TOWER HAMLETS

PENSIONS COMMITTEE

Wednesday, 16 July 2014 at 6.30 p.m.,

Room MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

SUPPLEMENTAL AGENDA

This meeting is open to the public to attend.

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		PAGE NUMBER(S)
3 .1	**Training and Development For Members**	**1 - 14**

To adopt the CIPFA “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010) as the basis for its training and development programme and that a proposed programme of training and development is prepared and presented to the next meeting of the Pensions Committee.

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**16 July 2014**	**Unrestricted**		
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): Bola Tobun - Investment & Treasury Manager		TITLE: **Training and Development For Members** Ward(s) affected: N/A		

Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1. This report sets out the need for a training and development programme for members of the Pensions Committee.

1.2. The report explains the requirement for good governance of thePension Fund and the framework of legislation, regulation andguidance which the Fund must comply with and that thereforethere is a need for a formal training programme for Membersand Observers of the Pensions Committee.

1.3. The report also refers to the Chartered Instituteof Public Finance and Accountancy (CIPFA) publication“Pensions Finance, knowledge and skills framework, TechnicalGuidance for Elected Representatives and Non-executives inthe Public Sector” (2010). (referred to elsewhere in this report asthe “CIPFA knowledge and skills framework (2010)” Thisprovides a framework for the training and development ofElected Members and other representatives on public sectorpension scheme decision making bodies such as the Tower HamletsPensions Committee.

2. RECOMMENDATION

2.1. For Pensions Committee

2.1.1. The Pensions Committee is requested to agree

(a) That the CIPFA “Pensions Finance, knowledge andskills framework, Technical Guidance for ElectedRepresentatives and Non-executives in the Public Sector” (2010) is adopted as the basis for its trainingand development programme

(b) That a proposed programme of training anddevelopment is prepared and presented to the nextmeeting of the Pensions Committee.

3. REASON FOR DECISION

3.1. Governance is defined as the action, manner or system of governing. Good governance is vital and is promoted in the context of a pension scheme/fund by having Members and Observers on the decision making body who have the ability, knowledge and confidence to challenge and to make effective and rational decisions. The "CIPFA knowledge and skills framework (2010)" provides a framework for the training and development of members/observers with the objective of improving knowledge and skills in all relevant areas of the activity of a Pensions Committee.

4. BACKGROUND

4.1. The Local Government Pension Scheme operates within a statutory and regulatory framework which includes the Superannuation Act 1972 and various statutory instruments including the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The department for Communities and Local Government (CLG) which is the government department responsible for the Local Government Pension scheme and CIPFA have also issued codes and guidance in respect of the scheme. The CLG Local GovernmentPension Scheme Governance Compliance Statements Statutory Guidance (2008) sets out nine principles for the governance of schemes including training.

4.2. In 2000 the government commissioned a review of investment management in the United Kingdom led by Paul Myners (now Lord Myners). Arising from Paul Myners' report the government issued a set of ten investment principles in 2001. In 2002 theLocal Government Pension Scheme (Management and Investment of Funds) Regulations 1988 were amended to require Local Government Pension Scheme Funds to report against these "Myners" principles.

4.3. In 2007 the government reviewed the "Myners" principles and in 2008 published a new set of six investment principles. These have now been reviewed and amplified in the context of the Local Government Pension Scheme by a group involving the department for Communities and Local Government, CIPFA and other stakeholders.

4.4. Principle 1 of the six revised "Myners" Principles is "Effective decision making" which states that in the context of the Local Government Pension Scheme it should be ensured that "decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation"; and that " those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of *interest.*

5. EXISTING TRAINING AND DEVELOPMENT FOR PENSION FUND COMMITTEE MEMBERS AND OBSERVERS

5.1 The former Pensions committee agreed a Training Policy.Since the approval of the Training Policy,training has been provided in the form of presentations to the entire Committee and through opportunities for individuals to attend training coursessuch as those provided by the Local Government Employers organisation.

5.2 The training provided by the Tower Hamlets and other Local Government Pension Funds in recent years has improved the knowledge and skills of those who serve on decision making bodies responsible for the Local Government Pension Scheme.

5.3 However there has been a lack of an agreed definition of the knowledge and skills that those who serve on such decision making bodies require. This deficiency has however now been addressed by the local authority accountancy body CIPFA in one of its publication “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010). (referred toelsewhere in this report as the “CIPFA knowledge and skills framework (2010)”

6. THE CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

6.1 As the CIPFA knowledge and skills framework states a great deal of work has been done in recent years to address the provision of training to those who serve on decision-making bodies. However in the absence of any detailed definition of what knowledge and skills are actually required to carry out a particular role, it is difficult to ascertain whether training is truly effective.

6.2 Therefore in an attempt to determine the right skill set for Pensions Committee Members/Observers CIPFA has developed a technical knowledge and skills framework which is intended to have two primary uses:

• As a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs

• As an assessment tool for individuals to measure their progress and plan their development

6.3 There are six areas of knowledge and skills CIPFA has identified as the core technical requirements relating to those involved in decision making. They are:

• Pensions legislative and governance context

• Pensions accounting and auditing standards

• Financial Services procurement and relationship management

• Investment performance and risk management

• Financial markets and products knowledge

• Actuarial methods, standards and practices

6.4 The main issues covered in each of the six areas listed above are set out in Appendix 1.

6.5 At present the status of the CIPFA knowledge and skills framework is persuasive rather than mandatory. However CIPFA states that it understands the CLG is considering whether to amend the Local Government Pension Scheme (Administration) Regulations to require funds to include in their Annual Report a statement on whether they have adopted the CIPFA knowledge and skills framework as a basis for the training and development of those involved in pension scheme finances. In the interim the CIPFA Pensions Panel recommends that, as demonstration of good practice, users of the framework make a voluntary disclosure in their pension scheme Annual Reports that covers:

• How the framework has been applied

• What assessment of training needs has been undertaken

• What training has been delivered against the identified training needs

6.6 To help organisations achieve the standards set down in the framework, CIPFA is in the process of developing a repository of knowledge sources and knowledge and skills self-assessment tool to provide a web based tool for testing and extending the knowledge of an individual.

6.7 A very short training session to ensure that all Members and Observers of the Pensions Committee have an understanding of the Pensions Legislative and Governance framework as it applies to the Local Government Scheme will be held at this (16 July 2014) meeting of the Committee.

7. ALTERNATIVES CONSIDERED

7.1 The Committee could continue to base its approach to training on the Training Policy approved by the former Pensions Committee. The adoption of the CIPFA knowledge and skills framework (2010) however indicates that the Committee is following national guidance on the content of training for Committee Members and Observers.

8. CONCLUSION

8.1 The adoption of the CIPFA "*Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector*" (2010) provides the basis for a training and development programme for the Pensions Committee based on the latest national guidance.

9. COMMENTS OF THE CHIEF FINANCIAL OFFICER

9.1. The comments of the Corporate Director Resources have been incorporated into the report.

10. LEGAL COMMENTS

10.1 Whilst there are no immediate legal consequences arising from this report it is important that members are trained appropriately so that decisions are made from a sound knowledge base thereby minimising the risk of any legal challenge.

11. ONE TOWER HAMLETS CONSIDERATIONS

11.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

11.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

12.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

13. RISK MANAGEMENT IMPLICATIONS

13.1 Any form of investment inevitably involves a degree of risk.

13.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

14. CRIME AND DISORDER REDUCTION IMPLICATIONS

14.1 There are no crime and disorder reduction implications arising from this report.

15. EFFICIENCY STATEMENT

15.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***

Background Information
Pensions Finance, knowledge and skills framework, Technical Guidance forElected Representatives and Non-executives in the Public Sector, CIPFA(2010)
Investment decision making and disclosure in the Local Government PensionScheme, A Guide to the Application of the Myners Principles, CIPFA (2009)

APPENDIX 1

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

Core technical areas and areas of knowledge

Legislative and governance framework
General pensions framework
Scheme-specific legislation for LGPS
Pensions regulators and advisors
Constitutional framework for pension fund committees within administering authorities
Pension scheme governance

Accounting and auditing standards
Accounts and Audit regulations
Role of internal and external audit

Procurement of financial services and relationship management
Procurement requirements of UK and EU legislation
Supplier risk management

Investment performance and risk management
Monitoring of investment performance
Performance of advisors
Performance of the Pensions Committee
Performance of support services

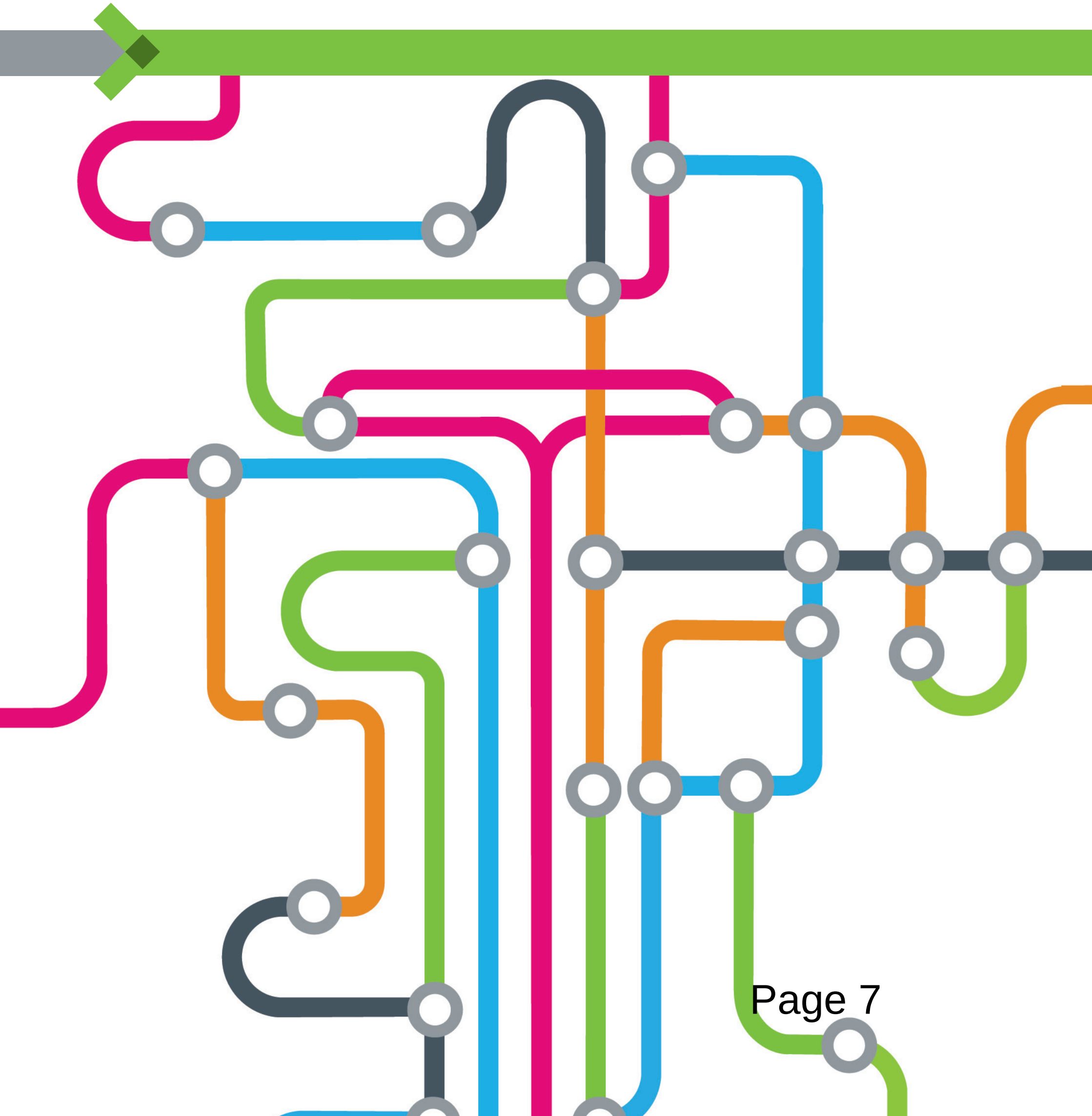
Financial markets and investment products
Investment strategy
Financial markets
Regulatory requirements regarding investment products

Actuarial methods, standards and practices
Valuations, funding strategy and inter-valuation monitoring
Ill-health and early retirement
Admitted bodies
Outsourcing and bulk transfers

HYMANS ROBERTSON

A brief guide

to the local government pension scheme



Introduction from John Wright

John Wright
Head of Public Sector Consulting

Public sector pensions is a hot topic at the moment and with the emphasis on governance, taking on decision making responsibilities for an LGPS pension fund may feel rather daunting. This brief guide is designed to assist you in your role by familiarising you with some key areas:

- An overall understanding of the Local Government Pension Scheme (LGPS) and how it is set up
- The main areas of risk involved in running your fund and the management of these risks
- The sort of decisions that you may be asked to make

This brief guide has been written mainly for elected Members new to the role of dealing with an LGPS pension fund, however, it is also useful if you are already involved in pension committees or panels and looking for a summary of the important role you play in the 'stewardship' of your funds: an important role that gives you responsibility for the investment decisions of the fund and ensuring the scheme is administered effectively and fairly, with strong governance, on behalf of all its stakeholders.

With more than 90 years' experience of local government pension funds, Hymans Robertson has a long history of working with local authorities. We currently provide advice and support to over half of the LGPS funds in the UK. We use this extensive experience to help make life easier for those, like you, who are making decisions on the safe running of your fund.

I hope you find this brief guide helpful.

John Wright

Basics of the Local Government Pension Scheme (LGPS)

The LGPS is a **defined benefit, funded** occupational pension scheme, set up under a Parliamentary Act. It provides pension benefits for those who work in the local authority arena and is open to employees of local government employers as well as a wide range of other public sector employers, including **admitted bodies**. The pension benefits under the LGPS are set nationally and are very secure as they are guaranteed by statute.

> Separate Regulations apply in England & Wales, Scotland and Northern Ireland. Historically the Schemes were almost identical in each area but in recent years differences have become more pronounced.

Although the LGPS is a nationwide scheme it is actually administered locally and is made up of a large number of standalone funds – normally administered by local authorities. It is the management of these funds that we consider in this booklet.

Definitions

CARE – From 1 April 2014 the LGPS became a **Career Average Revalued Earnings** based scheme. With pension accruing each year based on scheme members' earnings over their career. Previously the benefits under the scheme were on a formula based on length of service and salary on leaving.

Funded – this means that a fund is built up from contributions, investment income and growth in order to meet future benefit payments as they fall due. Most of the other public sector schemes are unfunded or pay-as-you-go scheme, which means that pensions are paid directly out of revenue, like many other public sector schemes.

Admitted bodies – an employer that has applied to participate in the scheme under an admission agreement – usually employers such as charities or contractors. Admitted bodies generally provide a public service which is closely linked to the functions of a local authority.

Key LGPS Facts

- Made up of 99 regional funds
- Over 4.1 million members
- Total fund size is over £140 billion
- Total expenditure on benefits is around £7 billion p.a.

Who’s who in the LGPS

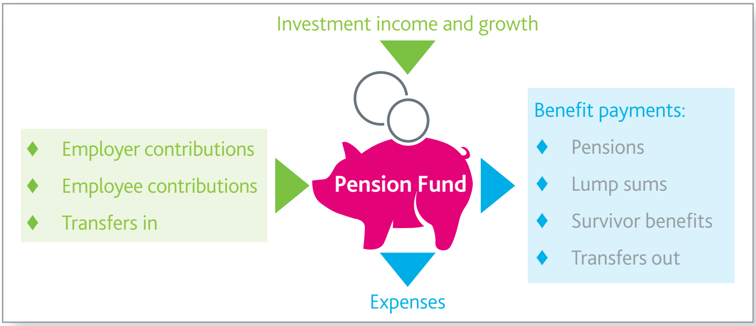
The main parties involved in the management and administration of the LGPS are:

- Department Communities and Local Government (DCLG) – the central Government Department, which has overall responsibility for the strategic management and policy making in relation to the LGPS in England and Wales. The Scottish equivalent is **Scottish Public Pensions Agency**, whilst the Northern Irish version is the **Department of the Environment**.
- The Administering Authority – often, but not necessarily, the largest council in the fund – they take on the role of pension fund administrators.
- The Pension Committee (or equivalent) – primarily made up of elected Members from the Council acting under delegated authority as the administering authority. Typically the other councils within the fund will also be represented. The committee usually has overall responsibility for the fund providing a similar function to that of trustees in private sector pension schemes.
- Officers – employees of the administering authority whose role it is to carry out the day to day administration and management of the fund on behalf of the elected Members. The actual day to day administration may be carried out by an in house team, an external contractor or a local authority shared service.
- Employers – local authorities, public service organisations, admission bodies and private contractors providing an outsourced service.
- Scheme members – the employees who build up pension benefits.
- Advisers – there are many experts whose assistance you may need to rely upon. The list includes auditors, lawyers, investment managers, actuaries, investment consultants and custodians.
- The Pensions Regulator – the Pensions Regulator ensures that codes of practice are complied with and high standards of governance are met.
- Other bodies – other groups that you will come across include LGA (Local Government Association), who provide guidance on the technical aspects of the LGPS, and CIPFA (Chartered Institute of Public Finance and Accountancy) who provide support on investment and governance aspects.

Your own officers will be able to provide you with details of the people involved in your fund, and your governance arrangements.

The Role of the Actuary

Your main concern when running a pension fund is to ensure that there are sufficient funds to pay for the pension benefits as they fall due and contributions are received at an appropriate level and in a timely manner. The following diagram shows how money flows in to and out of the fund.



Your fund actuary will carry out regular actuarial valuations of the fund with the following objectives:

- To comply with legislation (it is mandatory to have an actuarial valuation every 3 years)
- To monitor the ongoing health of the fund (e.g do you have enough money to pay the pensions)
- To recommend appropriate contribution rates for employers and
- To monitor the actual experience of the fund against the assumptions made

In order to carry out the valuation, assumptions need to be made about future experience. The most important decisions will be around the **discount rate** to use and the **mortality assumptions**. At valuation time, your actuary will provide assistance in determining these assumptions.

Definitions

Discount rate – the future payments due need to be discounted to give a present value. A discount rate is chosen to reflect the investment return that is expected on the fund.

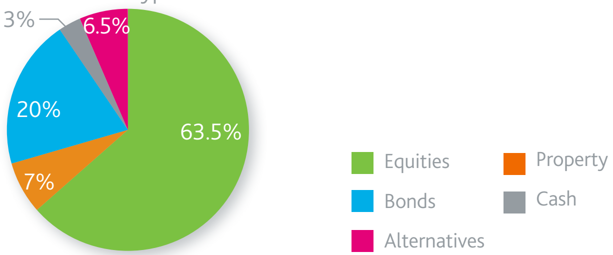
Mortality assumptions – one of the greatest unknowns for a pension fund is how long benefits will be paid for. People are currently living longer than they did in the past. The extent to which improvements are occurring needs to be actively monitored. At Hymans Robertson we have created Club Vita to do this.

Investment Decisions

One of your main tasks will be to decide where the fund's assets are invested. You need to decide on the overall strategy (i.e. the mix of asset types), and then the investment managers to do the actual buying and selling. Key things to keep in mind are:

- Of the asset classes **equities, property** and **alternative** assets are essentially return seeking. By contrast **bonds** are usually held for stability and security
- A high allocation to return seeking assets helps to keep pensions affordable. However, return seeking assets increase downside risk
- Asset and manager diversification (not putting all of your eggs in one basket) should help to reduce the downside risk
- A long term approach, seeking return, is generally considered appropriate – hence the high allocation to equities and alternatives seen in the LGPS world.

The asset allocation for a typical LGPS fund could look like this:



Definitions

Equities: "shares" in companies give an entitlement to dividends and the prospect of capital gains. Equities are expected to deliver a higher return than bonds over the long term.

Bonds: Bonds provide a regular income and are repaid in full at maturity. **Gilts** are issued by the UK Government and **Corporates** are issued by companies. Corporate bonds are higher risk than gilts and therefore have a higher interest rate. **Index-linked** gilts provide income and maturity payments which increase (or decrease) in line with inflation.

Property: Investments are usually in commercial property. Due to the size of individual properties and the need for diversification, investment is often through pooled funds.

Alternatives: Asset classes that add diversification by delivering returns in a pattern that differs from equities. Includes Hedge Funds, Infrastructure, Global Tactical Asset Allocation and Diversified Growth Funds.

What does my role on the committee entail?

It is important that you feel you have the appropriate knowledge and training to make these decisions. CIPFA have produced a Knowledge Skills Framework and code of practice in delivering good governance and what is expected from pension committees. During your period of office, the main decisions that you are likely to have to make are as follows.

- Deciding upon an appropriate investment strategy for your fund
  - Based on advice from your investment advisers
  - Setting performance benchmarks for the managers
- Dealing with investment managers
  - Selecting new investment managers by means of beauty parades
  - Monitoring manager's performance over time
  - Sacking managers where necessary
- Dealing with your fund actuary
  - Ensuring that you have an appropriate funding strategy for setting contributions
  - Agreeing contribution rates at the triennial valuation
  - Monitoring the progress of the funding level between valuations
- Ensuring that all relevant documentation is in order
  - Reviewing and updating the mandatory documents
  - Ensuring administering authority policies are up-to-date
  - Approving your pension fund accounts in time
- Be responsible for the risk management of the fund
  - Maintaining a risk register up-to-date
  - Ensuring that appropriate policies are in place to deal with the admission of employers into the fund, and the departure of employers from the fund
  - Ensuring the smooth administration of the fund for members and employers
  - Keeping an eye out for possible long term risks e.g. how your mortality experience is changing over time

'Must have' Documents

- Funding Strategy Statement
- Statement of Investment Principles
- Administration Strategy
- Governance Strategy
- Communications Strategy

For any further help or assistance on the topics raised in this booklet please contact us on

☎ 0141 566 7777

Knowledge and skills

Finance officers will be well aware of their responsibilities when finalising LGPS pension fund accounts of their requirement, under the CIPFA code of practice, that requires a statement that those responsible for the governance of the pension fund have the necessary skills. The CIPFA code of practice embeds the requirement to ensure those charged with pension scheme governance have access to the skills and knowledge to carry out their role effectively.

CIPFA have also published technical guidance for Representatives and Practitioners in the public sector within a Knowledge & Skills framework (KSF). The framework outlines the required skills - set for those responsible for pension financial management and decision making.

The six areas of the framework:

- Pensions legislative & governance context
- Pension accounting & auditing standards
- Financial services procurement & relationship development
- Investment performance & risk management
- Financial markets & product knowledge
- Actuarial methods, standards & practice

It is seen as best practice to sign up to the CIPFA code of practice and you may want to check that your fund has done so, and how the relevant skills and knowledge for yourself will be monitored and measured.

Workplace pension Reform

Public sector pension schemes have been under the microscope in recent years and this has included the LGPS.

The change to the LGPS which came into being from April 2014 in England and Wales, ahead of the other public sector schemes, includes a new benefit and contribution structure and introduce control costs.

The Public Sector Pensions Reform Act 2013 introduced a more unified legal framework and enables public sector schemes to outline their own controls.

The concept of automatic participation of workplace pension schemes was also introduced from 1 October 2012 whereby employees are auto enrolled into pension arrangements at least every three years and this has done a lot to improve pension provision from the LGPS with many new entrants deciding to not opt out.