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In January 2018 our Head of Sole Trusteeship, Harus Rai, contributed an article to Professional Pensions entitled **Improving Small Scheme Governance**. This is reproduced below.

Harus Rai looks at how The Pensions Regulator's work to improve scheme governance has an impact on smaller schemes.

The Pensions Regulator (TPR) has launched its campaign to improve scheme governance under the title of "21st century trusteeship".

Calls to improve governance structures and the effectiveness of trustee boards should be applauded but it must be recognised that this may be challenging for smaller schemes with limited budgets.

This is not to say that members of small schemes do not deserve first class governance and the best possible outcomes. On the contrary, the pension of a member of a small scheme is as important as any other. The question is how can smaller schemes meet the challenge of 21st century trusteeship?

What do trustees need to do?

The regulator's programme makes clear what it expects from those responsible for managing a pension scheme. This includes the main things that need to be in place and which will support good decision-making. For example, the regulator says there should be:

- Clear roles and responsibilities and clear strategic objectives
- A skilled, engaged and diverse board led by an effective chair
- Close relationships with employers, advisers and others involved in running the scheme
- Sound structures and processes focused on outcomes
- A robust risk management framework focused on key risks

The regulator is not creating new or higher standards of governance. Instead, it is making clearer what good governance looks like, and what will be done if standards are not met.
Trustees should, therefore, ensure that they engage with these communications and review their performance against those standards.

Improving governance structures

It is important that this topic is on trustee meeting agendas and trustees should work with their advisers to create programmes which meet the scheme's needs and budgets.

Trustees should not be afraid to discuss any programme with the regulator. While the watchdog's current message is "clearer, quicker and tougher" it also has a support role, helping trustees to meet the standards required.

However smaller schemes may face particular challenges - and have all the issues faced by larger schemes but often have two additional concerns:

- Limited budgets - in most cases, small schemes are not blessed with having large budgets. Whilst a process to review and improve governance may be required and should be encouraged, that process comes at a cost. Schemes are already seeing budgets stretched by increased fees in other regulatory areas, such as accounting SORPs. Thinly stretched budgets can be a hindrance to good governance.

- Limited time - good governance requires time. For some trustees, the time pressures, particularly of juggling the needs of the scheme and their employment, can already be extremely demanding. Any additional time pressure can be unwelcome and could have a negative impact on trustee effectiveness.

Smaller schemes might mitigate these concerns in a number of ways, including:

- On costs - there will be additional costs for reviewing procedures, however, costs can be spread and not incurred entirely in one financial year. The regulator is trying to achieve robust trustee boards, but this cannot be expected to be achieved overnight. What is crucial is to design a programme which outlines the board's clear plan and intent to review and, where necessary, amend existing governance structures.

- A more effective board - the additional focus should be welcomed as an opportunity for trustee boards to review their current structures. The regulator is encouraging trustees to challenge current practices to see how these can be streamlined and make better use of the time they have.

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Sole trusteeship

Many schemes have adopted the sole trusteeship model to overcome some of these challenges. This is where the trustee board is replaced by a professional pension trustee company or a person independent from the sponsor who is a pensions expert.

Schemes decide to adopt the sole trusteeship model for any number of reasons. Typically, these might be to manage conflicts, free up time or see the scheme through some complex process. The added focus on governance provided by the 21st century trusteeship programme should not be seen as a reason in itself for adopting the sole trusteeship model. Trustees and employers may wish to consider whether sole trusteeship is the best way to ensure first class governance and the best possible outcomes for members, but due consideration should be given to other means of improving the existing structure with the current trustee board in place.