



London Borough of Hammersmith & Fulham

AUDIT, PENSIONS AND STANDARDS COMMITTEE

16th September 2014

LGPS CONSULTATIONS

Report of the Executive Director of Finance and Corporate Governance

Open Report

Classification: For Information

Key Decision: No

Wards Affected: All

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1. EXECUTIVE SUMMARY

- 1.1. The final tri-borough response to the Department for Communities and Local Government consultation was submitted in July 2014. The consultation focused on Collective Investment Vehicles and the balance of active and passive management of investments.
- 1.2. Officers have responded to a further consultation from the Department for Communities and Local Government, this time concerning scheme governance. This sought comments on draft regulations to implement the governance elements of the Public Sector Pensions Act 2013 in the Local Government Pension Scheme.

2. RECOMMENDATIONS

- 2.1. To note the report.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. In May 2014, the Department for Communities and Local Government (DCLG) published a consultation document – “Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies”. This focused on Collective Investment Vehicles and the balance of active and passive management. This was discussed in a report to this committee on 30th June 2014, where initial thoughts in response to the consultation were provided.
- 4.2. In June 2014, the DCLG published another consultation, this time on draft regulations to implement the governance requirements of the Public Sector Pensions Act 2013 in the Local Government Pension Scheme (LGPS). The Public Sector Pensions Act 2013 sets out the governance requirements for all public sector pension schemes including the unfunded national schemes such as the Teachers Pension Scheme and the NHS, as well as the LGPS.

5. PROPOSAL AND ISSUES

“Opportunities for collaboration, cost savings and efficiencies.”

- 5.1. As reported to the committee on 30th June 2014 the DCLG consultation on “Opportunities for collaboration, cost savings and efficiencies” focused on Collective Investment Vehicles and the balance of active and passive management. The final tri-borough response to this consultation is attached at Appendix 1 for the committee’s information.

Draft regulations on scheme governance

- 5.2. On 23rd June 2014 DCLG published another consultation – this time on the draft regulations on scheme governance to implement the requirements of the Public Sector Pensions Act 2013 (“the Act”) in the LGPS. Responses to this consultation were due to be submitted by 15th August 2014. A copy of the consultation paper is attached at Appendix 2.
- 5.3. One of the main provisions of the Act is for schemes which are subject to local administration, such as the LGPS, to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme. Pension boards are required to be set up by administering authorities by 1st April 2015.
- 5.4. The Act and the regulations state that the “scheme manager” will be responsible for administering, investing and managing the pension fund and may delegate these responsibilities to a committee, an officer or an investment manager (as appropriate). In the case of Hammersmith and Fulham, it is assumed the existing delegation to the Audit, Pensions and Standards Committee will continue to deal with these matters and make decisions regarding them.

- 5.5. The Act states that the pension board will be responsible for assisting the scheme manager (in LHBF's case the committee) in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. It is officers' understanding that the pension board will not be decision makers but will check that the scheme manager, and those with delegated responsibilities, comply with scheme regulations and other legislation particularly in terms of processes relating to the governance and administration of the scheme. Information available to date has been limited, but the remit of pension boards is expected to be clarified by the statutory guidance expected to be issued in October 2014.
- 5.6. The Act requires pension boards to have an equal number of employer representatives and scheme member representatives, the total of which cannot be less than four. Before appointment, the administering authority must be satisfied that the representatives have "the relevant experience and capacity to perform their roles" and that they do not have a conflict of interest. Consideration must be given to the process of appointing scheme member and employer representatives onto the local pension boards and whether there is likely to be sufficient interest and uptake for the number of roles required for each of the individual Funds.
- 5.7. The draft regulations state that elected members cannot be employer or scheme member representatives but they may be appointed (as can other types of members, such as independent experts) over and above the required representative members. The costs of local pension boards are to be regarded as administration costs charged to the fund.
- 5.8. Given that the policy issues concerning pension boards are already determined by the Act, the consultation was focused on the practicalities of setting up a board and implementing the Act. Given this focus, a tri-borough officer response was submitted to DCLG and this is attached at Appendix 3 for information.
- 5.9. One of the key issues raised by the consultation is the possibility of joint pension boards. The tri-borough response argues that such an arrangement for the tri-borough funds would allow for efficiencies and it would be advantageous for it to be available as an option. However if the final regulations allow such an approach, decisions will need to be made by the three councils at that time if this is something to be pursued.
- 5.10. Final regulations are expected to be published in October 2014, alongside statutory guidance. Officers will provide a further report once the final regulations and statutory guidance has been published. In the meantime, officers will commence preparations for the establishment of the pension board to ensure it is in place by 1st April 2015.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. Not applicable.

7. CONSULTATION

7.1 Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 The draft regulations make clear that the costs of administering pension boards can be charged to the Pension Fund. It is expected that the statutory guidance will include information about whether it will be appropriate to remunerate board members. This will enable officers to have a clearer picture as to the likely cost of the board, however it is not expected to be significant in the context of the Fund's overall administration costs.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

LIST OF APPENDICES:

- Appendix 1: Tri-borough response to consultation from Department of Communities and Local Government – Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies.
- Appendix 2: The Local Government Pension Scheme (Amendment) Regulations 2014: Draft Regulations on Scheme Governance Consultation
- Appendix 3: Tri-borough response to consultation from Department of Communities and Local Government – Draft Regulations on governance.