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Date 29 August 2013

Dear Philip

Scheme Governance Discussion Paper

This response is submitted on behalf of the Greater Manchester Pension Fund Management Panel. GMPF is the largest LGPS fund in England and Wales with 280,000 members, 330 contributing employers and assets with a value of approximately £13bn.

The consultation paper has been considered by the Management Panel and an extended meeting of the Business Development Working Group, to which all members were invited to participate in the discussion.

The Fund has a very successful track record and we believe that there are a number of factors that have contributed to the Fund's good decision making and governance, these include:

1. Stability

- of the leadership of the Fund, many members of the Panel have long service and this experience together with training has helped build skills and knowledge;
- of advice from the Fund's external advisors and in house staff; and
- in the investment management arrangements, appointed managers and other service providers.

2. Economies of Scale

- in terms of lower unit costs; and
- the capacity to buy in external and in-house expertise.

3. Broad Governance arrangements

- the Fund's governance arrangements involve the participation of all 10 local authority employers and 6 trade union representatives in decision making. This helps in enabling

decisions to be taken from a long term perspective through the broad participation and the constancy of purpose that develops. At the same time it helps in putting a framework or procedures in place to enable fleet of foot decisions to be taken.

Our belief is that good decision making benefits from an experienced and knowledgeable Board / Panel supported by good advice. Stability of arrangements helps generate justifiable trust and a constancy of purpose that helps deliver on the key LGPS aim of a low, stable cost whilst maintaining the solvency of the Fund.

Looking forward, important roles for the Scheme Advisory Board are:

- (i) to provide advice and recommendations to the Secretary of State; and
- (ii) to provide effective guidance to local scheme managers with the aim of improving their collective effectiveness and reducing the current cost of the LGPS (including deficit recovery). In practice, the hope and expectation is that this can be delivered by improved investment decision making.

Thus our aim in responding to this consultation is to focus on factors that we think are beneficial to local decision making and in particular investment decision making. The regulations can and should provide a solid framework, together with essential core requirements. An example would be appointing Panel / Board / Committee members for a fixed term together with the scope for reappointment. However the issuing of guidance and the scope for it to be more easily reviewed and updated is likely to be more helpful than detailed regulation.

The Scheme Advisory Board will have tough and challenging terms of reference. It is being introduced at one of the most difficult times to be managing a funded, defined benefit pension scheme with the introduction of the 2014 Scheme, the implementation of the 2013 Actuarial Valuation, the structural changes in membership and growth in number of employers, the scale of deficits and an exceptional economic environment. The Scheme Advisory Board needs to be given time to develop and learn and deliver its guidance to complement and support the regulations.

Response to Questions

Q1. What period, after new governance regulations are on the statute book, should be given for scheme managers/administering authorities to set up and implement local pension boards?

Given the challenges outlined above, we suggest administering authorities should be given a good degree of flexibility and thus suggest April 2015, but with scope and encouragement for administering authorities to introduce earlier and provide some case studies for others.

Q2. How long after new governance regulations are on the statute book should the national scheme advisory board become operational?

The Shadow Advisory Board and its sub committees have just become operational. The experience gained from its initial period of operation may be helpful in establishing the National Advisory Board. Thus a target date of autumn 2014 may be appropriate.

Q3. Please give details of any such “connected” scheme that you are aware of.

We are not aware of any connected scheme other than that provided by the compensation regulations.

Q4. Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of scheme managers?

We are not aware of any such schemes.

Q5. What “other matters”, if any, should be include in Scheme regulations to add to the role of local pension boards?

Given the scrutiny role required of the Local Board, consideration of reports of the fund's external auditor may be appropriate.

Q6. Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?

The identification of potential members of the Pension Board with suitable skills and experience may not be easy for some funds. Thus the regulations should not eliminate potential members where the conflict is relatively minor. Such conflict may be capable of being managed by a conflicts policy.

Q7. Should Scheme regulations prescribe the type of information that may be “reasonably required”?

This feels like a matter better suited to guidance from the Advisory Board.

Q8. Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representatives?

This feels like a matter better suited to guidance from the Advisory Board.

Q9. Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?

Separate.

Q10. Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?

Q11. Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?

10 and 11 – Our preference is to leave the detailed workings of local pension boards to local determination. The set up for the scheme manager role and local decisions re matters to be considered by the manager / board may have implications for membership, constitution, frequency of meetings and the nomination process. GMPF currently has an Ethics and Audit Working Group and thus it may be appropriate in GMPF's case for the Board to take on much of the work currently undertaken by this Working Group.

Q12. Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory committee to the local pension board (if the committee and the board are not one and the same body)?

No, the skills, knowledge and experience gained may well be beneficial and better match the responsibilities of the Board. If there are recruitment problems, moving from the Manager to the Board may also be helpful.

Q13. Should the new Scheme regulations include a requirement for each local pension board to establish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?

Yes, the norm is for statutory reporting to be included in the Annual Report and Accounts and this would seem a sensible place in which to report all stakeholders.

Q14. Apart from the training and qualification criteria that may be covered by the Pensions Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?

The requirements of the Pension Regulator assuming that they reflected the funded nature of the LGPS should be sufficient. If there are further specific issues these should be picked up in guidance from the Advisory Board.

Q15. Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?

Extensive terms of reference have been agreed for the Shadow Board and its sub-committees. If specific areas of work are sought by the Sec of State (DCLG), this should be achievable through discussion.

Q16. Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and when deemed necessary?

Yes

Q17. Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?

No

Q18. What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?

The Shadow Board is currently in operation, whilst the timescale is likely to be relatively short, an evaluation of its success may be useful in determining the process of establishing membership. As a starting point, it may be useful to maintain the membership profile of the Shadow Board.

Q19. Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?

Yes

Q20. Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this apply to the Chair of the board?

The regulations should prescribe a fixed tenure of office and permit subsequent re-appointment.

Q21. Should Scheme regulations make provision for board members, including the Chair, to be removed in prescribed circumstances, for example, for failing to attend a minimum number of meetings per annum? If so, who should be responsible for removing members and in what circumstances (other than where a conflict of interest has arisen) should removal be sought?

It is clearly important that Board members prepare for and attend meetings and undertake appropriate training. However, this is better dealt with at the local level. Publication of attendance may be useful.

Q22. Should Scheme regulations prescribe a minimum number of meetings in each year? If so, how many?

Q23. Should Scheme regulations prescribe the number of attendees for the board to be quorate? If so, how many of what percentage of the board's membership should be required to be in attendance?

Q24. Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?

22 and 23 - These feel like matters better suited to guidance from the Advisory Board.

Q25. Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?

Mandatory levy.

Q26. What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?

All members of the Advisory Board and any sub-committees it establishes should be indemnified against any claims made against them as individuals or as a member of the Board. It would be preferred if this could be dealt with by way of regulation, alternatively suitable insurance cover would need to be taken out by the Advisory Board to be funded from the levy / subscriptions.

Yours sincerely,

Peter Morris

Executive Director of Pensions