

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

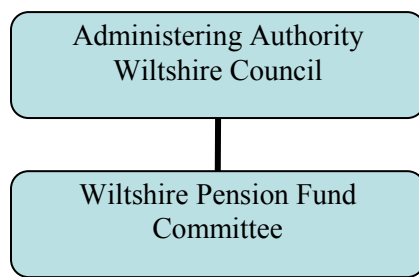
3. Following Lord Hutton's review of Public service pensions published in March 2011, the Public Service Pensions Act (PSPA) 2013 was introduced to "make public service pension schemes more transparent". This act requires each LGPS administering authority to establish a new body known as a Local Pension 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

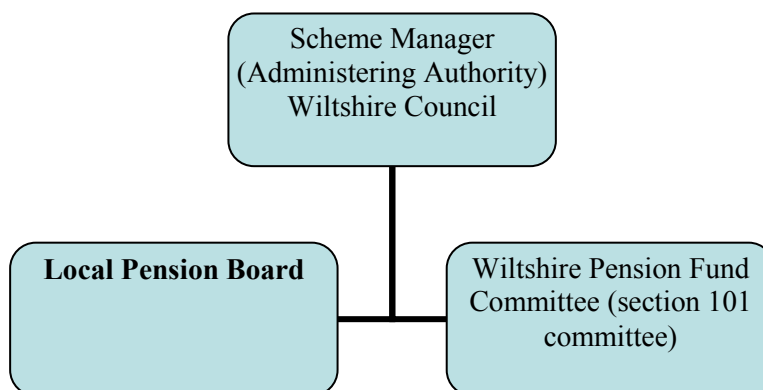
Current Structure

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

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Unpublished documents relied upon in the production of this report: