

Not since the introduction of Local Pension Boards in 2015 has the topic of governance received such attention across the Local Government Pension Scheme (LGPS). Rightly so. At a time when LGPS funds are faced with ongoing uncertainty through McCloud and the Cost Cap process, and dealing with ever-growing numbers of scheme employers who participate in an increasingly complex scheme, achieving good governance is a fundamental part of ensuring the effective running of all LGPS funds. Appropriate scrutiny through the relatively new and growing relationship with the Pensions Regulator (TPR) is helping drive forward improvements. Last month, TPR published its findings from its engagement with ten LGPS funds. Here we consider some key findings alongside other ongoing activity in the governance space including the Scheme Advisory Board's recently published Good Governance report and looking ahead to expected future developments with TPR's Codes of Practice.

TPR engagement report

To read TPR's engagement report in full please visit [TPR's website](#). The report isn't a comprehensive evaluation of a selection of funds' operations; nonetheless it's a very helpful insight into TPR's view of the LGPS. The report states that there were several common areas which require attention and improvement as well as others which showed good practice in action.

They focused on nine risk areas: record keeping, internal controls, administrators, member communications, internal dispute resolution procedure, pension boards, employers and contributions, cyber security and internal fraud and false claims. From October 2018 to July 2019, TPR engaged with ten funds to understand these areas and the challenges facing LGPS funds. The instigator for this action was the slowdown in improvements that emerged in the findings from TPR's Annual Governance and Administration survey published in 2018.

Acknowledgment of variety

Much like the findings of the Scheme Advisory Board's (SAB'S) Good Governance report which identified a "range of different set ups", there is an acknowledgement by TPR that not all LGPS funds are the same. This acknowledgement of variety is helpful as it can be overlooked or oversimplified based on characteristics such as size or location. The range of funds also differ by their level of

separation from the host authority and with that their level of autonomy to run the fund, the shape of their staffing structure, and the available resources and budget. Acknowledging the differences that exist across funds is an important starting point when considering how to improve governance and administration, as TPR acknowledges there are a "variety of equally valid approaches to mitigating risks across the LGPS".

Separation and Independence

Reference to 'separation' in TPR's report and emphasis on independence in the SAB's Good Governance report mean it is worth reflecting on what appears to be emerging in these recent publications.

TPR emphasises the importance of each fund not over relying on its host authority for policies and procedures. Having fund policies is important and TPR sees a strong role for Local Pension Boards in this area. Findings in the SAB's Good Governance report outlined that a number of funds had a "clear understanding of the separation" between the Fund and the host authority.

To achieve good governance, it's important to have clear **direction** through clear strategies and policies, as well as having a clear plan for **delivery** of those strategies and policies with good business planning, risk management and performance monitoring to ensure effective and efficient delivery. Furthermore, being able to make the right

decisions by having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is key. Allowing funds independence in these areas to ensure good governance and outcomes for all scheme stakeholders is now acknowledged to be essential for 21st Century fund management.

Data and record keeping

TPR has been very clear about its expectation for quality data across all public service pension schemes. This includes requirements for data improvement plans to address any concerns regarding data quality and the requirement of formal reporting on the quality of scheme data to TPR. Now is also the time to incorporate any queries highlighted by the actuarial valuation into data improvement plans.

TPR indicates that good quality data and record-keeping standards "underpin all aspects" of the successful running of an LGPS fund and go on to indicate it should be "treated as a priority in order to drive good outcomes". It also recognises that a comprehensive pensions administration strategy is useful for scheme managers. We would recommend ensuring that administering authorities have a robust approach to measuring the performance of the fund and its employers in the areas outlined in their pensions administration strategy, enabling easier identification of areas needing improvement.

Risks including cyber security

Scheme managers must establish and operate internal controls. TPR has raised concerns around where the 'operation' of those controls could be improved. They outline the need for pension board oversight and ensuring all processes are documented and avoiding overreliance on one person's knowledge levels in this area. They also emphasise the need for regular review, recognising that risks to funds are always evolving. For example it is interesting to see TPR findings that "better resourced and funded scheme managers will carry out detailed covenant assessments of all participating employers" demonstrating an integrated approach to risk management.

They also call out scammers in particular and have, more widely, been emphasising the need for scheme managers to fully understand the risks to the fund of cybercrime. As data controllers, administering authorities are ultimately responsible for what happens to fund data and assets and should be asking questions to understand their fund's exposure to cyber risks. What are the fund's vulnerabilities? What testing of applications, networks and suppliers has the fund undertaken? How would the fund respond to a cyber-attack? If any of the answers to the above questions are unsatisfactory or if you need help with understanding the implications of the answers (or just even understanding the answers), Aon has cybercrime experts who can support administering authorities with identifying potential mitigation and risk transfer actions that meet your fund's needs and risk appetite.

Working in partnership in the future

These findings offer an important insight into the views of the Regulator. As we would expect there are positive aspects of good practice reported and an acknowledgement by TPR that many LGPS funds want to provide the best experience for scheme members. However, areas for improvements are highlighted and administering authorities should seek to assess their activity against the findings to ensure any areas for improvement are addressed.

The Regulator's recommendation to work together is to be commended. It indicates "where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards". The sector has a positive and enviable history of collaborative working and TPR has recognised this as being positive for improvements to governance standards - something to hold firm as the sector drives forward improvements based on the findings from recent reports.

Collaborative working is likely to assist in areas emerging over the coming months including:

- TPR work towards a new singular modular approach for their Codes of Practice, due from April 2020. Code of Practice number 14 is

expected to be merged with other TPR codes and a consultation is expected on any changes later in 2019.

- Implementing the findings from the Scheme Advisory Board's two working groups that are currently taking forward the Good Governance report recommendations. One group is focussing on defining good governance outcomes and the second group is considering the options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. The SAB is expected to consider this further at their meeting in November 2019.

The attention and activity around LGPS governance looks likely to remain high for many months to come. Please get in touch if you would like to discuss any of the areas above further.

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