

<b>Local Government Pension Scheme Amendments; Consultations &amp; Update</b>	
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<i>Papers with this report</i>	None
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## **SUMMARY**

This report provides an update on recent changes to the Local Government Pension Scheme (LGPS) and further consultations on proposed scheme changes.

## **RECOMMENDATIONS**

**The report is for information only.**

## **INFORMATION**

### **1. Councillor Membership of the LGPS**

In March 2014 the Government laid before Parliament regulations which ended the right of Councillors to enter the LGPS. The final regulations which took effect from 1 April 2014 state that no new Councillor members may join the scheme from 1 April 2014 and any current Councillor members may only remain in the scheme for the duration of their current office. For London this had the effect that the last day of Councillor Membership in Hillingdon was 26 May 2014 (4 days after the 22<sup>nd</sup> May 2014 election). All Councillor Members of the scheme have been contacted individually explaining when they will be sent further information about their accrued rights in the scheme. Government have been lobbied to reconsider this decision but to no avail.

### **2. Member Training**

A brief guide to the local government pension scheme will shortly be made available to all Members of Committee. This guide has been produced by Hymans Robertson specifically for elected members new to Pensions Committee.

Training will be arranged for all new members over the coming months, although this will commence with members of the Investment Sub Committee. It is hoped that an early meeting of the ISC can be arranged during July.

### **3. DCLG Consultation on Opportunities for collaboration, cost savings and efficiencies in the LGPS**

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PART I - MEMBERS, PRESS & PUBLIC

The government launched its long awaited consultation on the future structure of the LGPS in England and Wales at the beginning of May, focusing on opportunities for cost savings and efficiency in investment management. The consultation explains that the government proposes to leave decisions on asset allocation with local authorities and is consulting on the use of collective investment vehicles and the greater use of passive management. The Government wishes to explore greater use of passive management, to the extent that this can be done without adversely affecting investment returns. It had been expected that Fund merger's would be proposed, but this is not the government's preferred option. The government's primary aim is cost reduction.

The consultation is seeking responses to 5 questions - Questions 1 to 4 relate to the use of collective investment vehicles and question 5 relates to passive management:

**Q1.** Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

**Q2.** Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

**Q3.** How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

**Q4.** What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

**Q5.** In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the 4 options set out below offers best value for taxpayers, Scheme members and employers?

The 4 options on passive investment are:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in the consultation paper and the Hymans Robertson report.

The closing date for the consultation is 11 July 2014. A link to the consultation is included at the end of this report. Officers are working closely with Advisors to monitor the impact of this consultation and any potential impact of the Hillingdon Fund going forward.

The development of the London wide Collective Investment Vehicle (reported to Committee in March) is very much in line with government's aims. At this stage there are 3 other London

boroughs who have not yet made any commitment to join the CIV - Bromley, Harrow and Havering.

### **3. Impending Draft Regulations on Governance and Implementation of Local Pension Boards**

At the time of writing this report, the long awaited draft governance regulations for LGPS in England and Wales remain outstanding. What is known is that as part of the LGPS Governance reform, each Administering Authority of the LGPS, will need have in place a Pension Board with effect from 1 April 2015. Pensions Boards will be responsible for ensuring that the LGPS is being administered in accordance with the regulations and that all pension contributions are being paid in to the scheme on-time and the correct amounts are being paid by each employer. There will also be rules governing the membership of the Board, employer and employee representation. Effectively the Board will be a scrutiny body and so separate from the current Pension Committee arrangements. The Head of Democratic Services is aware of this impending change and that as a result the current governance arrangements of for the Pension Fund will require to be changed.

Note: it is normal practice to hold an election every 4 years for the employee and pensioner member representatives on Committee. As the governance regulations will require a change from April 2014 it would not be prudent to hold an election at this time. The current member representatives Andrew Scott and John Holroyd have agreed to remain on Committee until the changes are clarified.

#### **Background Documents:**

DCLG Consultation document: <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>