

UPDATE ON CURRENT LGPS ISSUES

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: That the Committee notes the current position in relation to proposed changes to the LGPS governance arrangements and the review of the structure of the LGPS.

1. Introduction

- 1.1 This report updates members on the latest position in relation to revised governance arrangements for the LGPS in response to the Public Sector Pensions Act, including the role of the Pensions Regulator. It also sets out the latest position in relation to the review of the structure of the LGPS.

2. Revised Governance Arrangements

- 2.1 At its September meeting the Committee received a report outlining the implications of the Public Sector Pensions Act ('the Act') and the consultation conducted by the Department for Communities and Local Government on the detail of how the new governance requirements should be implemented within the LGPS. The Act made provision for the setting up of a national Scheme Advisory Board and for each LGPS Fund to have a local Pension Board.
- 2.2 The latest information from the Department of Communities and Local Government (DCLG) is that they intend to consult on draft regulations in relation to the Act in spring 2014 and then finalise the regulations in late autumn. This will provide each LGPS fund with sufficient time to fully implement the Act by April 2015. This will include confirming whether the current Investment and Pension Fund Committee can fulfil the role of the Pension Board that is required by the Act, or whether the Pension Board should be a separate body. The latter seems to be the most likely.
- 2.3 The primary role for the Pension Board is to improve the governance of the Scheme Manager (Administering Authority). There are several key policy issues that remain to be resolved, including the following:
- Ensuring that clear separation exists between the functions of the Pensions Board and Scheme Manager.
 - Terms of Office.
 - Regularity of Meetings.
 - Funding / Remuneration.
 - Information Requirements.
 - Reporting Arrangements.

DCLG's current preference is for most of these issues to be determined on a local level and then approved by the Shadow Advisory Board. However, it is yet to be confirmed whether the regulations will permit this level of local flexibility when the regulations are finalised.

3 Role of the Pensions Regulator

- 3.1 As part of the governance changes required by the Public Sector Pensions Act, LGPS funds will now be subject to the oversight of the Pensions Regulator. In response to this, the Pensions Regulator has issued a draft code of practice on the governance and administration of public service pension schemes.
- 3.2 The code of practice sets out the legal requirements in respect of the specific matters about which it is required to issue a code in relation to public service pension schemes. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
- 3.3 The areas covered include:
 - The knowledge and understanding required by pension board members.
 - Management of conflicts of interest.
 - Information to be published about schemes.
 - Management of risk.
 - Internal controls.
 - Scheme record-keeping.
 - Maintaining contributions.
 - Information to be provided to pension fund members.
 - Internal dispute resolution.
 - Reporting breaches of the law.
- 3.4 Where the regulator considers that legal requirements are not being met, or have been contravened in circumstances which make it likely that the breach will continue or be repeated, it may issue an improvement notice under section 13 of the Pensions Act 2004 (as amended by paragraph 3 of Schedule 4 to the Public Service Pensions Act 2013).

4 LGPS Structure

- 4.1. Last August the Department for Communities and Local Government (DCLG) launched an informal 'call for evidence' on the question of LGPS Fund sizes, potential mergers and cost management. A response from the Devon Pension Fund was agreed by the Committee in September, and was one of over 100 responses received by DCLG.
- 4.2. Subsequent to the call for evidence, DCLG commissioned consultants to look at three options for reform:
 - A common investment vehicle at England and Wales level, with asset allocation strategies still determined by the local pension funds;
 - 5-10 common investment vehicles across England and Wales, for example based on aggregate fund size or geographical areas, again with asset allocation strategies decided by local governance structures;
 - 5-10 merged funds across England and Wales, grouped on the same basis as the common investment vehicles above, but with decision making taken by new governance arrangements at the merged fund level.

- 4.3. A common investment vehicle (CIV) would involve the pooling of some or all of the Fund's assets, without going through a full fund merger. It would mean that local LGPS Funds would retain some control over asset allocation, but would then, for example, invest its equity allocation via the CIV, who would appoint managers to manage the equity allocation, rather than the Fund appointing its own managers. There are a range of options in terms of how responsibilities would be split between the local LGPS Fund and the CIV.
- 4.4. It was anticipated that these exercises would result in a further consultation to be launched early in 2014. As yet no consultation document has been issued, but it is expected within the next few weeks.
- 4.5. However, the Shadow Advisory Board, set up in anticipation of the new governance arrangements, has made the following recommendations:
- The Government should consult on options for reform as soon as possible.
 - The Government and the Board should agree a realistic timescale for implementing reform by the end of Summer 2014.
 - The Board should complete the work on setting an agreed baseline of data and measurements via the Scheme Annual Report process by the end of 2014.
 - The Government should introduce proportionate and appropriate legislation to provide a statutory underpin for both the objectives of reform and the timetable for implementation.
 - In formulating its consultation on high level options for reform the Government should consider (a) alternative methods for managing deficits and (b) analyse the cost/benefits and barriers to greater passive management, Collective Investment Vehicles (CIVs) and in-house investment strategies.
 - The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.
 - That Government should ensure that any work being undertaken as part of the Call for Evidence is consistent with other strands of LGPS policy work, for example the LGPS 2014 governance regulations and any reform of the investment regulations.

5 Conclusion

- 5.1 The Committee will be kept up to date with developments regarding future LGPS Governance arrangements and structure as soon as any further announcements are made.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

Contact for Enquiries: Mark Gayler

Tel No: (01392) 383621 Room G97