



# PENSIONS BOARD

## 19 April 2023

### SECOND DESPATCH

Please find enclosed the following item:

**Item 1** Governance training - presentation

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18 April 2023



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**Local Government Pension Scheme  
Pension Board Governance Training  
Islington Constitution Review 2023  
MO Recommendations**

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Agenda Item B1

# LGPS Pension Board - Background

- Initially brought in to improve governance arrangements of all pension funds including private sector and defined contribution schemes.
- Established under the **Public Services Pensions Act 2013**.
- R 106(1) of the Regulations specifies that each Administering Authority shall establish its own Local Pension Board with responsibility for assisting the Administering Authority to secure compliance with:
  - The Regulations.
  - Other legislation relating to the governance and administration of the LGPS.
  - The requirements imposed by the Regulator in relation to the LGPS.
  - To ensure the effective and efficient governance and administration of the LGPS.

# Pension Fund Committee – Overview of Responsibilities

- Oversees the administration of the Pension Fund.
- Sets the investment policy with appropriate professional advice.
- Appointment and review of fund managers and associated professional service providers.
- Review investment and administration performance.
- Approves the Annual Report and Statement of Accounts and any other policies of the Fund (including Funding Strategy Statement, Investment Strategy Statement and Pensions Discretions Policies).
- All other duties in relation to the Council in its role as administering authority for the London Borough of Islington Pension Fund

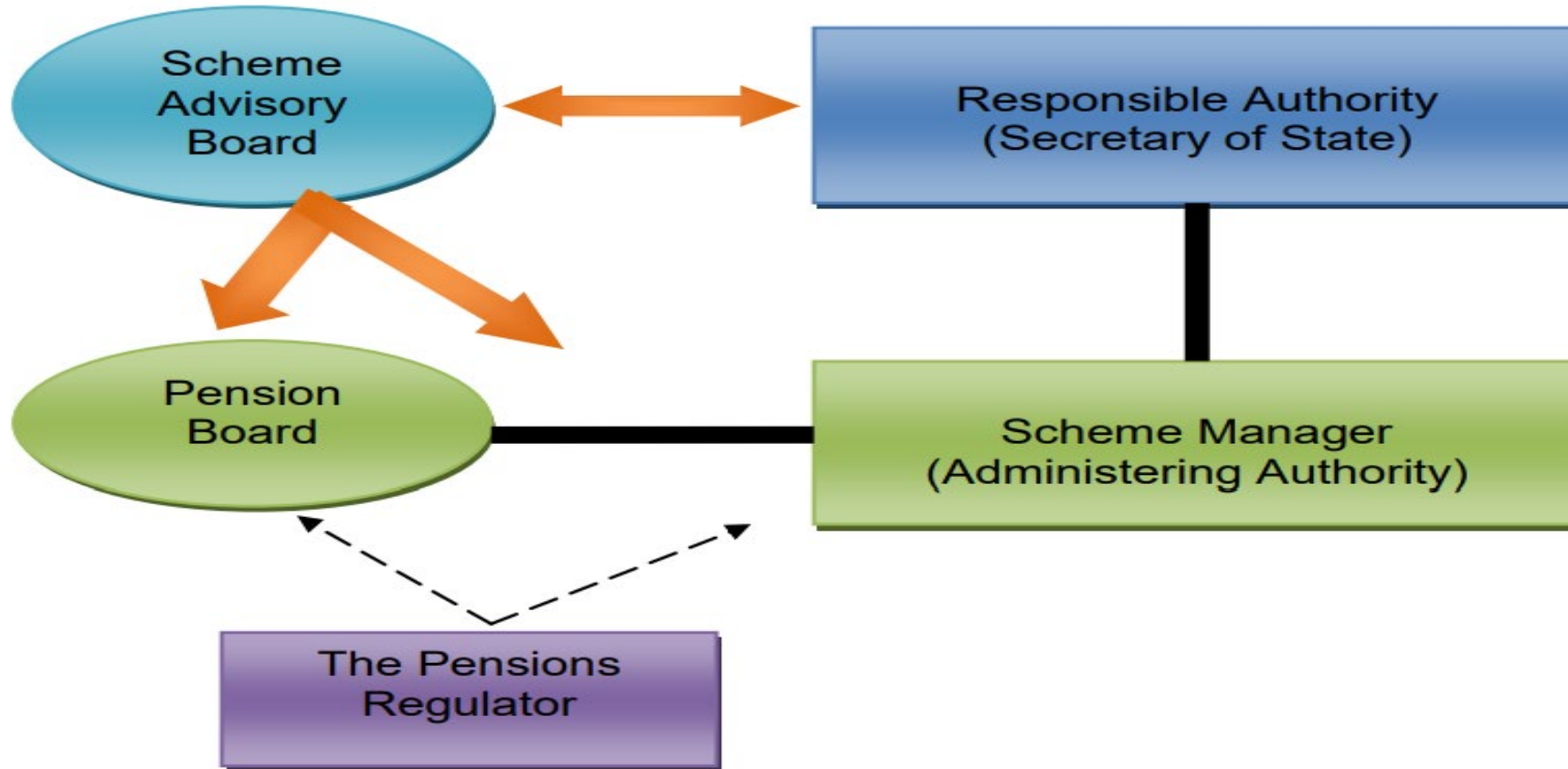
# LGPS Pension Board – Overview of Responsibilities

- Acts as a critical friend (scrutiny and oversight).
- Provides critique of decisions made by the Pension Fund Committee to ensure proper process.
- Assists with compliance, e.g., the Pensions Regulator's requirements.
- Reviews administration standards.
- Reviews published policies for compliance.
- under regulation 106(8) of The Local Government Pension Scheme Regulations 2013, “A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.”

# LGPS Governance Framework

## Post April 2015 LGPS Governance Structure

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# LGPS Pension Board – Knowledge and Skills

- The Legal requirements of the regulations below are that every individual who is a member of a Pension Board **must**:

## **6.1.1 be conversant with:**

- 6.1.1.1 the rules of the LGPS, in other words the Regulations and other regulations governing the LGPS (including the Transitional Regulations, earlier regulations and the Investment Regulations);
- 6.1.1.2 any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund, and

## **6.1.2 have knowledge and understanding of:**

- 6.1.2.1 the law relating to pensions; and
- 6.1.2.2 such other matters as may be prescribed.



# LGPS Pension Board – Governance in Practice

- It is recommended under the statutory guidance that the Pension Board uses the Pension fund Committee meeting cycle as a basis for its own meetings.
- The Board should plan the dates of its meetings accordingly in relation to the Pension Fund Committee, to optimise the performance of its scrutiny role.
- The Board should ensure the meetings held are sufficient to meet its statutory obligations
- The Board should consider all areas of decision making for scrutiny

# LGPS Pension Board – Membership

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- Requirement is a minimum of four members, equal number of employee and employer representatives.
- No members or officers with responsibility for discharge of any function under the LGPS regulations permitted.
- The size and complexity of the fund should be considered when deciding numbers (LBI has 6 members)
- Must be nominated through an open and transparent process
- Members must have **capacity** to represent the employers / employees, including appropriate time, knowledge and skills.
- A chair may be appointed by the employer and member representatives from amongst their own number or on a rotating basis with term shared equally. The authority may alternatively appoint an independent chair.

# LGPS Pension Board – Terms of Reference

- The statutory guidance to support the regulations specify a minimum of 21 different considerations for inclusion in the terms of reference.
- Some key areas below:
  - Voting rights
  - Conflict of interest
  - Organisation, number and time of meetings
  - Roles of officers and Advisors
  - Attendance requirements
  - Budget
  - Knowledge and understanding
  - Reporting (including Pension Board annual report)

# LGPS Pension Board – knowledge and skills in practice

- Capacity extends to capacity to attend training and commit time to self learning
- The Adminstrating Authority should provide regular training for Members
- Board Members may also supplement training from external sources (LGA training, collaborative LGPS training events, conferences)
- Personalised training plans can be used to target training and the Board's needs.
- Records should be kept of all training with a named officers responsible
- The rules require members to be conversant – they do not need to be experts !

# Islington Pensions Sub-Committee –Governance Issues 1

- The Audit Committee under its terms of reference has responsibility for establishing a Pensions Sub-Committee (PSC). However, the PSC membership is separate from the Audit Committee, not a derivation of its membership as required under the Local Government Act 1972 .
- There is no mechanism to ensure that members of the Audit Committee and the Pension Sub-Committee are selected on relevant pension fund expertise. The process of appointment is undefined in the Council Constitution or Terms or Reference for the Audit Committee. The current terms of reference states: “No special requirements apply to the composition of the Pensions Sub-Committee”

# Islington Pensions Sub-Committee –Governance Issues 2

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- The membership of the PSC is composed of four elected members and has a quorum of just two, that does not require either the Chair or Vice chair in attendance. There are two named substitute members.
- This is a very small Committee given the scale and significance of the investment and decisions that are made. 5 or 7 would be a better number
- Although there is no single model in operation across the over 80 LGPS Fund authorities in England and Wales, most Funds are managed by a formal Committee appointed by the full Council. This Committee is usually called the Pension(s) Committee or sometimes the Pension Fund Committee.

# Islington Pension Sub Committee – Governance Issues 3

- The PSC Terms of Reference are very short - 7 bullet points. A comprehensive list of requirements should be listed to ensure the Sub-Committee are aware of their full remit and include a requirement for members to carry out formal training.

## Monitoring Officer Recommendations

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- The Pensions Sub-Committee should be separated from the Audit Committee and established as a separate sovereign committee of up to 7 members .
- The ToR should be revised to state a comprehensive list of duties that the Committee is responsible for including responsibility for administration of the scheme not just investments.

# Islington Pension Board – Governance Issues 1

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- The LBI Pension Board composition is currently 3 employer representatives, 3 member representatives and 1 independent member. The Constitution provides that all members of the Board shall be appointed by full Council or its Audit Committee which shall also appoint a chair from among the members of the Board.
- This practice is unusual, as the Pension Board should be responsible for electing its own chair. It is normal practice for the chairmanship to rotate annually from employer to member representatives. Paragraph 5.38 of the Statutory Local Government Pension Scheme(LGPS) Guidance on the creation and operation of Local Pension Boards in England and Wales advises this .

2.



# Islington Pension Board – Governance Issues 2

- Members of the Pension Board are required, under the LGPS scheme regulations 2013, to have “capacity” to represent members and employers of the scheme. Statutory Guidance interprets this as a requirement to ensure that **the knowledge and skills of the membership are appropriate** to effectively scrutinise the Pension Committee decisions.
- This is expanded in section 6 of the statutory guidance which makes it clear this is a legal requirement. It is also suggested that Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.

# Islington Pension Board – Governance Issues 3

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- The Pension Board ToR are too brief and do not capture all the elements sufficiently from paragraphs 5.35 of the Statutory Guidance.
- Pension Board meetings have been scheduled to meet before the PSC meetings at 6pm, with the PSC meetings taking place at 7pm. There are some logistical advantages to this, but it gives insufficient time to scrutinise all elements of Pension Fund administration and investment activity.
- Pension Board does not receive investment reports for review at its meetings, only on administration and governance. The Pension Board also approves the annual report. This is not specifically in the ToR and is usually reserved for the relevant Pension Fund Committee to approve at similar administering authorities.

# Pension Board – Governance Issues 4

- Unusually, under the current ToR, the PSC is responsible for investments and polices of the Fund and not administration and governance. These are reserved for the Pension Board .
- This creates a dynamic where the Pension Board is not scrutinising all the work of the Pensions Sub-Committee contrary to Statutory Guidance.
- Paragraph 3.28 : “The role of the Local Pension Board should be interpreted as covering all aspects of governance and administration of the LGPS, including funding and investments”.

# Monitoring Officer Recommendations

- Pensions Board should elect its own Chair, and this should rotate between members and employers subject to capability.
- Pensions Board members should attend mandatory training sessions which should be listed in the ToR .
- Pensions Board ToR should be revised to reflect the full requirements of the Statutory Guidance and to make it clear the Board has a scrutiny function, supporting the Sub-Committee / Administering Authority in its decision-making processes, but not making decisions in its own right.
- Pensions Board should meet after the Pension Fund Committee to scrutinise decisions taken. Pensions Board should allow for a minimum of two hours to properly scrutinise matters.
- Pensions Board should formally receive reports on all aspects of the Pension Fund including investments.

# Questions and Discussion

- Thank you for listening

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