

PENSIONS COMMITTEE – 24 SEPTEMBER 2021

Report of the Director for Corporate Services

GOOD GOVERNANCE IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) & THE GOOD GOVERNANCE PROJECT

Recommendations of the Chairman

1. That the Pensions Committee notes the content of Hymans Robertson's **Good Governance: Phase 3, Report to the Scheme Advisory Board** dated February 2021; and
2. That the Pensions Committee notes the Gap Analysis provided for the Staffordshire Pension Fund, in relation to the recommendations of the Good Governance Project, provided at Appendix 2.

Background

3. Strong governance of a Pension Fund has always been of paramount importance. Over the last few years, with the collapse of several private sector pension funds and the set-up of the LGPS pension pools the demand for Good Governance across the wider LGPS has been highlighted.
4. More locally, the funding and cost pressures on Local Government finances has meant that the need to maintain stable contribution rates and consistent funding levels, for the benefit of scheme members and the local taxpayer alike, has been of major importance. And this in turn, has led to the demand for more detailed scrutiny of the governance arrangements, at an individual Fund level.

Scheme Advisory Board (SAB) – The Good Governance Project - Phases I to III

5. The origins of the good governance project can be traced back to the Shadow Scheme Advisory Board that was established in 2012 to assist in the design of the new 2014 scheme. The then Board agreed to consult on proposals to separate the pensions function from administering authorities, to resolve the perceived conflict of interest of elected members acting in the best interest of their local authority, rather than scheme members.
6. The separation project was put on hold while asset pooling was in its initial stages in 2015. However, in June 2018 the Scheme Advisory Board agreed to its re-commencement as the Good Governance Project. The objective was to identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role.
7. Following a procurement exercise, the Board appointed Hymans Robertson in January 2019 to examine the effectiveness of current LGPS governance

models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward. The following link, to the Scheme Advisory Board website, provides more information and a timeline of the various stages which have resulted in the Phase 3 Final Report and the Action Plan.

<https://lgpsboard.org/index.php/good-governance>

Good Governance: Phase 3, Report to the Scheme Advisory Board.

8. Published on 23 February 2021, the Phase 3 report built on the key proposals from the Phase II report (published February 2020) and provided further detail on the ways in which the proposals might be implemented. The full report can be accessed via the following link:

https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf

9. 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.
- The need for **enhanced training requirements** for S151 Officers and S101 Committee Members (requirements for S101 should be on a par with Local Pension Board members).
 - The need to **update relevant guidance and provide better sign-posting**. This should include the 2014 CIPFA guidance for S151 Officers on LGPS, the 2014 CIPFA guidance for S151 Officers on LGPS responsibilities and the 2008 statutory guidance on governance compliance statements. All this guidance pre-dated the involvement of the Pensions Regulator and Local Pension Boards in the oversight of the LGPS and also LGPS investment pooling.

Action Plan

10. In addition to the Phase 3 report, the SAB also published an Action Plan. This formed an Annex to the letter from the SAB Chair, to Luke Hall MP, on 11 February 2021, which formally requested that MHCLG and other bodies take action to implement the recommendations from the project. The Action Plan can be accessed via the following link:

https://lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_1_10221.pdf
11. 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 SAB and other bodies to implement - subject to the actions in (a) being taken by MHCLG; and
 - (c) Actions to identify and promote existing best practice that the SAB can take forward regardless of the outcome of the above.
12. 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.

Staffordshire Pension Fund – Good Governance Gap Analysis

13. The Staffordshire Pension Fund prides itself on its governance arrangements and has for the last 3 years received substantial assurance on such from Staffordshire Internal Audit Services. A range of policies exist that are regularly reviewed and kept up to date and Elected Members and the Local Pensions Board engage in regular Training activities.
14. The Phase 3 report introduces a number of new concepts and makes several recommendations that do not currently form part of scheme wide LGPS governance arrangements. Some of the more fundamental changes include:
 - **LGPS Senior Officer** – each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund.
 - **Governance Compliance Statement (GCS)** – each administering authority must publish an annual GCS that sets out how they comply with the governance requirements for all LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS Senior Officer and the S151.

- **Independent Governance Review (IGR)** - each administering authority must undergo a biennial IGR and, if applicable, produce the required improvement plan to address any issues identified. IGR reports will be assessed by a SAB panel of experts.
15. To highlight any potential gaps, Appendix 2 list the various recommendations from the Phase 3 report and indicates how the Staffordshire Pension Fund currently complies with the proposed arrangements.
 16. Setting aside any future potential resource implications, it is reassuring that the gap analysis indicates there no areas of real concern. Whilst there are several areas where some review work can commence, other areas will need to wait for more formal guidance to be issued.
 17. One such set of updated guidance is the revised CIPFA Knowledge and Skills Framework, which was published in August 2021, in response to the Phase 3 report recommendations. This will be reviewed by Fund Officers and any recommendations addressed as part of the Fund's Training Policy, which will be the subject of a separate report, to a future meeting of this Pensions Committee.

John Tradewell
Director for Corporate Services

Contact: Melanie Stokes, Assistant Director for Treasury & Pensions
Telephone No. (01785) 276330

Background Documents:

Hymans Robertson – Good Governance: Phase 3 Report to SAB
ANNEX to letter from SAB Chair to Luke Hall MP dated 11.2.2021

Appendix 1

Equalities implications: There are no direct implications arising from this report.

Legal implications: The legal implications are considered in the body of his report.

Resource and Value for money implications: Whilst the principles of Good Governance should be implicit in all key Pension Fund activities, the development of revised policies and their continual review and assessment may lead to the requirement for additional paid resources.

Risk implications: The risks from not having appropriate Governance arrangements in place can lead to poor administration of the scheme and inappropriate decisions and actions being taken, which may have a detrimental effect in a number of areas.

Climate Change implications: There are no direct implications arising from this report.

Health impact assessment screening: There are no direct implications arising from this report.