

WIRRAL COUNCIL

PENSION COMMITTEE

3 FEBRUARY 2020

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| SUBJECT: | GOOD GOVERNANCE PROJECT PHASE II REPORT |
| WARD/S AFFECTED: | NONE |
| REPORT OF: | DIRECTOR OF PENSIONS |
| KEY DECISION? | NO |

1.0 EXECUTIVE SUMMARY

- 1.1 This report updates Members on the Scheme Advisory Board's (SAB) review of LGPS Governance models and the publication of the Phase II report on 15 November 2019. This latest report was prepared by the two working groups formed following phase one of the project and builds on the findings from the initial Good Governance report published in July 2019.
- 1.2 Good Governance Phase II contains detailed proposals for the changes required to implement the governance framework. It also calls for statutory guidance to set out the standards that LGPS funds are expected to meet with regard to compliance with governance responsibilities and the appropriate level of external oversight to improve accountability.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 Strong governance of the LGPS has always been paramount, but due to the collapse of several private sector funds, alongside pressures to maintain balanced funds the need to maintain this strong governance has led to vigorous scrutiny by The Pension Regulator and the current SAB review of governance.

The review focuses on the effectiveness of the LGPS governance models and considers alternatives or enhancements to existing models which can strengthen governance going forward whilst maintaining strong links to democratic accountability.

- 2.2 Members were informed at the Committee meeting dated 4 November 2019 (minute 37 refers) that following the publication of the initial 'Good

Governance Report' at the end of July, SAB would continue to progress the work to improve governance within the LGPS.

- 2.3 Two stakeholder working groups, supported by Hymans Robertson, were established to develop the initial findings, capture existing best practice across funds and set consistent standards to build on the project's earlier proposals to strengthen the governance and administration of the LGPS.
- 2.4 The Phase II report was published on 15 November 2019 and details the proposed outcomes from the workstreams, along with a summary of 17 recommendations necessary to implement an improved governance framework. The report can be accessed from the following link:

<https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-phase-2-report/>

2.5 The recommendations include:

- Production of statutory guidance by MHCLG to establish new governance requirements for funds
- The requirement to allocate a single named officer responsible for all LGPS related activity for fund
- The requirement to publish an annual governance statement signed by the nominated 'LGPS Senior Officer' to set out how the Fund complies with the governance requirements
- The requirement to publish a policy on the representation of scheme members and non-administering authorities on the committee
- Formalisation of knowledge and understanding training for key individuals and in particular those individuals on decision-making committees
- Service delivery to include publication of an administration strategy and inclusion of the administering authority in the business planning process
- Biennial independent Governance Review of the administering authority with a required improvement plan if any issues identified.

2.6 Next Steps (Phase III)

At its meeting on 6 November, SAB agreed that the working group should proceed to develop phase III of the project, which is intended to include the following actions:

- MHCLG will be required to draft the required changes to their guidance
- The SAB to engage with the LGPS National Frameworks to establish an independent governance review provider framework
- The SAB to establish a set of performance indicators to measure LGPS funds' standards of service
- SAB to consider preparing a list of topics to be included in the governance compliance statement

2.7 Final proposals for phase III will be considered at the next scheduled SAB meeting on 3 February 2020.

Preliminary Gap Analysis of MPF

2.8 Merseyside Pension Fund is substantially compliant with the proposed governance requirements and officers will undertake a policy review in preparation for the issue of revised guidance and examples of best practice.

2.9 Officers are considering their approach to re-drafting the Conflict of Interest policies, developing the knowledge and understanding of key individuals within the fund, documenting service delivery and measuring performance of the LGPS function; ultimately preparing MPF for a biennial independent governance review.

3.0 Risks

3.1 The new governance requirements assist the scheme manager to establish and operate internal controls to identify, evaluate and manage risks that relate to scheme administration and the safe custody of scheme assets.

3.2 Fund compliance with statutory guidance and recommendations from the Good Governance Project will be subject to biennial independent review and further scrutiny from the Pensions Regulator; non-compliance will result in sanction and reputational damage to the Fund.

4.0 Other Options Considered

Not relevant for this report.

5.0 Consultation

5.1 Not relevant for this report

6.0 Outstanding previously approved actions

6.1 None associated with the subject matter.

7.0 Implications for voluntary, community and faith groups

7.1 There are none arising from this report.

8.0 Resource Implications: Financial: IT; Staffing and Assets

8.1 The new governance requirements will require the Fund to appoint an officer dedicated to governance to effectively coordinate the implementation of the proposals and review governance policies to ensure continued compliance as part of the biennial governance review and increasing scrutiny from tPR, SAB and the Local Pension Board activities.

8.2 The costs of implementing the recommendation from SAB's governance review of the LGPS will be met from the Pension Fund as part of its obligation to meet statutory legislation and guidance.

9.0 Legal Implications

9.1 None at this stage.

10.0 Equalities Implications

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because MHCLG undertake equality impact assessments with regard to the statutory reform of the LGPS.

11.0 Carbon Reduction and Environmental Implications

11.1 There are none arising from this report

12.0 Planning and Community Safety Implications

12.1 There are none arising from this report

13 Recommendation

- 13.1 That Committee Members note the report and the recommendations within the 'Good Governance Phase II' report with regard to the effectiveness of the Local Government Pension Scheme Governance Arrangements.
- 13.2 To note the requirement for the Fund to increase officer resources in the area of governance management.

14.0 Reason/s for Recommendations

- 14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision-making role.

**REPORT
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BRIEFING NOTES HISTORY

| Briefing Note | Date |
|----------------------|------------------------|
| LGPS UPDATE | 4 NOVEMBER 2019 |
| LGPS UPDATE | 16 JULY 2019 |