

Agenda Item No. 4 (a)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

22 January 2020

Report of the Director of Finance & ICT

GOVERNANCE IN THE LOCAL GOVERNMENT PENSION SCHEME

1 Purpose of the Report

To inform the Pensions and Investments Committee (the Committee) of recent reports on governance in the Local Government Pension Scheme (LGPS) from the LGPS Scheme Advisory Board and The Pensions Regulator, and to note the intention of officers to work with Derbyshire Pension Board to develop the governance arrangements of the Pension Fund.

2 Information and Analysis

Governance in the LGPS is evolving to take into consideration increased oversight by The Pensions Regulator (TPR), the introduction of Local Pension Boards, increasing complexity in the administration of the scheme and the development of investment pooling.

Good Governance Report

In February 2019, the LGPS Scheme Advisory Board (SAB) appointed Hymans Robertson (Hymans) to examine the effectiveness of LGPS governance models and to consider alternatives or enhancements to existing models which could strengthen LGPS governance arrangements. Hymans were, particularly, asked to look at potential conflicts of interest between the pension function of administering authorities and their host local authority.

Hymans engaged extensively with stakeholders and considered four governance models:

- Model 1 - Improved practice
- Model 2 - Model 1 plus greater ring-fencing
- Model 3 - Joint Committee
- Model 4 – Separate Local Authority Body

The key findings from the resulting Good Governance Report were:

- An **'outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance model. Critical features of the 'outcomes-based' model should include:
 - robust conflict management including clarity on roles and responsibilities for decision making
 - assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget
 - explanation of policy on employer and scheme member representation in governance
 - regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered
- **Enhanced training requirements** for S151s and s101 committee members (requirements for s101 should be on a par with local pension board members)
- **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for S151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

Phase II Good Governance Project

In August 2019, the SAB appointed Hymans to assist the following two working groups in the next phase of the good governance project:

- **Standards and Outcomes Workstream** – which was asked to focus on specifying clearly the outcomes and standards that the SAB wanted to see achieved by funds under the proposed approach, and how these outcomes could be evidenced
- **Compliance and Improvement Workstream-** which was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework

The Phase II Report containing the proposals of both workstreams was published in November 2019 and is attached as Appendix 1. It is envisaged that all the proposals made in the report will be enacted via the introduction of new statutory governance guidance (the Guidance) issued on behalf of MHCLG. The main proposals are:

General

- each administering authority must have a single named officer who is responsible for the delivery of the pension function
- each fund must produce an enhanced annual governance compliance statement which sets out details of how each fund has addressed key areas of fund governance

Conflicts of Interest

- administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed
- the Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB

Representation

- each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party (the Guidance should acknowledge the principal that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund)

Skills & Training

- the introduction of a requirement for key individuals within the LGPS, including LGPS officers and pension committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively
- the introduction of a requirement for S151 officers to carry out relevant training as part of their Continuing Professional Development requirements to ensure good levels of knowledge and understanding
- administering authorities must publish a policy for setting out their approach to the delivery, assessment and recording of training plans to meet these requirements
- CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus

Service Delivery for the LGPS Function

- funds should document roles and responsibilities and develop, maintain and publish a 'roles and responsibilities matrix'
- each administering authority must develop, maintain and publish an administration strategy
- a series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed,

with all administering authorities required to report against these as part of their governance compliance statement

- budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers
- each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function

Compliance and improvement

- each administering authority must undergo a biennial independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified
- LGA to consider establishing a peer review process for LGPs funds

Phase III Good Governance Project

The SAB subsequently agreed, that its Secretariat, in conjunction with the project team at Hymans and scheme stakeholders, should proceed to develop Phase III of the project, including developing drafting statutory guidance on governance compliance statements and establishing a set of key performance indicators. Final proposals for Phase III of the project are due to be considered by the SAB in early February 2020.

The Pensions Regulator – Governance and Administration Risks in Public Service Pension Schemes: An Engagement Report

In September 2019, the Pensions Regulator (TPR) published its findings of an engagement with ten local government funds which sought to understand scheme managers' approaches to a number of key risks. The report summarised the key findings against the Regulator's Code of Practice 14 and can be found [here](#).

On the publication of the report, the Chair of the SAB, Councillor Roger Phillips said: 'This key area of work ties in closely 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.'

Overall, TPR found a number of common areas, some requiring improvement but others demonstrating good practice, relating to the various risk areas investigated. The key improvement areas identified by TPR were:

- **Key person risk:** While most scheme managers demonstrated a good knowledge of what TPR expect, many funds have a lack of comprehensive documented policies and procedures. TPR also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This

was particularly prevalent in relation to cyber security, but this theme overlay several of the risk areas explored.

- **Pension boards:** Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. TPR saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading TPR to question how they could fulfil their function. Others were well run and engaged.
- **Fraud/scams:** TPR saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.
- **Employers:** TPR 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.

Derbyshire Pension Fund's Governance Arrangements

The recent SAB and TPR governance reports will be taken into consideration in the Pension Fund's ongoing review of its governance arrangements. In particular, the reports will help to inform the Fund's review of its policies and procedures and assist with the identification of areas where Fund specific policies should be developed.

Officers will work with Derbyshire Pension Board to develop the governance arrangements of the Fund to comply with the new statutory governance guidance as it is developed and to emulate best practice.

3 Other Considerations

In preparing this report the relevance of the following factors have been considered: financial, legal and human rights, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

4 Officer's Recommendation

That Committee notes the recent LGPS governance reports from the SAB and TPR.

That Committee notes the intention of officers to work with Derbyshire Pension Board to develop the governance arrangements of the Fund.

PETER HANDFORD
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