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To:  
The Scottish Local Government Pension Board

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Our ref: SPPA Governance

25<sup>th</sup> August 2016

Dear Colleague

I am writing to make you aware of a forthcoming Review of the effectiveness of the operation of the governance arrangements introduced under the Public Service Pensions Act 2013.

At the time the new arrangements were established, the Scottish Government committed to review them within two years. Attached at Annex A are draft Terms of Reference for the Review, for your consideration and comment. As you will see the Terms are necessarily relatively high-level. For the avoidance of doubt, however, we will expect the Independent Reviewer to use a range of methods to ensure coverage of detailed issues. Please bear this in mind when considering the draft.

As the timetable for the Review is reasonably tight, I would be grateful if you could provide any comments you may have on the draft Terms to Lorraine Gallagher ([Lorraine.Gallagher@gov.scot](mailto:Lorraine.Gallagher@gov.scot)) copied to Lorimer Mackenzie ([lorimer.mackenzie@gov.scot](mailto:lorimer.mackenzie@gov.scot)) by mid-September 2016.

Yours sincerely

Chad Dawtry  
Deputy Chief Executive and Director of Policy, SPPA

Annex A

**REVIEW OF THE OPERATION OF GOVERNANCE ARRANGEMENTS**

**INTRODUCED UNDER THE PUBLIC SERVICE PENSIONS ACT 2013**

**FOR SCOTLAND'S**

**LOCAL GOVERNMENT, NHS, TEACHERS', POLICE AND FIREFIGHTERS'**

**PENSION SCHEMES**

**TERMS OF REFERENCE**

## Introduction

1. New governance arrangements were introduced in Scotland from 1 April 2015 under the [Public Service Pensions Act 2013](#) (the Act). These were built around a number of recommendations made by the [Independent Public Services Commission](#). As well as new duties for the Pensions Regulator, they resulted in greater clarity around public service pension scheme accountabilities and required the creation of Scheme Advisory Boards and Pension Boards for Scotland's NHS, Teachers', Police Firefighters' and Local Government pension schemes.

2. The Act prescribed certain requirements, including:

2.1 Scheme Advisory Boards must exist to advise the responsible authority, at the authority's request, on the desirability of changes to the scheme.

(Note: The responsible authority for the governance arrangements in the scope of this review are the Scottish Ministers, with the Cabinet Secretary for Finance and the Constitution operating as Scotland's Minister for public service pensions.)

2.2 Pension Boards must exist to assist the scheme manager with securing compliance with: i) the scheme regulations and other legislation relating to the governance and administration of the scheme; ii) requirements imposed by the Pensions Regulator; iii) any other requirements specifically set out in scheme regulations.

(Note: the scheme manager for the Local Government Pension Scheme (LGPS) is the relevant local fund authority (of which there are eleven) and is the Scottish Ministers, delegated to the SPPA, for the NHS, Teachers' Police and Firefighters' pension schemes.)

2.3 Pension Boards must include "employer representatives and member representatives in equal numbers".

3. The Scottish Government had discretion as to who should serve on the boards, broadly what business boards should conduct, when and where they should meet and, in the case of the locally managed LGPS, how many Pension Boards there should be. Five [Scheme Advisory Boards](#) were established (one for each scheme above) and fifteen Pension Boards (eleven for the distributed Local Government Pension Scheme (LGPS) and one each for the other [four pension schemes](#)). As public service pension policy advisers to the Scottish Government, the Scottish Public Pensions Agency (SPPA) oversaw the development and delivery of these new arrangements though the terms of reference for and composition of the Scheme Advisory Boards and Pension Boards were agreed in partnership (SPPA/employer/trades unions).

4. Across Scotland, around two hundred and fifty people are directly involved as members of these various boards. Others will be actively involved in the preparation and presentation of papers to boards (in some cases these will already exist, but some will be specifically created for board consideration) and in providing secretariat services. With boards typically meeting around four times/year, this represents a significant human resource investment. In 2015, on Ministers' behalf, the SPPA committed to review the effectiveness of the operation of the new arrangements within two years of their introduction. It has been agreed that the review should be carried-out by suitably skilled and knowledgeable independent resource to ensure that improvements are reflective of: i) wider best practice; and ii) stakeholders' ability to fully reflect on what has and has not worked well.

## Objectives

5. The objectives of this Review are:

5.1 to review the effectiveness of the operation of the Scheme Advisory Boards and Pension Boards set up in Scotland under the Act in light of:

5.1.1 the requirements of the Public Service Pensions Act 2013 (including, but not restricted to, s. 5(3) on the effective and efficient governance and administration of the scheme);

5.1.2 the recommendations of the Final Report of the Independent Public Service Pensions Commission;

5.1.3 other legislative requirements or formal guidance, for example, The Pensions Regulator' Code of Practice No. 14;

5.1.4 good practice in the operation of relevant comparator governance arrangements;

5.1.5 lessons learned in the first year of operation of these governance arrangements, in particular (but not exclusively):

i. the quality of board member induction and continuous development, specifically in relation to the requirement for Pension Board members to have sufficient knowledge and understanding to fulfil their role;

ii. clarity of Board purpose and collective (Board) and individual roles and responsibilities;

iii. the adequacy of scheme member representation (active, deferred, pensioner and prospective scheme members);

iv. the diversity of Board membership;

v. the effectiveness of board management & administration;

vi. the leadership, chairing and conduct of meetings;

iv. the frequency and location of meetings.

5.2 by 31 December 2016, to prepare a detailed report of related conclusions, options and recommendations on how to optimise the value of existing governance arrangements;

5.3 by 28 February 2017, to provide advice and recommendations to Ministers on how to optimise the value of existing governance arrangements and how to communicate any related changes;

5.4 by 30 April 2017, to initiate the necessary changes in governance arrangements desired by Ministers.

## Scope

### 6. This Review covers:

- 6.1 The composition and operation of the Scheme Advisory Boards for Scotland's NHS, Teachers', Police, Firefighters' and Local Government pension schemes and related governance arrangements including, for example, interaction around approved Work Plans.
- 6.2 It is noted, in particular, that the Work Plan for the LGPS Scheme Advisory Board includes a structural review of the LGPS. Work is already underway to scope and initiate that review, subject to its detailed approval by the Cabinet Secretary for Finance and the Constitution. To the extent that that specific review bears on this review, it is within the scope of this review.
- 6.3 The composition and operation of the Pension Boards for Scotland's NHS, Teachers', Police and Firefighters' pension schemes and related governance arrangements.
- 6.4. The composition and operation of the eleven Pension Boards for the LGPS in Scotland and related governance arrangements.
- 6.5 Interaction and communication between:
  - 6.5.1 the various boards on an intra-scheme basis;
  - 6.5.2 the various boards and related governance arrangements (for example, the relationship between the Pension Boards for Scotland's NHS, Teachers', Police and Firefighters' pension schemes and the SPPA's Corporate Board and the relationship between the Police Scheme Advisory Board and the Police Negotiating Board for Scotland);
  - 6.5.3 the various boards and respective scheme stakeholders;
  - 6.5.4 Scheme Advisory Boards and SPPA policy officials, who are responsible for advising Ministers on public service pensions policy, including the views of the Scheme Advisory Boards;
  - 6.5.5 Pension Boards and officials engaged in the day-to-day management of the pension scheme in question.

## Exclusions

### 7. The following are excluded from the scope of the Review:

- 7.1 Other than under 3.5.1.2, the operation of the SPPA's Corporate Board and Audit & Risk Committee.
- 7.2 **[Add other relevant exclusions]**

## Deliverables

8. Deliverables will include:
  - 8.1 procurement of an independent resource to lead the review and achieve objectives 3.1.1 and 3.1.2 (by end August 2016);
  - 8.2 a finalised terms of reference for the review (by end September 2016);
  - 8.3 a method statement and project plan, setting-out how the contractor will approach the review, including a formal plan for the engagement of key stakeholders in the review (by end September 2016), including:
    - 8.3.1 a formal plan for the participation of key stakeholders in the review, covering, for example, taking evidence and attribution/anonymity;
    - 8.3.2 a formal plan for the use of related research.
  - 8.4 a final report of review findings (by end December 2016);
  - 8.5 presentations of findings to Scheme Advisory Boards (by end January 2017);
  - 8.6 summary policy advice to Scottish Ministers (by end February 2017);
  - 8.7 communication on resultant decisions taken (by end April 2017).

## Project approach

9. The Review will be managed in line with Scottish Government guidance on Managing Successful Projects.
10. The Senior Responsible Officer for the Review will be the SPPA's Deputy Chief Executive, who is also Director of Policy.
11. The Project Manager will be SPPA's Deputy Director of Policy, who will also be responsible for deliverables 8.6 and 8.7.

**ends**