


Non-Executive Report of the: PENSIONS COMMITTEE 23 July 2015	
Report of: Chris Holme, Acting Corporate Director of Resources	Classification: Unrestricted
Pensions Board Update July 2015	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Summary

This report outlines the progress of the establishment of the new pensions Board under the Public Service Pensions Act 2013. Full Council at its September 2014 meeting delegated to the Pensions Committee, the authority to create the Pensions Board for the Tower Hamlets Pension Fund by 1st April 2015 as stipulated by the regulation.

Pensions Committee considered and approved the terms of reference for the Board at its February 2015 meeting. The Recruitment for the Board started March 2015 and it is at the final stage. This report provides an update on the recruitment process and summarises the next steps for the newly established Board.

Recommendations:

Members of the Pensions Committee are asked to:

1. Note the contents of the report.

1. REASONS FOR THE DECISIONS

- 1.1 Following the Independent Public Service Pensions Committee report of 2011, the Public Service Pensions Act 2013 gave powers to the Secretary of State to introduce a number of far reaching changes to the administration of the LGPS.
- 1.2 A new local government pension scheme has been effective since 1 April 2014 and the LBTH Pension Fund has implemented the changes.
- 1.3 Aside from reform to the administration of the pension scheme, the 2013 Act also gives the Secretary of State power to implement changes to the governance arrangements introducing additional requirements alongside increased flexibility to the structure of the decision making bodies

2. ALTERNATIVE OPTIONS

- 2.1 No alternative as this is a regulatory requirement.

3. DETAILS OF REPORT

- 3.1 Over the past few years there have been major changes proposed by Government to the way Local Authority Pensions Funds are to be managed and pensions delivered to beneficiaries. This has been set against the background of rising costs associated with increasing longevity and a concern about the balance of cost sharing between taxpayer and beneficiaries. Major reforms have already been implemented in the administration of pensions and the introduction of a career average earnings scheme, and proposals to improve investment performance are currently the subject of a separate consultation process. Further proposals to improve scheme governance have also been issued and are the subject of this report.
- 3.2 The genesis of these changes was the "Hutton Report". 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. 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").
- 3.3 A key aim of the reform process 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.
- 3.4 The Public Service Pensions Act 2013 sets out the need for Pension Boards to assist scheme managers to be established for all public sector schemes, including the LGPS. Final regulations setting out the requirements for the boards were laid before Parliament in January 2015. Under the regulations, the boards were to be established in Council constitutions no later than 1st April 2015 and must be operational by 1st August 2015.
- 3.5 The current arrangements for the management of the LBTH Fund have been in place for a considerable period of time and in line with the practice across most London Boroughs. LBTH is the administering authority for the Pension Fund,

for the Council itself and a number of scheduled and admitted bodies. The Fund itself has now grown to c£1billion and is one of the largest in London with 18,667 members.

- 3.6 The Council has delegated the management of the Fund to the Pensions Committee comprising seven Councillors (representing the political balance of the authority) one admitted body and one trade union representatives. Pensions Committee members operate in a quasi-trustee capacity. In line with current best practice the Fund is advised by actuarial, investment consultant and independent adviser.
- 3.7 The Pensions Committee have in turn delegated responsibility as well as the implementation of its decision to the Acting Corporate Director of Resources and his officers who monitor activity, performance and oversee the administration and investment management duties of the Fund.
- 3.8 The requirement to establish a local Pensions Board represents a major change to the governance arrangements locally for Pension Fund management and administration. Section 5 of the Act requires that each Scheme Manager is advised and assisted by a pension board whose role will be to help ensure compliance with the legislation in the governance and administration of the scheme, together with any role or function the fund chooses to grant to the board.

3.9 RECRUITMENT PROCESS

- 3.9.1 The Terms of Reference for the London Borough of Tower Hamlets Pension Board have been drawn up in line with the Regulations. Full Council approved the inclusion of the Board in the Council's constitution on 25th June 2014, fulfilling the requirement of the Regulations to establish a Pension Board by 1st April 2015. The Council as the administering authority must now ensure that the Board is fully operational by 1st August 2015.
- 3.9.2 The Terms of Reference for the Board sets out requirement for 3 scheme member representatives and 3 employer representatives. These roles were initially advertised by writing to all scheme members and scheme employers in April 2015. To apply to be a representative, applicants were required to fill out a short application form, explaining why they wished to become a Board member and providing a brief summary of their skills and experience. Applications were received from a number of experienced individuals who were further analysed.
- 3.9.3 The process for appointment of Board members was overseen by the Councils' legal officer, governance officer and resources officers.
- 3.9.4 The Appointments Panel has now made its final decisions regarding the applicants, although these have not yet been formally announced. 3 scheme member and 3 employer representatives have been appointed, as per the Terms of reference. An Independent Chair for the board is being sought. At the time of writing, the appointments are being finalised, but Pensions Committee Members will be notified of the Pensions Board Members at or in advance of the Committee meeting.
- 3.9.5 The appointed Board Members would be asked to attend the Pensions Committee meeting on the 23rd July in order to be introduced to the Committee

and also to attend the training session. The Board Members will be welcome to stay for the remainder of the meeting in an observer capacity only to help them to develop their understanding of the decision making process. In addition there are a number of specific Committee papers being presented, which will be of interest to Board Members.

3.10 PENSIONS BOARD

- 3.10.1 The newly formed Pensions Board will hold its first meeting in July, therefore meeting the regulatory requirement for the Board to be operational by 1st August 2015. The new Board members will be briefed on their role by the Board Secretary prior to the first Board meeting.
- 3.10.2 Board members will be required to maintain an appropriate level of knowledge and understanding of Pensions matters in accordance with the regulations. To ensure that the LBTH Pension Board meets this requirement, training options for members are currently being explored; it is expected that members will attend an initial training session, with ongoing training provided alongside the Pension Committee's training programme.
- 3.10.3 Under the regulations, responsibility for decision-making with regards to the management of the Fund remains with the Pensions Committee; the Pension Board is not a decision-making body. The Board will, however, have a broad remit to review the decision-making process of the Pensions Committee in matters of scheme administration and governance. As such, members of the Pension Board will be provided with the final reports, minutes and agendas relating to all Pensions Committees and may attend Committee meetings as observers.
- 3.10.4 The Board will meet at minimum, four times per calendar year and will provide minutes of each meeting to the Pensions Committee and the Corporate Director of Resources. Members of the Pensions Committee and others specified in the Terms of Reference may attend meetings of the Pensions Board as observers.
- 3.10.5 The Board may make reports or recommendations to Pensions Committee; these must be provided at least 28 days in advance of the next Committee meeting. Additionally, the Chair of the Pension Board will prepare an annual report, which will be distributed to Pensions Committee, the Cabinet Member for Resources, the Corporate Director of Resources, the Service Head HR and Workforce Development and the Service Head - Legal Services. In the event that the Board considers that a matter brought to the attention of the relevant Directors and the Pensions Committee has not been acted upon within a reasonable period of time, it may also provide a report to Council.

3.11 FINANCIAL IMPLICATIONS

- 3.11.1 Members of the Pension Board will be asked to attend training to ensure they are able to demonstrate the necessary understanding and capacity required by the regulations. In recognition of this commitment, it is proposed that members of the Board should receive an allowance, with the costs being met by the Pension Fund.

- 3.11.2 Allowances will be by the Pensions Board Working Group in conjunction with the Corporate Director of Resources, with reference to the Members Allowances Scheme for co-opted members of Committees. The costs are not expected to be significant and should help to further demonstrate the good governance of the Fund.
- 3.11.3 Other costs are likely to arise in terms of ensuring that there are sufficient resources to be able to service the Board and that where required costs of training are met by the Fund. Again, in the context of the Fund, these additional costs are not expected to be significant.
- 3.11.4 The establishment of a Scheme Advisory Board at a national level will lead to additional costs to be met by individual local government pension funds. The costs of funding the Board are still unknown, but the Fund is including an estimated cost for this within the Pension Fund budget 2015/16 for £10,000.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The comments of the Acting Corporate Director of Resources are incorporated in the report.

5. LEGAL COMMENTS

- 5.1 As stated in the body of the report, the government has introduced wide-ranging changes to the administration and governance of the Local Government Pension Scheme. The changes were introduced by the Public Service Pensions Act 2013.
- 5.2 When discharging its Pensions functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector duty). The Committee may take the view that the establishment of a Pensions Board will assist the Pensions Committee to properly discharge its functions as the administering authority of the LBTH pension fund.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 Improving the governance arrangements of the Fund can lead to better decision making which can result in governance dividends to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 There are no major risks foreseen from the implementation of these regulations. The main challenges would be sourcing and training individuals to sit on the new Pension Board.
- 9.2 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- NONE

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

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