

<b>MEETING</b>	<b>PENSIONS COMMITTEE</b>
<b>DATE</b>	<b>17 MARCH 2014</b>
<b>TITLE</b>	<b>LGPS GOVERNANCE STRUCTURES – PUBLIC SERVICE PENSIONS BILL</b>
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## **1. INTRODUCTION**

- 1.1 Members of the Committee will be aware that significant changes to the Local Government Pension Scheme will come into force on 1<sup>st</sup> April 2014. These changes will be enacted by the Public Service Pensions Bill and are the result of the review of the LGPS carried out by Lord Hutton and the recommendations in his report. The changes affect the benefits that members of the scheme are entitled to receive in the future. The emphasis to date has been on enacting these changes to introduce the career average scheme (rather than final salary) by 1<sup>st</sup> April 2014. These changes have been explained to our fund employers in a series of ongoing presentations.
- 1.2 In addition to these changes the Public Service Pensions Bill includes provisions with regard to scheme governance of the LGPS. The details of the governance requirements will be set out in regulations which have yet to be drafted or consulted upon.
- 1.3 This report considers the governance requirements and specifically the role and structure of local pension boards. The Committee is asked to decide how it believes the arrangements should be implemented in practice as the basis for a response to the consultation process on the new regulations.

## **2. ROLE AND STRUCTURE OF LOCAL PENSION BOARDS**

- 2.1 The Bill sets out 4 distinct roles to be performed within each scheme, these are:
- The Responsible Authority
  - The Scheme Manager
  - The Pension Board
  - The national Scheme Advisory Board
- 2.2 Under the Bill, the **Responsible Authority** is the person who makes regulations for the scheme, in the case of the LGPS this is the Secretary of State for

Communities and Local Government. The Secretary of State will continue to be responsible for policy.

- 2.3 The **Scheme Manager** is ‘to be the person responsible for managing or administering’ the scheme and any other statutory scheme connected with it’. It has been confirmed that for the LGPS, the Scheme Manager is the administering authority as currently defined by LGPS regulations. Therefore the Scheme Manager for Gwynedd Pension Fund will be Gwynedd Council as a corporate body rather than a person.
- 2.4 The **Pension Board** is a board with responsibility for assisting the scheme manager in securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator. It has been confirmed that such boards will operate at the fund level in the LGPS.
- 2.5 The national **Scheme Advisory Board** has a responsibility for providing advice to the Responsible Authority (the Secretary of State) and the Pension Boards.
- 2.6 Therefore the structure of governance of locally administered schemes like the LGPS under the requirements of the Bill looks something like the following:

a) **Scheme Level**

At scheme level, the **Responsible Authority** is responsible for policy and for making regulations.

The **Scheme Advisory Board** will have a clear remit to advise the **Responsible Authority** on regulatory changes it considers to be appropriate. The remit and membership of this board will be set out in the regulations which have not yet been drafted. In order to assist that process a shadow board is in the process of being set up in order to put this structure to the test before setting it out in regulation.

b) **Fund Level**

At the Fund level, the **Scheme Manager** manages and administers the scheme assisted by the **Pension Board**.

- 2.7 Under the Bill these are two distinct roles for the administering authority one of which (the **Scheme Manager**) is very much a hands on, decision making, management and investment function with the added task of ensuring there are no conflicts of interest for any pension board members.

The other (the **Pension Board**) appears to be much more of a compliance and scrutiny role with a responsibility to ensure that the former is complying with its statutory responsibilities.

The Bill deliberately provides that scheme regulations may allow for the **Pension Board** to be either the same as the existing statutory pensions committee or a separate body.

- 2.8 Gwynedd Council as administering authority currently has a Pensions Committee that already performs many of the functions set out in the Bill – including functions that will be part of the **Scheme Manager** role, as well as other functions which will be part of the Pension Board role. As part of a forthcoming consultation exercise, we need to consider whether the two distinct roles described in the Bill can best be fulfilled either within our existing committee or in two separate structures.

### **3. LGPS GOVERNANCE CONSULTATION**

- 3.1 The intention is that it will not be a Fund discretion on how to meet the PSP Bill requirements in relation to the structure, but will be set nationally for the LGPS as a whole.

- 3.2 Therefore it is expected that careful thought will need to go into the drafting and consultation process, to ensure that scheme stakeholders have the opportunity to consider the merits of either using the existing statutory pensions committee or an additional separate body at Fund level.

- 3.3 It would seem administratively expedient to allow the same committee to fulfil both roles (scheme manager and pensions board) if only in terms of available time and resources. However, there are some significant issues to consider:

- The roles are very different and may require different resources, for example, investment skills in one role and audit skills in the other.
- A single committee constitution may not be able to effectively encompass the decision making requirement of the scheme manager role and the ‘assistance’ role of the pensions board.
- The cross scrutiny functions will prove difficult to apply and demonstrate within one committee
- The bill requires regulations to provide that the pension board should have equal numbers of employer representatives and member representatives. Combining the two roles would include applying that requirement to the committee responsible for both roles.

- 3.4 Any decision over whether the **Pension Board** and **Scheme Manager** roles can be delegated to separate committees or the same committee has yet to be made.

#### 4 **RECOMMENDATION**

- 4.1 The committee is asked to consider how they may wish regulations to reflect their situation in order to be able to respond effectively to the draft regulations when they appear later this year.