

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 20 DECEMBER 2019****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: SCHEME ADVISORY BOARD REVIEW OF GOVERNANCE IN THE LGPS****SUMMARY OF ISSUE:**

In January 2019, the Scheme Advisory Board (SAB) appointed Hymans Robertson (Hymans) to facilitate a review of governance structures for the LGPS. This paper provides details of the Good Governance Phase II report, published in November 2019. Any changes to the LGPS governance will have an impact on the Surrey fund.

RECOMMENDATIONS:

To note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee will be made aware of all national initiatives, in accordance with its Governance objectives as included in its 2019/20 Business Plan.

BACKGROUND:

1. In January 2019 the SAB appointed Hymans to facilitate a review of governance structures for the LGPS.
2. In July 2019, Hymans issued a report outlining the results of this review. The report made the following conclusions:
 - Governance structure is not the only determinant of good governance. Funds with similar governance models produced differing results;
 - There was a clear view that the establishment of new bodies was not necessary and instead there should be greater guidance within the existing structures;
 - There is preference for a set of mandatory standards that all funds should achieve, drawing on current good practice;
 - Standards should be regularly and independently reviewed.
3. Leading from these conclusions Hymans made the following proposals:
 - There should be an outcome based approach, based on minimum standards.
 - This outcome based approach should include:

- i) Robust conflict management, including defining roles and responsibilities.
 - ii) Assurance on the sufficiency of administration, along with the appropriate budget.
 - iii) Policy on employer and member engagement.
 - iv) Regular independent review of governance.
 - Enhanced training (particularly for S151s and S101 committees).
 - Update of relevant guidance and better sign-posting.
4. The SAB invited the Hymans project team to assist them in taking forward the next stage (Phase II) of the good governance project.
 5. Two working groups were be established to focus on the following:
 - i) Defining good governance outcomes and the guidance needed to clearly set them out.
 - ii) Options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes.
 6. The aim was for the options report to be ready for the SAB's consideration when it meets in November.

DETAILS:

The Good Governance – Phase II Report

7. At its meeting of 6th November the SAB agreed that the Good Governance – Phase II Report should be published (it is included as Annexe 1).
8. The Phase II Report includes proposals broken in six broad themes:
 - General;
 - Conflicts of interest;
 - Representation;
 - Skills and training;
 - Service delivery for the LGPS functions;
 - Compliance and improvement.
9. The proposals are as follows:
 - General:
 - i) MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”);
 - ii) 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”).
 - iii) 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 co-signed by the LGPS senior officer and S151.
 - Conflicts of interest:

- i) 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, with specific reference to key conflicts identified in the Guidance;
 - ii) 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.
- Representation:
 - i) 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 voting rights for each party.
- Knowledge and understanding:
 - i) Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively;
 - ii) Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding;
 - iii) Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements;
 - iv) CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
- Service delivery for the LGPS function:
 - i) Each administering authority must document key roles and responsibilities relating to the LGPS 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;
 - ii) Each administering authority must publish an administration strategy;
 - iii) Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service;
 - iv) 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;
Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of the pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions functions.

- Compliance and improvement:
 - i) 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;
 - ii) LGA to consider establishing a peer review process for LGPS Funds.

NEXT STEPS:

10. The SAB has agreed the following:
- That the Secretariat, in conjunction with the project team at Hymans Robertson and scheme stakeholders, should proceed to develop Phase III of the project including draft statutory guidance on governance compliance statements and establishing a set of key performance indicators;
 - Final proposals for Phase III of the project will be considered by the Board when it next meets on the 3rd February 2020.
11. At its meeting of 7 June 2019, the Pension Fund Committee approved the governance review recommendations of Hymans. Officer will follow up on this review with Hymans in the context of the SAB good governance project, to ensure the Surrey Fund's compliance with the SAB proposals.

CONSULTATION:

12. The Chairman of the Pension Fund Committee has been consulted on this report

RISK MANAGEMENT AND IMPLICATIONS:

13. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

14. Financial and value for money implications are discussed within the report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

15. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

16. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

17. This does not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

18. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

19. The following next steps are planned:

- Keep the Pension Fund Committee apprised on developments in the Good Governance project;
- Officers to work with to ensure the Surrey Fund's compliance with the SAB proposals.

Contact Officer: Neil Mason, Strategic Finance Manager (Pensions)

Consulted:

Pension Fund Committee Chairman

Sources/background papers:

1. SAB Good governance in the LGPS Phase I report

Annexes:

1. SAB Good governance in the LGPS Phase II report

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