

Suffolk Pension Fund Breaches Policy June 19



SUFFOLK PENSION FUND

Procedure for Reporting Breaches of the Law to the Pensions Regulator

Introduction

The introduction of the Public Services Pensions Act 2013 has from 1 April 2015 provided the Pensions Regulator with a role in overseeing the governance of Local Government Pension Schemes.

The Regulator issued a Code of Practice in April 2015, No 14 - *Governance and administration of public service pension schemes* (the Code). This included the requirement that individual schemes should adopt and publish a procedure for reporting breaches of law to the regulator, whilst ensuring that those with a statutory duty to report material breaches of the law are aware of their obligations.

This document sets out the procedure for deciding whether a breach of the law has occurred and whether it needs to be reported to the Pensions Regulator. Much of the text is drawn directly from the code itself to ensure that the procedure is fully compliant.

Legal requirements

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

- a legal duty 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.

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

- scheme managers (meaning, in the case of Suffolk, the Pension Fund Committee);
- members of the Suffolk Pension Board ;
- any person who is otherwise involved in the administration of the Fund (including the Fund's officers);
- employers, and 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 including auditors, actuaries, legal advisers and fund managers; and
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme.

What is Reasonable cause?

Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated. Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred.

Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to consult the Head of Finance or Senior Pensions Specialist, regarding 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, even without reasonable cause, alert the Regulator without delay.

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.

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 reporting the breach. A delay in reporting may exacerbate or increase the risk of the breach.

What is Material significance?

In deciding whether a breach is likely to be of material significance to the Regulator, it would be advisable for the reporter to consider the:

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

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.

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.

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.

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

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 the Board not fulfilling its role, the Fund not being properly governed and administered and/or the Pension Fund Committee 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 the Pension Fund Committee breaching legal requirements;

- adequate internal controls not being established and operated, which may lead to the Fund not being run in accordance with the Scheme's Regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the Fund 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;
- anyone involved with the administration or management of the Fund misappropriating any of its assets, or being likely to do so, which may result in assets not being safeguarded; and
- any other breach which may result in the Fund being poorly governed, managed or administered.

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

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.

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;
- fail to notify affected scheme members where it would have been appropriate to do so.

Wider implications of the breach

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

Before you submit a report you should obtain clarification of the law around the suspected breach. If:

- you are a member of the Suffolk Pension Fund Committee, Suffolk Pension Board or you are an external adviser, please contact the Council's Monitoring Officer;
- you are an actuary, auditor or other external agent, please contact the Head of Finance;
- you represent an employer, please contact the Senior Pensions Specialist;
- you are an officer of the Fund and you work in Administration, please contact the Head of Audit Services.

The person you contact will consider in the round whether the Regulator would regard the breach as being material. (S)he will also clarify any facts, if required. If the case is a difficult one (s)he will seek advice, as required.

Some matters could be urgent, if for example a fraud is imminent, whilst others will be less so. Non-urgent but material breaches should be reported to the Regulator within 30 working days of them being confirmed, and in the same time breaches that are not material should be recorded (see later).

Some breaches could be so serious that they must always be reported, for example a theft of funds by anyone involved with the administration or management of the Fund. It is difficult to be definitive about what constitutes a breach that must always be reported, but one test is: might it reasonably lead to a criminal prosecution or a serious loss in public confidence?

Any report that is made (which must be in writing and made as soon as reasonable practicable) should be dated and include as a minimum:

- full name of the Fund;
- 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 Fund.

Additional information that would help the Regulator include:

- the reason the breach is thought to be of material significance to the Regulator;
- the address of the Fund;
- the pension scheme's registry number (if available); and
- whether the concern has been reported before.

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.

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.

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.

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.

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.

In cases of immediate risk to the Fund, 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.

Recording breaches that have not been reported to the Regulator

Breaches that are found not to be material to the Regulator must still be recorded. This is so that if similar breaches continue, then they become material. Recording all breaches also highlights where improvements are required, to try and prevent similar breaches.

Breaches that are not being reported will be recorded by the Senior Pensions Specialist. All breaches will be reported to the Pension Board.

Whistleblowing protection and confidentiality

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.

The statutory duty to report does not, however, override 'legal privilege'. 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.

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.

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.

Suffolk County Council whistleblowing policy

The Council has its own whistleblowing policy. The person contacted about the potential breach, e.g. Head of Legal, will take this into account when assessing the case.

Further Information

If you have any questions about this procedure and:

- are a member of the Suffolk Pension Fund Committee, Suffolk Pension Board or an external adviser, please contact the Council's Monitoring Officer;
- are an actuary, auditor or other external agent, please contact the Head of Finance;
- represent an employer in the Fund, please contact the Senior Pensions Specialist;
- are an officer of the Fund, and work in Administration, please contact the Head of Audit Services.

Examples of breaches

Example 1

An employer is late in paying over employee and employer contributions, and so late that it is in breach of the statutory period for making such payments. It is contacted by officers from the administering authority, it immediately pays the moneys that are overdue, and it improves its procedures so that in future contributions are paid over on time. In this instance there has been a breach but members have not been adversely affected and the employer has put its house in order regarding future payments. The breach is therefore not material to the Regulator and need not be reported.

Example 2

An employer is late in paying over employee and employer contributions, and so late that it is in breach of the statutory period for making such payments. It is also late in paying AVCs to the AVC Provider. It is contacted by officers from the administering authority, and it eventually pays the moneys that are overdue, including AVCs to the AVC Provider. This has happened before, with there being no evidence that the employer is putting its house in order. In this instance there has been a breach that *is* relevant to the Regulator, in part because of the employer's repeated failures, and also because those members paying AVCs will typically be adversely affected by the delay in the investing of their AVCs.

Example 3

An employer is late in submitting its statutory year-end return of pay and contributions in respect of each of its active members and as such it is in breach. Despite repeated reminders it still does not supply its year-end return. Because the administering authority does not have the year-end data it is unable to supply, by 31 August, annual benefit statements to the employer's members. In this instance there has been a breach which *is* relevant to the Regulator, in part because of the employer's failures, in part because of the enforced breach by the administering authority, and also because members are being denied their annual benefits statements.

Example 4

A pension overpayment is discovered and thus the administering authority has failed to pay the right amounts to the right person at the right time. A breach has therefore occurred. The overpayment is however for a modest amount and the pensioner could not have known that (s)he was being overpaid. The overpayment is therefore waived. In this case there is no need to report the breach as it is not material.