



Governance Effectiveness Review – Summary Version

Essex Pension Fund

Prepared for: Pension Strategy Board, Essex Pension Fund
Prepared by: Karen McWilliam, Independent Governance and Administration
Adviser | Mary Lambe, Senior Benefits and Governance
Consultant, Aon Solutions Limited UK
Date: 24 June 2021

Approach, conclusions and recommendations



Introduction

As the Independent Governance and Administration Advisor to Essex Pension Fund ("EPF"), my remit is to provide independent advice on the proper governance and administration of EPF.

This is a summary of the findings of my recent review as presented to officers, the purpose of which was to consider whether EPF is meeting good practice in relation to governance and to recommend any potential areas for improvement. The Pensions Strategy and Advisory Boards should be aware of the outcomes of this review as outlined in this summary.

Approach

The approach taken has been to compare EPF's current practices relating to governance (at a high level) against the Aon governance framework. The framework considers the following key areas:

 Direction Having clear strategies and policies that also meet legislative requirements is fundamental.	 Delivery Having a clear plan for implementing the fund's strategies and policies, together with appropriate monitoring of whether they are being achieved, along with good risk management, to ensure effective and efficient delivery.	 Decisions Having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is key.
---	--	---

I have also considered:

- the results of recent governance effectiveness questionnaires completed by Pensions Strategy Board ("PSB") and Investment Steering Committee ("ISC") members, as well as feedback from Pensions Advisory Board ("PAB") members on similar questions.
- some of the ongoing challenges EPF will face both in the short term and in the longer term.

The report does not consider administration nor the effectiveness of the PAB. The review does include consideration, at a high level, of some legal requirements relating to governance, for example, the requirement to publish certain policies and strategies under LGPS legislation. These are presented by us in our capacity as pension consultants and not as legal experts, and as such nothing in this report should be considered as legal advice.

Conclusions

Our overall conclusion is that the governance of the EPF is of an excellent standard, with the Administering Authority demonstrating best practice in many areas. Specific conclusions we have arrived at include:

Direction

- All the key strategies and policies are in place, and those relating to governance matters adhere to legal and professional guidance requirements and in many circumstances go beyond minimum requirements.
- All the key features expected are included within the EPF strategies and policies and, critically, there are clear objectives in place.
- Fund officers have a clear programme for ensuring these policies and strategies are reviewed regularly by the PSB.

Delivery

- An excellent business planning process is in place and after a recent review of its format, the business plan is now even clearer and more informative. It incorporates all the key areas we would expect and more. The business planning process also drives budget-setting for the EPF.
- The way EPF carry out ongoing measurement against their key objectives using their scorecard functionality and the regular updates they provide against their business plan are exemplary and demonstrate some of the best practices we have seen in the LGPS environment.
- Robust risk management processes are in place which are aligned with EPF's objectives and integrated into the day to day management of the EPF.

Decisions

- There is a robust governance structure, with decisions being made at the right level and following appropriate information being provided and discussion taking place.
- There is a robust Knowledge and Skills Strategy, backed by a range of methods of delivery of training and an excellent approach to assessing the effectiveness of training. The PSB, ISC and PAB have excellent access to a wide range of experts (officers and advisers).
- Attendance at meetings and training by PSB, ISC and PAB members is excellent. PSB meetings are extremely well chaired and members actively contribute to discussions. Members demonstrate strong understanding of their role on PSB and are quick to highlight potential conflicts.

Effectiveness Questionnaire

Our conclusions were backed up by the results of effectiveness questionnaires completed by PSB members. The responses, taken as a whole, were tremendously positive. The majority also stated that the effectiveness of governance of the EPF has either improved or stayed the same in the last two years despite the COVID-19 pandemic.

The key questions were also included in a poll of PAB members at the March 2021 PAB meeting to gather the PAB's views on how effective governance at the PSB and ISC are. Again, the overwhelming view of the PAB was that there was a high quality of governance

Recommended actions and future challenges

The recommendations we have made to officers in relation to the existing governance arrangements are as follows:

1 Scorecard

Officers should ensure that the final measures within the scorecard are made live (i.e. "turned on") as planned in 2021/22, given they include enhancements to monitor whether legal timescales are being met.

2 Diversity, Equality and Inclusion

As has been suggested by the Director for EPF, we agree that diversity, equality and inclusion matters should be considered in the context of managing and delivering EPF services. New requirements in this area are expected to be included in The Pension Regulator's ("TPR") New Code.

3 Future challenges and resources

Our other recommendations relate to the continuing challenging times ahead within the LGPS environment. In addition to the three evolving areas which are likely to impact governance (SAB Good Governance Project, TPR New Code, and CIPFA's Knowledge and Skills Code and Framework), there are many other critical projects expected in the next three years. These include implementation of the McCloud remedy, the evolution of Responsible Investment policies (including TCFD and climate change initiatives) and the implementation of the National Pensions Dashboard.

In our view it is critical that EPF continue to focus on ensuring there are sufficient resources in place to meet the objectives and the business plan of the EPF, and to continue to provide a quality and timely service to stakeholders.





Karen McWilliam
Partner and EPF
Independent Governance
and Administration Adviser
07711 016707
karen.mcwilliam@aon.com



Mary Lambe
Senior Benefits and
Governance Consultant
07771 678745
mary.lambe@aon.com

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Copyright © 2021 Aon Solutions UK Limited. All rights reserved. aon.com. Aon Solutions UK Limited is authorised and regulated by the Financial Conduct Authority. Registered in England & Wales No. 4396810. Registered office: The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN. This document and any enclosures or attachments are prepared on the understanding that they are solely for the benefit of the addressee(s). Unless we provide express prior written consent no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document. In this context, "we" includes any Aon Scheme Actuary appointed by you. To protect the confidential and proprietary information included in this document, it may not be disclosed or provided to any third parties without the prior written consent of Aon Solutions UK Limited.

