

SLOGPAG Trade Union Side Pensions Governance

Introduction

This paper outlines the trade union side's initial position on the new governance arrangements for the Scottish LGPS.

Background

The Trade Union Side broadly welcomes the provisions of the Public Service Pensions Act that strengthen the governance arrangements for the Scottish LGPS. The 2008 agreement with its 'comply or explain provisions' was only ever an interim response and has not been reviewed as intended. The limited member engagement is outdated and as the Hutton Report recommended, governance needs to be brought up to date with current best practice.

Scheme Manager.

The Act requires the new scheme regulations to provide for a legal person to be the scheme manager. While this could be the local authority pension committee it is our view that the LGPS must be legally separated from the sponsoring employers to comply with the requirements of EU Directive 41/2003 (IORP). Investments must be made in the best interests of scheme members and where conflicts of interest arise, they must be resolved in the favour of scheme members.

We also believe that this is the time to look at the current structure of LGPS funds in Scotland. The costs of investment management are increasing and there is evidence of hidden costs with the current largely outsourced model. We have commissioned research that shows significant savings and improved investment returns could be achieved with a different approach. This is being considered in the England and Wales scheme and a consultation paper has been published.

Pensions Board

The Act requires that there should be a pensions board for each scheme with responsibility for assisting the scheme manager. The board must have equal numbers of employer and member representatives. This board can be the same as the pensions committee (scheme manager) or it can be a separate body. The English discussion paper says:

"1.25 The argument for and against separate bodies is finely balanced. Those who support the committee and pension board being one and the same body argue that local government cannot afford to spend more time and money setting up new bodies, particularly when the function could easily be undertaken by existing pension or investment committees. Others argue that a statutory decision making committee is in no position to fulfil the clear scrutiny role set out in the Act. It cannot, in effect, scrutinise itself and be in a position to assure the scheme manager that it is complying with all relevant legislation and Pension Regulator's codes of practice."

The Trade Union Side believes that one pensions board is a simpler and more cost effective solution in line with the Hutton recommendations. If separated, we would need

two groups of councillors, one scrutinising the other for no real added value. Legal separation of the funds would obviate the need to amend the Local Government (Scotland) Act provisions on the composition of council committees.

As the Act is silent on membership, constitution, frequency of meetings, the nomination process and training - we believe a framework should be set out in the regulations that allows for some discretion to reflect local circumstances.

Scheme Advisory Board

The Act requires that there must be a scheme advisory board for the Scottish LGPS. SLOGPAG has performed a similar function in Scotland for many years and we believe this approach has generally worked well. We note the consultation proposals for the E&W scheme and they look unduly complex for a country the size of Scotland. However, we believe that the Scottish board should cover the same range of issues, including investment advice.

We support the retention of the current tripartite structure and recognise that membership would need to be formalised. The Trade Union membership should be one lay and one FT official from UNISON, Unite and GMB plus a representative from UCATT. The employer and government side membership is a matter for those sides, although we see merit in retaining technical expertise. We have no strong view over an independent, rotating or government chair as at present.

We believe it would be practical to retain SLOGPAG in the 'shadow' role until the new board starts.

Conclusion

The Trade Union Side believes that the changes required by the Act are an opportunity to reform the structure and governance arrangements for the Scottish LGPS. This should result in a modern pension system based on the needs and aspirations of the scheme members.

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