

FALKIRK COUNCIL

Subject: PUBLIC SERVICE PENSIONS ACT 2013 – GOVERNANCE
Meeting: PENSIONS COMMITTEE AND PENSIONS PANEL
Date: 5 SEPTEMBER 2013
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This report updates members on various governance issues arising from the Public Service Pensions Act 2013 (“the Act”).

2. KEY PROVISIONS OF THE ACT

- 2.1 The Act introduces new governance requirements for all public sector schemes.
- 2.2 The Act sets out 4 distinct roles to be performed within each scheme:

Responsible Authority

This is the person who sets the policy and makes the rules of the scheme. For the Local Government Pension Scheme in Scotland, this is the Scottish Ministers.

Scheme Advisory Board

This will operate at a national level and will be responsible for providing advice to the “Responsible Authority”. Further regulations may provide for the Board to give advice to Scheme Managers and Pensions Boards. A levy on Funds may be needed to pay for the Advisory Board.

Scheme Manager

This is the person or corporate body responsible for managing or administering the Scheme. For the Local Government Pension Scheme, this is the particular Fund designated in the Regulations to be an administering authority (e.g. Falkirk Council).

Pension Board

This is a body with responsibility for assisting the “Scheme Manager” in securing compliance with the scheme rules, any other relevant legislation, and the requirements of the Pensions Regulator.

- 2.3 At a national level, the Scottish Minister will remain responsible for policy. The Scheme Advisory Board will have a remit to advise the Scottish Ministers on any regulatory changes it thinks appropriate. Further regulations may expand on the role of the Advisory Board.

- 2.4 At a local level, the Scheme Manager will manage and administer the Scheme assisted by the Pension Board. The Scheme Manager role is akin to the existing Pensions Committee in that it has a decision making role. The Pension Board has a compliance and scrutiny role and would sit more appropriately with the existing Pensions Panel.
- 2.5 The Act provides that the Scheme Manager and Pension Board roles may be undertaken by the same Committee. At this stage it is not known whether a national policy will be instituted or whether each Fund will be able to decide for itself whether to have separate or combined committees.
- 2.6 The Act also provides that scheme rules must be amended to specify that:
- Pension Board members must not have conflicts of interest; and that
 - each Pension Board should have an equal number of employer and member representatives

3. MATTERS ARISING

- 3.1 The major point of discussion will be whether Funds should have a separate Committee and Pension Board or a combined arrangement. Those who support the combined option argue that this is a more efficient approach, especially in an era of strained public finances, whereas others argue that a combined body cannot possibly fulfil the scrutiny role required in the Act by a Pension Board.
- 3.2 If a combined Committee/Board were to be established, that entity would be the Fund's decision making body and would require to have an equal numbers of employer and member representatives. If separate Pensions Committee and Pension Boards are established then only the Pension Board will require equal representation.
- 3.3 In practical terms, if the existing Pensions Panel were to become the Pension Board, then Panel numbers would have to be altered to an even number (to allow there to be an equal split of member and employer representatives) and the current balance of members would have to change since this is currently weighted 10 to 5 in favour of employer representatives.
- 3.4 The Act requires those charged with scheme governance to have a knowledge of scheme rules and general pensions law and gives the Pensions Regulator power to issue codes of practice including one relating to pensions knowledge and understanding.

4. DEVELOPMENTS IN ENGLAND AND WALES

- 4.1 The introduction of new scheme arrangements in England and Wales from April, 2014 has resulted in a Shadow Scheme Advisory Board being established. Joanne Segars, the Chief Executive of the National Association of Pension Funds, has been appointed as the interim chairperson. A series of sub-committees have also been established covering:
- Administration and Communications
 - Value for Money and Collaboration
 - Governance and Standards
 - Investment and Engagement
 - Cost Management and Contributions

- 4.2 A separate Scottish Advisory Board will be established in April, 2015. In the interim, the SLOGPAG Group will address all matters of common concern. The SLOGPAG is a tripartite group involving Unions, Employers and the Scottish Ministers. It had been assumed that the SLOGPAG would transform itself into the Scottish Scheme Advisory Board. However, as one of the key roles of the Advisory Board will be to advise the Scottish Ministers, Scottish Ministers will themselves not be able to sit on the Board. The Advisory Board is therefore likely to become a bilateral forum with Union and Employer representation.

5. CONCLUSION

- 5.1 The Public Service Pensions Act 2013 received Royal Assent in May, 2013 and requires public sector schemes to update their governance arrangements.
- 5.2 The single most important aspect is whether Fund business should be conducted by a combined board with equal employer and member representation or by two separate boards in which case only the Pension Board would require parity. The Scottish Ministers are expected to consult on this and other related matters in due course.
- 5.3 If separate bodies *are* required, the Pensions Committee would seem best suited to fulfil the role of Scheme Manager and the Pensions Panel, having been originally set up to provide oversight, support and guidance to the Committee, best suited, once adapted, to the meet the role of Pension Board.
- 5.4 The provisions of the Act mean that improving Trustee knowledge and skills will become a greater priority for the Pensions Regulator. The Pensions Manager and Chief Finance Officer will continue to seek out training opportunities for Committee and Panel members in accordance with the Fund's training policy.

6. RECOMMENDATIONS

6.1 Members of the Committee and Panel are invited:

- i) to note these developments in relation to the governance requirements for the Local Government Pension Scheme; and
- ii) to express a view as to whether the governance needs of the Fund would be best served through a combined Pensions Committee or through a separate Pensions Committee and Pension Board.

Chief Finance Officer

Date: 21 August 2013

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL