

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 17 December 2019

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Subject: Good Governance in the LGPS

Summary statement:

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by the Pensions Regulator, introduction of Local Pensions Boards, increasing complexity in scheme benefits and administration, local government funding cuts and pooling of LGPS investments, which has changed the role of pension committees, and how LGPS Funds work with each other.

Scheme Advisory Board (SAB) commissioned Hymans Robertson 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.

Recommendation

It is recommended that the Local Pension Board note this report.

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Portfolio

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Overview & Scrutiny Area

1.0 SUMMARY

- 1.1 A number of governance structures exist across LGPS Funds. A consultation was carried out to identify ways of further strengthening LGPS governance in the face of new challenges, setting a bar for standards that all funds should achieve, drawing on current best practice and not imposing additional unnecessary burden on administering authorities or disrupting current practices that deliver good outcomes already.
- 1.2 Key proposals that emerged from the exercise were:
- i) There should be an 'outcome based' approach to LGPS governance with minimum standards rather than a prescribed governance model.
 - ii) Critical features of the 'outcome based' model should include:
 - a) Robust conflict management including clarity on roles and responsibilities for decision making,
 - b) Assurance on sufficiency of administration and other resources and appropriate budget
 - c) Explanation of policy on employer and scheme member engagement and representation in governance, and
 - d) Regular independent review of governance.
 - iii) Enhanced training requirements for s151's and s101 committee members
 - iv) Update relevant guidance and better sign-posting.

2.0 BACKGROUND

- 2.1 The LGPS Scheme Advisory Board commissioned Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The purpose of the consultation is to consider how best to accommodate LGPS functions within the democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately and that the LGPS remains appropriately resourced and able to deliver its statutory functions. SAB asked Hyman Robertson to help them identify the real issues and potential options for change to the current arrangements which are proportionate, pragmatic and would improve LGPS governance in these areas.

3.0 PROCESS

3.1 Through the consultation process, Hymans gathered the views of as many stakeholders, representing all elements of the LGPS, as possible. Scheme stakeholders were invited to complete a short online questionnaire which asked for examples of actual conflicts that can arise, views on the effectiveness of current LGPS governance arrangements and suggestions for improvement. Further stages of the consultation included interviews and workshops with key stakeholders. This allowed the SAB to consult on a series of options that reflect the reality of LGPS governance as experienced by those who experience it first-hand.

3.2 Four Governance models were considered:

- Model 1 – Improved Practice
- Model 2 – Model 1 plus greater ring fencing
- Model 3 – Joint Committees, and
- Model 4 – Separate Local Authority Body

4.0 RESULTS

4.1 The on line survey responses indicated a preference for Model 2 (greater ring fencing) followed by Model 1 (improved practice).

4.2 Model 2 was also the clear preference in additional surveys at the PLSA conference in May and other events.

4.3 Few respondents supported Model 3 (joint committee) citing no benefits over existing arrangements and considerable added complexity as the main reason.

4.4 Some respondents could see value in Model 4 (separate LA body). However, the value was outweighed by concern about weakening relationships with Councils who are key sponsors of the scheme and a belief that establishing this model would incur disproportionate cost to any benefits that could be delivered.

4.5 Many stakeholders pointed out that their existing models provided many of the features and benefits of Model 1 and 2. Many had found good solutions to some of the challenges faced within the current structure and welcomed the opportunity to share these with peers and learn from others' experiences.

4.6 Through this process Hymans identified:

- Some best practice within current governance arrangements that is delivering good outcomes and may have potential for wider application across the LGPS, and
- Additional ideas for further strengthening governance within the current regulatory framework.

5.0 CONCLUSIONS FROM PHASE I

5.1 It is clear from the survey responses that governance structure is not the only detriment of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups.

5.2 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.

5.3 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.

5.4 Respondents emphasised that independent review is needed to ensure consistency in application of standards.

6.0 PHASE II

6.1 Following on from the presentation of the Good Governance report to SAB on 8 July 2019, the Board agreed to constitute two working groups to take forward the proposals included in the report (Phase II).

6.2 The first working group (Compliance and Improvement Workstream) were asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how those outcomes should be evidenced.

6.3 The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

- 6.4 The findings of both working groups have been reported back to SAB last month and includes detailed implementation proposals and a list of changes required to guidance to implement this framework.
- 6.5 The Working Group's recommended that SAB and MHCLG accept the recommendations of the working group and initiate phase III of the project.

7.0 PHASE III

- 7.1 Phase III should contain the following elements:
- a) MHCLG to draft the required changes to the Guidance
 - b) SAB to ask the national Framework to begin work on establishing Independent Governance review provider framework
 - c) SAB to establish the 10-15 KPI's referred to in the report
 - d) SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.
- 7.2 Final proposals for phase III of the project will be considered by the SAB when it next meets on the 3 February 2020.

8 Recommendation

It is recommended that the Pension Board note the report.

9. APPENDICES

Appendix A – Good governance in the LGPS

Appendix B – Good governance in the LGPS – Phase II report