

**FALKIRK COUNCIL**

**Subject: LGPS (SCOTLAND) 2015**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 MARCH 2014**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 The Public Service Pensions Act 2013 requires major changes to be made to the Local Government Pension Scheme (LGPS) with effect from 1 April, 2015.
- 1.2 This includes:
- changing the scheme from a Final Salary to a Career Average (CARE) basis;
  - aligning Scheme Retirement Age with State Pension Age as this increases from age 65 to 68; and
  - introducing new governance arrangements
- 1.3 This report updates the Committee on the latest developments in implementing the new scheme arrangements.

**2. BACKGROUND**

- 2.1 The aim of the Public Service Pensions Act 2013 is to establish a common framework for public sector pensions in the UK and to ensure that the schemes are sustainable in the long term. The measures contained in the Act flow from the work undertaken by Lord Hutton in his public sector pensions review of 2011.
- 2.2 Negotiations regarding the LGPS are the responsibility of the Scottish Local Government Pension Advisory Group (SLOGPAG), consisting of representatives from COSLA, the Scottish Government and Trade Unions.
- 2.3 A draft Heads of Agreement, constructed within the parameters of the 2013 Act, was reached at SLOGPAG in late September, 2013 and approved shortly thereafter by Trade Union members.
- 2.4 A finalised Heads of Agreement was published by the Scottish Public Pensions Agency (SPPA) in early January and a summary of the agreement is attached at Appendix A. This document has been circulated to all Falkirk Fund employers for them to publicise to scheme members.

**3. CONSULTATIONS**

- 3.1 With the Heads of Agreement having been secured, a number of consultations have been launched as part of the due process towards implementing the new scheme.

### **3.2 Consultation on draft scheme regulations**

- 3.2.1 The draft scheme regulations set out how the scheme is to operate from April, 2015. The consultation has been of a technical nature, designed to establish whether the regulations are generally fit for purpose and whether specifically they conform to the 2013 Act and the Heads of Agreement. The consultation lasted from 6 January until 14 February and a joint response has been submitted by the pensions managers of the Scottish Funds.

### **3.3 Consultation on governance arrangements**

- 3.3.1 A consultation paper was issued by the Scottish Public Pensions Agency on 23 December 2013 in order to stimulate debate about the governance issues raised by the 2013 Act. The closing date for responses was 3 February, 2013.
- 3.3.2 A response to the consultation on behalf of Falkirk Council Pension Fund was agreed by the Convenors of both the Pensions Panel and Pensions Committee and has been submitted. The consultation response is attached at Appendix B of this report. The Falkirk response is consistent with the responses submitted by the LGPS Fund Convenors Group and the national Pension Fund Officers Group.
- 3.3.3 The key governance issues are covered at more length in Section 4 below.

### **3.4 Consultation on the Pension Regulator's Draft Code of Practice**

- 3.4.1 The 2013 Act extends the role of the Pensions Regulator (TPR) to provide regulatory oversight of public service pension schemes.
- 3.4.2 A draft code of practice relating to public service schemes was issued for consultation on 10 December 2013.
- 3.4.3 The code is intended to be a reference document for Scheme Managers and Pensions Boards to ensure that schemes are being appropriately managed in certain key areas:
- Knowledge and Understanding
  - Conflicts of Interest
  - Management of Risk
  - Scheme Administration
  - Resolving Member Disputes
- 3.4.4 Further information regarding the obligations placed on Funds by the Code will be reported at future meetings.

## **4. GOVERNANCE CONSIDERATIONS**

- 4.1 Members will recall that the 2013 Act identifies four key governance roles for all public service schemes.

- **Responsible Authority** – the body charged with making scheme rules
- **Scheme Manager** – the body that makes decisions within a Fund
- **Pension Board** – the body responsible for assisting the Scheme Manager to ensure compliance with scheme regulations and the requirements of the Pensions Regulator.
- **Scheme Advisory Board** – the body responsible for providing advice to all parties regarding the effective administration and management of the scheme.

4.2 The key issues considered in the consultation were:

- Whether the roles of Scheme Manager and Pension Board should be combined?
- How the role of the Pension Board should be undertaken?
- How conflicts of interests should be managed for Pension Board members?
- How the Scheme Advisory Board should be established?
- What factors should be taken into account in the structural review of the LGPS?

4.3 Although the SPPA governance consultation has ended, it may be some months yet before formal guidance is made available. This is in part due to the fact that the same governance issues are still actively being debated in England and Wales.

4.4 Subject to further ministerial guidance, it is expected that the Falkirk Fund's Pensions Committee will fulfil the Scheme Manager role and that the Pensions Panel will be reconstituted as the Pensions Board. However, for the latter to occur, the Panel would need to be recast to contain an equal number of member and employer representatives. The revamped Panel (or Board as it would be called) would also have to consider how best to discharge its statutory function of assisting the Scheme Manager to secure compliance with Regulations.

4.5 In view of the inevitability of forthcoming changes to the Fund's governance arrangements, Panel and Committee may wish to consider whether there are any other alterations that could be made to improve the status quo. These could include:

- Having joint Committee and Panel meetings
- Having an independent specialist observer on the Panel and/or Committee

4.6 A feature of the Heads of Agreement is a commitment from the signatories to review the structure of the LGPS in Scotland (i.e. essentially to consider whether there should be some aggregation of Funds across Scotland). It is expected that this work will be taken forward by the Scheme Advisory Board once it has been established. A similar exercise - the "Pathfinder" initiative of 2011 - concluded that there was no clear business case for fund mergers from either an administrative or investment perspective.

4.7 A structural review has been underway in England and Wales since Spring 2013, focusing on the pros and cons of fund mergers and the potential for the use of a collective investment vehicle. Yet another consultation is expected in the next few months underlining the sensitivities and complexities involved.

## **5. CONCLUSION**

- 5.1 Publication of the Heads of Agreement is a further milestone on the path to having the new scheme in place for 1<sup>st</sup> April, 2015.
- 5.2. A period of engagement is now required between Funds and the Scottish Public Pensions Agency to ensure the scheme rules are fit for purpose. With regard to the guidance awaited on governance matters, it is hoped that any proposals will facilitate strong governance arrangements and be sufficiently flexible and practical to allow the best of existing arrangement to be retained.
- 5.3 The technical consultation into the draft scheme rules confirms that the new scheme will pose significant challenges for employers in terms of software capabilities and staff resources. An e-mail alerting employers to these issues has been circulated recently.
- 5.4 Other workstreams pertaining to the new scheme will be taken forward as appropriate. These will include:
- Communications with Scheme Members
  - Staff and Employer Training on the New Scheme
  - Meeting the Regulator's standards

## **6. RECOMMENDATION**

- 6.1 **The Committee is asked to note these developments in relation to the establishing of LGPS (Scotland) 2015 and is invited to comment as appropriate.**

**Chief Finance Officer**

**Date: 20 February 2014**

**Contact Officer: Alastair McGirr**

### **LIST OF BACKGROUND PAPERS**

1. Pension Regulator's Draft Code of Practice No 14 - Governance and Administration of Public Service Pension Schemes

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506304 and ask for Alastair McGirr.