Northern Ireland Assembly

Committee for Communities

OFFICIAL REPORT (Hansard)

Westminster Pension Schemes Bill: Legislative Consent Motion

15 October 2020

NORTHERN IRELAND ASSEMBLY

Committee for Communities

Westminster Pension Schemes Bill: Legislative Consent Motion

15 October 2020

Members present for all or part of the proceedings:
Ms Paula Bradley (Chairperson)
Ms Kellie Armstrong (Deputy Chairperson)
Mr Andy Allen
Mr Jonathan Buckley
Mr Mark Durkan
Ms Sinéad Ennis
Mr Fra McCann
Mr Robin Newton

Witnesses:

Mr Gerry McCann	Department for Communities
Ms Doreen Roy	Department for Communities

The Chairperson (Ms P Bradley): I welcome to the meeting, via StarLeaf, Gerry McCann and Doreen Roy.

Mr Gerry McCann (Department for Communities): Hello, everybody.

The Chairperson (Ms P Bradley): Hi, Gerry, how are you?

Mr McCann: The very best.

The Chairperson (Ms P Bradley): Good.

Mr McCann: We will start off with a short statement from Doreen if that suits you.

The Chairperson (Ms P Bradley): That will do. Thank you.

Ms Doreen Roy (Department for Communities): Thank you, Chair. As members know, the Westminster Pension Schemes Bill establishes collective money purchase schemes, where contributions are pooled and invested to deliver an aspired benefit level. The Bill strengthens the protections for scheme members and enhances the powers of the Pensions Regulator, and introduces stronger sanctions for those who wilfully or recklessly harm their pension schemes, including a maximum of a seven-year prison sentence and a civil penalty of up to £1 million. It increases transparency about the pension saving of an individual by introducing pensions dashboards, and it introduces provisions to help to tackle pensions scams.

The Committee was briefed on the legislative consent motion (LCM) for the Bill on 12 March and 22 April. The Committee subsequently published a comprehensive report, and the motion was approved by the Assembly on 1 June. The legislative consent motion related to the Bill as it was introduced in the House of Lords. An additional legislative consent motion is required to cover amendments that were made to the Bill as it progressed through the Lords, which introduced a new policy that relates to climate-related financial disclosures.

When we briefed the Committee earlier in the year, we gave an undertaking that we would return to brief members if any policy changes were made to the Bill. We are pleased to have the opportunity to speak to you today about the Bill, and, in particular, the proposed legislative consent motion. We have provided the Committee with a written briefing on the amendments to the Bill and a draft legislative consent memorandum. If the Committee is content, I will briefly run through the amendments to the Bill.

The Chairperson (Ms P Bradley): Yes please, Doreen.

Ms Roy: During the Lords Committee Stage, an amendment that covered climate-related financial disclosures introduced a new policy that aims to secure effective governance and the disclosure of the risks that schemes face, the long-term objective of which is to protect members' benefits against the risks of climate change and the risks of the opportunities associated with the transition to a lower-carbon economy. The amendment requires trustees and managers of prescribed occupational pension schemes to assess their climate risk management and publish information about the exposure of scheme assets to climate risk in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

A further amendment at Report Stage in the House of Lords provided clarity as to the requirements that may be placed on schemes, referring more specifically to obligations under the Paris Agreement, which is an agreement within the United Nations Framework Convention on Climate Change.

Those amendments aim to secure effective governance and disclosure of the climate-change risks that schemes face. Practically, that will allow government to mandate the recommendations of the international Task Force on Climate-related Financial Disclosures — the most widely used framework against which institutional investors report — and assess exposure to the financial risk of climate change.

The climate-related financial disclosures amendments cover three areas; governance requirements, publication requirements and powers for the regulator in cases of non-compliance. The amendments also require schemes to have regard to governance guidance on complying with effective governance requirements and publication requirements. Those amendments build on regulations that are already in place and which require occupational pension schemes to take account of climate change in their investment practices. Occupational pension schemes with 100 or more members are required to explain how they take account of climate change in their investment strategies. Under the regulations, from this month, all schemes will be required to report publicly how they do so, as transparency is key to informed decisions and informed change.

The pensions climate risk industry group, which was convened to provide guidance for trustees of pension schemes on integrating climate-related risk assessment and management into decision-making and reporting, has highlighted that all pension schemes face climate-related risks irrespective of the way in which they invest or the estimated duration of liabilities. Many schemes are also supported by employers or sponsors whose financial positions and prospects are dependent on current and future developments in relation to climate change.

The effect of those amendments on private pensions policy is to strengthen the requirements that are placed on trustees and managers of occupational pension schemes to include proper climate risk management in their governance processes and publish that information so that it is available to all. That builds on the expectation that occupational pension schemes and other large asset owners will disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosures, as set out in the 2019 'Green Finance Strategy'.

Climate change is expected to have a significant impact on pension schemes' assets and returns for savers through the risks of a warmer planet and the transition to a lower-carbon economy. Therefore, it is only right that long-term investors, such as trustees, are informed and empowered to take action to address those risks and to protect their retirement savings as scheme members. Those measures

will ensure that pension schemes are in a good position to play a role in the change to a sustainable low-carbon economy.

The Committee was made aware of the Department for Work and Pensions' consultation, 'Taking action on climate risk: improving governance and reporting by occupational pension schemes', on 17 September. That consultation sought views on policy proposals to require the trustees of larger occupational pension schemes and authorised schemes to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities. The consultation proposes a wide-ranging set of measures to introduce those elements, including calculating the carbon footprint of pension schemes and assessing how the value of the schemes' assets or liabilities would be affected by different temperature rise scenarios, including the ambitions on limiting the global average temperature rise set out in the Paris Agreement.

On 2 October, in a letter to the DWP Minister for Pensions, the Financial Conduct Authority (FCA) outlined a framework to align its climate-risk-reporting requirements with those flowing from the Pension Schemes Bill. This move will ensure that asset managers and FCA-regulated pension schemes are required to report on their assets' climate risks in line with recommendations from the internationally recognised Task Force on Climate-related Financial Disclosures.

Since the Bill was introduced, other amendments have also been made to add further detail on policies already in the Bill. If members are content, I shall briefly run through the amendments.

In summary, the amendments provide for a charge cap for collective defined contribution schemes. The existing charge cap, set in regulations at 0·75%, provides an important protection for members in the default arrangements of money purchase schemes used for automatic enrolment. This amendment ensures that the regulation-making powers in the Pensions Act (Northern Ireland) 2015 on charge caps apply to collective defined contribution schemes so that a similar charge cap can be implemented in those schemes.

A transfer-rights amendment enables the Department for Communities to prescribe conditions that must be satisfied before a scheme's trustees and managers can permit an individual to exercise their statutory right to transfer their pension savings out of an unfunded public service defined benefit scheme and into another pension scheme arrangement. This amendment aims to safeguard members of unfunded public-sector schemes from being targeted by criminals and fraudsters.

A further transfer-rights amendment will clarify that, in prescribed circumstances, the trustees or managers of a scheme are not required to carry out a person's request to transfer pension benefits to a different scheme unless they are satisfied that the person concerned has obtained prescribed guidance or information on pension transfers. The purpose of this amendment is to limit pension scams. There is a pensions-dashboard amendment, to make it clear that there will be a public-service pension dashboard as well as commercial dashboards.

Amendments have also been made about the use of delegated powers in relation to collective money purchase benefits. The delegated powers for the authorisation criteria subordinate legislation will be confirmatory at all usages. The delegated power for the transfer rights will also be subject to the confirmatory procedure. This is in line with the corresponding powers relating to GB legislation.

An amendment has also been made to clarify an existing power allowing for the modification of statutory provisions to make it clear which provisions may be amended and for which purposes.

The amendments are generally seen as positive measures that optimise this opportunity to legislate for pension schemes to better help people plan for the future and to protect people's pensions. Further detail on these provisions will be set out in subordinate legislation made by the Department for Communities and subject to Assembly control.

The Bill has consumer protection at its heart, and it would be advantageous for people in Northern Ireland to benefit fully from all these policies at the same time as people in Britain. Although pensions are a devolved matter, in general, pension policy and legislation operate in line with the corresponding pension provisions in England, Scotland and Wales, in line with section 87 of the Northern Ireland Act 1998. In addition, the Pensions Regulator, the Pensions Ombudsman and the Pensions Protection Fund all operate UK wide.

The Assembly has already agreed that the Westminster Bill should contain a provision for NI. In view of this, it is sensible that the amendments should also apply here to ensure that what is, in effect, a

single system of pensions can continue to function. As many schemes operating here are UK-wide schemes, it is highly desirable that the same regulatory framework is in place here, within the same time frame as in Britain, to facilitate compliance, planning and enforcement.

The Secretary of State for Work and Pensions asked the Minister for Communities to consent to the NI provisions relating to climate-related financial disclosures remaining in the Bill. Minister Hargey agreed to that and confirmed that she would bring forward a further legislative consent motion to cover the new provisions in the Bill. The NI amendments that I have detailed mirror those made for Britain elsewhere in the Bill. Importantly, under the Bill, the power to make subordinate legislation and to commence provisions relating to devolved matters will vest in the Department for Communities. Likewise, the powers of control over the subordinate legislation will vest in the Assembly.

The Bill ensures that the pensions system is fit for the future by strengthening the system and introducing important safeguards and deterrents against those who might seek to avoid their responsibilities. Including these NI provisions in the Westminster Bill will allow these important provisions to be enacted in Britain and here at the same time. This will provide legal certainty for schemes and employers to allow preparatory work, for example of the introduction of climate-related financial disclosures, to proceed in tandem in Britain and NI. I can confirm that the Executive have agreed to proceed on the basis of the legislative consent memorandum.

We are happy to answer any questions or clarify any issues that the Committee has. By way of a footnote, we expect that we will need to bring forward a number of technical amendments to the Assembly Pension Schemes Bill in consequence of the Westminster Bill. These mainly relate to the renumbering of certain provisions and so on. However, we will brief the Committee on these during the formal Committee sessions on the Assembly Bill.

Mr G McCann: That is all we have by way of our opening statement. We are happy to try to answer any questions that you may have.

The Chairperson (Ms P Bradley): That is great. Thank you, Doreen and Gerry. I have no questions on the Bill. Given the significant impact on pensions schemes of climate change, I think that it is to be welcomed. Will any further LCMs be needed in respect of the Westminster Bill or is this the final one?

Mr G McCann: As far as we know it is. We do not think that there will be any further LCMs. If there are any further changes to the Bill, however, we will come back to advise you on those.

Ms Armstrong: I absolutely welcome these policy changes, especially the climate-related financial disclosures ones. The legislation does not make it clear whether there would be two dashboards or whether the public-sector and the private-sector dashboards would be amalgamated. Is there anything that clarifies that for us? I am very aware that there are people who will have worked in both sectors and for them to have to use two different dashboards seems difficult.

Mr G McCann: All the information will appear on each of the various dashboards. There may be more than one dashboard, but each dashboard will have the same information on it.

Ms Armstrong: I am thinking about customers and how they read those dashboards. Pensions are complicated enough. That means that, in this legislation, there will be separate dashboards, as opposed to a customer being able to log in and see all their information in one place.

Mr G McCann: To clarify, each customer will be able to see all their information on each of the various dashboards. It is just that there may be more than one. Various firms might want to operate their own dashboard because that is where their members go to normally for their information on the scheme. However, it will have the same information as will be held on any other of the various pension dashboards. It will be possible for there to be more than dashboard, but each one will hold the same range of information.

Ms Armstrong: It is just disappointing that there is not a requirement for all dashboards to be collated into one. Many people move around jobs in their lifetime, and having to find where all their pensions are can cause a lot of heartache when a person comes to pension age.

Mr G McCann: Just to clarify, one will be run by the Money and Pensions Service, which is a public-sector body, and that will have all the information on it. There may be other dashboards run by other schemes, but each shall hold the same information.

The Chairperson (Ms P Bradley): No other member has indicated that they want to ask a question. Thank you, again, Gerry and Doreen for coming to brief us. We are due to see you in the not-too-distant future anyway.

Mr G McCann: Yes, next week for the Assembly Pensions Bill. We shall look forward to that.

The Chairperson (Ms P Bradley): Yes, we will see you then. Thank you very much.