



The Surrey Local Pension Board

5 August 2021

Scheme Advisory Board Review of Governance in the LGPS

Recommendations:

1. The Board is asked to **note** the content of this report.

Detail:

Introduction

2. In January 2019 the SAB appointed Hymans to facilitate a review of governance structures for the LGPS.
3. In July 2019, Hymans issued a report outlining the results of this review. The report made the following conclusions:
 - a) Governance structure is not the only determinant of good governance. Funds with similar governance models produced differing results.
 - b) 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.
 - c) There is preference for a set of mandatory standards that all funds should achieve, drawing on current good practice.
 - d) Standards should be regularly and independently reviewed.
4. Leading from these conclusions Hymans made the following proposals:
 - a) There should be an outcome-based approach, based on minimum standards.
 - b) 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.
 - c) Enhanced training (particularly for S151s and S101 committees).
 - d) Update of relevant guidance and better signposting.

5. The SAB invited the Hymans project team to assist them in taking forward the next stage (Phase II) of the good governance project.
6. At its meeting of 6th November 2019, the SAB agreed that the Good Governance – Phase II Report should be published.
7. The Phase II Report focused on proposals based on six broad themes:
 - a) General.
 - b) Conflicts of interest.
 - c) Representation.
 - d) Skills and training.
 - e) Service delivery for the LGPS functions.
 - f) Compliance and improvement.

The Good Governance Phase-III Report

8. At its meeting in February 2021 the SAB agreed that the Good Governance – Phase III Report should be published.
9. The phase III report builds on the previous stages and it is broken down into six key areas;
 - a) General.
 - b) Conflicts of Interest.
 - c) Representation.
 - d) Skills and training.
 - e) Service delivery for the LGPS Function.
 - f) Compliance and Improvement.

General

10. MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below (“the Guidance”).
11. 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”). The role is comprehensively specified.
 - a) Core requirements and personal qualities are stipulated as the role is expected to be concentrated and focused.
 - b) Personal competencies needed include experience, technical skill, strategic thinking and operational effectiveness.
 - c) Key attributes include capacity, adequate seniority (tier 4 or above) with budget setting responsibility and adequate resources.
 - d) SAB has suggested five potential structures to accommodate the new role.
12. 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 the Section S151 officer (S 151). This will supersede the existing guidance from November 2008.

13. MHCLG will introduce a new requirement to have an Administration Strategy and the fund's existing statement may need to be revised.

Conflicts of Interest

14. Each fund must generate 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.
15. There should be specific references to key conflicts identified in the Guidance which include to the LGPS and will be listed in The Guidance. The expectation is that the areas covered will include:
- a) Commercial relationships between the administering authority and scheme employers / other parties which may impact decisions made by the fund.
 - b) Shared service arrangements and companies wholly owned by the Council.
 - c) Contribution setting for the administering and other employers.
 - d) Recharging services or shared resources between the administering authority and the fund.
 - e) The dual role of the administering authority as an owner and a client of a pool.
 - f) Investment decisions about local infrastructure.
 - g) How the pension fund responds to Council decisions or policies on global issues such as climate change and,
 - h) Any other roles within the Council 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, which should be disclosed.
16. 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 – now updated.

Representation

17. Each fund must generate 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.
18. This information is currently set out in the Governance Compliance Statement, which is based on the old 2008 guidance and it will need to be revised, updated and amplified in a new policy.

Knowledge and understanding

19. The Guidance will require key individuals in the LGPS, including officers, the Board and the Committee, to have the appropriate level of knowledge and understanding in order to carry out their duties effectively.
20. A requirement for S 151 to carry out LGPS specific training as part of CPD will be introduced to ensure good levels of knowledge and understanding.

21. Administering authorities must publish a policy setting out their approach to the delivery, assessment and documentation of training plans in order to meet these requirements.
22. CIPFA will be asked to produce appropriate guidance and training modules for S 151 officers.

Service Delivery for the LGPS Function

23. 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.
24. Each administering authority is required to publish an administration strategy.
25. Each administering authority must report the fund's governance performance against an agreed set of indicators designed to measure standards of service. This is designed to augment the service delivery metrics.
26. 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 provided to deliver the LGPS service over the next financial year.

Compliance and improvement

27. Each administering authority must undergo a biennial Independent Governance Review (IGR) and, if applicable, produce the required improvement plan to address any issues identified.
28. IGR reports to be assessed by a SAB panel of experts.
29. LGA to consider establishing a peer review process for LGPS Funds.

Key takeaways

30. Role of LGPS Senior Officer is created to take responsibility for the delivery of the LGPS function. The position will be at tier 4 or above and will lead the Fund's strategic approach to funding, investment, administration and governance. The post is designed to ensure that there is a robust risk management framework in place, that the Fund meets its statutory responsibilities and complies with the Pensions Regulator's code of practice .
31. Requirement to publish a Governance Compliance Statement and review it annually. MHCLG will produce new statutory guidance to replace the old 2008 guidance.
32. MHCLG will introduce a new requirement to have an Administration Strategy and the fund's existing statement may need to be revised.
33. Each Fund must produce a Conflicts of Interest Policy that considers actual, potential and perceived conflicts of interest.
34. Biennial independent governance review and, possibly, a peer group review.

35. Generic governance key performance indicators (KPIs) are to be developed.

Next steps

36. Keep the Local Pension Board apprised on developments in the Good Governance project.

37. Officers to work with the Local Pension Board and the Pension Fund Committee to ensure Surrey Pension Fund's compliance with the SAB proposals.

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Sources/background papers:

1. SAB Good governance in the LGPS Phase I report
2. SAB Good governance in the LGPS Phase II report

Annexes:

1. SAB Good governance in the LGPS Phase III report

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