



Committee report

Committee	PENSION FUND COMMITTEE
Date	9 FEBRUARY 2018
Title	REVIEW OF FUND GOVERNANCE – PROJECT OVERVIEW
Report of	TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. The committee is asked to receive a presentation from the fund's governance consultants, Hymans Robertson LLP, on setting out a proposed approach and timetable for reviewing the governance arrangements of the Isle of Wight Pension Fund.
2. The committee is asked to agree to a review of the fund's governance as set out in this report, including the indicative timetable and budget.

CONFIDENTIAL / EXEMPT ITEMS

3. The appendix is exempt from disclosure by virtue of paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 (as amended) as it, "relates to financial or business affairs of any particular person", (including the authority holding that information). The public interest in maintaining confidentiality is outweighed by the public interest in disclosing it. Disclosing the information could place the Council at risk of legal challenge from individuals or other bodies identified in the report.

BACKGROUND

4. The focus on the governance of Local Government Pension Scheme (LGPS) funds has increased considerably since the introduction of the Public Service Pensions Act 2013 (PSPA 2013). There have been two significant impacts on LGPS governance as a consequence of PSPA 2013, namely;
 - (i) The requirement for LGPS funds to introduce a local pension board which is responsible for assisting the administering authority to:
 - ensure compliance with LGPS regulations, any other legislation relating to the governance and administration of the scheme and any requirements imposed by the Pensions Regulator, and
 - ensure the effective and efficient governance and administration of the scheme.

- (ii) The significant extension of the Pensions Regulator's (TPR) powers to cover public service pension schemes such as the LGPS.
5. TPR is required to issue a code of practice (Code of Practice 14) which sets out public service pension schemes' responsibilities in the following key areas:
- Knowledge and understanding required by pension board members.
 - Conflicts of interest and representation.
 - Reporting breaches of the law.
 - Publishing information about schemes.
 - Internal controls.
 - Scheme record-keeping.
 - Maintaining contributions.
 - Providing information to members.
 - Internal dispute resolution.
6. In addition, towards the end of last year, TPR launched the campaign '21st Century Trusteeship' with the stated aim of driving up standards of governance in pension schemes and ensuring better outcomes for scheme members.
7. Although at first sight some of the terminology used in the campaign might feel more appropriate for private sector pension schemes, LGPS funds need to be aware that the Regulator views 21st Century Trusteeship as being fully applicable to the public sector.
8. While the campaign does not introduce any new standards or requirements for pension scheme governance it does confirm TPR's approach to be clearer about what they expect from pension schemes and, where necessary, bolder about enforcing those standards. A number of key topics will form the core of the 21st Century Trustee programme, which are discussed later in this report.

COMPLIANCE WITH PSPA2013 AND CODE OF PRACTICE 14

9. The Isle of Wight Pension Fund has made sure that it complies with its statutory obligations and the requirements of the Code of Practice 14.
10. The terms of reference for the Local Pension Board were originally approved by Full Council, at its meeting of 21 January 2015 and the first meeting took place on 14 August 2015.
11. In October 2016 the fund amended its governance and compliance statement to reflect the changes and also carried out a review of its arrangements against the requirement of Code of Practice 14.
12. In October 2017 the terms of reference of the pension committee were revised to better reflect its responsibilities in all areas of the management of the fund. At the same time the terms of reference of the pension board were also amended in line with acknowledged best practice.

CURRENT GOVERNANCE LANDSCAPE

13. The requirements of the PSPA 2013 have been in place for nearly three years now and in that time we have seen TPR growing into its role. From an initial learning period for TPR as they familiarised themselves with the peculiarities of statutory schemes such as the LGPS, we are now seeing signs that TPR intends to play a much more hands-on role in the governance these schemes.
14. In particular, we have seen examples of TPR being more active in approaching LGPS funds and looking for evidence of compliance. We have also seen the first instance of TPR levying a fine on an LGPS fund following non-compliance being identified.
15. This increased focus on governance in the LGPS is to be welcomed and it is important to recognise that good governance should be more than simply ticking a box. Instead it is fundamental to the way that funds ensure they have the people with the right skills in place to optimise decision making, strategic planning and service delivery.

REVIEW OF ISLE OF WIGHT GOVERNANCE

16. In recognition of the increased focus of governance, the benefits that good governance can provide and the fact that three years have passed since the current Isle of Wight governance structure was put in place, it is proposed that the fund undertakes a full review of its governance structures. The review will take place in conjunction with the fund's governance and benefits advisers, Hymans Robertson.
17. This review will provide the fund with an assessment of where it stands in relation to its legal requirements and TPR's expectations as well as providing a plan of how the fund can address any gaps that may exist.
18. Furthermore the review will yield firm practical benefits, by ensuring that the objectives, policies and decision making within the fund are clearly aligned with the fundamental aim of delivering an excellent service to scheme members.
19. The review would assess the fund against ten topics identified by TPR as part of their 21st Century Trusteeship campaign which seeks to drive up standards of governance and management in all pension schemes. The topics are

Topic	Brief description
Good governance fundamentals	Are appropriate people, structures in place?
Roles and responsibilities	Is there clarity around roles, responsibilities, decision-making, governance structures and processes? Are they clearly documented?

Purpose and strategy	Is the legislative position well understood? Does the fund have clearly understood objectives? Are these supported by the business plan? Are these supported by fund strategies and policies?
Competence and integrity	Have the committee and board reviewed their effectiveness. Do members of committee and board act in the best interests of the scheme members?
Skills and training	Is a training strategy in place? Is training delivered? Is the effectiveness of training assessed?
Advisers and providers	Do advisers provide clear and relevant advice focused on areas that have the most impact? Do advisers help the committee and board run the schemes effectively, offering feedback and challenge.
Conflicts of interest	Is there a conflict of interest policy and a current register of interests?
Managing risk	Is there a risk management framework in place? Is it communicated effectively to the committee and board and well understood?
Meetings and decision making	How effective are meetings? How well are they chaired? Are all voices heard?
Value for scheme members	Are scheme members surveyed for their satisfaction with the service the fund provides?

HOW WILL THE REVIEW BE CARRIED OUT?

20. Advisers from Hymans Robertson will gather information from the following sources:

- Desk top review of the fund's key documents, reports, policies and statements, which will include:
 - Funding strategy statement.
 - Investment strategy statement.
 - Administration strategy.
 - Breaches policy.
 - Communication Policy.
 - 2016/17 Pension Fund annual report.
 - Committee and pension board papers for the previous two years' meetings.

21. Hymans Robertson has previously undertaken a review of our governance compliance policy and statement (June/July 2016). As a result we do not intend to include this in the wider review at this time.

- Use of self-assessment effectiveness questionnaire's issued to all committee and pension board members, as well as key officers of the

- council engaged in fund management and administration.
- Observations of attending committee and board meetings.
- Conversations with individuals such as the chair of the committee, pension board and key officers.

22. Hymans Robertson will then report their findings back to the pension committee and pension board on completion of their review.

TIMESCALE

23. The proposed timescale for the review is shown below:

Pension Committee	Initial project outline presented to the committee for approval.	9 Feb 2018
Pension Board	Project plan and progress to date presented to board for comment.	27 Feb 2018
Pension Committee	Governance review report presented to committee for approval.	18 May 2018

24. We expect that a number of recommendations will flow from this review of our governance arrangements and we will work with Hymans Robertson to agree a plan to take them forward.

STRATEGIC CONTEXT

25. Good governance arrangements are essential to the delivery of the council's services. Having an appropriate governance framework in place will improve the standards of governance for the pension schemes for which the council has responsibility.

26. It will also contribute to the first outcome of the latest [Corporate Plan 2017-20](#): a financially balanced and stable council.

FINANCIAL / BUDGET IMPLICATIONS

27. Information on the cost of this review is included in the confidential appendix to this report. The costs will be borne within the pension fund's accounts.

RESOURCES IMPLICATIONS

28. The project will be structured such a way as to minimise the impact on officer time. There will be some input required from committee and board members but this should largely be limited to feeding back their views on the existing governance arrangements and should be minimal.

LEGAL IMPLICATIONS

29. The Public Service Pensions Act 2013 gave greater responsibilities to the Pensions Regulator for the oversight of public service pension schemes,

including the Local Government Pension Scheme.

30. The Pensions Regulator's code of practice no 14 *Governance and administration of public service pension schemes* sets out the legal requirements for public service pension schemes in respect of the governance of those schemes

EQUALITY AND DIVERSITY

31. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
32. Undertaking the review of the pension fund's governance framework is not anticipated to have any direct impact on any of the protected characteristics. However, should new policies or processes be introduced as a result of the review, then equality impact assessments will be carried out at that stage.

RISK MANAGEMENT

33. Failure to ensure that the highest governance standards are met could lead to the following risks:
 - Poor or less than optimal decision making within the fund, as the knowledge and skills of individuals making decisions is not adequate.
 - A lack of clear objectives may lead to elected members, Pension Board members or officers spending time and resource in areas that are not of strategic importance.
 - An inability to evidence high standards of governance may bring the fund to the attention the Pensions Regulator, who if dissatisfied has the power to fine the fund.

RECOMMENDATION

34. The committee is asked to agree to a review of the fund's governance as set out in this report, including the indicative timetable and budget.

APPENDICES ATTACHED

35. Appendix 1 – CONFIDENTIAL fees quote

Contact Point: Jo Thistlewood, Technical Finance Manager, ☎ 821000
e-mail *jo.thistlewood@iow.gov.uk*

CHRIS WARD
*Director of Finance
and Section 151 Officer*

CLLR ADRIAN AXFORD
Chairman of Pension Fund Committee