

GOVERNANCE AND LGPS UPDATE

Report of the County Treasurer

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

**Recommendation: (1) that the Committee notes the report.
(2) that the revised Governance Policy at Appendix 1 be approved.**

1. Introduction

- 1.1. This report updates members on the current position with respect to governance arrangements, and other issues in relation to regulation of the Local Government Pension Scheme. It recommends a revised Governance Policy.

2. Governance Regulations

- 2.1. The Local Government Pension Scheme (Amendment)(Governance) Regulations 2015 were finally laid before Parliament on 28th January. There were two significant changes that impacted on the draft terms of reference for the Devon Pension Board considered by the Committee at its last meeting. The changes concerned were that only employer and fund member representatives would be entitled to vote, and that any elected member of the administering authority who is a member of the local pension board must be appointed as either an employer representative or a member representative.
- 2.2. As a result the membership of the Pension Board and terms of reference were amended by the Procedures Committee. The administering authority councillor representatives will now count as employer representatives, making a total of 4 employer representatives. As a consequence the number of fund member representatives has been increased to 4 to meet the requirement for equal numbers of employer and fund member representatives. As required by the regulations the Independent member of the Board will now be a non-voting member.
- 2.3. The Fund's Governance Policy needs to be updated to include reference to the Pension Board. A revised Governance Policy is attached at Appendix 1. It describes the membership and role of the Pension Board, and has also been updated to reflect the revised membership of the Investment and Pension Fund Committee. The compliance statement will also need to be amended, but we are awaiting further guidance from the Department for Communities and Local Government on what should be included.

3. Cost Control

- 3.1. The Governance regulations also included cost control mechanisms for the LGPS. Under the new public service pension scheme framework, the cost to employers of all public

sector pension schemes, including the LGPS, must be periodically assessed to ensure that the reforms are affordable and sustainable. In the case of the LGPS the Government Actuary's Department will calculate the cost of the scheme as a whole in terms of a notional employer contribution rate, excluding deficit recovery. Where the cost increases above tolerance levels from the target either benefits will need to be reduced or employee contribution rates will need to increase

3.2. In the LGPS in England and Wales, there will be two mechanisms used to assess the costs of the reformed scheme:

- The employer cost cap of 14.6% (ECC) process as operated by HM Treasury, and
- The future service cost (FSC) process as operated by the LGPS Scheme Advisory Board of 19.5% as a total of employer and member contributions at a 2:1 ratio.

The Scheme will be assessed every three years and will first be used to assess the cost of the Scheme at the same time as the 2016 valuations, using data as at 31st March 2016.

3.3. There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered.

3.4. For the FSC process:

- A movement of between 0% and 1% from the target in either direction may result in agreed recommendations for action to move back to the target
- A movement of between 1% and 2% from the target in either direction should result in agreed recommendations for action to move back to the target
- A movement of 2% or more from the target in either direction must result in agreed recommendations for action to move back to the target.

By contrast, for the HM Treasury ECC mechanism, no corrective action will be required to move the Scheme back to the target unless there is a movement of 2% or more from the target in either direction.

3.5. Any changes to the Scheme's benefits structure or its employee contribution rates which arise from the 2016 cost control process will be effective from 1st April 2019. These changes could be changes to the benefit design, normal retirement age or member contribution rates.

4. Government Consultation on “Opportunities for collaboration, cost savings and efficiencies”

4.1. The Government issued its consultation document in May last year, looking at the potential for cost savings to be achieved by the use of Collective Investment Vehicles (CIVs) and by compelling or encouraging funds to move all listed assets into passive management. It was anticipated that the Government would issue its response to the consultation early in the new year, but as yet no response has been issued. If there is any further news on this before 27th February then an oral report will be made to the Committee.

5. Oversight by the Pensions Regulator

5.1. From 1 April 2015 the Pensions Regulator will gain more responsibility for oversight of the Public Sector pension schemes, including the LGPS. The role of the regulator will focus on governance and administration. The final version of the Pensions Regulator's Public Sector Pensions Code of Practice has now been laid before Parliament. The Code covers governance, knowledge and understanding requirements, conflicts of interest, risk management, record keeping, collection of contributions and dispute resolution.

5.2. Scheme managers, members of Pension Boards, those involved in scheme administration, employers and professional advisors are legally obliged to report breaches of the law to the regulator where they have reasonable cause to believe that:

- A legal duty¹²⁶ which is relevant to the administration of the scheme has not been, or is not being, complied with.
- The failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

Where failure of an employer to make required contributions payments is of material significance then it must be reported to the Pensions Regulator.

5.3 A copy of the full code can be found at <http://www.thepensionsregulator.gov.uk/docs/draft-code-14-governance-administration-public-service-pension-schemes.pdf>.

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Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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