

Scottish Local Government Pension Scheme Governance – Heads of Agreement

Introduction

The UK Public Service Pensions Act sets out new governance requirements for pension funds across the UK, implementing the Hutton recommendations. The SPPA has recently consulted on new arrangements and SLOGPAG has considered the responses and the views of key stakeholders. This paper sets out the Heads of Agreement for a new governance structure in Scotland.

It is recognised that governance arrangements will be subject to on-going review to reflect changes in, or interpretation of, legislation and best practice. For example, interpretation of the current legal requirements of the Institutions for Occupational Retirement Provision (IORP) Directive and any changes as a result of the new proposed IORP Directive. The Heads of Agreement for the new scheme (agreed in December 2013) also sets out the process for a wider review of structures which could impact future governance arrangements.

It is also recognised that these arrangements will be subject to the views and agreement of Scottish Ministers.

Scheme Advisory Board

The Scheme Advisory Board is the body responsible for providing advice to the Responsible Authority (Scottish Ministers), on the desirability of changes to the scheme. The Scheme Advisory Board also provides advice to the Scheme Managers and Pension Boards in relation to the effective and efficient administration and management of the scheme.

The new scheme advisory board is not a big change in Scotland as we have had a similar body in SLOGPAG for many years. The main elements of the Scheme Advisory Board should be as follows:

- It will be a bipartite body with representatives from local government employers and trade unions. The Scottish Government will be present as observers.
- There will be 7 employer and 7 trade union representatives. Substitute representatives will be available and will have undergone the requisite training and development to inform their role.
- The Chair will be rotated on an annual basis or an independent Chair may be appointed by Scottish Ministers.
- The secretariat will be provided by two Joint Secretaries, appointed from COSLA and the Trade Unions.
- Advisors e.g. Directors of Finance will also attend the Board but will not have membership status.
- Observers e.g. Scottish Government will also attend the Board but will not have membership status.

Pension Boards

Pension Boards will be established covering each fund in Scotland and will be the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.

The consultation process indicated a difference between the employer and trade union views on having pension boards in addition to the current structure or merging them into one board. A hybrid solution has therefore been agreed that would retain the pension committee of the administering authority with membership appointed under current arrangements and responsibility for fund management.

While the roles and function of pension committees and pensions boards will be set out in the regulations, the normal practice would be that both bodies would meet at the same time to consider the same agenda, with the Chair of the pension committee chairing the concurrent meeting. This innovation will result in a positive and proactive partnership culture where in practice the two bodies act as one.

New pension boards would also be established as follows:

- Membership would consist of equal numbers of trade union representatives and employers drawn from other councils and scheduled or admitted bodies in membership of that fund.
- As a minimum there will be 4 trade union and 4 employer representatives with the expectation that larger funds will require greater numbers. Numbers from organisations on either side will broadly reflect respective membership in the scheme.
- The Chair will be rotated on an annual basis.
- The secretariat will be provided jointly from the pension fund and the local trade union representatives.
- Advisors and observers will also attend the Board but will not have membership status

There will be a model constitution setting out the administrative arrangements for pension boards. Representatives of employers and trade unions will define the local parameters in addition to the model constitution. If there is difficulty in agreeing those local parameters, the Scheme Advisory Board can act as a point of resolution.

The pension board will determine the areas they wish to consider including, amongst others:

- Reports produced for the pensions committee
- Requisition reports from the scheme managers on any aspect of the fund
- Monitor investments and the investment principles/strategy/guidance
- The fund annual report
- External voting and engagement provisions
- Fund administrative performance
- Actuarial reports and valuations
- Funding policy
- Any other matters that the pensions board deem appropriate

If the pension committee and pension board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the pension committee is still competent.

In the first instance, if at least half of the members agree, then the pension board can refer back a decision of the pensions committee for further consideration if any of the following grounds are met:

- That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
- That the decision of the pensions Committee could be considered illegal or contrary to regulations;
- That the decision of the pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or

- That the decision is not in the interest of the continued financial viability of the Scheme or is against the principles of proper and responsible administration of the Scheme

If there is no agreement after the matter has been referred back to the pensions Committee, then the difference in view between the Pension Board and the Pension Committee should be published in the form of a joint secretarial report on the fund website and included in the fund annual report.

It may then be appropriate for the Scheme Advisory Board to consider and take a view on the matter and, if considered appropriate, to provide advice to the Scheme Manager or the pension board in relation to the matter.

There will be an agreed training programme for all members of pension committees and pension boards.

All administration costs will be met by the relevant fund.

The structure is shown diagrammatically below.

