

Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Pensions Committee
Date:	15 October 2020
Subject:	Report by the Independent Chair of the Lincolnshire Local Pension Board

Summary:

The purpose of this report is:

- A) To update the Pensions Committee on the work of the Pensions Board (PB) during the last few months;
- B) For the Pensions Committee to receive assurances gained from the PB's work; and
- C) For the Pensions Committee to consider recommendations from the PB.

Recommendation(s):

The Pensions Committee is:

- 1. Requested to note the report; and
- 2. Consider inclusion of two additional risk on the Pension Fund Risk Register.

Background

1.0 OUTCOMES FROM PENSION BOARD MEETING ON 16 JULY 2020

- 1.1 The PB met on the 16 July and a particular focus was on several issues, namely:
 - a) Service Provision during the Covid-19 Pandemic;
 - b) Risk Register;
 - c) External Audit;
 - d) Employer Monthly Submissions and Contribution Monitoring;
 - e) Data Scores; and
 - f) Pension Benefits in Suspense.

- 1.2 **Service Provision During the Covid-19 Pandemic** – the PB received assurances from the WYPF that the pensions administration service had continued to be provided during the pandemic lockdown. The Administration Team transitioned successfully and seamlessly to working from home and have provided continued support to the membership. Although work on certain projects had been delayed, the PB congratulated the Team for their efforts.
- 1.3 **Risk Register** – arising from the annual review of the risk management policy, the PB suggested two additional risks for consideration by the Pensions Committee, namely:
- Investment and Funding Risks (Section I) – Failure of the Border to Coast Pensions Partnership.
 - Operational Risks (Section O) – the Pension Regulator's requirements particularly scheme specific data.
- 1.4 **External Audit** – the PB also considered the Pension Fund draft Annual Report & Accounts and congratulated the Head of Pensions on an excellent document. There was a concern that the low level of fees (£19,000) for the external audit might compromise the quality of the audit and it was agreed that this should be raised with the Executive Director – Resources, as the Section 151 Officer. The Chairman subsequently wrote to Mr Crookham who explained that LCC currently does not have any real leverage over either the auditor allocated or the fee paid. Both are the preserve of Public Sector Audit Appointments (PSAA) which was set up after the abolition of the Audit Commission. Since 2014, when PSAA was created, there has been one full re-procurement and a steady reduction in fees. Whilst a reduction in fees has been welcomed, it is apparent that this is impacting on the quality of audits as some audit firms are withdrawing from the market because they are unable to satisfy their statutory requirements as a result of the low fee levels. A review of public sector audit has been undertaken by Sir Tony Redmond and his report was published a few days ago. It is worth noting that Mazars have been at the top end of the regulatory assurance process undertaken by the Financial Reporting Council.
- 1.5 **Employer Monthly Submissions and Contribution Monitoring** – the PB considered the standard report on employer monthly submissions for the period January to March 2020. Although 26 data submissions and 6 payments of contributions had been received late for the quarter, there was a recognition that there had been some improvement. The PB will continue to monitor the position.
- 1.6 **Data Scores** – the PB considered a further update from WYPF on the data scores for the Lincolnshire Pension Fund as required by the Pensions Regulator; these were Common 95.90% and Scheme Specific 76.76%. The target is 100%, particularly for Common Data. WYPF are currently working on a data improvement plan, using a tracing company in an attempt to track lost members. The Board discussed options for improving the quality of the

data. However, WYPF's focus is on increasing automated processes and responding to the McCloud judgement as well as the routine payment of benefits to members. The PB will continue to monitor the position because the Pensions Regulator expects an improvement in data quality for all public sector schemes.

- 1.7 **Pension Benefits in Suspense** – in an earlier report, I mentioned that when a member reaches pension age and they have not been successfully traced, WYPF had set up a HSBC bank account with sub accounts for each pensioner. This avoids any unauthorised payment tax charges for the members once they are found. Whilst the Board understands the reasons for this arrangement, it is concerned at the number of members who are not in receipt of their benefits. The PB considered a further report on the amounts currently held in these Sub Accounts and the proposed course of action to find the members. The number of temporary deposit accounts held for lost contact pensioners and deferred members had increased to 53, with a total of £29,498 held by HSBC. The number of temporary deposit accounts held for post 2014 preserved refunds had increased to 136, with a total of £11,648 held by HSBC. The PB was advised that WYPF review annually the bank accounts and carry out traces to locate the rightful owners of the funds held on a temporary basis. The PB requested a further update including timescales as to the length of time each unclaimed benefit has been outstanding

Conclusion

ASSURANCES GAINED BY THE BOARD

- 2.1 The PB has concerns at the quality of the external audit of a complex pension scheme with £2.5 billion of assets. This is not a criticism of Mazars but rather the process that has driven fees to such low levels that audit firms are withdrawing from the market.
- 2.2 The PB recommends two additional items for inclusion in the Risk Register.
- 2.3 The vast majority of employers pay their contributions on time and submit the required documentation.
- 2.4 The PB has some concerns about the data scores and cannot provide full assurance on this aspect.
- 2.5 The PB has some concerns over the controls of the Suspense Account for unpaid pension benefits and the length of time that it takes to locate "missing" members.

Roger Buttery
Independent Chairman

October 2020

Consultation

a) Have Risks and Impact Analysis been carried out??

No

b) Risks and Impact Analysis

N/A

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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