

## Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 SEPTEMBER 2013	AGENDA ITEM NUMBER
TITLE:	GOVERNANCE ARRANGEMENTS DISCUSSION PAPER & CALL FOR EVIDENCE	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Appendix 1 – DCLG Discussion Paper Appendix 2 – Avon Pension Fund response to the Governance Paper Appendix 3 – Covering letter to response Appendix 4 – DCLG & LGA Call for Evidence (to follow)		

### 1 THE ISSUE

- 1.1 Two informal consultation papers have been issued since the last meeting; the DCLG's discussion paper on LGPS governance arrangements and a call for evidence relating to the potential for increased co-operation between LGPS funds issued jointly by the DCLG and LGA.
- 1.2 This report sets out the background to these consultations and the Fund's responses.
- 1.3 The Fund's response to the governance paper is set out in Appendix 2 (deadline for response was 30 August 2013).
- 1.4 The response to the Call for Evidence will be circulated prior to the Committee meeting for comments. The deadline for responses is 27 September.

### 2 RECOMMENDATION

#### That the Committee:-

- 2.1 Notes the Fund's responses to the Governance paper and Call for Evidence

### **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no direct financial considerations in this report. However, it should be noted that the revised governance arrangements could increase costs for local funds.

### **4 DISCUSSION PAPER ON GOVERNANCE ARRANGEMENTS**

- 4.1 Following the Public Sector Pensions Act 2013, the DCLG has issued an informal discussion paper ahead of undertaking a full consultation on proposed changes to the governance arrangements of the LGPS.
- 4.2 The main changes arising from the Act are the requirement to have a national board (for the LGPS called the National Scheme Advisory Board) and to have Local Pension Boards to scrutinise compliance of the “scheme manager”, who in the case of the LGPS is the administering authority and its statutory committee. In addition, The Pensions Regulator will have a role in monitoring compliance with Disclosure and Data Protection regulations.
- 4.3 The CLG intends to consult on proposed changes to the governance arrangements in the autumn with the idea of having the new arrangements in place during 2014/15. They have issued a discussion paper to get the views of stakeholders to explore specific issues ahead of the formal consultation.
- 4.4 The discussion areas are as follows:
- (1) Timing – what period should be allowed for setting up the new arrangements?
  - (2) Inclusion – are all relevant schemes included?
  - (3) Constitution – can the pensions board be combined with existing statutory committees?
  - (4) Remit of local boards – what should be prescribed centrally or left to local discretion?
  - (5) Representation – how should members be appointed to the pensions board? What is the appropriate tenure of office? Should the Secretary of State approve the Chair of the national board?
  - (6) Conflicts of interest – are these identified and managed?
  - (7) Reporting – should pensions boards prepare and publish an annual report of activity?
  - (8) Knowledge & Skills – should the new scheme regulations specify requirements over and above those of The Pensions Regulator?
  - (9) National Scheme Advisory Board – what should its legal status be and how should it be funded?
- 4.5 The Discussion paper from the DCLG is in Appendix 1 and the Fund’s response in Appendix 2. The deadline for responses was 30 August 2013. The response was circulated to Committee members for comments prior to being submitted.
- 4.6 Whilst there is merit in establishing a national board to set standards of good governance and best practice across the LGPS, there are concerns as to the value in establishing the local pension boards to scrutinise the scheme manager. However, the Public Sector Pensions Act binds the LGPS to local boards (which must have equal representation of employers and employees) so the Fund’s response focuses on clearly defining the role of the local boards, responsibilities

of the various governance bodies and conflicts of interests to ensure that they work effectively within the new governance framework.

- 4.7 The Fund's response calls for minimum prescription in the regulations as to the structure of the new bodies. This is to ensure each body reflect the requirements of the relevant stakeholders and are able to adapt to change and, in respect of the local boards, reflect the local governance arrangements that could vary across the funds.
- 4.8 The issue of training is crucial given the technical aspects of pensions and a significant amount of training will be required for members of the local board to discharge their responsibilities adequately.
- 4.9 The covering letter (Appendix 3) reiterates the Fund's view that the existing governance arrangements for the LGPS provide a high level of scrutiny by relevant stakeholders and with a national board to set standards across the whole LGPS, it is not clear that an additional layer of local scrutiny will add value.

## **5 CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LGPS**

- 5.1 The DCLG and LGA issued a joint call for evidence on 21 June 2013 about increasing co-operation between funds as a means to control costs. This will then be fed into the formal consultation on reforming the structure of the LGPS which will commence later in the year.
- 5.2 A roundtable event held by the LGA and DCLG put forward high level and secondary objectives for debate as follows:
  - High level objectives
    - 1) Dealing with deficits
    - 2) Improving investment returns
  - Secondary Objectives
    - 1) To reduce investment management fees
    - 2) To improve flexibility of investment strategies
    - 3) To provide for greater investment in infrastructure
    - 4) To improve the cost effectiveness of administration
    - 5) To provide access to higher quality staffing resource
    - 6) To provide more in-house investment resource
- 5.3 Within the response they wish to receive evidence to support answers to the following 5 questions:
  - (1) How can the LGPS best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – while adapting to become more efficient and to promote stronger investment performance?
  - (2) Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?
  - (3) What options for reform would best meet the high level objectives and why?

- (4) To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?
- (5) What data is required in order to better assess the current position of the LGPS, the individual scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

5.4 The Fund's response will be circulated prior to the Committee meeting for comments. The deadline for the response is 27 September 2013.

## **6 RISK MANAGEMENT**

6.1 No decision is required and therefore a risk assessment in compliance with the Council's decision making risk management guidance is not necessary.

## **7 EQUALITIES**

7.1 An equalities impact assessment is not necessary.

## **8 CONSULTATION**

8.1 The Committee were consulted on the Fund's responses before they were submitted.

## **9 ISSUES TO CONSIDER IN REACHING THE DECISION**

9.1 N/a

## **10 ADVICE SOUGHT**

10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

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<b>Background papers</b>	Public Sector Pensions Act 2013 DCLG & LGA Call for Evidence on the future structure of the LGPS
<b>Please contact the report author if you need to access this report in an alternative format</b>	