

Aon Hewitt

London Borough of Enfield Pension Fund Governance Review

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Proposal for the Review of Pension Fund Governance

Introduction

We are delighted to have the opportunity to provide a proposal for reviewing the Governance arrangements of the London Borough of Enfield Pension Fund (the "Fund") administered by London Borough of Enfield (Enfield Council, the "Administering Authority").

This paper sets out our proposal for undertaking this governance review, and our suggested pricing.

The approach we propose to take is to compare the Administering Authority's practices against the Aon Hewitt governance framework, as set out in the following section.

There are a range of options for the scope of our review and we have set those out later in this proposal.

We believe we have the right team with the right skills and the right attitude to ensure that you get the most out of this governance review, both in terms of understanding your strengths and weaknesses, and in terms of identifying any areas you could and should focus on improving going forwards.

Our Proposal

We set out below our proposal broken down into the following sections:

- Aon Hewitt Governance Framework
- Scope of Governance Review
- Personnel
- Proposed Work Plan
- Timing and Cost

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Aon Hewitt Governance Framework

There are some key benefits from having effective governance in place, and we highlight these below.

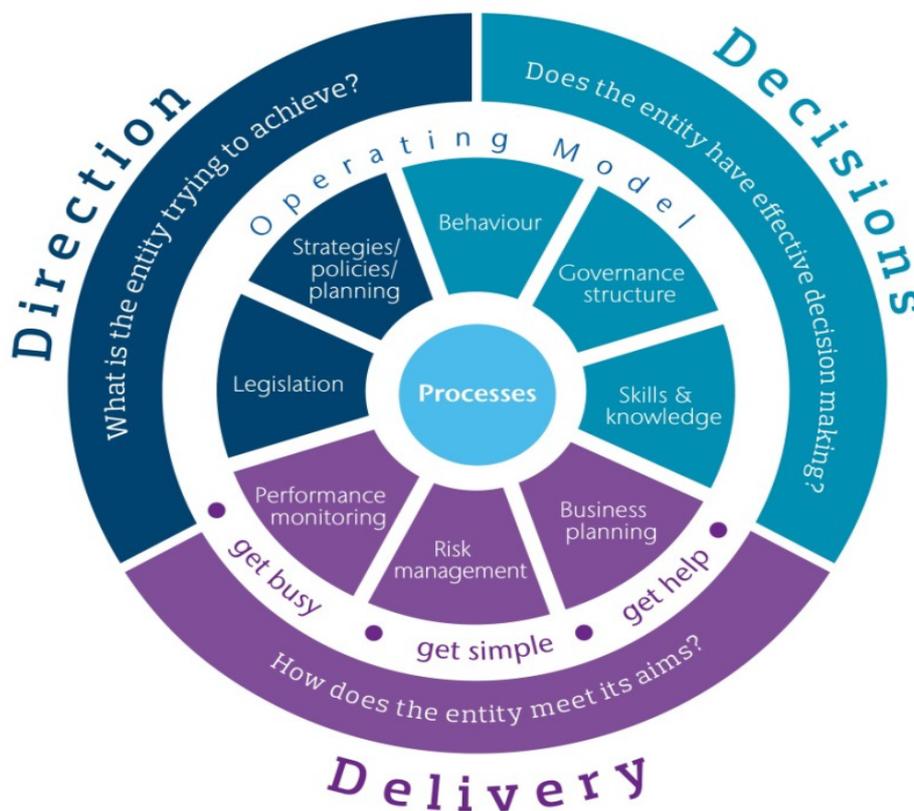
Benefits of effective governance

- Robust risk management that can assist in avoiding issues arising or at least reducing their impact
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated by Enfield Council.

At Aon Hewitt, we have a number of beliefs when it comes to achieving good governance including:

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management, 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.

These beliefs are shown in the following diagram and described in more detail in the work plan section of this proposal.



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Scope of Governance review

We set out the scope of our review below,

Part 1 – Overall Governance

Documentation

The starting point for the review will be to document the current arrangements, including:

- The role of the Pension Policy & Investment Committee (the "Committee") and the effectiveness of its decision making
- The extent to which the Committee takes proper advice on those matters which require specialist input
- The key reports, statements and policies governing the scheme i.e.:
 - Statement of Investment Principles
 - Policy on Discretions
 - Compliance Statement on the Myners Principles
 - Communication and employer and employee engagement
 - Process for reporting breaches of legislation
 - Funding Strategy Statement
 - Training policy
 - Conflict of interest policy
 - Administration Strategy

Review

The purpose of this review is to highlight areas of good practice in relation to the governance of the Fund and also to recommend any potential areas for improvement.

The approach we will take to the review will be to compare the Administering Authority's current practices against the Aon Hewitt governance framework.

The framework considers the following key areas:

- Direction – What is the Fund trying to achieve?
 - Legislation
 - Strategies and Policies
- Delivery – How does the Fund meet its aims?
 - Business Planning
 - Performance Monitoring
 - Risk Management
- Decisions – Does the Fund have effective decision making?
 - Governance Structure
 - Behaviour
 - Pensions Skills and Knowledge

More detail is provided in the work plan section of this proposal.

This approach will enable us, more specifically, to:

- Examine the existing governance framework and identify the main risks associated with the governance of the Fund

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- Comment on whether the Administering Authority have assessed their ability to meet the requirements of the Pension Regulator's Code of Practice (we note an updated assessment is due to be carried out in October 2018 with the assistance of Aon).
- Identify whether the administering authority has evolved to meet recent changes in legislation relating to governance matters
- Provide any other recommended actions to improve the governance of the Fund.

This part of the review would not only provide a template for future review, but also provide a significant amount of information which can be used in other ways to improve the management and governance of the Fund. For example, the findings could feed into a risk register, into setting new internal controls or could be used as evidence when reviewing Compliance with the Pension Regulator's Code of Practice, which we note you have already arranged to take place over the month of October 2018. It will also be a useful reference point for the Pension Board to assist them in considering the effective and efficient governance and administration of the Fund.

Part 2 – Local Pension Board and Asset Pooling

The recommendations from the second part of review would provide our views on whether the governance structure needs to evolve based on the effectiveness of the Local Pension Board and the introduction of asset pooling.

Specifically we would consider what would be the best structure for the Local Pension Board to ensure that it adds value and operates effectively.

To do this we would:

- Use some of the findings in part 1 of the review e.g. considering the terms of reference of the Board and any areas that have been escalated from the Board to the Committee
- Review recent Board agendas, papers and minutes
- Attend Board meeting to better understand what takes place at meetings and behaviours
- Carry out effectiveness questionnaires for Board members.

We would suggest that you also review the governance structure you have put in place to allow you to manage your investments through the London Collective Investment Vehicle (CIV).

We would consider whether the changes that have been made to the Fund's governance are adequate and appropriate to allow for the move to asset pooling, considering areas such as how you will manage your voting rights and clarity of roles. We will also check any key policies and strategies that we would expect to have evolved as a result of the introduction to asset pooling and highlight if changes have not been made (or should be considered in the future). As part of our report we would make recommendations about any further changes that might be made to the governance structure for the fund and how best to manage the various internal and external relationships.

Our review and recommendations of the effectiveness of the Board and the governance changes relating to the London CIV would be provided in a separate report from the Part 1 governance review.

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Personnel

We set out below the CVs of the key members of our team who would be assigned to work on this Governance review, along with their role in relation to this project.

In particular, we would like to highlight that the proposed team has carried out very similar governance reviews for other administering authorities including North Yorkshire County Council, the London Borough of Barking and Dagenham, the London Borough of Croydon, London Borough of Southwark, Middlesbrough Council and Cornwall Council.



Michael Ferguson – Senior Benefits and Lead Governance Consultant

Michael has over 25 years of experience working with pension funds in the Public and Private Sector. He is a Senior Governance Consultant within the Public Sector team and joined the Firm in 2016 from Hymans Robertson where he was Head of LGPS Client Development. Michael specialises in governance matters, working closely with Karen and the team.

Michael started his career in 1988 at Standard Life specialising in Annuities and then moving on to providing consulting advice to private and public sector pension funds, latterly Michael was responsible for the Corporate side of Standard Life's direct salesforce. He then Joined HSBC consulting actuaries in a business development role working across the DC, DB and Investment practices, from here he moved to AEGON specialising in private sector DB consulting and then to Hymans Robertson.

His recent experience includes

- Managing LGPS Frameworks.
- Developing and delivering Aon Hewitt's training programmes for Administering Authorities including to LGPS Pension

Committee and Pension Board members.

- Undertaking governance reviews of LGPS funds (similar to the review proposed in this document).
- Reviewing funds' compliance with the TPR code of conduct.
- Contributing to the production of the CIPFA Investment Pooling Governance Principles.

Michael has presented at a number of national events including at the CIPFA Pensions Workshops on the governance arrangements for the new investment pools in the LGPS, PLSA pension board training events and also at the LGPC Fundamentals Training on the importance of good governance.

Michael's main focus is on helping public sector schemes to ensure they have robust, high quality governance arrangements in place, with a particular focus on the governance of asset pools.

Michael would be the lead consultant responsible for the provision of this governance advice to you, working closely with the rest of the proposed team and the wider firm as necessary.

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Daniel Kanaris – Senior Benefits and Governance Consultant

Dan is a Senior Benefits and Governance Consultant within the Public Sector team. He joined the Firm in 1999

after graduating from Warwick University, and has over 18 years of experience of advising on the LGPS. Dan specialises in benefit and governance matters, working closely with Karen McWilliam, the Head of Public Sector Benefits and Governance Consulting.

His recent experience includes:

- Undertaking governance reviews for a number of LGPS Funds (similar to the review proposed in this document).
- Working with funds to help them ensure the provisions of the 2014 scheme have been implemented correctly via an audit of their benefit administration services
- Supporting Administering Authorities in relation to the establishment and ongoing running of the new Pension Boards
- Developing guidance and compliance checklist to ensure adherence to the Pensions Regulator's Code of Practice – in particular Dan jointly carried out this review for the Enfield Fund in late 2015/early 2016, which resulted in a number of suggestions for improvements in the governance and administration of the Fund.

- Helping Administering Authorities in specialist calculations for senior LGPS staff, particularly focussing on changes in the Annual Allowance and the Lifetime Allowance and their interaction with various protections
- Developing policies with Administering Authorities, including drafting and amending various policy documents including Conflicts of Interest, Training, Risk Management, Reporting of Breaches, Administration, Communications and Discretions.

Dan's clients include London Borough of Southwark, Shropshire County Council, Swansea County Borough Council and the Environment Agency.

Until recently Dan sat on the Administration and Communications Sub Committee of the Interim Scheme Advisory Board, and was also part of recent national governance round table events that Aon Hewitt hosted. Dan has presented at a number of national events including at the CIPFA Pensions Workshops on the implementation of the new governance arrangements in the LGPS and also at the LGPC Fundamentals Training on the importance of good governance.

Dan would support Michael in all aspects of the governance review, having previous experience in working with Enfield Council on governance matters.

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**Laura Caudwell FIA –
Senior Benefits and
Governance Consultant,
and Actuary**

Laura joined Aon in 2009. She has an honours degree in Mathematics and Statistics from the University of Bath and qualified as an actuary in 2009. She now has over 12 years of pensions experience.

Laura currently provides governance and benefits consulting support to a number of LGPS funds, including the Clwyd Pension Fund, the Environment Agency pension funds, and the London Boroughs of Hackney and Southwark Funds.

Laura is currently heavily involved in helping several clients ensure they are meeting the requirements of the new Pensions Regulator's Code of Practice for public sector schemes.

Laura also specialises in annual and lifetime allowance implications for scheme members

In July 2018, Laura worked with Michael to design and deliver benefits and governance induction training sessions to new Committee and Pension Board members, and officers, for several London Boroughs. Earlier in the year Laura designed and delivered Aon's "Hot Topics" Seminars covering Governance and Longevity which were held in various locations around the country.

Laura also recently arranged and presented in Aon's June 2018 webcast on the topical subject of Data Quality in the LGPS which is another of Laura's key areas of expertise.

Laura would support the team in all aspects of the review, and in particular provide support in relation to the clarification of any funding/actuarial aspects as she is on the team advising the Fund in funding and actuarial matters.

Laura is also likely to be involved in the review of the Fund's compliance against the Regulator's Code of Practice in October so can ensure the two projects are carried out as efficiently as possible in terms of shared information, but also maintaining a suitable level of independence between the two reviews where appropriate.

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Karen McWilliam – Partner and Head of Public Sector Benefits and Governance Consulting

Karen has 32 years of experience working with LGPS administering

authorities. She joined Aon in February 2013 as the Head of Public Sector Benefits and Governance Consulting and is currently Lead Consultant to Clwyd Pension Fund, the London Borough of Hackney Pension Fund and EAPF (the Environment Agency Pension Funds).

Karen is a well-known speaker at LGPS events and a contributor to national LGPS development, including:

- being the main author of the CIPFA Asset Pooling Governance Principles guidance
- being a member of the LGPS Scheme Advisory Board Investment, Engagement and Governance Sub-Committee
- being a key contributor in the development of the LGPS National Third Party Administration Framework
- being a major contributor to the national Scheme Advisory Board Pension Board's guidance and
- writing the LGPS tax guide for LGE.

She joined Hymans Robertson in 2002 where she established the UK's first team providing benefit and governance services to LGPS administering authorities. Karen started her career in 1986 at Highland Council where she trained as a pensions administrator and was then appointed as the Pensions Manager, with responsibility for managing the administration of the LGPS, Police and Fire Schemes.

During this period Karen embraced a number of wider roles, many of which she undertook in her personal time, including:

- Secretary to the Scottish Pensions Liaison Group
- Scottish representative on the National LGPS Technical Group
- Tutor and Author for the CIPFA LGPS Administration Qualification
- Member of national working groups relating to HMRC limits and pension sharing on divorce

In her final year, Karen project managed the implementation of the Council's new payroll and personnel devolved management IT system.

She has the CIPFA Certificate in LGPS Pensions Administration and is a Practitioner of PRINCE2.

Karen's role will be to have a general oversight of the project and provide specialist expertise in specific governance matters (for example, in relation to pooling) where required.

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Work Plan, Timing and Cost

We set out below an overview of our suggested work plan for the governance review exercise, and our proposed timescales and costs.

Part 1 – Overall Governance

Option 1

We set out below our proposals to carrying out Part 1 of this project in three main areas. Firstly, the 'basic' option is where we carry out a desktop review and supplement this with informal discussions with the key personnel at

Enfield Council. We refer to this as Option 1 below.

The broad areas we would include in our investigations and report follow those in the Aon governance framework, as set out in the following table.

Legislation	The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.
Strategies and policies	<p>The Fund's strategies and policies should provide the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies:</p> <ul style="list-style-type: none"> ▪ should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself ▪ should be clearly articulated, to provide a framework within which those managing the Fund are able to operate ▪ should provide the focus for all future decisions and plans ▪ should be agreed by those responsible for governing the Fund.
Governance structure	<p>There is no one 'correct' governance structure. The Administering Authority's structure should:</p> <ul style="list-style-type: none"> ▪ have clear terms of reference ▪ have a clearly documented scheme of delegation ▪ allow decision making at the appropriate level ▪ allow quick decision making where appropriate ▪ involve well-presented information/reports ▪ allow sufficient time for discussion where necessary ▪ have good quality administration (e.g. issuing meeting papers in good time) ▪ involve a process for managing conflicts ▪ provide transparency to stakeholders where appropriate.

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Behaviour	<p>A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should:</p> <ul style="list-style-type: none"> ▪ have a high level of attendance at meetings ▪ demonstrate integrity in relation to their Fund role ▪ be engaged and provide appropriate challenge ▪ be accountable for the decisions made ▪ highlight any potential conflicts they may have ▪ for a Chairperson, manage the meetings fairly without any bias to individuals or self ▪ prepare adequately for meetings.
Skills and knowledge	<p>A critical element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should:</p> <ul style="list-style-type: none"> ▪ clearly articulate the knowledge and skills requirements in a Fund policy ▪ provide ongoing training in an effective and suitable manner to meet those requirements ▪ regularly review whether knowledge aspirations are being met ▪ ensure they rely appropriately on officers and advisers to provide expert knowledge.
Business Planning	<p>Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities:</p> <ul style="list-style-type: none"> ▪ should be driven by the Fund's strategies and policies ▪ will include activities driven by changes in overriding legislation.
Performance Measurement	<p>Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should:</p> <ul style="list-style-type: none"> ▪ illustrate whether the Fund's aims are being achieved ▪ illustrate whether the Fund's business plan is being achieved ▪ be updated in accordance with appropriate timescales ▪ be presented in a manner that is easy to follow and understandable to those governing the Fund ▪ assist in identifying changes to the Fund's business plan, strategies, policies and aims.
Risk Management	<p>Effective risk management is critical to minimise the impact and/or probability of unfortunate events and to maximise the realisation of opportunities. It should be:</p> <ul style="list-style-type: none"> ▪ aligned with the Fund's aims ▪ a key consideration in decision making ▪ systematic or structured ▪ an integral part of the Administering Authority's processes and procedures on a daily basis.

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Option 2

We believe that this review described above for Option 1 would be significantly enhanced if we were to attend (in an observing capacity) a Pension Policy & Investment Committee meeting to ascertain whether they are working effectively and in line with their Terms of References. We refer to this as Option 2 below.

Option 3

In addition, as part of the review of Fund's governance arrangements we recommend that an effectiveness questionnaire is given to all the existing Pension Policy & Investment Committee members and officers/advisors involved with Pensions.

The questionnaire would focus on what actually happens at Pension Policy & Investment Committee meetings including areas such as the length of the meetings, how topics are presented, whether the members feel confident when making recommendations or decisions, how well they feel they understand risk and strategy, etc. The results of the questionnaire are analysed and then feed into the recommendations of the governance review. We refer to this as Option 3 below.

We appreciate a significant proportion of the Pension Policy & Investment Committee may be new members following the recent elections. We would therefore suggest that the effectiveness review be carried out after a couple of Committee meetings have taken place, once the Committee members are more established in their role and the proceedings.

We would be happy to provide sample output for the effectiveness questionnaire or to meet with you to discuss and to demonstrate how useful this can be, if required.

We would recommend choosing to complete options 1, 2 and 3 as much of our findings from these options will be used in helping us with part 2 of the review.

Timing and Cost

If we are successful in being appointed to carry out this work, we will agree timescales with you.

The cost for carrying out this would be as follows:

- For Option 1, the cost will be £7,000 before VAT.
- Option 2 could be undertaken concurrently with the work in Option 1 (subject to the timings of the Pension Policy & Investment Committee meeting(s)). The cost for this will be as for Option 1 plus £2,500 before VAT per day for meetings.
- Option 3 would be as for Option 1 plus £4,000 before VAT (plus an additional £2,500 per day for meetings if Option 2 is also selected).

Accordingly, assuming you agree our recommendation to carry out the full review so this can feed into the Part 2 report, the total cost would be £13,500 plus VAT assuming attendance by one person to observe at one Pension Policy & Investment Committee meeting.

- There would also be an additional cost of £1,500 before VAT for attending meetings with officers to discuss the results or the Pension Policy & Investment Committee meeting (if required) to present the results of our findings. This assumes each meeting is no longer than three hours.

If we are required to carry out any additional work in relation to the governance review which is outside of the initially agreed scope, (for example, the drafting or redrafting of a policy or procedure that was found to need improvement), then we would be happy to agree further fixed fees in advance for any such work.

Alternatively, additional work can be charged on a time cost basis using our standard hourly rates if you prefer, which we can provide if necessary.

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Part 2 - Local Pension Board and Asset Pooling

Much of the work to carry out Part 1 of the governance review would feed into the conclusions we arrive to for this additional Part 2 report. In addition, we would need to attend as observers at a Local Pensions Board and we would expand the effectiveness questionnaire to as questions specific to the Local Pensions Board, which we would recommend should be completed by Pensions Policy & Investment Committee members too.

The review of the governance proposals for the fund participating in the London CIV would be a desk based review, supplemented with conversations with key individuals.

Additional services following the review

We offer a range of governance and benefits consulting services which as a result of carrying out the review, you may be interested in.

You have already arranged for Aon to assist with an updated compliance review against the specific requirements in the Regulator's Code of Practice (after your first review carried out in 2015/16).

The other services you may be interested in include:

- Providing training to pension board, committee members or officers
- Providing an interactive risk heat map tool, and

Timing and Cost

If we are successful in being appointed to carry out this work, we will agree timescales with you.

The total cost of providing this additional report would be £9,500 before VAT, which relates to the following:

- The cost of the main investigation work and preparation of the report will be £5,000 before VAT
- Attendance at a Local Pensions Board meeting - £2,500 before VAT
- Extending the effectiveness questionnaire to cover the work the Local Pensions Board, and resulting analysis of results, would be £2,000 before VAT.

The cost of additional meetings or any work carried out which his out of scope is as described within the costs for Part 1.

- Providing a committee, board and officer training planning and monitoring tool (several of our tools also have reporting functionality options).

If you are interested in any of our additional services such as our governance related tools, we would be happy to provide a demonstration of these and the cost upon request.

Next steps

We look forward to discussing this proposal with you. Should you have any queries please contact Michael Ferguson on 07798 841 776 (Michael.ferguson@aon.com) or Laura Caudwell on 0117 948 5020 (Laura.Caudwell@aon.com).