GOVERNANCE ISSUES

Contact Officers	Nancy Leroux
Papers with this report	None

SUMMARY

This report is to provide an update on Pension Fund Governance issues. The report covers the future format of Fund Manager Meetings, a progress report on the project to transfer pensions' administration to CAPITA Hartshead from 1 April 2012, and an update on the current position on the funding position of academies.

RECOMMENDATIONS

1. **That Members discuss and agree an approach to Fund Manager Meetings**
2. **That the remaining items are noted.**

INFORMATION

1. Future Format of Fund Manager Meetings

A discussion was held on the appropriateness of fund manager performance meetings prior to quarterly Pension Committee and whether they added value. In most cases manager presentations are retrospective and information on future performance is generally the same at each meeting as it is based on the managers overall investment philosophy. So the question was raised as to whether these meetings served any useful purpose. This raised governance concerns as to whether a change in the meeting structure would satisfy the requirement for quarterly fund manager monitoring. However, the consensus was that the obligation could be achieved through the quarterly reporting process and should this raise issues, then the Investment Sub Committee could arrange specific meetings with relevant fund managers.

The Sub Committee were in agreement that managers could add value through delivering presentations on topical items. These could include current issues affecting the governance of the scheme as whole and educational items as they arose. If such topics presented themselves meetings then sessions could be arranged prior to Pension Committee.

The example of infrastructure was discussed as a topical item. Committee may find it beneficial to be given an insight into the Government's plans in terms of accessing pension funds to contribute towards government infrastructure projects. Infrastructure is gathering pace both inside and outside of Treasury; however to succeed it needs to be a structured investment rather than a raid on pension fund assets.

It was agreed that the views of Pensions Committee would be sought on whether regular Fund Managers should continue prior to Pensions Committees each quarter, of if these slots should be available for education and training as required and that officers should continue to have regular meetings with Managers, inviting Members who could attend when their diaries permitted.

2. Transfer of Pensions Administration to Capita Hartshead

A detailed project plan to transfer the pensions' administration function to CAPITA Hartshead on 1st April 2012 has been developed and the project is progressing in accordance with that plan. Weekly meetings between the company and LBH officers are taking place and there is very good cooperation between the parties. At the time of writing this report all actions are up to date.

All current scheme members have been informed of the transfer and pensioner members will be informed shortly when we write to every pensioner to provide details of their annual pensions increase.

CAPITA Hartshead has recently appointed a Client Manager to serve Authorities that have called off the pan London Framework agreement, who will meet with each Authority on a monthly basis. Additionally, officers from each authority in the agreement will arrange regular meetings to share experiences and issues. Work to allow access to the Capita administration system will be made available to two LBH officers for the purpose of checking calculations and testing against agreed performance indicators.

3. Academies and Funding Position

Within Hillingdon, 14 schools have converted to academy status within the last year, and there is an ongoing question in relation to how they should be treated within the LGPS. In December, the DfE and CLG issued a letter of joint understanding on how they should be treated, in response to certain pension related problems incurred in the set up of an academy. The key issue relates to how an academy is set up as an employer in relation to their pension liabilities - either in their own right, pooled together as one group or pooled together with the authority. Each of these scenarios can make a considerable difference to the level of pension contributions they may have to make. There are strong arguments for each scenario with winners and losers in each case. Officers are currently undertaking some evaluation of the impact of each of these options within Hillingdon and a report for Members will be completed in the next few weeks to seek guidance on the way forward.

4. Scheme Developments

As a result of the review of Public Sector Pension Scheme by Lord Hutton, the LGPS is due to introduce a new scheme from 1st April 2014 and the new scheme is being developed under the banner **LGPS 2014**. The LGPS 2014 project comprises of two workstreams, one to establish a new pension scheme for Local Government and a second stream to deal with the governance requirements contained within the above report.

LGPS Scheme changes 2014 - Scheme Design

The exact changes have not as yet been agreed, but a "Heads of Agreement" was agreed in November 2011 between the Government, Employers and Unions. The core parameters of the agreed new scheme design are set out below:-

- A new Scheme in April 2014, with regulations in place by April 2013;
- The scheme to be built on the basis of career average earnings;
- Options for no increase to employee contributions provided that overall financial constraints set by the Government are met;
- Some elements of choice to encourage retention of existing membership and encourage new membership; and
- flexible retirement age from 55.

What remains unknown is the accrual rate for the annual pension and the rate of annual revaluation increases. Currently deferred benefits and pensions in payment are increased in line with the Consumer Prices Index (CPI). It has been agreed that any member aged 55 or over as at 1 April 2012, will continue to accrue benefits under the current scheme, and will not have the option of joining the "New Scheme" in operation from April 2014.

As the "New Scheme" is due to be implemented from 1 April 2014, legislation needs to be in place as at 31 March 2013, to allow Actuary's to include the future changes to the regulations, within their assumptions for the 2013 Scheme Valuation.

LGPS Scheme changes 2014 - Governance Arrangements

A Governance Working Group (GWG) which includes senior representatives from CLG, Unions, NAPF, LGE and Administering Authorities has been established under the LGPS 2014 project to discuss aspects of the future Governance arrangements of the revised LGPS due for implementation in 2014. The remit of the GWG is to agree a set of recommendations on best practise in governance and procurement for the LGPS, and pass these recommendations to the Governance Project Group, who will in turn fine tune these recommendations and pass them on to the DCLG.

Ken Chisholm is a member of the GWG, giving London Borough of Hillingdon Pension Fund a voice in these proceedings. A summary of the work of the CWG to date will be presented to the Governance Project Board of the Local Government Employers on 18th April. Work so far has focussed on the setting up of an "LGPS Pensions Board", who will introduce and oversee a set of principals intended to show that the LGPS is being administered in a transparent and effective fashion. Who will make up this "Board" and what, if any, statutory powers are transferred/absorbed from other already constituted bodies are yet to be decided. The Government has already declared that The Pensions Regulator will in the future have a role in the governance of Public Sector Pension Schemes.

5. Training

CIPFA have developed a one day training course as an introduction to the LGPS, which would be useful to new Members of Pensions Committee or any substitute Members who have little knowledge of the scheme. The course will be held in London on 14 June 2012 and will cost £295. If there is any interest in this course could you please contact Nancy Leroux to discuss.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising directly from the report.

LEGAL IMPLICATIONS

There are no direct financial implications arising directly from the report.