

PENSIONS COMMITTEE
29 JUNE 2021**GOOD GOVERNANCE REVIEW AND OBJECTIVES OF THE
FUND'S INVESTMENT ADVISOR**

Recommendations

1. The Chief Financial Officer recommends that the Committee note and comment on:
 - a) The latest update on the Scheme Advisory Board (SAB) 'Good Governance' review and Worcestershire Pension Fund 'Good Governance' position statement attached as Appendix 1; and
 - b) The update against the objectives for the Fund's Investment Advisor as detailed in Appendix 2.

Background

2. At the Committee meeting in December 2019, 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 were two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator (TPR) looking at how to strengthen governance. The Pension Committee 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.

Scheme Advisory Board Guidance

4. The October 2019 Pensions 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.

5. 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.

6. The SAB agreed the proposals by Hymans Robertson’s in their Good Governance report Phase 2 on the 3 February 2020 and requested that the project team and working groups provide further detail on implementation of these proposals. The Fund has been reporting every 6 months against the Phase 2 proposals and the latest update is provided in Appendix 1 to this report

7. The SAB published their findings on phase III of the project on the 23rd February 2021. The **Phase III** Report builds on the recommendations agreed in 2019 with further input from a range of scheme stakeholders.

8. The agreed **Action Plan** comprises;

- a. Those matters that would fall to MHCLG to implement, either by amending scheme regulations or producing statutory guidance
- b. Those matters that would fall to the Board and other bodies to implement - subject to the actions in 1 being taken by MHCLG – and
- c. Actions to identify and promote existing best practice that the Board can take forward regardless of the outcome of the above.

9. The SAB also agreed that in taking this work forward it would follow the practice adopted in preparing the guide on the new employer flexibilities by fully involving members of its committees, scheme practitioners and other key stakeholders.

10. Commenting on the report and action plan, Councillor Roger Phillips, Chairman, said:

“We have reached another critical stage in this key area of work to further improve the high standards of governance and administration of the scheme on a consistent and measured basis that will better match the standards expected by the Pensions Regulator.

11. The SAB must now wait to see how MHCLG responds to the Board’s proposal.

Worcestershire Pension Fund next actions

12. The Fund will look to compare the actions in phase II compared to the latest recommended actions in Phase III and look to provide an update at the next Committee meeting in September 2021.

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

13. On 10 June 2019 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. Consequently, the Fund set a number of objectives for our IC and have been reported every 6 months to Committee for consideration. The latest update as at the end of May 2021 is attached at Appendix 2

Contact Points

Specific Contact Points for this report

Michael Hudson

Worcestershire Pension Fund Chief Finance Officer

Tel: 01905 846908

Email: MHudson@worcestershire.gov.uk

Supporting Information

- Appendix 1 – Funds 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), there are no background papers relating to the subject matter of this report.