Oxfordshire Pension Fund: Governance Update

Overview

This paper covers the governance of the Oxfordshire Pension Fund, including :

1   The Scheme Advisory Board's Good Governance review – providing the context for that project and how it relates to the Fund's participation in the National Knowledge assessment (NKA)

2   Committee and Pension Board's participation in the LGPS National Knowledge Assessment – background and key findings

3   Suggested next steps, including Committee training plan and governance review

1. Scheme Advisory Board – Good Governance review

In January 2019 the LGPS Scheme Advisory Board ("SAB") commissioned Hymans Robertson to assist in delivering a review of governance across the LGPS. This review was termed the 'Good Governance' project.

This review recognised the Pension Regulator's ("TPR") push to increase governance and administration standards in pension schemes, including public service pension schemes, for which it has oversight responsibility.

TPR's sustained push to increase governance standards at LGPS funds can be traced through its:

- Code of Practice 14 document – which sets out the expectations, roles and responsibilities of the officers, decision makers (Committee) and Pension Board as regards to governance and administration standards

- 21st Century Trustee campaign – launched in summer 2019 and designed to raise the standards of those responsible for pension schemes

- 2018/2019 'deep dive' into 10 LGPS funds – 10 funds of varying sizes were chosen and assessed based on the main components of the Code of Practice 14.

The purpose of the SAB Good Governance review was to examine existing governance arrangements and consider ways in which gaps could be identified and addressed, good practice shared more widely, and greater transparency provided.

The SAB was clear that only recommendations that retained a link with local democratic accountability were to be considered.

Following Hymans Robertson's review, proposals were set out in 6 main areas (see **Appendix 1** for detail and proposals relating to the below areas):

- General;

- Conflicts of Interest;

- Representation;

- Knowledge, understanding and training;

- Service delivery for the LGPS function; and

- Compliance and Improvement

Some of the key recommendations set out in the review included:

- Each LGPS fund must have a single named officer who would be responsible for all LGPS related activity for their Fund;

- Each fund must produce a conflicts of interest policy;

- A requirement 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

- Administering authorities to publish a policy setting out their approach to the delivery, assessment and recording of training

- Each administering authority reporting the fund's performance against an agreed set of indicators designed to measure standards of service

Key for the development of the National Knowledge Assessment are the **Knowledge and Understanding** recommendations within the Good Governance report. Within that section are recommendations that Pension Committees hold a similar level of knowledge to that of the Local Pension Board. The report stated that "*while there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees*". It then continues by stating "*the Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees*".

The Good Governance report states that training should be provided in a "*supportive environment*" and "*members will not be required to undertake a test, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge*".

It was on the basis of the governance standards expected by TPR and specifically the SAB Good Governance review, that Oxfordshire Pension Fund made the decision to take part in the NKA.

2. Oxfordshire Pension Fund – LGPS National Knowledge Assessment (NKA) results
The full Oxfordshire Pension Fund NKA results report can be found within **Appendix 2**

Hymans Robertson completed an initial insight into Committee and Pension Board knowledge and understanding level with the 2018 National Confidence assessment ("NCA"). That assessment's objective was to gain an understanding of the **confidence** Committee and Pension Board members felt on the 8 topics of the CIPFA knowledge and skills framework:

- Committee Role and Pensions Legislation

- Pensions Governance

- Pensions Administration

- Pensions Accounting and Audit Standards

- Procurement and Relationship Management

- Investment Performance and Risk Management

- Financial Markets and Product Knowledge

- Actuarial Methods, Standards and Practices

The NCA highlighted a relatively strong level of confidence across the 8 topics from participant funds (over 40 LGPS funds took part).

Following the NCA, the next step was to assess the knowledge and understanding levels of the Committee and Pension Board. To provide greater insight, funds would also be benchmarked on their results, giving participating funds a further metric to gauge the knowledge levels of both of the groups and as a collective. This was to be completed as a National Knowledge Assessment (NKA).

The NKA assessed Committee and Pension Board members over the same 8 areas as the NCA via an online multiple-choice assessment.

The Oxfordshire Pension Fund Committee and Pension Board took part in this assessment through March to May 2020.

The key findings for the Oxfordshire Pension Fund are:

- As a combined group (Committee and Board participants) the Fund average scores ranked within the middle of participating funds

- Regrettably the Committee ranked 18th out of 18 funds' Committee results

- More encouragingly the Board ranked 3rd out of 18 funds' Boards results

- Committee results highlight particularly low scores on the areas of "Actuarial Methods, Standards and Practices" and "Committee Role and Pension Legislation".

- As a combined group, engagement level was high (ranking 3rd out of 18). However, though 100% of Board members participated, only 55% of Committee members participated

- The Fund's NKA participants identified the following topics as suggested areas for training

    - Impact of the 'McCloud' ruling

    - Environmental, Social and Governance; and

    - Best Practice Pension Administration.

3. Suggested next steps - Committee training plans and governance review
Following the results of the NKA and with the expectation placed on LGPS funds from TPR and the Good Governance project, we have suggested two key next steps:

A. Training plan

B. Governance review

A. Training plan
The objective of the training plan will be to bridge current knowledge gaps to meet the expectations of the various regulatory and guidance requirements.

To achieve this objective, the Fund will aim for strong compliance with the CIPFA Knowledge and Skills Framework and the Pension Regulator Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the SAB and The Pensions Regulator.

The delivery of this accompanying Training Plan will be the responsibility of Fund officers. However, each individual with a requirement to attain knowledge and skills under this plan has a personal responsibility to ensure they meet the required standards and must fully engage with the process.

Committee members will be supported with their knowledge and understanding requirements via:

- training sessions (expected to take place prior to formal meetings);

- access to targeted online training modules (for completion in own time over quarter); and

- being provided topical and relevant information papers.

Members should also be given the option to seek additional training via external courses such as those provided by the Local Government Association.

Fund officers will confirm the best delivery mechanism for training subjects and increasing members knowledge and understanding.

When considering training for members of the Pension Committee it is recognised that individuals may have different learning styles. The Fund should seek, where possible, to ensure flexibility in the manner in which training is provided to support these different learning styles.

The proposed Committee training plan will cover the period to 31 March 2022. Topics have been selected on the basis of the lowest scoring results of the NKA and on the training topics requested from participants. The proposed training plan for the Committee is detailed below. Please note that training topics are subject to change depending on the relevance to Fund business and LGPS topical issues.

Q4 2020	• The impact of COVID-19 on the Fund (Assets, Funding and Administration) • Good Governance Project update • The impact of "McCloud" ruling
Q1 2021	• Environmental, Social and Governance issues • Government Actuary's Department, Section 13 • Actuarial methods, standards and practices – covering general actuarial issues
2021/22	• Procurement and Relationship Management • Best practice Pension Administration • Climate change risk • The Role of the Committee and Pensions Legislation • Pension Governance • Valuation training sessions – purpose, role, outcomes etc. This has been timed to coincide with the 2022 Actuarial Valuations.

(Pension Board Members will also be invited to join any training event)

B. Governance review

Alongside the training plan, we would suggest conducting a governance review. This review would assess the current levels of strength and uncover any areas of weakness within the Funds existing governance framework, comparing that evidence against known best practice arrangements. The review will also give consideration of the;

- themes and ideas emerging from the Scheme Advisory Board's Good Governance Review;

- requirements and expectations of the Pensions Regulator with regard to good governance; and

- LGPS Regulations and the Public Service Pensions Act 2013.

The proposal is that the review would include;

- Interviewing the Chairs of the Committee and Local Pension Board plus senior officers.

- Remote observation of a Committee and Local Pension Board meeting.

- Production of an effectiveness survey to be completed by members of the Committee and Local Pension Board.

- A review of the Fund's effectiveness against the requirements of TPR's Code of Practice 14 (or any replacement thereof) and other relevant codes.

- A review of the Fund's policies, agendas and committee agendas.

The finding of the review will report back to the Committee and Board by making recommendations in respect of;

- Areas where the Fund falls short of current best practice

- Areas where the Fund is ahead of current best practice

- Resource and / or skill deficits in relation to any of the above

- Areas where the Fund will have to make changes in order to meet requirements arising from the Good Governance Review

We will also provide a statement setting out our assessment of the overall effectiveness of the Fund's governance arrangements.

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For and on behalf of Hymans Robertson LLP

Appendix 1

Recommendations of the Scheme Advisory Board's Good Governance Review

Area	Proposal
A. General	**A.1** MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	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").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
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.
	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.
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.
D. Knowledge and understanding	**D.1** Introduce a requirement in 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.
	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.
	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.
	D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E. Service Delivery for the LGPS Function	**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.
	E.2 Each administering authority must publish an administration strategy.
	E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	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.
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.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.