

Good governance in the LGPS

Phase II report from Working Groups to SAB

November 2019



Process

Following on from the presentation of the Good Governance Report to the SAB on 8 July 2019, the Board agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.

The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

This report has been prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework.

Thanks to contributors

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Terminology

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended:

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example “Each administering authority must publish an annual report.”

Committee. A committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example “The pensions committee should have a role in developing the business plan.”

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example “Delivery of the LGPS function must be constant with the constitution of the host authority.”

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example “Taking this course of action will improve the fund's administration”.

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years.”

Workstream 1: Standards and outcomes

Proposals and background

A. General

1. It is envisaged that all the proposals made in this document will be enacted via the introduction of new statutory governance guidance which will supersede current and previous guidance, although it will contain elements of existing legislation and guidance where appropriate. This guidance would be issued on behalf of MHCLG, although MHCLG may seek assistance on drafting the guidance.
2. In order to improve the accountability for fund governance, it is proposed that each administering authority must have a single named officer who is responsible for the delivery of the pension function. (“the LGPS senior officer”). This may be the S151 officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume that role. Alternatively, the LGPS senior officer role may be undertaken by another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role. This should be a person close enough to the running of the fund that they have sight of all aspects of the fund’s business. The role of the responsible person should be assigned through the host authority’s scheme of delegation and constitution. If the person who undertakes this key role within the host authority changes it may be necessary for the role of the responsible person to be reviewed.
3. In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority’s s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds 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

1. Administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed. Some administering authorities currently only follow the conflicts of interest requirements of the host authority which are typically focused on the elected member register of interest and code of conduct. The Guidance should require all administering authorities to publish a specific LGPS conflicts of interest policy and should stipulate the areas that the policy should address. In addition to registering interests, this will include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS as listed:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contribution setting for the AA and other employers.
- Cross charging for services or shared resourcing between the AA and the fund
- Dual role of the AA as an owner and client of a pool
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining clear records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded.
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.
- In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

Each fund should be required to make public its conflicts of interest policy.

2. During the Phase I survey a number of respondents said that it would be very helpful to define the extent of fiduciary duties in respect of the individuals, committees and boards involved in LGPS governance. The SAB working group came to the conclusion that while clarification on the fiduciary question is desirable, the complex legal considerations mean that this is beyond the scope of this project. The Group is aware that the SAB has separately undertaken to collate various references to fiduciary duties and public law principles and provide a guide which illustrates how these might be applied to the LGPS. It would be helpful for The Guidance to make reference to the SAB's findings in this area.

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.

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.

C. Representation

1. The initial phase of the Good Governance review highlighted that many pension committees now have non-administering authority employer and scheme member representatives although local practice varies as to whether these members have a vote. Primary legislation in the form of the Local Government Act 1972 allows local authorities wide discretion over committee appointments and delegations and this issue ultimately remains one of local democracy.

The Guidance should require that all administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

Best practice would suggest that scheme member representation in some form is a desirable goal for administering authorities. In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

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.



D. Skills and training

1. The Good Governance Review noted the need for enhanced levels of training for key LGPS individuals. While there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees.

The Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees as well as officers involved in the fund. At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

Training should be delivered as part of a supportive environment and committee and board members will not be required to undertake tests, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to Committee and senior officers within the context of an appropriate LGPS specific framework, for example the CIPFA knowledge and skills Code of Practice and Framework (currently being updated). As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

Training records must be maintained.

2. There should be an LGPS training requirement for s151 officers (or those aspiring to the role) as part of their CPD. An appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS, although it is not expected that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority. This should be specified and administered by an appropriate professional body.

D.1 Introduce a requirement in the Guidance for 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.

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.

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.

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

E. Service delivery for the LGPS function

The Good Governance Review proposed that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this. In this context administration refers to all of the tasks and processes required to deliver the Scheme and is not limited to the calculation and payment of benefits. This definition encompasses a funds accountancy function, investment support, employer liaison, systems, communications etc.

1. Clarity around roles, responsibilities and decision making are central to good delivery of the LGPS function. The Guidance should require funds to document roles and responsibilities and develop, maintain and publish a “roles and responsibilities matrix” which sets out who within the organisation is responsible for final sign off, implementation, oversight and recommending the key decisions that the fund is required to make.

The “roles and responsibilities matrix” should reflect the host authority’s scheme of delegation and constitution and be supported by a clearly documented management structure.

2. The Guidance should require that each administering authority must develop, maintain and publish an administration strategy which sets out its approach to the matters mentioned in regulation 59 (2) of the LGPS Regulations 2013 and the Guidance. We recommend that the Board ask that this proposal to be implemented by MHCLG within the LGPS Regulations at their earliest opportunity.
3. A series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed. These indicators should be drawn wherever possible from current reporting structures. All administering authorities must be required to report against these as part of their governance compliance statement.

It is acknowledged that there are inherent difficulties in drawing conclusions when comparisons are not always on a true like for like basis but it is preferable to introduce measures now and seek to improve the measurement approach over time.

4. Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund’s budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund’s officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund’s business plan and deliverables for the forthcoming year. The practice should not simply be to update last year’s budget by an inflationary measure or specify an “available” budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund’s business plan but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority’s scheme of delegation and constitution.





E. Service delivery for the LGPS function (continued)

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard. If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

5. Each Administering Authority has a duty to ensure that its pensions function is staffed such as to enable it to deliver an effective pensions service to the all fund employers and members. It is therefore important that the recruitment and retention practices applied to the pensions function facilitate this. For example, the use of market supplements may be necessary to recruit/retain both investment and pensions administration staff. Further, given that the pension fund budget is set and managed separately from the expenditure of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default.

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 role descriptions and business processes.

E.2 Each administering authority must publish an administration strategy.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

E.4 Each administering authority must ensure their committee is 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.

E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.

Workstream 2: Compliance and improvement

F. Compliance and improvement

One of the key features of the original Good Governance Review was the view that in order to ensure required standards are adhered to consistently there needs to be regular independent review of administering authorities governance arrangements.

1. The new MHCLG guidance should set out a process for an Independent Governance Review, to include the features set out below.
 - a. It will be mandatory for each Fund to commission an Independent Governance Review (“IGR”) which will audit the fund’s Governance Compliance Statement and review compliance with the requirement of the new statutory guidance.
 - b. There should be a standardised framework and process for IGRs which covers all areas set out in new MHCLG guidance.
 - c. It is critical that the IGR should be conducted by appropriate persons who:
 - properly understand the LGPS;
 - are sufficiently at arm’s length from the administering authority’s pensions function, that is, they do not have an existing contractual relationship with the administering authority which conflicts with their ability to carry out a properly independent and objective assessment of governance standards and compliance with new statutory requirements; and
 - are in some way “accredited” to ensure consistent standards of review.
 - d. To ensure consistent standards from those conducting IGRs, a procurement framework should be put in place which sets out the standard requirements, standard reporting and standard fee for an LGPS IGR. Ideally this should be in place for 2020/21.
 - e. Suppliers who can demonstrate they are suitably qualified and knowledgeable may be appointed to the framework, from which any LGPS Funds may appoint an external supplier.
 - f. Alternatively, administering authorities may choose to have their IGR review carried out by their own internal audit or another appropriate party to the same standards as the framework.
 - g. Each administering authority should have an IGR completed biennially, by a date which will be notified by the SAB.
 - h. The SAB may direct, as a result of concerns about the governance of a fund (or for another reason), that an administering authority must have an IGR completed outside of the two-year cycle.
 - i. The IGR will report findings to the body and/or individual with delegated responsibility for delivery of the LGPS as set out in the roles and responsibilities matrix and to the local pension board.
 - j. The administering authority must develop an improvement plan to address any issues raised in the IGR.
 - k. The report from the IGR and improvement plan must be published and also be submitted to SAB and relevant SAB sub-committees.
 - l. SAB will put in place a panel of independent experts to scrutinise the IGR reports, looking for outliers and areas of concern. The panel of experts will be drawn from LGPS stakeholders to include the s151 community and other parties as appropriate.
 - m. The SAB panel may enter into discussions with funds where the panel find the IGR report or agreed improvement plan or progress against a previous improvement plan are considered to be unsatisfactory. Additionally, they may refer the unsatisfactory IGR to TPR or further escalate to MHCLG.
 - n. Failure to submit an IGR report by the required date will result in automatic referral.
 - o. A dry run is recommended in parallel with the timeline for drafting the required Guidance.
 - p. Nothing in this process overrides an individual’s responsibility to report breaches of the law under the Pensions Act 2004 or any other professional or legal whistleblowing obligations.





F. Compliance and improvement (continued)

2. LGA run a peer challenge process for some areas of local government. It is a process commissioned by a council and involves a small team of local government officers and councillors spending time at the council as peers to provide challenge and share learning. It is suggested that a similar peer challenge process is established for the LGPS.

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.

F.2 LGA to consider establishing a peer review process for LGPS Funds.

Summary of the compliance and improvement process

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS requirements.

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG

Next steps

The Working Group recommends that SAB and MHCLG accept the recommendations in this report and initiate phase III of the project.

Phase III should contain the following elements:

1. MHCLG to draft the required changes to the Guidance.
2. SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
3. SAB to establish the 10-15 KPIs referred to within proposal E.3.
4. It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.



Appendix A

Summary of recommendations



Area	Proposal
A. General	A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
	A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds 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	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.
	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.
C. Representation	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.
D. Knowledge and understanding	D.1 Introduce a requirement in the Guidance for 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.
	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.
	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.
	D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.
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 role descriptions and business processes.
	E.2 Each administering authority must publish an administration strategy.
	E.3 Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of service.
	E.4 Each administering authority must ensure their committee is 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.
	E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
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.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

