In the context of the LGPS, deciding on when to communicate is largely determined by the statutory requirements imposed upon the Pension Fund. The Pension Fund aims to provide communications to stakeholders within statutory timelines and, for non-statutory information, as and when required.

### **3. Pension Fund Trustees and local Pension Board Members**

- 3.1 The Trustees of Powys Pension Fund (the members of the Pensions & Investment Committee - six Powys County Council Elected Members plus two non-voting members representing other participating Scheme employers and Scheme members) and local Pension Board Members (an independent Chair, two Scheme employer representatives and two Scheme member representatives) receive information, primarily in the form of written reports and email correspondence, that cover investment, actuarial and administration issues. Committee and Board members also attend conferences and seminars on the LGPS.
- 3.2 Completion of appropriate training for Pension Fund Trustees and local Pension Board Members is a mandatory requirement. Ongoing knowledge development and training is to be provided via Pension Fund Officers and advisers. Full details are set out in the Knowledge & Skills Framework Policy appended to the Pension Fund's Governance Policy & Compliance Statement.

### **4. Scheme Members**

- 4.1 Newsletters – are sent out to all active and pensioner members covering LGPS and related issues, as and when required.
- 4.2 Benefit Statements – sent to all active and deferred members (where a current home address is held) annually. Statements include State Scheme benefits and are produced in conjunction with the Department for Work and Pensions.
- 4.3 Scheme Literature – A range of Scheme literature and information covering many aspects of the LGPS is produced by Powys Pension Fund and is supplied direct to employers and Scheme members, as required.
- 4.4 Additional Voluntary Contributions (AVCs) – Regular promotional mailshots are sent to active members in partnership with the Fund’s AVC providers.
- 4.5 Pay Advices – Powys Pension Fund issues pay advices to all its Fund pensioners twice per year, or more often where pay amounts vary from month-to-month.
- 4.6 Pensions Increases – all Fund pensioners are advised of their annual pension increase via a personalised letter sent in April each year.
- 4.7 Correspondence – the Pension Fund utilises both surface mail and email to send and receive correspondence with Scheme members.
- 4.8 Telephone – much of the Pension Fund’s communication with individual Scheme members is conducted by telephone.
- 4.9 Pensions Clinics – The Pension Fund provides a periodic clinic service where Scheme members have the opportunity to discuss their individual pension issues on a face-to-face basis. In addition, clinics focussing on AVCs are also held for the benefit of active members, provided by the Fund’s AVC providers.
- 4.10 Welsh Language – wherever possible the Pension Fund provides access to Scheme documents in the medium of Welsh.
- 4.11 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund’s dedicated bespoke website at [www.powypensionfund.org](http://www.powypensionfund.org).
- 4.12 My Powys Pension – an online system that is available to all active and deferred Scheme members. It enables members to interact with their pension records; log changes to basic data (eg changes to address etc.); and perform pension benefit forecasts.



- 4.13 Powys Pension Fund has both facebook and twitter accounts through which it is able to communicate further with Scheme members who prefer to receive information via these media platforms.

## **5. Prospective Scheme Members**

- 5.1 Scheme Guide – All prospective Scheme members are provided with Scheme information on being appointed to their employments.
- 5.2 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at [www.powypensionfund.org](http://www.powypensionfund.org).
- 5.3 The Pension Fund's intention is to request formal notification of non-joiners from Scheme employers. The information will be used to market the Scheme with dedicated literature. (Targeted for implementation during 2017/18).
- 5.4 Pensions Clinics – The Pension Fund provides a periodic clinic service where prospective Scheme members have the opportunity to discuss their individual pension issues on a face-to-face basis.

## **6. Scheme Employers**

- 6.1 Employers' Guide – An Employers' Guide is issued to each employer to assist them in the administration associated with participation in the Scheme.
- 6.2 Ill Health Retirements – The Pension Fund has made available to all participating employers access to the Pension Fund's approved Occupational Health Physician for the purposes associated with ill health benefits.
- 6.3 Employer Meetings and Reports – Periodic Employer meetings are held at least annually. Typically these are used to communicate a variety of Pension Fund matters of specific interest to employers, such as the results of triennial valuations. In addition, employers receive copies of the Pension Fund's Annual Report & Accounts, Statement Of Investment Principles, Funding Strategy Statement and Governance Policy & Compliance Statement.
- 6.4 Technical Updates – These are sent to employers from time to time to advise them of significant changes to the Scheme and associated legislation.

- 6.5 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at [www.powypensionfund.org](http://www.powypensionfund.org).
- 6.6 It is envisaged that technical updates for employers will be regularised in the form of a quarterly briefing paper, to include, in addition to Scheme changes, matters of national debate and interest on the future development of pensions in general and the LGPS in particular. (Targeted for implementation during 2017/18).
- 6.7 Powys Pension Fund has both facebook and twitter accounts through which it is able to communicate further with employers who prefer to receive information via these media platforms.

## **7. Pension Fund Officers and Staff**

- 7.1 Team Meetings – Pensions Administration meets quarterly at which team members consider procedural issues; plan work and developments for the coming quarter and beyond; and, at which the team is kept abreast of Scheme developments and changes.
- 7.2 Technical Information – Bulletins and Circulars issued by the Local Government Association together with guidance and consultation documents from the Department for Communities and Local Government are available to all Pension Fund Officers and Staff for information. In addition, periodic in-house procedural guidance, procedure notes and technical explanations are provided, as required.
- 7.3 Intranet and Internet – All staff have been enabled to use the corporate network in order to access both the Powys Intranet and the internet.
- 7.4 E-mails – All staff have access to email facilities.
- 7.5 Pension Fund Manager – The Pension Fund Manager maintains an open-door policy and attempts to make himself available to all staff at all times.

## **8. Other Stakeholders**

- 8.1 All Wales Pension Officers' Group – Pension Officers from the 8 administering authorities in Wales meet regularly in order to ensure uniform interpretation of the LGPS and other associated regulations. The group's views are passed up to the national level via the Local Government Pensions Committee's Technical Group Meetings (an arm of the Local Government Association) that are held quarterly.
- 8.2 All Wales Communications Group – Pensions Officers from the 8 administering authorities in Wales meet periodically in order to devise, develop and promote the use of common Scheme literature.
- 8.3 CLASS Group – As a user of the Altair Pensions Administration System, the Pension Fund is a member of the local authority CLASS Group and attends both regional user groups and national meetings.
- 8.4 National Fraud Initiative – The Pension Fund has participated in the National Fraud Initiative since 1998 and continues to do so. This has helped to avoid the overpayment of pension benefits to both deceased and re-employed pensioners.

- 8.5 Taxpayers and the General Public – all the principal Pension Fund documents including the Annual Report & Accounts, Actuarial Valuation Reports, Statement of Investment Principles, Funding Strategy Statement, Governance Policy & Compliance Statement and this Statement, are available to the public via the Pension Fund’s website at [www.powypensionfund.org](http://www.powypensionfund.org) or on request.

**9. Contacts**

- 9.1 Any questions, queries or observations on this Statement; or, on matters relating to the investment of the Powys Pension Fund; or, on the governance of the Pension Fund, should be addressed to:

Mr J Rollin  
Pension Fund Manager  
Powys County Council  
County Hall  
Llandrindod Wells  
Powys LD1 5LG

Tel: 01597 827641

Email: [joe.rollin@powys.gov.uk](mailto:joe.rollin@powys.gov.uk)

- 9.2 Questions or queries concerning membership, benefits or information in respect of the Local Government Pension Scheme, should be directed to:

Mr C Hurst  
Pensions Administration Manager  
Powys County Council  
County Hall  
Llandrindod Wells  
Powys LD1 5LG

Tel: 01597 827640

Email: [chris.hurst@powys.gov.uk](mailto:chris.hurst@powys.gov.uk)

- 9.3 All other enquiries should be addressed to:

The Pensions Section  
Powys County Council  
County Hall  
Llandrindod Wells  
Powys LD1 5LG

Email: [pensions@powys.gov.uk](mailto:pensions@powys.gov.uk)

# Governance and administration of public service pension schemes



Code of practice no. 14

## **Governance and administration of public service pension schemes**

Presented to Parliament pursuant to Section 91(5) of the Pensions Act 2004

Draft to lie before Parliament for forty days, during which time either House may resolve that the code be not made.

Presented to the Northern Ireland Assembly pursuant to Article 86(5) of the Pensions (Northern Ireland) Order 2005

Draft to lie before the Northern Ireland Assembly for ten days on which the Assembly has sat or thirty calendar days whichever period is the longer, during which time the Assembly may resolve that the code be not made.

12 January 2015

Code of practice no. 14

**Governance and administration of public service pension schemes**

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# Introduction

1. This code of practice is issued by The Pensions Regulator ('the regulator'), the body that regulates occupational and personal pension schemes provided through employers.
2. The regulator's statutory objectives<sup>1</sup> are to:
  - protect the benefits of pension scheme members
  - reduce the risks of calls on the Pension Protection Fund (PPF)
  - promote, and improve understanding of, the good administration of work-based pension schemes
  - maximise compliance with the duties and safeguards of the Pensions Act 2008
  - minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pensions Act 2004 only).
3. The regulator has a number of regulatory tools, including issuing codes of practice, to enable it to meet its statutory objectives.
4. Codes of practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions<sup>2</sup>.

## Status of codes of practice

5. Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the code of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant provisions of a code of practice into account<sup>3</sup>.
6. If there are grounds to issue an improvement notice<sup>4</sup>, the regulator may issue a notice directing a person to take, or refrain from taking, such steps as are specified in the notice. These directions may be worded by reference to a code of practice issued by the regulator<sup>5</sup>.

## This code of practice

7. The Public Service Pensions Act 2013 (the 2013 Act) introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the regulator.

<sup>1</sup> Section 5(1) of the Pensions Act 2004.

<sup>2</sup> Section 90A(1), *ibid.*

<sup>3</sup> Section 90A(5), *ibid.*

<sup>4</sup> Where the regulator considers that legal requirements are not being met, or have been contravened in circumstances which make it likely that the breach will continue or be repeated, it may issue an improvement notice under s13 of the Pensions Act 2004.

<sup>5</sup> Section 13(3) of the Pensions Act 2004.

8. The regulator is required to issue one or more codes of practice covering specific matters relating to public service pension schemes<sup>6</sup>. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
9. The practical guidance sections in this code are not intended to prescribe the process for every scenario. They do, however, provide principles, examples and benchmarks against which scheme managers and members of pension boards can consider whether or not they have understood their duties and obligations and are reasonably complying with them.
10. If scheme managers and the members of pension boards are, for any reason, unable to act in accordance with the guidance set out in this code, or an alternative approach that meets the underlying requirements, they should consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law<sup>7</sup>. For further information, see the section of this code on 'Reporting breaches of the law'.

## At whom is this code directed?

11. This code relates to public service pension schemes within the meaning of the Pensions Act 2004<sup>8</sup>. These are schemes established under the 2013 Act, new public body pension schemes and other statutory pension schemes which are connected to those schemes. It does not apply to schemes in the wider public sector, nor to any scheme which is excluded from being a public service pension scheme within the meaning of the Pensions Act 2004.
12. This code is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management and administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters specified in scheme regulations. The role, responsibilities and duties of pension boards will vary. Where pension boards are not directly responsible for undertaking particular activities, they remain accountable for assisting the scheme manager in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters for which they are responsible under the scheme regulations<sup>9</sup>.

<sup>6</sup>  
Section 90A(2) of the Pensions Act 2004.

<sup>7</sup>  
Section 70, *ibid.*

<sup>8</sup>  
Section 318, *ibid.*

<sup>9</sup>  
Section 5 of the Public Service Pensions Act 2013.

13. In addition, the legal requirement to report breaches of the law under section 70 of the Pensions Act 2004 applies to other persons involved in public service pension schemes, so this code is also directed at them.
14. Scheme managers and pension boards (where relevant) may be able to delegate some activities to others, or outsource them, although they will not be able to delegate their accountability for complying with a legal requirement imposed on them. This code should therefore be followed by anyone to whom activities relating to the legal requirements covered by this code have been delegated or outsourced.
15. Employers participating in public service pension schemes will also find the code a useful source of reference. The role and actions of employers can be critical in enabling scheme managers to meet certain legal requirements<sup>10</sup>.
16. Public service pension schemes are established primarily as defined benefit (DB) schemes. Some of these schemes also enable members to make additional voluntary contributions (AVCs) on either a DB basis or to a separate defined contribution (DC) scheme. There are also some DC schemes which are offered as alternatives to the DB schemes. This code applies to any DC scheme which is a public service pension scheme within the meaning of the Pensions Act 2004.

## Terms used in this code

17. **The 2013 Act** – the Public Service Pensions Act 2013, which sets out the arrangements for the creation of schemes for the payment of pensions and other benefits. It provides powers to ministers to create such schemes according to a common framework of requirements.
18. **Public service pension schemes**<sup>11</sup> – these are (a) new public service pension schemes set up under section 1 of the 2013 Act (including any scheme which has effect as such a scheme<sup>12</sup>); (b) new public body pension schemes (within the meaning of the 2013 Act) and (c) any statutory pension schemes connected with a scheme described in (a) or (b). Substantially, these are the schemes providing pension benefits for civil servants, the judiciary, local government workers, teachers, health service workers, fire and rescue workers, members of police forces and the armed forces. Except where specified otherwise, the legal requirements and practical guidance set out in this code apply to any kind of public service pension scheme within the meaning of the Pensions Act 2004, whether it is a scheme established under section 1 of the 2013 Act, a new public body scheme or a connected scheme.

10  
Employers participating in occupational public service pension schemes are under a statutory duty to report breaches of the law under s70 of the Pensions Act 2004.

11  
As defined in s318 of the Pensions Act 2004. Under s318(6) of that Act, a scheme which would otherwise fall within the definition of 'public service pension scheme' in the Pensions Act 2004 does not do so if it is a scheme providing only for injury or compensation benefits (or both), or if it is specified in an order made under that section.

12  
Section 28 of the 2013 Act.

19. **Connected scheme** – a scheme established under section 1 of the 2013 Act and another statutory pension scheme, or a new public body pension scheme and another statutory pension scheme are connected if and to the extent that the schemes make provision in relation to persons of the same description. Scheme regulations may specify exceptions<sup>13</sup>.
20. **Responsible authority** – the 2013 Act identifies secretaries of state/ ministers, each being the responsible authority for their schemes, who have power to make the scheme regulations for the relevant schemes<sup>14</sup>. The responsible authority may also be the scheme manager<sup>15</sup>. In relation to a public body pension scheme, references in the code to the responsible authority are to be read as references to the public authority which established the scheme.
21. **Scheme regulations** – each new scheme made under section 1 of the 2013 Act has scheme regulations which set out the detail of the membership and benefits to be provided under the scheme<sup>16</sup>. The regulations must identify scheme managers and provide for the establishment of pension boards and scheme advisory boards. These regulations constitute the main rules of the scheme. In addition to the scheme regulations, the rules of a scheme include:

- certain legislative provisions, to the extent that they override provisions of the scheme regulations, or which have effect in relation to a scheme and are not otherwise reflected in the scheme regulations, and
- any provision which the scheme regulations do not contain but which the scheme rules must contain if it is to conform with the requirements of Chapter 1 of Part 4 of the Pension Schemes Act 1993 (preservation of benefit under occupational pension schemes)<sup>17</sup>.

Some connected schemes and new public body pension schemes will not be established by regulations, so references in the code to scheme regulations should be read as references to the rules of the scheme in these cases.

22. **Scheme manager** – each public service pension scheme has one or more persons responsible for managing or administering the scheme<sup>18</sup>. Public service pension schemes can have different persons acting as scheme manager for different parts of the pension scheme. For the locally administered schemes<sup>19</sup>, the scheme managers may be the local administering authorities or a person representing an authority or police force.

13  
Section 4(6) and (7) of the 2013 Act.

14  
Section 2 and Schedule 2, *ibid.*

15  
Section 4(3), *ibid.*

16  
Section 3 and Schedule 3, *ibid.*

17  
Section 318(2) of the Pensions Act 2004.

18  
Section 4 and s30 of the 2013 Act.

19  
Locally administered schemes include the schemes for England, and Wales, and Scotland for local government workers, and England and Wales for fire and rescue workers and members of police forces.

23. **Pension board** – the scheme manager (or each scheme manager) for a scheme has a pension board<sup>20</sup> with responsibility for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator. The pension board must also assist the scheme manager with such other matters as the scheme regulations may specify. It will be for scheme regulations and the scheme manager to determine precisely what the pension board’s role, responsibilities and duties entail.
24. **Scheme advisory board** – each DB public service pension scheme has a scheme advisory board<sup>21</sup> with responsibility for providing advice on the desirability of changes to the scheme, when requested to do so by the responsible authority (or otherwise, in accordance with scheme regulations). Where there is more than one scheme manager the scheme regulations may also provide for the scheme advisory board to provide advice (on request or otherwise) to the scheme managers or the scheme’s pension boards on the effective and efficient administration and management of the scheme or any pension fund of the scheme.
25. **Schemes** – in this code the term ‘schemes’ is used throughout where actions to comply with a legal requirement, standard or expectation may be carried out by the scheme manager, pension board or by another person(s) including those to whom activities have been delegated or outsourced. The scheme manager or pension board will be ultimately accountable, depending upon to whom the legal obligation applies under the legislation.
26. **Must** – in this code the term ‘must’ is used where there is a legal requirement.
27. **Should** – in this code the term ‘should’ is used to refer to practical guidance and the standards expected by the regulator.

## How to use this code

28. The code is structured as a reference for scheme managers and pension boards to use to inform their actions in four core areas of scheme governance and administration: governing your scheme, managing risks, administration and resolving issues.
29. Each core section includes practical guidance to help scheme managers and pension boards to discharge their legal duties. The regulator recognises that there may be alternative and justifiable actions or approaches that scheme managers or pension boards may wish to adopt, provided these meet the minimum legal requirements.
30. Schemes will need to consider and apply the practical guidance to suit their own particular characteristics and arrangements.

20  
Section 5 and s30(1) of the 2013 Act (in the case of new public body schemes, if the scheme has more than one member).

21  
Section 7, *ibid.* This requirement only applies to schemes set up under s1 of the 2013 Act.

## Northern Ireland

31. References to the law that applies in Great Britain should be taken to include corresponding legislation in Northern Ireland. References to HM Treasury directions should be taken to be directions by the Department of Finance and Personnel. The responsible authority for each scheme is the relevant government department<sup>22</sup>.
32. The appendix to this code lists the corresponding references to Northern Ireland legislation.

<sup>22</sup>  
Section 2 and Schedule 2 of the Public Service Pensions Act (Northern Ireland) 2014.

# Governing your scheme

33. This part of the code covers:

- knowledge and understanding required by pension board members
- conflicts of interest and representation, and
- publishing information about schemes.

## Knowledge and understanding required by pension board members

### Legal requirements

34. A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme<sup>23</sup>, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

35. A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

36. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board<sup>24</sup>.

### Practical guidance

37. The legislative requirements about knowledge and understanding only apply to pension board members. However, scheme managers should take account of this guidance as it will support them in understanding the legal framework and enable them to help pension board members to meet their legal obligations.

38. Schemes<sup>25</sup> should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented.

39. However, it is the responsibility of individual pension board members to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board.

23

See paragraph 21 for the definition of the 'rules of the scheme'.

24

Section 248A of the Pensions Act 2004.

25

See paragraph 25 for the definition of 'schemes'.



## Areas of knowledge and understanding required

40. Pension board members must be conversant with their scheme rules, which are primarily found in the scheme regulations<sup>26</sup>, and documented administration policies currently in force for their pension scheme<sup>27</sup>. Being 'conversant' means having a working knowledge of the scheme regulations and policies, so that pension board members can use them effectively when carrying out their duties.
41. They must also have knowledge and understanding of the law relating to pensions (and any other matters prescribed in legislation) to the degree appropriate for them to be able to carry out their role, responsibilities and duties.
42. In terms of documented administration policies, specific documents recording policy about administration will vary from scheme to scheme. However, the following are examples of administration policies which the regulator considers to be particularly pertinent and would expect to be documented where relevant to a pension scheme, and with which pension board members must therefore be conversant where applicable<sup>28</sup>. This list is not exhaustive and other documented policies may fall into this category:
- any scheme-approved policies relating to:
    - conflicts of interest and the register of interests
    - record-keeping
    - internal dispute resolution
    - reporting breaches
    - maintaining contributions to the scheme
    - the appointment of pension board members
  - risk assessments/management and risk register policies for the scheme
  - scheme booklets, announcements and other key member and employer communications, which describe scheme policies and procedures
  - the roles, responsibilities and duties of the scheme manager, pension board and individual pension board members
  - terms of reference, structure and operational policies of the pension board and/or any sub-committee
  - statements of policy about the exercise of discretionary functions

26  
See paragraph 21 for the definition of the 'rules of the scheme'.

27  
Section 248A(2) of the Pensions Act 2004.

28  
Section 248A(2)(b) of the Pensions Act 2004.

- statements of policy about communications with members and scheme employers
  - the pension administration strategy, or equivalent<sup>29</sup>, and
  - any admission body (or equivalent) policies.
43. For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to funding and investment matters. For example, where relevant they must be conversant with the statement of investment principles and the funding strategy statement<sup>30</sup>.
44. Pension board members must also be conversant with any other documented policies relating to the administration of the scheme. For example, where applicable, they must be conversant with policies relating to:
- the contribution rate or amount (or the range/variability where there is no one single rate or amount) payable by employers participating in the scheme
  - statements of assurance (for example, assurance reports from administrators)
  - third party contracts and service level agreements
  - stewardship reports from outsourced service providers (for example, those performing outsourced activities such as scheme administration), including about compliance issues
  - scheme annual reports and accounts
  - accounting requirements relevant to the scheme
  - audit reports, including from outsourced service providers, and
  - other scheme-specific governance documents.
45. Where DC or DC AVC options are offered, pension board members should also be familiar with the requirements for the payment of member contributions to the providers, the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.
46. Schemes should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant. This will enable them to effectively carry out their role. They should make sure that both the list and the documents are available in accessible formats.

<sup>29</sup>  
For the local government pension schemes, this might include information about the setting of performance targets or making agreements about levels of performance.

<sup>30</sup>  
Section 248A(2)(b) of the Pensions Act 2004.

## Degree of knowledge and understanding required

47. The roles, responsibilities and duties of pension boards and their individual members will vary between pension schemes. Matters for which the pension board is responsible will be set out in scheme regulations<sup>31</sup>. Clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards should be set out in scheme documentation.
48. Schemes should assist individual pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member.
49. Pension board members must have a working knowledge of their scheme regulations and documented administration policies. They should understand their scheme regulations and policies in enough detail to know where they are relevant to an issue and where a particular provision or policy may apply.
50. Pension board members must have knowledge and understanding of the law relating to pensions (and any other prescribed matters) sufficient for them to exercise the functions of their role. Pension board members should be aware of the range and extent of the law relating to pensions which applies to their scheme, and have sufficient understanding of the content and effect of that law to recognise when and how it impacts on their responsibilities and duties.
51. Pension board members should be able to identify and where relevant challenge any failure to comply with:
  - the scheme regulations
  - other legislation relating to the governance and administration of the scheme
  - any requirements imposed by the regulator, or
  - any failure to meet the standards and expectations set out in any relevant codes of practice issued by the regulator.
52. Pension board members' breadth of knowledge and understanding should be sufficient to allow them to understand fully and challenge any information or advice they are given. They should understand how that information or advice impacts on any issue or decision relevant to their responsibilities and duties.

31  
Section 5(2) of the 2013  
Act.

53. Pension board members of funded pension schemes should ensure that they have the appropriate degree of knowledge and understanding of funding and investment matters relating to their scheme to enable them to effectively carry out their role. This includes having a working knowledge of provisions in their scheme regulations and administration policies that relate to funding and investment, as well as knowledge and understanding of relevant law relating to pensions.
54. All board members should attain appropriate knowledge so that they are able to understand the relevant law in relation to their scheme and role. The degree of knowledge and understanding required of pension board members may vary according to the role of the board member, as well as the expertise of the board member. For example, a board member who is also a pensions law expert (for instance, as a result of their day job) should have a greater level of knowledge than that considered appropriate for board members without this background.

### **Acquiring, reviewing and updating knowledge and understanding**

55. Pension board members should invest sufficient time in their learning and development alongside their other responsibilities and duties. Schemes should provide pension board members with the relevant training and support that they require. Training is an important part of the individual's role and will help to ensure that they have the necessary knowledge and understanding to effectively meet their legal obligations.
56. Newly appointed pension board members should be aware that their responsibilities and duties as a pension board member begin from the date they take up their post. Therefore, they should immediately start to familiarise themselves with the scheme regulations, documents recording policy about the administration of the scheme and relevant pensions law. Schemes should offer pre-appointment training or arrange for mentoring by existing pension board members. This can also ensure that historical and scheme-specific knowledge is retained when pension board members change.
57. Pension board members should undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. They should use a personalised training plan to document and address these promptly.

58. Learning programmes should be flexible, allowing pension board members to update particular areas of learning where required and to acquire new areas of knowledge in the event of any change. For example, pension board members who take on new responsibilities will need to ensure that they gain appropriate knowledge and understanding relevant to carrying out those new responsibilities.
59. The regulator will provide an e-learning programme to help meet the needs of pension board members, whether or not they have access to other learning. If schemes choose alternative learning programmes they should be confident that those programmes:
- cover the type and degree of knowledge and understanding required
  - reflect the legal requirements, and
  - are delivered within an appropriate timescale.

## Demonstrating knowledge and understanding

60. Schemes should keep appropriate records of the learning activities of individual pension board members and the board as a whole. This will help pension board members to demonstrate steps they have taken to comply with legal requirements and how they have mitigated risks associated with knowledge gaps. A good external learning programme will maintain records of the learning activities of individuals on the programme or of group activities, if these have taken place.

## Conflicts of interest and representation

### Legal requirements

61. A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the pension board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established<sup>32</sup>.
62. In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:
- that a person to be appointed as a member of the pension board does not have a conflict of interest and
  - from time to time, that none of the members of the pension board has a conflict of interest<sup>33</sup>.

32  
Section 5(5) of the 2013 Act defines a conflict of interest in relation to pension board members and s7(5) of that Act in relation to scheme advisory board members.

33  
Section 5(4)(a), *ibid*.

63. Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above<sup>34</sup>.
64. Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers<sup>35</sup>.
65. In relation to the scheme advisory board, the regulations must also include provision requiring the responsible authority to be satisfied:
  - that a person to be appointed as a member of the scheme advisory board does not have a conflict of interest and
  - from time to time, that none of the members of the scheme advisory board has a conflict of interest<sup>36</sup>.
66. Scheme regulations must require each member of a scheme advisory board to provide the responsible authority with such information as the responsible authority reasonably requires for the purposes of meeting the requirements referred to above<sup>37</sup>.

## Practical guidance

67. This guidance is to help scheme managers to meet the legal requirement to be satisfied that pension board members do not have any conflicts of interest. The same requirements apply to responsible authorities in relation to scheme advisory boards, (apart from the requirement regarding employer and member representatives), but the regulator does not have specific responsibility for oversight of scheme advisory boards.
68. Actual conflicts of interest are prohibited by the 2013 Act and cannot, therefore, be managed. Only potential conflicts of interest can be managed.
69. A conflict of interest may arise when pension board members:
  - must fulfil their statutory role<sup>38</sup> of assisting the scheme manager in securing compliance with the scheme regulations, other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator or with any other matter for which they are responsible, whilst
  - having a separate personal interest (financial or otherwise), the nature of which gives rise to a possible conflict with their statutory role.

34  
Section 5(4)(b) of the  
2013 Act.

35  
Section 5(4)(c), *ibid.*

36  
Section 7(4)(a), *ibid.*

37  
Section 7(4)(b), *ibid.*

38  
Section 5(2), *ibid.*

70. Some, if not all, of the 'Seven principles of public life' (formerly known as the 'Nolan principles')<sup>39</sup> will already apply to people carrying out roles in public service pension schemes, for example through the Ministerial code, Civil Service code or other codes of conduct. These principles should be applied to all pension board members in the exercise of their functions as they require the highest standards of conduct. Schemes should incorporate the principles into any codes of conduct (and across their policies and processes) and other internal standards for pension boards.
71. Other legal requirements relating to conflicts of interest may apply to pension board members and/or scheme advisory board members<sup>40</sup>. The regulator may not have specific responsibility for enforcing all such legal requirements, but it does have a particular role in relation to pension board members and conflicts of interest. While pension board members may be subject to other legal requirements, when exercising functions as a member of a pension board they must meet the specific requirements of the 2013 Act and are expected to satisfy the standards of conduct and practice set out in this code.
72. It is likely that some pension board members will have dual interests, which may include other responsibilities. Scheme managers and pension board members will need to consider all other interests, financial or otherwise, when considering interests which may give rise to a potential or actual conflict. For example, a finance officer appointed as a pension board member can offer their knowledge and make substantial contributions to the operational effectiveness of the scheme, but from time to time they may be involved in a decision or matter which may be, or appear to be, in opposition to another interest. For instance, the pension board may be required to take or scrutinise a decision which involves the use of departmental resources to improve scheme administration, while the finance officer is at the same time tasked, by virtue of their employment, with reducing departmental spending. A finance officer might not be prevented from being a member of a pension board, but the scheme manager must be satisfied that their dual interests are not likely to prejudice the pension board member in the exercise of any particular function.

39

The Committee on Standards in Public Life has set out seven principles of public life which apply to anyone who works as a public office holder or in other sectors delivering public services: [www.gov.uk/government/publications/the-7-principles-of-public-life](http://www.gov.uk/government/publications/the-7-principles-of-public-life).

40

For example, local government legislation applicable to English local authorities contains legal requirements relating to certain people about standards of conduct, conflicts of interest and disclosure of certain interests.

73. Scheme regulations will set out matters for which the pension board is responsible<sup>41</sup>. Schemes<sup>42</sup> should set out clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards in scheme documentation. This should cover, for example, whether they have responsibility for administering or monitoring the administration of the scheme; developing, delivering or overseeing compliance with requirements for governance and/or administration policies; and taking or scrutinising decisions relating to governance and/or administration. Regardless of their remit, potential conflicts of interest affecting pension board members need to be identified, monitored and managed effectively.
74. Schemes should consider potential conflicts of interest in relation to the full scope of roles, responsibilities and duties of pension board members. It is recommended that all those involved in the management or administration of public service pension schemes take professional legal advice when considering issues to do with conflicts of interest.

### **A three-stage approach to managing potential conflicts of interest**

75. Conflicts of interest can inhibit open discussions and result in decisions, actions or inactions which could lead to ineffective governance and administration of the scheme. They may result in pension boards acting improperly, or lead to a perception that they have acted improperly. It is therefore essential that any interests, which have the potential to become conflicts of interest or be perceived as conflicts of interest, are identified and that potential conflicts of interest (including perceived conflicts) are monitored and managed effectively.
76. Schemes should ensure that there is an agreed and documented conflicts policy and procedure, which includes identifying, monitoring and managing potential conflicts of interest. They should keep this under regular review. Policies and procedures should include examples of scenarios giving rise to conflicts of interest, how a conflict might arise specifically in relation to a pension board member and the process that pension board members and scheme managers should follow to address a situation where board members are subject to a potential or actual conflict of interest.

41  
Section 5(2) of the 2013 Act.

42  
See paragraph 25 for the definition of 'schemes'.



77. Broadly, schemes should consider potential conflicts of interest in three stages:
- identifying
  - monitoring, and
  - managing.

### Identifying potential conflicts

78. Schemes should cultivate a culture of openness and transparency. They should recognise the need for continual consideration of potential conflicts. Disclosure of interests which have the potential to become conflicts of interest should not be ignored. Pension board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest. They should know how to manage potential conflicts.
79. Pension board members, and people who are proposed to be appointed to a pension board, must provide scheme managers with information that they reasonably require to be satisfied that pension board members and proposed members do not have a conflict of interest<sup>43</sup>.
80. Schemes should ensure that pension board members are appointed under procedures that require them to disclose any interests, including other responsibilities, which could become conflicts of interest and which may adversely affect their suitability for the role, before they are appointed.
81. All terms of engagement, for example appointment letters, should include a clause requiring disclosure of all interests, including any other responsibilities, which have the potential to become conflicts of interest, as soon as they arise. All interests disclosed should be recorded. See the section of this code on 'Monitoring potential conflicts'.
82. Schemes should take time to consider what important matters or decisions are likely to be considered during, for example, the year ahead and identify and consider any potential or actual conflicts of interest that may arise in the future. Pension board members should be notified as soon as practically possible and mitigations should be put in place to prevent these conflicts from materialising.

43  
Section 5(4)(b) of the  
2013 Act and scheme  
regulations.

## Monitoring potential conflicts

83. As part of their risk assessment process, schemes should identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. Schemes should evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.
84. A register of interests should provide a simple and effective means of recording and monitoring dual interests and responsibilities. Schemes should also capture decisions about how to manage potential conflicts of interest in their risk registers or elsewhere. The register of interests and other relevant documents should be circulated to the pension board for ongoing review and published, for example on a scheme's website.
85. Conflicts of interest should be included as an opening agenda item at board meetings and revisited during the meeting, where necessary. This provides an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising.

## Managing potential conflicts

86. Schemes should establish and operate procedures which ensure that pension boards are not compromised by potentially conflicted members. They should consider and determine the roles and responsibilities of pension boards and individual board members carefully to ensure that conflicts of interest do not arise, nor are perceived to have arisen.
87. A perceived conflict of interest can be as damaging to the reputation of a scheme as an actual conflict of interest. It could result in scheme members and interested parties losing confidence in the way a scheme is governed and administered. Schemes should be open and transparent about the way they manage potential conflicts of interest.
88. When seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the pension board, schemes should consider obtaining professional legal advice when assessing any option.

## Examples of conflicts of interest

89. Below are some examples of potential or actual conflicts of interest which could arise, or be perceived to arise, in relation to public service pension schemes. These will depend on the precise role, responsibilities and duties of a pension board. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement based on the principles set out in this code and any legal advice considered appropriate, on a case-by-case basis.

### **a. Investing to improve scheme administration versus saving money**

An employer representative, who may be a Permanent Secretary, finance officer or local councillor, is aware that system X would help to improve standards of record-keeping in the scheme, but it would be costly to implement. The scheme manager, for instance a central government department or local administering authority, would need to meet the costs of the new system at a time when there is internal and external pressure to keep costs down. In order to meet the costs of the new system, the scheme manager would need to find money, perhaps by using a budget that was intended for another purpose. This decision could prove unpopular with taxpayers. A conflict of interest could arise where the employer representative was likely to be prejudiced in the exercise of their functions by virtue of their dual interests.

### **b. Outsourcing an activity versus keeping an activity in-house**

In an extension of the previous example, a member representative, who is also an employee of a participating employer, is aware that system X would help to improve standards of record-keeping in the scheme, but it would mean outsourcing an activity that is currently being undertaken in-house by their employer. The member representative could be conflicted if they were likely to be prejudiced in the exercise of their functions by virtue of their employment.

### **c. Representing the breadth of employers or membership versus representing narrow interests**

An employer representative who happens to be employed by the administering authority and is appointed to the pension board to represent employers generally could be conflicted if they only serve to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if they only act in the interests of their union and union membership, rather than all scheme members.

#### **d. Assisting the scheme manager versus furthering personal interests**

- i. A pension board member, who is also a scheme adviser, may recommend the services or products of a related party, for which they might derive some form of benefit, resulting in them not providing, or not being seen to provide, independent advice or services
- ii. A pension board member who is involved in procuring or tendering for services for a scheme administrator, and who can influence the award of a contract, may be conflicted where they have an interest in a particular supplier, for example, a family member works there.

#### **e) Sharing information with the pension board versus a duty of confidentiality to an employer**

An employer representative has access to information by virtue of their employment, which could influence or inform the considerations or decisions of the pension board. They have to consider whether to share this information with the pension board in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the pension board.

## **Representation on pension boards**

90. While scheme regulations must require pension boards to have an equal number of employer and member representatives<sup>44</sup>, there is flexibility to design arrangements which best suit each scheme.
91. Arrangements should be designed with regard to the principles of proportionality, fairness and transparency, and with the aim of ensuring that a pension board has the right balance of skills, experience and representation (for example, of membership categories and categories of employers participating in the scheme). Those responsible for appointing members to a pension board should also consider the mix of skills and experience needed on the pension board in order for the board to operate effectively in light of its particular role, responsibilities and duties.

44  
Section 5(4)(c) of the  
2013 Act.

## Publishing information about schemes

### Legal requirements

92. The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date<sup>45</sup>.
93. The information must include:
  - who the members of the pension board are
  - representation on the board of members of the scheme(s), and
  - the matters falling within the pension board's responsibility<sup>46</sup>.

### Practical guidance

#### Publication of pension board information

94. Scheme members will want to know that their scheme is being efficiently and effectively managed. Public service pension schemes should have a properly constituted, trained and competent pension board, which is responsible for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the regulator.
95. Scheme managers must publish the information required about the pension board and keep that information up-to-date<sup>47</sup>. This will ensure that scheme members can easily access information about who the pension board members are, how pension scheme members are represented on the pension board and the responsibilities of the board as a whole.
96. When publishing information about the identity of pension board members, the representation of scheme members and matters for which the board is responsible, schemes<sup>48</sup> should also publish useful related information about the pension board such as:
  - the employment and job title (where relevant) and any other relevant position held by each board member
  - the pension board appointment process
  - who each pension board member represents
  - the full terms of reference for the pension board, including details of how it will operate, and
  - any specific roles and responsibilities of individual pension board members.

45  
Section 6(1) of the 2013 Act.

46  
Section 6(2), *ibid.*

47  
Section 6(1), *ibid.*

48  
See paragraph 25 for the definition of 'schemes'.

97. Schemes should also consider publishing information about pension board business, for example board papers, agendas and minutes of meetings (redacted to the extent that they contain confidential information and/or data covered by the Data Protection Act 1998). They should consider any requests for additional information to be published, to encourage scheme member engagement and promote a culture of transparency.
98. Scheme managers must ensure that information published about the pension board is kept up-to-date<sup>49</sup>. Schemes should have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete.

## Other legal requirements

99. Scheme managers (or any other person specified in legislation) must comply with any other legal requirements relating to the publication of information about governance and administration. In particular, HM Treasury directions may require the scheme manager or responsible authority of a public service pension scheme to publish scheme information, including information about scheme administration and governance and may specify how and when information is to be published<sup>50</sup>.

49  
Section 6(1) of the 2013  
Act.

50  
Section 15, *ibid.*

# Managing risks

100. This part of the code covers the requirement for scheme managers to establish and operate adequate internal controls.

## Internal controls

### Legal requirements

101. The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

102. For these purposes 'internal controls' means:

- arrangements and procedures to be followed in the administration and management of the scheme
- systems and arrangements for monitoring that administration and management, and
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme<sup>51</sup>.

### Practical guidance

103. Internal controls are systems, arrangements and procedures that are put in place to ensure that pension schemes are being run in accordance with the scheme rules (which for most public service pension schemes are set out in the scheme regulations) and other law. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.

104. Good internal controls are an important characteristic of a well-run scheme and one of the main components of the scheme manager's role in securing the effective governance and administration of the scheme. Internal controls can help protect pension schemes from adverse risks, which could be detrimental to the scheme and members if they are not mitigated.

105. Scheme managers must establish and operate internal controls<sup>52</sup>. These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls. They should seek advice, as necessary.

<sup>51</sup> Section 249A(5) and s249B of the Pensions Act 2004.

<sup>52</sup> Section 249B, *ibid.*

## Identifying risks

106. Before implementing an internal controls framework, schemes<sup>53</sup> should carry out a risk assessment. They should begin by:
- setting the objectives of the scheme
  - determining the various functions and activities carried out in the running of the scheme, and
  - identifying the main risks associated with those objectives, functions and activities.
107. An effective risk assessment process will help schemes to identify a wide range of internal and external risks, which are critical to the scheme and members. When identifying risks, schemes should refer to relevant sources of information, such as records of internal disputes and legislative breaches, the register of interests, internal and external audit reports and service contracts.
108. Once schemes have identified risks, they should record them in a risk register and review them regularly. Schemes should keep appropriate records to help scheme managers demonstrate steps they have taken to comply, if necessary, with legal requirements.

## Evaluating risks and establishing adequate internal controls

109. Not all risks will have the same potential impact on scheme operations and members or the same likelihood of materialising. Schemes should consider both these areas when determining the order of priority for managing risks and focus on those areas where the impact and likelihood of a risk materialising is high.
110. Many pension schemes will already have adequate internal controls in place, some of which may apply to a variety of the functions of the administering authority. Schemes should review their existing arrangements and procedures to determine whether they can prevent and detect errors in scheme operations and help mitigate pension scheme-related risks. For example, schemes could obtain assurance about their existing controls through direct testing or by obtaining reports on controls. Any such review should be appropriate to the outcome of the risk evaluation.
111. Schemes should consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. For example, the scheme manager(s) for a funded scheme should establish and operate internal controls that regularly assess the effectiveness of investment-related decision making. Scheme managers for all pension schemes should establish and operate internal controls that regularly assess the effectiveness of data management and record-keeping.

53  
See paragraph 25 for the definition of 'schemes'.



## Managing risks by operating internal controls

112. Schemes should consider a number of issues when designing internal controls to manage risks. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement, based on the principles set out in this code and any advice considered appropriate, particularly in light of any problems experienced in the past.

**a. How the control is to be implemented and the skills of the person performing the control**

For example, schemes should ensure that new employers participating in the scheme understand what member data are required and the process for supplying it. Where employers fail to supply the correct data or do not follow the correct process, schemes should ensure that the employer identifies the cause of the error and that appropriate action is taken to avoid recurrence, for example remedying a systemic error or providing the relevant training.

**b. The level of reliance that can be placed on information technology solutions where processes are automated**

For example, where scheme administration processes use an automated system, internal or external auditors could audit the system on an annual basis to assess whether it is capable of performing a required function and report any issues that are identified.

**c. Whether a control is capable of preventing future recurrence or merely detecting an event that has already happened**

For example, schemes should ensure that their systems support the maintenance and retention of good member records. This includes implementing procedures and controls which identify where systems are not fit for purpose, there are gaps in the data, the data are of a poor quality and/or there has been a loss of data.

**d. The frequency and timeliness of a control process**

For example, schemes should ensure that data are complete. They should undertake a data-cleansing or member-tracing exercise and review this on a regular basis (at least annually or at regular intervals that they consider appropriate for the scheme).

**e. How the control will ensure that data are managed securely**

For example, schemes should ensure that all staff, including temporary or contract staff, complete information management training before they are given access to sensitive data.

**f. The process for flagging errors or control failures, and approval and authorisation controls**

For example, schemes should ensure that member communications such as member information booklets are reviewed regularly, particularly where there are changes to the scheme. All relevant parties should be aware of how they should flag errors and the authorisation required before any changes are made to the communications.

**Monitoring controls effectively**

113. Risk assessment is a continual process and should take account of a changing environment and new and emerging risks, including significant changes in or affecting the scheme and employers who participate in the scheme.
114. For example, where relevant, schemes should put in place systems and processes for making an objective assessment of the strength of an employer's covenant (which should include analysis of their financial position, prospects and ability to pay the necessary employer contributions).
115. An effective risk assessment process will provide a mechanism to detect weaknesses at an early stage. Schemes should periodically review the adequacy of internal controls in:
  - mitigating risks
  - supporting longer-term strategic aims, for example relating to investments
  - identifying success (or otherwise) in achieving agreed objectives, and
  - providing a framework against which compliance with the scheme regulations and legislation can be monitored.
116. Internal or external audits and/or quality assurance processes should ensure that adequate internal controls are in place and being operated effectively. Reviews should take place when substantial changes take place, such as changes to pension scheme personnel, implementation of new administration systems or processes, or where a control has been found to be inadequate.
117. A persistent failure to put in place adequate internal controls may be a contributory cause of an administrative breach. Where the effect and wider implications of not having in place adequate internal controls are likely to be 'materially significant', the regulator would expect to receive a whistleblowing report that outlines relevant information relating to the breach. For more information, see the 'Reporting breaches of the law' section of this code.

118. Ultimately, the legal responsibility for establishing and operating adequate internal controls rests with the scheme manager<sup>54</sup>. Scheme regulations or other documents may delegate responsibilities to pension board members or others – for example identifying, evaluating and managing risks, developing and maintaining appropriate controls and providing assurance to the scheme manager about any controls in place. However, accountability for those controls and the governance of policies, procedures and processes will reside with the scheme manager.

## Outsourcing services

119. The legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme. Providers should be required to demonstrate that they will have adequate internal controls in their tenders for delivering services. The requirements should be incorporated in the terms of engagement and contract between the scheme and service provider. Outsourced services may include, for example, the maintenance of records and data, calculation of benefits and investment management services. Where services are outsourced, scheme managers should be satisfied that internal controls associated with those services are adequate and effective.

120. An increasing number of service providers are obtaining independent assurance reports to help demonstrate their ability to deliver quality administration services. Schemes should ask their service providers to demonstrate that they have adequate internal controls relating to the services they provide. It is vital that schemes ensure they receive sufficient assurance from service providers. For example, the information from providers should be sufficiently detailed and comprehensive and the service level agreements should cover all services that are outsourced. Schemes should also consider including provisions in contracts for outsourced services requiring compliance with appropriate standards. This should help to ensure effective administration.

54  
Section 249B of the  
Pensions Act 2004.

# Administration

121. This part of the code covers:

- scheme record-keeping
- maintaining contributions, and
- providing information to members.

## Scheme record-keeping

### Legal requirements

122. Scheme managers must keep records of information relating to:

- member information<sup>55</sup>
- transactions<sup>56</sup>, and
- pension board meetings and decisions<sup>57</sup>.

123. The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 ('the Record Keeping Regulations').

### Practical guidance

124. Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes<sup>58</sup> to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and ultimately paying members incorrect benefits. For funded schemes, it may lead to schemes managing investment risks ineffectively. There is also the potential for the maladministration of members' contributions and failure to identify any misappropriation of assets. Schemes should be able to demonstrate to the regulator, where required, that they keep accurate, up-to-date and enduring records to be able to govern and administer their pension scheme efficiently.

125. Scheme managers must establish and operate adequate internal controls<sup>59</sup>, which should include processes and systems to support record-keeping requirements and ensure that they are effective at all times.

55  
Regulation 4 of the Record Keeping Regulations.

56  
Regulation 5, *ibid.*

57  
Regulation 6, *ibid.*

58  
See paragraph 25 for the definition of 'schemes'.

59  
Section 249B of the Pensions Act 2004.

## Records of member information

126. Scheme managers must ensure that member data across all membership categories specified in the Record Keeping Regulations is complete and accurate<sup>60</sup>. Member data should be subject to regular data evaluation.
127. Scheme managers must keep specific member data<sup>61</sup>, which will enable them to uniquely identify a scheme member and calculate benefits correctly. This is particularly important with the establishment of career average revalued earnings (CARE) schemes. Scheme managers must be able to provide members with accurate information regarding their pension benefits (accrued benefits to date and their future projected entitlements) in accordance with legislative requirements<sup>62</sup>, as well as pay the right benefits to the right person (including all beneficiaries) at the right time.
128. Schemes should require participating employers to provide them with timely and accurate data in order for the scheme manager to be able to fulfil their legal obligations. Schemes should seek to ensure that processes are established by employers which enable the transmission of complete and accurate data from the outset. Processes will vary from employer to employer, depending on factors such as employee turnover, pay periods, number of employees who are members and the timing and number of payroll processing systems.
129. Schemes should seek to ensure that employers understand the main events which require information about members to be passed from the employer to the scheme and/or another employer, such as when an employee:
- joins or leaves the scheme
  - changes their rate of contributions
  - changes their name, address or salary
  - changes their member status, and
  - transfers employment between scheme employers.
130. Schemes should ensure that appropriate procedures and timescales are in place for scheme employers to provide updated information when member data changes, for checking scheme data against employer data and for receiving information which may affect the profile of the scheme. If an employer fails to act according to the procedures set out above, meaning that they and/or scheme managers may not be complying with legal requirements, those under a statutory duty to report breaches of the law to the regulator under section 70 of the Pensions Act 2004 should assess whether there has been a relevant breach and take action as necessary.

<sup>60</sup>  
Section 16 and s30 of the 2013 Act. Regulation 4 of the Record Keeping Regulations specifies member records which must be kept. The Data Protection Act 1998 requires personal data to be accurate and up-to-date.

<sup>61</sup>  
Regulation 4 of the Record Keeping Regulations.

<sup>62</sup>  
Legislative requirements include s14 of the 2013 Act, HM Treasury directions made under that section, and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.

## Records of transactions

131. Schemes should be able to trace the flow of funds into and out of the scheme and reconcile these against expected contributions and scheme costs. In doing so, they will have clear oversight of the core scheme transactions and should be able to mitigate risks swiftly.
132. Scheme managers must keep records of transactions made to and from the scheme and any amount due to the scheme which has been written off<sup>63</sup>. They should be able to demonstrate that they do so.

## Records of pension board meetings and decisions

133. Scheme managers must keep records of pension board meetings including any decisions made<sup>64</sup>. Schemes should also keep records of key discussions, which may include topics such as compliance with policies relating to administration of the scheme.
134. Scheme managers must also keep records relating to any decision taken by members of the pension board other than at a pension board meeting, or taken by a committee/sub-committee, which has not been ratified by the pension board. The records must include the date, time and place of the decision and the names of board members participating in that decision<sup>65</sup>. This will ensure that there is a clear and transparent audit trail of the decisions made in relation to the scheme.

## Retention of scheme records

135. Schemes should retain records for as long as they are needed. It is likely that data will need to be held for long periods of time and schemes will need to retain some records for a member even after that individual has retired, ensuring that pension benefits can be properly administered over the lifetime of the member and their beneficiaries. Schemes should have in place adequate systems and processes to enable the retention of records for the necessary time periods.

## Ongoing monitoring of data

136. Schemes should have policies and processes that monitor data on an ongoing basis to ensure it is accurate and complete, regardless of the volume of scheme transactions. This should be in relation to all membership categories, including pensioner member data where queries may arise once the pension is being paid.
137. Schemes should adopt a proportionate and risk-based approach to monitoring, based on any known or historical issues that may have occurred in relation to the scheme's administration. This is particularly important for the effective administration of CARE pension schemes, which requires schemes to hold significantly more data than needed for final salary schemes.

63  
Regulation 5 of the  
Record Keeping  
Regulations.

64  
Regulation 6, *ibid.*

65  
*Ibid.*

## Data review exercise

138. Schemes should continually review their data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held. Schemes should decide the frequency and nature of the review in light of factors such as the level of data quality, any issues identified and key scheme events.
139. Where the management of scheme data has been outsourced, it is vital that schemes understand and are satisfied that the controls in place will ensure the integrity of scheme member data. They should ensure that the administrator has assessed the risks that poor or deficient member records may present to the scheme and has taken the necessary steps to mitigate them, where applicable.
140. Where there has been a change of administrator or the administration system/platform, schemes should review and cleanse data records and satisfy themselves that all data are complete and accurate.

## Data improvement plan

141. Where schemes identify poor quality or missing data, they should put a data improvement plan in place to address these issues. The plan should have specific data improvement measures which schemes can monitor and a defined end date within a reasonable timeframe when the scheme will have complete and accurate data.

## Reconciliation of member records

142. Schemes should ensure that member records are reconciled with information held by the employer, for example postal address or electronic address (email address) changes and new starters. Schemes should also ensure that the numbers of scheme members is as expected based on the number of leavers and joiners since the last reconciliation. Schemes should be able to determine those members who are approaching retirement, those who are active members and those who are deferred members.

## Data protection and internal controls

143. Schemes must ensure that processes that are created to manage scheme member data meet the requirements of the Data Protection Act 1998 and the data protection principles.

144. Schemes should understand:

- their obligations as data controllers and who the data processors are in relation to the scheme
- the difference between personal data and sensitive personal data (as defined in the Data Protection Act 1998)
- how data are held and how they should respond to data requests from different parties
- the systems which need to be in place to store, move and destroy data, and
- how data protection affects member communications.

## Other legal requirements

145. In addition to the requirements set out in the Record Keeping Regulations, there are various other legal requirements that relate to record-keeping in public service pension schemes. Those requirements apply variously to managers, administrators and employers. Not all requirements apply to all public service pension schemes, but some of the key requirements are set out under the following legislation:

- Pensions Act 1995 and 2004
- Pensions Act 2008 and the Employers' Duties (Registration and Compliance) Regulations 2010<sup>66</sup>
- Occupational Pension Schemes (Scheme Administration) Regulations 1996
- Registered Pension Schemes (Provision of Information) Regulations 2006
- Data Protection Act 1998, and
- Freedom of Information Act 2000.

146. Where applicable, schemes should be able to demonstrate that they keep records in accordance with these and any other relevant legal requirements. Schemes should read the relevant legislation and any guidance in conjunction with this code where applicable.

<sup>66</sup> See the regulator's guidance about automatic enrolment for more information about record-keeping requirements under this legislation.



## Maintaining contributions

### Legal requirements

147. Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable<sup>67</sup>.
148. Where employee contributions are deducted from a member's pay, the amount deducted must be paid to the managers of the scheme at the latest by the 19th day of the month following the deduction, or by the 22nd day if paid electronically (the 'prescribed period')<sup>68</sup>, or earlier if required by scheme regulations. References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or Bank Holidays.
149. Where employee contributions are not paid within the prescribed period, if the scheme manager<sup>69</sup> has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period<sup>70</sup>. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law. For more information about reporting breaches of the law, see this section of the code.

67  
Section 70A of the Pensions Act 2004.

68  
Section 49(8) of the Pensions Act 1995 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

69  
The legal requirement to report late payments of employee contributions is imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

70  
Section 49(9) of the Pensions Act 1995.

71  
See paragraph 25 for the definition of 'schemes'.

### Practical guidance

150. As part of the requirement to establish and operate adequate internal controls, scheme managers should ensure that there are effective procedures and processes in place to identify payment failures that are – and are not – of material significance to the regulator. A 'payment failure' is where contribution payments are not paid to the scheme by the due date(s), or within the prescribed period and a 'materially significant payment failure' refers to a payment failure which is likely to be of material significance to the regulator in the exercise of its functions.
151. Schemes<sup>71</sup> should monitor pension contributions, resolve payment issues and report payment failures, as appropriate, so that the scheme is administered and managed in accordance with the scheme regulations and other legal requirements.

152. Adequate procedures and processes are likely to involve:

- developing a record to monitor the payment of contributions
- monitoring the payment of contributions
- managing overdue contributions, and
- reporting materially significant payment failures.

153. These procedures and processes should help scheme managers to meet their statutory duty to report materially significant payment failures to the regulator, as well as ensuring the effective management of scheme contributions and payment of the right pension.

### **Developing a record for monitoring the payment of contributions**

154. There are legislative requirements for managers of DB schemes to keep a schedule of contributions; and for DC schemes, a payment schedule, which allows managers to monitor contributions to their scheme. There are various exemptions from these requirements including for DB and DC schemes which are established by or under an enactment and which are guaranteed by a Minister of the Crown or other public authority, and for DB schemes which are pay-as-you-go schemes<sup>72</sup>.

155. Public service pension schemes which meet these exemptions should nonetheless develop a record for monitoring the payment of contributions to the scheme (a contributions monitoring record, which must reflect any requirements in scheme regulations where relevant). Schemes should prepare the contributions monitoring record in consultation with employers.

156. A contributions monitoring record will enable schemes to check whether contributions have been paid on time and in full, and, if they have not, provide a trigger for escalation for schemes to investigate the payment failure and consideration of whether scheme managers need to report to the regulator and, where relevant, members.

157. A contributions monitoring record should include the following information:

- contribution rates
- the date(s) on or before which employer contributions are to be paid to the scheme
- the date by when, or period within which, the employee contributions are to be paid to the scheme
- the rate or amount of interest payable where the payment of contributions is late.

72

Exemptions from the requirement to secure a schedule of contributions in respect of DB schemes under s227 of the Pensions Act 2004 are in regulation 17 of the Occupational Pension Schemes (Scheme Funding) Regulations 2005. Exemptions from the requirement to secure a payment schedule in respect of DC schemes under s87 of the Pensions Act 1995 is in regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

158. The date when employer contributions must be paid is the date on or before which they are due under the scheme in accordance with the scheme regulations (or other scheme documentation). Schemes should assess the timing of payments against the date specified.
159. While there is a legal requirement for employee contributions to be paid to the scheme by the 19th day of the month following deduction, or by the 22nd day if paid electronically, this does not override any earlier time periods required by the scheme regulations. There are special rules for the first deduction of contributions on automatic enrolment under the Pensions Act 2008<sup>73</sup>.
160. A contributions monitoring record should help schemes to identify any employers who are not paying contributions on time and/or in full, support schemes to ensure that contributions are paid and employers to develop and implement new processes, as appropriate. The contributions monitoring record should provide schemes with information to maintain records of money received and will be useful for schemes to ensure that their member records are kept up-to-date.

### Monitoring the payment of contributions

161. Schemes should monitor contributions on an ongoing basis for all the membership categories within the scheme. Schemes should regularly check payments due against the contributions monitoring record.
162. Schemes should apply a risk-based and proportionate approach to help identify employers and situations which present a higher risk of payment failures occurring and which are likely to be of material significance and require the scheme manager to intervene.
163. Schemes should be aware of what is to be paid in accordance with the contributions monitoring record or other scheme documentation, which may be used by the pension scheme. Schemes should also have a process in place to identify where payments are late or have been underpaid, overpaid or not paid at all.
164. For schemes to effectively monitor contributions they will require access to certain information. Employers will often provide the payment information that schemes need to monitor contributions at the same time as they send the contributions to the scheme, which may be required under the scheme regulations. Payment information may include:
  - the employer and employee contributions due to be paid, which should be specified in the scheme regulations and/or other scheme documentation
  - the pensionable pay that contributions are based upon (where required), and
  - due date(s) on or before which payment of contributions and other amounts are to be made.

73  
Regulation 16 of the  
Occupational Pension  
Schemes (Scheme  
Administration)  
Regulations 1996.

165. Schemes should have adequate internal controls in place to monitor the sharing of payment information between the employer, pension scheme and member. Where the necessary payment information is not automatically available or provided by employers, schemes should request the additional information they need. Schemes may not need to obtain payment information as a matter of course, only where it is required for effective monitoring.
166. Scheme managers must record and retain information on transactions, including any employer and employee contributions received and payments of pensions and benefits<sup>74</sup>, which will support them in their administration and monitoring responsibilities.
167. Where the administration of scheme contributions is outsourced to a service provider, schemes should ensure that there is a process in place to obtain regular information on the payment of contributions to the scheme and a clear procedure in place to enable them to identify and resolve payment failures which may occur.

### Managing overdue contributions

168. When schemes identify or are notified of a problem, they should assess whether a payment failure has occurred before taking steps to resolve and, if necessary, report it. During their assessment, schemes should take into account:
- legitimate agreed payments made directly by an employer for scheme purposes, ie where the scheme has agreed that a contributions payment can be made late due to exceptional circumstances
  - legitimate agreed payment arrangements made between an employee and employer, ie where the employer has agreed that a contribution payment can be made late due to exceptional circumstances
  - contributions paid directly to a pension provider, scheme administrator or investment manager
  - any AVCs included with an employer's overall payment.
169. Where schemes identify a payment failure, they should follow a process to resolve issues quickly. This should normally involve the following steps:
- a. Investigate any apparent employer failure to pay contributions in accordance with the contributions monitoring record or legal requirements.
  - b. Contact the employer promptly to alert them to the payment failure and to seek to resolve the overdue payment.

74  
Regulation 5 of the  
Record Keeping  
Regulations.

- c. Discuss it further with the employer as soon as practicable to find out the cause and circumstances of the payment failure.
  - d. Ask the employer to resolve the payment failure and take steps to avoid a recurrence in the future.
170. Schemes should maintain a record of their investigation and communications between themselves and the employer. Recording this information will help to provide evidence of schemes' effective monitoring processes and could help to demonstrate that the scheme manager has met the legal requirement to establish and operate adequate internal controls. It will also form part of the decision of whether or not to report a payment failure to the regulator and, where relevant, members.
171. The regulator recognises that a monitoring process based on information provided by employers may not be able to confirm deliberate underpayment or non-payment, or fraudulent behaviour by an employer. Schemes should review current processes or develop a new process which is able to detect situations where fraud may be more likely to occur and where additional checks may be appropriate.
172. Ultimately, schemes have flexibility to design their own procedures so that they can obtain overdue payments and rectify administrative errors in the most effective and efficient way for their particular scheme.

### **Reporting payment failures which are likely to be of material significance to the regulator**

173. Scheme managers must report payment failures which are likely to be of material significance to the regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions<sup>75</sup>.
174. Where schemes identify a payment failure, they should attempt to recover contributions within 90 days from the due date or prescribed period having passed without full payment of the contribution.
175. While schemes are not expected to undertake a full investigation to establish materiality or investigate whether an employer has behaved fraudulently, schemes should ask the employer:
- the cause and circumstances of the payment failure
  - what action the employer has taken as a result of the payment failure, and
  - the wider implications or impact of the payment failure.

75  
Section 49(9)(b) of the Pensions Act 1995 and s70A of the Pensions Act 2004.

176. When reaching a decision about whether to report, schemes should consider these points together and establish whether they have reasonable cause to report.
177. Having reasonable cause means more than merely having a suspicion that cannot be substantiated. Schemes should investigate the payment failure and use their judgement when deciding whether to report to the regulator.
178. Schemes may choose to take an employer's response to their enquiries at face value if they have no reason to believe it to be untrue or where their risk-based process indicates that there is a low risk of continuing payment failure. Where they receive no response, schemes may infer that an employer is unwilling to pay the contributions due.
179. Examples of payment failures that are likely to be of material significance to the regulator include:
- where schemes have reasonable cause to believe that the employer is neither willing nor able to pay contributions, for example in the event of a business failure or where an employer becomes insolvent and is unable to make pension payments
  - where there is a payment failure involving possible dishonesty or a misuse of assets or contributions, for example where schemes have concerns that an employer is retaining and using contributions to manage cash flow difficulties or where schemes have become aware that the employer has transferred contributions elsewhere other than to the pension scheme, which may be misappropriation
  - where the information available to schemes may indicate that the employer is knowingly concerned with fraudulently evading their obligation to pay employee contributions
  - where schemes become aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due and the employer does not appear to be taking adequate steps to remedy the situation, for example where there are repetitive and regular payment failures, or
  - any event where contributions have been outstanding for 90 days from the due date, unless the payment failure was a one-off or infrequent administrative error that had already been corrected on discovery or is thereafter corrected as soon as possible.

180. Examples of payment failures which are not likely to be of material significance to the regulator include:
- where a payment arrangement is being met by an employer for the recovery of outstanding contributions, or
  - where there are infrequent one-off payment failures or administrative errors such as where employees leave or join the scheme and those occasional failures or errors have been corrected within 90 days of the due date.
181. Schemes should identify and report to the regulator, as appropriate, any payment failures that may not be of material significance taken individually, but which could indicate a systemic problem. For example, an employer consistently failing to pay contributions by the due date or within the prescribed period, but paying within 90 days, may be due to inefficient scheme systems and processes. Schemes may also need to report payment failures that occur repeatedly and are likely to be materially significant to the regulator, depending on the circumstances.
182. Reporting payment failures of employer contributions as soon as 'reasonably practicable' means within a reasonable period from the scheme manager having reasonable cause to believe that the payment failure is likely to be of material significance to the regulator. Schemes should also consider whether it may be appropriate to report a payment failure of employer contributions to scheme members.
183. A reasonable period for reporting would be within ten working days from having reasonable cause to believe that the payment failure is likely to be of material significance. This will depend upon the seriousness of the payment failure and impact on the scheme. A written report should be preceded by a telephone call, if appropriate.
184. In the case of an employer failing to pay employee contributions to the pension scheme, if the scheme manager has reasonable cause to believe that the payment failure is likely to be of material significance to the regulator, the failure must be reported to the regulator<sup>76</sup> and members within a reasonable period after the end of the prescribed period<sup>77</sup>. A reasonable period for reporting to the regulator would be within ten working days and to members within 30 days of having reported to the regulator.
185. Reports relating to payment failures of employer contributions must be made in writing (preferably using our Exchange online service)<sup>78</sup>. In exceptional circumstances the scheme manager could make a telephone report.

76  
Reporting to the regulator does not affect any responsibility to report to another person or organisation.

77  
S49(8) and (9) of the Pensions Act 1995 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under s70 of the Pensions Act 2004 to assess and if necessary report breaches of the law.

78  
Section 70A of the Pensions Act 2004.

186. The regulator has standardised reporting procedures and expectations regarding content, format and channel. For more information, see the section of this code on 'Reporting breaches of the law'.

## Providing information to members

### Legal requirements

187. The law requires schemes<sup>79</sup> to disclose information about benefits and scheme administration to scheme members and others. This section summarises the legal requirements relating to benefit statements and certain other information which must be provided and should be read alongside the requirements in the 2013 Act, HM Treasury directions<sup>80</sup> and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation. See paragraph 211 for further details.

79  
See paragraph 25 for the definition of 'schemes'.

80  
Section 14 of the 2013 Act.

81  
Section 14(1) and s30(1) of the 2013 Act.

### Benefit statements

#### For active members of DB schemes under the 2013 Act

188. Scheme regulations must require scheme managers to provide an annual benefit information statement to each active member of a DB scheme established under the 2013 Act or new public body scheme<sup>81</sup>. The statement must include a description of the benefits earned by a member in respect of their pensionable service<sup>82</sup>.

82  
Section 14(2)(a), *ibid.*

83  
Section 14(4) and (5), *ibid.*

84  
Section 14(2)(b) and (6), *ibid.*

189. The first statement must be provided no later than 17 months after the scheme regulations establishing the scheme come into force. Subsequent statements must be provided at least annually after that date<sup>83</sup>.

85  
The Occupational Pension Schemes (Managers) Regulations 1986 specify who is to be treated as the 'manager' (in certain occupational public service pension schemes) for the purpose of providing information under specified legislation, including the Disclosure Regulations 2013, which may differ from the person who is the 'scheme manager'.

190. Statements must also comply with HM Treasury directions in terms of any other information which must be included and the manner in which they must be provided to members<sup>84</sup>.

#### For active, deferred or pension credit members of any DB public service pension scheme under the Disclosure Regulations 2013

191. Managers<sup>85</sup> of a scheme must also provide a benefit statement following a request by an active, deferred or pension credit member of a DB scheme if the information has not been provided to that member in the previous 12 months before that request<sup>86</sup>.

86  
Regulation 16 of the Disclosure Regulations 2013.



192. These benefit statements must include information about the amount of benefits by reference to a particular date and how they are calculated<sup>87</sup>. The full details depend on the type of member making the request.

193. The information must be given as soon as practicable but no more than two months after the date the request is made<sup>88</sup>.

### For members of a DC public service pension scheme under the Disclosure Regulations 2013

194. Managers of a scheme must provide a benefit statement to a member of a DC public service pension scheme, who is not an 'excluded person', within 12 months of the end of the scheme year<sup>89</sup>. An 'excluded person' is a member or beneficiary whose present postal address and email address is not known to the scheme because the correspondence has been returned (in the case of postal correspondence) or has not been delivered (in the case of electronic correspondence)<sup>90</sup>.

195. The information which must be provided includes the amount of contributions (before any deductions are made) credited to the member during the immediately preceding scheme year<sup>91</sup>, the value of the member's accrued rights under the scheme at a date specified by the managers of the scheme<sup>92</sup> and a statutory money purchase illustration<sup>93</sup>. The full detail of the information that must be provided is set out in the Disclosure Regulations 2013.

87  
Regulation 16 and Schedule 5 of the Disclosure Regulations 2013.

88  
Regulation 16(3), *ibid.*

89  
Regulation 17, *ibid.*

90  
Regulation 2, *ibid.*

91  
'Scheme year' is defined in Regulation 2, *ibid.*

92  
Regulation 17 and Schedule 6, *ibid.*

93  
Paragraph 6 and Schedule 6, *ibid.* There are certain exceptions to the requirements to provide this information.

94  
Regulation 4, *ibid.*

### Other information about scheme administration

196. Under the Disclosure Regulations 2013, managers of a scheme must provide other information to members and others in certain circumstances (for example, on request). The Regulations set out the information which must be given, the timescales for providing such information and the methods that may be used. Not all information must be provided in respect of all public service pension schemes (there are some exemptions for specified public service schemes or according to the type of benefit offered), but information which scheme managers may need to provide includes:

- basic scheme information
- information about the scheme that has materially altered
- information about the constitution of the scheme
- annual report (this requirement will generally not apply to unfunded DB public service pension schemes and DB schemes for local government workers<sup>94</sup>)

- information about funding principles, actuarial valuations and payment schedules (these requirements will generally not apply to unfunded DB public service pension schemes and DB schemes for local government workers<sup>95</sup>)
- information about transfer credits
- information about lifestyling (this requirement will not apply in respect of DB benefits in public service pension schemes<sup>96</sup>)
- information about accessing benefits, and
- information about benefits in payment.

197. The detail of the information that must be provided to scheme members and others and any exemptions are set out in the Disclosure Regulations 2013. Managers must provide the required information, along with confirmation that members may request further information and the postal and email addresses to which a person should send those requests and enquiries<sup>97</sup>.

## Who is entitled to information

198. Managers of a scheme must ensure that scheme members and others are given information in accordance with the Disclosure Regulations 2013, unless they are an 'excluded person' (as defined above).

199. The Disclosure Regulations 2013 make provision for scheme members and others to receive information that is relevant to their pension rights and entitlements under the scheme. The categories of people who are entitled to receive information vary according to the different types of information, and there are exemptions where information has already been provided in a specified period. The detail of who is entitled to any particular type of information is set out in the Disclosure Regulations 2013 but may include any of the following ('a relevant person'):

- active members
- deferred members
- pensioner members
- prospective members
- spouses or civil partners of members or prospective members
- other beneficiaries, and
- recognised trade unions.

95  
Regulation 4 of the  
Disclosure Regulations  
2013.

96  
Regulation 18(1), *ibid.*

97  
Regulation 4(7), *ibid.*

## When basic scheme information must be provided

200. Managers must disclose certain basic information about the scheme and the benefits it provides to a prospective member (if practicable to do so) or a new member<sup>98</sup>. Where the manager has received jobholder information<sup>99</sup> for the member or prospective member they must provide the information within a month of the jobholder information being received<sup>100</sup>. Where they have not received jobholder information, they must provide the information within two months of the date the person became an active member of the scheme<sup>101</sup>.

201. Managers must also provide the information on request to a relevant person within two months of the request being made, except where the same information was provided to the same person or trade union in the 12 months before the request<sup>102</sup>.

## What information must be disclosed on request

202. In addition to the basic scheme information, pension scheme members and other relevant persons are entitled to request certain scheme information or scheme documents including:

- information about the constitution of the pension scheme, and
- information about transfer credits<sup>103</sup>.

## How benefit statements and other information must be provided

203. Generally, schemes may choose how they provide information to scheme members, including by post, electronically (by email or by making it available on a website) or by any other means permitted by the law. For benefit statements issued under the 2013 Act, HM Treasury directions may specify how the information must be provided. Where schemes wish to provide information required under the Disclosure Regulations 2013 by electronic means there are important steps and safeguards that must first be met<sup>104</sup>. These include:

- scheme members and beneficiaries being provided with the option to opt out of receiving information electronically by giving written notice to the scheme
- managers being satisfied that the electronic communications have been designed:
  - so that the person will be able to access and either store or print the relevant information and
  - taking into account the requirements of disabled people

98  
Regulation 6 of the Disclosure Regulations 2013.

99  
Specified in regulation 3 of the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010.

100  
Regulation 6(5) of the Disclosure Regulations 2013.

101  
Regulation 6(6), *ibid.*

102  
Regulation 6(4) and (7), *ibid.*

103  
Regulations 11, 14 and Parts 1 and 4 of Schedule 3, *ibid.*

104  
Regulation 26, *ibid.*

- ensuring that members and beneficiaries who were members or beneficiaries of the public service pension scheme on 1 December 2010 (where the scheme had not provided information electronically prior to that date) has been sent a written notice (other than via email or website), informing them that:
  - it is proposed to provide information electronically in the future and
  - scheme members and beneficiaries may opt out of receiving information electronically by sending written notice.

204. Where schemes make information or a document available on a website for the first time, they must give notice (other than via a website) to the recipient<sup>105</sup>. They must ensure that the notice includes:

- a statement advising that the information is available on the website
- the website address
- details of where on the website the information or document can be read, and
- an explanation of how the information or document may be read on the website<sup>106</sup>.

205. When any subsequent information is made available on a website, managers of a scheme must give a notice (other than via a website) to recipients informing them that the information is available on the website<sup>107</sup>. This notice will not be required where<sup>108</sup>:

- at least two documents have been given to the recipient by hand or sent to the recipient's last known postal address
- each of those letters asks the recipient to give their electronic (email) address to the scheme and informs the recipient of their right to request (in writing) that information or documents are not to be provided electronically
- a third letter has been given to the recipient by hand or sent to the recipient's last known postal address and includes a statement that further information will be available to read on the website and that no further notifications will be sent to the recipient and
- the managers of the scheme do not know the recipient's email address and have not received a written request that information or documents are not to be provided to the recipient electronically.

105  
Regulation 27(1) and (5) of the Disclosure Regulations 2013.

106  
Regulation 27(2), *ibid.*

107  
Regulation 27(3) and (5), *ibid.*

108  
Regulation 28, *ibid.*

206. In some cases, the Disclosure Regulations 2013 specify that information must be made available by one of the following methods<sup>109</sup>:

- available to view free of charge, at a place that is reasonable having regard to the request
- published on a website (in which case the procedure to be followed before making information available on a website does not apply, except that the person or trade union must be notified of certain details)
- given for a charge that does not exceed the expense incurred in preparing, posting and packing the information, or
- publicly available elsewhere.

## Practical guidance

207. Schemes should design and deliver communications to scheme members in a way that ensures they are able to engage with their pension provision. Information should be clear and simple to understand as well as being accurate and easily accessible. It is important that members are able to understand their pension arrangements and make informed decisions where required.

208. Schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data are up-to-date.

209. Where a person has made a request for information, schemes should acknowledge receipt if they are unable to provide the information at that stage. Schemes may encounter situations where the time period for providing information takes longer than expected. In these circumstances, schemes should notify the person and let them know when they are likely to receive the information. Scheme managers and managers (where different) must provide information in accordance with the time periods specified in the 2013 Act and Disclosure Regulations 2013.

210. To promote transparency, schemes should make information readily available at all times to ensure that prospective and existing members are able to access information when they require it.

## Other legal requirements

211. Managers (or any other person specified in legislation) must comply with other legislation requiring information to be provided to members of public service pension schemes in certain circumstances. Not all requirements apply to all public service pension schemes and some may only arise in limited circumstances.

<sup>109</sup>  
Regulation 29 of the  
Disclosure Regulations  
2013.

Some of the requirements that schemes may need to be aware of are set out in or under the following legislation<sup>110</sup>:

- Occupational Pension Schemes (Contracting-out) Regulations 1996
- Occupational Pension Schemes (Transfer Values) Regulations 1996
- Occupational Pension Schemes (Winding up etc.) Regulations 2005
- Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 (the requirements of these regulations are covered in the section of this code on 'Internal dispute resolution').

110

The legislation identified in this list is made under section 113 of the Pension Schemes Act 1993. There are other requirements that relate to providing information to members which arise under other legislation and which may be relevant to public service pension schemes (for example, under legislation relating to automatic enrolment and early leavers).

# Resolving issues

212. This part covers:

- internal dispute resolution, and
- reporting breaches of the law.

## Internal dispute resolution

### Legal requirements

213. Scheme managers<sup>111</sup> must make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pensions disputes between the scheme manager and a person with an interest in the scheme. 'Pension disputes'<sup>112</sup> cover matters relating to the scheme between the managers and one or more people with an interest in the scheme. These exclude 'exempted disputes'.

214. There are certain 'exempted disputes' to which the internal dispute resolution procedure will not apply<sup>113</sup>. This includes disputes where proceedings have commenced in any court or tribunal, or where the Pensions Ombudsman has commenced an investigation into it. Certain other prescribed disputes, for instance medical-related disputes that may arise in relation to police and fire and rescue workers, are also 'exempted disputes'<sup>114</sup>.

215. A person has an interest in the scheme if they:

- are a member or surviving non-dependant beneficiary of a deceased member of the scheme
- are a widow, widower, surviving civil partner or surviving dependant of a deceased member of the scheme
- are a prospective member of the scheme
- have ceased to be a member, beneficiary or prospective member or
- claim to be in one of the categories mentioned above and the dispute relates to whether they are such a person.

216. Dispute resolution arrangements may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. The specified person's decision may then be confirmed or replaced by the decision taken by the scheme manager after reconsideration of the matters<sup>115</sup>.

111

Legal requirements relating to the internal dispute resolution provisions are imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

112

Section 50(3) of the Pensions Act 1995.

113

Section 50(9), *ibid.*

114

Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008.

115

Section 50(4A) of the Pensions Act 1995.

217. Scheme managers and specified persons (if used as part of a scheme's procedure) must take the decision required on the matters in dispute within a reasonable period of receiving the application. They must notify the applicant of the decision within a reasonable period of having taken it<sup>116</sup>.
218. Internal dispute resolution procedures must state the manner in which an application for the resolution of a pension dispute is to be made, the particulars which must be included in such an application and the manner in which any decisions required in relation to such an application are to be reached and given<sup>117</sup>. The procedure must specify a reasonable period within which applications must be made by certain people<sup>118</sup>.
219. Scheme managers must provide information about the scheme's dispute resolution procedure as well as information about The Pensions Advisory Service (TPAS) and the Pensions Ombudsman to certain people at certain stages<sup>119</sup>.

## Practical guidance

220. Scheme members expect their pension scheme to be managed effectively. Where a person with an interest in the scheme is not satisfied with any matter relating to the scheme (for example a decision which affects them), they have the right to ask for that matter to be reviewed.
221. Internal dispute resolution arrangements provide formal procedures and processes for pension scheme disputes to be investigated and decided upon quickly and effectively. They play a key role in the effective governance and administration of a scheme.
222. Schemes<sup>120</sup> can operate a two-stage procedure with a 'specified person' undertaking the first-stage decision. Alternatively, they may adopt a single-stage procedure if they consider that is more appropriate for their scheme.
223. With the exception of certain matters outlined below, the law does not prescribe the detail of the dispute resolution procedure. Schemes should decide on this and ensure it is fit for purpose.

116  
Section 50(5) of the Pensions Act 1995.

117  
Section 50B(4), *ibid*.

118  
Section 50B(3)(a), *ibid*.

119  
Regulation 6 of, and Part 1 of Schedule 2 to, the Disclosure Regulations 2013 and regulation 2 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008.

120  
See paragraph 25 for the definition of 'schemes'.



## When applications should be submitted

224. Schemes may choose to specify time limits within which the following people must apply for a dispute to be resolved<sup>121</sup>:

- scheme members
- widows, widowers, surviving civil partners or surviving dependants of deceased scheme members
- surviving non-dependant beneficiaries of deceased scheme members, and
- prospective scheme members.

225. If schemes decide to specify time limits, they should publish and make those time limits readily available to ensure that those with an interest in the scheme are aware that they must submit an application within a prescribed time limit.

226. Scheme managers must ensure their scheme's procedure specifies a reasonable period within which applications by the following people must be made<sup>122</sup>:

- a person who has ceased to be within the categories in paragraph 224 above
- a person who claims that they were a person within the categories in paragraph 224 above and has ceased to be such a person, and the dispute relates to whether they are such a person.

227. A reasonable period would be six months beginning immediately after the date on which the person ceased to be, or claims they ceased to be, a person with an interest in the scheme. However, schemes have the flexibility to exercise their judgement and take an application outside a specified time period, if appropriate.

## When decisions should be taken

228. Managers and specified persons (where applicable) must decide the matter in dispute within a reasonable period of receiving the application. A reasonable period is within four months of receiving the application. In the case of a two-stage dispute resolution procedure, the reasonable period applies to each stage separately. Where a dispute is referred to scheme managers for a second-stage decision, the reasonable period begins when the managers receive the referral. However, there may be cases where it will be possible to process an application sooner than the reasonable time given. Where this is the case, there should not be a delay in taking the decision.

121  
Section 50B(3)(b) of the Pensions Act 1995.

122  
Section 50B(3)(a) of the Pensions Act 1995.

229. There may be exceptional circumstances of a particular dispute which may prevent the process being completed within the reasonable time period stated above. For instance, where the dispute involves unusually complex and labour-intensive calculations or research, or delays occur that are outside the control of the scheme manager (or specified person), or because they need to obtain independent evidence.
230. The regulator recognises that the circumstances of each dispute are different and decision times may vary. Schemes should be satisfied that the time taken to reach a decision is appropriate to the situation and be able to demonstrate this, if necessary.

### **When applicants should be informed of a decision**

231. Applicants must be notified of the decision made by a scheme manager and specified person (where applicable) within a reasonable time period after the decision has been made<sup>123</sup>. Schemes should usually notify applicants of the decision no later than 15 working days after the decision has been made. However, there may be cases where it is possible to notify an applicant sooner than the reasonable time given. Where this is the case, there should not be a delay in notifying them of the decision.
232. Schemes should provide the applicant with regular updates on the progress of their investigation. They should notify the applicant where the time period for a decision is expected to be shorter or longer than the reasonable time period and let them know when they are likely to receive an outcome.

### **Implementing the procedure and processes**

233. Scheme regulations or other documents recording policy about the administration of the scheme should specify internal dispute resolution arrangements. Schemes should focus on educating and raising awareness of their internal dispute resolution arrangements and ensuring that they are implemented.
234. Schemes should ensure that the effectiveness of the arrangements is assessed regularly and be satisfied that those following the process are complying with the requirements set, which includes effective decision making. This is particularly important where the arrangements require employers participating in the pension scheme to carry out duties as part of the process, for example where schemes have implemented the two-stage procedure and employers are acting as the specified person for the first stage.
235. Schemes should confirm and communicate their arrangements to members, for example, in the joining booklet. Schemes should make their arrangements accessible to potential applicants, for example by publishing them on a scheme website.

123  
Section 50(5) of the  
Pensions Act 1995.

236. Scheme managers must provide the following information about the procedure and processes the scheme has in place for the internal resolution of disputes to certain people in certain circumstances<sup>124</sup>:

- prospective members, if it is practicable to do so
- any scheme members who have not already been given the information
- certain relevant people who request the information and who have not been given that information in the previous 12 months, and
- members or prospective members when schemes receive jobholder information, or when a jobholder becomes an active member, in connection with automatic enrolment.

237. Scheme managers must also provide the postal or email address and job title of the person to contact in order to make use of the internal dispute arrangements.

238. In addition, scheme managers must provide information about TPAS and the Pensions Ombudsman at certain stages<sup>125</sup>. Upon receiving an application for the resolution of a pension dispute, scheme managers (or the specified person) must make the applicant aware as soon as reasonably practicable that TPAS is available to assist members and beneficiaries of the scheme and provide contact details for TPAS. When notifying the applicant of the decision, scheme managers must also inform the applicant that the Pensions Ombudsman is available to investigate and determine complaints or disputes of fact or law relating to a public service pension scheme and provide the Pension Ombudsman's contact details.

239. Schemes can decide what information they need from applicants to reach a decision on a disputed matter and how applications should be submitted. Schemes should ensure they make the following information available to applicants:

- the procedure and processes to apply for a dispute to be resolved
- the information that an applicant must include
- the process by which any decisions are reached, and
- an acknowledgement once an application has been received.

124  
Regulation 6 of, and Part 1 of Schedule 2 to, the Disclosure Regulations 2013.

125  
Regulation 2 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008.

240. When reviewing an application, scheme managers and specified persons (where relevant) should ensure that they have all the appropriate information to make an informed decision. They should request further information if required. Scheme managers and specified persons should be satisfied that the times taken to reach a decision and notify the applicant are appropriate to the situation and that they have taken the necessary action to meet the reasonable time periods. Scheme managers should be able to demonstrate this to the regulator if required.

## Reporting breaches of the law

### Legal requirements

241. Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty<sup>126</sup> which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions<sup>127</sup>.

For further information about reporting late payments of employee or employer contributions, see the section of this code on 'Maintaining contributions'.

242. People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers<sup>128</sup>
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers<sup>129</sup>: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers<sup>130</sup> including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme<sup>131</sup>.

243. The report must be made in writing as soon as reasonably practicable<sup>132</sup>. See paragraph 263 for further information about how to report breaches.

126

The reference to a legal duty is to a duty imposed by, or by virtue of, an enactment or rule of law (s70(2)(a) of the Pensions Act 2004).

127

Section 70(2) of the Pensions Act 2004.

128

The legal requirement to report breaches of the law under section 70(1)(a) is imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

129

As defined in s318 of the Pensions Act 2004.

130

As defined in s47 of the Pensions Act 1995.

131

Section 70(1) of the Pensions Act 2004.

132

Section 70(2), *ibid.*

## Practical guidance

244. Schemes<sup>133</sup> should be satisfied that those responsible for reporting breaches are made aware of the legal requirements and this guidance. Schemes should provide training for scheme managers and pension board members. All others under the statutory duty to report should ensure they have a sufficient level of knowledge and understanding to fulfil that duty. This means having sufficient familiarity with the legal requirements and procedures and processes for reporting.

### Implementing adequate procedures

245. Identifying and assessing a breach of the law is important in reducing risk and providing an early warning of possible malpractice in public service pension schemes. Those people with a responsibility to report breaches, including scheme managers and pension board members, should establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters. It is important that procedures allow reporters to decide within an appropriate timescale whether they must report a breach. Reporters should not rely on waiting for others to report.

246. Procedures should include the following features:

- a process for obtaining clarification of the law around the suspected breach where needed
- a process for clarifying the facts around the suspected breach where they are not known
- a process for consideration of the material significance of the breach by taking into account its cause, effect, the reaction to it, and its wider implications, including (where appropriate) dialogue with the scheme manager or pension board
- a clear process for referral to the appropriate level of seniority at which decisions can be made on whether to report to the regulator
- an established procedure for dealing with difficult cases
- a timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable
- a system to record breaches even if they are not reported to the regulator (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue), and
- a process for identifying promptly any breaches that are so serious they must always be reported.

133  
See paragraph 25  
for the definition of  
'schemes'.

## Judging whether a breach must be reported

247. Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions.

### Judging whether there is 'reasonable cause'

248. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

249. Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

250. Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to check with the pension board or scheme manager or with others who are in a position to confirm what has happened. It would not be appropriate to check in cases of theft, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the regulator without delay.

251. If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view.

252. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

### Judging what is of 'material significance' to the regulator

253. In deciding whether a breach is likely to be of 'material significance' to the regulator. It would be advisable for those with a statutory duty to report to consider the:

- cause of the breach
- effect of the breach
- reaction to the breach, and
- wider implications of the breach.

254. When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is likely to be of material significance to the regulator.

### Cause of the breach

255. The breach is likely to be of material significance to the regulator where it was caused by:

- dishonesty
- poor governance or administration
- slow or inappropriate decision making practices
- incomplete or inaccurate advice, or
- acting (or failing to act) in deliberate contravention of the law.

256. When deciding whether a breach is of material significance, those responsible should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.

257. A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. But in such a situation, it is also important to consider other aspects of the breach such as the effect it has had and to be aware that persistent isolated breaches could be indicative of wider scheme issues.

## Effect of the breach

258. Reporters need to consider the effects of any breach, but with the regulator's role in relation to public service pension schemes and its statutory objectives in mind, the following matters in particular should be considered likely to be of material significance to the regulator:

- pension board members not having the appropriate degree of knowledge and understanding, which may result in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- pension board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- adequate internal controls not being established and operated, which may lead to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- accurate information about benefits and scheme administration not being provided to scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement
- appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- pension board members misappropriating any assets of the scheme or being likely to do so, which may result in scheme assets not being safeguarded, and
- any other breach which may result in the scheme being poorly governed, managed or administered.

259. Reporters need to take care to consider the effects of the breach, including any other breaches occurring as a result of the initial breach and the effects of those resulting breaches.

## Reaction to the breach

260. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the regulator will not normally consider this to be materially significant.



261. A breach is likely to be of concern and material significance to the regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

### **Wider implications of the breach**

262. Reporters should consider the wider implications of a breach when they assess which breaches are likely to be materially significant to the regulator. For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future. This may be due to the scheme manager or pension board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For instance, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

### **Submitting a report to the regulator**

263. Reports must be submitted in writing and can be sent by post or electronically, including by email or by fax. Wherever possible reporters should use the standard format available via the Exchange online service on the regulator's website.

264. The report should be dated and include as a minimum:

- full name of the scheme
- description of the breach or breaches
- any relevant dates
- name of the employer or scheme manager (where known)
- name, position and contact details of the reporter, and
- role of the reporter in relation to the scheme.

265. Additional information that would help the regulator includes:

- the reason the breach is thought to be of material significance to the regulator
- the address of the scheme
- the contact details of the scheme manager (if different to the scheme address)
- the pension scheme's registry number (if available), and
- whether the concern has been reported before.

266. Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.
267. Reporters should ensure they receive an acknowledgement for any report they send to the regulator. Only when they receive an acknowledgement can the reporter be confident that the regulator has received their report.
268. The regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.
269. The reporter should provide further information or reports of further breaches if this may help the regulator to exercise its functions. The regulator may make contact to request further information.
270. Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.
271. In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, the regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the regulator to the breach.

## Whistleblowing protection and confidentiality

272. The Pensions Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.
273. The statutory duty to report does not, however, override 'legal privilege'<sup>134</sup>. This means that oral and written communications between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.

134  
Section 311 of the  
Pensions Act 2004.

274. The regulator will do its best to protect a reporter's identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter's identity becomes unavoidable in law. This includes circumstances where the regulator is ordered by a court to disclose it.
275. The Employment Rights Act 1996 (ERA) provides protection for employees making a whistleblowing disclosure to the regulator. Consequently, where individuals employed by firms or another organisation having a statutory duty to report disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The regulator expects such individual reports to be rare and confined to the most serious cases.

# Appendix

## Corresponding Northern Ireland legislation

GB legislation	NI legislation
Pension Schemes Act 1993 (c. 48) - Chapter 1 of Part 4 - section 113	Pension Schemes (Northern Ireland) Act 1993 (c. 49) - Chapter 1 of Part 4 - section 109
Pensions Act 1995 (c. 26) - section 47 - section 49 - section 50 - section 50B - section 87	Pensions (Northern Ireland) Order 1995 (SI 1995/3213 (NI 22)) - Article 47 - Article 49 - Article 50 - Article 50B - Article 85
Employment Rights Act 1996 (c. 18)	Employment Rights (Northern Ireland) Order 1996 (SI 1996/1919 (NI 16))
Data Protection Act 1998 (c. 29)	Data Protection Act 1998 (c. 29)
Freedom of Information Act 2000 (c.36)	Freedom of Information Act 2000 (c.36)
Pensions Act 2004 (c. 35) - section 5 - section 13 - section 70 - section 70A - section 90A - Part 3 - section 227 - section 248 - section 248A - section 249A - section 249B - section 311 - section 318	Pensions (Northern Ireland) Order 2005 (SI 2005/255 (NI 1)) - Article 4 - Article 9 - Article 65 - Article 65A - Article 85A - Part 4 - Article 206 - Article 225 - Article 225A - Article 226A - Article 226B - Article 283 - Article 2
Pensions Act 2008 (c. 30)	Pensions (No. 2) Act (Northern Ireland) 2008 (c. 13)

GB legislation	NI legislation
Public Service Pensions Act 2013 (c. 25) <ul style="list-style-type: none"> <li>- section 1</li> <li>- section 2</li> <li>- section 3</li> <li>- section 4</li> <li>- section 5</li> <li>- section 6</li> <li>- section 7</li> <li>- section 14</li> <li>- section 15</li> <li>- section 16</li> <li>- section 28</li> <li>- section 30</li> <li>- Schedule 2</li> <li>- Schedule 3</li> </ul>	Public Service Pensions Act (Northern Ireland) 2014 (c. 2) <ul style="list-style-type: none"> <li>- section 1</li> <li>- section 2</li> <li>- section 3</li> <li>- section 4</li> <li>- section 5</li> <li>- section 6</li> <li>- section 7</li> <li>- section 14</li> <li>- section 15</li> <li>- section 16</li> <li>- section 28</li> <li>- section 31</li> <li>- Schedule 2</li> <li>- Schedule 3</li> </ul>
Occupational Pension Schemes (Managers) Regulations 1986 (SI 1986/1718)	Occupational Pension Schemes (Managers) Regulations (Northern Ireland) 1986 (SR 1986 No. 320)
Occupational Pension Schemes (Contracting-out) Regulations 1996 (SI 1996/1172)	Occupational Pension Schemes (Contracting-out) Regulations (Northern Ireland) 1996 (SR 1996 No. 493)
Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715)	Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No. 94)
Occupational Pension Schemes (Transfer Values) Regulations 1996 (SI 1996/1847)	Occupational Pension Schemes (Transfer Values) Regulations (Northern Ireland) 1996 (SR 1996 No. 619)
Occupational Pension Schemes (Winding up etc.) Regulations 2005 (SI 2005/706)	Occupational Pension Schemes (Winding up, etc.) Regulations (Northern Ireland) 2005 (SR 2005 No. 171)
Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)	Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 (SR 2005 No. 568)
Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)	Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)

<b>GB legislation</b>	<b>NI legislation</b>
Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 (SI 2008/649)	Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008 (SR 2008 No. 116)
Employers' Duties (Registration and Compliance) Regulations 2010 (SI 2010/5)	Employers' Duties (Registration and Compliance) Regulations (Northern Ireland) 2010 (SR 2010 No. 186)
Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 (SI 2010/772)	Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations (Northern Ireland) 2010 (SR 2010 No. 122)
Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734)	Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014 (SR 2014 No. 79)
Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

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The Pensions  
Regulator

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Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN001	01/11/15		Pensions Administration	Failure to pay pensions and lump sums on time	Financial difficulty for the scheme member concerned, reputational risk to the Pension Fund, and additional cost to the employer where interest is payable as a result of late payment.	M	L	Low	Maintenance and update of Altair and Trent systems, sufficient staff resources and training. Quality assurance processes in place to check work done.	C Hurst	A Davies	Review of process as part of the ongoing review of pensions administration processes following the implementation of the 2014 Scheme.	M	L	Low	
	PEN002	01/11/15		Finance	Failure to collect and account for pension contributions being paid over to the Fund on time by Fund employers.	Adverse audit opinion, potential delays to Fund employer FRS17/IAS19 reporting; and potential delay to production of annual report and accounts.	L	M	Low	Contributions received monitored on a monthly basis by Fund accounting staff.	J Thomas	A Davies	Requirement that each end of scheme year, Fund employers certify that they have paid over contributions at the correct rates and on time.	L	M	Low	
	PEN003	01/11/15		Finance	Insufficient Fund cashflow to meet liabilities as they fall due.	Immediate injections of cash from Fund employers would be required where Fund assets cannot be liquidated quickly. For now the Fund is cashflow positive but will not remain so for much longer, therefore requiring the use of investment income to subsidise the payment of pension benefits rather than being reinvested as now.	H	M	Medium	Funding strategy statement. Have this year (2015) commissioned Fund actuary to undertake a Fund cashflow forecast based on a) Fund maturity and b) impact of need for major employer (Powys CC) to reduce budget by a further £27M over next two years or so.	J Thomas	A Davies	Following completion of the fund actuary's cashflow forecast, review strategic asset allocation to ensure that cashflow remains positive (on a targeted and monitored basis) whilst at the same time ensuring that the Fund is not forced to liquidate assets on an unplanned basis.	M	L	Low	
	PEN004	01/11/15		Pensions Administration	Inability to deliver service as a result of loss of pensions administration system	Failure to provide service	L	L	Low	Business Continuity Plan for the Pensions administration service.	C. Hurst	A Davies	Keep Business Continuity Plan under review	L	L	Low	
	PEN005	01/11/15		Pension Fund	Inability to deliver service as a result of the loss of key personnel	Failure to provide service at all, or at an acceptable level	L	M	Low	Business Continuity Plan in place for the pensions administration service	J Rollin	A Davies	Keep Business Continuity Plan under review	L	M	Low	
	PEN006	01/11/15		Pension Fund	Loss of funds through fraud or misappropriation	Financial loss to the Fund	L	M	Low	Internal and External Audit regularly test that appropriate controls are in place and are working effectively. Due diligence is carried out whenever a new investment manager is	J Rollin	A Davies	None	L	M	Low	
	PEN007	01/01/15	FSS	Pension Fund	Significant rise in employer contribution rates for Fund employers with strong covenants, as consequence of increases in liabilities.	Employer contribution rates rise to unacceptable levels, putting upward pressure on Council Tax rates and the ability of Powys County Council to continue to deliver services to its communities.	L	M	Low	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	J Rollin	A Davies	Investigate further liability mitigations such as ill health strain insurance; developing guidance to assist employers to manage liability increases derived from their actions or inactions; and, work closely with the Fund actuary to determine appropriate valuation assumptions and deficit recovery strategies.	L	M	Low	

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Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN008	01/01/15	FSS	Pension Fund	Significant rises in employer contribution rates for Fund employers with weak covenants as a consequence of increases in liabilities.	Employer contribution rates rise to unsustainable levels that cause employers to become insolvent	L	H	Medium	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	J Rollin	A Davies	In process of developing risk sharing arrangements to enable employers with weak covenants to attain a degree of certainty over the level of employer contribution rates.	L	M	Low	
	PEN009	01/01/15	FSS	Pension Fund	Significant rises in employer contribution rates for employers with strong covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unacceptable levels that result in Powys County Council being unable to provide appropriate services for its communities.	L	M	Low	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to	J Rollin	A Davies	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low	
	PEN010	01/01/15	FSS	Pension Fund	Significant rises in employer contribution rates for employers with weak covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unsustainable levels that result in employers with weak covenants becoming insolvent.	L	H	Medium	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to	J Rollin	A Davies	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low	
Page 106	PEN011	01/01/15	FSS	Pension Fund	Failure to comply with LGPS and other statutory regulations.	Payment of incorrect pension benefits; provision of incorrect benefit estimates; failure to comply with governance standards; failure to meet HMRC tax requirements. Resulting in: loss of customer satisfaction / confidence; IDRPs and Ombudsman appeals; TPR fines for non-compliance.	H	L	Medium	Rigorous checking and authorisation procedures in respect of pension benefit calculations and payments; and, regular review of governance compliance policy. Staff training and development.	J Rollin	A Davies	Closer partnership working with employer payrolls to facilitate accurate data receipts; increased compliance oversight provided by newly established Pensions Board.	M	L	Low	
	PEN012	25/01/16		Pensions Administration	Failure to hold scheme member's personal data securely.	Poor data quality; compromised data; fines	L	M	Low	Compliance with Powys County Council Data Protection and ICT policies.	C Hurst	A Davies	Data protection audit in conjunction with TPR data quality standards to be undertaken	L	M	Low	
	PEN013	01/04/15	TPR	Pension Fund	Failure to maintain and hold up to date and accurate pension records.	Payment of incorrect pension benefits; late payment of benefits; assessment of incorrect liability values. Resulting in loss of customer confidence and satisfaction; IDRPs and Ombudsman appeals; and, incorrect assessment of employer contribution rates.	M	M	Medium	Pensions team work with employer payrolls to ensure data quality; data validation checks undertaken by team at each year end; validation checks carried out at each actuarial valuation (triennially) by the Fund actuary. Staff training and development.	C Hurst	A Davies	Additional data validation and quality checks to be implemented as required by the TPR code of practice.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN014	25/01/16	CIPFA	Pension Fund	Lack of expertise of Pension Fund Officers and Service Director	Poor decision making in relation to principal functions of the Pension Fund , particularly in relation to investments.	L	H	Medium	Officers ensure that they receive appropriate training and are required to keep up to date with developments in pensions matters, as part of their periodic Individual Performance Reviews and by attending relevant conferences and seminars, by reading and through discussions with consultants and peers.	J Rollin	A Davies	Formalised Officer training via individual training plans based on the CIPFA 'Knowledge and Skills' framework, as is the the procedure for members of both Pensions & Investment Committee and the Pensions Board.	L	M	Low	
	PEN015	25/01/16	CIPFA	Pension Fund	Over-reliance on key Officers	Whe senior Officers leave or are term sickness, large knowledge gaps remain.	M	H	Medium	In the short term, knowledge gaps can be filled by using our external colleagues from other Welsh Funds and buying in assistance from consultants	J Rollin	A Davies	Formalise succession planning by including in Officer individual training plans for less senior Officers.	M	L	Low	
Page 107	PEN016	25/01/16		Pensions Administration	Failure to communicate effectively with stakeholders.	Scheme members unaware of their rights under the LGPS and make poor decisions in relation to pension rights. Employers unaware of the scheme regulations, the procedures and their responsibilities, resulting in poor or inappropriate decision-making and may adversely effect the flow of pensions data to the Pension Fund.	L	M	Low	the Pensions Support Manager is tasked with responsibilities in relation to scheme and Fund communications, as part of their Job Description. In addition, the Fund has a clear communications policy as well as a regularly updated website.	C Hurst	A Davies	No further action proposed.	L	M	Low	
	PEN017	26/01/16		Pensions Administration	Failure to provide the pensions service in accordance with principles of equality.	Some stakeholders may be unable to access the service fully or at all. In the worst case scenario, this could result in court action against the Fund.	M	M	Medium	The Fund maintains a Welsh Language register in respect of scheme members and employers.	C Hurst	A Davies	To utilise technology to enable access to service and information for stakeholders with disabilities, other language needs etc.	L	M	Low	
	PEN018	01/01/15	FSS	Pension Fund	Failure to collect payments due from ceasing employers with no active members.	Failure to collect cessation payments from ceasing employers results in relevant liabilities being funded by the Powys Pension Fund and the active employers.	L	M	Low	The Fund undertakes periodic reviews of the strength of employer covenants. For existing employers, the Fund requires that a guarantor, bond or 'risk sharing agreement' is in place. For all new employers, the Fund insists on either a guarantor or a bond being in place.	J Rollin	A Davies	No further action planned.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN019	25/01/16	SAB	Pension Fund	Lack of expertise of members of Pensions & Investment Committee	Poor decision making in relation to all aspects of the Fund, particularly those in relation to investment.	M	H	Medium	On 16th July 2015 the Fund adopted the CIPFA Knowledge and Skills Framework to inform its training plans for members of Pensions & Investment Committee (and the	J Rollin	A Davies	Rollout of individual training plans for all members over the coming year (2016/17). After each County Council election, specific training events are put on for new members elected to Pensions & Investment Committee.	L	H	Medium	
	PEN020	01/01/15	FSS	Pension Fund	Pension Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Increased employer contribution rates.	L	M	Low	Only anticipate long-term returns on a relatively prudent basis to reduce the risk of under-performance. Also monitors and analyses progress every three years for each employer. In addition, the Fund receives quarterly funding updates to help monitor the position.	J Rollin	A Davies	No further action planned.	L	M	Low	
	PEN021	01/01/15	FSS	Pension Fund	Inappropriate long-term investment strategy.	Failure to meet funding objectives.	L	H	Medium	Use of a Fund specific benchmark, as recommended by the Fund's investment consultant	J Rollin	A Davies	Nothing further planned	L	H	Medium	
Page 108	PEN022	01/01/15	FSS	Pension Fund	Active investment manager under-performance relative to the benchmark.	Failure to meet funding objectives.	L	M	Low	Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark	J Rollin	A Davies	Nothing further planned	L	M	Low	
	PEN023	01/01/15	FSS	Pension Fund	To permit deficits to be eliminated over a recovery period rather than immediately, introduces the risk that action to restore solvency is insufficient between successive measurements.	Increased employer deficit recovery payments.	L	M	Low	It is the practice to discuss every such situation with the Pension Fund actuary, for each individual employer. Moreover deficit recovery periods are generally restricted to no more than 25 years, or 40 years in very exceptional circumstances.	J Rollin	A Davies	No further action planned.	L	M	Low	
	PEN024	01/01/15	FSS	Pension Fund	Permitting contribution rate changes to be introduced by annual steps rather than immediately, introduces a risk that action to restore solvency is insufficient between successive measurements.	Increased employer contribution rates.	L	M	Low	Each individual employer situation is discussed with the Pension Fund actuary, with stepping restricted to three years, or 6 years, in very exceptional circumstances.	J Rollin	A Davies	No further action proposed.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN025	01/01/16	FSS	Pension Fund	Pensioners living longer and, changing retirement patterns.	Increased employer contribution rates.	L	M	Low	Mortality assumptions are set with some allowance for future increases in life expectancy. The Fund actuary investigates these matters at each valuation or more frequently where appropriate. If significant demographic changes were to occur between valuations, the Pension Fund will advise employers accordingly and notify them of the likely impact on their contribution rates, reviewing bond values, as required.	J Rollin	A Davies	No further action proposed.	L	M	Low	
	PEN026	01/01/16	FSS	Pension Fund	Deteriorating patterns of ill health or other early retirements.	Increase in employer contribution rates and deficit recovery payments.	L	M	Low	Employers are required to pay the capital costs of early retirements (pension strain), upfront for all cases. Ill health retirements and costs are monitored against Fund allowances.	J Rollin	A Davies	No further action proposed.	L	M	Low	
	PEN027	01/01/15	FSS	Pension Fund	Fall in the returns on Government bonds.	Increase to the value placed on Fund liabilities.	M	M	Medium	Allowing for a risk-based approach should limit the impact of short-term changes in returns on Government bonds. Some investment in bonds also helps to mitigate this risk. Monitoring (quarterly) helps to give an early warning of significant	J Rollin	A Davies	No further action proposed.	M	M	Medium	
	PEN028	01/01/15	FSS	Pension Fund	Pay and price inflation significantly more than anticipated.	Increased employer contribution rates and deficit recovery payments.	M	M	Medium	Employers 'pay' for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities. Particularly where bias towards longer serving employees may be considered.	J Rollin	A Davies	No further action proposed.	M	M	Medium	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN029	26/01/16	SAB	Pensions Administration	Failure to reconcile all relevant active, deferred and pensioner member GMP records against the data held by DWP in respect of the cessation of contracting out, by April 2018.	Increase in Fund liabilities; increased employer contribution rates and deficit recovery payments; and, payment of incorrect pension benefits.	M	M	Medium	In process of assessing how best to deal with the work required. Unlikely to be possible to complete with current in-house resources due to current 'core' business volumes and specialist nature of work required. Therefore evaluating external	J Rollin	A Davies	Appoint external partners to a) identify scale of work required; b) bank 'quick wins'; complete reconciliations by April 2018.	M	L	Low	
Page 110	PEN030	04/03/16	LPB	Pension Fund	Insolvency of an investment manager investing Pension Fund assets.	A reduction in the capital value of the Fund; a loss of liquidity as creditors agree on distribution of assets; the costs of legal representation; and, reputational damage.	M	C	High	Diversification of investment managers; adherence to the limits for individual investment mandates as set out in the LGPS investment regulations; regular meetings with investment managers undertaken by the Fund's investment consultant; Statement on Standards for Attestation Engagements No. 16 internal controls are monitored on an annual basis; due diligence by investment consultants to ensure that custodians are used by each investment manager; equity investment mandates are invested in pooled funds; and, only well respected and researched investment managers are selected in the first place.	J Thomas	A Davies	Increased investment manager diversification may be further facilitated by pooling via the Wales Pool that is currently under development. As agreed by P & I Committee on 9th February 2017, when entering into new contractual arrangements with investment managers, contract documentation is to be referred to the Fund's legal advisers for review and appropriate due diligence.	L	C	Medium	
	PEN031	04/03/16	LPB	Pension Fund	Pooling of Pension Fund assets with other LGPS Pension Funds.	Investment of Fund Officer and Committee time and other resource with unknown outcomes; front loaded costs before potential savings are realised; potential loss of local accountabilities; and, the loss of the primacy of the Fund and its strategic needs.	M	M	Medium	Due diligence on all pooling proposals; full transparency of all pool proposals and costs; full participation of the Pension Fund in all pooling development.	J Rollin	A Davies	Pooling vehicle to be structured so that each participating Fund has full representation in the pool; the pool structure enables full strategic decisions to be retained by each individual Fund; and, economies of scale (based on experience to date) indicate that savings will be made by the Fund that will exceed initial costs.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN032	10/03/17	LPB	Pension Fund	An admitted body ceasing to exist with insufficient funding or level of a bond available to meet all its Fund liabilities.	Unfunded pension liabilities being orphaned without sufficient funding/guarantees in place, resulting on increased liabilities falling on other Fund employers.	M	L	FALSE	To seek funding guarantees wherever poaaible, from other Scheme employers or outside bodies. To require, in all cases, a bond or other form of security to protect the Fund in the case of unexpected cessation and insolvency. Ensuring that admitted bodies are fully aware of their obligations and responsibilities to the Pension Fund and the benefits of their employees.	J Rollin	A Davies	Regular review of admitted body covenants and financial health.	M	L	FALSE	
								FALSE								FALSE	

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## CYNGOR SIR POWYS COUNTY COUNCIL

**Powys Pension Board**  
14<sup>th</sup> July 2017

**REPORT BY:** Board Secretary

**SUBJECT:** Data Quality Testing Procedure

**REPORT FOR:** Information

**1. Introduction**

As required by the Pensions Regulator's Code of Practice 14 (published in 2015) the Pension Fund should develop a Data Quality Testing Procedure in relation to scheme member data. A draft procedure is attached.

**2. Recommendation**

The Board is invited to comment on the draft procedure before it is presented to Pensions & Investment Committee for approval.

<b>Recommendation:</b>		<b>Reason for Recommendation:</b>	
<ul style="list-style-type: none"> <li>That the Board is invited to comment on the draft Data Quality Testing Procedure.</li> </ul>		As per report	
<b>Person(s) To Action Decision:</b>			
<b>Date By When Decision To Be Actioned:</b>			
<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	N/A	<b>Within Budget:</b>	N/A
<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

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# POWYS

## CRONFA BENSIWN POWYS PENSION FUND

### DATA QUALITY TESTING & MONITORING: PROCEDURES

Drafted May 2017

Introduction

- 1 In April 2015 the Pensions Regulator (the Regulator) published his Code of Practice no 14 (the Code) *Governance and administration of public service pension schemes*.
- 2 The legal requirements that regulate how pension funds should maintain member data and transaction records are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014. To assist, the Code gives practical guidance on the use of suitable internal controls to enable funds to meet their obligations.
- 3 Much of the text herein is drawn from the Code itself. Where it has been, the Regulator's copyright applies. After each of the TPR Requirements set out below, is given the method, system, action or control that is employed by the Powys Pension Fund in order to ensure compliance with the Code.
- 4 If you have any questions about this procedure, please contact:

Pension Fund Manager  
Powys Pension Fund  
County Hall  
Llandrindod Wells  
Powys LD1 5LG

### **Legal requirements**

- 5 Regulations 4 and 5 of the Record Keeping Regulations require pension funds to keep accurate and up-to-date information in relation to scheme members and related transactions. Failure to maintain complete and accurate records and put in place effective internal controls can affect the fund's ability to carry out basic functions. Poor record-keeping can also result in fund's failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and ultimately paying incorrect benefits. In addition, inaccurate data in respect of liabilities, may lead to fund's managing investment risks ineffectively.
- 6 Funds should be able to demonstrate to the Regulator, where required, that they keep accurate, up-to-date and enduring records to be able to govern and administer the pension scheme effectively.
- 7 Under the provisions of Section 249B of the Pensions Act 2004, funds are required to establish and operate adequate internal controls, which should include processes and systems to support record-keeping requirements and ensure that they are effective at all times.

### **Records of Member Information**

- 8 Pension funds are required to ensure that member data is complete and accurate; and, subject to regular evaluation.

*Powys Pension Fund encourages all scheme member to assist by checking the data held by the Fund, by reviewing their Annual Benefit Statements and advising where data is incorrect.*

- 9 Pension funds must keep specific data that enables them to uniquely identify a scheme member and to calculate their benefits correctly. Funds must also be able to provide scheme members with accurate information in respect of benefits accrued to date and future potential benefits; as well as ensuring that they pay the right pension to the right person at the right time.

*Powys Pension Fund uses scheme members' individual National Insurance numbers together with their post specific pay numbers in order to identify individual members uniquely and to ensure that the correct benefit information is assigned to the correct pension record. In addition, scheme members' may check their benefits accrued to date and forecast future benefit values, by utilising the 'My Powys Pension' online system, via unique identifiers.*

- 10 Funds should require participating employers to provide them with timely and accurate data in order to enable the Fund to fulfil its legal obligations. Funds should seek to ensure that processes are established by employers' that enable the transmission of accurate data between them.

*Powys Pension Fund requires all its participating employers to transmit member data to it via the 'i-Connect' data capture and transfer system. This system enables employers not only to transmit accurate data but also reconciles data held by the Pension Fund against that held on the employer's payroll – hence adding an additional opportunity to identify and correct any inaccuracies. The Fund is aiming to move this process from an annual to a monthly one over the coming year (2017/18).*

- 11 Funds should seek to ensure that employers understand the main events in relation to members that require information to be passed by them to the Fund.

*Powys Pension Fund provides notes of guidance to all the participating employers in relation to their obligations under the terms of the Local Government Pension Scheme.*

- 12 Funds should also ensure that appropriate procedures and timescales are in place in order to enable employers to provide updated information where member data changes, for checking Fund data against employer data and, for receiving information that may affect the profile of the Fund's membership. Failures to meet the obligations set out above should be reported to the Regulator as breaches of the law.

*See paragraph 11 above.*

## **Records of Transactions**

- 13 Funds should be able to trace the flow of monies into and out of pension funds and reconcile these against expected contributions and benefit payments. In doing so, they will have clear oversight of core transactions and should be able to mitigate risks accordingly.

*Powys Pension Fund reconciles the receipt of contributions received from employers against the amounts expected to be received based on the employer contribution rates set by the Fund actuary. Benefits paid are monitored to ensure that Fund cashflows remain at levels required to meet needs for cash as they arise.*

- 14 Funds must keep records of transactions made and any amount due to the Fund that has been written off.

*Powys Pension Fund records all transactions in relation to the Fund and maintains a log of amounts written-off.*

### **Records of Pension Board Meetings and Decisions**

- 15 Funds must keep records of Pension Board meetings including any decisions made. They should also keep records of key discussions, which may include topics such as compliance with policies relating to administration.

*The meetings of the Powys Pension Board are fully minuted, with minutes being published on the Fund's website at [www.powypensionfund.org](http://www.powypensionfund.org).*

- 16 The Fund must also keep records relating to any decision taken by members of the Pension Board other than at a pension board meeting, or taken by a committee/sub-committee, which has not been ratified by the pension board. The records must include the date, time and place of the decision and the names of board members participating in that decision. This will ensure that there is a clear and transparent audit trail of the decisions made in relation to the Fund.

*See paragraph 15 above.*

### **Retention of Records**

- 17 Records should be retained for as long as they are needed. It is likely that records will need to be retained for long periods and some records will need to be retained in relation to members long after that individual has retired, ensuring that pension benefits can be properly administered over the lifetime of the member and their beneficiaries. Adequate systems and procedures to enable the retention of records for the necessary time periods should be in place.

*Powys Pension Fund retains all pensions information for all members of the Fund who joined on or after 1<sup>st</sup> April 1974 (creation of the Powys Pension Fund). These records are largely held electronically via the Civica EDM system*

*with a smaller number of records being retained in paper form in the Council's archives.*

### **Ongoing Monitoring of Data**

- 18 Policies and processes that monitor data on an ongoing basis, should be in place, to ensure that data is accurate and complete, regardless of the volume of transactions. This should be in relation to all membership categories, including pensioner member data where queries may arise even when the pension is in payment.

*Powys Pension utilizes a variety of systems and processes to monitor the accuracy of Fund membership data, including:*

- *Participating in the biennial National Fraud Initiative*
- *Reconciling Fund data against DWP death lists*
- *Regularly checking the validity of member names and addresses against national data*

- 19 Funds should adopt a proportionate and risk-based approach to monitoring, based on any known or historical issues that may have occurred in relation to administration. This is particularly important for the effective administration of CARE schemes, which requires the holding of significantly more data than is needed for final salary-related schemes.

*Powys Pension Fund considers that its current approach to monitoring its members' data is both proportionate and appropriate.*

### **Data Review Exercise**

- 20 Data should be continually reviewed and data review exercises should be carried out at least annually. This should include an assessment of the accuracy and completeness of member information held. Funds should decide on the frequency and nature of reviews in the light of factors such as the level of data quality, any issues identified and key events.

*Data is reviewed against Employer data on an annual basis as part of the current Year End procedure. This is scheduled to move to a monthly exercise with the implementation of iConnect in the summer of 2017.*

### **Data Improvement Plan**

- 21 Where a Fund identifies poor quality or missing data, they should put a data improvement plan in place to address these issues. The plan should have specific data improvement measures which funds can monitor and a defined end date within a reasonable timeframe when the Fund will have complete and accurate data.

*This requirement is noted.*

## **Reconciliation of Member Records**

- 22 Funds should ensure that member records are reconciled with information held by the employer, Funds should also ensure that the numbers of scheme members is as expected based on the numbers of leavers and joiners since the last reconciliation. Funds should be able to determine those members who are approaching retirement, those who are active members and those who are deferred members.

*Powys Pension Fund reconciles member data against that held by employers annually (due to become monthly during 2017/18) via the Data Capture and Transfer System that is used. In addition, the pensions administration system also holds member records in such a way to enable them to be categorised as appropriate, differentiating between actives, deferreds and pensioners for example.*

## **Data Protection and Internal Controls**

- 23 Funds must ensure that processes that are created to manage scheme member data meet the requirements of the Data Protection Act 1998 and the data protection principles. Funds should include:
- Their obligations as data controllers and who the data processors are in relation to the Scheme.
  - The difference between personal data and sensitive personal data (as defined in the Data Protection Act 1998).
  - How data is held and how Funds will respond to data requests from different parties.
  - The systems that need to be in place to store, move and destroy data.
  - How data protection affects member communications.

[Meg – can you come up with some appropriate words for this section please to explain what we do currently in relation to DPA]

## **Other Legal Requirements**

- 24 In addition to the requirements set out in the Record Keeping Regulations, there are various other legal requirements that relate to record-keeping in public service pension schemes. Those requirements apply variously to managers, administrators and employers. Not all requirements apply to all public service pension schemes, but some of the key requirements are set out under the following legislation:
- Pensions Act 1995 and 2004



- Pensions Act 2008 and the Employers' Duties (registration and Compliance) Regulations 2010
- Occupational Pension Schemes (Scheme Administration) Regulations 1996
- Registered Pension Schemes (Provision of Information) Regulations 2006
- Data Protection Act 1998
- Freedom of Information Act 2000.

Where applicable, the Fund should be able to demonstrate that records are kept in accordance with these and any other relevant legal requirements.

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