

**Report to:** Pension Board

**Date of meeting:** 15 November 2022

**By:** Chief Finance Officer

**Title:** Local Pension Board Structure Report

**Purpose:** To provide information about Local Pension Board configuration

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## **RECOMMENDATIONS**

**The Pension Board is recommended to note this report**

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### **1. Background**

1.1 The Local Pension Board (Pension Board) was established by the 1 April 2015 under the provisions of section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013 (as amended). Its role is to assist the Scheme Manager in the performance of its duties.

1.2 A Local Pension Board must include an equal number of scheme employer and scheme member representatives. There is a minimum requirement of no fewer than four members of the Local Pension Board in total.

1.3 Each scheme employer or scheme member representative will represent a significant range of employers or members. The Regulations do not preclude other members from being appointed to the Board for example an independent chairperson; however, no officer or councillor of an Administering Authority who is responsible for the discharge of any function under the LGPS may be a member of the Local Pension Board of that authority.

### **2. Current Configuration**

2.1 The East Sussex Pension Fund's (the Fund, ESPF) Pension Board currently consists of seven members. There are three Scheme Member representatives, three Scheme Employer representatives and an independent chairperson.

2.2 Scheme Employer representatives are drawn from Brighton and Hove City Council as one of the largest two employers within the Fund; from the District and Borough Councils as mid-size employers and one from the wider employer base from an alternative sector and is currently filled by the University of Brighton.

2.3 Two Scheme Member representatives are drawn from the trade unions to represent the full range of members with more engagement with active and deferred member and the third is drawn from the Pensioner members. The trade union members provide a key role in communicating back to the membership of the Fund activity and collecting views of those they are representing.

2.4 The Scheme Member and Scheme Employer representatives have voting rights. The independent chairperson is a non-voting position.

2.5 The Chair of the Pension Board has expressed an interest in investigating the size of the Pension Board membership.

2.6 It is relevant to note, a large portion of the current Board member's terms are coming to an end in early 2023 which will result in a large recruitment exercise, and where relevant extension of existing members terms. This will require officers to carry out a tender process for the independent chair and seek expressions of interest from the members and employers. In addition, this will require resources to bring any new members to a level of knowledge and skills in a relatively short period to be effective contributors to the Board meetings.

2.7 The Pension Board continues to work effectively with good representation and engagement of members. This paper looks at whether the size of the Pension Board is aligned with others across the LGPS and highlights both the opportunities and challenges associated with increasing the size of the Pension Board.

### **3. Size of other Pension Boards**

3.1 Officers have looked at the number of people sitting on pension boards connected to 30 (35%) Funds in the LGPS. These Funds are of a variety of sizes and are spread across different geographical areas in England and Wales. This can be found in Appendix 1 to this report.

3.2 The most frequent size of Pension Board is 6 members with three Scheme Employer and three Scheme Member representatives with 60% of Funds adopting this size of Pension Board. The range over the sample Fund's is from 4 to 12 members.

3.3 It is of note that the funds with 10 or 12 members of the Pension Board are amongst the largest funds in the LGPS and more than double the size of ESPF.

3.4 The organisations that Scheme Employer representatives are drawn from are not consistently published. As a result, Officers are unable to provide detailed analysis on the range of employers directly covered by the representatives on the various Pension Boards.

### **4. Determining Pension Board Size**

4.1. When determining the size of a Local Pension Board, the Scheme Advisory Board (SAB) suggests that Administering Authority's should consider the capacity of the Board to undertake its role in assisting the Administering Authority with the governance and administration of the scheme. To do this the Administering Authority should consider a number of factors including

- the number of scheme members, the number and size of employers;
- the breadth and diversity of scheme members and employers,
- the assets within the Fund and any collective arrangements in place for them to make decisions or provide input in relation to Fund matters;
- the cost of establishing and operating the Board;
- the existence or proposal to form any other advisory groups; and
- the scope of the Board's remit and workplan.

4.2 Appendix 1 include details of Fund value, membership numbers and employer numbers of the sample County sized Pension Funds. Comparatively the ESPF Pension Board structure is aligned with other LGPS Funds. It is of note that ESPF has a similar number of members but the lowest number of employers of all County Council sized Funds sampled (other than the Isle of Wight who are a fifth of the size of the Fund).

## **5. Impact of changing the size of the Pension Board**

5.1 To increase the representation of either scheme employers or scheme members would require an equivalent increase in the other representatives. Scheme Member representatives of the existing Board structure represent the Active, Deferred and Pensioner members and the employers represent a range of employer sizes and sectors.

5.2 Currently, the Pension Board Scheme Employer representatives are from larger scheme employers. An expansion of the Pension Board could allow for consideration to be given to seeking representation of smaller employers within the Fund. Smaller employer representation could otherwise be achieved through new appointments to existing positions or through robust engagement of Board representatives with all employers within the Fund.

5.3 Increasing the number of representatives would allow the Pension Board to expand through a more diverse pool of people with an increased range of skills and knowledge. However an increase in numbers on the Board could increase the complexity and effective management of the meetings. The extent to which this would be a challenge depends significantly on the people who would be appointed; however, all meetings would be expected to take longer to allow all Pension Board members to have the opportunity to contribute.

5.4 Regulation 107 of the Local Government Pension Scheme Regulations 2013 (amended), requires that the Administering Authority must ensure that any person appointed as a Scheme Employer or Scheme Member representative has the capacity to represent the employers or members of the Fund, so it is important to only appoint members who have the time to commit to attend meetings, undertake training and effectively represent scheme employers and scheme members. An individual's ability to properly represent the interests of those they are representing and channel information back effectively are also important in selecting members, as does the need to take account of the wide range of membership of the Fund to ensure all employers and members are represented.

5.5 Between October 2018 and July 2019 TPR carried out a review of governance issues across a range of funds in both the LGPS and LGPS Scotland. The review focussed on the key risks identified for LGPS Funds from the Regulator's perspective and included comments on the effective operation of the Pension Board. The Regulator found that not all Pension Boards had a fully engaged membership, recommending formal methods be put in place to deal with ineffective Pension Board members. Whilst care can be taken at the appointment stage to appoint an engaged person, increasing the size of the Pension Board also raises the risk of its members not engaging fully in meetings or participating in the required training.

5.6 Feedback from recent appointment exercise's have acknowledged the significant training requirements of Pension Board members, and that this may not be completely clear during the appointment process as to the scale of knowledge required to be an effective Pension Board member and time required to get this knowledge.

5.7 It is unclear at this time if there would be interest from other employers to fill role if it were created but the most recent appointment of an employer representative revealed challenges around securing engagement from employers with the commitment required for training, review and consideration of materials and attendance at meetings and working groups.

## **6 Conclusions**

6.1 With the exception of the largest funds, most Pension Boards consist of six members, excluding independent chairs. Comparing the Fund size and number of members and employers the current Board structure is consistent with the wider LGPS industry. The Pension Board has been functioning effectively over the past few years with a significant improvement in the Fund's governance and implementation of a new communications working group. Increasing the size of the

Pension Board could allow for increased diversification of representation and views, however Increasing the size of the Pension Board is likely to lead to meetings becoming longer and more challenging to manage with the possibility of increasing the risk of reduced engagement and training uptake of members.

6.2 Following the review of a range of LGPS Pension Board structures, looking at the size of ESPF and the upcoming term ends of a number of the existing Board members, officers recommend that the Pension Board structure continues to consist of 6 members with an independent chair in line with revised Terms of Reference approved in 2020. Pension Board are recommended to note this report.

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## Appendix 1

Name of Fund	Number of Employer representatives	Number of Member representatives	Fund type	Fund Value	Scheme Members (thousands)	Scheme Employers
<b>ACCESS Funds</b>						
Kent PF	4	4	County	£7.5bn	145	310
Hertfordshire	4	4	County	£5.9 bn	110	378
West Sussex PF	3	3	County	£5.4bn	81	207
<b>East Sussex PF</b>	<b>3</b>	<b>3</b>	<b>County</b>	<b>£4.2bn</b>	<b>78</b>	<b>127</b>
Suffolk	3	3	County	£3.4bn	70	324
West Northamptonshire	3	3	County	£3.1 bn	73	358
Isle of Wight PF	3	3	County	£0.7bn	17	32
<b>County Funds</b>						
Greater Manchester PF	5	5	County	£26.9bn	392	601
West Midlands PF	6	6	County	£18.9bn	335	743
Merseyside PF	4	4	County	£10.1bn	140	212
South Yorkshire PF	5	5	Pension Authority	£9.9bn	170	533
Nottinghamshire PF	4	4	County	£6.1bn	145	300
Avon PF	3	3	County	£5.3bn	125	464
Leicestershire PF	3	3	County	£5.2bn	98	283
Devon PF	4	4	County	£5.0bn	130	212
Teesside PF	3	3	County	£4.6bn	73	148
Worcestershire PF	3	3	County	£3.4bn	65	183
Dorset PF	4	4	County	£3.3bn	75	320
Wiltshire PF	3	3	County	£3.0bn	82	170

Bedfordshire PF	3	3	County	£2.8bn	74	207
Cornwall PF	3	3	County	£2.2bn	50	162
Shropshire PF	3	3	County	£2.2bn	50	204
London Boroughs						
Brent PF	3	3	London Borough			
Bromley PF	2	2	London Borough			
Hackney PF	2	2	London Borough			
Hillingdon PF	2	2	London Borough			
Southwark PF	3	3	London Borough			
Sutton PF	3	3	London Borough			
Welsh Funds						
Cardiff and Vale PF	3	3	Welsh			
Dyfed PF	3	3	Welsh			
Swansea PF	3	3	Welsh			