

Good Governance Working Group

Purpose

This paper is to update the SAB on the work of the Good Governance Working Group. The SAB will recall that it received a presentation at its November 2022 meeting from Susan Black (Hymans) on findings from the England and Wales (E&W) SAB Good Governance Project report and how these findings could be related to Scottish Funds.

A number of recommendations from E&W were presented and it was agreed that a working group of SAB advisers should convene to consider these, with a view to leveraging what has been done in E&W which could be of benefit in Scotland.

Recommendation

The SAB is asked to consider the Working Group's conclusions set out in this paper and to offer views on next steps to take forward in this area.

Working Group Conclusions

The Working Group met twice, firstly receiving the presentation from Hymans, with some more detailed discussion than had been the case at the November SAB. The report and the presentation can be found [here](#). This was followed by a line by line review of the E&W report, with a view taken on each of the recommendations as set out below.

A.1 Should it be statutory guidance? It was noted that DHLUC are currently consulting on whether to introduce statutory guidance for E&W therefore it would make sense to await the outcome of this.

In the meantime any guidance for Scotland should work on the presumption of producing best practice.

It was however noted that the Pensions Regulator has a strong interest in this area and that there may inevitably be a need to consider any requirements arising.

If guidance is non-statutory then there is a question of how the SAB can ensure this is being acted on.

A.2 Single named officer for each Fund. The Group concluded there is a clear benefit in having clarity on who is responsible for the Fund activities and that this could be looked at further on what would be most appropriate for Scottish Funds.

A3 Each Fund to publish an Annual Governance Statement. There was a view that existing compliance statements already sets out Fund governance, however these are outdated as they pre-date the 2015 Pension legislation.

Item 8

It was also noted that governance statements are separate from LA accounts (unlike E&W), however there is an Audit Scotland recommendation that these should be combined.

The counter-argument is that the Fund lead authorities all have internal auditors who sign off on both governance statement and LA accounts.

The Group concluded there needs to be a consideration if there is further work to do, eg update governance statements post 2015, however it may be better to look again in light of regulations in E&W to introduce statutory guidance.

B1 and B2 Conflicts of interest. It was acknowledged that there is a link between lead LA being the administering authority and also being the employer. However the Group concluded that this is already well covered in Scotland and is about fiduciary duty. The SAB previously issued guidance on fiduciary duty and an option could be to emphasise use of this in Pension Committees.

It was noted that the E&W recommendations refer to pooling which is not currently relevant to Scotland.

The group felt it would be helpful to get sight of an E&W example (Hymans would look one out) and to come back on this.

C.1 - Publish policy on representation. The Group commented that current governance/ compliance statements refer to representation but don't explain the rationale for approaches adopted.

It was felt therefore that a short rationale could be helpful, rather than detail just setting out an approach.

It was noted that Pension Committees and Boards meet at the same time and this allows for discussion on issues around representation.

D.1 – 4 Knowledge and understanding. The Group concluded that Funds will already have training plans which may be consistent, given the small number of funds and that there is a professional network to offer support (based on CIPFA guidance).

However it may worth seeing what Funds do by way of training plans/ training they are undertaking and policies adopted across the Funds. Also to see how transparent this is and whether people are engaging in training events etc.

E.1 – 4 Publish roles and responsibilities. The Group concluded that existing governance and strategy publications would set roles and responsibilities out but are not mandatory and could be enhanced.

It was however noted that this and much of the other conclusions relate to the experience of larger funds.

Item 8

There remains a question therefore of whether this is similar across all of the Funds including the smaller ones.

It may therefore be worth checking across the Funds how they feel they meet the recommendations around governance and strategy.

F.1 Independent review. The Group concluded that peer review already happens across Scottish Funds and that Pension Boards and Committees are already reviewing compliance and that there are strong existing checks and balances. The idea of a mandatory review was felt by the Group to be a cause for discomfort.

It was felt therefore that it would be preferable to see how this develops in E&W.

Next Steps

The Group's overall conclusion is that, having reviewed in detail the recommendations of the E&W report on Good Governance, current practice in Scotland does not feel out of step and that there is strong merit in waiting to see what comes out of the consultation and regulations in E&W.

Alongside this the SAB could issue the report to all Funds, along with the conclusions in this paper, to highlight whether there are potential for unintended consequences and, likewise, any good ideas emerging which merit further exploration outside of the regulatory developments in E&W.

Specifically the SAB could ask funds to provide an indication of what their governance arrangements are currently.

Any communication from the SAB on this could also encourage Funds to make sure that their governance is working properly, in light of the E&W report recommendations. This could include for instance whether funds have capacity to support Pension Board members effectively.