

## Leicestershire County Council Pension Fund ('the Fund')

### Review of Governance

#### Introduction

This Review of Governance is a high-level assessment of where the Fund stands in relation to regulatory requirements in respect of the Local Government Pension Scheme (LGPS), the expectations of The Pensions Regulator and the themes emerging from the Scheme Advisory Board's Good Governance review.

This report provides high-level recommendations based on:

- Council governance documentation relating to the Fund;
- The Terms of Reference of the Local Pension Board. (The operations of the Local Pension Board have been excluded from this review.);
- The Fund's 2019 Governance Compliance Statement;
- General observations of the Fund's practices including Committee meetings and information on the Fund's website;
- Discussions with officers.

Further, more detailed operational, matters have been raised with officers.

At the time of writing, more detailed reviews of the management of conflicts of interest, training and service planning is being planned.

## 1 GOVERNANCE STRUCTURE

### 1.1 Remit of Local Pensions Committee

The Constitution of the Council says the functions delegated to the Local Pensions Committee shall be those related to the "maintenance of the Leicestershire Pension Fund". The Terms of Reference for the Pension Fund Management Board (understood to be the predecessor of the Local Pensions Committee) are dated 2012. The Terms of Reference should be updated and reviewed to ensure they cover all aspects of the Fund. A draft set of responsibilities is provided in Appendix 1.

Currently the approval of the Pension Fund Accounts is the responsibility of the Council's Constitution Committee and the Corporate Governance Committee has responsibility for internal and external audit. These are essential parts of the controls and risk management for the Fund. It is recommended that the Committee raises this with the Council to ensure these documents are routinely considered by the Local Pensions Committee to ensure it has visibility of all the issues facing the Fund.

Additionally, it is recommended that the Council's Constitution or the Committee Terms of Reference sets out who makes decisions in relation to LGPS Central, who represents the

Council at the Joint Committee of LGPS Central and which Committee should receive updates on the company. The Fund should be alert to its dual role as ‘shareholder’ of LGPS Central and ‘client’ as an investor in LGPS Central’s investment products.

### **1.2 Name of Local Pensions Committee**

The name of the Committee is the ‘Local Pensions Committee’. In the LGPS industry, ‘Local’ is used for Pension Boards. The common name in the industry is the ‘Pensions Committee’. (This is not a significant matter but may avoid potential confusion by those less familiar with the LGPS and/or the Fund).

### **1.3 Local Pension Board**

The Terms of Reference of the Local Pension Board say is not a Committee of the Authority. This is consistent with the recent advice from the Scheme Advisory Board. However, this is contradicted in the Fund’s Administration and Communications Policy and the 2019 Governance Compliance Statement. Documentation should be reviewed to ensure consistency and clarity.

Currently the Administration and Communications Strategy is approved by the Local Pension Board. The Board’s role is to assist in the management of the Fund and this is particularly relevant and important in relation to the administration service. However, as the Board is not a Committee of the Authority and does not have decision making responsibilities, it is recommended that the Local Pensions Committee formally approve this strategy after consultation with the Local Pension Board. (The draft responsibilities for Committee in Appendix 1 include all policies for the Fund).

Similarly, the Local Pensions Committee should also have oversight of the pension administration service, albeit the Pension Board could undertake scrutiny in more detail and more frequently.

It is understood that the employee representatives on the Local Pension Board currently produce a report for the Fund’s Annual General Meeting. It is recommended that the Local Pension Board collectively produces an annual report to demonstrate that the Board is ‘assisting in securing compliance with regulations’. This is common practice in the LGPS and public sector pensions industry. The report should highlight the Board’s activities over the financial year (including meetings, membership, attendance, the work of the Board over the year, future plans and training including how it complies with the Fund’s training policy). The report should be considered by the Pensions Committee. The report could also be included in the Fund’s annual report and accounts, and on the Fund’s website.

The Pensions Regulator code 14 refers for the requirement for the Local Pension Board to have “the right balance of skills and experience... to operate effectively”. Too much change in membership can make it difficult to gain the knowledge on the LGPS. However, it is good practice for boards to ensure there is turnover of membership to bring fresh perspectives and some Local Pension Boards include a maximum tenure for membership. It is also good practice for boards to periodically review their effectiveness. It is recommended that the

Board considers how it ensures the right balance of skills and experience. The Board should also review its effectiveness on an ongoing basis.

## 2 INVESTMENT GOVERNANCE

The investment arrangements of the Fund are complex – the Fund has a large number of investment managers, particularly compared to other LGPS funds. The Committee’s papers include reports from its investment managers and as a result, papers are very long (papers often include more than 400 pages and this has increased to over 800 pages in September 2020). Arguably, there is insufficient time in the Committee meetings to cover the investment issues in any meaningful detail.

Investment reports for Committee largely cover past performance. A clearer distinction between performance and other issues (investment strategy and managers) would be helpful. Performance, while interesting, is historic. Although the Fund should learn from historic medium/long term performance, decisions of the Committee and Investment Subcommittee (ISC) should be focused on future performance, which means looking at broader issues affecting investment managers including business, people, philosophy, process and risk are far more important.

The Council’s Constitution outlines the functions delegated to the Investment Subcommittee:

- (a) to monitor the performance of investment managers, particularly those whose performance is causing concern.
- (b) To assist in the selection of investment managers.
- (c) To determine the timing of changes in asset allocation, within the Investment Strategy agreed by the Local Pension Committee.
- (d) To consider changes to the portfolio size of investment managers.
- (e) To determine the management of the ‘opportunity pool’.
- (f) To undertake any other duties as requested by the Local Pension Committee.

However, the ISC typically meets only when changes decisions on investment arrangements are needed.

The governance arrangements of the investments have been changing over recent years as assets are being managed by, or under advisory mandates with, LGPS Central. Given the timescales for LGPS Central to develop products and the illiquid nature of some assets, it is likely that some investments will continue to be held outside of the pool for several years. Therefore, it is important for the monitoring of different portfolios to reflect the different governance arrangements in place, especially during the transition period.

- For the assets under Central’s advice, the Fund should oversee Central’s monitoring of the investment managers and the activity/added-value which they provide.
- For the assets which are neither pooled or under Central’s advice, the business, people, philosophy, process and risks for each mandate should be monitored and reported on to Committee. This is particularly important for the liquid assets including Kames index-linked gilts, the currency hedge and JPM credit and open-ended infrastructure funds. Whilst the options available for private market investments (equity, debt, infrastructure and timber) are narrower, monitoring

remains important as decisions may be required during their lifetimes (such as extending terms or secondary sales), but also for Committee and officers to learn from the investments and inform future decision making.

The recommendation is for the Fund to review the way in which it oversees its investments (including its investment managers) to ensure the appropriate level of scrutiny and an effective use of governance time. For example, options might include:

- There could be a clearer distinction between the pooled assets, assets under Central advice and other assets, to highlight the different governance arrangements and the different considerations needed by Committee;
- Review the frequency of consideration of different aspects of the portfolio, for example, quarterly reporting for pooled assets may not be necessary or different meetings could focus on different asset classes to allow more time to delve into greater detail with presentation(s) from manager(s)/Central (as appropriate);
- For the assets which are neither pooled or under Central's advice, more detailed consideration of investment managers' business, people, philosophy, responsible investment, process and risk, particularly for higher-risk, liquid assets. Summaries could be provided to Committee/ISC;
- Other investment manager reports and/or ISC papers could be made available to Committee members on a central database, rather than including them (all) in Committee papers. Providing summaries of ISC meetings for Committee could reduce the volume of papers required at Committee;
- More detailed investment scrutiny could be undertaken by Investment Sub-Committee (ISC), with more regular meetings.

The Fund utilises an external performance measurement service independent of the investment managers. It is recommended that:

- Performance records should be backdated to provide long-term analysis for the total fund and by asset class (ideally for at least 10 years) to provide information on volatility of asset class and investment managers' performance; and
- Inclusion of net new money for each asset class/investment manager is added to the report. This should help Committee oversee the efficient implementation of investment strategy.

### **3 SCHEME ADVISORY BOARD - GOOD GOVERNANCE REVIEW**

The Committee will be aware that the Scheme Advisor Board for the LGPS in England and Wales has been undertaking a review of governance practices and areas for improvement over recent years. The recommendations were published in November 2019. The next stage of the review to draft statutory guidance on governance compliance statements and establishing key performance indicators is underway, although it is understood that it is delayed due to the pandemic.

There are several aspects to the Good Governance review which the Fund will need to consider.

One key consideration for the Fund will be the requirement for a single named officer 'who is responsible for the delivery of all LGPS related activity for that fund ('the LGPS Senior Officer')'. Overall, the LGPS Senior Officer should be an individual with the appropriate technical and leadership skills to provide overall direction for the LGPS function and should be of sufficient seniority to represent the fund at a corporate leadership level. They should be someone with a strategic view of the fund but also be close enough to all aspects of the fund's business to ensure that no areas are overlooked. Specific considerations highlighted in the Good Governance report are:

- The LGPS Senior Officer may be the Section 151 officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume the role;
- Assigned through the Authority's scheme of delegation and constitution;
- Signs off the annual governance statement (with the Section 151 officer if that is a different person);
- Management of conflicts of interest (e.g. cross charging, setting employer contribution rates, local investment decisions);
- Requirement for officer training (Section 151 will also be required to undertake training, potentially new module from CIPFA or other professional bodies); and
- Must be satisfied with the resource and budget allocated to the LGPS service.

The Council as Administering Authority for the Fund should consider the appointment of 'the LGPS Senior Officer' once the details of the new requirement are available.

The Fund will need to make further changes as the Scheme Advisory Board implements other aspects of the Good Governance Review including new policies and/or enhancements to existing policies and practices. Specific areas requiring new policies or changes are:

- Governance Compliance Statement;
- Conflicts of Interest Policy;
- Policy on representation;
- Training Policy;
- Administration & Communications Strategy;
- Service delivery including performance standards and reporting.

The Fund may wish to delay such changes until new regulations and/or guidance are issued

The Scheme Advisory Board also highlights that the "Administering Authority must give proper consideration to the pay and recruitment policies relevant to the needs of the pension fund... and ...should not simply apply general council staffing policies to the pension function". It is recommended that the Committee ensures the relevant areas of the Council are made aware of this. (It is understood that the restrictions on recruitment recently implemented by the Council have not been applied to pension fund staffing).

#### 4 OPERATIONAL MATTERS

It is recommended that a document outlining all regular items for Committee/ISC/Board agendas, and the required frequency, is developed. It should cover all the areas in the respective terms of reference, including the strategies/policies. Such a document would enhance planning and could be tabled at meetings to provide clarity to members and stakeholders.

Consideration should be given to the following amendments to the Committee's business:

- Updates on the progress being against the business plan and budget, including the award of contracts;
- An annual (rather than triennial) check on the Investment Strategy Statement, after the annual investment strategy review;
- Pension administration performance;
- Employers in the Fund (new employers and exits) and associated risk management;
- Benchmarking of the Fund against peers e.g. investment, pension administration service.
- Annual report from the Local Pension Board.

Further, it is recommended there is an open invitation for the chair of the Committee to observe the Board's meetings, and vice-versa.

I look forward to discussing these recommendations with the Committee and Local Pension Board.

**Clare Scott,  
 Independent Adviser  
 October 2020**

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## Appendix 1 - Draft Responsibilities for the (Local) Pensions Committee

- a) exercise all functions of the pension fund within the terms of the legislation;
- b) determine the overall policy objectives of the pension fund in accordance with the best interests of fund members and employers and within all applicable legislation;
- c) determine the strategy for the investment of the pension fund;
- d) ensure appropriate investment management arrangements are in place for pension funds monies including pooling of investments;
- e) functions relating to LGPS Central;
- f) establish and maintain arrangements for the effective management and administration of the pension funds including staffing and budgetary arrangements;
- g) approve the allocation of resources to the pension fund for the operation and administration of the pension funds from the assets of the pension funds in accordance with the applicable pension regulations;
- h) approve responses to consultations relevant to the pension fund issued by government and other bodies; and
- i) monitor overall performance of the pension funds in the delivery of services and financial performance, consider all matters in respect of the pension funds including:
  - approving the pension fund annual report and accounts;
  - approving strategies and policies;
  - setting standards for service delivery;
  - securing best value in the provision of services ;
  - ensuring appraisal of the control environment and framework of internal controls in respect of the Fund to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations;
  - ensuring an appropriate risk management strategy and risk management procedures;
  - promoting, monitoring and developing continuous improvement.

## Appendix 2 - Summary of Recommendations

Recommendation	Priority	Anticipated Ease of Implementation
<b>Governance Structure</b>		
Committee Terms of Reference should be updated	High	Medium
Ensure the Fund's accounts and audits are routinely considered by the Local Pensions Committee to ensure it has visibility of all the issues facing the Fund	High	Medium
Document who makes decisions in relation to LGPS Central, who represents the Council at the Joint Committee of LGPS Central and which Committee should receive updates on the company	High	Low
Rename the 'Local Pensions Committee' the 'Pensions Committee'	Low	Low
<b>Local Pension Board</b>		
Ensure clarity of the responsibility of the Local Pensions Board in the Governance Compliance Statement and the Administration and Communications Policy	High	Low
Pensions Committee to approve the Administration and Communications Strategy	Medium	Low
Pensions Committee to oversee pension administration performance	Medium	Low
Local Pension Board collectively produces an Annual Report	Medium	Low
Local Pension Board considers how it ensures the right balance of skills and experience, and reviews its effectiveness on an ongoing basis	Low	Medium
<b>Investments</b>		
Review the way the Fund oversees its investments to ensure the appropriate level of scrutiny and an effective use of governance time	High	Medium/High
Add longer-term performance and net new money to external investment performance reporting	Medium	Medium
<b>Scheme Advisory Board – Good Governance Review</b>		
Appointment of the 'LGPS Senior Officer' (when details of new requirement are available)	High	TBC
The relevant areas of the Council should be aware of the need to consider policies relevant to the needs of the pension fund and should not simply apply general Council staffing policies to the pension function	High	Medium

Recommendation	Priority	Anticipated Ease of Implementation
<b>Operational Matters</b>		
Agenda planning document	Medium	Low
Introduce to the Committee's business: <ul style="list-style-type: none"> <li>- Progress on business plan</li> <li>- Annual ISS review</li> <li>- Pension administration performance</li> <li>- Employer changes and risk management</li> <li>- Service and cost Benchmarking</li> <li>- Local Pension Board's Annual Report.</li> </ul>	Low Medium Medium High Medium Medium	Low Low Low Medium Potentially High Low
Introduce an open invitation for the chair of the Committee to observe the Board's meetings	Low	Low
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