



City of Westminster

Pension Board

Date: 27 November 2019

Classification: General Release

Title: Governance of the Local Government Pension Scheme – Good Governance Report

Wards Affected: None

Policy Context: Effective control over council activities

Financial Summary: There are no immediate financial implications arising from this report.

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1. Executive Summary

- 1.1 The purpose of this report is to present the Local Government Pension Scheme (LGPS) Good Governance Report which was commissioned by the LGPS Scheme Advisory Board (SAB).

2. Recommendations

- 2.1 The Pension Board is recommended to consider the contents of this report.

3 Background

- 3.1 The LGPS SAB is established under the Public Service Pensions Act 2013 to advise the Secretary of State for Ministry of Housing, Communities and Local Government (MHCLG) on the development of the Local Government Pension Scheme (LGPS). Recently, the SAB has been looking at arrangements and structures of the LGPS funds with a view to identifying if any improvements can be made to the governance process.
- 3.2 In February 2019, the SAB commissioned Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The study considered how best to accommodate LGPS functions within the

democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately.

- 3.3 Fund officers contributed to the consultation survey in support of governance improvements, whilst outlining that the costs of setting up separate entities could be considerable, particularly in the light of recent pooling implementation costs that have also been borne by the Fund.
- 3.4 It is the SAB's aim that the LGPS will remain appropriately resourced and able to deliver its statutory functions.
- 3.5 At the end of July 2019 the Hymans Robertson report was published by the SAB.

4 Phase I: Good Governance in the LGPS Report.

- 4.1 The report considered four governance models based on various criteria, including standards, consistency, conflict management, clarity of roles and responsibility, and cost. This report can be found at Appendix 1.
- 4.2 The four models were:

Model 1: Improved Practices

This model would seek to modify the existing LGPS regulation and introduce additional guidance that would improve the independence of the management of the fund.

Model 2: Greater Ringfencing

Model 2 would put a greater distance between the Fund and administering authority when compared with Model 1. The budgeting process, resourcing the Fund and discretionary pay policies would be examples of areas of responsibility that would be considered independently from one another, with independent management structures in place.

Model 3: A Joint Committee

A Joint Committee model would see a separate committee set up that would have responsibility for LGPS functions. The committee would comprise of representatives from both the host administering authority and the non-administering authorities in the Fund.

Model 4: New Local Authority

The introduction of a democratically accountable entity that would be subject to the provisions of the Local Government Act 1972.

5 The Phase II Report

- 5.1 The Scheme Advisory Board commissioned Hymans Robertson to assist in taking forward the next stage of the good governance project. Two working groups were established, one to focus on defining standards and outcomes including the guidance needed to clearly set them out, and the other to focus on options for compliance and improvement in the delivery of those outcomes.
- 5.2 Workstream 1 (standards and outcomes) looked at improvements and proposals in the following areas:
- General guidance
 - Conflicts of interest
 - Representation
 - Skills and training
 - Service Delivery
- 5.3 Workstream 2 solely concentrated on the compliance regime and independent assessment of the new framework. To ensure standards are adhered to, authorities would need to ensure governance arrangements are frequently reviewed externally.
- 5.4 The outcome of this work is a list of 17 recommendations that can be found on page 12 of Appendix B. These recommendations will form the basis for Phase III of the project.
- 5.5 These recommendations are closest aligned with Model 1 at 4.2, in that no new entities are proposed, the focus of the recommendations are very much to build and improve the existing LGPS structures.

6 Next Steps Phase III

- 6.1 Phase III of the review will focus on four key areas:
- 6.1.1 MHCLG will be required to draft the required changes to their guidance following the recommendations in the Phase II report.
- 6.1.2 The SAB to engage with the LGPS National Framework to establish an independent governance review provider.
- 6.1.3 The SAB to establish a set of performance indicators to measure LGPS funds standards of service.
- 6.1.4 How to identify and address non compliance by funds and the improvement plan and procedures necessary to address the areas for improvement.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Good Governance in the LGPS, Hymans Robertson

Appendix 2: Phase 2 Report