

FIREFIGHTERS' PENSION SCHEME: GOVERNANCE AND HUTTON

Issue

- Taking forward the recommendations from the Independent Public Service Pensions Committee on future scheme governance, administration and transparency.

Recommendation

- Committee members are invited to comment on the recommendations from the Independent Public Service Pensions Committee on scheme administration, governance and transparency and on the potential future role of a formal scheme regulator
- Committee members are also invited to consider how the recommendations, in particular on local pension boards, should be taken forward for the firefighters' pension scheme, recognising the need to maintain local democratic accountability.

Background

1. The Independent Public Service Pensions Commission's final report, which was accepted by the Government as a basis for consultation, concluded that there was a case for independent scrutiny of the public service pension schemes. The Hutton report recommended that the purpose should be to ensure all schemes meet minimum standards of governance and administration, in particular that:
 - every public sector pension scheme should have a properly constituted, trained and competent Pension Board (or, in the case of locally administered schemes, a local pension board in recognition of the need for local accountability and the role of local democratically elected local government representatives¹), with member nominees, responsible for meeting good standards of governance, including effective and efficient administration
 - every public sector pension scheme should have a pension policy group [such as the Firefighters' Pension Committee] at national level to consider major changes to scheme rules and other matters.
 - governance and the availability of information would be improved by Government establishing a framework that ensures independent oversight of the governance, administration and data transparency of public service pension schemes. Government should consider which body or bodies, including for example, The Pensions Regulator, is most suitable to perform the role.

¹ At paragraph 6.22 to 6.26 of the report http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf

2. The full relevant Hutton recommendations are annexed below.

Considerations

3. Whilst there will be greater scope for individual scheme structures to implement governance arrangements, given the different democratic and accountability structures across the public sector, the role of the body with independent oversight across all public sector schemes will set certain minimum standards to be applied.
4. Discussions on establishing independent oversight of the public service schemes have already begun between HM Treasury and the TUC. The Government's starting point is to consider a role consistent with the existing one exercised by the Pensions Regulator in respect of the governance and administration of trust based schemes in the private sector. Broadly the existing functions of the Pensions Regulator are:
 - To issue Codes to set out appropriate minimum standards for pension schemes to comply with, across matters such as record keeping, risk and internal control, standards of administration and appropriate professional knowledge.
 - To issue improvement notices to require compliance in conformity with any relevant Regulator's Code, to stipulate the time period within which to achieve compliance and to require reports on state of compliance.
 - To issue third party notices to any person including those to whom an operational responsibility has been delegated, where their conduct is causing non-compliance. The Regulator can direct the third party to effect compliance in accordance with the provisions of any relevant Regulator's code.
 - To appoint persons to a scheme to report to the Regulator or operate the scheme in place of existing persons (who they can remove and bar from undertaking such a role in the future).
 - To appoint a skilled person to the Board to help the Board members on how to cure non-compliance with the standards of governance administration and transparency established by the law, scheme rules and regulator's codes.
 - To issue a civil penalty where a scheme does not achieve compliance within any period which may be directed.
 - To investigate non-compliance with a direction or code.
 - To issue a report on the outcome of its regulatory investigations.

Next steps

5. The Public Service Pensions Bill, announced for introduction in the current Parliamentary Session, will make broad provision in relation to scheme governance structures, and improved data and transparency². The

² See the published briefing notes on the contents of the Queen's Speech <http://www.cabinetoffice.gov.uk/sites/default/files/resources/Queens-Speech-2012-briefing-notes.pdf>

Firefighters' Pension Committee will wish to consider, in depth, the scope, timing and implications for authorities of the impending changes which will be set out, in detail, in secondary legislation.

Presented to the Firefighters Pension Committee on 25th June 2012.

**INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION:
RECOMMENDATIONS ON GOVERNANCE, DATA TRANSPARENCY AND
ADMINISTRATION**

6. All public service pension schemes should **regularly publish data which, as far as possible, is produced to common standards and methodologies and is then collated centrally**. This information should be of a quality that **allows simple comparisons to be made** across Government, between schemes and between individual Local Government Pension Scheme (LGPS) Funds.

17. Every public service pension scheme (and individual LGPS Fund) should have a **properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration**. There should also be a **pension policy group** for each scheme at national level for considering major changes to scheme rules.

18. **All public service pension schemes should issue regular benefit statements** to active scheme members, at least annually and without being requested and **promote the use of information technology** for providing information to members and employers.

19. Governance and the availability and transparency of information would be improved by government establishing **a framework that ensures independent oversight of the governance, administration and data transparency of public service pension schemes**. Government should consider which body or bodies, including, for example, The Pensions Regulator, is most suitable to undertake this role.

20. When assessing the long term sustainability of the public finances, the **Office for Budget Responsibility should provide a regular published analysis of the long term fiscal impact of the main public service pension schemes** (including the funded LGPS).

21. **Centrally collated comprehensive data, covering all LGPS Funds, should be published including Fund comparisons**, which, for example, clarify and compare key assumptions about investment growth and differences in deficit recovery plans.

22. Government should set **what good standards of administration should consist of in the public service pension schemes based on independent expert advice**. The Pensions Regulator might have a role, building on its objective to promote good administration. **A benchmarking exercise should then be conducted across all the schemes** to assist in the raising of standards where appropriate.

23. Central and local government should **closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate**,

across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to **realise greater efficiencies in the administration of pensions** by sharing contracts and combining support services, including considering outsourcing.