

**B Roles & Responsibilities****B.1 Investment or Pensions Committee**

This is the decision-making body within the LGPS scheme. It will probably meet quarterly and could have sub-committees for examining more detailed aspects i.e. investment performance, audit etc.

Membership of the committee will reflect the constitutional nature of the committee within the local authority and the multi-employer nature and size of the local scheme. A county scheme might have the leader of the council, four other councillor members from the host local authority, two district councillors and a staff representative.

As another example, the London Pension Fund Authority, which has separate legal responsibility for certain pensions' administration and investment within London, has a membership of seven to eleven members appointed by the Mayor of London. The Mayor is required to consult local government representatives in London on at least half of the appointments excluding the chairman.

Although appointments from host local authorities will be made on a political basis, a key feature of pensions or investments committees is the non-political nature of much of the decision-making. While sitting on the pensions or investments committee, members will be exercising a duty of care and have a fiduciary responsibility to the fund, employers and potential beneficiaries of the fund.

**Responsibilities**

The responsibility of an investments or pensions committee may include:

- ensuring all investment activity complies with the requirements of current regulations and best practise;
- approving the statement of investment principles, funding strategy statement, communications strategy and governance policy;
- reviewing and taking action on actuarial valuations;
- appointing investment managers, a fund actuary, custodian(s) and professional advisers;
- agreeing asset allocation strategies following asset liability modelling and a policy for investment in different assets with the investment managers;
- agreeing a rebalancing strategy between different portfolios when asset allocations change due to different market movements of different sectors;
- regularly reviewing investment managers' performance and expertise against agreed benchmarks and determining any action required;
- ensuring that the fund investments are sufficiently diversified and that the fund is investing in suitable investments;
- monitoring budgets for the fund ensuring there is adequate budgetary control;
- promoting the fund within the authority; and
- ensuring the administration of the fund is appropriately resourced, is effective and meets performance standards.

The committee will also have responsibility for selecting and appointing external additional voluntary contribution (AVC) providers for use by members in purchasing additional benefits. At retirement the accumulated value of the members AVC fund is used to purchase an annuity on the appropriate market, or the value may be taken as a cash sum under specific circumstances.

CLG has reminded administering authorities that elected councillors have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions.

Under Section 101 of the Local Government Act 1972, a local authority can choose to delegate their pension investment functions to the council, a committee, a sub-committee or to officers. CLG guidance states that under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001, statutory decisions, taken under schemes made under Sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the executive arrangements introduced by the Local Government Act 2000.

This means that the executive arm of the council cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the pension fund and related matters.

## **B.2 Quasi Trustees**

As the LGPS has a different background, in comparison to corporate pension schemes, members of investments or pensions committees do not have the legal responsibilities of a trustee in a corporate scheme. Nevertheless they still have considerable responsibilities and a general duty of care. Investments or pension's committee members are often referred to as quasi trustees. Due to the complexity of investment practises, pension benefits, actuarial and funding issues, a high level of knowledge and skills is required and continual training is essential.

LGPS quasi-trustees are responsible for the:

- oversight of the management and resourcing of all fund activities;
- achieving the requirements set out by The Pensions Regulator's codes of practice;
- ensuring the best possible outcome for the fund, employers and members; and
- taking decisions in accordance with the standing orders of the investments or pensions committee.

## **B.3 Fund Administrator**

The Strategic Director, Finance & Investment is responsible as fund administrator for:

- ensuring compliance with the statutory rules governing the investment of LGPS assets, including the various policy documents and statements required under the regulations;
- acting as a professional advisor to the fund;

- as section 151 officer alerting the investments or pensions committee or the council to any problems with the funding level or the administration of the fund in accordance with section 151 responsibilities;
- ensuring effective audit and governance arrangements; and
- ensuring the effective administration and preparation of the accounts including the annual statement of accounts.

#### **B.4 Administering Authority**

There will be a separate pension's function within a host local authority with responsibility for investment and scheme administration. With a few exceptions, it will not be a separate legally constituted body.

Consequently, subject to LGPS regulations, the legal and administrative processes of the local authority will apply to the fund i.e. employees of the fund will be employees of the local authority and be subject to the local authorities pay and conditions of employment.

Although not a separate body in law, good practice would suggest that the fund should have a title relating to the overall fund, rather than the host authority.

The responsibilities of the administering authority include:

- collecting and accounting for employer and employee contributions;
- investing monies not required for payment benefits, transfers and administration costs;
- paying pension benefits and ensuring cash is available to meet the funds future liabilities;
- managing the fund valuation process;
- preparing and maintaining the statutory statements;
- monitoring and managing all aspects of the fund's performance; and
- Managing communications with employers, members and pensioners.

#### **B.5 Employers**

These will range from the host local authority, which in a county scheme will be the county council, to many other employers, both large and small. Following out-sourcing by local authorities, an increasing feature of LGPS schemes is the extent to which commercial companies are becoming employers (as admitted bodies) within the scheme.

Employers fall into three categories:

- Scheduled

These are the organisations listed in the Local Government Pension Scheme Regulations 2013 (Schedule 2, Part 1) and include county councils and district councils.

- Designated (resolution) bodies

These are employers that have the power to decide if an employee or a group of employees can belong to the LGPS and they pass a resolution accordingly. They are

listed in the Local Government Pension Scheme Regulations 2013 (Schedule 2, Part 2).

- Admitted bodies

These are bodies whose staff can become members of an LGPS fund, if the administering body agrees, under provisions of governing regulations by virtue of an admission agreement between the administering authority and the relevant body.

Responsibilities of employers include:

- deducting pension contributions and together with employer contributions, remitting to the administering authority in accordance with the required timescale;
- exercising benefit discretions in accordance with the agreed policy and keeping the administering authority informed;
- notifying the administering authority of all relevant membership changes (e.g. retirement etc) and other required issues; and
- Complying with the valuation timetable.

Employers have a particular responsibility for notifying the administering authority as soon as it becomes evident that an outsourcing or external partnership arrangement might be a possibility. There are many complex issues to be considered by the administering authority which could involve seeking actuarial and financial advice. Employers need to ensure that tender documents clarify pension funding obligations which should be covered subsequently in a commercial contract.

Contact should be made at an early stage with the administering authority if consideration is being given to an employee retiring early or being made redundant. When considering early retirement, employers need to ensure that they identify the need to make a payment to the pension fund for the early release of pension benefits. This is called the pension fund strain; it can be a significant cost and normally needs to be funded immediately by the employer.

## **B.6 Investment Managers**

With some exceptions, in larger LGPS funds most investment managers are external appointments.

Investment manager responsibilities include:

- investment of pension fund assets in compliance with current LGPS legislation, any constraints set by the investments or pensions committee in the Investment Strategy Statement and investment management agreement;
- asset allocation if a balanced manager, otherwise as directed by the investments or pensions committee;
- selection of securities within asset classes;
- attending meetings and presenting reports to the investments or pensions committee as required, including regular reports on performance, voting and transactions;
- active management of any cash balances (unless this responsibility is delegated to the custodian); and
- engaging with companies and taking shareholder action in accordance with the fund's policy.

Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 is concerned with the appointment of Investment Managers.

## **B.7 Custodian(s)**

The custodian(s) is responsible for the safekeeping of the fund's securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian(s).

The duties may include:

- settlement of purchases and sales;
- advising managers of cash available for investment;
- safe custody of securities and cash;
- acting as banker to the fund;
- cash reconciliations;
- collection of dividends, income and overseas tax reclaims;
- ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with;
- ensuring the necessary approvals are in place to invest in certain overseas markets; and
- Providing (monthly) valuations of scheme assets, details of all transactions and accounting reports.

The custodian may also offer access to commission recapture, security lending programmes, comparative performance measurement and voting of shares in accordance with an agreed policy.

The appointment of a custodian might require specialist advice to be obtained. The risks to be addressed include:

- financial risk around the financial viability and stability of the custodian including ability to support long term investment in the business and withstand operational losses;
- asset risk including risk that in the event of default, client securities are treated as part of the assets of the bank which has gone into default and belong to creditors rather than clients, and cash risk that in the event of default clients are exposed to losses of cash placed with the bank; and
- Asset servicing risk such that a client is exposed to a loss due to a weakness in the custodian's operations.

Funds need to consider the importance of ensuring that all these areas are considered. This might involve using specialist advisers. Particular consideration should be given to risks if a sub-custodian is involved.

## **B.8 Actuary**

The scheme actuary is an independent and appropriately qualified adviser who carries out statutorily required fund valuations and other valuations as required and who will also provide general actuarial advice.

The actuary will:

- prepare fund valuations, including setting employers contribution rates, after agreeing valuation assumptions with the administering authority;
- agree a timetable for the valuation with the administering authority; and
- Prepare timely advice and calculations in connection with bulk transfers and benefit matters.

The results of the valuation determine the rate of the employer's contribution for the subsequent three years. The actuary is required to certify employer's contribution rates that will achieve full solvency over the longer term, while keeping contribution rules as stable as possible.

The contribution rate will consist of a common rate for the fund and an individual employer rate. To achieve this, the actuary needs to ensure compliance with legislative requirements, assess current solvency levels, monitor actual experience compared with previous assumptions, and assess reserves needed for accrued liabilities. In carrying out this work, the actuary must have regard to the funding strategy statement, which might need to be revised to incorporate any new approach to be followed in the valuation.

The administering authority may also instruct the actuary to carry out an interim valuation if stock market conditions change, or if the characteristics of the membership changes e.g. as a result of a large transfer of staff.

The actuary will advise on other scheme matters, e.g. funding levels and the funding strategy statement and asset liability reviews. The most recent valuation of LGPS funds in England and Wales was at 31 March 2016 with revised employer contribution rates payable from April 2017.

The Myner's report (Institutional Investment in the United Kingdom: A Review) highlighted the need for funds to consider whether the roles of actuary and investment adviser should be held by separate companies. Notwithstanding this, many continue to have these roles provided by the same company, although there will be separate contracts.

## **B.9 Professional Advisers**

Professional advisers should be appointed to advise the pensions or investments committee and the fund administrator on scheme matters. As in the case of investment managers, these appointments tend to be held by a relatively few appointees. Professional advisors should not be committee members.

Funds usually have a sole investment adviser. Consideration might be given to using a framework list of consultants, in order to use specific advisers to reflect each firm's strength and fees. In comparison with the usual approach of advertising in the EU journal, subject to the size of the fee, framework lists afford much more flexibility in procuring these services.

Advisers may be needed for advice on:

- asset allocation strategies;
- the selection of new managers and custodians;
- the preparation of the various strategy documents required under LGPS regulations; and
- To assist in reviewing and monitoring managers' performance.

Legal advice will need to be available to the fund, which might involve the appointment of specialist legal advisers for particular aspects of fund management i.e. appointing a private equity manager.