

**PENSION BOARD**  
**9 MARCH 2020****GOOD GOVERNANCE AND FUND INVESTMENT ADVISOR**  
**OBJECTIVES**

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**Recommendations**

1. **The Chief Financial Officer recommends that the Pension Board consider and advise the Pensions Committee:**
  - (a) **on the Scheme Advisory Board ‘Good Governance’ review and Worcestershire Pension Fund ‘Good Governance’ position statement attached as Appendix 1;**
  - (b) **on The Pension Regulator’s governance reviews; and**
  - (c) **on the objectives for the Fund’s Investment Advisor.**

**Background and Purpose**

2. The purpose of this report is to update the Pension Board on the outcomes of the ‘Good Governance’ reviews conducted by the Scheme Advisory Board (SAB) and The Pension Regulator (TPR). Also, an update is provided on the objectives for the Fund’s investment adviser following a report earlier in 2019 by the Competition and Markets authority (CMA) which obliges pensions schemes to set objectives for their Investment consultancy (IC) and advisers.
3. Strong governance of the Fund has always been paramount, and with the financial pressures now faced by employers, 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.
4. Because of this level of inspection there were two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance. This paper highlights the findings from those reviews and provides a current position statement for the Fund for consideration by the Board.

**Scheme Advisory Board Guidance**

5. Earlier this year, Hymans Robertson were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. The SAB commissioned work to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance.

6. A number of stakeholder groups contributed their time and expertise to the review either via the online survey, one-to-one interviews, or through attendance at seminars and webinars.

7. The Hymans project team delivered the findings to the SAB on 8 July. The report sets out the results of the survey, recognising strengths and weaknesses in all governance models and proposes that an outcomes-based approach would be the most effective method of improving governance, rather than mandating a single governance structure for all. This allows funds to continue doing what currently works well while still ensuring the highest governance standards across the scheme.

8. The report recommends introducing key benchmarks which will be used to assess each fund, these include: evidencing robust conflict management, providing sufficient administration capabilities and resource, having a clear and inclusive policy on employer and scheme member engagement and holding regular, independent governance reviews.

9. The SAB agreed to take forward the findings and conclusions to improve governance in the LGPS, and released the report for publication in July. [download the full report here](#). The main conclusions were:

- Governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups
- Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this
- Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already
- Respondents emphasised that independent review is needed to ensure consistency in application of standards.

10. 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 s151s 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.

11. 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. 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.

12. A position statement of how our Fund compares to the practices recommended by SAB is detailed in Appendix 1 and Pensions Committee in December 2019 agreed that this should be discussed first at Pension Board and then presented to the March Pensions Committee.

### **The Pensions Regulator**

13. In addition to the work being undertaken by the SAB, The Pensions Regulator 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 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 was discussed in detail at the SAB meeting on the 6 November 2019.

14. 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." The full report can be found here [Governance & Admin Risk report](#) and the Executive Summary and conclusions are as follows:-

15. Overall, TPR found several common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas investigated. These findings align with the findings from TPR [annual public service governance and administration survey](#). The key improvement areas are summarised below: -

- **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. We 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 overlays several of the risk areas we 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. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us 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.

16. The key areas of focus that were covered with the findings and recommendations, together with case studies were as follows:

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

17. Overall, TPR 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 over-reliance 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 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 this 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.
- 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. TPR encourage such action.

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

18. On the 10 June the 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

19. It potentially had consequences for LGPS pools, however on the 29th 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 10 December 2019 and although Worcestershire Pension Fund is looking to agree the objectives retrospectively it will have supporting evidence that they were in place prior to this deadline.

20. On the 31 July 2019 The Pension Regulator (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

will 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.

21.. The proposed formal objectives will be presented at the Board for consideration.

## **Contact Points**

### County Council Contact Points

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### Specific Contact Points for this report

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## **Supporting Information**

- Appendix 1 – Funds Good Governance position statement

## **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:

October 2019 – Pension Committee report on the changes to the Pension Board.