Croydon Council

REPORT TO:	**Pension Board** **25 March 2021**
SUBJECT:	**Reporting and Monitoring Contributions**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**

1. RECOMMENDATION

1.1 To note this report.

2. EXECUTIVE SUMMARY

2.1 This report reminds the Board of matters raised in The Pensions Regulator's recent report on governance and administration risks in public service pension schemes. One of the "key improvement areas" identified by the Regulator was the relationship between scheme managers and employers in their funds and, in particular, how schemes manage contributions. This report details advice received and how the Croydon Fund complies with this advice.

3 DETAIL

3.1 At their meetings on 17 October 2019 and 16 January 2020 the Board received reports entitled "The Pensions Regulator: Governance and administration risks in public service pension schemes." These reports summarised the findings of The Pensions Regulator arising from its survey of the governance and administration of 10 UK Local Government Pension Scheme funds.

3.2 The Conclusion of The Pensions Regulator's report was as follows:
We've outlined some areas of good practice in this report, and also some areas where we remain concerned and expect scheme managers to improve where appropriate. Overall, we noted:

- *Not all funds are the same and there is a variety of equally valid approaches to mitigating risk used across funds in the LGPS;*
- *It is important that scheme managers recognise, and maintain, a separation between the fund and Local Authority to avoid an overreliance on the Local Authority's policies and procedures. When establishing its own policies and procedures a scheme manager should be able to seek assistance from the pension board, meaning steps should also be taken to ensure the pension board is able to fulfil its role. Where this is not possible, scheme managers should feed into creating Local Authority policies to make sure they are fit for purpose;*
- *There are clear benefits to the operation of the fund where there is an engaged s.151 officer who is directly involved;*

- *Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority in order to drive good outcomes;*
- *Scheme managers that have developed and implemented a robust pension administration strategy have found them useful. While not a legal requirement, scheme managers should consider whether type of document will be useful and look to introduce them where this is the case;*
- *A common risk is the unexpected departure of key members of the scheme manager's staff. Succession planning and clearly recorded processes help mitigate this risk;*
- *Measuring governance and administration is challenging and requires more than just an analysis of raw figures. Scheme managers should therefore put in place appropriate reporting measures that they believe capture both quantitative and qualitative assessments. This approach should be tailored to the specific circumstances of their fund;*
- *Scheme managers should take a holistic approach when considering the governance and administration risks to their fund. Most risks are connected to each other and a scheme manager should understand how a risk materialising will impact on other areas of governance and administration;*
- *Risks to funds are constantly changing and evolving. For example, the methods used by scammers change over time. Scheme managers should be alert to the changing nature of risks and adapt their approaches accordingly; and*
- *Many scheme managers have a clear understanding of how their funds operate and want to provide the best experience for savers. Where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards. This should be encouraged*

3.3 The Pensions Regulator identified various "key improvement areas" one of which was entitled "Employers." They concluded as follows:

Overall we found a number of common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas we investigated. The key improvement areas are summarised below. These findings align with the findings from our annual public service governance and administration survey.

……………………..

***Employers**: We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets.*

3.4 The Pensions Regulator's recommendations are:

Employers and contributions

- Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus;
- Employer solvency should be considered on an ongoing basis and not just at the time of each valuation;
- Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier;
- Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations;
- Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees;
- Scheme manages should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security;
- Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets; and
- Where security is in place, Scheme Managers should have a policy on when the security should be triggered.

3.5 The Scheme Advisory Board made the following statement:

The Pensions Regulator has … published its report into the governance and administration risks in public service pension schemes including the 10 UK local government funds who were engaged with between October 2018 and July 2019. The report summarises the key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards and will be discussed in detail when SAB next meets on the 6th November 2019. In commenting on the report, Chair of the Board, Councillor Roger Phillips said "This key area of work ties in closely in with the Board's own Good Governance project. In identifying examples of best practice as well as areas for further improvement the report will undoubtedly be of great assistance to LGPS funds in seeking to enhance their own governance and administration arrangements."

3.6 The Pensions Regulator's updated website includes further guidance as follows:

Key points

- The scheme manager should produce and maintain a payment schedule or contributions monitoring record;
- Check that contributions are paid to your scheme;
- Set up a process that you can use to identify and manage contribution payment failures;
- Make sure you report payment failures of "material significance" to us.

Monitoring payments

You should have a process to check that contributions are paid to your public service scheme on time and in full. You should apply a risk-based approach to identify situations which present a higher risk of late payments occurring and those which are likely to be of 'material significance' to us.

Managing overdue contributions
You should be able to assess whether a late payment has occurred. Where you identify a late payment, you should follow a process to resolve it quickly. This may include:

- carrying out an investigation to why the late payment has occurred
- contacting and discussing the late payment with the employer
- rectifying the late payment and taking steps to avoid recurrence

You should attempt to recover contributions within 90 days of when the payment was due and keep a record of your investigation and communications between you and the employer.

Reporting payment failures
Your scheme must report payment failures that are likely to be of 'material significance' to us as soon as you can – usually within 10 working days. You should report to us using our online service Exchange.

3.8 The Pensions Regulator has produced a Checklist to be used "to evaluate how effectively your scheme manages contributions." Appendix A to this report comprises the checklist as relevant completed for the Fund's administration. The Fund confirms that it is able to record compliance with each requirement. Detailed records to support the assessments are maintained.

3.9 A system of recording the receipt of contributions is maintained as follows:

- Appendix B – Schedules / Payments received information
- Appendix C – Schedule Template – non I-connect employers

Reports based on key areas of this information will be presented to the Board at each of its meetings starting in year 2021/22.

3.10 The Board are invited to comment on and note this report.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of "personal data?"

No

Approved by: Chris Buss, Interim Director of Finance, Investment and Risk, S151 Officer

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BACKGROUND DOCUMENTS:
None

APPENDICES

A. The Pensions Regulator: Managing Contributions Checklist - completed
B. Schedules / Payments received
C. Schedule Template – non I-connect employers