

PENSIONS COMMITTEE
13 DECEMBER 2019**GOOD GOVERNANCE REVIEWS AND OBJECTIVES OF THE
FUND'S INVESTMENT ADVISOR**

Recommendations

1. **The Chief Financial Officer recommends that the Scheme Advisory Board (SAB) and The Pension Regulator's (TPR) governance reviews and the objectives of the Fund's Investment Advisor be referred to the Pension Board for consideration with the outcomes brought to the Committee meeting in March 2020.**

Background

2. At the last Pensions Committee, a report was provided on Governance. It was highlighted that strong governance of the Pension Fund has always been paramount, and with the collapse of several private sector funds, alongside the set-up of the pension pools and pressures to maintain balanced funds the need to maintain the strong governance of LGPSs has never been more important.
3. Because of this level of inspection there have been two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. This previous report highlighted the findings from those reviews and set out a proposal to strengthen the Pension Board as a first step which was agreed.
4. It was also agreed that:
 - a) A further report be brought back to the December Pensions Committee benchmarking the Fund and administration of the Fund against the Scheme Advisory Board and Pension Regulator's governance reviews, with recommendations to further strengthen the Fund;
 - b) Objectives for the Fund's Advisor be brought back to the next Pensions Committee for review and approval
5. Since the last Committee the announcement of the General Election and delay in some of the follow up reports have meant there is a slight delay in some of the requirements and guidance. As such, it is felt that these should be first reviewed and discussed at the Pensions Board in February 2020 and the outcomes brought back to the March Pension Committee for further discussion and agreement

Scheme Advisory Board Guidance

6. The last Committee detailed the review undertaken by Hymans Robertson who were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance.

7. The SAB agreed to take forward Hymans Robertson's findings and conclusions to improve governance in the LGPS, and released the report for publication in July. [download the full report here](#).

8. The key proposals 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:
 - a) robust conflict management including clarity on roles and responsibilities for decision-making
 - b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
 - c) explanation of policy on employer and scheme member engagement and representation in governance; and
 - d) 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 s151 and s101 committee members (requirements for s101 should be on a par with LPB members)
- **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS 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.

9. SAB agreed that following publication of the report, the Secretariat should commence work, in conjunction with scheme stakeholders, to outline the practical steps necessary to implement the main options set out in the report for consideration by the Board in November. Once approved, scheme stakeholders will be given the opportunity to comment on the Board's recommendations before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance. The outcomes from the review are detailed in Appendix 1 and a benchmark of how our Fund compares to the practices recommended by SAB will be discussed at the Pension Board in February 2020 and then presented to the March Pensions Committee.

The Pensions Regulator (TPR)

10. In addition to the work being undertaken by the SAB, TPR also published its report in September 2019 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 key findings were reported to the October Committee.

11. The key areas of focus that were covered with the findings and recommendations, together with case studies were as follows and these will be considered alongside the SAB governance review being discussed at the Pensions Board:

- Record keeping
- Internal Controls
- Administrators
- Member Communication
- Internal Dispute Resolution Procedure
- Pension Boards
- Employers and contributions
- Cyber Security
- Internal Fraud and false claims

Competition and Markets authority (CMA) order on Fiduciary management and Investment consultants

12. At the last Committee On 10 June the Competition and Markets authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation order 2019. In summary, the Order defines the Fiduciary Management (FM) services and obliges pension schemes to formally tender for such services. It also obliges pensions schemes to set objectives for their Investment consultancy (IC) providers as well as placing a variety of new obligations on FM and IC service providers.

13. It potentially had consequences for LGPS pools, however on the 29 July the DWP published a consultation on regulations to enact the provisions of the CMA order which explicitly rules out the LGPS as falling under the scope of the obligations in relation to FM service providers. The requirement to set objectives for IC providers remains with a deadline for doing so of 12 December 2019.

14. On the 31 July 2019 The TPR published guidance on the implementation of the CMA order which similarly reflects the position that the LGPS is within the scope only of the IC strategic objectives requirements. Administering authorities should take note of the DWP consultation and the TPR's guide "Setting Objectives for the Provider of Investment Consultant Services. IC Objectives Guide. This may result in WPF setting up formal objectives for its Investment consultancy advisor. Part of the TPR's guidance states the following:

- Setting objectives for advisers is an important part of an effective system of governance. We expect that by putting objectives in place, trustees will be better positioned to assess the quality of the service they receive and to deliver better outcomes for their members
- In setting objectives for your investment adviser, you will want to receive their input to ensure that the objectives being set are consistent with the service being offered and are realistic. In obtaining your adviser's input, you should be aware of the potential for their input to be subject to conflicts of interest and you should be prepared to challenge their input. You should also consider whether to involve a third party to help you set those objectives
- Once objectives have been agreed, we would expect these to be signed off in accordance with your existing governance framework, ensuring that all members of the trustee board have sight of and, if relevant, agree with the adviser objectives that have been set and the ongoing monitoring process of these.

15. The draft proposed formal objectives are detailed in Appendix 2 and the key performance indicators and outcomes are currently being discussed and agreed with the Funds Independent Financial Advisor and will be presented to the February Pensions Board.

16. Members of the Committee should note that the agreed objectives will still be able to be measured and reported retrospectively from the 12 December 2019 deadline.

Contact Points

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Supporting Information

- Appendix 1 – SAB Governance Principles
- Appendix 2 – Proposed Fund Investment Advisor Objectives

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

16 October 2019 – Pension Committee Agenda paper on Governance.

Scheme Advisory Board Good Governance Proposals	
A. General	
A1.	MCHLG will produce statutory guidance to establish new government requirements for fund to effectively implement the proposals below. (“the Guidance”)
A2.	Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for the fund (‘the LGPS senior Officer’)
A3.	Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS fund as set out in the Guidance. This statement must be signed by the LGPS senior officer and where different co-signed by the S151 Officer.
B. Conflicts of Interest	
B1.	Each Fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the guidance
B2.	The guidance should refer to 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
C. Representation	
C1.	Each fund must produce and publish 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
D. Knowledge and Understanding	
D1.	Introduce a requirement in the Guidance for the key individuals within the LGPS, including LGPS Officers and pensions committee members to have the appropriate level of knowledge and understanding to carry out their duties effectively
D2.	Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding
D3.	Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements
D4.	CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for S151 officers to consider including LGPS training within their training qualification syllabus
E. Service Delivery for the LGPS Function	
E1.	Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish roles and responsibilities matrix showing how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution to be consistent with the descriptions and business processes
E2.	Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of the service.
E3.	Each authority must publish and administration strategy
E4.	Each administering authority must ensure their committee included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year

Scheme Advisory Board Good Governance Proposals
E5. Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of their pensions function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function
F. Compliance and improvement
F1. Each administering authority must undergo a biennial independent Governance Review and if applicable produce the required improvement plan to address and issues identified. IGR reports to be assessed by a SAB panel of experts
F2. LGA to consider establishing a peer review process for LGPS Funds

Appendix 2

Proposed objectives for Worcestershire Pension Fund Investment Advisor

Task	KPI / Outcome to be determined
A. Provide qualitative general advice to the fund on markets, RI, risk and strategies that have no direct monetary decisions but shape the Fund's thinking at relevant Pension Committee, Investment Sub Committee, local pension board (as required) and meetings with Officers.	
B. Monitoring the Fund's portfolios and considering and providing general advice on the desirability of retaining particular classes of assets or of changing them.	
C. Provide advice that leads to direct cost making decisions regarding:	
1. the appointment and dismissal of Fund Managers and our Pool and other Advisers.	
2. as requested on specific proposals which are submitted to the Adviser for this purpose.	
3. Any other matter relating to decisions which directly influence decision making that generates financial cost to the Fund.	
4. oversight of the relationship between the fund and the pool, ensuring what the pool offers complies with strong transition, sound governance and the requirements of the fund and remains so.	
D. Support the fund in training, through transparent general advice.	