



Pension Fund Committee

28 October 2021

Title	Scheme Advisory Board – Good Governance Project
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	None
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Summary

The Scheme Advisory Board commissioned Hymans Robertson to undertake a review of the governance of LGPS funds. The recommendations require funds to challenge and justify their governance arrangements with some independent oversight. This report highlights the proposals and although not yet endorsed by government suggests a gradual approach to reviewing compliance.

Officers Recommendations

1. That the Pension Fund Committee note the report and request that officers draft policies in accordance with the Scheme Advisory Board recommendations, which are dependent on the issue of new relevant statutory Guidance and /or updating of existing scheme regulations by the Department of Levelling Up, Housing and Communities, for consideration at future meetings .

1. WHY THIS REPORT IS NEEDED

- 1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's affairs.
- 1.2 The Scheme Advisory Board (SAB) is a statutory body established in 2015 whose role is to (1) provide advice to the Secretary of State on the desirability of making changes to the Scheme and (2) providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme, both with the aim of encouraging best practice, increase transparency and coordinate technical and standards issues. Members of the SAB are appointed by Government and comprise equal numbers of employer (mainly councillors) and employee (mainly trade union officials) representatives. The SAB is akin to a national version of the Local Pension Board. Its recommendation unless enacted into regulations or statutory guidance by Government are advisory only.
- 1.3 The good governance project originated from a perceived conflict of interest of elected members acting in the best interest of their local authority rather than scheme members. The SAB initially intended to consult on proposals to separate the pensions function from administering authorities. However, the objective of the review was modified 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.
- 1.4 To take forward the project the SAB 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. Hymans issued two preliminary and one final (phase three) report following a period of consultation. SAB have made proposals to Government and are currently awaiting a response.

Project Proposals

- 1.5 A listing of the project proposals from the phase three report is given below. In essence they focus on documentation and knowledge and understanding and are far removed from the earlier separation agenda. However, the authors have included a bonus for the consulting community in the form of a biennial independent governance review and have reopened the discussion on employer and employee representation. In summary the proposals are:
 - a) Named single officer at each fund responsible for the delivery of all LGPS activity. Document and publish a key roles matrix including how key decisions are reached.
 - b) Publish annual governance compliance statement [Barnet already has a governance compliance statement].
 - c) Publish conflicts of interest policy.
 - d) Publish a policy on representation of scheme members and employers & voting at Committee.
 - e) Extend knowledge and Understanding requirement that currently only apply to the Local Pension Board to Committee members and officers and publish policy on training plans.
 - f) Publish administration strategy [already in place].
 - g) Report fund's performance across all areas against an agreed set of indicators. The Hymans report makes suggestions for KPI.
 - h) Committees and senior LGPS officer to sign off on LGPS resources and budget.

- i) Commission a biennial independent governance review and if required an improvement plan.
Review findings to be assessed by SAB panel of experts.
 - j) Invite to Local Government Association to consider a “peer review process for LGPS Funds”.
- 1.6 The proposals that are of particular note:
- Single Named Officer responsible for delivery of LGPS activity
- 1.7 The role of the LGPS senior officer is to lead and take responsibility for the delivery of the LGPS function. Guidance mentions ability to bring issues to the attention of the senior leadership, ability to influence overall Council decisions that impact on the pension fund, capacity to undertake the function, direct supervision of those with key LGPS responsibilities. It's recommended that this individual either reports to the chief executive or is one level lower in the management hierarchy. For Barnet, the senior officer would either be the Director of Resources or Head of Pensions. In reality, the main impact would be an increased ability to challenge the resources allocated to the management of the fund.
- Policy on member and employer representation and voting at Committee
- 1.8 While the SAB expresses an ‘expectation’ that employer and employee representatives will have involvement on the Pension Fund Committee, they are keen to leave this to local decision making and have limited their proposal to documenting the reasons for the approach taken and a discussion on wider engagement. The current arrangement at Barnet includes the opportunity for non-voting employer and trade union representatives attending Committee while the Local Pension Board comprises a diverse membership. When the Local Pension Board was introduced there was the option of establishing a joint Committee and Board, with voting for all. Few local authorities opted for this approach due to concerns over losing majority voting rights. Having a representative Committee and separate representative Board would appear an unnecessary complicated structure.
- Extend knowledge and understanding requirement to Committee and officers
- 1.9 The Pensions Regulators code of practice has an extensive listing of the areas of knowledge and skills required by members of the local pension board. SAB recommend that this requirement be extended to Committee members and officers, which does not appear unreasonable. Implementation would be by increases training and use of self-assessment questionnaires. A policy on training plans need not be lengthy.
- 1.10 Biennial independent governance review
- 1.11 There is an absence of detail on the independence governance review other than it focuses on the governance compliance statement and that the report is assessment by a SAB panel of experts. No justification is provided for such a review or for the proposed role of the panel of experts. With the SAB having no powers their recommendations may be of interest but not much more. No details are given as to who is suitable to undertake the review. The final element of the ‘challenge’ process is the suggestion that the LGA consider establishing a peer review process for LGPS funds. How that differs from the SAB’s panel of experts is unclear.

- 1.12 The review provides guidance as to the content of the various proposed policy documents and drafting of these may potentially bring out weaknesses in the current governance arrangements with opportunities to enhance.
- 1.13 Overall, the initial review was phrased in terms of ‘the vast majority of funds have no governance deficiencies, but just in case there are some poor practices, we intend to make a raft of recommendations’, which is precisely what has been done. We can however thank the authors for closing down the separation agenda for the moment. There will be some interesting points that come out of the compliance process, but the majority of time will be spent documenting current arrangements and implementation of the recommendations is unlikely to lead to better outcomes.

Next Steps

- 1.14 While we could wait until DLUHC either update regulations or statutory guidance, it may be worth gradually working through each of the recommendations and bringing either a draft policy or proposals to Committee and Local Pension Board over an extended period.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The Committee is responsible for all aspects of the Pension Fund including governance . The report discusses new governance requirements, and it is proposed that detailed policies and responses be developed.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 Not necessary for this report.

4. POST DECISION IMPLEMENTATION

- 4.1 Next steps are to review current practice against report recommendation and to discuss opportunities to enhance governance with the Committee at future meetings and with the Local Pension Board.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 There are no direct resources issues for the Council. The proposal will incur some additional officer time and potential the cost of an independent review.

5.3 Social Value

- 5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.
- 5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.
- 5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.
- 5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

- 5.4.1 The SAB action plan references some proposed outcomes being dependent on the issue of new relevant statutory Guidance and /or updating of existing scheme regulations which are within the remit of the Department of Levelling Up , Housing and Communities.
- 5.4.2 The Council’s Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee “To ensure compliance with all Local Government Pension Scheme statutes, regulations and best practice”.

5.5 Risk Management

- 5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.
- 5.5.2 The Committee relies on its service providers and good performance from these will help to avoid problems.

5.6 Equalities and Diversity

- 5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant ‘protected characteristic’ and those who do not share it; and fostering good relations between persons who share a relevant ‘protected characteristic’ and persons who do not share it. The ‘protected characteristics’ are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

5.7 Corporate Parenting

- 5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

5.8.1 Not applicable.

5.9 Insight

5.9.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 None.

7. BACKGROUND PAPERS

7.1 Further details on the Good Governance Project are available from the Scheme Advisory Board web site:

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

in particular the final recommendations (phase three report):

[Good Governance Final Report February 2021.pdf \(lgpsboard.org\)](Good_Governance_Final_Report_February_2021.pdf(lgpsboard.org))