

AGENDA

Updated 26.09.19 since first publication

Meeting: Wiltshire Pension Fund Committee
Place: North Wiltshire Room - County Hall, Bythesea Road, Trowbridge,
BA14 8JN
Date: Thursday 3 October 2019
Time: 10.30 am

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Chairman's Briefing:	Date	Time	Place
	3 October 2019	9.45am - 10.20am	North Wilts Committee Room

Membership:

Voting Membership

Wiltshire Council Members:

Cllr Tony Deane (Chairman)
Cllr George Jeans
Cllr Gordon King
Cllr Christopher Newbury

Swindon Borough Council Members

Cllr Brian Ford
Cllr Steve Allsop

Substitute Members

Substitute Members

Cllr Derek Brown OBE
Cllr Matthew Dean
Cllr Sarah Gibson
Cllr Gavin Grant
Cllr Bob Jones MBE
Cllr Fleur de Rhé-Philippe MBE
Cllr Ian Thorn

Employer Body Representatives

Mrs Diane Hall
Chris Moore

Non-voting Membership

Observers

Mike Pankiewicz
Stuart Dark

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Public Participation

Please see the agenda list on following pages for details of deadlines for submission of questions and statements for this meeting.

For extended details on meeting procedure, submission and scope of questions and other matters, please consult [Part 4 of the council's constitution](#).

The full constitution can be found at [this link](#).

For assistance on these and other matters please contact the officer named above for details

Items to be considered

PART I

Items to be considered when the meeting is open to the public

1 **Membership**

To note any changes to the membership of the Committee.

2 **Attendance of non-members of the Committee**

To note the attendance of any non-members of the Committee.

3 **Apologies for Absence**

To receive any apologies for absence or substitutions for the meeting.

4 **Minutes** (*Pages 7 - 14*)

To confirm the Part 1 minutes of the meeting held on 18 July 2019.

5 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

6 **Chairman's Announcements**

To receive any announcements through the Chairman.

7 **Public Participation**

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named on the front of the agenda for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution.

Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the front of this agenda no later than 5pm on **(4 clear working days, e.g.**

Wednesday of week before a Wednesday meeting) in order to be guaranteed of a written response. In order to receive a verbal response questions must be submitted no later than 5pm on **(2**

clear working days, eg Friday of week before a Wednesday meeting). Please contact the officer named on the front of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

8 **Minutes and Key Decisions of the Local Pensions Board**
(Pages 15 - 22)

To consider the Part 1 minutes, and recommendations arising, from the Local Pension Board meeting held on 22 August 2019.

9 **Review of Actions Log**

To review the actions log.

10 **Scheme, Regulatory, Legal and Fund Update** *(Pages 23 - 26)*

A report from officers updating the Committee on various developments.

11 **Internal Audit Report** *(Pages 27 - 36)*

Officers to present the outcome of a recent audit report on the tPR Code of Practice no 14.

12 **Budget Monitoring Report** *(Pages 37 - 40)*

A paper by Officers providing a quarterly update on progress against the Fund's budget.

13 **Pension Fund Risk Register** *(Pages 41 - 48)*

An updated Risk Register is brought to the Committee for its consideration.

14 **Good Governance Report** *(Pages 49 - 84)*

A paper summarising the final report from Hymans Robertsons, on behalf of the SAB, in relation to Good Governance.

15 **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on 17 December 2019.

16 **Urgent Items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

17 **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 18 – 24 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART II

Item(s) during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

18 **AVC Review Update** *(Pages 85 - 90)*

A paper from the Investment and Accounting Manager providing a performance update for the Fund's main AVC provider.

19 **Alternative Employer Investment Strategy** *(Pages 91 - 94)*

A proposal for implementing a separate employer investment strategy for certain groups of employers.

20 **Funding Strategy Statement (FSS)** *(Pages 95 - 146)*

Officers and Hymans Robertson will present an updated draft FSS for approval.

21 **Brunel Pension Partnership Update**

A verbal update by the Investment Manager on the progress of the implementation of the Brunel Pension Partnership.

22 **Investment Quarterly Progress Report** *(Pages 147 - 176)*

Three confidential reports are circulated updating the Committee on the performance of the Fund's investments. These were considered by the Investment Sub-Committee at its meeting on 5 September and are circulated for information only.

23 **Minutes and Key Decisions of the Investment Sub Committee** *(Pages 177 - 182)*

To consider the Part 2 (confidential) minutes of the Investment Sub Committee meeting held on 5 September 2019.

24 **Minutes** (Pages 183 - 192)

To confirm the Part 2 (confidential) minutes of the meeting held on 18 July 2019.

WILTSHIRE PENSION FUND COMMITTEE

MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 18 JULY 2019 AT KENNET ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:

Cllr Tony Deane (Chairman, Cllr Roy While (Vice-Chairman), Cllr Steve Allsopp, Mike Pankiewicz, Chirs Moore

Also Present:

Cllr Richard Britton, Richard Bullen, Andy Cunningham, Jennifer Devine, Anthony Fletcher, Becky Hellard, Howard Pearce, Barry Reed, Barry Dodds and Dave Willers

28 To confirm the membership of the ISC

Membership of Investment sub Committee as appointed by full council on 21 May 2019 was; Cllr Tony Deane (Chair), Cllr Roy While (Vice-Chair), Cllr Gordon King and Cllr Tim Swinyard (Swindon Borough Council).

Cllr Tim Swinyard has left Investment sub Committee and Brian Ford (Swindon Borough Council) joins the Investment sub Committee.

29 Apologies for Absence

Apologies were received from Cllr Gordon King, Cllr George Jeans, Cllr Brian Ford and Diane Hall.

30 Minutes

Resolved:

The Part 1 minutes of the Wiltshire Pension Fund Committee meeting held on 14 March 2019 were approved.

31 Declarations of Interest

There were no Declarations of Interest.

32 Chairman's Announcements

The Chair announced that an extraordinary meeting had been called for 25 October for the Triennial Valuation 2019 sign off.

33 **Public Participation**

There were no members of the public present.

34 **Minutes and Key Decisions of the Investment Sub-Committee**

Resolved:

To receive the Part 1 minutes, and consider recommendations arising, from the last meeting of the Investment Sub-Committee held on 5 June 2019.

35 **Minutes and Key Decisions of the Local Pensions Board**

Resolved:

The Part 1 minutes, and recommendations arising, from the Local Pension Board meeting held on 23 May 2019 were noted.

36 **Scheme, Legal, Regulatory and Fund Update**

Officers updated the Committee on a range of subjects including the Stewardship code, the McCloud case, Public sector Exit payments, the valuation cycle and the MHCLG consultation on pooling.

The Committee noted that Officers had responded to the HM Treasury consultation on Reforms to Public Sector Exit Payments and to the MHCLG consultation on Changes to the Local Valuation Cycle and the Management of Employer Risk. The latter proposed change to local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle. The pros and cons of this change were debated.

In anticipation of conclusion of the McCloud case, Officers commented that whilst the financial implications were likely to be mild, the impact upon administration costs were likely to be substantial.

Resolved:

The committee noted the report.

37 **Internal Audit Report**

Officers presented the outcomes of recent internal audit reports undertaken by South West Audit Partnership (SWAP). The first addressed administration and financial controls and the second addressed the transition of assets as set out in the Statement of Financial Activities (SoFA).

The external Audit had been prepared to fit in with the requirements of Audit Committee on 24 July 2019.

Additional points to note were that Deloitte had been appointed as the new external auditor and the scope of their audit should be reviewed. In addition, discussion took place concerning the dual preparation of Fund and Corporate annual accounts.

Resolved:

The Final Audit Report was noted as was the update on the appointment of Deloitte as the Fund's external auditor.

Where there were findings by Auditors, an action plan would be prepared by officers who would update the Local Pension Board in six months.

38 **Key Performance Indicators**

The Head of Pensions Administration and Relations reported that KPIs were now being reported on more robust data and drew the committee's attention to three key indicators, Disclosure Regulations, tPR data scores and Administration Strategy targets.

After a request from the Local Pension Board, the Fund now assesses itself against the Disclosure Regulations and uses a CIPFA template to achieve this. tPR's requirement to submit Common and Conditional Data quality scores were noted along with the logistical issues associated with improving on those scores, notably the impact on performance of the Council's IT functionality. The Administration Strategy targets are locally defined and are currently under review.

The debate that followed highlighted the value of performance trends alongside snapshot data and the balance required between quality, costs and time in delivering positive trends. It was highlighted that a comparison of the Fund's KPI could be made against other Funds after the legal deadline for each Fund to publish their annual report of 1 December has passed.

Resolved:

The Committee thanked officers for the more comprehensive production of regular KPIs and the progress made in the direction of travel in the Fund's compliance with service standards.

Where IT functionality concerns continued, officers should escalate the matter to the s151 officer.

39 **Administration Budget**

Officers talked through a report that detailed the budget, actuals and variances across 2018-2019 and sought re-approval of aspects of the 2019-2020 budget.

Fund Investment Management Fees varied by £7,901,000 due to a mis-coding of last year's budget, Fund Investment Costs varied by £126,000 and Fund Scheme Administration varied negatively by £175,000.

The debate that followed clarified that Wiltshire Council's financial regulations apply to Wiltshire Council Pension Fund and that those regulations were undergoing a re-write that sought to make them more explicit. The Chair requested quarterly budget monitoring updates on the Fund Scheme Administration budget.

It was also noted that the PIRC contract had been terminated and that the research work had been taken on by the Brunel Pension Partnership.

Resolved:

The Committee noted the outturn for 2018-19 and approved two additional elements:

- a) A £68,000 extension to the Pension Fund Administration Budget for 2019-20 to cover the cost of dealing with a staffing matter**
- b) A £35,000 extension to fund additional temporary staffing in 2019-2020.**

The Committee requested that officers would continue to monitor budgets and report to Committee on a quarterly basis

40 **Training Item: New CIPFA accounting guidelines**

The Investment Manager delivered a summary of the changes introduced by the new CIPFA accounting guidance in conjunction with a review of the draft Annual Report and Accounts.

Resolved:

The committee noted the training item.

41 **Annual Report and Accounts**

The Investment Manager advised that the audit of the Annual Report and Accounts was almost complete. The Annual Report this year contained new information about the cost and savings associated with investment pooling, as well as detailed information about administration KPIs.

In the accounts, investment management expenses were much higher compared to last year, but this was due to greater transparency from investment managers of all the costs incurred, not an actual increase in costs. This figure was also higher due to a prior year error which had been reclassified.

The Chair of the Pensions Board observed that the report was the first published in line with the new guidance and that this ought to be made explicit in the report. Officers confirmed that this assurance was provided by the external auditors. The Chair of the Pension Board also requested that any non-compliance with the guidance was disclosed in the annual report. Officers confirmed that there was no non-compliance.

Resolved:

The Committee noted the annual report for the year to 31 March 2019, authorised the officers to make any necessary minor amendments to the annual report prior to publication, approved the annual report for publication and recommended to the audit committee that the accounts be approved.

The Investment Manager would communicate the published Accounts on the website with a link to MSS & distribute soft copies to employers.

The Investment Manager would add a comment in Accounts about verification against CIPFA checklist.

The Investment Manager would add a positive statement in the Accounts about SAB cost transparency.

42 **Pension Fund Risk Register**

Officers stated that the Risk Register had been re-formatted to be more consistent with corporate risk management and now addressed four categories of risk, Horizon Risk, Dynamic Risks, Ongoing Risk and Ceased Risk. The Risk Register will continue to quantify risk as product of likelihood and potential impact and then express that risk as Red, Amber or Green (RAG).

The debate recognised the value in; stating operational and strategic risks, enabling a focus upon priority risks, managing by exception, surfacing major points through better presentation of evidence and detailing mitigating actions. Furthermore, where a risk had ceased, the nature of its cessation would be documented.

Resolved:

The Committee approved the new design of the Fund's Risk Register but requested that officers considered only bringing a smaller number of risks to it, with all risks still being monitored at officer level.

The Committee recommended that officers would refer the register to LPB for their scrutiny.

43 **Date of Next Meeting**

Resolved:

It was noted that the next regular meeting of the Committee will be held on 3 October 2019.

44 **Urgent Items**

There were no Urgent Items.

45 **Exclusion of the Public**

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 20 - 28 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 & 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

46 **Triennial Valuation 2019: Modelling outcomes and Contribution Rate Strategy**

Resolved:

The Committee agreed to target fixed contribution rates for tax-raising bodies subject to the valuation results being consistent with the modelling output.

The Committee approved the contribution strategy for different employer categories.

47 **Strategic Asset Allocation:**

Resolved:

The Committee approved the new strategic asset allocation, and interim strategic asset allocation.

The Committee agreed to fully disinvest the Barings diversified growth fund portfolio.

The Committee agreed to disinvest an amount of the passive UK equities portfolio to take total passive equities down to 18.9% of the total fund value, pending the Committee being willing to increase the allocation to Magellan.

The Committee agreed to fully disinvest the Loomis Sayles absolute return bond fund.

The Committee agreed to top up the allocation to Loomis Sayles multi-asset credit fund with the balance of the proceeds from the disinvestment

from the Loomis Sayles absolute return bond fund (total proceeds less the amount used to top up index linked gilts, and the amount used to top up Magellan, pending the Committee being willing to increase the allocation to Magellan).

The Committee agreed to increase the allocation to infrastructure to 8.0% of the total fund value by making an additional investment into the Magellan listed infrastructure fund, pending the Committee meeting Magellan and gaining confidence in their investment process and portfolio construction.

The Committee agreed to invest a further amount in protection assets to take the total allocation to 25.0% of the total fund value, to be funded from the entire proceeds from the disinvestment from Barings, and the balance from part of the proceeds from the disinvestment from the Loomis Sayles absolute return bond fund, pending a review on the most appropriate asset class for this increase to be made.

48 **Unison/Share Action's responsible investing in the LGPS report**

Resolved:

The report was noted by the committee as an aid to the formation of future policy.

49 **Wiltshire Council's acknowledgement of a 'Climate Emergency'**

Resolved:

The Committee noted the report and would invite Faith Ward to deliver a training session on responsible investment and commission Brunel to carry out an exercise to calculate the carbon footprint of the investments of the Fund.

Mercer would be asked to provide a copy of their Climate change report 2017.

The Committee requested that within the next ISS the Fund's position on Climate Change should adopt a more prominent position within the document.

50 **Brunel Pension Partnership update**

Resolved:

The committee noted the update on Brunel Pension Partnership.

51 **Investment Quarterly Progress Report**

Resolved:

The report was noted by the committee.

52 **Minutes and Key Decisions of the Investment Sub Committee**

Resolved:

The Part 2 (confidential) minutes of the Investment Sub Committee meeting held on 5 June 2019 were noted.

53 **Brunel Oversight Board meeting minutes**

Resolved:

The minutes of Brunel Oversight Board held 31 January 2019 and 30 April 2019 were noted.

54 **Minutes of Pensions Committee**

Resolved:

The Part 2 (confidential) minutes of the meeting held on 14 March 2019 were approved.

(Duration of meeting: Times Not Specified)

The Officer who has produced these minutes is Jim Brewster of Democratic Services, direct line 01225 718242, e-mail jim.brewster@wiltshire.gov.uk

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LOCAL PENSION BOARD

MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 22 AUGUST 2019 AT WEST WILTSHIRE ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:

Howard Pearce (Chairman), Richard Britton, Mike Pankiewicz and Barry Reed

Also Present:

Ian Jones, Cllr Tony Deane, Andy Cunningham, Roz Vernon and Becky Hellard

45 **Attendance of non-members of the Board**

Ian Jones, CFO White Horse Federation, joined the meeting as an observer.

46 **Membership**

Elections are underway giving all active members a vote to appoint a new active member candidate following the expiry of David Bowater's term of office. Two candidates are standing for election and the Board would like to thank David for his service. The ballot will close on 30th August and the result will be published following approval of the successful candidate by Full Council.

Mike Pankiewicz and Barry Reed were re-nominated by Unison for another four-year period with effect from 14th July 2019.

47 **Apologies**

Apologies were received from Sarah Holbrook.

48 **Minutes**

Resolved:

The minutes of the Local Pension Board held on 23 May 2019 were approved.

49 **Declarations of Interest**

There were no declarations of interest.

50 **Chairman's Announcements**

The chairman clarified the role of the Board as being a non-decision making body that seeks to support the pension fund in being compliant with legislation and regulations.

51 **Public Participation and Councillors Questions**

There were no members of the public present.

52 **Minutes and Key Decisions of the Wiltshire Pension Fund Committee and Investment Sub Committee**

Resolved:

The minutes of the Wiltshire Pension Fund Committee held on 18 July 2019 and the Investment Sub Committee held on 5 June 2019 were approved.

53 **Training Item: TPR Breach Reporting refresher**

Officers talked through a set of slides that explored tPR breach reporting. Approximately 75% of breaches reported to the tPR are related to data management with the other main cause of breach relating to systems or process failures. It was noted that Wiltshire has a number of significant work streams in place designed to improve quality of data management and that highlighting a breach grants the Fund an opportunity to learn and improve its systems. Not all breaches are reported to tPR, unless they are material and officers highlighted examples of material breaches that members should be alert too.

On review of the Fund's breaches log maintained by officers the subsequent debate addressed how data management processes flag up single and repeated errors, how those errors are escalated and how they are assessed as indicators of the instability of the stakeholder concerned. The links between breach reporting and KPIs was made and the need to understand repeated under-performance of stakeholders was emphasised as errors can arise from change in, for example a payroll provider, as opposed to indicating financial instability.

A wider discussion followed on the requirements for board members to undertake specific training and the Amber risk status used to describe current sub-optimal compliance in this regard.

Resolved:

Officers would continue to raise TPR breaches with the Board on an exception's basis only

All members agreed that completion of tPR's on-line pension training toolkit should constitute a minimum training requirement and were a member had not completed that training it should be completed within 6 months of their appointment.

54 **Internal Audit Report**

Officers talked through a paper summarising the outcome of the Internal Audit report on the Fund's tPR Code of Practice 14 requirements and the SWAP (South West Audit Partnership) report auditing the process by which officers self-assess themselves against the guidance.

An overall improvement in the Fund's compliance was noted with the number of areas in which standards could be improved reducing from 16 in 2018 to 10 in 2019. Within the 10 existing areas for improvement three new areas were identified namely; the Board membership conforming to legal requirements, member training and an understanding of breach reporting. In addition, SWAP recommended sample testing of submissions from managers to establish greater confidence in those submissions.

The debate that followed addressed the value of an audit in the absence of the sample testing of submissions, how pension audit requirements should link to those of the wider authority, the parameters within which the Audit Committee can prioritise demands upon SWAP and clarification that pension's do pay for their own audits. There was also a discussion of how i-Connect will improve data management.

Resolved:

The Board noted the report agreeing to the action plan suggested by officers in addressing the areas of non-compliance within the timeframes indicated.

The Board requested that officers sample tested responses received from managers during further self-assessments

The Board noted that the commissioning of an annual Fund audit plan should be undertaken at an oversight level and that the Fund should seek to work with the Audit Committee to timetable the audit cycle.

55 **tPR Report**

Officers introduced a report published by tPR following the results of the 4th Public Service Governance and Administration survey 2018. It was noted that officers had reviewed the finding of the report against the current working practices of the Fund and highlighted a number of areas where improvements could be made to the Fund's operating arrangements, notably two areas in relation to, cyber-security and data quality. Cyber-security could be monitored by requesting security reports from the Fund's two key software providers and

data quality could be improved by receiving greater clarity on the definitions of data quality from third party organisations such as SAB.

It was noted that tPR will seek to formulate its regulatory approach on the findings of their report and the Chair noted that Wiltshire's performance on compliance was strong.

Resolved:

The Board supported the officers recommendations outlined in their report notably addressing cyber-security through reporting from providers and data quality by seeking clarity on data definitions.

56 **Scheme legal, regulatory and Fund update**

Officers talked through the scheme legal and regulatory update report highlighting exit payments, code of practice, fair deal and McCloud case.

The Chair noted the Scheme Advisory Board's (SAB) recent focus on Responsible Investment and asked the Board to note the desire to establish a consistent approach across the LGPS family.

Officers updated the Board on the Member Self-Service mailshot, that this providing online self-service for active members rather than retired members and that the target date of 31 August was achievable.

Resolved:

The Board noted the report.

57 **Risk Register update**

Officers outlined the changes to Risk Register designed to make it more dynamic, evidence-based and granular.

The debate that followed noted and welcomed the significant progress in risk management that the updated register demonstrated. The debate addressed; the value of the register to members and officers as an oversight and management tool, the linkage of the risk register to project management and how changes made to risk assessment can be documented to make that assessment more transparent.

In concluding the report to the Board supporting the changes to the risk register officers drew the Board's attention to a number of key factors concerning the future management of the register. Namely that on a quarterly basis;

- New risks would be presented to the Committee and the Board;
- Ceased or dormant risks would be removed from the register submitted to the Committee and Board, however they would continue to be

monitored by officers and only represented in the event of a change in a risk's risk rating;

- That for a risk to be placed in the cessation or dormant category of the register, going forward a reason for that categorisation should be approved by the Committee;
- That all red rated risks would continue to be submitted to each quarterly meeting;
- That where risks had changed or been re-categorised during the last quarter would they be highlighted to members to demonstrate the risk's direction of travel; and
- That a full report of all the Fund's risks would continue to be published in key Fund documents.

It was noted that the implementation of these measures would help to make the risk register a more manageable document.

Mike Pankiewicz challenged the risk rating of PEN041 concerning the Fund's approach to Climate change, based on the heightened level of scrutiny this subject was currently receiving. It was agreed that officers would alter the rating of this risk to an amber status until appropriate mitigations had been set by the Committee.

The Chair congratulated the team on developing a live, working tool to manage Risk.

Resolved:

The updated risk register was noted and endorsed by the Board.

The Board agreed that officers would maintain the risk register based on the criteria determined above.

Officers would alter the risk rating on risk PEN041.

58 **Administration Key Performance Indicators**

Officers talked through the KPI tables updating the Board on performance, priorities and resources being used to manage performance over the longer term.

The debate clarified the value of the IT solutions being implemented and how mortality data is used to ensure accuracy of payments.

The Chair was assured by Officers that the Administration Strategy Review was on-going and would be brought to Board in the Autumn and that it would be implemented by the next financial year.

Resolved:

The Board noted the report.

Officers to submit the Fund's revised Pension Administration Strategy document for review at the Board's November meeting.

59 **LPB SAB Survey II**

Officers shared the draft survey responses with the Board which had been prepared by officers and the Chair. The Board expressed its approval of the responses.

Resolved:

The Board noted the report.

The Chair agreed to submit the prepared responses to SAB on issuance of the formal survey.

60 **Accounts, annual report & external audit update**

Officers advised the Board that delays to Wiltshire Council's audit have had knock-on delays upon the pensions funds accounts and audit as these audits share an ISO Certificate. The Board was advised that the annual report and accounts of the pension fund had been published.

Resolved:

The Board noted the delay and the publication of the Annual Report.

61 **Good Governance Report**

Officers introduced the Good Governance Report which had been commissioned by SAB and published by Hyman Robertson in July 2019. The purpose of the good governance review was to examine the effectiveness of the current LGPS governance models and consider alternatives or enhancements which could strengthen LGPS governance going forward.

In conducting their review four governance models were used to determine a qualitative recognition of governance within the LGPS structure, namely improved practice, greater ringfencing, joint Committee and a separate Local Authority. The results of the review indicated that more than 70% of respondents preferred the improved practice and greater ringfencing models recognising that the operations of many Fund's tended to gravitate towards that style of management and that there continued to be distinct advantages to be part of an existing Local Authority structure.

It was noted that the Hyman's report concluded that a one size fits all solution would not be suitable in this situation and that the report generally was considered to be a fair assessment of the current LGPS governance arrangements.

The Chair emphasised the importance of the report and drew the Board's attention to four key recommendations made by Hymans with their report that will require Officer and Member inputs, work and reporting. The four key recommendations being;

- To develop an outcome-based approach;
- To identify the critical features of an outcome-based model;
- To establish enhanced training requirements; and
- To update relevant guidance and better signposting.

Anticipated guidance on the role of Section 151 Officer was also highlighted.

Resolved:

The Board noted the report.

62 **Clarification of the roles of the Local Pension Board and Committee**

The Chair clarified the role of the Board as being that of a non-decision making body that seeks to ensure compliance.

The relationship of Board and Committee was raised and the lead on taking this work and the revision of the terms of reference for both Board and Committee was identified as Andy Cunningham.

Resolved:

That Officers would take forward the revision of Terms of Reference and enhance the relationship of Committee and the Board.

63 **How did the Board do?**

The Chair invited comment and feedback from the Board and that feedback was summarised as being about good papers, good responses to questions making for a good meeting.

64 **Urgent items**

A discussion of the Board's legal insurance and its fees took place.

65 **Date of next meeting**

The next Board meeting was to be held on 14 November 2019.

66 **Exclusion of the Public**

There were no members of the public present.

67 **Minutes and Key Decisions of the Wiltshire Pension Fund Committee and Investment Sub-Committee**

Resolved:

The part 2 minutes of the Wiltshire Pension Fund Committee and Investment Sub-Committee were noted.

68 **Minutes**

Resolved:

The part 2 minutes of Local Pension Board were approved.

(Duration of meeting: 10:30 – 12:35)

The Officer who has produced these minutes is Jim Brewster of Democratic Services, direct line 01225 718242, e-mail jim.brewster@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

Organisation	Subject	Link	Status	Comments	Risk Ref
HM Treasury	Reforms to public sector exit payments.	https://services.parliament.uk/bills/2017-19/publicsectorexitpaymentslimitation.html	No change	<p>A 'final' consultation on this topic closed on 3 July 2019. The main proposal is that all employer costs (pension and non-pension) are capped at £95k when an employee leaves on grounds such as a compromise agreement or redundancy. For redundancy, the statutory redundancy payments must be paid so other benefits would need to be adjusted to ensure the £95k is not breached (although some exceptions apply).</p> <p>The consultation is not clear on how this would work in Schemes such as the LGPS. It is likely that LGPS Regulations would need to be changed such that an employee who leaves aged 55 over on redundancy grounds would face some reductions to their pension. For non-redundancy cases, existing employer discretions may become limited.</p> <p>Furthermore, the likely implementation date is also not clear.</p>	PEN021
MHCLG	Fair Deal Consultation	https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection	No change	Officers have responded to the consultation but have yet to hear anything further from MHCLG. The next step is likely to be either another consultation or the introduction of legislation.	PEN040
	<i>Changes to the Local Valuation Cycle and the Management of Employer risk</i> Consultation	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf	Updated	<p>This consultation covers the following areas:</p> <ol style="list-style-type: none"> 1). Amendments to the local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle. 2). A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles. 3). Proposals for flexibility on exit payments. 4). Proposals for further policy changes to exit credits 5). Proposals for policy changes to employers required to offer LGPS Membership. <p>Section 5 proposes giving greater flexibility for further education corporations, sixth form college corporations and higher education corporations concerning membership of the LGPS and is the most surprising part of this proposal; current employees would be protected but future employees could be ineligible.</p>	PEN044

Organisation	Subject	Link	Status	Comments	Risk Ref
				The consultation closed on 31 July 2019 and officers responded accordingly.	
The Department of Work and Pensions (DWP)	Pension dashboard project	https://pensionsdashboardproject.uk/industry/about-the-pensions-dashboard-project/	No change since the last meeting	Discussions are still going on at a national level. Recent discussion suggests an implementation timeframe of 3-4 years.	PEN038
Financial Reporting Council	Proposed revision to the UK Stewardship Code	https://www.frc.org.uk/investors/uk-stewardship-code	No change since the last meeting	<p>The Financial Reporting Council (FRC) has consulted on a new Stewardship Code that sets substantially higher expectations for investor stewardship policy and practice.</p> <p>The consultation on the draft 2019 UK Stewardship Code closed on 29 March and the FRC has been analysing the responses. The responses indicate that there is strong support for consideration of ESG issues, greater use of asset classes beyond listed equity, the setting of expectations within the investment community and better reporting of activities and outcomes.</p> <p>They are now carrying out a process of targeted outreach to test the changes before the revised code is published in October.</p>	None
Scheme Advisory Board (SAB)	Academies' review	http://www.lgpsboard.org/index.php/structure-reform/review-of-academies	No change since the last meeting	<p>SAB commissioned PwC to produce a report on "Options for Academies in the LGPS" and the report was published in May 2017. The report identified and highlighted problems/issues experienced by stakeholders. No recommendations were made in the report, although the potential benefits of new approaches to the management of academies within the LGPS were highlighted. The proposals were wide ranging from minor alterations to academies being grouped together in a single LGPS Fund.</p> <p>SAB's work is still on-going and Bob Holloway from the LGA previously stated that a wide range of options in both work streams are still be considered. For example, changing the administration arrangements or putting academies into their own Fund etc. However, a consultation will be released on any changes proposed before they are put into force.</p>	None

Organisation	Subject	Link	Status	Comments	Risk Ref
	Cost cap mechanism & McCloud case	Summary by Osborne Clarke (our external legal advisers)	Updated	<p>The planned changes to the LGPS from 1 April 2019 have now been cancelled due to an on-going court case (referred to as the McCloud case) which now looks likely to result in material changes to the LGPS and all other public service schemes.</p> <p>The Government asked to appeal against the conclusion from the original court case, but its appeal was turned down in early July 2019 which means changes are necessary.</p> <p>The SAB decided to await the outcome to the court case before making any changes. This is far from ideal, as this could well mean we made to make onerous retrospective changes to the Scheme (w/e from April 2019 but not known until the end of 2019/early 2020) and that such changes would not be included within the triennial valuation.</p>	PEN042
	Tier 3 employers review	http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid	No change since the last meeting	<p>Covers those Fund employers with no tax raising powers or guarantee (excludes academies).</p> <p>SAB is keen to identify the issues and risks related to these employers' participation in the LGPS and to see if any improvements/changes can be made. There are currently two concurrent phases of work involved – collating data and identification of issues. SAB will then assess the risks to Funds and consider next steps.</p> <p>Aon Hewitt has recently produced a detailed report which is available on the SAB website which outlines its finding on the identification of issues but the report doesn't make any specific recommendations. SAB is yet to advise what actions it will take following receipt of the report.</p>	None
	Good Governance Project (formerly known as the Separation Project)	http://www.lgpsboard.org/images/PDF/BoardFeb18/PaperBItem50218.pdf	Updated	Hymans-Robertson has now released its report on this and it is included as part of the agenda pack.	None
	Guidance Project	http://www.lgpsboard.org/images/PDF/BoardFeb18/PaperBItem50218.pdf	No change since the last meeting	<p>The Guidance project will identify regulations which may be better placed within statutory guidance and to both propose the necessary amendments and assist HMCLG with the drafting of guidance.</p> <p>This project is at an early stage and no further information is available at this time.</p>	PEN039

Organisation	Subject	Link	Status	Comments	Risk Ref
	Data Project	http://www.lgpsboard.org/images/PDF/BoardFeb18/PaperBItem50218.pdf	No change since the last meeting	<p>The SAB describes this project as: The Data project will aim to assist administering authorities in meeting the Pension Regulators requirements for monitoring and improving data and include the identification of scheme specific conditional data and the production of guidance for authorities and employers.</p> <p>No further information is currently available from the SAB. However, the SAB did consult on a common set of data points for the part of the project relating to scheme specific conditional data over the last couple of months before deciding to postpone implementation until 2019, in time for the 2019 tPR Scheme Return.</p>	None
Wiltshire Pension Fund	Miscellaneous Updates	None	New	<p>a). <u>Member Self Service (MSS) rollout</u>: Officers have now completed the rollout of the new online scheme member portal to all actives and deferred members, of which around 20% are signed up so far. We expect this percentage to increase over time as we move towards using more online communications.</p> <p>b). <u>Benefit Statement update</u>: Despite a number of operational and technical difficulties, the vast majority of benefit statements were sent out on time (by 31 August 2019). However, the Fund will be sending some out late and some others are not able to be sent until legacy data issues are resolved.</p> <p>Officers have logged this internally as a 'breach' of legislation as required by the Pension Regulator but have not deemed the breach as being sufficiently material to warrant self-reporting to the Pension Regulator.</p>	None

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
18 July 2019

PENSION FUND – TPR CODE OF PRACTICE 14 REVIEW

Purpose of the Report

1. This report updates the Committee on the findings of an internal review of the Wiltshire Pension Fund's (WPF) compliance with the Pension Regulator's Code of Practice 14 for the Fund year 2018-19. The review was conducted in two stages;
 - a) A self-assessment by officers; and
 - b) An internal audit conducted by the South West Audit Partnership (SWAP)

Background

2. The scope of the self-assessment covered the adequacy of the Fund's compliance in relation to the areas of internal controls, governance, administration & resolving issues based on an independent questionnaire originally provided by Aon Consulting.
3. The scope of SWAP's internal audit was to provide assurance that the self-assessment completed by officers is sufficiently robust and reliable to ensure compliance with the Pensions Regulator's code of practice 14. To establish this the auditor reviewed the end-to-end process of the self-assessment including the;
 - a) Planning & process undertaken
 - b) Analysis of the responses
 - c) Verification and testing
 - d) Reporting on areas of non-compliance
 - e) Plans in place to rectify areas of non-compliance

Considerations for the Committee

Self-assessment analysis

4. The questionnaire posed 83 questions covering all areas of the Fund's internal controls & the answers to most of the areas reviewed were that the Fund was found to be adequately controlled and being well managed. Overall an improvement was observed from 16 areas identified as requiring improvement in 2017-18 to 10 areas in 2018-19.
5. Of the 16 areas identified as requiring improvement in 2017-18, 9 had shown improvement moving to a well managed risk status, most notably reflected in the internal controls of the Fund's contract management arrangements. This left 7 risks where no significant progress had been made, plus 3 new risk where the risk rating had worsened. The key risks identified where progress had worsened, or no improvement had been made are set out below. Officers will implement an action plan to address the risks failing to reach the adequate standard.

New Risks identified		
Risk No.	Description of the risk	Remedy date

B12	Board members completion of the Pension Regulator's toolkit for training	November '19
C10	Employer and member representatives on the Board being in line with the legal requirements	November '19
J1	The Administering Authority being satisfied that those responsible for reporting Breaches understand their requirements	August '19

Ongoing Risks identified		
Risk No.	Description of the risk	Remedy date
E7	A review of internal controls is required to ensure all Fund procedures are up to date	December '20
F1	Do member records record the information required as defined in the Regulations and are they accurate	Rolling programme
F2	Ensuring that Employers provide timely & accurate information	July '20
F10	Setting in place procedures to reconcile Fund & Employer records	December '20
H3	Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales	December '19
H7	Are Employers issuing new Scheme members will all the essential basic Scheme information	December '19
H9	Is all information to members provided within the required legal timescales	December '19

Internal Auditor analysis

- The Auditor provided a "Reasonable" assurance & recommended that the Fund complete random sample testing of the responses received in the self-assessment to confirm that the responses were correct. In addition, the Auditor commented that full compliance should be based on the completion of any action plan.

Conclusions

- Whilst the member effectiveness review has been recognised as a useful exercise member engagement in all areas of their governance responsibilities remains an ongoing process. All members are respectfully requested to support officers by ensuring their own compliance on an individual level.
- Fulfilling the Fund's standard business & change management commitments in accordance with its business plan has placed a strain on officer resource to update & maintain the Fund's procedures. Both this audit & the internal audit on Key Controls has highlighted a presence of risk where procedures & plans may not be being followed in practice.
- It is envisaged that the implementation of new software, notably i-Connect, should address the Fund's core issues of non-compliance in relation to F1, F2 & F10, which in turn will also have a direct impact on H3 & H9. In short, this means that if the Fund can ensure the receipt of good quality data from its employers on a timely basis the Fund's disclosure of information to its members will be significantly enhanced.
- The Fund Governance & Performance Manager will ensure that as part of the next self-assessment exercise a strategy of sample testing of the responses will be undertaken.

Environmental Impact

11. There is no environmental impact from this report.

Financial Considerations

12. There are no immediate financial considerations resulting from the reporting of the Fund's compliance with tPR Code of Practice 14.

Risk Assessment

13. The risks reflected in this Internal Audit shall be reflected in the Risk Register which is updated quarterly and presented to this Board.

Legal Implications

14. There are no immediate legal implications arising from this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

15. There are no implications at this time.

Proposals

16. The Committee is asked to note the internal, self-assessment undertaken.

ANDY CUNNINGHAM
Head of Pensions Administration and Relations

Report Author: Richard Bullen – Fund Governance & Performance Manager


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Pensions Code of Practice 14 Compliance 2019/20

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Final report

Issue Date: 26 July 2019

Executive Summary

Audit Opinion		Recommendation Summary	
	<p>The assurance opinion we have been able to offer in relation to this audit is REASONABLE. Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>	Priority	Number
		Priority 1	0
		Priority 2	1
		Priority 3	0
		Total	1

Audit Conclusion

Overall, the audit found that the self-assessment process undertaken to confirm compliance with The Pensions Regulators Code of Practice 14 was robust and transparent with the action plan and reporting deemed to be to an appropriate level.

One recommendation has been made which relates to verifying that the answers provided by management to confirm compliance are correct by undertaking random sampling and testing of the responses.

Background

The purpose of this audit was to review the self-assessment completed by the Wiltshire Pension Fund against their compliance with The Pensions Regulators Code of Practice 14 (Code 14) which relates to the governance and administration of public service pensions schemes. The Code 14 came into legal effect on 1 April 2015 and is set out into 5 key parts:

- Introduction
- Governing your Scheme
- Managing risks
- Administration
- Resolving issues

A self-assessment is completed annually by the Wiltshire Pension Fund management team to assess compliance against the code. Any areas of non-compliance or concern are then reported to the Pension Committee and Local Pensions Board.

Corporate Risk Assessment

Objective

To provide assurance that the self-assessment completed by the Council's Pension Fund of its compliance with the Pensions Regulator's code of practice number 14 is robust and reliable.

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. Non-compliance with the Code of Practice 14 resulting in regulatory breaches and fines.	High	Low	Low

Scope

The audit reviewed the end to end self-assessment process including:

- Planning and process undertaken
- Analysis of the responses
- Verification and testing
- Reporting on areas of non-compliance
- Plans in place to rectify areas of non-compliance.

The approach of the audit included interviews with relevant staff members, reviewing the completed self-assessment with associated documentation and verifying responses in the self-assessment by completing testing.

Findings and Outcomes

Summary of Control Framework

Overall the self-assessment process to determine compliance with the Code of Practice 14 is well controlled with a robust and transparent self-assessment completed on an annual basis. An analysis of the results is completed, and the reporting of the results is deemed to be to an appropriate level. A clear and timely plan is also in place to address areas of non-compliance.

1. 1. Non-compliance with the Code of Practice 14 resulting in breaches and fines.

Medium

1.1 Finding and Action

Issue	Risk
There is no verification completed to confirm that the responses in the self-assessment are correct.	The Fund could be fined or have sanctions imposed if areas of non-compliance are not identified and reported on.
Findings The current process for assessing compliance with the Code 14 requirement involves sending a spreadsheet to the managers of the Pensions Fund who respond with how they are complying in the areas for which they are responsible. Once all the questions have been responded to, the answers are collated, analysed and reported on. It was noted that areas that had a plan in place to achieve compliance, such as the GDPR regulations, had been assessed as being compliant. Until the plan is fully completed, these areas are not technically compliant and therefore should not be reported as such. There is currently no process to confirm that the responses in the self-assessment are correct as no sample testing or assessments are completed of the areas that have been selected as compliant to verify they are in fact complying.	
Recommendation We recommended that the Fund Governance and Compliance Manager complete random sample testing of the responses received in the self-assessment to confirm the responses are correct.	
Agreed Action The Fund Governance and Compliance Manager will complete random sample testing of the responses received in the self-assessment to confirm the responses are correct.	
Priority Score	2
Timescale	30 June 2020
Responsible Officer	Fund Governance and Compliance Manager

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Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Authors and Distribution

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Report Authors

This report was produced and issued by:

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This report has been distributed to the following individuals:

Richard Bullen	Fund Governance and Compliance Manager
Andy Cunningham	Head of Pensions Administration and Relations
Jennifer Devine	Investments Manager
Becky Hellard	Director of Finance & Procurement, (S151 Officer)

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
3 October 2019

WILTSHIRE PENSION FUND PROJECTED OUTTURN

Purpose of the Report

1. This paper presents a projected outturn on the Fund's financial activities.

Key Considerations for the Committee

Overall Projection

2. A net overall over-spend of £43k is currently being projected against controllable budgets (excluding investment management fees and securities lending income). This comprises a £29k projected underspend against Fund Scheme Administration, partially offset by a £72k overspend against Fund Investment Costs.
3. Because of better than expected investment performance the latest projection for investment management costs is a total £1.9m spend above budget, net of an increased forecast in stock lending income. Investment Management Fees are mostly dependent on manager performance. This also includes an increase in the forecast spend on costs of pooling via Brunel, due to the increased budget and amended business case as reviewed and approved by the Brunel Oversight Board.

Key points for members to note

4. The overspend against Fund Investment Costs includes £50k overspend against Investment Administration. Members are asked to note however that these are agency costs that relate to last financial year which were not charged to our accounts until 2019/20 due to a delay in the member of staff being set up on the Bloom agency system via HR/Procurement. The investment overspend also includes £5k overspend against Investment Consultancy fees in respect of manager selection costs (Magellan).
5. The £29k net underspend projected against the Administration budget is largely to a projected underspend against external legal costs, bank interest received following increases to bank interest rates.

Environmental Impacts of the Proposals

6. There no known environmental impact of this report.

Financial & Legal Implications

7. The financial implications are outlined within the report. There are no known legal implications from the proposals.

Safeguarding Considerations/Public Health Implications/Equalities Impact

8. There no known implications at this time.

Proposals

9. The Committee is asked to note the projected outturn for 2019/20 and details in the attached appendix

ROZALYN VERNON
Fund Investment and Accounting Manager

Report Author: Rozalyn Vernon, Fund Investment and Accounting Manager

Unpublished documents relied upon in the production of this report: NONE

Appendices:

Appendix 1: Projected Outturn Summary

Appendix 1

2019-20 Explanations

Fund Investment Management Fees

	Budget £000	Projection £000	Variance £000	Explanations
Segregated Funds	5,568	5,566	-2	
Pooled Funds *	3,339	4,969	1,630	*Includes Invisible (or non direct charged) fees adjustment for higher asset base and investment in direct infrastructure.
Total FUND INVESTMENT FEES	8,907	10,535	1,628	
Brunel - cost of pooling	660	1,004	344	Higher forecast spend on pooling via Brunel, due to increased budget and amended business case as reviewed and approved by the Brunel Oversight Board
Securities Lending	-300	-350	-50	
Total MANAGEMENT FEES & SECURITIES LENDING	9,267	11,188	1,921	Better than expected investment performance has led to higher fees

* pooled costs paid through investment holdings

Fund Investment Costs

e Investment Administration	149	199	50	Costs from '1819 due to HR/Procurement delay in setting member of agency staff up for payment
f Investment Consultancy	117	122	5	Cost of manager selection (Magellan)
g Corporate Governance Services	9	9	0	
	275	330	55	

Fund Scheme Administration

a Pension Scheme Administration	2,002	2,015	13	Net underspend against external legal costs printing interest rates have increased leading to greater returns on overnight deposits
d Actuarial Services	285	285	0	
b Audit	27	28	1	
c Legal Advice	50	24	-26	Reduced spend expected on external legal services in 1920 due to changes in the Internal Legal Team
b Committee & Governance	82	65	-17	Forecast underspend against trustee training (£6k) and Local Pension Board Budget (£11k)
	2,446	2,417	-29	

GRAND TOTAL (EXC INVEST MAN FEES & SECURITIES LENDING INCOME)

26

Total FUND COSTS (INC INVEST MAN FEES & SECURITIES LENDING INCOME)

1,947

Total net overspend of £1.9m forecast reported which is largely attributable to investment manager fees

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
03 October 2019

WILTSHIRE PENSION FUND RISK REGISTER

Purpose of the Report

1. The purpose of this report is to update the Committee in relation to changes to the Fund's Risk Register (see Appendix).

Background

2. The Committee approved a Risk Register for the Wiltshire Pension Fund at its meeting on 12 May 2009. A reconfiguration of the Risk Register took place during 2019 to make it a more dynamic document and the new design was approved by the Committee on 18th July 2019. Members requested that whilst a full Risk Register is maintained by officers only the following risks need to be highlighted to Committee on a quarterly basis.
 - New risks;
 - Risks which have changed or been re-categorised;
 - Risks which are rated red; and
 - Risks which are considered to have been mitigated & stabilised & can be recommended for approval to the register's ceased/dormant category for continued monitoring by officers only.
3. Under the reconfigured Risk Register strategy, the identification of risks will be more evidence based using the Scheme update, Business Plan, Audit recommendations, Minutes of meetings, Fund's KPI dashboard and Brunel and investment pooling data as sources of information for risk identification.

Key Considerations for the Committee / Risk Assessment

4. The significance of risks is measured by the interaction of the likelihood of occurrence (likelihood) and the potential impact of such an occurrence (impact). This register uses the Council's standard "4x4" approach, which produces a risk status of Red, Amber or Green (RAG).
5. During the last quarter no "new risks" were identified.
6. The evidence-based review of the register identified the following risks had changed or need to be recategorized;
 - **PEN030: Failure to procure & contract manage service providers appropriately:** (From Amber to Green) Following the contract management work undertaken by officers and the SWAP audit concerning tPR Code of Practice 14, this risk is now being viewed as being managed appropriately.
 - **PEN032: Failure to manage Fund budgets & controllable costs:** (From Green to Amber) At the Committee meeting dated 18th July it was agreed that budget monitoring reports would be submitted to the Committee quarterly.

- **PEN036: Failure to implement a Dashboard of KPIs for regular monitoring:** (From Amber to Green) Officers have nearly completed its transition to a new suite of KPIs.
 - **PEN041: Inability to implement a strategy to ensure Climate Change considerations are integral to the Fund's investment strategy:** (From Green to Amber) Additional support may be required to help define policies in this area.
7. Risks remaining "red", high risk:
- **PEN042: Significant retrospective legislation changes related to the McCloud case:** It is still unclear exactly what the change will be, its magnitude and how the Fund can mitigate it.
 - **PEN048: The transition to pooling of LGPS assets with BPP fails to deliver the projected savings:** Progress and updates should continue to be regularly reported to Committee
8. It is recommended that two risks are removed from quarterly presentation by the Committee. These are;
- **PEN009: Failure to comply with Data Protection Legislation (GDPR & Data Protection Act 2018):** (From Amber to Green) Following the implementation & first audit by SWAP on the Fund's new data protection compliance requirements it was recognised that the appropriate risk mitigations were largely in place. A Data Retention strategy requires further consideration, however a managed process, including Administering Authority & Employer policies are underway to remedy this issue.
 - **PEN031: Failure to implement the new CIPFA guidance on Accounting Standards:** Completion of the Fund's 2018/19 Annual Report & Accounts, including a subsequent audit has demonstrated that the proper implementation of the new CIPFA guidance on Accounting Standards has taken place.
9. Two risks have been highlighted by officers for consideration & guidance by the Committee. These are;
- **PEN024: The implementation of Brexit causes investment volatility or unexpected legislative changes:** This continues to be a changing situation. The officer view is for the Fund to "accept the risk" on the basis that the level of risk continues to be difficult to quantify. Being the last standard Committee meeting prior to 31st October, officers welcome Members comment on the potential risk.
 - **PEN019 & PEN029: A lack of effectiveness in the way the Board & Investment Sub-Committee operate & a failure to implement the effectiveness review between the Committee & Board:** During 2019 significant progress has been made between the groups. Whilst work is on-going, the work completed to date has clarified the flow of information that should take place between each group allowing the merger of these two risks into one.

Financial Implications

10. No direct implications.

Legal Implications

11. There are no known implications from the proposals.

Environmental Impacts of the Proposals

12. There is no known environmental impact of this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

13. There are no known implications currently.

Proposals

14. The Committee is asked to note the attached Risk Register and approve the changes/actions recommended by officers in points 5 to 8 above.

15. The Committee is asked to consider the mitigation of risk outlined in point 9 & whether Members have additional comments on the officers' view.

ANDY CUNNINGHAM
Head of Pensions Administration and Relations

Report Author: Richard Bullen, Fund Governance & Performance Manager
Unpublished documents relied upon in the production of this report: NONE

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Ref.	Risk	Cause	Impact	Primary Risk Category (CIPFA)	Secondary Risk Category (Operational)	Risk Owner	Level of risk (Inherent)	Impact	Likelihood	Inherent risk score	Controls in place to manage the risk	Impact	Likelihood	Residual risk score	Further Actions necessary to manage the risk	Level of risk (Residual)	Direction of Travel	Risk Action Owner	Date for completion of action
PEN042	Significant retrospective legislation changes related to the McCloud case	An age discrimination case taken to Court by a group of firefighters and Judiciary employees	Increased contribution rates for employers and high levels of administration time and complication.	ADMINISTRATION	SERVICE FUNCTION	Andy Cunningham	High	3	4	12	None - Whilst it now appears almost certain that a material change in legislation will take place, it is still unclear exactly what the change will be, its magnitude and how the Fund can mitigate it.	3	4	12	None	High	→	Andy Cunningham	N/A
PEN043	Administration disruption and employer cost pressures caused by the Cost Cap review	The cost cap floor has been breached meaning the Scheme rules need to be adjusted.	<u>Administration:</u> Some impact on administration processes and communications - unknown at the moment as the details have not been finalised. <u>Cost:</u> Higher costs for employers	ADMINISTRATION	SERVICE FUNCTION	Andy Cunningham	Medium	2	4	8	None until further information is available. Note: this is unlikely to happen until the McCloud case changes are finalised, as McCloud will already increase costs in itself which may be sufficient to be mean that no further changes are needed.	2	4	8	None	Medium	→	Andy Cunningham	N/A
PEN021	Ineffective implementation of the Public Sector Exit Cap	The Treasury is consulting on draft regulations to introduce a cap of £95,000 on exit payments in the public sector, in response to concerns about the number of exit payments that exceed or come close to £100,000 and the need to ensure they represent value for money. This will include changes to LGPS regulations. Introduction of exit cap will require an additional burden on the administration team as it is likely to effect all redundancy calculations. Funds are often given little time to implement changes which brings about this risk.	Changes need to be communicated to individuals and employers and systems adapted once the revised regulations have been approved. LGPS Fund's could be in breach of the legislation if they are logistically unable to implement the cost cap mechanism once introduced.	LEGISLATIVE	SERVICE FUNCTION	Andy Cunningham	Low	2	2	4	Currently monitoring the progress of the developments to allow adequate time to take any actions necessary. Based on past experience, officers are not anticipating any changes to occur quickly and, depending on the final outcomes, WPF will set up a project cover: discussions with employers and changes to employer discretions policies, benefit and systems calculations and the associate communications.	2	2	4	None	Low	→	Andy Cunningham	N/A
PEN039	The Fund's inability to implement the reforms associated with the Good Governance Project	SAB has requested a review of governance structures for the LGPS using a criteria of four possible governance models which might help funds to deliver good governance for their employers and members. A final report was issued by Hymans Robertson in August 2019.	Poor governance has a reputational risk impact, leading to poor service for Fund stakeholders, a lack of clarity of roles & responsibilities and potential conflicts of interest emerging	GOVERNANCE	SERVICE FUNCTION	Andy Cunningham	Low	2	2	4	Officers have already following development closely to help ensure the Fund is aligned and prepared. Officers are already proposing to make certain adjustments to the terms of reference to ensure alignment with the principles discussed.	2	2	4	None	Low	→	Richard Bullen	N/A
PEN040	The Fund's inability to implement the conclusion of the Fair Deal Consultation	This consultation contains proposals which would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provide	Failure to implement the changes would be a breach of legislation which could have a resulting financial impact on employers and Fund and a negative impact on members (for example, losing access to the LGPS).	GOVERNANCE	SERVICE FUNCTION	Andy Cunningham	Low	2	2	4	Officers have responded to the consultation but have yet to hear anything further from MHCLG. The next step is likely to be either another consultation or the introduction of legislation. Officers will continue to monitor developments to help ensure it is prepared to make any changes required.	2	2	4	None	Low	→	Denise Robinson	N/A
PEN044	Change to valuation cycle	The Government is consulting on changing the fund valuation cycle. In short term this could mean a one-off 5 year gap followed by quadrennial valuations.		GOVERNANCE	SERVICE FUNCTION	Andy Cunningham	Low	1	3	3	Officers have responded to the consultation stating they are not in favour of such a change.	1	3	3	None	Low	→	Andy Cunningham	N/A
PEN045	GMP legislative changes	The Government has been planning to make a number of changes to way that GMPs work which brings about certain risks. In particular, changes to the indexation approach (which have been repeatedly delayed) and equalisation between males and females.	Both sets of plans could increase scheme costs and cause material amounts of additional administrative work.	ADMINISTRATION	SERVICE FUNCTION	Andy Cunningham	Low	2	2	4	Senior officers to keep themselves apprised of developments.	2	2	4	None	Low	→	Andy Cunningham	N/A
PEN038	The Fund's inability to implement the DWP's Dashboard within a notified timescale.	Late communication by the DWP to specify their requirements for the Fund to comply with this new nationwide Dashboard. Potential for unexpected implementation costs and/or the Fund being unable to meet the reporting requirements.	Non-compliance would lead to a reputational risk for the Fund. A statutory requirement to contribute may also be created.	ADMINISTRATION	SERVICE FUNCTION	Andy Cunningham	Low	1	2	2	Senior officers to keep themselves apprised of developments and seek more detailed information as the project develops.	1	2	2	None	Low	→	Mark Anderson	N/A

Dynamic Risks																			
Ref.	Risk	Cause	Impact	Primary Risk Category (CIPFA)	Secondary Risk Category (Operational)	Risk Owner	Level of risk (Inherent)	Impact	Likelihood	Inherent risk score	Controls in place to manage the risk	Impact	Likelihood	Residual risk score	Further Actions necessary to manage the risk	Level of risk (Residual)	Direction of Travel	Risk Action Owner	Date for completion of action
PEN034	Failure to implement Lean process review	Low KPI performance has been identified, particularly in relation to the disclosure requirements, as a result of inefficient processes and insufficient training and support.	An end to end processing review of all repeatable processes with the key objectives of improving the customer experience and identifying and realising efficiencies. Semi-automated work allocation is required to target key items of casework more quickly	ADMINISTRATION	BUSINESS PLAN (App 1 - 12,14)	Andy Cunningham	Medium	3	2	6	The Fund's Project team has started a programme of work over a 2 year timeframe to review repetitive processes within the dept. Some processes have already been reviewed and improved and two more significant processes are currently under review.	3	1	3		Low	→	Mark Briggs	On-going
PEN037	Failure to implement a strategy to address the administration backlogs	Failure to effectively administration the scheme could result in incorrect payments, inefficiencies in the process, failure to meet disclosure timeframes, complaints and inadequate oversight over the fund.	Poor administration resulting in incorrect payments and can lead to reputational risk issues. The mitigation of this risk is contingent on the mitigation of other risks such as PEN034 & PEN036	ADMINISTRATION	BUSINESS PLAN (App 1 - 19) SWAP Key controls audit 2018/19	Andy Cunningham	Medium	3	3	9	The implementation of PEN034 & PEN036, following the details of the Data Improvement Strategy (and sub plans) along with addressing the internal auditors comments in their 2018/19 Key Controls report should mitigate this risk	3	2	6		Medium	→	Jennie Green	On-going

PEN029	Failure to implement the effectiveness review between the Committee & Board	An effectiveness review conducted by Hymans was undertaken in 2018, following which a report was produced and a focus group of key Wiltshire Council stakeholders created to act on the outcomes of the Report.	An ineffective Committee & Board could lead to a poorly run Pension Fund, which has a lack of governance and internal controls. Defining the roles & responsibilities of all groups & stakeholders enable clarity of purpose & efficient management.	GOVERNANCE	BUSINESS PLAN (App 1 - 21,24)	Andy Cunningham	Medium	3	3	9	Creation of a Focus steering group to implement the recommendations of the Hymans report. A review of Governance documentation, such as Terms of Reference, to bring it up to date and ensure that all documentation is consistent & integrated with the other documentation around it.	2	2	4	Low	→	Richard Bullen	On-going	
PEN019	A lack of effectiveness arising from inadequate maintenance of the way the Local Pension Board & Investment Sub-Committee operate.	Failure of Wiltshire Council to maintain a Local Pension Board, from finding suitable representatives and the officer time required to support the Board and sub-committee.	Reputational risk from a national perspective and failure to adhere to legislation resulting in action by the Government or the Pension Regulator. Ineffective operation of the Investment sub-Committee leading to bad decision making.	GOVERNANCE	SERVICE FUNCTION	Andy Cunningham	Medium	3	2	6	Officers are planning to review the terms of reference for the LPB and Committee in due course, partly to make the process of recruiting to the LPB easier but also to help ensure the LPB remains effective.	3	1	3	None	↓	Richard Bullen	On-going	
PEN032	Failure to manage Fund budgets & controllable costs	During a period of change management involving the introduction of new staff, new software & new working practices the cost control against the Fund's approved budget requires close management	Poor budget setting & cost control can lead to over expenditure and a loss of value in the services being offered by the Fund. As a public sector Scheme there is also a reputational risk associated with the poor management of funds.	GOVERNANCE	SERVICE FUNCTION	Andy Cunningham	Medium	3	3	9	Annual Fund budgets are approved in the 1st quarter of each year. Expenditure against the budget are monitored by Senior Officers and will now be reported to Committee quarterly. Senior Officers work with the Council's Treasury team to ensure accurate specification of charges made to the Fund. Senior Officers maintain a contract management framework to monitor the fees of service providers. All invoices are compared against estimates before payment is made.	2	1	2	It was agreed that budget monitoring reports would be submitted to the Committee at each quarterly meeting	Low	↑	Jennifer Devine	On-going
PEN024	The implementation of Brexit causes investment volatility or unexpected legislative changes	EU referendum result.	The arrangements by which the UK leaves the EU may produce short term volatile market movements which could impact on asset performance.	FINANCIAL MARKETS & PRODUCTS	SERVICE FUNCTION	Jennifer Devine	Medium	3	2	6	The Fund has liaised with its investment managers on the potential impact of an exit. The Fund has agreed to revert to a 50% overseas equities hedged position for the current timeframe to reflect the current weakness of sterling.	3	1	3	The markets and weightings are closely monitored as part of the "flightpath" and "rebalancing" processes. A single provider to manage all aspects of risk management, is also under consideration.	Low	→	Jennifer Devine	On-going
PEN026	A lack of effectiveness of Committee meeting due to the impact of MIFID II Regulations	MIFID 2 investment regulations from Jan 2018 will classify LGPS Funds as "retail" investors. They will need to opt up to professional status	If Wiltshire Pension Fund is unable to maintain "professional" status it will limit the range of investments available and may lead to the forced sale of assets.	INVESTMENT PERFORMANCE & RISK	SERVICE FUNCTION	Jennifer Devine	Medium	3	2	6	Wiltshire Fund is now being treated as a Professional Client, having followed due process. Maintenance of the Fund's Professional Client status will require on-going compliance with the requirements including competence	3	1	3	None.	→	Jennifer Devine	On-going	
PEN022	The rectification of records with GMP issues is time-consuming, costly & causes reputational damage.	From 1 April 2016, State Second Pension ceases and HMRC no longer provides GMP data on members to Funds.	If GMP records for members are inaccurate there is the potential for incorrect liabilities being paid by the Fund.	ADMINISTRATION	BUSINESS PLAN (App 1 - 18) (App 2 - 7)	Andy Cunningham	Medium	2	4	8	Large project is still ongoing and software from Heywood's is being used to process amendments to Altair on bulk. Progress has been delayed due to the Fund trying to engage with Government to agree on a nationwide approach and in order to undertake further analysis of the problems identified.	2	4	8	Still working with other south-west Funds to try to agree on a common approach and present it to Government Departments. SAs response to the SW Funds letter was disappointing in that it did not provide any constructive guidance to resolve this exception issue. The Fund plan may well need to prepare its own strategy to resolve the situation.	Medium	→	Mark Briggs	u/k
PEN030	Failure to procure & contract manage service providers appropriately	GDPR, the migration of Managers to BPP & a review of Fund contracts were undertaken in 2018 in conjunction with the Procurement dept. to establish the position of the Fund existing suite of contracts	A lack of a contract management framework will create an inability to manage existing service provider arrangements, limit the updating of service scopes so that the Fund's requirements remain to contracts & anticipate the incorporation of new legislation & regulations. This will lead to increased costs & risks to the Fund.	PROCUREMENT & RELATIONSHIP MANAGEMENT	BUSINESS PLAN (App 1 - 13)	Andy Cunningham	Low	3	1	3	A contract management framework has been developed by officers to anticipate the review of Fund contracts as they fall due. Fund officers have also attended Contract Management training provided by the Council's Procurement Department.	3	1	3	Low	↓	Richard Bullen	On-going	
PEN036	Failure to implement a Dashboard of KPIs for regular monitoring	Difficulties in extracting the required data from the workflow section of the administration system. Improve the range of Key Performance Indicators (KPIs) produced for the Committee and Local Pension Board to help provide transparency and clearer oversight & management of administration performance.	Failure to implement a dashboard of comparable benchmarks, will be counter to the Pension Regulator's requirements on factors such as data quality measures	ADMINISTRATION	BUSINESS PLAN (App 1 - 22) (App 2 - 6)	Andy Cunningham	Low	3	1	3	Officers are near completion in implementing a suite of KPIs to be utilised at different levels. Namely, at a Statutory level, for the Committee & the Board, for use between Employers & the Fund & at management level for use at an operational level within the Pension's dept.	2	1	2	Low	↓	Mark Anderson	On-going	
PEN046	The transition of assets to the Brunel global high alpha equities portfolio does not go according to plan resulting in investment losses.	Wiltshire will be transferring its Baillie Gifford portfolio to Brunel in late 2019.	If assets do not transfer successfully this could result in financial loss.	INVESTMENT PERFORMANCE & RISK	BUSINESS PLAN (App 1 - 10)	Jennifer Devine	Low	4	1	4	Officers are working with the Brunel client group to ensure that Brunel properly follow procedures to ensure that no financial loss is incurred and that the transition occurs successfully.	4	1	4	None	→	Jennifer Devine	Dec-19	
PEN047	There is uncertainty around the ability of Brunel to resource its property portfolio offering	It is intended that property assets will transfer to Brunel in late 2019.	If Brunel are not adequately resourced, this could result in the portfolio not being effectively managed, and/or costs being higher than expected.	INVESTMENT PERFORMANCE & RISK	BUSINESS PLAN (App 1 - 10)	Jennifer Devine	Low	4	1	4	Officers are working with the Brunel client group to ensure that Brunel are able to give adequate assurance that they are appropriately resourced before engaging with this particular transition.	4	1	4	None	→	Jennifer Devine	Dec-19	
PEN028	Failure to introduce new administration software effectively	Implementation of new software including MSS, I-connect, e-payslips, payment instruction automation, a new website & semi-automated workflow allocation. All to be completed by 2022.	Delay in the payment of member benefit, poorer data quality, sub-standard communication arrangements with members & employers & slower delivery times leading to a more costly service.	ADMINISTRATION	BUSINESS PLAN (App 1 - 1,2,3,4,5,14) (App 2 - 1,2,3)	Andy Cunningham	Low	2	2	4	Individual project plan have been prepared for each implementation of software, including their GDPR implications, with individual project issue logs and risk registers. A bespoke Project team has also been established within the pension's dept. who initiate formal handovers to officers on completion of the new implementation.	2	1	2	None.	→	Mark Briggs	On-going	
PEN035	Failure to maintain the Pension Administration Strategy as an effective strategy document.	The Pension Administration Strategy has not been reviewed since 2015.	To improve the administration performance of the Fund and of its participating employers. If this does not improve the Fund will be in breach of compliance requirements laid down by the Regulator.	ADMINISTRATION	BUSINESS PLAN (App 1 - 16)	Andy Cunningham	Low	2	2	4	A draft Pension Administration Strategy is being prepared for presentation to the Board in November 2019. It will relate to the Fund's business plan and the KPIs produced for Committee.	2	1	2	None.	→	Denise Robinson	26/09/19	
PEN031	Failure to implement new CIPFA guidance on Accounting Standards	In late 2019 CIPFA will release finalised guidance on the standards by which the 2019/20 Annual Report & Accounts need to be prepared.	The late communication of the guidance could cause non compliance of the Fund's 2019/20 Annual Report & Accounts.	GOVERNANCE	BUSINESS PLAN (App 1 - 11)	Jennifer Devine	Low	2	2	4	Officers will attend CIPFA training on the new guidance to ensure its implementation. The new Report & Accounts templates will be adopted by Fund officers. Training on the changes will be provided to Members of the Committee & Board. Officers are working with the Fund Auditors to ensure compliance.	1	1	1	None.	↑	Roz Vernon	31/07/19	

Ongoing Risks

PEN048	The transition to pooling of LGPS assets with BPP fails to deliver the projected savings	The Fund needs to pool its LGPS assets with other Funds using the Brunel Pensions Partnership.	Poor implementation could be costly in terms of unanticipated costs and/or savings less than projected.	INVESTMENT PERFORMANCE & RISK	BUSINESS PLAN (App 1 - 10)	Jennifer Devine	High	4	3	12	The Fund is working with Brunel Pension Partnership on pooling arrangements. Progress and updates regularly reported to Committee. The Fund's passive portfolios have been pooled with significant fee savings, but a budget increase is also currently being proposed. The final position is still uncertain.	3	3	9	Significant amount of resource still required by officers to progress this project.	Medium	→	Jennifer Devine	On-going
PEN009	Failure to comply with Data Protection Legislation (GDPR & Data Protection Act 2018)	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised, fines from the Information Commissioner, reputational risk of failure to meet Data Protection legislation.	LEGISLATIVE	SERVICE FUNCTION Key controls audit 2018/19	Andy Cunningham	Low	2	1	2	Compliance with Wiltshire Council's Data Protection & IT Policies. Annual Data Protection training given to the team. On-going cleansing of data undertaken by Systems Team. The Fund has produced a new suite of procedures and controls following the introduction of GDPR.	2	1	2	Further reviews and changes in relation to the GDPR. First internal audit (Key Controls - April 2019) identified a lack of clarity in relation to the Fund's Data Retention strategy, where no justification for retaining personal data can be made, notably Exit No-liability records. Data Cleaning must be carried out. Officers to agree with IG Data Cleaning approach.	Low	→	Mark Anderson	On-going
PEN010	Failure to keep pension records up-to-date and accurate	Poor or non-existent notification to us by employers and members of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	GOVERNANCE	BUSINESS PLAN (App 2 - 8)	Andy Cunningham	Medium	3	2	6	Data & systems Team constantly working to improve data quality, data validation checks carried out through external partners (e.g. the Fund's actuaries and tracing agencies), proactive checks done through national fraud initiative and the Fund's Data Improvement Plan.	3	1	3	The Fund is currently addressing new data issues identified by a review of the IPR two key data standards and other data reviews while ensuring data is of high quality is an on-going responsibility.	Low	→	Mark Anderson	On-going
PEN017	A lack of knowledge and expertise on the Pension Fund Committee	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Funds to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee.	GOVERNANCE	BUSINESS PLAN (App 1 - 24)	Andy Cunningham	Medium	2	3	6	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Further training and advice can be called on from our consultants, independent advisors and investment managers too.	2	1	2	The results of the knowledge assessment was presented to 12 Dec 2018 Committee and 24 January 2019 Local Pension Board. Overall, their level of knowledge was deemed good but there were areas of improvement identified that Officers will consider when looking at future training plans. Pensions is a complex subject, so the training needs of the Committee will need to be continued reviewed.	Low	→	Richard Bullen	On-going
PEN007b	Significant rises in employer contributions for non-secure employers due to poor/negative investment returns	Poor economic conditions, wrong investment strategy, poor selection of investment managers, poor consideration of all financial & non-financial risks including ESG issues.	Poor/negative investment returns, leading to increased employer contribution rates	FINANCIAL MARKETS & PRODUCTS	BUSINESS PLAN (App 1 - 8,9) (App 2 - 4)	Jennifer Devine	Medium	3	2	6	Use of expert consultants in the selection of investment strategy and investment managers, regular monitoring of investment managers (1/4y), regular reviews of investment strategy (annually). Monthly review of % of Fund held in each mandate. Also a flight path strategy implemented to take off risk as funding levels improve. Fund member of LAPFF & uses PIRC to proxy vote on shares in line with agreed policy for ESG issues. Compliance with Stewardship code.	2	2	4	A risk based framework is now in place to review employers long term financial stability. This informs the policy for stepping in contribution rates to assist in affordability issues where requested by an employer. It will be continuously reviewed, as part of the updating of the Investment Strategy Statement. Query over covenant reviews following expiry of PWC contract.	Low	→	Jennifer Devine	On-going
PEN015	Failure to collect payments from ceasing employers	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	ACTUARIAL METHOD	BUSINESS PLAN (App 1 - 7,15)	Andy Cunningham	Medium	3	2	6	The Pension Fund Committee approved a revised cessation policy on 20 September 2018 to address regulatory changes made in May 2018 and certain scenarios which had arisen which the previous policy did not adequately address. Furthermore, all new admitted bodies require a guarantor to join the Fund which means that a stable Scheme Employer is required to act as the ultimate guarantor.	2	1	2	None	Low	→	Andy Cunningham	On-going
PEN041	The Fund's inability to implement a strategy to ensure Climate Change considerations are integral to its investment strategy	There is a global climate change emergency, as declared by Wiltshire Council in February 2019.	Failure to embed climate change considerations in the investment strategy could cause a negative impact on investment returns over the long term.	FINANCIAL MARKETS & PRODUCTS	SERVICE FUNCTION	Jennifer Devine	Medium	3	3	9	Work is being done within the Brunel pool to address this risk. The Committee needs to use the support offered by Brunel to help define policies in this area and implement them via the Investment Strategy Statement.	2	2	4	None	Low	↑	Jennifer Devine	On-going
PEN002	Failure to collect and account for contributions from employers and employees on time	Non-availability of SAP systems, key staff error, omission, failure of employers' financial systems, failure to communicate with employers effectively. LGPS 2014	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	ACCOUNTING & AUDITING	SERVICE FUNCTION	Jennifer Devine	Low	2	2	4	Robust maintenance and update of Altair and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. Officers regularly work with employers to ensure they understand their responsibilities to pay by 19th of the month. The Breaches framework now require the Fund to log material late payments.	2	2	4	None	Low	→	Roz Vernon	On-going
PEN033	Failure to manage AVC providers	The Fund is a Data Controller with four AVC providers under management who operate to a system of policies & endorsements rather than service provider contracts. Consequently, there is a risk due to the mismatch between Fund responsibility & control in relation to the assets under management.	Failure of a AVC provider can lead to issues of reputational risk to the Fund, as well as being exposed to adverse governance & financial implications.	ACCOUNTING & AUDITING	SERVICE FUNCTION	Jennifer Devine	Low	2	2	4	A minimum of annual service review reviews have been implemented with the main AVC provider, managed by the Investment & Accounting team. The review will cover customer service & investment performance.	2	1	2	None.	Low	→	Roz Vernon	On-going
PEN005	Loss of funds through fraud or misappropriation	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	ACCOUNTING & AUDITING	SERVICE FUNCTION	Jennifer Devine	Low	4	1	4	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc, are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	None	Low	→	Roz Vernon	On-going
PEN006a	Significant rises in employer contributions for secure employers due to increases in liabilities	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	ACTUARIAL METHOD	BUSINESS PLAN (App 1 - 6)	Andy Cunningham	Low	2	2	4	Longevity and bond yields are generally beyond the control of the Fund as are the values of the liabilities in general. However, the Fund has started the 2019 Triennial Valuation process and it is concurrently reviewing its investment strategy and implementing separate employer investment strategies. Furthermore, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g. early retirements, augmented service, etc).	2	2	4	None	Low	→	Andy Cunningham	On-going
PEN006b	Significant rises in employer contributions for non-secure employers due to increases in liabilities	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current price of gilts lead to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	ACTUARIAL METHOD	BUSINESS PLAN (App 1 - 6)	Andy Cunningham	Low	2	2	4	As above	2	2	4	As above	Low	→	Andy Cunningham	On-going
PEN007a	Significant rises in employer contributions for secure employers due to poor/negative investment returns	Poor economic conditions, wrong investment strategy, poor selection of investment managers, poor consideration of all financial & non-financial risks including ESG issues.	Poor/negative investment returns, leading to increased employer contribution rates	INVESTMENT PERFORMANCE & RISK	BUSINESS PLAN (App 1 - 8,9) (App 2 - 4)	Jennifer Devine	Low	2	1	2	Use of expert consultants in the selection of investment strategy and investment managers, regular monitoring of investment managers (1/4y), regular reviews of investment strategy (annually). Monthly review of % of Fund held in each mandate. Also a flight path strategy implemented to take off risk as funding levels improve. Fund member of LAPFF & uses PIRC to proxy vote on shares in line with agreed policy for ESG issues. Compliance with Stewardship code.	2	1	2	The implementation of the Stabilisation Policy limits increases for secure employers.	Low	→	Jennifer Devine	On-going
PEN008	Failure to comply with LGPS and other regulations	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	ADMINISTRATION	BUSINESS PLAN (App 1 - 20,25)	Andy Cunningham	Low	2	2	4	*Sufficient staffing, training and regulatory updates. *Competent software provider and external consultants. *Technical & Compliance post reviews process and procedures and maintains training programme for the team. *KPIs against statutory standards *Embedding checks and controls into all processes. *Audits & internal reviews to maintain best practice	2	2	4	None	Low	→	Luke Webster/ Jennie Green	N/A
PEN011	Lack of expertise of Pension Fund Officers and Service Director, Finance	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	GOVERNANCE	BUSINESS PLAN (App 1 - 20,25)	Andy Cunningham	Low	2	1	2	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc. The Governance & Performance Manager has formulated annual Training Plans and Relevant officers are also reviewed against the CIPFA Knowledge & Skills Framework to ensure adequate expertise exists.	2	1	2	The Director of Finance & Procurement is still being filled on an interim basis, and the current incumbent is now leaving, but other senior officer roles in the Pension Fund are now filled by permanent staff.	Low	→	Andy Cunningham/ Corporate Directors	On-going

PEN013	Failure to communicate properly with stakeholders	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor.	GOVERNANCE	BUSINESS PLAN (App 1 - 23)	Andy Cunningham	Low	2	2	4	The Fund has a Communications Manager and Employer Relationship Manager posts dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy which will be updated shortly.	2	1	2	None	Low	→	Denise Robinson/ Ashleigh Salter	N/A
PEN014	Failure to provide the service in accordance with sound equality principles	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	ADMINISTRATION	SERVICE FUNCTION	Andy Cunningham	Low	2	1	2	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	None	Low	→	Luke Webster/ Jennie Green	On-going
PEN016	A lack of effectiveness in respect of the Fund's Treasury Management Services	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	INVESTMENT PERFORMANCE & RISK	SERVICE FUNCTION	Jennifer Devine	Low	3	1	3	The Pension Fund will review an updated Treasury Management Strategy annually which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £6m. The Fund will also review in Treasury Management Agreement with the Council in 2019.	2	1	2	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal. A minimum of annual updates by the Council need to be presented to the ISC	Low	→	Roz Vernon	N/A
PEN025	Further academisation of Schools, the possibility of MAT breakups and cross fund movements.	Potential for further schools to convert to academy status, MATs to breakdown	Additional governance and administration risk. If all schools were to convert then the number of employers in the Fund could jump from 150 to between 400 and 500.	GOVERNANCE	SERVICE FUNCTION	Andy Cunningham	Low	2	2	4	Regular communications with schools to understand their intentions. Revised cessation policy aims to address some of the risks relating to MAT breakups.	2	2	4	The Fund is monitoring the SAB review of academies roles in the LGPS and will take actions (e.g. respond to consultations) as necessary to try to mitigate this risk further.	Low	→	Andy Cunningham	N/A

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
3 October 2019

PENSION FUND – GOOD GOVERNANCE IN THE LGPS

Purpose of the Report

1. This report presents the results of a review commissioned by the Scheme Advisory Board (SAB) & published by Hymans Robertson in July 2019 examining the effectiveness of the current LGPS governance models and considers the alternatives or enhancements which can strengthen LGPS governance going forward.

Background

2. The last decade has seen the introduction of tPR oversight, Local Pension Boards & LGPS pooling amongst other changes, all of which have served to make LGPS governance more complicated. Consequently, whilst this report seeks to maintain the strong link of SAB's principle of local democratic accountability it also seeks to analyse the effectiveness of the existing LGPS governance models in their current environment.
3. To achieve this Hymans Robertson focused on the criteria/characteristics of Standards, Consistency, Representation, Conflict Management Clarity of Roles & Responsibility and Costs. Four governance models were then used to determine a qualitative recognition of the characteristics identified, which were Improved Practice, Great Ringfencing, Joint Committee & a separate Local Authority.
4. To establish the governance characteristics Hymans Robertson undertook a process of fact-finding, on-line surveys & other engagement processes such as conference workshops to produce their report, seeking input from all interested stakeholders including Board & Committee members, s151 officers, Employers, Pension Fund officers & other parties such as the Trade Unions.

Considerations for the Committee

5. To note the report, notably the Executive Summary & Section 4 entitled "Survey themes", which interprets the results of Hymans Robertson's findings. Section 6 then sets out the proposals Hyman's Robertson have made to SAB.
6. To note that the first two models preferred by most respondents (more than 70%), were Improved Practice & Great Ringfencing as it was recognised that whilst the focus should be on the greater specification of required governance outcomes, the need to develop standards, have independent reviews & ensure consistency, there were still significant advantages to being part of a Local Authority structure.

Conclusions

7. Hymans Robertson highlighted that there should not be a one size fits all approach in their proposals, rather that there should be a framework of best practice governance strategies employed within which all LGPSs could operate.
8. Fund officers have reviewed the report and consider it to be a fair assessment of the current LGPS governance arrangements.

Environmental Impact

9. There is no environmental impact from this report.

Financial Considerations

10. There are no immediate financial considerations.

Risk Assessment

11. There are no risks identified at this time.

Legal Implications

12. There are no immediate legal implications arising from this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

13. There are no implications at this time.

Proposals

14. The Committee is asked to note the report prepared by Hymans Robertson.

ANDY CUNNINGHAM

Head of Pensions Administration and Relations

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Good governance in the LGPS

July 2019



Addressee

This report is addressed to our client, the Scheme Advisory Board for the Local Government Pension Scheme in England and Wales (SAB).

This Report has been prepared for the benefit of our client, the SAB. As this Report has not been prepared for a third party, no reliance by any third party may be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the SAB. If this report is shared with any third party, it must be shared in its entirety.

Thanks to contributors

We are indebted to all those who responded to the survey and engaged in interviews and events that helped inform this report. We are grateful to you for being generous with your time and expertise, for your confidence in sharing your experiences openly and for responding so constructively and creatively.

Your views on current best practice, areas for improvement and creative and practical ideas for further strengthening governance in the LGPS are reflected in the proposals we present to SAB here.

We hope that your contribution will help further strengthen and future-proof governance in the LGPS.

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Executive summary

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, 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.

The SAB commissioned this report 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.

Given the unique nature of the LGPS, guaranteed by administering authorities and funded to a large degree by tax-payers, a criterion specified by SAB is that any models considered must maintain strong links to local democratic accountability.

Process

We engaged extensively with all stakeholder groups and all fund types via an online survey (140 respondents), one-to-one conversations through interviews and seminars (153 respondents), speaking engagements, a workshop with the Association of Local Authority Treasurers (ALATS), and discussion with the CIPFA Pensions Panel and the Society of County Treasurers (SCT).

We focussed on the following criteria for assessing governance arrangements; Standards, Consistency, Representation, Conflict Management, Clarity of Roles and Responsibilities and Cost. We were asked by SAB to consider how existing and alternative governance models fared against these criteria.

We considered four governance models:

- **Model 1:** improved practice
- **Model 2:** Model 1 plus greater ring-fencing
- **Model 3:** joint committee; and
- **Model 4:** separate Local Authority body.

These models were described in qualitative terms with the recognition that some of the characteristics attributed to one model could also be replicated in another model and that the final solution may draw on the features of more than one model.

Results and themes from survey responses

The online survey responses indicated a first preference for governance Model 2 (greater ring-fencing) followed by support for Model 1 (improved practice). Respondents recognised that governance models along these lines may need independent monitoring to add bite and ensure consistency of application. »



140 respondents to our online survey



one-to-one conversations



153 attendees at interviews and seminars



discussions with CIPFA and SCT

Respondents favour developing a set of standards that all funds are required to achieve...

Model 2 was also the clear preference in additional surveys at the PLSA conference in May* and other events (*Models 1 and 2 between them had more than 70% support).

Few respondents supported Model 3 (joint committee) citing no benefits over existing arrangements and considerable added complexity as the main reasons. Some respondents could see value in Model 4 (separate LA body), including one trade union for whom a version of this was the favoured model. However, for most this 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.

Through the written responses, interviews and other engagement, many stakeholders pointed out that their existing models provided many of the features and benefits of Models 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. This process enabled us to identify

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

We have included these in the report.

Conclusions

- 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.

Key proposals

- 1 **'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance model.
- 2 **Critical features of the 'outcomes-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 (quantity and competency) and appropriate budget;
 - (c) explanation of policy on employer and scheme member engagement and representation in governance; and
 - (d) regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
- 3 **Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
- 4 **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

We also set out suggested actions for implementing these proposals if agreed by SAB.

1. Introduction



Governance in the LGPS is evolving to accommodate developments in the last decade...

Context, purpose and scope

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in the 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.

The purpose of the survey, undertaken for SAB, was to identify ways of further strengthening LGPS governance in the face of these 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.

Given the unique nature of the LGPS, guaranteed and funded to a large degree by council tax-payers, a critical condition specified by the SAB was that any proposals must maintain strong links to local democratic accountability.

In developing the proposals made in this report, we consulted with many LGPS stakeholders. As expected, there were many different views and suggestions made to improve the governance arrangements in the LGPS. We have reflected many of these views in the body of the report, particularly where a view or proposal was articulated by several parties, and where possible we have indicated why some of these views or suggestions have not been taken forward in the final proposals. The proposals submitted to SAB in this report are those we believe would deliver improved governance at proportionate cost and reflect a consensus across most stakeholders.

We recognise that there are a small number of administering authorities (such as London Pensions Fund Authority and the Environment Agency) with unique arrangements. While we engaged with both of these funds to understand their perspectives and approaches to governance we recognise that some of the potential governance models as set out in the survey may not be appropriate, or even possible, for these bodies.

2. Process

The aim of the work we have undertaken was to deliver proposals to the Scheme Advisory Board that:

- Identify and address any actual or perceived issues within current LGPS governance arrangements, including conflicts for LGPS host authorities;
- Are based on a wide consultation to increase the likelihood of stakeholder support;
- Are proportionate and can be readily implemented; and
- Maintain local democratic accountability.

Process

The process we used is described below:

- 1. Fact-find phase:** We carried out interviews based on an open-scripted questionnaire with a diverse range of experienced officers, elected members and other stakeholders in order to identify any issues within current LGPS governance arrangements. The outcome and conclusions were shared with SAB in order to assist in developing the governance models which were consulted on in the online survey.
- 2. Online survey:** We conducted a wider consultation in the form of an online survey on the governance models identified by SAB. Input was sought from all relevant parties including s151 officers, s151 officers of non-administering authorities, pension fund officers, elected members, pension board members including scheme member and employer representatives as well as other interested parties and organisations.
- 3. Other engagement activities:** In addition to the survey, we engaged stakeholders through other activities such as interviews, seminars and speaking events to capture as wide a view as possible.
- 4. Report:** This report sets out the outcomes of our consultation activities including a full analysis of the key issues and proposals for addressing these issues, including commentary on any required legislative or guidance changes were these would realise significant benefits.



Who we consulted

In conducting our wider consultation, we engaged directly with all stakeholder groups and all fund types via:

- Online surveys which were sent to all relevant contacts on SAB's and Hymans Robertson's databases. These were also sent to any individual or organisation that requested them out with the initial mailing lists. In total, 140 responses were received to our online surveys by the closing date.
- One-to-one interviews were carried out with individuals or organisations by request or where further clarification of online responses were sought. Organisations included PSAA, NAO, CIPFA, SLT, Unite and Unison.
- Some organisations, such as CIPFA and PIRC, provided their own written submissions.

- Three seminars were held with open invitations to collate feedback from larger group.

There are 87¹ funds within the LGPS in England and Wales. We had direct feedback from representatives at 76 of these split across the various designations used by SAB in their annual report (see **Table 1**).

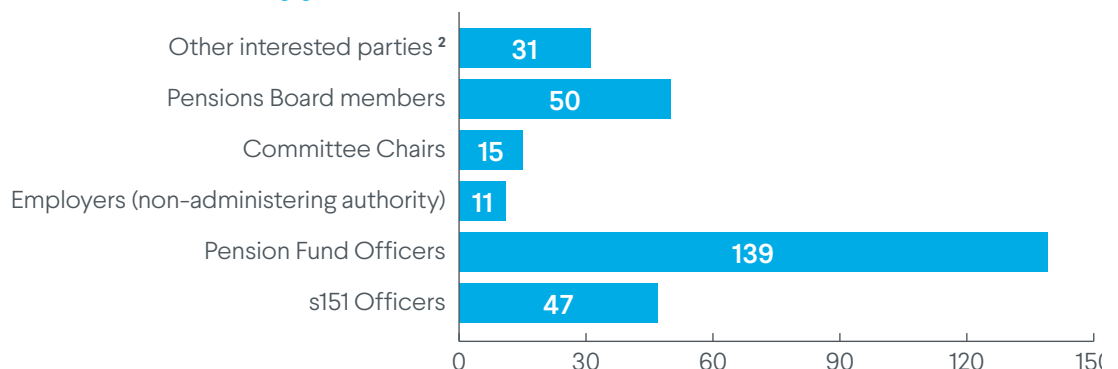
We engaged with a wide variety of stakeholders as set out in **Chart 1** below.

In addition, we have presented and collected feedback at key events over the period including the PLSA conference, CIPFA Pensions Panel, meetings of the Society of County Treasurers, Society of Welsh Treasurers and ALATS. Our findings and proposals reflect feedback from all of these.

Table 1: Respondents from LGPS funds in England and Wales, as designated by SAB annual report

	Universe	Responses	Interaction through	
			Survey	Interview
Unitary Authorities	12	11	24	17
London Boroughs	31	22	20	25
County Councils	27	26	64	55
Welsh Funds	8	8	15	14
Metropolitan Boroughs	6	6	8	17
Other	3	3	2	3
Independent responses			7	22
TOTAL	87	76	140	153

Chart 1: Stakeholders we engaged



¹ Excluding admission body funds, passenger transport funds and the environment agency closed fund.

² Including trade union representatives.

3. Survey results

The online survey issued as part of the consultation is set out in **Appendix A**. We sought views on four potential governance models SAB chose to consult on. All were assessed by respondents against criteria agreed with SAB. This was done through a combination of numerical scoring and free form commentary.

A summary of the numerical scores are set out below for each of the four structures:

- **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 (Greater ringfencing)**
 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 (New Local Authority Body)**
 An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act 1972 provisions.

In carrying out the survey, respondents were asked whether each of the models shown would have a positive or negative impact on each of the following criteria:

1	Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
2	Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
3	Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such as budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
4	Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
5	Representation	The model allows for appropriate involvement in decision-making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
6	Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.



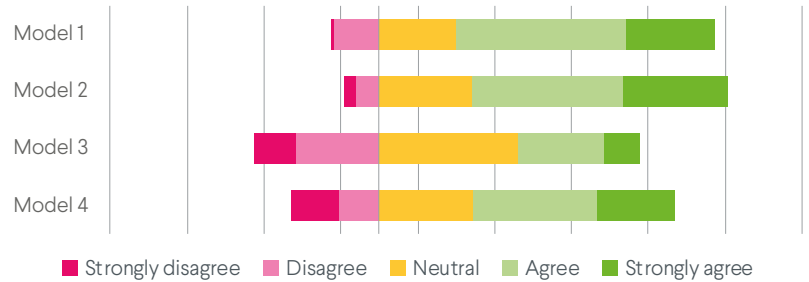
2. Survey results (continued)

The following charts summarise the extent to which respondents agreed that each model delivered against the six criteria. The further to the right the line appears, the more strongly respondents favoured the model against the criteria.

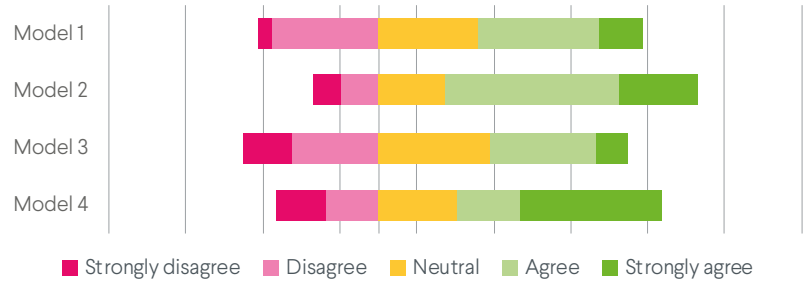
Comments on survey responses

- Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.
- Model 4 scored reasonably well on questions relating to criteria 1 to 4. A minority of respondents supported this model or some variation on it. For example, one of the trade unions favoured a variant of Model 4 with a changed role for local councillors because they believe that it could reduce potential governance conflicts they see in the role of local councillors who must act in the best interests of scheme members and at the same time in the interests of local tax-payers. However, the majority of respondents raised concerns over the question of appropriate involvement in decision making. These respondents felt that democratic accountability may be weakened in this model or the influence of the lead local authority, who is the guarantor of last resort for the fund, would be diluted. The model also scored very poorly on cost or value for money with a majority of respondents feeling that the model would be very expensive and disruptive to implement.
- Model 3 received weakest support overall. Respondents felt that the model would be complex to set up and manage and would deliver no perceived improvements in governance outcomes.
- The sentiment reflected within the commentary in the responses was also strongly in favour of Models 1 and 2, with many respondents identifying features of Models 1 and 2 that are already delivered in their current structure.
- However, responses also recognised that in order to achieve governance improvements through Models 1 and 2, the governance regime needs to include independent monitoring or review of local fund arrangements to ensure that everyone attains a minimum standard and that those beyond that level seek continuous improvement.

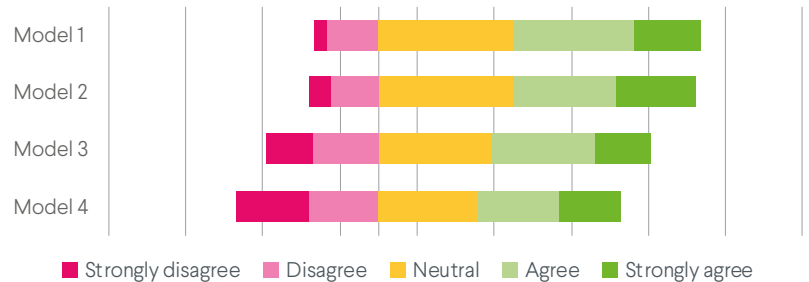
The model enables funds to meet the required standards



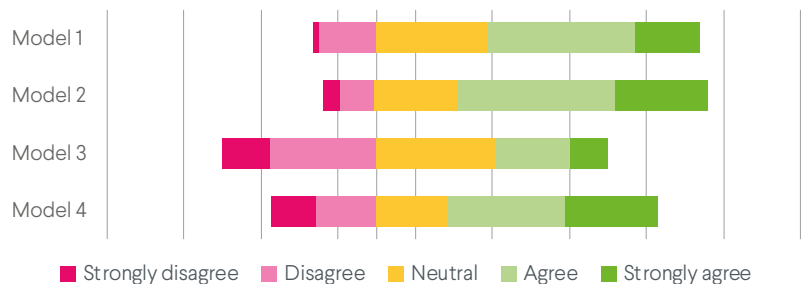
The model minimises conflicts between the pension function and the host local authority



The model allows for appropriate involvement in decision-making for key stakeholder

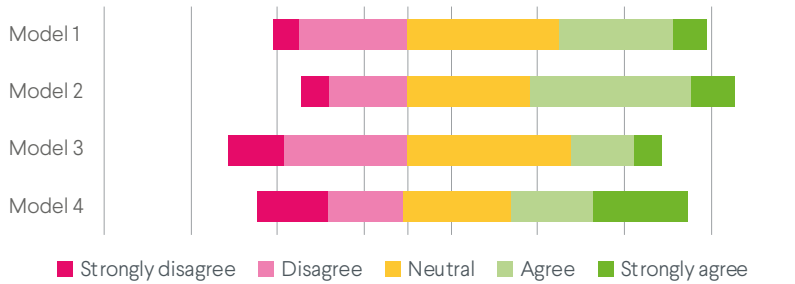


The model delivers clarity of accountability and responsibility for each relevant role

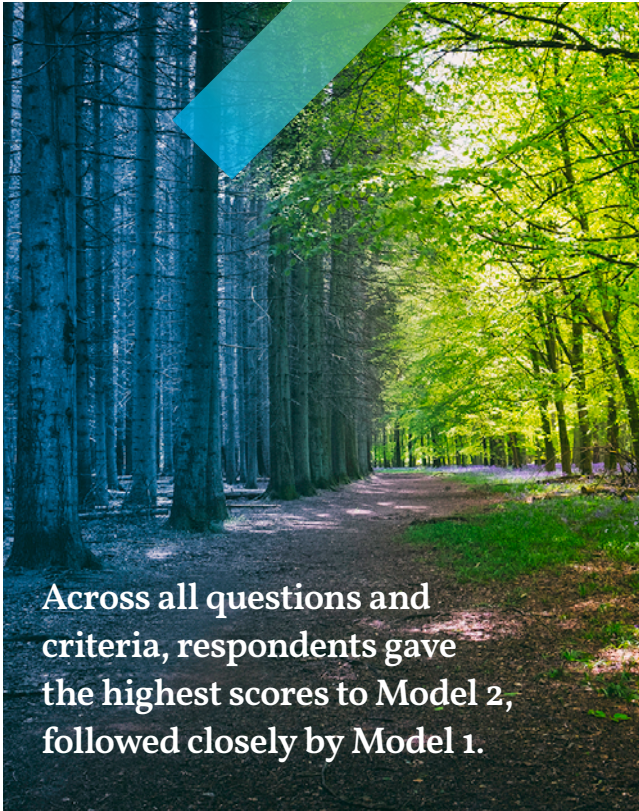
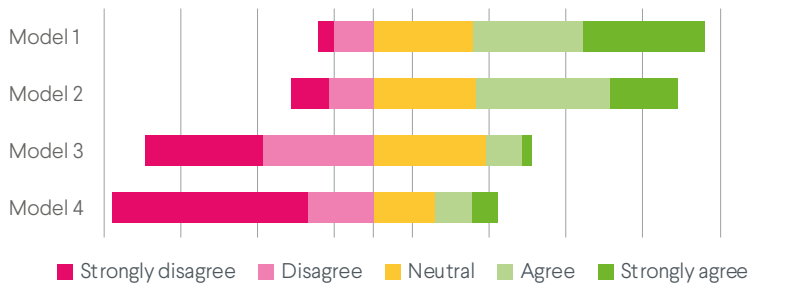


2. Survey results (continued)

The model minimises dependence on professionalism and relationships to deliver statutory responsibilities



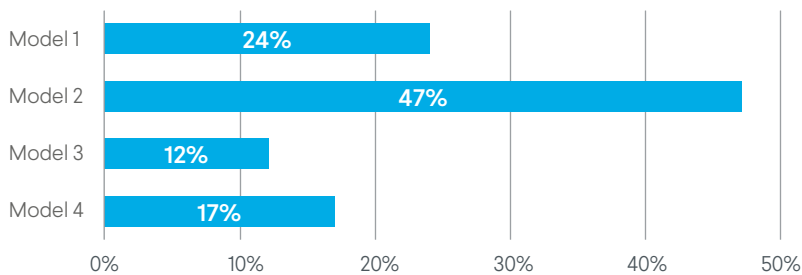
The cost of implementing and running the model is likely to be worthwhile versus benefits delivered



Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.

PLSA

Which structural governance model do you prefer from the four models discussed?



Additional survey data

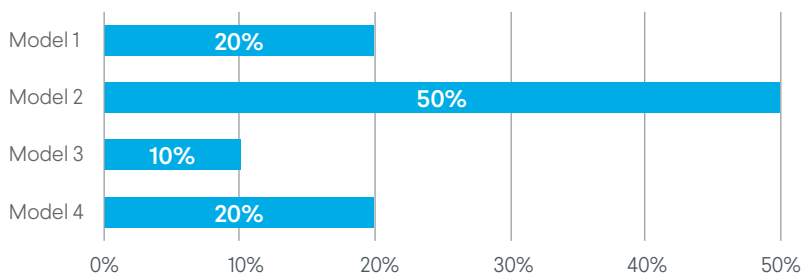
In addition to the online survey, we asked attendees at our PLSA session and other events a set of questions on their preferences.

Around 70% of respondents favoured Models 1 or 2.

Very similar results (from a smaller sample size) were recorded at our webinar.

Webinar

Which structural governance model do you prefer from the four models discussed?



4. Survey themes

The following section reflects some of the views raised during various conversations. Direct quotations reflect a specific point made by an individual which we judged to be representative of views of a number of respondents. Comments not in quotations are our expression of views expressed by a significant number of respondents.

Key:

CC	County Council
Met	Metropolitan
LB	London Borough
TU	Trade Union

Standards

1. There was an almost unanimous view that there should not be a single model of LGPS governance imposed on all funds.
2. The view 'one size does not fit all' was frequently stated by respondents from all categories of respondent.
3. There was a strong view from respondents that members of pension committees should be mandated to have the same level of training as local pension board members.
4. A small minority expressed the view that this would lead to problems getting elected members to sit on pension committees.
5. The fact that pension committee members can change due to elections or being moved around can cause problems with consistency and maintaining knowledge and skills.

“It is a perversion that LPB members require a higher degree of training than elected members.”

Officer, LB

“[The] biggest issue is stability at elected member level. Too much turnover.”

Officer, LB

6. Several respondents said that guidance from several sources caused confusion as to which was current, which was relevant and what are 'musts' (mandatory) and 'shoulds' (guidance or best practice):

“Funds are currently pulled in too many directions by lots of guidance – CIPFA, SAB, TPA etc.”

Officer, CC

“[Guidance from numerous sources] muddies the waters between what is statutory guidance and what isn't.”

Independent Advisor

7. The idea of extending the existing concept of peer challenge to include pensions was mentioned by some respondents. (Committee Chair CC, s151 CC and officers Met)

Clarity of decision-making

1. Some respondents felt that there was already a clear framework around decision making within their authority but other reported that there was very little clarity around where key decisions were made.
2. Two funds suggested that it was unclear who was responsible for decisions around outsourcing the administration function; was it the pension committee, s151 officer, full council?
3. One fund reported it very difficult for the council's constitution to be updated - the updates required for pooling have still not been made.
4. Greater clarity around decision-making is a good idea: **"Some decision-making conventions are lost in the mists of time."**

Officer, CC



Consistency

1. Commentary on Models 1 and 2 recognised that some sort of monitoring, enforcement or independent review would be needed to ensure that the required standards and governance outcomes are delivered.
2. There was strong support for the professionalism of s151 officers and the role they play.
3. A few respondents noted that the work pressures on s151 officers is greater than ever before and worried about their scope to devote the necessary time to the fund.

"My s151 is incredibly supportive and helpful but I accept s151s at other funds are not as engaged or are engaged in the 'wrong way'".

Officer, CC

"Separation would actually push s151s away from the fund, leading to less responsibility and engagement with the fund, leading in turn to less expertise and worse decisions. Better to get s151s more closely involved so they understand the requirements of the LGPS and make better decisions."

Officer, CC

4. A number of respondents stated that "Statutory/ fiduciary duty clarity would be useful."



Conflicts

1. Most respondents felt that there was acknowledgement of the potential conflict faced by elected members and officers and that those potential conflicts were managed well.
2. However, it was not unusual for respondents to suggest that there needed to be better distinction between the employer and administering authority role.

“No one in the council understands the difference between the ‘council’ function and the ‘pension’ function.”

Officer, LB

“The make-up of panel/committees is not working – too much political interference.”

LPB Chair

On conflicts:

“I don’t see abuses. The ability is there for there to be abuse but it doesn’t happen.”

Officer, CC

“LGPS is full of conflict, s101 committees are beholden to the council who are mainly focused on council tax-payers.”

TU

3. Some pointed out that concentrating on conflicts missed some of the advantages of LGPS funds being part of local authorities.

“[This review] should address the many advantages and benefits of working for a large, well-run and modern council.

s151 CC

“[s151] role involves tensions, not conflicts. Tension can’t always be seen as a bad thing.”

Officers, Met

Budgets and resourcing

1. There was a range of approaches when it came to budget setting. In some instances, the budget available to the pension fund was determined as part of the wider council budget setting process with little or no input from pension officers and no role for the pension committee. Other funds reported that budget setting and in-year management of the budget was the responsibility of pension officers and that the local authority’s s151 was ‘kept informed’.

“It hadn’t occurred to me that the [pension] committee could get involved with budget setting. Guidance on that would be good.”

Officer, LB

“Potential problems include transparency in the AA of its costs. Recharges of time. Costs recovered by the AA via the PF.”

LPB Chair

2. There was also a split in terms of whether funds had the ability to set their own staffing or whether they were subject to recruitment freezes or downsizing exercises that apply to the main council.

“[There should be] resourcing such that there is the quality and competence to deliver their statutory duties”

s151, CC

One s151 expressed **“disbelief that blanket hiring bans and pay policies affected the pensions section. s151’s should be flexible enough to understand how to ‘spend’ resources. If they need to pay differently for pensions to get the right experience/quality.”**

s151, CC

When it comes to budgeting and workplans

“...the s101 committee decides including requests for extra resource if required.”

Chair of Committee. CC

Representation

1. Most respondents felt that there was a role for some sort of scheme member presence on pension committees, although there was a difference of opinion about whether this should be a voting role or an observer role. A number of funds suggested that the scheme member role should not be limited to trade union representative. All agreed that the majority representation must lie with the administering authority.

“Less than 50% of our members are in a union.”

s151, CC

“Representation is key – members must have a say”

TU

“Other employers reps and member reps should have voting rights [on the committee]. That’s right and should happen.”

Chair of Committee, CC

“We are warm towards the idea of an independent advisor/trustee who sits on committees.”

s151, CC

“We want to improve things for our members in terms of governance, transparency and representation.”

TU

2. There were strong views on both sides about the value that local pension boards bring. Some feeling that they increased bureaucracy without adding value while for others they had become a useful part of the fund’s governance arrangements.

“I welcome the involvement of the Pension Board it adds value, second opinion.”

Chair Committee, CC

One respondent believed that joint committee and local pension boards **“give scheme members and other employers a voice and avoids duplication.”**

s151, CC

“Many administering authorities see boards as threats rather than opportunities. There are still boards who are dictated to. Need administering authorities to release tight control.”

Chair of LPB

3. There were a range of practices in how funds engaged with employers:

“As s151 of a non-admin authority, I didn’t feel engaged in the pension fund, it was something that was dictated to me every few years.”

s151 speaking of their time in a non administering authority

“Employer liaison is tricky as your participating employers often don’t see it as a priority.”

s151, CC



5. Examples of current best practice

It was apparent during our conversations that many funds exhibited excellent examples of good governance but that practices across funds were not consistent. This section captures some of the examples of best practice that we identified.

Regular governance reviews

A number of funds confirmed that they use internal audit to provide assurance on administration and governance matters. Some reported an annual programme of work with different aspects of delivery being assessed each time.

Other funds had commissioned external governance reviews in order to receive an independent assessment of their current arrangements.

Committee membership and effectiveness

A large number of funds stated that they required pension committee members to attain the same level of knowledge and expertise as local pension board members. This was achieved through training policies which set out clearly how the fund will deliver training and assess its effectiveness.

One fund reported how members of the pension committee are required to sign a declaration stating that they will act in the interests of the fund and not be influenced by party political matters. One view is that councils should waive the requirement for political representation on committees to allow the most appropriate members to sit, rather than allocate places according to political party.

Most funds have some sort of scheme member representation on pension committees and a small number allow scheme member representatives to vote.

Independence

A number of funds reported that there was a clear understanding of, and separation between, the functions of the pension fund and the local authority which recognised the specialist nature of the LGPS. This was typically achieved through one or more of the following features:

- A dedicated Head of Pensions role which was at an appropriately senior level within the authority's structure.
- A recognition by elected members serving on the pension committee that, when carrying fund specific business, they were acting on behalf of scheme members and all of the employers in the fund, not simply their own local authority.
- Independent business planning and resourcing decisions made by pension fund officers and signed off by the pension committee and s151. This allows the pension fund to plan and resource appropriately to deliver its strategic objectives.
- Pension fund not subject to same recruitment freezes or restructuring exercises applied at a council level. Some funds reported using market supplements to attract appropriately skilled staff, where a strong business case could be made.

Focus on quality of service to scheme members

Some funds were prepared to 'go the extra mile' in terms of the quality of service delivered to scheme members. This might involve encouraging face-to-face interaction between pensions staff and scheme members (particularly when considering complex or emotive matters), producing a range of communications aimed at active, deferred and pensioner members or holding annual member meetings to raise awareness of current issues.

6. Proposals

The proposals we set out for consideration by SAB are informed by feedback from stakeholders. Many are things which well-run funds already do.

- **Table 1** shows the proposals in summary.
- **Table 2** sets out the rationale for each proposal and, if SAB agrees with proposals, suggested actions to implement.

Table 1: Summary of proposals

1	'Outcomes-based' approach to LGPS governance with minimum standards rather than a prescribed governance structure.
2	Critical features of the 'outcomes-based' model to include: <ol style="list-style-type: none"> Robust conflict management including clarity on roles and responsibilities for decision making. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget. Explanation of policy on employer and scheme member engagement and representation in governance. Regular independent review of governance - this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
3	Enhanced training requirements for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
4	Update relevant guidance and better sign-posting.

Table 2: Rationale for proposals and suggested actions

	Proposal	Why	Suggested actions
1	'Outcomes-based' approach to LGPS governance rather than a prescribed governance structure.	<p>We observe (and the survey evidences) that different administering authorities with the same governance structure can have different outcomes in terms of quality and standards of governance. All the governance models in the SAB survey can deliver good or bad governance outcomes. Focussing on the desirable traits and outcomes expected of LGPS governance will enhance governance in a more reliable and cost-effective manner than prescribed changes in structure.</p> <p>Further, we do not believe it is appropriate to impose a 'one size fits all' approach.</p>	<p>i. SAB should consult on:</p> <ul style="list-style-type: none"> • Desirable features and attributes of LGPS governance arrangements; • The outcomes governance arrangements should be expected to deliver; and • How each administering authority might evidence that its own governance model displays the required attributes. <p>ii. Once identified and agreed through consultation, the desirable features and expected outcomes should be set out in statutory MHCLG guidance (replacing the 2008 CLG guidance).</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2	<p>Critical features of the ‘outcomes-based’ model to include:</p> <ol style="list-style-type: none"> Robust conflict management. Assurance on sufficiency of administration resources (quantity and competency) and appropriate budget. Explanation of policy on employer and scheme member engagement and representation in governance. Regular independent review of governance. 	<p>The detailed specification of the desirable features and expected outcomes of an ‘outcomes-based’ model are beyond the scope of this project and should be determined in a second stage of work and through consultation.</p> <p>However, based on responses to the survey we propose a small number of critical elements to ensure this approach is effective. These proposals are shown below under 2(a) – (d).</p>	<p>SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).</p>
2a	<p>Robust conflict management.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> Published conflicts policy. Protocols for setting and managing budgets. Schemes of delegation. Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers. 	<p>Elected councillors and s151 officers have multiple competing statutory responsibilities, within their roles in the LGPS and in wider council responsibilities. High professional standards and experience help them to navigate. Additional measures specific to their LGPS duties can help reduce conflicts and perception of conflicts.</p> <p>Many administering authorities already have a conflicts policy or alternative arrangements to help reduce the risk of conflicts including, for example, schemes of delegation or well defined and documented roles and responsibilities.</p>	<p>SAB should consider making this a mandatory feature of any ‘outcomes-based’ governance model.</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2b	<p>Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.</p> <p>This will require a transparent approach to setting and managing budgets.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. <p>Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing policies such as recruitment freezes.</p>	<p>The administrative burden on the LGPS has increased significantly due to increasing complexity (pre- and post-Hutton benefits) and the massive growth in employer numbers.</p> <p>At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions.</p> <p>It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems.</p> <p>This aim must be supported by transparent processes for setting appropriate budgets.</p> <p>Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff.</p> <p>Many administering authorities already have pay and recruitment policies relevant to the needs of their pension functions rather than being tied to the general policies of the council.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>
2c	<p>Explain policy on employer and member engagement and representation in governance.</p> <p>At the current time, employer and member representation (with or without voting rights) should be encouraged but not compelled. Decisions on the approach to member representation should remain a local matter but administering authorities should explain their approach.</p>	<p>Most administering authorities have non-administering authority employer and scheme member representatives.</p> <p>Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations).</p> <p>In some cases, scheme member representatives have voting rights.</p> <p>»</p>	<p>SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
		<p>Many survey respondents support greater encouragement to include scheme member reps on s101 committees.</p> <p>However, administering authorities prefer some local flexibility on this, including how representatives are selected and whether they have voting rights. Importantly, administering authorities should retain majority voting representation because of the statutory responsibilities they bear.</p>	
2d	<p>Regular independent review of governance to assess effectiveness of administering authority's governance arrangements in the context of the desirable features and expected outcomes set out in guidance on an 'outcomes-based' model. This should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.</p> <p>Guidance should not prescribe the approach but could set out acceptable methods which may include:</p> <ul style="list-style-type: none"> i. Internal or external audit assessment; ii. Scrutiny by LPBs; iii. A peer review process. 	<p>It is important that any 'outcomes-based' approach is policed.</p> <p>Self-assessment is insufficient. Independent review is required for a more objective assessment.</p> <p>We discovered that some funds do this on a regular basis already using a variety of approaches including internal and external audit and other external experts and advisors.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>



Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
3	<p>Enhanced training requirements for s151s and s101 committee members. This is to include all s151 officers, not just those currently with administering authority responsibilities.</p>	<p>s151s: Current CIPFA training does not have specific pensions modules. CPD for those at or close to s151 level would be more effective and have impact sooner than changes to exam syllabus, although the latter would also have longer term benefit. Greater understanding of the LGPS amongst the wider s151 community may also reduce perception of conflicts.</p> <p>s101 committees: Currently the training requirements for Local Pension Board members (which are statutory) are more onerous than those for s101 committee members. Survey respondents felt this inconsistency was unacceptable and that s101 training should be on a par with LPB requirements.</p>	<ol style="list-style-type: none"> i. CIPFA to develop a CPD module for s151 practitioners in the LGPS. ii. SAB / MHCLG statutory guidance to require training for s101s to be on a par with members of Local Pension Boards.
4	<p>Update relevant guidance and provide better sign-posting.</p> <p>It would also be helpful to provide greater clarity to officers and elected members on their statutory and fiduciary obligations.</p> <p>As well as sign-posting, there should be clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice)</p>	<p>The main guidance relevant to governance includes:</p> <ol style="list-style-type: none"> i. CIPFA guidance for s151s in respect of LGPS responsibilities (2014); and ii. CLG's statutory guidance on governance of governance compliance statements (2008). <p>Both pre-date PSPA 2013, involvement of TPR in LGPS governance and investment pooling.</p> <p>Both must be updated.</p>	<ol style="list-style-type: none"> i. CIPFA to review and update guidance for s151s in respect of LGPS governance. ii. MHCLG to review and update statutory guidance on governance. In particular, this should put greater emphasis on non-investment aspects of governance such as administration. iii. SAB should consider commissioning legal input to give greater clarity on statutory and fiduciary responsibilities of s151 officers and s101 elected members. iv. SAB or MHCLG should provide greater clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice.)

Table 3: Other ideas considered but rejected or out of scope

	Proposal	Reason for non-recommendation
1	Separate s151 for pension fund.	<ul style="list-style-type: none"> • A benefit would be specific focus on LGPS matters and therefore greater depth of understanding. • However, this is unlikely to help reduce conflicts (the pension fund s151 still has fiduciary responsibility to local tax-payers and may report to council s151) and may not be practical for smaller funds with greater resource constraints.
2	Compulsory benchmarking.	<ul style="list-style-type: none"> • Concerns because benchmark data not like for like (e.g. same cost per member but different service); and (ii) risk this drives lowest common denominator results instead of innovation in service delivery • We recognise that benchmarking has a place and would welcome the development of more sophisticated forms of benchmarking that focus on the quality of the service delivered.
3	Legal separation of pension fund accounts.	<ul style="list-style-type: none"> • Requires change in primary legislation. • Pension fund accounts already separated, audited and shown in Pension Fund Annual Report (annual report is a statutory requirement). • It is unclear what additional benefit there is in legal separation of PF accounts from administering authority/council.
4	Mandating extension of audit to include an opinion on suitability of LGPS governance arrangements.	<ul style="list-style-type: none"> • Some funds commission an external (or internal) audit view voluntarily. • NAO has confirmed that this could only be mandated through legal separation of pension fund accounts (see above). • Concerns on some external auditors' lack of LGPS knowledge and lack of continuity due to changing personnel. • Preference to allow flexibility in approach to independent assessment of governance arrangements and their efficacy.
5	Removing s151 from decisions around admin budgeting due to conflicts.	<ul style="list-style-type: none"> • s151 has statutory responsibility.
6	Merger of funds to facilitate different governance models.	<ul style="list-style-type: none"> • Weakened link to local democratic accountability. • Outside of the scope of the project.



Table 4: Suggested follow up work beyond the scope of this report

	Suggested follow up work	Why
1	SAB to consult on detailed specification of desirable features and expected outcomes from an 'outcomes-based' model.	<ul style="list-style-type: none"> • Important to get buy-in and support for the practical details of an 'outcomes-based' governance model.
2	CIPFA and MHCLG to update existing guidance.	<ul style="list-style-type: none"> • Existing guidance is out of date.
3	Commission legal work to provide greater clarity on statutory versus fiduciary obligations (s151 and s101 committee members).	<ul style="list-style-type: none"> • Statutory responsibilities take precedence. • Currently unclear.
4	SAB to consider a 'Good Administration' review.	<ul style="list-style-type: none"> • Survey respondents expressed interest in some work to set out what good administration looks like, examples of current best practice, good approaches to meeting the needs of scheme members and employers, and greater clarity on what standards will be required to satisfy TPR. • This will help administering authorities to be clear what standards they must achieve in order to provide 'assurance' that administration resources are sufficient in quantity and competency, identify any gaps and determine what practical steps they might take to address those gaps.
5	SAB to consider a review of the role of Pension Boards in LGPS.	<ul style="list-style-type: none"> • Very mixed reports on the role and success in working with Pension Boards in the LGPS.



Table 5: 'Outcomes-based' model - concept illustration

	Outcome: examples	How to demonstrate that your governance model complies: examples
1	Robust conflict management.	<ul style="list-style-type: none"> • Conflicts policy. • Scheme of delegation or decision matrix setting out who makes what decisions. • Transparent process for approving budgets. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.
2	Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.	<ul style="list-style-type: none"> • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. • Process for setting administration budget. • Policies in respect of recruitment and market supplements to attract and retain staff.
3	Explain policy on employer and member engagement and representation in governance.	<ul style="list-style-type: none"> • Set out approach to employer and member engagement e.g. communication plan, AGM, employer liaison and support. • Set out approach to participation of non-administering authority employers in governance of fund e.g. representatives of academies, admitted bodies, FE, charity sector, etc. • Set out approach participation of scheme members in governance (e.g. observers, voting members, how selected, etc.) and rationale for approach.
4	Regular independent assessment of governance arrangements.	<p>State method e.g.</p> <ul style="list-style-type: none"> • Internal or external audit assessment; or • Scrutiny by Local Pension Board; or • External expert / consultant; or • Peer review process. <p>Describe scope and approach e.g.</p> <ul style="list-style-type: none"> • Reviewing policies, meeting minutes. • Reviewing committee efficacy in decision-making, etc.

Appendix A

Scheme Advisory Board: Good Governance Survey

The following pages replicate the online Good Governance survey on governance models for the LGPS. The survey closed on 31 May 2019.

Introduction

The Scheme Advisory Board has commissioned Hymans Robertson to review LGPS governance structures and practices. This survey is part of a key part of the project and we are keen to collect views from as wide a range of stakeholders as possible. Further details on the scope and background to the project can be found on the SAB website.

To help inform this survey and the options for governance change presented for feedback, views were sought from a representative range of LGPS stakeholders (including pension fund officers, section 151 officers, trade unions and other advisors) in order to understand the issues and challenges that the current LGPS governance arrangements present.

Examples of issues cited by respondents included:

- **Clarity:** There is sometimes lack of clarity over roles and responsibilities.
- **Conflicts:** A number of stakeholders raised the issue of perceived conflicts of interest between the fund and the council, in particular for the section 151 of the administering authority given his or her responsibilities for the financial management of other council functions. It was suggested these could manifest themselves in terms of the strategic decisions taken by the fund in respect of funding (contribution rate decisions) and investment or in respect of allocating resource to the pension fund.
- **Consistency:** It is widely recognised that there are many examples of good practice within the LGPS and that section 151s and pension funds manage these conflicts well. However, it was noted that this good practice largely relies on the professionalism and good will of individuals and the ethos of the authority. There is very little regulation or guidance that would safeguard the situation if such high standards were absent.
- **Representation:** The issue of appropriate representation was raised, in particular for non-administering authorities. Some respondents suggested that there could be improvements in the way administering authorities engage with the other employers in the fund on administration resourcing as well as funding, contributions and investment matters.
- **Standards:** It was also noted that LGPS funds evidence varying levels of compliance with the standards for administration, funding and investment set out in statutory legislation, relevant guidance and the TPR Code of Practice 14.
- **Miscellaneous:** Other issues raised included lack of continuity in committee members; shortage of in-house skills, expertise and subject matter knowledge in investment and funding; and restrictions on recruitment and pay policy for the pensions function.

Please use the box below to provide details of any additional issues which you believe the Board should address as part of this exercise.

Comment box provided.



The criteria

Based on the issues raised by stakeholders, the Board has agreed 6 criteria which will be used to assess any proposed changes to LGPS governance arrangements.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

Please use the box below to provide details of any additional criteria which you believe the Board should consider as part of this exercise.

Comment box provided.



Governance models in this survey

The Scheme Advisory Board would like to hear your views on four governance models set out below.

Option 1 – Improved practice: Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 – Greater ring fencing of the LGPS within existing structures: Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 – Joint Committee (JC): Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - New local authority body – an alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

It is recognised that a one size fits all approach may not be appropriate.

Final recommendations by SAB could be variations on the models described here, taking account of your feedback. Any regulation changes needed will be fully assessed before SAB makes final recommendations. We have not provided detailed costing of each of the models presented in the survey. The cost of implementation would in any case vary across different funds, but, generally, the effort and cost to implement increases as we move from Option 1 to Option 4. Detailed costing of any recommendations emerging from this exercise would be undertaken prior to implementation.

In the next section we set out a brief description of each of the options along with the opportunity for you to provide your views on how well each option compares against the agreed criteria.

For brevity the option descriptions have been included on the next two pages, followed by the response form (which was identical for all four options).



Option 1 - Improved practice

Features

- SAB guidance on minimum expected levels of staffing and resourcing;
- SAB guidance on representation on pension committees and expected levels of training for those on pension committees and officers with an LGPS role. Additional guidance could also be considered on the best practice for pension boards.
- Legal clarification on the fiduciary and statutory duties of key individuals within LGPS funds.
- LGPS regulations set out enhanced process for consulting on FSS and ISS to ensure greater voice for the full range of employers in the fund.

Option 2 - Greater ring fencing of the LGPS within existing structures

Features

- The pension fund budget is set at the start of the financial year with reference to its own business plan and service needs.
- Any charges to the fund in respect of support services provided by the host authority, for example legal support, HR and procurement is included in the budget up front.
- Pension fund related expenditure then comes directly from the fund. This removes the common practice whereby pension fund expenditure is paid through the host authority's revenue account to be recharged at a later date.
- The section 151 of the administering authority would retain responsibility for the pensions function but recommendations on budget (including administration resources required to meet TPR standards) would be made by a pension fund officer to the pensions committee which would be responsible for agreeing the budget. (Alternatively, the pension fund could have a separate s151 officer to reduce conflicts currently faced by s151s.*)
- The pension committee would be responsible for agreeing the budget as well as approving any changes to that budget during the financial year.
- The cost of staffing would be met through the fund including any additional costs such as market supplements or redundancy strain.
- Changes to the Audit and Accounting Regulations 2015 could be considered to make the fund accounts legally separate and subject to a separate audit.

In addition to the budget related aspects outlined above further steps could be taken which would give funds greater autonomy over employment policies. The model is analogous to the fund being treated as an internal business unit of the council.

- Staff will continue to be employed by the host council but polices over certain HR matters such as recruitment and the payment of market supplements will be delegated to the pension committee.
- Decisions over other matters pertinent to the fund, for example investment in new administration technology, would also lie with the pension committee.
- Decisions around the structure of the pension function would be for the fund's management team to make with the approval of the pension committee.*

* Further consideration is required as to whether these practices could simply be encouraged by regulatory bodies or whether it is possible and/or desirable to find a mechanism by which these could be mandated.



Option 3 - Use of new structures: Joint Committees (JC)

Features

- The scheme manager function and all LGPS decision making, which currently sits with the administering authority, would be delegated to a section 102 JC. The committee would comprise all the local authorities who currently participate in the fund as employers.
- Consideration could be given to the representation of other employers and scheme members on the JC.
- Assets and liabilities still sit with the existing administering authority.
- Employment of staff and contractual issues dealt with through a lead authority or a wholly owned company. This could be codified within an Inter Authority Agreement (IAA).
- The IAA would stipulate that the budget will be agreed by the JC. s151s of the constituent local authority employers retain a fiduciary duty to the local taxpayer but the IAA would distance them legally from budget setting responsibilities in respect of the pensions function.

Option 4 - New local authority body

Features

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

This might be through a combined authority route or through a public body established by statute.

- The new body must retain a strong link to democratic accountability.
- Employment of staff and contractual issues dealt with by the new body.
- Assets and liabilities transferred to the new body.
- Separate accounts based on CIPFA guidance.
- Funded by an element of the contribution rate and by a levy on constituent authorities.
- Officers in the new body are responsible only for the delivery of the LGPS function.



Please use the voting buttons to indicate to what extent moving from existing arrangements to Option (1, 2, 3 or 4) would achieve each of the criteria.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.	Strongly disagree 1 2 3 4 5 Strongly agree
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).	Strongly disagree 1 2 3 4 5 Strongly agree
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).	Strongly disagree 1 2 3 4 5 Strongly agree
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.	Strongly disagree 1 2 3 4 5 Strongly agree
Consistency	The model minimises dependence on professionalism and relationships to deliver statutory responsibilities.	Strongly disagree 1 2 3 4 5 Strongly agree
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.	Strongly disagree 1 2 3 4 5 Strongly agree

Please provide any comments you may have regarding Option 1/2/3/4 in the box below.

Comment box provided.

Finally, respondents were asked:

Are there any alternative governance structures not covered between Option 1 – Option 4 which you believe the Board should consider?

Comment box provided.

Appendix B

Abbreviations

Abbreviations

ALATS	The Association of Local Authorities' Treasurers Societies
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
CPD	Continuous Professional Development
FE	Further Education
JC	Joint Committee formed under s102 of the Local Government Act 1972
LA	Local Authority
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
PF	Pension Fund
PIRC	Pensions and Investment Research Consultants Ltd
PLSA	Pension and Lifetime Savings Association
PSPA 2013	Public Service Pensions Act 2013
PSAA	Public Sector Audit Appointments
s101	A committee established under s101 of the Local Government Act 1972
s151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board for the Local Government Pension Scheme in England and Wales
SCT	Society of County Treasurers
SLT	Society of London Treasurers
SWT	Society of Welsh Treasurers
TPR	The Pensions Regulator



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