



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	13
20 June 2014	
10.30	
	Public

FUND GOVERNANCE & CREATION OF NEW PENSION BOARD

Responsible Officer James Walton

e-mail: james.walton@shrophire.gov.uk

Tel: (01743)
255011

Fax (01743)
255901

1. Summary

- 1.1 The report outlines the requirement to produce a Governance Compliance Statement in line with the best practice principles published by the Communities & Local Government Department and recommends an update of the Governance Compliance Statement that was first published in February 2006 and last revised in June 2013. It also provides an update on the introduction of a Pension Board under the requirements of the Public Service Pensions Act 2013 and recommends procedures for the implementation of the Board.

2. Recommendations

- 2.1 The Committee is asked to approve, with or without comment, the revised Governance Compliance Statement at Appendix A.
- 2.2 To note the contents of the report, and in particular the requirements for the Council to establish a Pension Board by 1 April 2015.
- 2.3 To agree to the establishment of a Task and Finish Group to consider how best to implement the changes and;
- 2.4 To delegate any decisions regarding the creation of the Pension Board jointly to the Chairman of the Pensions Committee and Head of Finance, Governance and Assurance (Scheme Administrator), taking the advice of the Task and Finish Group.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 **Risk management**

Risk management is considered by Committee in making decisions under the governance arrangements outlined and in line with all relevant legislation. The Governance Compliance Statement will be issued to employers and published on the Scheme's website.

3.2 Human Rights Act Appraisal

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.3 Environmental Appraisal

There are no direct environmental, equalities or climate change consequences of this proposal.

3.4 Financial Implications

There are no direct financial implications arising from this report.

4. Background Governance

4.1 In February 2006 Members approved the Governance Compliance Statement for the Shropshire Fund which outlined the governance arrangements that had been in existence since 1994. This document was published following consultation with employers.

4.2 The Governance Compliance Statement was last approved by Committee in June 2013.

5. Purpose of Governance Compliance Statement

5.1 The regulations require an administering authority to prepare a written statement setting out:-

(a) Whether it delegates its functions, or part of its function, in relation to maintaining a pension fund to a committee, sub committee or officer of the authority

(b) And, if so, it must state:

- The terms of reference, structure and operational procedures of the delegation
- The frequency of any committee/sub committee meetings;
- Whether the committee/sub committee includes representatives of employing authorities (including non-scheme employers) or scheme members, and, if so, whether these representatives have voting rights;

(c) The extent to which delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

5.2 In 2008 the Communities & Local Government Department issued a document entitled "Best Practice in Governance Arrangements for

Local Government Pension Schemes” which required pension funds to outline compliance against a range of best practice principles. The governance arrangements of the Shropshire Fund adhere to all these best practice principles. Compliance against these principles is shown within the Governance Compliance Statement.

- 5.3 The Governance Compliance Statement has been updated to take account of changes in Administration and to update the local discretions delegated to the Scheme Administrator in the 2014 Scheme.
- 5.4 The revised Governance Compliance Statement is attached at Appendix A. Following approval this document will be issued to all employers and published on the website.

6. Public Service Pensions Act 2013

- 6.1 During the last year the Pensions Committee have been made aware of the requirements of The Public Service Pensions Act 2013, in particular the need to introduce a new local Pension Board to assist the Scheme Manager (i.e. Shropshire Council) in ensuring compliance with legislation and the Pensions Regulator's requirements.
- 6.2 The Act requires that:
- the members of the Pension Board must not have a conflict of interest (though being a member of the LGPS is specifically mentioned as not being treated as a conflict in this circumstance), and
 - the Pension Board must have equal numbers of employer representatives and member representatives.
- 6.3 It further puts a requirement on each Pension Board member to have an appropriate level of knowledge and understanding in relation to the scheme, local policy and overall pension legislation to properly exercise their function as a Pension Board member.

7. LGPS Pension Board Requirements

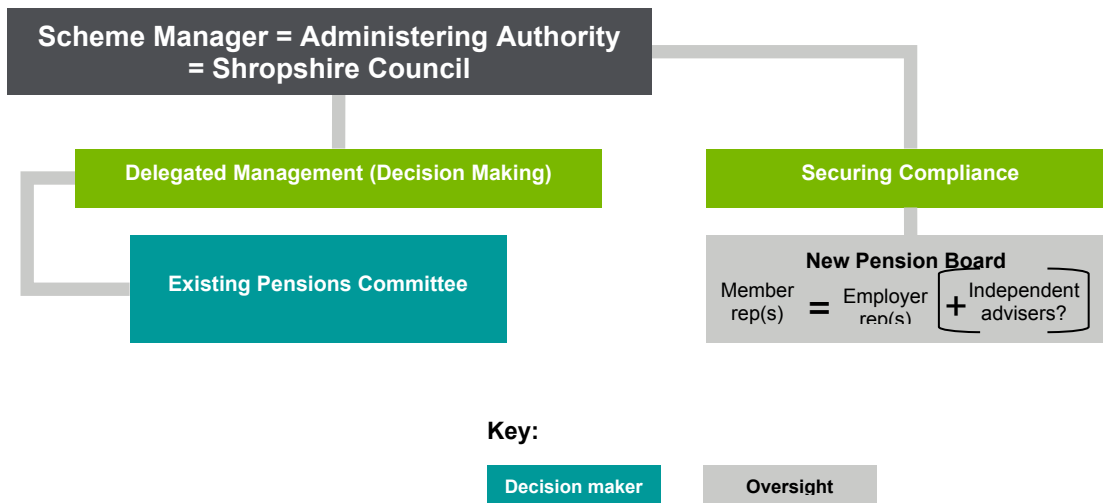
- 7.1 It is expected that the LGPS legislation:
- will require each LGPS Administering Authority to put a Pension Board in place **in addition** to any existing Pensions committee – this will be the default position.
 - may have minimum requirements in relation to the numbers of scheme member and employer representatives on the Board (and, under the Act, those numbers have to be equal numbers)
 - may prevent some or all members of the existing Pensions Committee from also being members of the Pension Board (to ensure some element of independent oversight)
 - will require the terms of reference and all appointments to the Pension Board to be agreed by full Council (and, as such, these cannot be delegated to the Pensions Committee)

- will highlight that the Pension Board can provide oversight as to whether the Fund is complying with legislation and with the Pension Regulator's guidance.
 - will confirm that the Pension Board should not have decision making powers in relation to the Fund.
- 7.2 It is important to note that local authority legislation (such as the delegating of functions via a local authority committee or allowing co-opted members to sit on such a committee) will not apply to this new Pension Board as it is being constituted under the Public Service Pensions Act (rather than any Local Government Act). Accordingly the LGPS regulations, when made, will include the appropriate powers and limitations for the creation of the Pension Board.
- 7.3 The draft LGPS regulations are expected to include some flexibility to allow this new Pension Board role to be merged with an existing Pension Committee. However, it is understood that this flexibility is intended for non-local authorities (such as the Environment Agency) for which it is more suited. Any authority wishing to consider this route will be required to demonstrate that they will have the necessary structure and processes in place to meet certain requirements. The potential conflict between local authority legislation and the Public Service Pensions Act will make this option highly impractical for bodies such as Shropshire Council, not least due to the difficulty in demonstrating self-scrutiny and the need to have equal numbers of employer representatives and scheme member representatives (resulting in Shropshire Council losing majority membership of the Pension Committee).

8. Creation of the Shropshire Pension Board

- 8.1 The draft regulations are expected to have an eight week consultation period (from late June or early July) with final regulations being issued in the autumn (we understand September is being aimed for, though this may slip to October).
- 8.2 Some of the key stages to implementing the new Pension Board will include:
- Responding to the draft regulations
 - Considering options for the structure of the Pension Board
 - Developing terms of reference
 - Formally agreeing creation of the Pension Board (by Council)
 - Inviting nominations to sit on the Pension Board and then holding interviews or voting
 - Training (likely three separate days)
 - Agreeing and developing the format of reporting packs

8.3 The end result will likely be as illustrated below:



8.4 Given this whole process must be completed by April 2015, it is expected that any final decision by Council will need to be made no later than the 10 December 2014 meeting, leaving very little time once final regulations are made, as illustrated below.

Regulations laid	September / mid-October 2014
Consider options / develop terms	Possibly just 4-6 weeks
Council approval	10 December 2014
Appointments	January / February 2015
Induction training – say 3 x ½ days	February / March 2015

Deadline
1/4/15

It will be necessary for the response to the consultation on the draft regulations and the initial work in considering the appropriate options and developing the proposed terms of reference for the new Board to be carried out prior to the final regulations being issued. Accordingly, the Pensions Committee are asked to establish a Task and Finish Group to consider and develop options relating to the establishment of the Board. It is recommended that this Task and Finish Group's membership consists of the Chairman of the Pensions

Committee together with one other employer representative and one scheme member representative. It is expected that the Group would need to meet on at least two occasions, perhaps in late July and early September.

In addition, it is expected that some decisions may need to be made outside of the times when the Pensions Committee will be meeting. It is therefore recommended that delegated authority be jointly provided to the Chairman of the Pensions Committee and the Head of Finance, Governance and Assurance to decide these matters as they arise, taking the advice of the Task and Finish Group as appropriate. Reports will be provided to the Pensions Committee at each meeting on the progress of the Task and Finish Group, and on any decisions made by the Chairman and Head of Finance, Governance and Assurance. It should be noted that any decision in relation to the format, size and operation of the Pension Board will be subject to formal agreement by the Council, and accordingly any decisions made by the Chairman and Head of Finance, Governance and Assurance will likely form part of the recommendations to Council.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, 18 June 2013, Governance Compliance Statement</p>
<p>Cabinet Member N/A</p>
<p>Local Member N/A</p>
<p>Appendices A – Governance Compliance Statement (revised June 2014)</p>