

AGENDA

Meeting: Wiltshire Pension Fund Committee
Place: Committee Rooms C and D - Council Offices, Monkton Park,
Chippenham, SN15 1ER
Date: Thursday 11 December 2014
Time: 10.30 am

Please direct any enquiries on this Agenda to Libby Beale, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718214 or email elizabeth.beale@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225) 713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

Briefing arrangements:	Date	Time	Place
	Thursday 11 December	9:30am	Committee Rooms C and D

Membership:

Wiltshire Council Members:

Cllr Tony Deane (Chairman)
Cllr Charles Howard (Vice-Chair)
Cllr Mark Packard
Cllr Sheila Parker
Cllr Roy While

Swindon Borough Council Members

Cllr Steve Allsopp
Cllr Brian Ford

Substitute Members

Cllr Oliver Donachie

Substitute Members

Cllr Chris Hurst
Cllr Bob Jones MBE
Cllr Gordon King
Cllr Christopher Newbury
Cllr Fleur de Rhé-Philippe
Cllr Ian Thorn
Cllr Philip Whitehead

Employer Body Representatives

Mrs Diane Hall
Mrs Linda Stuart

Observers

Mr Tony Gravier
Mr Mike Pankiewicz

PART I

Items to be considered when the meeting is open to the public

1 **Membership**

To note any changes to the membership of the Committee.

2 **Attendance of Non Members of the Committee**

To note the attendance of any non-members of the Committee.

3 **Apologies**

To receive any apologies or substitutions for the meeting.

4 **Minutes** *(Pages 1 - 6)*

To confirm the minutes of the meeting held on 11 September 2014.

5 **Chairman's Announcements**

To receive any announcements through the Chairman.

6 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

7 **Public Participation and Councillors' Questions**

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named above for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named above (acting on behalf of the Corporate Director), no later than 5pm on Thursday 4 December 2014. Please contact the officer named on the first page of this agenda for further advice. Questions may be asked without

notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

8 **CIPFA Business Services Update**

For Members' information, a verbal update will be given by Robert Summers (CIPFA Business Services) on current activities and the latest developments or issues within the LGPS sector.

9 **Update on the Current Governance Consultations** *(Pages 7 - 42)*

An update is provided on the latest consultations from DCLG and the Shadow Scheme Advisory Board of the proposed Governance Regulations.

10 **Local Pension Boards & Governance Arrangements Review** *(Pages 43 - 66)*

An update from the Head of Pensions on the proposed establishment of a Local Pension Board from 1 April 2015 and review of the governance arrangements between this Committee and the Investment Sub-Committee.

11 **Pension Fund Risk Register** *(Pages 67 - 74)*

An update from the Head of Pensions on the Wiltshire Pension Fund Risk Register is circulated for Members to note.

12 **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on Thursday 12 March 2015.

13 **Urgent Items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

14 **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 15 – 18 because it is likely that if members of the public were present

there would be disclosure to them of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART II

Item(s) during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

15 **CIPFA Pension Administration Benchmarking Club Report** *(Pages 75 - 102)*

To note a confidential report reviewing the Fund's performance compared to the other members of the CIPFA Pension Administration Benchmarking Club.

16 **Investment Quarterly Progress Covering Report** *(Pages 103 - 162)*

Two confidential reports are circulated updating the Committee on the performance of the Fund's investments for the quarter.

17 **CBRE- Review of 2013-14 & Plans for the Future** *(Pages 163 - 226)*

A confidential Annual Report from CBRE is attached and Members are asked to consider this along with the verbal report at the meeting.

18 **Berenberg - Review of 2013-14 & Plans for the Future** *(Pages 227 - 296)*

A confidential report from Berenberg bank is attached and Members are asked to consider this along with the verbal report at the meeting.

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WILTSHIRE PENSION FUND COMMITTEE

MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 11 SEPTEMBER 2014 AT KENNET ROOM - COUNTY HALL, TROWBRIDGE BA14 8JN.

Present:

Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice-Chair), Cllr Mark Packard,
Cllr Sheila Parker and Cllr Roy White

Also Present:

Mr Jim Edney and Joanne Holden and Linda Stuart

65 **Membership**

David Anthony, Head of Pensions, informed the Committee that two new employer representatives had been appointed as new Members of the Committee. Linda Stuart from Hardenhuish Academy and Diane Hall from Selwood Housing.

66 **Attendance of Non members of the Committee**

There were no non members of the Committee present.

67 **Apologies for Absence**

Apologies were received from:

- Mike Pankiewicz
- Tony Gravier
- Cllr Brian Ford
- Cllr Allsopp

68 **Minutes**

The Minutes of the meeting held on 17 July 2014 were presented for consideration. It was;

Resolved

To approve the Minutes of the previous meeting as a true and correct record.

69 **Chairman's Announcements**

The Chairman made the following announcements:

Self Assessment Forms

The Chairman reminded all of the Committee Members to fill in and submit their Self Assessment Forms, noting the importance of the assessments to identify training needs.

Local Pension Boards

The Head of Pensions updated the Committee on the implementation of the Local Pension Board, noting that they were still waiting for the regulations which should be out end of September/ early October. The importance of employing at least one professional to the board was mentioned. An update will be brought to the December meeting.

70 **Declarations of Interest**

There were no declarations of interest.

71 **Public Participation and Councillors' Questions**

There were no questions or statements submitted.

72 **External Audit Report**

The Head of Pensions updated the Committee on the latest external audit report and it was noted that no issues of concern.

Resolved

The Committee noted the Final Audit Report.

73 **Pension Fund Risk Register**

The Head of Pensions updated the Committee on the Pension Fund Risk Register noting that there had not been any significant changes.

Questions were asked about PEN015. It was noted that work was on-going to develop a framework to review and monitor admitted bodies who were close to cessation. Following which it was;

Resolved

To note the attached Risk Register and measures being taken to mitigate risks.

74 **Budget Monitoring 2014-15 Report**

Catherine Dix, Strategic Pension Manager, updated the Committee on the Pension Fund Budget Monitoring 2014-2015 Report. It was;

Resolved

To note the report.

75 **Officers Training Update**

The Head of Pensions introduced the annual officers training update, noting that four officers were currently studying the Chartered Institute of Payroll Professionals – Foundation Degree in pension Administration, and two officers had completed the Certificate in Pension Administration and two more currently undertaking the same course.

Attention was drawn to the in-house training which would focus on the LGPS. Other training avenues included corporate training and external training.

Benchmarking had also been discussed for comparisons with other funds and noting the importance of training to mitigate the risk of lack of expertise.

The possibility of a training passport was discussed and the Head of Pensions would look into the possibility of introducing the initiative.

Succession planning was discussed and it was noted that the Pension teams structure provided a progression route, was working to keep the roles interesting and enable development opportunities in order to retain their officers. It was;

Resolved

To note the annual offices training report.

76 **Appointment of Employer Representatives to the Wiltshire Pension Fund Committee**

The Committee was informed that following interviews, Linda Stewart from Hardenhuish Academy and Diane Hall from Selwood Housing had been appointed as the new Members of the Wiltshire Pension Fund Committee.

The Committee welcomed Linda and Diane to the Committee.

77 **Date of Next Meeting**

The next meeting of the Wiltshire Pension Fund on the 11 December 2014 was noted.

78 **Urgent Items**

There were no urgent items

79 **Exclusion of the Public**

Resolved

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 62 to 64 because it is likely that if members of the public were present there would be disclosure to them of exempt information defined in paragraph 3 of Part 1 of the Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public. Paragraph 3 – information relating to the financial or business affairs of any particular person (including the authority holding that information).

80 **Investments Quarterly Progress Report**

The Committee was updated on the performance of the Fund's investment for the quarter. It was;

Resolved

To note the two investment reports and the updates provided by officers and advisers.

81 **Investment Review Update - Options for the Bond Allocation**

The Committee were informed of their potential options for the Fund's bond allocation. It was;

Resolved

To note the options by the advisor for the different bond options and;

To ask officers and advisor to undertake a selection process and shortlist managers to present to the Committee.

82 **Barings - An Update on the Recent Personnel Changes**

The Head of pensions introduced a paper and Brian Corris and Marino Valensise from Barings gave a verbal update on the recent changes to its investment team. Following which it was;

Resolved

To thank the representatives from Barings for their attendance, to note the updates and to take no immediate action but put Barings under formal “watch”..

83 **Partner Group - Review of 2013-14 & Plans for the Future**

Sarah Brewer and Sergio Jovele gave a verbal update on the annual report for the Pension Fund, and took questions from the Committee on the progress and future plans for that mandate. Following which it was,

Resolved

To thank the representatives from Partner Group for their attendance and noted the update.

(Duration of meeting: 10.30 am - 1.45 pm)

The Officer who has produced these minutes is Jessica Croman, of Democratic Services, direct line 01225 718262, e-mail jessica.croman@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
11 December 2014

LOCAL GOVERNMENT PENSION SCHEME (LGPS): DRAFT REGULATIONS ON SCHEME GOVERNANCE AND ASSOCIATED GUIDANCE CONSULTATIONS

Purpose of the Report

1. This report updates the Committee on the latest two consultations issued in October 2014 in relation to the new scheme governance arrangements for the LGPS from April 2015.

Background

2. As part of Lord Hutton's report published in March 2011, he highlighted a change was needed to "make public service pension schemes simpler and more transparent" and the Government carried this forward into the Public Service Pensions Act 2013. This act requires DCLG to make regulations to establish a national Scheme Advisory Board and enabling each LGPS administering authority to establish local pension boards.
3. In October 2014 two consultations were issued:
 - a) DCLG issued a consultation titled 'Better Governance and Improved Accountability in the Local Government Pension Scheme' with a closing date of 21 November 2014. This was the second consultation issued in relation to these draft regulations, the Fund having responded to the first on 15 August 2014. These regulations mainly refer to the establishment of the Local Pension Boards.
 - b) Shadow Scheme Advisory Board (SAB) published 'The Local Government Pension Scheme - Governance Guidance Consultation Document' with the same closing date of 21 November 2014. This was the draft best practice guidance notes to accompany the new governance regulations in relation to the setting up and operating a Local Pension Board.
4. The closing dates didn't permit this Committee to consider any responses to these consultations. Therefore, the decision to respond was taken by officers with agreement of the Chair and Vice-Chair of this Committee.
5. Copies of both consultations are attached to the end of this report. The SAB guidance isn't attached due to its length but copies can be obtained at www.lgpsboard.org

Considerations for the Committee

6. The DCLG consultation relates to governance and accountability. These incorporate a (second) consultation on the implementation of the Local Pension Board and national Scheme Advisory Board, as well as the initial consultation on the cost management provisions including the appointment of a national scheme actuary.
7. Outlined below is a summary of the main differences between the latest set of draft regulations and the previous version issued in the summer.

The changes:

8. Previously elected members (of any authority) were not permitted to sit on the Local Pension Board, which now appears permissible, albeit this has been introduced with the proviso that any elected member or officer of the Administering Authority who is “responsible for the discharge” of any LGPS function cannot be a member of the Board.
9. It is now quite clear that Administering Authorities will have their own flexibility to draft the terms of reference, rather than being required to fit within section 270 of the Local Government Act 1972.

What's new?

10. A new provision outlines that a Local Pension Board has the power to do anything which is “calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions”. This is assumed to be a legal point to provide sufficient flexibility for the Board to actually properly carry out their functions.

What has gone / no longer in the draft Regulations

11. Any reference to ‘other’ members of the Board who were not classed as either Employer or Member representatives. This raises a concern as to whether these types of members were still allowed, i.e. an independent chair.
12. There was no mention of the following items although this had been included in the initial consultation covering letter:
 - AGMs
 - Public equality
 - Joint Pension Boards
 - Knowledge and understanding for pension committees.
13. There were also some further minor changes to the Scheme Advisory Board provisions, additional details about the powers of the Secretary of State to appoint an actuary to carry out valuations and further details on the proposed employer cost cap which is to be applied at a national level.
14. The response from the Wiltshire Pension Fund can be seen in Appendix A. This again welcomes the degree of local flexibility maintained in the draft regulations in terms of establishing a Local Pension Board but sought clarity on the issue of the ‘other’ members of the Board that was no longer mentioned.
15. The Wiltshire Pension Fund decided not to respond to the SAB consultation on their guidance documentation as the Fund’s Head of Pension sat on the Governance Working Group and Shadow Advisory Board Governance Sub-Committee that were tasked with developing this guidance and so had already input into the process.

Risks Assessment

16. There is are no direct increased risks from these consultations being issued, but there remains a risk of the administering authority not being compliant with legislation on 1 April 2015 if the Local Pension Board is not in operation. This risk has been mitigated as far as possible through the setting up or a working group.

Environmental Impact of the Proposal

17. There is no known environmental impact of this proposal.

Safeguarding Considerations/Public Health Implications/Equalities Impact

18. There are no known implications at this time.

Financial & Legal Implications

19. There are no direct financial or legal implications considered as part of this paper.

Reason for Proposals

20. The Fund responded to this consultation to be proactive in shaping the future of the scheme.

Proposals

21. Members are asked to note the update.

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report:

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WILTSHIRE COUNCIL
Wiltshire Pension Fund
County Hall, Trowbridge, BA14 8JN
Tel: 01225 713620 Fax: 01225 713645
www.wiltshirepensionfund.org.uk



LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

Direct Line: 01225 713620
Fax: 01225 713645
Operator: 01225 713000

Robert.Ellis@communities.gsi.gov.uk

E-mail: david.anthony@wiltshire.gov.uk

Please ask for: David Anthony

Our ref: PENS/ LPBCON2

21 November 2014

Dear Mr Ellis,

Local Government Pension Scheme Governance Regulations 2014

Please find below the response on behalf of the Wiltshire Pension Fund in respect to the Local Government Pension Scheme Governance Regulations consultation.

The approach of providing local flexibility to Local Authorities to establish a Local Pension Board is welcome so this can be designed in line with the specific circumstances of each Fund.

Our only comment relates to the establishment of the Local Pension Board and the absence from the revised Regulation 107 of any reference to members of the Board who are not employer or scheme member representatives, but referred to previously as "other".

We would like clarity in the Regulations that these potential "other" members who we would see as being independent are still permissible to sit on the Board as long as they don't make up the majority?

If so, this raises the question of the status of any additional member and the definition of their independence, e.g. can an independent chairman be an elected member as long as they have no responsibilities for the discharge of any function under the LGPS regulations?

Our view is that these two issues should be explicit in the final Regulations to ensure clarity for Administering Authorities setting up these Boards.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "D. Anthony", is written over a horizontal blue line.

David Anthony
Head of Pensions

Michael Hudson
Treasurer to the Pension Fund

Councillor Tony Deane
Chairman of Pension Fund

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Department for
Communities and
Local Government

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

Better Governance and Improved Accountability in the Local Government Pension Scheme

Consultation

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October 2014

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The Consultation Process and How to Respond

Scope of the consultation

<p>Topic of this consultation:</p>	<p>The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.</p> <p>1. The intention of these draft regulations is to ensure that the Local Government Pension Scheme in England and Wales is managed well at both national and local levels. They also set out proposals for how the future costs of the scheme to employers and taxpayers will be controlled. Similar arrangements are being introduced for all major public service pension schemes.</p> <p>2. A national scheme advisory board would advise the Department on changes to the scheme’s regulations, for example to reflect changes in costs. In addition, each of the 89 administering authorities in England and Wales would establish a local pension board to assist them in managing the Scheme at a local level.</p> <p>3. The Department would need to ensure that any increases or decreases in the cost of the scheme of two percentage points or more would be offset, for example, by varying the rate at which scheme members’ benefits build up. This would protect employers and taxpayers against unexpected increases in pension costs.</p> <p>4. In addition, the proposed national scheme advisory board would aim to ensure that the total pension contributions paid by employers and employees were within one percentage point of 19.5% of pensionable pay and that employee contributions were one third of the overall costs. The national board could make recommendations to the Department on changes to the scheme to achieve these targets.</p> <p>5. A more detailed explanation of the arrangements described at paragraphs 3 and 4 above can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf</p>
<p>Scope of this consultation:</p>	<p>This consultation seeks responses from interested parties on a new Part 3 (Governance) of the Local Government Pension Scheme Regulations 2013 (“the Principal 2013 Regulations”) which came into force on 1 April 2014. In addition to the proposed provisions on cost control, the draft regulations at Annex A also includes regulations on Scheme governance that were the subject of a consultation earlier in June at</p>

	<p>https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322356/consultation_letter_on_June_2014_governance_regulations_final_version-23_june_-with_ISBN.pdf .</p> <p>The closing date for comments on those draft regulations was 15 August, but this consultation now provides a second opportunity to comment on those provisions alongside what is now being proposed on cost control. However, it should be noted that in the light of discussions with the shadow scheme advisory board and comments from other scheme interested parties, the draft regulations relating to the local pension boards and the Scheme Advisory Board consulted on earlier have been revised. Comments are therefore invited on the complete set of draft regulations at Annex A</p> <p>The comments received in response to the June consultation will be taken into account with those received in response to this consultation.</p>
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted .
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	The consultation period will be 6 weeks ending on 21 November 2014. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with "Principles of Consultation":	This consultation complies with the "Principles of Consultation" . The consultation will be for 6 weeks. This reflects the extensive discussions already held with key interested parties on the development of policy in this area and the extent to which the regulations need to comply with Treasury directions and regulations that have already been subject to consultation.

Background

<p>Getting to this stage:</p>	<p>The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer.</p> <p>Since 1996, the cost of the Local Government Pension Scheme to employers and taxpayers has increased from £1.3 billion to £5.9 billion in 2010/11. The proposals in this consultation on scheme governance and cost management are a key element of the Government’s reform agenda and will ensure that those who pay the Scheme’s costs are fully protected against the rising costs associated with improving longevity. Fairness to the taxpayer is at the heart of the agenda.</p> <p>The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013 (“the 2013 Act”). A key objective of the 2013 Act is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, the Government has established an employer cost cap mechanism to provide backstop protection to the taxpayer and to ensure that the risks associated with pension provision are shared more fairly between employers and scheme members. Details of how the employer cost cap is to be calculated, maintained and the process to be followed when the employer cost cap is breached can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_13_0314.pdf</p> <p>In addition to making provision for the employer cost cap, the regulations also make provision for the agreement reached with the Government by the Local Government Association and local government trade unions to provide greater control over the contribution rates actually paid by employers and scheme members. Details of how this element of the proposed cost control arrangement is intended to work can be found at Chapter 5 of the above pdf document.</p>
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How to respond

1. You should respond to this consultation by **21 November 2014**.
2. You can respond by email to Robert.Ellis@communities.gsi.gov.uk. When responding, please ensure you have the words “LGPS Governance Regulations 2014” in the email subject line.

Alternatively you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Workforce Pay & Pensions
2nd Floor
South East Quarter
Fry Building
2 Marsham Street
LONDON SW1P 4DF

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: <https://www.gov.uk/government/organisations/department-for-communities-and-local-government>

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about any issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the principles on which this consultation is being conducted is at <http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>. Are you satisfied that this consultation has followed these principles? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Department for Communities and Local Government,
Fry Building, 2 Marsham Street, London SW1P 4DF.

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Chapter 1

Introduction

- 1.1 This document, in accordance with section 21 of the 2013 Act, commences a period of consultation on the new governance provisions, including cost control arrangements, for the Local Government Pension Scheme. Your comments are invited on the set of draft regulations at **Annex A**.
- 1.2 **The closing date for responses is 21 November 2014.**

Background and context

- 1.3 This consultation represents another step in the process of reform that began with the Government's commitment to review the efficiency, effectiveness and sustainability of public service pension schemes.
- 1.4 A key aim of the reform process is to ensure a fair balance of risks between scheme members and the taxpayer. To achieve this, section 12 of the 2013 Act requires schemes to set a rate, expressed as a percentage of pensionable earnings of members of the scheme, to be used for the purposes of measuring changes in the cost of the scheme.
- 1.5 The 2013 Act also provides for costs to be measured via regular actuarial valuations and for the establishment of an employer cost cap mechanism to ensure that these costs remain sustainable and fair to taxpayers. Treasury Directions and Regulations specify how valuations are to be carried out and how the employer cost cap mechanism is to operate. In the case of the Local Government Pension Scheme, the employer cost cap will be calculated by a Scheme actuary appointed by the Secretary of State under these regulations based on the 2013 model fund valuation and in accordance with Treasury Directions.
- 1.6 Copies of the relevant Treasury Directions, regulations and accompanying policy paper can be found at <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism>.
- 1.7 In addition to the Treasury employer cost cap process, provision is also to be made for the internal cost management process agreed between Government, the Local Government Association and local government trade unions. Unlike the Treasury's employer cost cap process which will monitor changes in the value of benefits in the new Scheme over time, the aim of the internal process is to stabilise the actual contribution rates paid by employers and members in respect of the new Scheme within the overall target cost of 19.5% of pensionable paybill with the target yield from scheme members' contributions being one third of the overall cost.
- 1.8 A detailed explanation of how the internal element of the proposed cost control arrangement is intended to work and the role of the Local Government Pension Scheme Advisory Board in both processes can be found at Chapter 5 of the

document at

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289366/public_service_pensions_actuarial_valuations_130314.pdf

Consultation responses

- 1.9 The consultation period is 6 weeks.
- 1.10. To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.
- 1.11. Your comments should therefore be sent by 21 November 2014 to Department for Communities and Local Government, Workforce Pay & Pensions, 2nd Floor, Fry Building, South East Quarter, 2 Marsham Street, London SW1P 4DF and marked "LGPS Governance Regulations 2014". Electronic responses can be sent to Robert.Ellis@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

- 2.1. The Regulations are being made under the powers conferred by the 2013 Act. Section 3(5) of the 2013 Act requires the consent of Treasury before the Regulations can be made.

Preliminary Provisions

- 2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and for the most part will come into operation on 1 April 2015.
- 2.3 **Regulations 2 to 8** amend the Principal 2013 Regulations.
- 2.4 **Regulation 8** inserts new regulations 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115 and 116 into the Principal 2013 Regulations. These provisions are described in detail immediately below, but in the case of regulations 105 to 113, only to the extent where they differ from the earlier consultation on Scheme governance.

Main Provisions

- 2.5 **New Regulation 106(6)** has been added to ensure that local pension boards are not unduly restricted in the way they choose to discharge their functions under the regulations.
- 2.6. To reflect concerns expressed by the Shadow Scheme Advisory Board and other scheme interested parties, **Regulation 107** has been amended to allow elected members to become members of a local pension board. However, **Regulation 107(3)** qualifies this provision by not allowing elected members or officers of an administering authority who are responsible for the discharge of any function under the Principal 2013 Regulations (apart from being a member of the Scheme Advisory Board or a local pension board) to become a member of that authority's local pension board.
- 2.7. **Regulation 110(3)** now extends the responsibility of the Scheme Advisory Board to include "connected schemes". Those elements of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") that concern members who receive entitlement to benefits calculated in accordance with those regulations is regarded as such a connected scheme and this amendment will ensure that the Scheme Advisory Board is able to advise local pension boards on both the Principal 2013 Regulations and the Transitional Regulations
- 2.8. **New Regulation 110(5)** confers the same wider power described at paragraph 2.5 above on the Scheme Advisory Board.

- 2.9. In addition to being responsible for appointing the Chairman of the Scheme Advisory Board, **Regulation 111(1)** has now been amended to make the Secretary of State responsible for appointing members of the Board. Previously, members of the Board were to be appointed by the Chairman and approved by the Secretary of State.
- 2.10. **New Regulation 111(4)** allows the Chairman of the Scheme Advisory Board, with the agreement of the Board, to appoint a maximum of three non-voting advisory members to sit on the Board. **Regulation 111(5)** confers a power for the terms and conditions of such advisory members to be determined.
- 2.11. **Regulation 111(6)** has been amended to the effect that the Chairman's decision to appoint non-Board members as members of any sub-committee is now subject to the agreement of the Board.

Scheme actuary (Regulation 114)

- 2.12 **New Regulation 114** confers power on the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme in accordance with Treasury Directions. The Scheme actuary must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme. **Regulation 114(4)** requires administering authorities to provide the Scheme actuary with any data that is reasonably required where this is in accordance with directions made by Treasury under section 11 of the 2013 Act.
- 2.13. Having considered the role of the scheme actuary under **Regulations 115** and **116** and, in particular, the need for data collection and analysis at national scheme level, the Department proposes to appoint the Government Actuary's Department as the Scheme actuary under Regulation **114**. Subject to the outcome of the consultation, the appointment would be confirmed in a letter from the Secretary of State to the Government Actuary's Department.

Employer cost cap (Regulation 115)

- 2.14 **New Regulation 115(1)** will set the Scheme's employer cost cap. At this stage, the employer cost cap has not been finalised but during the period of this consultation, a draft valuation report prepared by the Government Actuary's Department in accordance with the Treasury's Public Service Pensions (Valuations and Employer Cost cap) Direction 2014 will be issued to you for information. The draft report will include the proposed employer cost cap figure.
- 2.15. The number of assumptions underlying the calculation of the proposed employer cost cap are set out in the Treasury Direction and cannot be varied. But where appropriate, other scheme specific assumptions must be determined by the Secretary of State after consultation with such persons as he considers appropriate. In this case, consultation on the scheme specific assumptions with the shadow scheme advisory board is considered to be appropriate.
- 2.16. Subject to any comments on the proposed employer cost cap included in the draft valuation report and the views of the shadow board on the scheme specific

assumptions, the final figure will be introduced into **Regulation 115(1)** when the regulations are made.

- 2.17. **Regulation 115(2)** provides that where the cost of the Scheme following a Scheme valuation under Treasury Directions exceeds the margins specified in Treasury regulations, the Secretary of State must follow the procedure set out in **Regulation 115(3)** for reaching agreement on the steps to be taken to bring costs back to the employer cost cap. At present, the margins specified in Treasury regulations are 2% either side of the Scheme's employer cost cap.
- 2.18. **Regulation 115(3)** sets out the procedure for reaching agreement under **Regulation 115(2)**. This requires the Secretary of State to consult the Local Government Pension Scheme Advisory Board on proposals to bring the Scheme's costs back to the employer cost cap and for all members of the Board to reach an agreed position. The period of consultation is at the Secretary of State's discretion.
- 2.19. **Regulation 115(4)** provides that if the agreement required by **Regulation 115(3)** is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to achieve the target cost by adjusting the rate at which benefits accrue under Regulations 23(4) or (5) of the Principal 2013 Regulations.

Scheme advisory board – additional functions (Regulation 116)

- 2.20. **Regulation 116(1)** requires the Local Government Pension Scheme Advisory Board to obtain a Scheme cost assessment from the Scheme actuary. The assessment must include the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members as at the date of each actuarial valuation under Regulation 62(1)(a) of the Principal 2013 Regulations.
- 2.21 Except where either **Regulation 115(5) and (6)** applies, **Regulation 116(2)** enables the Local Government Pension Scheme Advisory Board following a Scheme cost assessment, to make recommendations to the Secretary of State to bring the overall cost of the Scheme back to the target overall cost.
- 2.22. **Regulation 116(3)** provides that where the Scheme cost assessment shows that the proportion of the overall cost of the Scheme is above or below the target proportion defined at **Regulation 116(7)**, the Local Government Pension Scheme Advisory Board may make recommendations to the Secretary of State to bring that proportion back to the target proportion.
- 2.23. Prior to any Scheme cost assessment, **Regulation 116(4)** requires the Local Government Pension Scheme Advisory Board to publish its policy on the recommendations it may make to the Secretary of State under **Regulation 116(2) and (3)**. It is envisaged that the policy statement could include a set of trigger points as well as the circumstances when recommendations must or may be made.
- 2.24. **Regulation 116(5)** switches off the internal Local Government Pension Scheme Advisory Board process during any period when the employer cost cap under **Regulation 115** has been breached. This reflects Government policy that the

employer cost cap process will always take precedence over any internal cost management process. (see **Chapter 3 for connected policy question**)

- 2.25. **Regulation 116(6)** provides that the Local Government Pension Scheme Advisory Board must make recommendations to the Secretary of State where the overall cost of the Scheme exceeds the target overall cost by 2% or more.
- 2.26. **Regulation 116(7)** defines certain terms used in this regulation including :-
- “**the overall cost of the Scheme**” the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment based on assumptions and a methodology determined by the Local Government Pension Scheme Advisory Board.
- “**the target overall cost**” set at 19.5% of the pensionable earnings of members of the Scheme, and
- “**the target proportion**” set at Scheme employers meeting two thirds and members meeting one third of the overall cost of the Scheme.
- 2.27. **Regulation 116(8)** requires each administering authority to provide the Scheme actuary with any data required to carry out valuations and produce reports for the purposes of this Regulation in accordance with directions from the Local Government Pension Scheme Advisory Board.
- 2.28. **Regulation 116(9)** requires the Local Government Pension Scheme Advisory Board to publish a report, including the items listed at **Regulation 116(9)(a) to (d)**, within 23 months of obtaining a Scheme cost assessment unless the Board is prevented from making recommendations to the Secretary of State by the provisions in **Regulation 116(5)**.
- 2.29. **Regulation 116(10)** requires a copy of the report published under **Regulation 116(9)** to be sent to the Secretary of State and Scheme actuary by the Local Government Pension Scheme Advisory Board.
- 2.30. **Regulation 116(11)** has been amended to extend the period required for the Secretary of State to publish his response to the report published by the Local Government Pension Scheme Advisory Board from 3 to 6 months of receiving the Scheme Advisory Board’s report. We believe that this represents a more appropriate timescale.

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

<i>Made</i> - - - -	2014
<i>Laid before Parliament</i>	2014
<i>Coming into force</i> - -	2015

These Regulations are made in exercise of the powers conferred by sections 1, 3, 5(7), 7(2), 12(6) and 12(7) of, and Schedule 3 to, the Public Service Pensions Act 2013⁽¹⁾.

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, interpretation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014.

(2) In these Regulations “the Principal Regulations” means the Local Government Pension Scheme Regulations 2013⁽²⁾.

(3) These Regulations come in to force as follows—

- (a) on 1st January 2015, this regulation and regulations 2, 7 and 8—
 - (i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

⁽¹⁾ 2013 c. 25
⁽²⁾ S.I. 2013/2356.

- (ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and
 - (iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 110 (scheme advisory board: membership) and 111 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and
- (b) on 1st April 2015—
- (i) this regulation and regulations 2, 7 and 8 so far as not already commenced, and
 - (ii) the remainder of these Regulations.
- (4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations are amended in accordance with regulations 3 to 8.
3. Omit regulation 53(4) (scheme managers: establishment of pension board).
4. Omit regulation 63 (aggregate Scheme costs).
5. Omit regulation 65 (aggregate Scheme costs: revised certificates).
6. In regulation 66 (supply of copies of valuations, certificates etc) for “regulations 62 (actuarial valuations of pension funds), 64 (special circumstances where revised actuarial valuations and certificates must be obtained) or 65 (aggregate Scheme costs: revised certificates)” substitute “regulations 62 (actuarial valuation of pension funds) or 64 (special circumstances where revised actuarial valuations and certificates must be obtained)”.
7. In Schedule 1 (interpretation)—
 - (a) after the entry for “local government service” insert—

““Local Government Pension Scheme Advisory Board” means a board established under regulation 110 (Scheme advisory board: establishment);

“local pension board” means a board established under regulation 106 (local pension boards: establishment);”

and
 - (b) after the entry for “the Scheme” insert—

““Scheme actuary” means the actuary appointed under regulation 114 (Scheme actuary);”.
8. After regulation 104⁽³⁾ insert—

“PART 3 Governance

Delegation

- 105.—(1) The Secretary of State may delegate any functions under these Regulations.
- (2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

⁽³⁾ Regulation 104 was inserted by S.I. 2014/1146.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—

- (a) to secure compliance with—
 - (i) these Regulations,
 - (ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme, and
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Scheme; and
- (b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses.

(6) A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

(7) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

- (a) the membership of the local pension board;
- (b) the manner in which members of the local pension board may be appointed and removed;
- (c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives⁽⁴⁾ and for these purposes the administering authority must be satisfied that—

- (a) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and
- (b) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) No officer or elected member of an administering authority who is responsible for the discharge of any function under these regulations (apart from any function relating to local pension boards or the Local Government Pension Scheme Advisory Board) may be a member of a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest⁽⁵⁾.

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

⁽⁴⁾ See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.

⁽⁵⁾ See section 5(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

Scheme advisory board: establishment

110.—(1) A scheme advisory board (“the Local Government Pension Scheme Advisory Board”) is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and any connected scheme and their pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

(5) The Local Government Pension Scheme Advisory Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of a Chairman and at least 2, and no more than 12 members appointed by the Secretary of State.

(2) When deciding whether to make appointments under paragraph (1), the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

(4) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint a maximum of 3 persons to be non-voting advisory members of the Board.

(5) An advisory member of the Local Government Pension Scheme Advisory Board is to hold and vacate that position in accordance with the terms of that member’s appointment.

(6) The Chairman of the Local Government Pension Scheme Advisory Board may, with the agreement of the Board, appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(7) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest⁽⁶⁾.

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

- (a) its annual budget approved by the Secretary of State; and
- (b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.

Scheme actuary

114.—(1) The Secretary of State must appoint an actuary as Scheme actuary to carry out valuations of the Scheme in accordance with Treasury directions made under section 11 of the Public Service Pensions Act 2013⁽⁷⁾ (“the Treasury directions”).

(2) The person appointed as Scheme actuary under paragraph (1) must, in the opinion of the Secretary of State, be appropriately qualified to carry out a valuation of the Scheme.

(3) The Secretary of State must secure that the Scheme actuary carries out actuarial valuations of the assets and liabilities of the Scheme on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds) and prepare valuation reports in accordance with the Treasury directions, within a time-frame which enables the requirements in those directions to be met.

(4) Administering authorities must provide the Scheme actuary with any data that the Scheme actuary reasonably requires, in accordance with the Treasury directions, in order to carry out a valuation and prepare a report on the valuation.

Employer cost cap

115.—(1) The employer cost cap for the Scheme is []% of pensionable earnings of members of the Scheme.

(2) Where the cost of the Scheme, calculated following a valuation in accordance with Treasury directions under section 11 of the Public Service Pensions Act 2013 is more than the margins specified in regulations made under section 12(5) of the Public Service Pensions Act 2013⁽⁸⁾ (“the Cost Cap

⁽⁶⁾ See section 7(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

⁽⁷⁾ 2013 c. 25.

⁽⁸⁾ 2013 c. 25; see regulation 3 of S.I. 2014/575.

Regulations”) above or below the employer cost cap, the Secretary of State must follow the procedure specified in paragraph (3) for reaching agreement with administering authorities, employers and members (or representatives of employers and members) as to the steps required to achieve the target cost specified in the Cost Cap Regulations.

(3) The procedure specified for the purposes of section 12(6)(a) of the Public Service Pensions Act 2013 is consultation for such period as the Secretary of State considers appropriate with the Local Government Pension Scheme Advisory Board with a view to reaching an agreement endorsed by all members of that Board.

(4) If, following such consultation, agreement is not reached within 3 months of the end of the consultation period, the Secretary of State must take steps to adjust the rate at which benefits accrue under regulation 23(4) or (5) (active member’s pension accounts) so that the target cost for the Scheme is achieved.

Scheme advisory board: additional functions

116.—(1) The Local Government Pension Scheme Advisory Board (“the Board”) must obtain a Scheme cost assessment from the Scheme actuary detailing the overall cost of the Scheme and the proportions of that cost being met by Scheme employers and members on the dates specified in regulation 62(1)(a) (actuarial valuations of pension funds).

(2) Subject to paragraphs (5) and (6), where the overall cost of the Scheme is above or below the target overall cost, the Board may make recommendations to the Secretary of State as to the steps to take to bring the overall cost of the Scheme back to the target overall cost.

(3) Where the proportion of the overall cost of the Scheme which is met by contributions by employers is above or below the target proportion, the Board may make recommendations to the Secretary of State as to the steps to take to bring the proportion of the overall cost of the Scheme which is met by contributions by employers and members back to the target proportion.

(4) The Board must, before obtaining a Scheme cost assessment under paragraph (1), prepare and publish a statement setting out its policy concerning recommendations to the Secretary of State about the steps to be taken to bring the overall cost of the Scheme back to the target overall cost and the proportions of that cost met by Scheme employers and members, back to the target proportion.

(5) The Board must not make recommendations under paragraph (2) if steps are required to be taken under regulation 115 (employer cost cap).

(6) Subject to paragraph (5) the Board must make recommendations under paragraph (2) if the overall cost of the Scheme is above or below the target overall cost by 2% or more of pensionable earnings of members.

(7) In this regulation—

“the overall cost of the Scheme” means the total cost as calculated by the Scheme actuary as part of a Scheme cost assessment making use of the data provided under regulation 114(4) (Scheme actuary) according to such methodology and assumptions as are determined by the Board;

“the target overall cost” is 19.5% of the pensionable earnings of members of the Scheme;

“the target proportion” means Scheme employers meeting two-thirds and members meeting one-third of the overall cost of the Scheme.

(8) Each administering authority must provide the Scheme actuary with any data that the Scheme actuary requires in order to carry out any valuations and produce reports in accordance with directions from the Board for the purposes of this regulation.

(9) Unless the Board is prevented by paragraph (5) from making recommendations under this regulation, it must, within 23 months of the date on which a Scheme cost assessment is obtained under paragraph (1), publish a report setting out—

- (a) the overall cost of the Scheme;
- (b) the proportions of the overall costs of the Scheme met by employers and members;
- (c) the assumptions and methodology used by the Scheme actuary; and
- (d) any recommendations made to the Secretary of State under this regulation.

(10) The Board must send a copy of a report published under paragraph (9) to the Secretary of State and the Scheme actuary.

(11) The Secretary of State must publish a response to a report received under paragraph (10) within six months of receipt of that report.

We consent to the making of these Regulations

Date *Names*
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Date *Name*
Parliamentary Under Secretary of State
Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 to 7 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pension board. Local pension boards must have equal representation of employer representatives and member representatives who must not be officers or councillors of the administering authority responsible for the discharge of local government pension functions.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Regulation 114 requires the Secretary of State to appoint a Scheme actuary to carry out valuations of the Scheme.

Regulation 115 sets the employer cost cap and requires the Secretary of State to seek agreement from those affected as to the changes to the design of the Scheme necessary to bring costs back to that level if valuation reports indicate that costs have varied by more than a margin specified in regulations made by the Treasury. If agreement can not be reached the Secretary of State must make amendments to the Scheme to vary the rate of accrual of benefits to bring the costs of the Scheme back to the employer cost cap level.

Regulation 116 confers additional functions on the Local Government Pension Scheme Advisory Board to monitor the overall costs of the Scheme and the proportion of those costs met by employers and members

respectively and to make recommendations to the Secretary of State for changes to the Scheme where overall costs or respective proportions met by employer or member contributions vary from the initial costs.

The Local Government Pension Scheme - Governance Guidance Consultation Document

October 2014

*The LGPS Shadow
Scheme Advisory
Board - public
consultation*

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme (LGPS) - Guidance on the creation and operation of Local Pension Boards in England and Wales.
Scope of this consultation:	This consultation seeks responses from interested parties on draft governance guidance which covers Local Pension Boards. Local Pension Boards are required to be established by Administering Authorities on 1 April 2015.
Geographical scope:	England and Wales.

Basic Information

To:	This consultation is aimed at all LGPS interested parties.
Body responsible for the consultation:	The LGPS Shadow Scheme Advisory Board.
Duration:	5 weeks.

Background

Getting to this stage:	<p>The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how such schemes can be made more sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low moderate earnings".</p> <p>The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as the responsible authority of the Scheme to make regulations establishing a national scheme advisory board and enabling each LGPS scheme manager (to be read here as 'the administering authority' as defined within Scheme regulations) to establish a Local Pension Board.</p> <p>In June 2014, the Department for Communities and Local Government (DCLG) issued draft governance regulations for consultation with</p>
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	<p>interested parties. A subsequent consultation on draft governance regulations commenced 10 October 2014 (due to cease 21 November 2014), incorporating changes from the original consultation in the Summer of 2014.</p> <p>This guidance has been developed by the LGPS Shadow Scheme Advisory Board via that Board's Governance and Standards sub-committee. This guidance is designed to assist Administering Authorities who are required to establish local pension boards and reflects the draft governance regulations (issued for consultation on 10 October 2014).</p>
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How to respond

1. You should respond to this consultation by **21 November 2014**.
2. You can respond by email to Liam.Robson@local.gov.uk. A response via email is preferred.

When responding, please ensure you have the words "LGPS Governance Guidance" in the email subject line.

Alternately you can write to:

LGPS Governance Guidance Consultation
Shadow Scheme Advisory Board Secretariat
Floor 5 Workforce, Local Government Association
Local Government House
Smith Square
LONDON SW1P 3HZ

3. When responding, please state whether you are responding as an individual or representing the views of an organisation.

Additional copies

4. This consultation paper is available on the Shadow Scheme Advisory Board website at: www.lgpsboard.org.

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (including the Freedom of Information Act 2000 and the Data Protection Act 1998).
6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have

provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the LGPS Shadow Scheme Advisory Board.

7. The LGPS Shadow Scheme Advisory Board will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about this consultation should be sent to the email address given at paragraph 2 above.

Who this consultation is aimed at?

9. The following consultation is aimed at **all parties interested in the LGPS** and in particular relating to governance matters for the Scheme. The consultation is available to all organisations and members of the public via the LGPS Shadow Scheme Advisory Board's website www.lgpsboard.org.

The Board has issued the consultation to the following contacts directly:

- LGPS Administering Authorities
- LGPS Member Representatives including
 - GMB
 - UNISON
 - Unite
- LGPS Employer Representatives including
 - UCEA
 - Academy Finance Directors Forum
- LGPS Pension Fund Practitioners
- Association of Local Authority Chief Executives
- Society of Local Authority Chief Executives
- Chartered Institute of Public Finance and Accounting
- The Pensions Regulator
- Association of Consulting Actuaries including
 - AON Hewitt
 - Barnett Waddingham
 - Hymans Robertson
 - Mercer
- Association of Pension Lawyers
- Association of Local Authority Treasurers
- National Association of Pension Funds
- Lawyers for Local Government
- Association of Colleges
- Regional Employer Organisations
- Public Sector Peoples Managers' Association

Consultation

Introduction

1.1 This document commences a period of consultation on draft governance guidance covering the creation and operation of Local Pension Boards in England and Wales. Your comments are invited on the guidance set out under Annex A of this document. You are also asked to consider the point raised in paragraph 1.13 regarding any further questions you have relating to Local Pension Boards.

1.2 The closing date for responses is 21 November 2014.

Background and context

1.3 This consultation covering 'Guidance on the creation and operation of Local Pension Boards in England and Wales' is another step in the process towards the introduction of a new governance structure for the LGPS from 1 April 2015.

1.4 In June 2010 the Government appointed Lord Hutton of Furness to chair the Independent Public Service Pensions Commission (IPSPC) and review public service pension provision in the UK. In March 2011 the IPSPC produces its final report making 27 recommendations for the reform of public service pension schemes.

1.1 These recommendations included:

- properly constituted, trained and competent pension board with member nominees, responsible for meeting good standards of governance including effective and efficient administration;
- a pension policy group for each public service pension scheme at national level for considering major changes to scheme rules; and
- independent oversight of the governance, administration and data transparency of public service pension schemes.

1.6 The majority of recommendations from the IPSPC report were implemented as part of the Public Service Pension Schemes Act 2013 which received Royal Assent in April 2013.

1.7 The areas relating to governance and in particular the introduction of Local Pension Boards were incorporated in draft regulations for the LGPS issued by DCLG for consultation in June 2014. A further set of draft regulations updated in part to reflect the responses received from interested parties was issued by DCLG on 10 October 2014 (the consultation for these draft regulations is due to end 21 November 2014).

1.8 The content of draft guidance in this consultation reflects the most up to date draft regulations issued by DCLG. Should further amendments be made to these draft regulations in advance of the regulations being made and laid before Parliament this may require the appropriate amendments to also be made to the guidance to ensure it fully reflects legislation.

Consultation Responses

1.9 The timeframe for this consultation reflects the ongoing consultation on draft LGPS governance regulations. Your comments should therefore be sent by 21 November 2014 to LGPS Governance

Guidance Consultation, Shadow Scheme Advisory Board Secretariat, Floor 5, Local Government Association, Local Government House, Smith Square, LONDON SW1P 3HZ. Electronic responses are preferred and should be sent to Liam.Robson@local.gov.uk.

Development of Governance Guidance

1.10 The introduction of Local Pension Boards via the Public Service Pensions Act 2013 and through LGPS scheme regulations from 1 April 2015 marks a sea change in the governance of LGPS funds. The LGPS Shadow Scheme Advisory Board recognise that this changing structure will require Administering Authorities to be fully aware of their role in the creation and operation of this new structure and in particular in the introduction of Local Pension Boards. In identifying this it became evident that Administering Authorities will need guidance to provide assistance when establishing these boards. The Shadow Scheme Advisory Board has tasked its Governance and Standards sub-committee with developing this guidance in conjunction with the Governance Working Group.

Throughout summer 2014 work was undertaken to develop a template for the structure of guidance. In August 2014 the Local Government Association agreed to provide funding for external resources and therefore invited proposals from interested parties to further the preliminary work undertaken by the Governance Working Group. Eversheds LLP were the successful bidder. Over recent weeks work has been undertaken in conjunction with Eversheds LLP, the LGPS Shadow Scheme Advisory Board, its Governance and Standards sub-committee and the Governance Working Group to prepare this guidance.

Content of the Governance Guidance

1.11 The guidance is laid out in the following chapters:

1. Introduction
2. Background
3. Legislative background and structure of governance arrangements
4. The Pensions Regulator
5. Constitution and Membership of a Local Pension Board
6. Board Knowledge and Understanding
7. Conduct of Members and Conflicts of Interest
8. Reporting
9. Resourcing
10. Other Possible Structures
11. Other Guidance
 - Schedule A
 - Schedule B

Given that this guidance has been prepared with only sight of draft regulations, we appreciate that there may be a requirement that the guidance is reviewed where the laid scheme regulations are different.

The draft scheme regulations provide for local determination in many areas and the view of the LGPS Shadow Scheme Advisory Board is that, in line with the spirit of draft regulations, guidance on the creation and operation of local pension boards should not be overly prescriptive.

In addition the guidance closely aligns to the principles of the Pensions Regulator's (tPRs) draft code of practice number 14 and where relevant cross-reference to this code is included in guidance. The

draft tPR code of practice number 14 can be found at:
<http://www.thepensionsregulator.gov.uk/docs/draft-code-14.pdf>. It is expected that the made and laid code of practice will be available later in 2014.

Finally whilst this guidance has been developed by the Shadow Scheme Advisory Board, this guidance will, when finalised, be adopted by the full statutory scheme advisory board and Administering Authorities must give regard to such guidance as required by section 7(3) of the Public Service Pensions Act 2013.

Responses and Connected Issues

1.12 Interested parties are invited to send comments on the draft guidance to the LGPS Shadow Scheme Advisory Board Secretariat by 21 November 2014. Email responses are preferred.

1.13 In addition to responses on the draft guidance the LGPS Shadow Scheme Advisory Board would like to invite responders to include any additional questions they may have relating to the introduction of Local Pension Boards. These may be questions on areas included in the guidance or additional areas where interested parties feel further information or clarity is required. The intention is that relevant questions would then be used in a 'questions and answers' style document to be issued from the LGPS Shadow Scheme Advisory Board later this year (in addition to the governance guidance).

Draft LGPS Guidance on the creation and operation of Local Pension Boards in England and Wales - Separate document see www.lgpsboard.org

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

11 December 2014

LOCAL PENSION BORADS AND GOVERNANCE ARRANGEMENTS REVIEW

Purpose of the Report

1. To update this Committee on the new legal requirements for the Council, as Administering Authority to the Local Government Pension Scheme (LGPS), to establish a Local Pension Board by 1 April 2015.
2. In light of this, to review the current governance arrangements for the Wiltshire Pension Fund.

Background

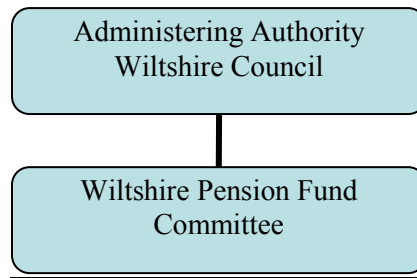
3. Following Lord Hutton's review of Public service pensions published in March 2011, the Public Service Pensions Act (PSPA) 2013 was introduced to "make public service pension schemes more transparent". This act requires each LGPS administering authority to establish a new body known as a Local Pension Board (LPB) to assist the Council (Administering Authority) in running the Wiltshire Pension Fund.
4. A key aim of the reform is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process. The LPB is a committee of the administering authority which will usually be separate to any section 101 committee to which an administering authority has delegated its functions in relation to the administration of the LGPS (Secretary of State consent would be required for the section 101 committee to assume the LPB role). Therefore, it is proposed that the LPB for Wiltshire will be separate to the Wiltshire Pension Fund Committee (see further paragraph 7 below). The LPB for Wiltshire will have no general duties or responsibilities or powers other than those outlined in the Terms of Reference (ToR).
5. DCLG was expected to issue final regulations in the autumn. Instead a second consultation on the draft regulations closed on 21 November 2014, with the expectation these won't be finalised until January 2015. The current update is based on this draft position.
6. In establishing the LPB, it was felt appropriate to review the current governance arrangements of the Fund to reflect the upcoming changing legislative requirements.

Considerations for the Committee

Local Pension Boards

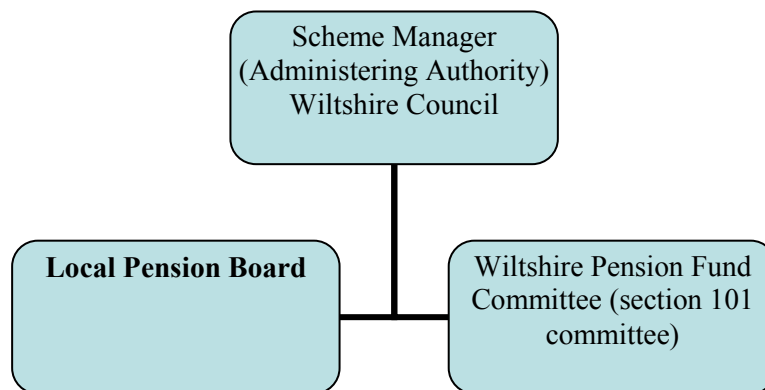
Current Structure

7. Wiltshire Council is an Administering Authority for the LGPS. In line with the Superannuation Act 1972, statutory decisions taken under the scheme are not the responsibility of the executive and are delegated under section 101 from full council to the Wiltshire Pension Fund Committee.



New Governance Structure

8. From the 1 April 2015, a new governance structure to the LGPS will exist where Wiltshire Council becomes the Scheme Manager and the LPB is set up. The LPB purpose is to assist the ‘Scheme Manager’ by ensuring compliance with the pension scheme regulations, along with all other legislation and the requirements imposed by the Pensions Regulator to ensure the effective and efficient governance and administration of the Scheme.
9. The LPB will sit alongside the Wiltshire Pension Fund Committee (Section 101 Committee) to scrutinise its decision making process and ensure the Fund’s compliance with its legislative requirements. It’s currently not intended for the LPB to be a decision making body.



Constitution & Membership of a LPB

10. A LPB must be constituted no later than 1 April 2015. The brevity of the draft regulations provides much local flexibility. There is draft governance guidance issued by the Scheme Advisory Board (SAB) providing additional detail of best practice.
11. Officers of the Pension Fund have been working closely with Legal and Democratic Services as part of a LPB Working Group and the Corporate Leadership Team to produce a draft ToR for the LPB. These will require approval at full council in February 2015.

Terms of Reference

12. The proposed ToR (see appendix A) and its key constituents are summarised below.
13. There will be four meetings a year, with the LPB supported by the Treasurer to the Pension Fund and Head of Pensions in order to provide relevant information and reports. Democratic Services will provide secretariat services.

14. The LPB *must* consist of an equal number of employer and member representatives and these must be a fair representation of the employer organisations and membership of the scheme. The proposal is for an independent chair and non-voting independent governance adviser also to be appointed as members.

Employee Reps	Members Reps	Independent Chair	Independent Advisor (Non-voting)	Total Voting members
3	3	1	1	7

Employer Representatives

15. The 3 employer representatives shall be office holders or senior employees of employer organisations within the Wiltshire Pension Fund but must not have responsibilities under the LGPS regulations. One appointment will provisionally be allocated to each of the following types of organisations within the Wiltshire Pension Fund, divided into three groups according to approximate size (by employee numbers):

- i. Group 1 - Wiltshire Council, (note that a Wiltshire Councillor may be appointed provided that he or she is nominated and shortlisted in accordance with the ToR)
- ii. Group 2 - Swindon Borough Council and Wiltshire Police, and
- iii. Group 3 - All other employer organisations with the Fund.

16. The Wiltshire Pension Fund will invite all employers' organisations in each of the three groups to nominate suitable candidates, and then review all nominations against criteria of relative experience and capacity to undertake the role. A shortlist of no more than 2 candidates for each group will be shortlisted and invited to interview with representatives from Legal & Democratic Services and the Fund with three nominations being put forward to full council for appointment.

Member Representatives

17. The 3 member representatives shall either be members of the Wiltshire Pension Fund or have experience of representing Fund members, being able to demonstrate knowledge and their capacity to attend meetings and training. The places will provisionally be allocated to the following three groups:

- i. Group 1 - An active member
- ii. Group 2 - A deferred member
- iii. Group 3 - A pensioner member

18. Applicants will be sought through adverts on the Fund's website and employer's vacancy boards. Applicants will then be reviewed against criteria of relative experience and capacity to undertake the role. A shortlist of no more than 2 candidates for each group will be shortlisted and invited to interview with representatives from Legal & Democratic Services and the Fund, with three nominations being put forward to full council for appointment.

Independent Chair

19. The Fund shall appoint a chair, subject to the passing of a motion to be confirmed by majority of the employer and member representatives of the LPB. This person cannot have any current employment, contractual, financial or other material interest in the

Council, scheme employer or Wiltshire Pension Fund (although a Wiltshire Council Councillor is permitted to be chair).

20. This role will be advertised by the Fund on its website, Wiltshire Council's vacancy website and other media as appropriate. The Fund will score all nominations based on relevant experience and capacity requirements in order to produce a shortlist of no more than 5 candidates. These shall be invited to interview with representatives from Legal & Democratic Services and the Fund with a recommendation being put forward to full council for appointment.
21. The vice chair will be appointed from amongst the remaining voting members of the LPB, alternating on an annual basis between employer and a member representative.

Independent Governance Adviser

22. The Fund will procure the services of the independent governance adviser in accordance with the Council's procurement regulations and this role will be re-tendered every four years. This adviser will have no voting rights or have any connection with the Fund.

Relevant Experience & Capacity

23. All members will be required to attend training to ensure they achieve the required level of knowledge. Therefore, LPB members will require a high quality induction programme to attain this requisite knowledge level within a reasonable time frame prior to their initial meeting.
24. The draft Regulations outline a legal requirement for members to be conversant with the rules of the LGPS, all policies adopted by the Fund and the law relating to pensions. This does present a potential 'high bar' that may deter potential applicants.
25. All members of the LPB will serve a fixed term of 4 years after which a re-election process will occur.

Funding of LPBs

26. Running the LPB will fall on the Fund as an additional cost and this Committee shall approve the annual LPB budget. The costs outlined below are estimated for setting up the LPB in 2014-15 and then on-going based on four meetings per year. No additional allowance has been made for officer time at this stage.

<u>LOCAL PENSION BOARD</u>	Estimated Budget 2014-2015 £	Estimated Budget 2015-2016 £
Committee Services Recharge		3,000
Catering & Room Hire		700
Printing	1,000	1,000
Members Training	12,000	6,000
Independent Advisor		7,000
Governance Adviser Support	5,000	
Legal Advice	5,000	
	<u>23,000</u>	<u>17,700</u>

27. Any councillor appointed to the LPB will be entitled to receive allowances in accordance with Part 14 of the Council's constitution (Members' Allowance Scheme). Allowances

and reimbursement of expenses for all other members of the LPB will be decided by the Council's Independent Remuneration Panel.

Reporting

28. The LPB will report bi-annually to this Committee a summary of the work undertaken and any issues arising. It may be necessary to report to full council any breach in compliance or any other significant issue which has not been resolved to the satisfaction of the LPB within a reasonable timeframe. It shall also report to the national Scheme Advisory Board any areas of persistent non-compliance and to the Pensions Regulator of all material breaches of their regulatory guidance following notification to this Committee and full council.

Conflict of Interests

29. Careful consideration is given to the management of potential conflict of interests. Voting Members of this Committee will not sit on the LPB as they effectively cannot scrutinise themselves.

Timetable for implementation

30. Assuming the final Regulations are issued January 2015 the proposed timetable is outlined below. Any changes to the current ToR will be reported to the Chairman and Vice Chairman of this Committee prior to submission to full council and a further updated presented to this meeting on 12 March 2015.

TASK	DATE	BY WHOM?
Update Wiltshire Pension Fund Committee of current proposals	11 December 2014	Pension Fund
Regulations laid / Guidance issued	JANUARY 2015	DCLG
Finalise all Terms of Reference	23 January 2015	LPB Working Group
Council approve establishment	3 February 2015	Full Council
Appointment process (min 6 weeks)	6 February 2015	LPB Working Group
Inductions training (min 3 days)	31 March 2015	LPB Working Group
LPB Established	1 April 2014	
Council approval appointments to the Board	12 May 2015	Full Council
LPB first meeting	No later than 30 June 2015	

Review of Governance Arrangements

31. The timing is also appropriate to review the overall governance arrangements of this Committee and the role of the recently established Investment Sub-Committee (ISC). From 1 April 2015, the LGPS and the Fund fall under the responsibility of the Pension Regulator and must therefore adhere to their own codes of practice. This Fund will also be subject to scrutiny at a national level from the Scheme Advisory Board alongside and its own LPB.
32. Therefore, more focus and scrutiny will now fall on to the governance and administration arrangements, alongside the investment and funding performance and hence officers will need to ensure greater agenda time is allocated to these issues.

33. This Committee has already increased the number of scheduled annual meetings from 4 to 5, to assist with greater workloads but the meetings have remained in excess of 3-4 hours on average. Officers therefore remain concerned that unless additional capacity can be generated then agenda items will not be given sufficient time for effective governance and decision making. Therefore, officers believe that through extending the remit of the current ISC this would both generate more capacity and increase the effectiveness of some aspects of investment decision making process.
34. This proposal would reduce the number back to 4 quarterly scheduled meetings of this Committee while the ISC would then meet quarterly ahead of the main Committee meetings to review manager performance and make decisions within the strategic asset allocations agreed.
35. It is estimated that this would potentially save 1 ½ - 2 hours of agenda time for this Committee per meeting from the removal of regular investment manager presentations and less detailed investment performance monitoring to focus on other areas.

Expanded Role of the Investment Sub-Committee

36. The expanded role of the ISC would consider in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives. The ISC may also be requested by this Committee to undertake research and report back on a specific investment areas. The attached draft Terms of Reference (see Appendix B) is summarised below:

Membership

37. The membership of the Board would consist of the following and each voting member will be appointed for 1 year:
 - a) Voting Members:
 - i. Chairman of the Wiltshire Pension Fund Committee
 - ii. Vice-Chairman of the Wiltshire Pension Fund Committee
 - iii. An elected Wiltshire Council Member of the Wiltshire Pension Fund Committee as co-opted by the Wiltshire Pension Fund Committee.
 - iv. A Member of the Wiltshire Pension Fund Committee as co-opted by the Wiltshire Pension Fund Committee.
 - b) Non-Voting Members
 - i. Investment Adviser to the Wiltshire Pension Fund Committee
 - ii. Independent Governance Adviser to the Wiltshire Pension Fund Committee
 - iii. Treasurer to the Pension Fund
 - iv. Head of Pensions, Wiltshire Council
 - v. Strategic Pension Manager, Wiltshire Council
 - c) Observers
 - i. Any member from the Wiltshire Pension Fund Committee is invited to attend in a non-voting capacity as relevant to the subject matter.

Remit

38. In addition to the "opportunistic investing" in relation to 5% of the Fund assets the ISC currently undertakes, the intention is to make the ISC responsible for the following:

- a) Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
- b) Reporting regularly to Committee on the performance of investments and matters of strategic importance
- c) Monitor investment managers' investment performance and recommend decision to terminate mandates on performance grounds to Committee.
- d) Researching and providing a report back to the Wiltshire Pension Fund Committee on any specific investment areas requested.

39. It's proposed the ISC will have delegated authority to:

- a) Approve and monitor tactical positions within strategic allocation ranges.
- b) Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.
- c) Approve amendments to investment mandates within existing return and risk parameters.
- d) Delegate specific decisions to officers as appropriate.

Reporting

40. The minutes of the ISC meetings (whether or not approved by the ISC) would appear as an item on the next agenda of the meeting of this Committee that follows.

Funding

41. The cost of holding 4 additional meetings per year is estimated to be as follows:

<u>INVESTMENT SUB-COMMITTEE</u>	Estimated Budget 2015-2016
Committee Services Recharge	£3,000
Catering & Room Hire	£500
Printing	£1,000
Independent Advisor	£7,000
Investment Adviser	£7,000
Additional Officer Time	Not included
	<hr/> 18,500 <hr/>

42. This additional cost will be partly offset from a lower number of meetings of this committee.

Conclusions

43. The establishment of the LPB is ultimately a legal requirement of Wiltshire Council. This should be viewed as an additional assurance tool to ensure compliance and assistance in ensuring this Committee effectively operates the Fund in accordance with all relevant regulations.

44. The review of the governance arrangements have indicated the Fund may operate more effectively if the role of the current ISC was expanded to undertake the more detailed

investment work to assist in freeing up agenda time for governance and administration related issues which will now be under closer scrutiny. The Committee will retain control over the important strategic asset allocation and approval of investment strategies.

Risks Assessment

45. There is a risk of the administering authority not being compliant with legislation on 1 April 2015 if the LPB is not established. This risk, *PEN008 Failure to Comply with LGPS and other legislation* has been mitigated as far as possible through the setting up of a working group.
46. The expansion of the ISC role attempts to mitigate the possibility of increased negative investment returns as outlined in *PEN007a&b* from allowing more detailed time for the discussion of investment managers and performance while enabling the Fund to potentially implement changes more quickly.

Environmental Impact of the Proposal

47. There is no known environmental impact of this proposal.

Safeguarding Considerations/Public Health Implications/Equalities Impact

48. There are no known implications at this time.

Financial and Legal Implications

49. The financial and legal implications are considered as part of this paper.

Reason for Proposals

50. These proposals are necessary for the Council to meet its legislative requirements and to ensure the governance of the Wiltshire Pension Fund is effective as possible.

Proposals

51. Members are recommended to:
 - a) note the update on the current position in relation to the proposed establishment of Local Pension Boards; and
 - b) agree to expand the role of the Investment Sub-Committee and request that officers finalise the attached draft Terms of Reference and update the Fund's governance compliance statement appropriately.

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report:

PENSION BOARD OF THE WILTSHIRE PENSION FUND

TERMS OF REFERENCE

Introduction

This document sets out the terms of reference of the Pension Board of Wiltshire Council (the “Council”) being a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Pension Board (the “Board”) is established under Section 5 of that Act and regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended). The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the Constitution, standing orders or scheme of delegation of Wiltshire Council apply to the Board unless expressly included in this document.

Purpose and functions of the Board

The purpose of the Board is to assist the Council to:

- secure compliance with:
 - the LGPS Regulations;
 - any other legislation relating to the governance and administration of the LGPS; and
 - the requirements imposed by the Pensions Regulator in relation to the LGPS, and
- ensure the effective and efficient governance and administration of the LGPS.

In discharging its role, the Board’s remit shall cover all aspects of governance and administration of the LGPS, including funding and investments. The Board must have regard to advice issued by the Scheme Advisory Board in accordance with section 7(3) of the Public Service Pensions Act 2013.

The Board shall:

1. ensure compliant policies exist for the Wiltshire Pension Fund in relation to :
 - a. conflicts of interest
 - b. record keeping
 - c. data Protection and freedom of information
 - d. internal dispute resolution procedures
 - e. reporting breaches
2. review the Wiltshire Pension Fund’s internal controls Risk Register
3. review and ensure compliance of the Wiltshire Pension Fund’s:

- a. governance compliance statement
 - b. funding strategy statement
 - c. pension administration statement
 - d. the Council's discretionary policy statement
 - e. communications policy statement
 - f. statement of investment principles
 - g. annual report and accounts
4. review the Wiltshire Pension Fund's actuarial valuation report and rates and adjustment certificate
 5. review [current][proposed] contracts for supplies or services entered into by or on behalf of the Wiltshire Pension Fund
 6. review internal control reports produced by third parties providers
 7. review the Wiltshire Pension Fund's admission and cessation policies
 8. review the performance of the Wiltshire Pension Fund Committee and advisers
 9. review the training plans for officers and committee members
 10. review the Wiltshire Pension Fund's budget requirements
 11. review the Wiltshire Pension Fund's performance against the requirements of the Pensions Regulator
 12. provide advice and make recommendations when required to full council and the Wiltshire Pension Fund Committee on areas that may impact on compliance of the Wiltshire Pension Fund
 13. provide advice and make recommendations when required to full council and the Wiltshire Pension Fund Committee on areas that may improve the effectiveness and efficient operation and governance of the Wiltshire Pension Fund

Establishment

The Board is established on [INSERT DATE] subsequent to approval by full council at its meeting on [DATE] (minute [INSERT]).

Composition

Voting members (7)	3 employer representatives 3 scheme member representatives 1 chair
Non voting member (1)	Independent Governance Adviser

Appointment process

No officer or councillor of the Council who is responsible for the discharge of any function under the LGPS Regulations (apart from any function relating to local pension boards or the Scheme Advisory Board) may be a member of the Board.

All members appointed to the Board will be required to sign a confirmation that they commit to the requirements of their role.

Employer representatives

Employer representatives shall be office holders or senior employees of employer organisations within the Wiltshire Pension Fund or have experience of representing scheme employers in a similar capacity. They must be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

Employer representatives shall be appointed following an open recruitment process.

For the initial employer representatives:

In order to ensure that the employer representatives are truly representative of the employer organisations within the Wiltshire Pension Fund whilst also being given equal opportunity for nomination, employer organisations within the Wiltshire Pension Fund will be divided into three groups based on organisation size (by number of employees) for nomination purposes:

Group 1: Wiltshire Council;

Group 2: Swindon Borough Council and Wiltshire Police; and

Group 3: all other employer organisations within the Wiltshire Pension Fund.

The Wiltshire Pension Fund Committee shall publish [information on where to access] a nomination pack for each of the three employer groups. The nomination pack will include these terms of reference, details of the employer representative role, a nomination form and instructions for application. Each employer within the group will be invited to put forward one suitable nominee using the prescribed nomination form, which must be returned to the Wiltshire Pension Fund Committee within four weeks of the date of the invitation.

The Wiltshire Pension Fund Committee will score all nominations returned by the deadline against [published] criteria relating to each nominee's ability to meet the relevant experience and capacity requirements of the role, in order to produce a shortlist of no more than [two] nominees from each employer group. If any employer group fails to nominate, then the Wiltshire Pension Fund Committee may substitute a nominee from another group according to score received, so that the shortlists contain the highest scoring nominees overall.

Shortlisted nominees will be invited to an interview [by the Council's Associate Director – Legal and Democratic Services and the Council's Head of Pensions]. A recommendation will then be made to full council for the appointment to the Board of three nominees based on [published] criteria relating to ability to meet the experience and capacity requirements of the role.

Full council will make three employer representative appointments to the Board.

For subsequent employer representatives:

For all appointments after 1 April 2015, nominations will be sought in the same manner as for initial appointments.

Should there be more than three successful candidates able to fulfil all the criteria of the role, an election process will take place during which all employer organisations within the Wiltshire Pension Fund will be asked to cast one vote based on a brief biography published for each nominee.

[Full council] will appoint the three nominees (and if more than three nominations are received, the three nominees with the highest number of votes) as the employer representatives of the Board.

Member representatives

Member representatives shall either be members of the Wiltshire Pension Fund or have experience of representing pension fund members in a similar capacity. They must be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

Member representatives shall be appointed following an open recruitment process.

For the initial member representatives:

In order to ensure that the member representatives are truly representative of the different types of member within the Wiltshire Pension Fund whilst also being given equal opportunity for nomination, members will be divided into the following groups for nomination purposes:

Group 1: active members;

Group 2: deferred members; and

Group 3: pensioner members.

The Wiltshire Pension Fund Committee shall advertise the member representative role on the Wiltshire Pension Fund website and the Wiltshire Council job vacancy website, including [information on where to access] a nomination pack for each of the three member groups. The Wiltshire Pension Fund Committee shall also notify all employer organisations and registered trade unions in writing of the vacancies, including [information on where to access] a nomination pack for each of the three member groups. The nomination pack will include these terms of reference, details of the member representative role, a nomination form and instructions for application. The closing date for receipt of nominations by the Wiltshire Pension Fund Committee will be four weeks from the date of advertisement or notice.

The Wiltshire Pension Fund Committee will score all nominations returned by the deadline against [published] criteria relating to each nominee's ability to meet the relevant experience and capacity requirements of the role, in order to produce a shortlist of no more than [two] nominees from each member group. If any member group fails to nominate, then the Wiltshire Pension Fund Committee may substitute a nominee from another group according to score received, so that the shortlists contain the highest scoring nominees overall.

Shortlisted nominees will be invited to an interview [by the Council's Associate Director – Legal and Democratic Services and the Council's Head of Pensions]. A recommendation will then be made to full council for the appointment to the Board of three nominees based on [published] criteria relating to ability to meet the experience and capacity requirements of the role.

Full council will make three member representative appointments to the Board.

For subsequent member representatives:

For all appointments after 1 April 2015, nominations will be sought in the same manner as for initial appointments.

Should there be more than three successful candidates able to fulfil all the criteria of the role, an election process will take place during which all active members of the Wiltshire Pension Fund will be asked to cast one vote based on a brief biography published for each nominee.

[Full council] will appoint the three nominees (and if more than three nominations are received, the three nominees with the highest number of votes) as the member representatives of the Board.

Independent chair and vice chair

The Wiltshire Pension Fund Committee will appoint the independent chair, having regard to the best interests of the purpose of the Board. [The appointment shall be subject to the passing of a motion to confirm by a majority of the employer and member representatives of the Board.]

In this respect the term independent means:

- having no current employment, contractual, financial or other material interest in either the Council (other than as an elected member of the Council) or any scheme employer in the Wiltshire Pension Fund; and
- not being a member of the LGPS in the Wiltshire Pension Fund.

The Wiltshire Pension Fund Committee shall advertise the role of chair on the Wiltshire Pension Fund website, the Wiltshire Council job vacancy website and such other appropriate media as it thinks fit, including [information on where to access] a nomination pack. The nomination pack will include these terms of reference, details of the role or chair, a nomination form and instructions for application. The closing date for receipt of nominations by the Wiltshire Pension Fund Committee will be four weeks from the date of advertisement.

The Wiltshire Pension Fund Committee will score all nominations returned by the deadline against [published] criteria relating to each nominee's ability to meet the relevant experience and capacity requirements of the role, in order to produce a shortlist of no more than [five] nominees.

Shortlisted nominees will be invited to an interview [by the Council's Associate Director – Legal and Democratic Services and the Council's Head of Pensions]. A recommendation will then be made to full council for the appointment of the chair to the Board based on [published] criteria relating to ability to meet the experience and capacity requirements of the role.

Full council will appoint the chair to the Board.

The Board will appoint the vice chair from amongst its remaining voting members, alternating on an annual basis between an employer representative and a member representative.

Independent governance adviser

The Wiltshire Pension Fund Committee will procure the services of the independent governance adviser in accordance with Part 11 of the Council's constitution, having regard to the best interests of the purpose of the Board. The role will be re-tendered every four years.

In this respect the term independent means:

- having no current employment, contractual, financial or other material interest in either the Council or any scheme employer in the Wiltshire Pension Fund; and
- not being a member of the LGPS in the Wiltshire Pension Fund.

The independent governance adviser shall not have voting rights on the Board.

Conflicts of interest

All members of the Board must declare to the Wiltshire Pension Fund Committee on appointment and at any such time as their circumstances change any potential conflict of interest arising as a result of their position on the Board.

On appointments to the Board and following any subsequent declaration of potential conflict the Wiltshire Pension Fund Committee shall ensure that any potential conflict is effectively managed in line with the internal procedures of the Wiltshire Pension Fund Committee, the requirements of the Public Service Pensions Act 2013 and the requirements of the Pensions Regulator's codes of practice on conflict of interest for Board members.

Knowledge and understanding including training

All new members must follow an induction training plan and all members of the Board will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.

All members must follow an agreed personal training plan which will be maintained by the Wiltshire Pension Fund Committee.

All members must be prepared to participate in such regular personal training needs analysis or other processes as are put in place to ensure that they maintain the required level of knowledge and understanding to carry out their role.

Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

Term of office and removal from office

All members of the Board will have a fixed term of office of 4 years. After this period the nomination process will be undertaken as outlined above and incumbents may seek re-appointment as part of this process.

Board membership may be terminated prior to the end of the term of office where:

- there exists a conflict of interest in relation to a Board member which cannot be managed within the internal procedures of the Wiltshire Pension Fund Committee
- a Board member dies or becomes incapable of acting
- a Board member becomes responsible for the discharge of any function under the LGPS Regulations (apart from any function relating to local pension boards or the Scheme Advisory Board), for instance by being appointed to the Wiltshire Pension Fund Committee or accepting employment in relation to the Wiltshire Pension Fund
- a Board member provides 3 months' notice of resignation
- a member representative ceases to be a member of the body or scheme on which their appointment relied
- an employer representative ceases to hold the office, employment or membership of the body on which their appointment relied
- a councillor ceases to represent their constituency
- the contract relating to the independent governance adviser is terminated or expires
- the Wiltshire Pension Fund Committee (at its sole discretion) determines that a member is no longer able to demonstrate his or her capacity to attend and prepare for meetings or to participate in required training

If any of these events occur then the nomination process outlined above will be undertaken as soon as reasonably practicable. If an additional member is required urgently to achieve quorum then the chair will appoint a temporary member who meets the specified criteria for that particular role until the full appointment process can be completed.

Meetings

Meetings of the Board will be held at least four times a year.

The chair of the Board may call additional meetings with the consent of other members of the Board. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and emails.

The Board will meet at the Council's main offices, or another location to be agreed by the chair. Meetings will be held during normal working hours at times to be agreed by the chair.

Quorum

The quorum of the Board shall be 5 voting members. The chair or vice chair must be present for the meeting to be quorate.

Voting rights

The Board is expected to operate on a consensus basis. However, each voting member of the Board will have an individual voting right. In the event that consensus cannot be reached, a vote will be taken. The chair will have a casting vote if required.

Rules of procedure and role of the chair

As a committee of the Council, the Rules of Procedure at part 4 of the Council's constitution apply to meetings of the Board.

In addition to the requirements set out in the Council's Rules of Procedure, the chair of the Board will:

- ensure that these terms of reference are adhered to and that any breaches are reported to the Wiltshire Pension Fund Committee
- ensure an attendance record is maintained and sent to the Wiltshire Pension Fund Committee promptly following each Board meeting
- liaise with the Council on the requirements of the Board, including location of meetings, advanced notice for officers to attend and arranging dates and times of Board meetings.

Role of officers

The Council's Associate Director - Finance and Head of Pensions will provide support to the Board in terms of providing information and reports to enable it to undertake its duties. The Board may, with the prior agreement of the Wiltshire Pension Fund Committee and within the budgetary constraints set out below, commission work from external advisors should a conflict of interest exist that cannot be managed within the agreed policies.

The Council's Democratic Services will provide the secretariat services to the Board.

Delegations

The Wiltshire Pension Fund Committee may establish working groups or sub-boards to discharge any of the above functions of the Board. Working groups and sub-boards will, where appropriate, report back to the Board with findings and recommendations but will have no decision making powers.

Code of Conduct

All members of the Board will be required to comply with the Wiltshire Council Code of Conduct set out at Part 13 of the Council's constitution.

Public access to Board meetings and information

The Board is subject to the Access to Information Procedure Rules in Part 5 of the Council's constitution and the publication requirements of the Public Service Pensions Act 2013.

The following will be entitled to attend Board meetings in an observer capacity, and may speak [with the permission of the chair]:

- The Council's Associate Director - Finance
- The Council's Head of Pensions
- The Council's Cabinet member for finance
- Any person requested to attend by the Board

Attendance requirements

Members of the Board will be expected to attend all meetings and training sessions. This will be recorded and published. Should more than two consecutive meetings be missed at any time or should any four meetings be missed within a 24 month period then the Wiltshire Pension Fund Committee may request that the member steps down from the Board.

Allowances and Expenses

Any councillor of the Council appointed to the Board will be entitled to receive allowances in accordance with Part 14 of the Council's constitution (Members' Allowance Scheme).

The independent governance advisor will be paid in accordance with the contract concluded with the Council.

Allowances and reimbursement of expenses for all other members of the Board will be decided by the Council's Independent Remuneration Panel.

Budget

The Wiltshire Pension Fund Committee will allocate an annual budget for the Board as part of its budget setting process. The budget will be managed by and at the discretion of the Board. The budget shall allow for:

- accommodation and administrative support to conduct its meetings and other business;
- training; and
- legal, technical and other professional advice

The Board may make requests to the Wiltshire Pension Fund Committee to approve any additional expenditure required to fulfil its obligations which will then be charged to the Wiltshire Pension Fund budget.

Accountability and reporting

The Board is accountable solely to the Council for the effective operation of its functions.

The Board shall report to the Wiltshire Pension Fund Committee as often as the Board deems necessary and at least bi-annually:

- a summary of the work undertaken
- the work plan for last year and the programme for the next 12 months
- areas raised to the Board to be investigated and how they were dealt with
- any risks or other areas of potential concern it wishes to raise
- details of training received and planned
- details of all expenses and costs incurred over the past 12 months and projected for the next year
- details of any conflicts of interest and how they were dealt with

The Board shall from time to time as necessary report to full council any breach in compliance, or other significant issue, which has not been resolved to the satisfaction of the Board within a reasonable time of being reported to the Wiltshire Pension Fund Committee.

The Board shall report to the Scheme Advisory Board:

- any areas of persistent non-compliance
- any areas of non-compliance with the LGPS Regulations that have been reported to the Wiltshire Pension Fund Committee and full council but persist to be of a material concern

The Board shall report to the Pensions Regulator:

- all material breaches of the Pensions Regulator regulatory guidance, following notification to full council and the Wiltshire Pension Fund Committee

Definitions

The undernoted terms shall have the following meaning when used in these terms of reference:

Board	The Local Pension Board of the Wiltshire Pension Fund
Council	Wiltshire Council as scheme manager of the Wiltshire Pension Fund
LGPS	The Local Government Pension Scheme
LGPS Regulations	The Local Government Pension Scheme Regulations 2013
Scheme Advisory Board	A board established under section 7 of the Public Service Pensions Act 2013

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TERMS OF REFERENCE

Wiltshire Pension Fund Investment Sub-Committee (ISC)

Purpose and functions of the ISC:

The role of the Wiltshire Pension Fund Investment Sub-Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

It will also be responsible for considering and determining opportunistic investments for assets limited in cumulative value to 5% of the Fund's strategic allocation, using its delegated powers to agree whether to make an investment and to select an appropriate investment vehicle when necessary following a selection process.

The ISC may also be occasionally requested to by the Wiltshire Pension Fund Committee to undertake research and report back on a specific investment areas.

All decision taken and recommendations will be reported back to the next available ordinary meeting of the Wiltshire Pension Fund Committee in the form of the minutes of the ISC.

The ISC, will be responsible for:

- 1 Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
- 2 Reporting regularly to Committee on the performance of investments and matters of strategic importance
- 3 Monitor investment managers' investment performance and recommend decision to terminate mandates on performance grounds to Committee.
- 4 Researching and providing a report back to the Wiltshire Pension Fund Committee on any specific investment areas requested.

The ISC will have delegated authority to:

- 5 Approve and monitor tactical positions within strategic allocation ranges.
- 6 Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.
- 7 Approve amendments to investment mandates within existing return and risk parameters.
- 8 Delegate specific decisions to officers as appropriate.
- 9 In relation to the opportunistic investing of a cumulative value of 5% of the total Fund assets, the ISC will:
 - 9.1 Review proposals put forward by either the Fund's adviser, officers or the Wiltshire Pension Fund Committee in regards to potential opportunistic investments;

- 9.2 Consider only investments that have the potential to deliver more favourable returns than global passive equities which will be the benchmark for success;
- 9.3 Consider only investment that have between a 3 to 7 year time horizon and investments must be redeemable after 7 years as a maximum;
- 9.4 Make decision to invest in an investment that meets the criteria listed in point 9.1 - 9.3;
- 9.5 Agreeing the most appropriate procurement process for delivering an agreed investment outlined in 9.4;
- 9.6 Making an appointment in the relevant investment fund on conclusion of a robust process for selection;
- 9.7 Reporting the outcome of the use of any delegated powers or to make recommendation (where appropriate) to the next meeting of the Wiltshire Pension Fund Committee;
- 9.8 Making a decision to disinvest in any investment appointed by the ISC with any realised assets being either re-invested in another appropriate vehicle that complies with 9.4 or to be held with the passive global equities allocation;

In order to achieve this the ISC will

1. Receive reports from either the Investment Adviser, officers, Independent Governance Adviser and where applicable be circulated to all Members of the Wiltshire Pension Fund Committee;
2. Receive advice from Investment Advisers, Independent Governance Adviser, officers or any other product specialist invited by the ISC to the meeting;
3. Receive monitoring reports when appropriate on investments to inform decision making;
4. Work within the framework set by the Council's Constitution;
5. Report to the Wiltshire Pension Fund Committee as necessary on its activities and use of delegated powers;
6. Investigate other specific areas of investment when requested by the Wiltshire Pension Fund Committee.

Composition:

Voting Members:

- (i) Chairman of the Wiltshire Pension Fund Committee (or in their absence another Wiltshire Council member of the Wiltshire Pension Fund Committee appointed by the Head of Democratic Services)
- (ii) Vice-Chairman of the Wiltshire Pension Fund Committee (or in their absence another Wiltshire Council member of the Wiltshire Pension Fund Committee appointed by the Head of Democratic Services)
- (iii) An elected Wiltshire Council Member of the Wiltshire Pension Fund Committee as co-opted by the Wiltshire Pension Fund Committee. The appointment of Wiltshire Councillor to the ISC is subject to the rules of political proportionality of the Council (and in their absence another member of the Wiltshire Pension Fund Committee appointed by the Chairman and Vice Chairman).
- (iv) A Member of the Wiltshire Pension Fund Committee as co-opted by the Wiltshire Pension Fund Committee. The intention is this will be the same person for each meeting (or in their absence another member of the Wiltshire Pension Fund Committee appointed by the Chairman and Vice Chairman). The member will be appointed for 1 year.

Non-Voting Members

- (i) Investment Adviser to the Wiltshire Pension Fund Committee
- (ii) Independent Governance Adviser to the Wiltshire Pension Fund Committee
- (iii) Director of Finance, Wiltshire Council
- (iv) Head of Pensions, Wiltshire Council
- (v) Strategic Pension Manager, Wiltshire Council

Observers

- (i) Any member from the Wiltshire Pension Fund Committee is invited to attend in a non-voting capacity as relevant to the subject matter.

Quorum:

The Quorum is three voting members.

Authority:

To make recommendation and to discharge the functions of the Wiltshire Pension Fund Committee as outlined in the Terms of Reference.

Frequency of meetings:

The ISC shall meet at least quarterly ahead of the Committee meeting.

Additional ad hoc formal meetings will be held as merited in order to utilise the delegated powers in terms of opportunistic investments to make a decision, with informal meetings as required discussing background issues / seeking clarification prior to any decision being taken.

All meetings will be subject to 5 clear days notice of meeting and access by the public to part 1 and part 2 items as applicable.

Rules of procedure

As a committee of the Council, the Rules of Procedure at part 4 of the Council's constitution apply to meetings of the ISC.

Public access to ISC meetings and information

The ISC is subject to the Access to Information Procedure Rules in Part 5 of the Council's constitution.

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
11 December 2014

WILTSHIRE PENSION FUND RISK REGISTER

Purpose of the Report

1. The purpose of this report is to update the Committee in relation to changes to the Fund's Risk Register (see Appendix).

Background

2. The Committee approved a Risk Register for the Wiltshire Pension Fund at its meeting on 12 May 2009. Members requested that the highlights, particularly upward/downward movements in individual risks, be reported back to the Committee on a quarterly basis.

Key Considerations for the Committee / Risk Assessment / Financial Implications

3. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and the potential impact of such an occurrence (impact). This register uses the Council's standard "4x4" approach, which produces a risk status of Red, Amber or Green (RAG).
4. There have been no significant changes since the last report in September 2014.
5. Of the three remaining amber risks, two relate to the implementation of the new LGPS 2014 scheme, ***PEN008 Failure to comply with LGPS and other regulations*** and ***PEN018 Failure to implement the LGPS 2014 reforms***.
6. Only the review of the changes to all the key procedures and process currently being undertaken remains from the LGPS 2014 implementation strategy. This is scheduled to finish this year at which point this risk will be reduced if no material issues are found.
7. **PEN010 Failure to keep pension records up-to-date and accurate** continues to be areas of focus. From 1 April 2015, the Pension Regulator will require additional checks on funds data. Data cleansing is continually being undertaken to address this and the Fund is currently recruiting two Data Quality Analysts to provide additional capacity.
8. Also, with the introduction of the 'new single tier state pension' the process of "contracting-out" of the second state pension will be abolished on 6 April 2016. At this point, HMRC will no longer take responsibility for providing funds with Guaranteed Minimum Pensions (GMP) information for each member. Therefore all funds will need to ensure their records are reviewed prior to this date. This is likely to be a significant project and a separate update will be provided to Committee in 2015 on this issue.

Environmental Impacts of the Proposals

9. There is no known environmental impact of this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

10. There are no known implications at this time.

Legal Implications

11. There are no known legal implications at this time

Proposals

12. The Committee is asked to note the attached Risk Register and measures being taken to mitigate risks.

MICHAEL HUDSON
Treasurer to the Pension Fund

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report: NONE

Wiltshire Pension Fund Risk Register						01-Dec-14		Current Risk Rating			Target Risk Rating								
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN001	Failure to process pension payments and lump sums on time	Service Delivery	Non-availability of ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	David Anthony	Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	Regular review of ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed. Review of processes as part of the LGPS 2014 implementation review.	David Anthony		2	2	4	Low	1 Dec 2014	→
PEN002	Failure to collect and account for contributions from employers and employees on time	Finance	Non-availability of SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. LGPS 2014	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	2	1	2	Low	New electronic forms rolled out to all employers to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end. Chase letters sent as required.	Catherine Dix		2	2	4	Low	1 Dec 2014	→
PEN003	Insufficient funds to meet liabilities as they fall due	Service Delivery	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. This shouldn't be an issue for the Fund but it looks likely that investment income might need to be used within the next 12 months.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, modelling of future cashflows.	2	2	4	Low	The "maturity" profile of cashflows is changing as a result of employers outsourcings and redundancy programmes. The cashflow profile is now being carefully monitored as benefits paid slightly exceeded receipts (excluding investment income) during the last financial year.	David Anthony		4	1	4	Low	1 Dec 2014	→
PEN004	Inability to keep service going due to loss of main office, computer system or staff	Service Delivery	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan in place. The team have the ability to work from home or remotely if required. The pension system is also hosted by its supplier, which reduces the risk should Wiltshire Council's IT servers fail.	4	1	4	Low	Business Continuity Plan has been refreshed in and approved by the CFO in Oct 2011. All the team now have laptops that would mean they can access ALTAIR remotely if required and all paperwork is scanned.	Andy Cunningham		4	1	4	Low	1 Dec 2014	→
PEN005	Loss of funds through fraud or misappropriation	Fraud / Integrity	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc. are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	1 Dec 2014	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN006a	Significant rises in employer contributions for secure employers due to increases in liabilities	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers.	2	1	2	Low	The Stabilisation Policy has limited increases for secure employer. Monitor cashflow profiles to review Fund's maturity. This policy was reviewed at the July 2013 Committee meeting and is to be maintained for the 2013 Valuation. As bond yields are at historical low levels and the Stabilisation Policy takes a long term view, rates will not increase significantly over the long term.	David Anthony / Andy Cunningham		2	2	4	Low	1 Dec 2014	→
PEN006b	Significant rises in employer contributions for non-secure employers due to increases in liabilities	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS. However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc). Quarterly monitoring as described above. The 2013 Valuation has set rates for the next 3 years.	2	2	4	Low	The rates for the 2013 Valuation were agreed and through the use of stepping in of contribution rate increases where requested the need for large increases was avoided for certain employers. This "contribution relief" policy was reviewed and maintained at the July 2013 Committee meeting for the 2013 Valuation process. Monitor cashflow profiles to review Fund's maturity.	David Anthony / Andy Cunningham		2	2	4	Low	1 Dec 2014	→
PEN007a	Significant rises in employer contributions for secure employers due to poor/negative investment returns	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	1	2	Low	The implementation of the Stabilisation Policy limits increases for secure employer. This policy was reviewed at the July 2013 Committee meeting and is to be maintained for the 2013 Valuation. The Fund is currently discussing with its advisers the benefits of a flight path strategy to take risk of the table as funding levels improve.	Catherine Dix	Mar-15	2	2	4	Low	1 Dec 2014	→
PEN007b	Significant rises in employer contributions for non-secure employers due to poor/negative investment returns	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	2	4	Low	The review of employers long term financial stability and the policy for stepping in of contribution rates assists in affordability issues and this "contribution relief" policy was reviewed and maintained at the July 2013 Committee meeting for the 2013 Valuation process. Valuation rates have now been agreed for the next 3 years. The benefits of a 'flight path' strategy as outlined is being considered	Catherine Dix	Mar-15	2	2	4	Low	1 Dec 2014	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN008	Failure to comply with LGPS and other regulations	Legal / Statutory	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	David Anthony	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	3	2	6	Medium	The Technical & Compliance Manager oversees training plan for the team. The new LGPS 2014 scheme has been implemented but still reviewing changes. Some guidance has now been issued on transfers following pension changes in last budget.	Tim O'Connor	Dec-14	2	2	4	Low	1 Dec 2014	→
PEN009	Failure to hold personal data securely	Legal / Statutory	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised	David Anthony	Compliance with Wiltshire Council's Data Protection & IT Policies.	2	2	4	Low	It is intended to do a full data protection audit for the Fund. An imaging system has now been implemented which will improve retention of documents and ultimately will lead to a paperless working environment.	Tim O'Connor	Mar-15	2	1	2	Low	1 Dec 2014	→
PEN010	Failure to keep pension records up-to-date and accurate	Knowledge / Data / Info	Poor or non-existent notification to us by employers and members of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	David Anthony	Systems Team constantly working to improve data quality, data validation checks carried out through external partners (e.g. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative.	2	3	6	Medium	From 1 April 2014, the Pension Regulator will require additional checks on data. Data cleansing is taking place to address this. Also, with the end of "contracting-out" in April 2016, HMRC will no longer take responsibility for GMP data. A project is being scoped to ensure records match prior to	Martin Downes	Mar-15	2	1	2	Low	1 Dec 2014	→
PEN011	Lack of expertise of Pension Fund Officers and Service Director, Finance	Professional judgement & activities	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	David Anthony	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc. The Technical & Compliance Manager has formulated annual Training Plans and Relevant officers are also reviewed against the CIPFA Knowledge & Skills Framework to ensure adequate expertise exists.	2	2	4	Low	The team restructure now provides better technical knowledge at the right levels. All key posts are now filled.	David Anthony		2	1	2	Low	1 Dec 2014	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN012	Over-reliance on key officers	Organisation Management / HR	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	Key people in the team are seeking to transfer specialist knowledge to colleagues. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	2	2	4	Low		David Anthony		2	1	2	Low	1 Dec 2014	→
PEN013	Failure to communicate properly with stakeholders	Stakeholders	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor.	David Anthony	The Fund has a Communications Manager and Employer Relationship Manager dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy.	2	2	4	Low	A comprehensive communication strategy was implemented for the LGPS 2014 scheme. Employers have also been reminded of their responsibilities for Autoenrolment.	Zoe Stannard & Andy Cunningham		1	1	1	Low	1 Dec 2014	→
PEN014	Failure to provide the service in accordance with sound equality principles	Corporate / Leadership / Organisation (Reputation)	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	1 Dec 2014	→
PEN015	Failure to collect payments from ceasing employers	Finance	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	David Anthony	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments. All new admitted bodies now require a guarantor to join the Fund.	2	2	4	Low	Work is on-going to develop monitoring of admitted bodies who are close to cessation to enable the Fund to have an early dialogue with them to ensure costs are met.	Andrew Cunningham	Mar-15	2	1	2	Low	1 Dec 2014	→
PEN016	Treasury Management	Finance	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund approved an updated Treasury Management Strategy in Feb 2014 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £6m.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	1 Dec 2014	→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN017	Lack of expertise on Pension Fund Committee	Professional judgement & activities	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Help can be called on from our consultants and independent advisors too.	2	2	4	Low	The CIPFA Local Government Pension Fund Knowledge & Skills Framework require members of the committee to be regularly assessed to identify knowledge gaps and ensure training is provided to address these. A new members training plan is being formulated based on the Members self-assessment review undertaken. The new 20115-17 plan will be agreed at the March meeting of his Committee.	David Anthony		2	1	2	Low	1 Dec 2014	→→→
PEN018	Failure to implement the LGPS 2014 Reforms	Service Delivery	Failure to implement the LGPS 2014 in time for April 2014 in terms of systems changes, data requirements, communications and training.	Unable to meet the new legislative requirements of the scheme and to administer the Fund correctly.	David Anthony	A communication policy implemented to inform all members of the changes. Implementation Plan is on-going. Systems team in close contact with Software are providers to ensure developments will be actioned. Review of process being undertaken by Technical & Compliance Manager to ensure changes are compliant.	3	2	6	Medium	The transitional regulations and GAD guidance were only issued in March 2014, a month ahead of "go-live" which meant a number of manual calculations were still required. The latest Altair release was implemented in September which rectified this. All changes and output are currently being reviewed for Compliance before the project is closed.	David Anthony		2	2	4	Low	1 Dec 2014	→→→

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