

PENSIONS COMMITTEE
17 MARCH 2020**GOOD GOVERNANCE REVIEWS AND OBJECTIVES OF THE
FUND'S INVESTMENT ADVISOR**

Recommendations**1. The Chief Financial Officer recommends that:**

- (a) The Scheme Advisory Board (SAB) 'Good Governance' review and Worcestershire Pension Fund 'Good Governance' position statement attached as Appendix 1 be noted;**
- (b) The Pension Regulator's (TPR) governance reviews be noted; and**
- (c) The objectives for the Fund's Investment Advisor as detailed in Appendix 2 be agreed;**

Background

2. At the last meeting, 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 in October 2019 highlighted the findings from those reviews and set out a proposal to strengthen the Pension Board as a first step which was agreed.

4. At the December Committee it was noted that due to the announcement of the General Election and delay in some of the follow up reports meant there was a slight delay in some of the requirements and guidance. As such, it was felt that these should be first reviewed and discussed at the Pensions Board which met on the 9th March 2020 and the outcomes brought back to the March Pension Committee for further discussion and agreement.

Scheme Advisory Board Guidance

5. The October 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.

6. 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 which was included in the October Committee report

7. 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.

SAB Latest update

8. At the last SAB meeting on the 3 February 2020 the Board agreed that an implementation group should be established immediately to prepare a detailed implementation plan for consideration when it next meets on the 4th May 2020.

9. Pensions Committee are asked to take on board the comments from the Pensions Board on the 9 March 2020 and to note and comment on the position statement attached as Appendix 1 of how our Fund compares to the practices recommended by SAB.

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

12. The findings and recommendation from the TPR review will be considered alongside the outcome of the SAB 'Good Governance' review.

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

13. 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.

14. 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 remained and a deadline set for the 10 December 2019. Although Worcestershire Pension Fund (WPF) is looking to agree the objectives retrospectively it has supporting evidence in place prior to this deadline.

15. 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.

16. The proposed formal objectives are attached at Appendix 2 for consideration and agreement by the Pensions Committee after taking on board the advice and comments from the Pension Board on the 9 March 2020.

Contact Points

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Supporting Information

- Appendix 1 – Fund’s Good Governance position statement
- Appendix 2 - Fund’s Investment Advisor proposed 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:

October and December 2019 – Pension Committee report on the changes to the Pension Board and background to the Good Governance reviews by SAB and TPR

AGENDA ITEM 8

Proposed Worcestershire Pension Fund Position Statement: Good Governance

Appendix 1

This position statement has been prepared to summarise how we are taking forward the LGPS Scheme Advisory Board's (SAB) Good Governance workstream in preparation for draft statutory guidance being issued. The numbering relates to the recommendations in the November 2019 Hymans Robertson Phase II [report](#) 'Good governance in the LGPS'. We are also closely monitoring SAB's Responsible investment guidance workstream.

Good Governance proposal	Current position	Identified actions
A. General		
A.1 MCHLG will produce statutory guidance to establish new government requirements for funds to effectively implement the proposals below. ("the Guidance")	Awaiting draft guidance to review and benchmark	Prepare for guidance
A.2 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')	Our Chief Financial Officer is so named	No further action needed
A.3 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	We publish a governance compliance statement as part of our annual reports	Benchmark our governance compliance statement against the guidance and peers annually
B. Conflicts of interest		
B.1 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	Elected members' (not officers') conflicts of interest are declared at the start of each Pensions Committee meeting	Review best practices employed at other funds (including private sector) to help identify possible conflicts and approaches in preparation for producing a policy
B.2 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	Awaiting draft guidance	To ensure that all those involved in the management of the LGPS are aware of this position statement and consider training and guidance to Fund members.

Good Governance proposal	Current position	Identified actions
C. Representation		
<p>C.1 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</p>	<p>Information about the Pensions Committee is available via our website The Pension Board's terms of reference are available via our website Our annual reports, our Investment Strategy Statement and para K of appendix 1 of the Worcestershire County Council constitution contain information about representation</p>	<p>Review whether the current position remains adequate annually using comparator Funds to benchmark practices.</p>
D. Knowledge and understanding		
<p>D.1 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</p>	<p>We use a knowledge and skills questionnaire for new elected members and key officers, using them to form action plans as to how gaps can be resolved. Our elected members' training programme is tabled at most Pensions Committee meetings. Our officers participate in training provided by the LGA, attend the annual LGPS conference, are on the distribution list for LGPC bulletins and develop the</p>	<p>Update the knowledge and skills questionnaire for all members. Review whether the current position remains adequate annually through a gap analysis and draw up appropriate training plans to address.</p>

Good Governance proposal	Current position	Identified actions
	LGPS knowledge of our employers through monthly employer newsletters .	
D.2 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	Our s151 officer's previous role was the most senior officer at another LGPS fund and skills framework completed 18 months ago	s151 to also complete skills framework assessment and address within his CPD programme.
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements	Our current training policy was tabled at the 22 June 2018 Pensions Committee meeting	Review annually with Pension Board the current policy. The review should take account of the level and scope of training for officers, the latest external training available and the attendance records of elected members
D.4 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	Awaiting guidance	To respond to CIPFA and CIPP, expected guidance and consider peer / CIPFA / LGA review
E. Service delivery for the LGPS function		
E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with the descriptions and business processes	The Worcestershire County Council constitution and our annual reports contain information about roles and responsibilities, and we have job descriptions for every officer's role.	To publish a matrix that meets the requirements of the guidance and clarifies the role and responsibility of everyone involved in every stage of the processes we carry out during a member's administration lifecycle
E.2 Each authority must publish an administration strategy	We comply with this requirement	To conclude our 2020 annual review of our Pension Administration Strategy by taking account of all employer feedback to our proposed changes resulting from our consultation.

Good Governance proposal	Current position	Identified actions
		To benchmark our strategy for completeness and innovation with comparator funds to continual develop.
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of the service	These are included in our annual reports and the quarterly Business Plans tabled at Pensions Committee meetings	To use this information to allocate resources between processes and to re-engineer processes. To continually work with the Pension Board to check and develop our KPIs and seek out benchmarking.
E.4 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	Quarterly Business Plans are tabled at Pensions Committee meetings	To review the effectiveness of our Business Plans
E.5 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	Our recruitment and staffing levels are not constrained by Worcestershire County Council and we are able to use market forces adjustments	To seek out what information, for example from CIPFA benchmarking, is available about pay in the LGPS
F. Compliance and improvement		
F.1 Each administering authority must undergo a biennial independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts	We do not currently do this	Prepare for guidance but are keen to explore peer review as noted in F2 below and will seek to explore options if guidance is not forthcoming quickly.
F.2 LGA to consider establishing a peer review process for LGPS Funds	We do not currently do this	Prepare for guidance and investigate external benchmarking, like PASA

Proposed objectives for WPF Investment advisor

Task	KPI / Outcome
<p>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.</p>	<ul style="list-style-type: none"> • Attend all Pension Committee and Investment Sub-Committee Meetings unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication.
<p>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.</p>	<ul style="list-style-type: none"> • Provide quarterly written reports to Committees in line with Committee timescales and reporting requirements, which include questions for Officers and Councillors to use at meetings with investment managers and a yearly review for publication in the Fund's Annual Report. Highlighting areas upon which members' attention should be focused. • Attend all quarterly review meetings with 'Active' fund managers unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication. • Any areas of poor performance highlighted, challenged and solutions identified. • Pensions & Investment Sub Committee satisfied with the value for money represented by the Services
<p>C. Support the Fund with achieving timely and cost-effective implementation of the Fund's investment decisions where appropriate, considering the evolution of the LGPS Central pool</p>	<ul style="list-style-type: none"> • Ensure a focus on key risk / return priorities • Any areas of misalignment with the Funds objectives and / or poor performance highlighted, challenged and solutions identified

Task	KPI / Outcome
<p>D. Provide other ad-hoc support and advice as required by either the Pensions and Investment Sub Committee or the Pensions Fund Investment Manager</p>	<ul style="list-style-type: none"> • Any ad hoc support and advice provided in line with agreed service specifications and on a timely basis • Advisor's fee shared and updated at year end with open report of any additional fees earned through advice. • Conflicts register updated at least half yearly, and upon any changes to the Financial Advisor as soon as they are known to that person.
<p>E. 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.</p>	<ul style="list-style-type: none"> • Attend all quarterly performance review meetings with LGPS Central for which the fund has invested unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication. • Any areas of poor performance highlighted, challenged and solutions identified.
<p>F. Support the fund in training, through transparent general advice.</p>	<ul style="list-style-type: none"> • Pensions, Investment Sub Committee and Board satisfied with the quality and content of any training requested
<p>G. Ensure the Fund complies with relevant investment pensions regulations, legislation and supporting guidance, and reflects the policies approved by the Pensions Committee.</p>	<ul style="list-style-type: none"> • No instances of non-compliance with relevant regulations or policies