

LGPS Governance 2014

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PSP Bill

The Bill sets out 4 distinct roles to be performed within each scheme, these are

- The Responsible Authority (Clause 2)
- The Scheme Manager (Clause 4)
- The Pension Board (Clauses 5 and 6)
- The Scheme Advisory Board (Clause 7)

Scheme Advisory Board

Clause 7

(1) Scheme regulations for a scheme under section 1 which is a defined benefits scheme must provide for the establishment of a board with responsibility for providing advice to the responsible authority, at the authority's request, on the desirability of changes to the scheme.

(2) Where, by virtue of section 4(5), there is more than one scheme manager for a scheme mentioned in subsection (1) (and accordingly there is more than one pension board for the scheme), the regulations may also provide for the board to provide advice (on request or otherwise) to the scheme managers or the scheme's pension boards in relation to the effective and efficient administration and management of—

- (a) the scheme and any statutory pension scheme that is connected with it, or
- (b) any pension fund of the scheme and any connected scheme

Shadow Scheme Advisory Board

Shadow board working party set up – seeking to create shadow board by June (first meeting early July) in order to test and inform the process prior to regulations. The working party included DCLG and:

The Treasurers Societies (SCT, SDT, SMT, SLT, SWT)

The Local Government Association

The Local Government Trade Unions (GMB, UNISON and Unite)

CIFPA Pensions Panel

NAPF local authority steering group

Local Authority Pension Fund Forum

The Pension Regulator

The Association of Consulting Actuaries

The Universities and Colleges Employers Association

Academy Finance Director Forum

Officers Advisory Group and Technical Group

Scheme Advisory Board

In its recommendations the working party aimed to:

- Provide for an independent chair of the shadow board
- Ensure that the membership of the shadow board reflects the widest possible range of stakeholders
- Ensure that each shadow board member will be subject to a transparent process of appointment and be fully accountable to their constituencies
- Ensure that recommendations made by the shadow board have the widest possible support as demonstrated by a consensus of the board membership

Membership and draft remit can be found at

<http://www.local.gov.uk/web/lgaworkforcepensions/shadowsab>

Scheme Advisory Board

To assist the shadow board it is envisaged that the following sub committees would be set up and that these committees would work closely with the bodies that currently exist at the national level (for example CIPFA, NAPF, LAPFF and tPR)

- Standards and Governance
- Investment and Engagement
- Administration and Communication
- Value for Money
- Cost Management and Contributions

Process for nominations of members and draft remits can be found at <http://www.local.gov.uk/web/lgaworkforcepensions/shadowsab>

Pension Boards

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

Under the Bill these are two distinct roles for the administering authority

- The Scheme Manager would appear to be 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 Pension Board would appear to be much more of a compliance and scrutiny role with a responsibility to ensure that the scheme manager is complying with its statutory responsibilities

Pension Boards

Bill allows for regulations to provide for same committee to do both jobs (Clause 5(7)). First glance it may seem that same committee option is administratively expedient however:

- 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
- Clause 5(4)(c) requires regulations to provide that the pension board should have equal numbers of employer and member representatives. Combining the two roles would include applying that requirement to the committee responsible for both roles.

Cost Management (dual process)

Scheme Total Cost Target (Scheme Advisory Board)

19.5% total cost measure

Action can be taken at any stage up to +/- 2% (may, should, must)

Recommendation to Secretary of State who has final say

50/50 included

Results on model fund with SoS assumptions and average of funds with SoS assumptions

Timetable is valuation to valuation

Employer Cost Cap

Target yet to be decided (2013 valuation) employer costs only

Action mandatory at +/- 2% but nothing before then

HMT have final say

50/50 not included

Results from model fund with HMT assumptions (mix of cross scheme and scheme specific)

Timetable not yet finalised

Consultations

- DCLG consultation on governance seeks views on extent and nature of regulations with regard to Scheme Advisory Board and local Pension Boards
- Also asks the question ‘same committee or different’?
- Call for evidence out on future structure of LGPS – how may this effect the national and local structures?

Next Steps

- First meeting of Shadow Board
- Workplans of Committees agreed
- Response to DCLG Governance consultation
- Response to 'Call for evidence' on future cost effective investment and administration structures for the LGPS
- Further discussions with HMT on cost management and timetable agreed