

## REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

### Good Governance Consultation Update

Pensions Board  
18<sup>th</sup> November 2019

Classification  
**PUBLIC**

Ward(s) affected

**ALL**

Enclosures  
One  
**AGENDA ITEM NO.**

#### 1. → INTRODUCTION ¶

- 1.1 The purpose of this report is for the Pensions Board to consider the work on good governance undertaken by Hymans Robertson on behalf of the LGPS Scheme Advisory Board. It sets out the background to and context of the work, considers the good governance report produced by Hymans Robertson and sets out the expected next steps for the project.

#### 2. → RECOMMENDATIONS ¶

- 2.1 The Pensions Board is recommended to:
- Note the report

#### 3. → RELATED DECISIONS ¶

- 3.1 N/A

#### 4. → COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES ¶

- 4.1 A sound understanding of governance across the wider Local Government Pension Scheme (LGPS) helps the Pension Board to assist Hackney Council as the administering authority in ensuring the efficient and effective governance and administration of the Fund, in line with its statutory duties. Good governance of the Fund helps to ensure its long term financial health and that of its stakeholders, including the Council.
- 4.2 There are no immediate financial implications arising from this report.

#### 5. → COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES ¶

- 5.1 The role of the Pension Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:
- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
  - Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
  - Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

- 5.2 The aim of the Scheme Advisory Board's (SABs) good governance project is 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. It aims to identify ways of strengthening governance in the face of new challenges, such as oversight by the Pension Regulator, Asset Pooling and the increasing complexity of scheme administration. The project aims to set standards that all funds should achieve, drawing on current best practice and without placing unnecessary burdens on administering authorities.
- 5.3 Taking into account the role of the Pension Board as set out in the Regulations and statutory guidance, the consideration of the SAB/Hymans Robertson report on good governance in the LGPS would appear to properly fall within the Board's remit.

## 6. → **BACKGROUND TO THE REPORT**

- 6.1 Governance in the LGPS is evolving to accommodate new developments, including oversight by The Pensions Regulator, the introduction of Local Pension Boards, increasing complexity in scheme benefits and administration, local government funding cuts and pooling of LGPS investments, which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.
- 6.2 The SAB commissioned the good governance survey and report from Hymans Robertson to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen scheme governance going forward. Given the unique nature of the LGPS, guaranteed by administering authorities and funded to a large degree by taxpayers, the SAB specified that any models considered must maintain strong links to local democratic accountability.
- 6.3 Hymans Robertson initially engaged with funds and other stakeholder groups via an online survey and various other methods, setting out four potential governance models:
- Model 1: improved practice. Introduce guidance or amendments to the LGPS Regulations to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.
  - Model 2: Model 1 plus greater ring-fencing. Clearer ringfencing of pension fund management from the host authority, including budgets, resourcing and pay policies.
  - Model 3: joint committee. Responsibility for all LGPS functions delegated to a joint committee comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes joint committee responsible for recommending budget, resourcing and pay policies.
  - Model 4: separate Local Authority body. An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act 1972 provisions.

The models are described qualitatively, recognising that some of the characteristics attributed to one model could also be replicated in another and that the solution may draw on the features of more than one model.

- 6.4 Respondents were asked to assess each of the 4 models against the following criteria for assessing governance arrangements:
- Standards

- Consistency
  - Representation,
  - Conflict Management
  - Clarity of Roles
  - Responsibilities and Cost.
- 6.5 Responses to the survey indicated a preference for Model 2, followed by Model 1, with a recognition that independent monitoring would be required to ensure that standards were consistently applied and upheld. The responses also provided existing examples of good practice that demonstrated some of the features of models and 2.
- 6.6 Few respondents favoured Model 3, on the grounds that it offered no benefits over existing arrangements but would result in considerable added complexity. Some did favour Model 4, including one trade union, although for most the value of this model was overshadowed by the very significant additional costs and weakening relationships with Councils. Model 4 would pose particular difficulties in London, where funds are generally smaller and more closely integrated into their host authorities.
- 6.7 Hymans Robertson drew the following conclusions from the work undertaken:
- It is clear from survey responses that governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups.
  - Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this.
  - Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already.
  - Respondents emphasised that independent review is needed to ensure consistency in application of standards.
- 6.8 Hymans Robertson's full report can be found at Appendix 1 to this report. The report sets out additional details on each model and breaks down the survey responses received by model and criterion.
- 6.9 The SAB Secretariat and the Hymans Robertson project team are now working with stakeholders to develop a detailed plan to be presented to the Board at its November meeting. The Board has confirmed that stakeholders will be given the opportunity to comment on the Board's recommended implementation plan before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance.

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**Appendices**

Appendix 1 – Hymans Robertson Good Governance Report