



Committee report

Committee	EXTRAORDINARY MEETING OF THE PENSION FUND COMMITTEE
Date	6 OCTOBER 2017
Title	CONSIDERATION OF CHANGES TO PENSION FUND GOVERNANCE ARRANGEMENTS
Report of	MONITORING OFFICER AND TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. This report seeks approval from the Pension Fund Committee for officers to investigate the potential to amend governance arrangements for the Isle of Wight Pension Fund, by reviewing the option to combine the Pension Fund Committee and Pension Board.
2. This report will also be discussed by the Local Pension Board at its meeting on 17 October 2017.
3. If approved, officers will set up a working group, to include pension committee and board members, to evaluate the opportunities and risks of such a combined committee/board, and report back to a future committee meeting before any further work is undertaken.

BACKGROUND

4. Following the enactment of the Public Service Pensions Act 2013, amendments to the Local Government Pension Scheme (LGPS) Regulations had to be made to implement the governance changes from the Act.
5. One of the key changes to the draft regulations was the creation of pension boards. These were to be separate bodies to bring additional oversight and assist in the management of pension funds. Pension boards were also intended to improve the level of representation in the governance of pension funds by having an equal number of employer and scheme member representatives. Pension boards are a significant change for other types of pension scheme in the public sector where there is little existing governance. The LGPS however, already has a strong requirement for and track record of good governance due to the requirement to manage investments.

6. There were two consultations by the Department for Communities and Local Government (DCLG) on the draft regulations, the last of which closed in November 2014. The Isle of Wight Pension Fund Committee (the committee) was consulted on the changes to the draft regulations, and a working group to consider the approach to implementing those regulations was formed from committee members during the summer of 2014.
7. During the consultation phases, the draft LGPS regulations did not contain a practical option for the requirements of the new pension board to be combined with the existing committee arrangements for managing pension funds, although it was theoretically possible subject to obtaining approval from the Secretary of State. In particular the major stumbling block was the conflicting arrangements of elected member representation on the existing committee and the pension board requirement for equal scheme member and employer representation.
8. The recommendation from the working group, supported by the committee was that the council should create a separate pension board to support and advise the pension fund committee on governance arrangements.
9. The Isle of Wight Council, as administering authority for the pension fund established the Isle of Wight Local Pension Board at the Full Council meeting on 21 January 2015.
10. Subsequent to the establishment of the Isle of Wight Pension Board, the amending LGPS regulations were published on 28 January 2015.
11. The final regulations moved on from the drafts and opened up the possibility of combining the requirements for a pension board with an existing pension committee, although still subject to Secretary of State approval. The regulations require a joint committee to designate a certain number of its members to be employer and scheme member representatives, of which there must be at least two of each.
12. The council did not make any changes to its governance arrangements for the LGPS following commencement of the amending regulations. With the pension board having been in operation for two years, and the terms of reference for both committee and pension board being reviewed, it is now an opportune time to consider the effectiveness of the current governance arrangements and whether any changes should be made.
13. The Isle of Wight Council Pension Fund is one of the smallest LGPS funds in the country (at 31 March 2016, in terms of assets under management, it ranked 88th out of 89 funds) with 30 employers, including town and parish councils, voluntary organisations, outsourced suppliers and educational establishments, including the Isle of Wight College and academies; and in excess of 15,000 scheme members, including active members, deferred members (who no longer contribute to the fund but have not yet retired) and pensioners.

14. The fund is still subject to the same expectations of governance and administration standards as much larger funds, despite its smaller size and the lower level of resources available to service the fund.
15. Isle of Wight can already demonstrate it has a well-run pension fund with good and improving governance arrangements:
 - (a) The pension committee has a strong track record in the specialist area of the management and investment of a pension fund and are advised by independent consultants as well as the officers of the council. It has the capacity to consider the strategic management of the fund as well as scrutinise how the fund is run, which is now made explicit in the committee's revised terms of reference.
 - (b) The pension board has demonstrated a desire to be more proactive in supporting the committee in improving standards of governance and administration of the fund. The revisions to the board's terms of reference will allow this to be further developed.
16. Combining the committee and the board, with new terms of reference for the combined entity, has the potential to build in current expertise and capacity for improvement, while reducing bureaucracy and officer workloads in supporting separate meetings.
17. Any proposal to change the structure of the governance of the fund, by combining the committee and the board, will require approval from the Secretary of State. To date, two funds have successfully applied for permission to operate a combined committee and board – Hampshire County Council and London Borough of Haringey.
 - (a) Hampshire created a joint Pension Panel and Board as soon as the final regulations were issued, effective from April 2015.
 - (b) Haringey initially created a separate board to operate alongside their existing committee, but combined the two into the Pension Committee and Board, effective from September 2016.
18. Discussions can be held with both authorities to establish the process followed and lessons learnt from their experience.
19. There is no time pressure for making this change, as the council is compliant with current regulations with its current governance arrangements. However, it is proposed that preparatory work is begun soon, to determine whether changes can be made in advance of the annual council meeting in May 2018.

STRATEGIC CONTEXT

20. The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the LGPS regulations and statutory provisions. The committee aims to operate the fund in such a

manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

21. Ensuring that all the resources available to the Island are used in the most effective way in achieving the Island's priorities.

CONSULTATION

22. Investigating the combination of the committee and pension board will involve consultation both internally and externally. Existing committee and board members will be consulted, and invited to join a working group to progress the project.
23. This report will also be presented to the pension board meeting scheduled for 17 October 2017.
24. Discussions will be held at officer and member level with those authorities who have already been through this process, to understand the process. This can include employer and scheme member representatives on the combined committee and boards of those authorities to ensure a balanced understanding of the process and outcome is achieved.
25. External governance consultants can be engaged if required to support the council through this process.
26. Negotiations will be held with DCLG throughout the process, should it be determined that a combined committee and board are required.

FINANCIAL / BUDGET IMPLICATIONS

27. There may be external costs involved in the process, particularly for external governance consultants, if engaged. Other costs for travel to meetings with other local authorities may be necessary. However the primary costs at the investigation stage will be officer time.
28. Any external costs incurred will be borne by the pension fund, and will not impact directly on the council's budget.

LEGAL IMPLICATIONS

29. The Local Government Pension Scheme Regulations 2015 govern the establishment of the pension board. Regulation 106 provides that the pension board may combine with the pension committee if approval in writing has been obtained from the Secretary of State.
30. The Secretary of State may grant approval subject to conditions as seen fit and may withdraw approval if the conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the approval to continue.

31. If a combined committee is approved and formed then the committee will have the dual role of responsibility for administering the scheme, and responsibility for ensuring good governance and compliance with requirements imposed by the Pensions Regulator. The provisions within the act and regulations on conflicts of interest and representation of interests would need to be satisfied for a local authority committee to be the pension board for the scheme.

EQUALITY AND DIVERSITY

32. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
33. Consulting on proposal to amend the governance structure for the pension fund is not anticipated to have any impact on these protected characteristics.
34. Should the decision be made to proceed with a combined committee and board, an equality impact assessment will be completed at that stage.

OPTIONS

35. Option 1 – to proceed with investigation into the combination of the committee and the board, establishing a working group of officers, committee and board members, and report back to future committee meetings.
36. Option 2 – to not consider the combination of the committee and the board and continue with the existing governance arrangements with a separate committee and pension board.

RISK MANAGEMENT

37. It is the responsibility of the Isle of Wight Council, as administering authority, to ensure that the Isle of Wight Pension Fund is properly managed, governed and administered in compliance with relevant regulations and other requirements.
38. Any consideration of changes to that structure must ensure that this compliance is not compromised.
39. There is no risk in not investigating changes to the governance arrangements, as the council is currently in compliance with governance and administration regulations with its existing governance structure of a separate pension fund committee and pension board.

EVALUATION

40. Option 1 – investigating the combination of the committee and board is intended to whether such a combination should be progressed. It does not commit the council to making any changes to the governance arrangements for the fund at this stage.
41. All interest parties will be consulted with, and their input will be considered in making the final decision whether to proceed or not.
42. There is no fixed timetable for making this decision, as the council is already fully compliant with regulatory requirements.
43. Undertaking the investigation will ensure that all options, risks and rewards are fully considered before making any decision whether to make any changes.
44. Should the outcome of the investigation be not to make any changes to the governance arrangements, the council is not at risk of any challenge for non-compliance with regulatory requirements as the current committee and pension board arrangements, with changes being proposed to each terms of reference, will continue to meet those requirements.
45. Option 2 – while there is no regulatory risk in remaining with existing arrangements, not investigating any changes could mean that future benefits of efficiency and improvements in governance standards will not be identified.

RECOMMENDATION

46. Option 1 – to proceed with investigation into the combination of the committee and the board, establishing a working group of officers, committee and board members, and report back to future committee meetings.

BACKGROUND PAPERS

47. [Pension Fund Committee governance discussions 11 July 2014, minute 15](#)
48. Establishment of a pension board – [Full Council 21 January 2015, paper D](#)

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