

## PENSIONS INVESTMENT COMMITTEE

<b>REPORT TITLE</b>	Update on the Local Government Pension Scheme reforms		
<b>KEY DECISION</b>	No	<b>Item No:</b>	6
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Executive Director for Resources & Regeneration		
<b>CLASS</b>	Part 1	<b>Date:</b>	2 September 2013

### 1. PURPOSE

- 1.1 This report provides Members of the Pensions Investment Committee with a summary update on some of the key Government reforms to public sector pensions following the work of Lord Hutton.

### 2. RECOMMENDATION

- 2.1 Members of the Pensions Investment Committee are recommended to note the contents of the report and offers any views which could be incorporated into the consultation process.

### 3. BACKGROUND

- 3.1 Following Lord Hutton's report on Public Service Pensions in 2011, the Government introduced the Public Service Pensions Act 2013 (the "Act") to address several of the recommendations contained in the report.
- 3.2 The Government has issued three consultation papers covering structural reform of the Local Government Pension Scheme (LGPS), new governance proposals for the LGPS and detailed changes in the regulations for administering pension schemes and their benefits. These papers cover the following areas:
- a) A 'call for evidence' on the future structure of the LGPS
  - b) New Governance Arrangements
  - c) Detailed changes to the regulations to introduce the reformed pension scheme from 1<sup>st</sup> April 2014

### 4 A CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LGPS

- 4.1 In the spring, the Government announced that it wanted to undertake a 'root-and-branch review of the Local Government Pension Scheme's investment regulations as part of a 'call for evidence'. One of the key features of this review is whether or not there should be mergers among existing local government pension schemes.

4.2 On 16 May 2013, the Local Government Association (LGA) and the Department for Communities and Local Government (DCLG) held a roundtable event on the potential for increased co-operation within the LGPS, including the structural change to the existing funds. Attendees represented administering authorities, employers, trade unions and the actuarial profession. It is suggested that it would be more efficient to operate the LGPS as a smaller number of larger funds. In theory, the larger funds would have lower unit administration costs and would have better investment returns.

4.3 The following high level and secondary objectives for structural reform are being proposed:

High level objectives

1. Dealing with deficits
2. Improving investment returns

Secondary objectives

1. To reduce investment fees
2. To improve the 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 resources
6. To provide more in-house investment resource

4.4 The Government has invited responses to a number of questions posed in relation to LGPS reform and the objectives mentioned above. The analysis of the submissions will then inform a formal consultation on the options for change to be published by DCLG in the autumn. Responses are due back by 27 September 2013.

## **5 NEW GOVERNANCE ARRANGEMENT DISCUSSIONS PAPER**

5.1 The Act includes several key provisions relating to the administration and governance of the new public service pension schemes, including the LGPS. In the case of the LGPS in England and Wales, these arrangements will apply to the new Scheme which comes into effect on 1 April 2014. The Government has issued a further 'discussion paper' to consult and to explore specific sections of the Act, which impact on the governance arrangements in the new Scheme. The following issues are being considered:

- Responsible authority
- Scheme manager
- Pension board
- Pension board information, and
- Scheme advisory board

5.2 The Act requires scheme managers (officers) to establish a scheme advisory board and local pensions board respectively (though the paper discusses the

option that they may be one and the same). The Pension Board would essentially be an oversight and scrutiny function to the operation of the Pension Fund and the decisions of the Pensions Investment Committee. The remit of the Pensions Board, as outlined in the Pension Act, would be:

- a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme;
- b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
- c) such other matters as the scheme regulations may specify.

5.3 It is expected that the Pension Board will include equal numbers of employer and pension scheme member representatives.

5.4 A response to this consultation is required by 30 August 2013.

## **6 LOCAL GOVERNMENT PENSION SCHEME 2014 REGULATIONS**

6.1 A third consultation paper has been issued on the detailed regulation changes needed to implement the reformed pensions scheme, as agreed between Government and the unions following the review of public sector pensions by Lord Hutton. This consultation sought detailed and generally technical comments on the scheme administration by 2 August 2013 (with a relatively short 6 weeks consultation period). It is felt there are no fundamental principles involved.

## **7 FINANCIAL IMPLICATIONS**

7.1 The comments of the Executive Director for Resources & Regeneration have been incorporated into this report.

## **8 LEGAL IMPLICATIONS**

8.1 This report presents information on the pending changes resulting from the Public Services Pensions Act 2013. This includes several key provisions relating to the administration and governance of the new public service pension schemes established under section 1 of the Act. As these changes are due to come into effect from 1 April 2014, officers will make a full assessment of the existing governance arrangements and any potential changes needed, to ensure that the Authority is compliant with the new arrangements which come into place.

## **9 ENVIRONMENTAL IMPLICATIONS**

9.1 There are no specific environmental implications directly arising from this report.

## **10 HUMAN RESOURCES IMPLICATIONS**

10.1 There are no specific human resources implications directly arising from this report.

## **11 CRIME AND DISORDER IMPLICATIONS**

- 11.1 There are no specific crime and disorder implications directly arising from this report.

## **12 EQUALITY IMPLICATIONS**

- 12.1 There are no specific equalities implications directly arising from this report.

## **13 CONCLUSION**

- 13.1 The LGPS is facing major changes which come in to effect from 1 April 2014. Members of the Pensions Investment Committee and officers need to be sufficiently prepared for the smooth implementation of these changes. Officers will continue to keep Members updated on the results of any consultations, exercises and any emergent issues on LGPS reform over the coming months.

### **FURTHER INFORMATION**

If there are any queries on this report or you require further information, please contact

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