London Borough of Hillingdon Pension Fund

Pensions Committee meeting – 26 September 2023

Introduction

Over recent years, the Local Government Pension Scheme and London Borough of Hillingdon Pension Fund ('the Fund') have faced increasing standards and scrutiny on governance partly as a result of The Pensions Regulator beginning to oversee the LGPS and the introduction of local pension boards in 2015. These increasing standards and scrutiny are expected to continue with changes to The Pensions Regulator's new general (single) code of practice, increased reporting requirements outlined in the recent government consultation on investment pooling and the Scheme Advisory Board's Good Governance recommendations expected to be incorporated into legislation and/or guidance.

The Fund's overall objective is to be compliant with legislation, guidance and codes of practice. There remains some uncertainty of new requirements but despite this, the Fund wants to progress governance matters (where possible and practical), because it is in the interests of members and employers. Making progress now should ensure the Fund is able to demonstrate compliance earlier than would otherwise be the case.

Draft priorities for governance reviews over the coming months are outlined in this paper. They are based on the new (expected) requirements taking into account the current issues facing the Fund.

Feedback on these draft priorities was sought from the Local Pension Board at their meeting in July 2023.

Scheme Advisory Board's Good Governance Review

The LGPS Scheme Advisory Board concluded its Good Governance review in 2021. The review looked at governance improvements within the current structure (i.e. with local councils administering the LGPS). The recommendations are summarised in the table below.

Good Governance Recommendations	Proposed priorities for the Fund
A General	
A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").	Officers should ensure the Fund's annual report incorporates areas described by the review (e.g. meeting attendance, training). **Priority – MEDIUM**
A.3 Each administering authority must publish an annual governance compliance statement (GCS) that sets out how they comply with the governance requirements for LGPS funds, as per statutory Guidance. This statement must be co-signed by the LGPS senior officer and S151.	Otherwise, wait until more information is available.
A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund ("the LGPS senior officer").	Committee should consider resourcing, officer responsibilities and delegations for the Fund (including the role of LGPS senior officer). **Priority - HIGH**
B Conflicts of Interest	
B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.	The Fund already has a Conflicts of Interest policy. Await legislation and/or guidance before reviewing policy.
B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.	In the meantime, put in place training for Committee and Board on potential conflicts of interest incorporating the specific conflicts mentioned in the review. **Priority – MEDIUM**
C Representation	
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.	Discuss representation of scheme members and non-administering authority employers, and voting rights, in the Fund's governance. (This could be combined with a review of The Pensions Regulator's code of practice on Equality, Diversity and Inclusion review – see below). **Priority MEDIUM** Await legislation and/or guidance before drafting policy.
D Skills and Training	
D.1 Introduce a requirement via the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.	The Fund has a Training Policy. Review delivery of training policy – review and develop (where necessary) induction material, training plans, knowledge assessments, record keeping, reporting. **Priority – HIGH**
D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.	

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Good Governance Recommendations	Proposed priorities for the Fund
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.	Review how key officers are covered by training policy. **Priority – HIGH** Review Training Policy in light of Good Governance recommendations more broadly and any changes to guidance. (See also link to TPR Code of Practice later). **Priority – MEDIUM**
D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.	Await progress.
E – Service Delivery for LGPS	
E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution, and be consistent with role descriptions and business processes.	Review documentation of roles/responsibilities relating to the Fund (also considering LGPS Senior Officer recommendation above). **Priority – HIGH**
E.2 Each administering authority must publish an administration strategy.	The Fund has an Administration Strategy. Await legislation and/or guidance before reviewing policy.
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.	Await clarity on common set of indicators. Ensure third party administrator is engaged in this work to ensure they are capable of delivering. **Priority – MEDIUM**
E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.	Pensions Committee approves the Fund's budget. The Fund should develop a business plan, to be approved by Committee, to ensure objectives and priorities are agreed, and the resource and budget is adequate. **Priority – HIGH**
F Compliance and Improvement	
F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.	Monitor status. (Preparatory work on governance should ensure the Fund's governance continues to improve).
F.2 LGA to consider establishing a peer review process for LGPS Funds.	

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The Pensions Regulator

The General Code

Since 2015, The Pensions Regulator has had responsibility for regulating governance and administration of the LGPS. It issues Codes of Practice to outline its expectations of how pensions schemes should be managed. Codes of Practice are not statement of law but if the regulator takes enforcement action against a fund/scheme, it will point to aspects of the codes to highlight shortcomings.

Code of Practice 14 (Governance and administration of public service pension scheme) is currently the main code which applies to the LGPS.

In the spring of 2021, The Pensions Regulator consulted on the draft content for the first phase of a new code of practice which will replace 10 existing codes including the current Code of Practice 14. The new code (expected to be called the 'General Code') will apply to both public and private pension schemes despite various responses to the consultation requesting separate code(s) for the LGPS/public schemes.

As the draft Code uses the term 'governing body' to apply to different types of pension scheme in both the private and public sector, it is currently unclear what this means for LGPS funds. The draft code defined this body as 'scheme manager <u>and</u> pension board' which could lead to confusion and/or duplication because the role of the pension board is to 'assist'. It is hoped the final version will provide clarity on this matter.

The 51 modules of the draft code are listed in the appendix to this document. The Pensions Regulator recognised that some modules would not be applicable to the LGPS but others would be classed as 'best practice'. However, in its response to the consultation the LGPS Scheme Advisory Board also challenged the applicability of other modules. As local government legislation applies to the scheme manager (i.e. the Council) it could be that some modules of the Code are applicable only to the Pension Board and not the Pensions Committee. Again, it is hoped the final version will provide clarity on this matter.

The timing of introduction of the General Code is also uncertain. It is understood the code is ready to be implemented but needs to be laid in parliament for 40 days.

The appendix shows the modules of the draft code and recommends priorities for governance reviews for the Fund focussing on those where:
- There is little uncertainty on whether the module(s) are applicable,
- Modules which are new, or specific, for the LGPS.

Equality, Diversity and Inclusion (EDI)

The Pensions Regulator has published guidance for pension scheme governing bodies and employers with the aim of improving equality, diversity and inclusion and

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hence improving governance. The guidance covers both private and public schemes, including both the Pensions Committee and Local Pension Board.

The Fund should review the guidance and consider potential areas for improvement. It will be important to recognise the small size of the Fund. **Priority – MEDIUM**

Recommended Priorities for Governance Reviews

The proposed areas for governance reviews over the coming months are outlined below. These priorities should be reviewed when there is news of changes to legislation/guidance and when The Pensions Regulator's General Code of Practice becomes available.

High priority
- Develop a Business Plan for the Fund for the Committee to agree objectives consistent with resource and budget.
- Review delivery of the Fund's training policy – review and develop (where necessary) induction material, training plans, assessments, record keeping and reporting. (This is particularly relevant given the recent changes to the Committee membership.) Incorporate into the training plan:
    o Potential conflicts of interest;
    o Reporting to The Pensions Regulator;
    o Governance of training for senior officers;
    o Any relevant findings from and internal audit reviews.
- Committee to consider resourcing and LGPS senior officer and ensure delegations are documented appropriately.
- Review the Fund's approach to investment monitoring recognising the significant investments managed by London CIV, changes in the roles of advisers and the new contract with the investment consultant.
- Cyber Security. This continues to be a key risk for the Fund, despite significant work having been done in this area. Review The Pensions Regulator's new requirements and seek additional assurances from the third-party providers and the Council as necessary.

Medium priority
- Include reporting as recommended by the Good Governance review in the Fund's annual report.
- Review Equality, Diversity and Inclusion including representation of scheme members and non-administering authority employers, and voting rights, in the Fund's governance.
- Review Training Policy considering Good Governance recommendations and the regulator's general code.
- Review Communications and Disclosures requirements from the General Code.
- Ensure third party administrator is engaged in consideration of the pensions administration requirements of the regulator's code and is capable of complying.

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Next Steps

Following discussion with the Pensions Committee, work will progress on the high priority areas and a more detailed timetable for the governance reviews will be produced. Progress will be reported to the Pensions Committee and Local Pension Board on a regular basis.

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July 2023

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Appendix – Modules of The Pensions Regulator's <u>Draft</u> General Code of Practice

	Module Title	Applicable to LGPS? [1]	Recommended Priorities
Governing body	Role of governing body		LOW – wait for clarity on applicability
	Recruiting to the governing body	?	
	Member nominated trustee appointments	N/A	
	Role of the chair	?	
	Meetings and decision-making	?	
	Remuneration policy	?	
	Working knowledge of pensions	?	HIGH
	Governance of knowledge and understanding	N/A	
	Building and maintaining knowledge		
	Value for members	N/A	LOW – wait for clarity on applicability
	Managing advisers and service providers	?	
	Identifying and assessing risks.		MEDIUM
	Managing risk using internal controls		
	Assurance of governance and internal controls		
	Continuity planning		
	Conflicts of interest	?	
	Own risk assessment	N/A	
	Scheme governance	?	
Funding & Investment	Investment governance	?	LOW – although be cognisant of principles when reviewing investment monitoring
	Investment decision making	N/A	
	Implementation report	N/A	
	Investment monitoring	?	
	Stewardship	N/A	
	Climate change	N/A	
	Statement of Investment Principles	N/A	
	Default arrangements and charge restrictions	N/A	

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	Module Title	Applicable to LGPS? [1]	Recommended Priorities
Administration	Administration		Cyber HIGH Other Administration modules. Engage with third party administrator. MEDIUM
	Financial transactions		
	Transfers		
	Scheme records		
	Data monitoring		
	Maintenance of IT systems		
	Cyber controls		
	Receiving contributions		
	Monitoring contributions		
	Resolving overdue contributions		
Communications & Disclosure	General principles for member communications		MEDIUM Engage with third party administrator where applicable.
	Statutory financial statements (DC)	N/A	
	Statutory financial statements (DB)	N/A	
	Statutory financial statements (Public Sector Pension Schemes)		
	Retirement risk warnings and guidance	N/A	
	Short service refunds / refunds of contributions		
	Chair's statement	N/A	
	Scams		
	Publishing information about public service pension schemes		
	Audit requirements	N/A	
	Dispute resolution procedures		
Reporting to The Pensions Regulator	Registrable information and scheme returns		MEDIUM – include in training for Committee
	Who must report		
	Decision to report		
	How to report		

[1] As per DRAFT Code of Practice

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Further Information

Good Governance report and recommendations from Scheme Advisory Board.
https://lgpsboard.org/index.php/good-governance
including various appendices:

- Appendix 1 – Senior officer organisational structures
- Appendix 2 – New areas to be included in the Fund's Governance Compliance Statement
- Appendix 3 – Key Performance Indicators for annual report
- Appendix 4 – Independent Governance Review
- Separate annex report with summary of action points

The Pensions Regulator

Code of Practice 14
https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice

Consultation on new General Code
https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice

Guidance on Equality, Diversity & Inclusion
https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2023-press-releases/guidance-launched-to-help-improve-pension-schemes-equality-diversity-and-inclusion

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