

# What is the Local Government Pension Scheme?

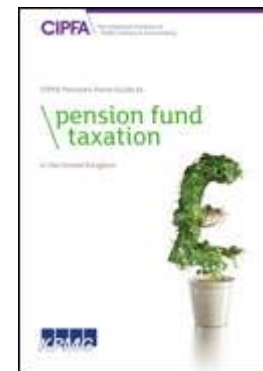
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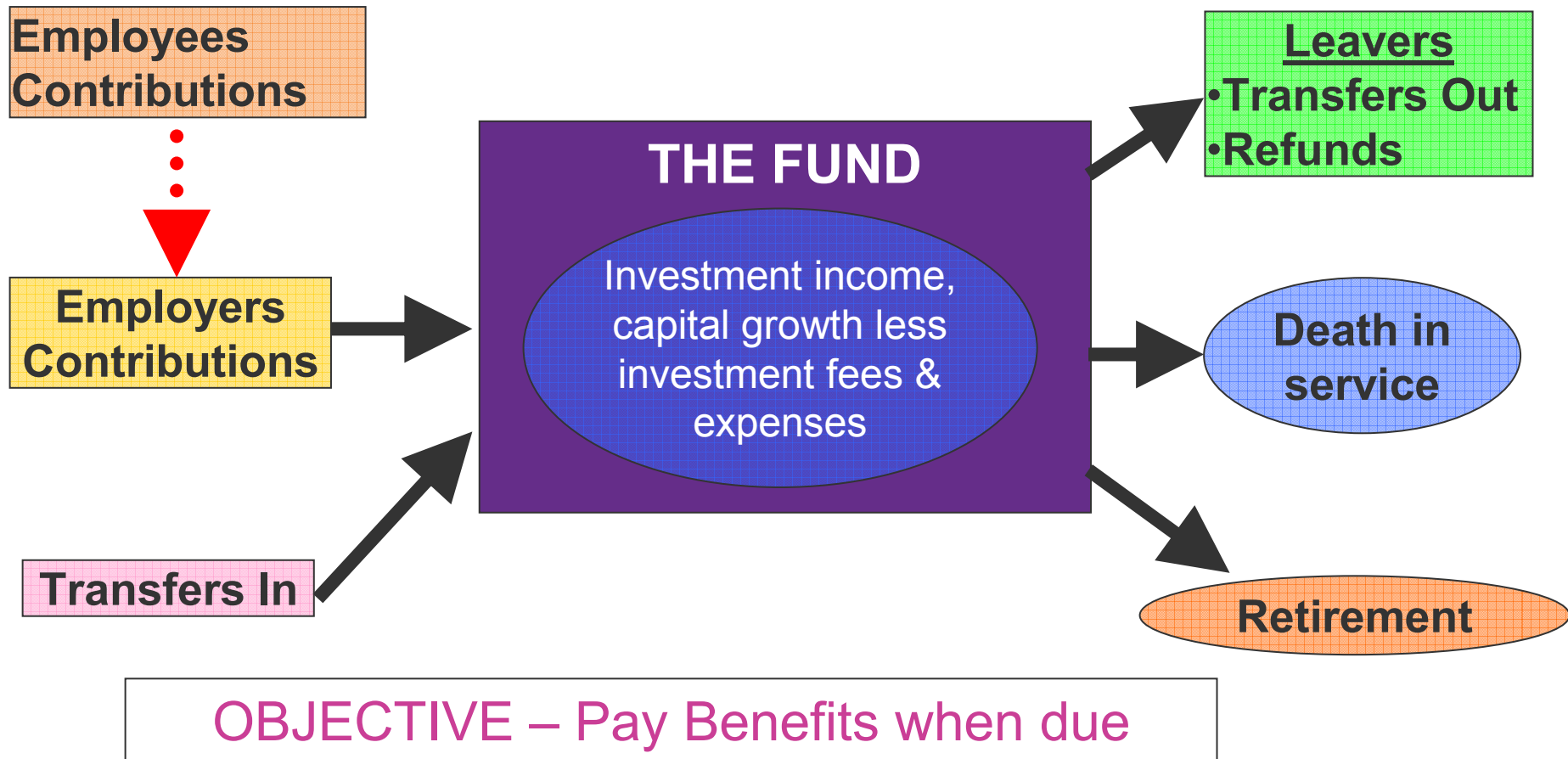
## Pensions Basics

- Defined benefit / Defined Contribution
- Funded and Unfunded
- Trust Schemes and Statutory Schemes
- Types of Member
- Types of Employers
- Tax Position



# Pension Fund accounting

## The Cashflows



## Pensions Legislation

- Superannuation Act 1972
- Pensions Acts 1993, 1995, 2004
- Financial Services and Markets Act 2000
- Contracted Out
- Trustees Act 1961/2000 (Investments)
  
- Timeline Regulations

<http://www.lge.gov.uk/lge/core/page.do?pageId=119626>

# The Regulations

- Local Government Pension Scheme (Benefits, membership & Contributions) Regulations 2007
- Local Government Pension Scheme (Administration) Regulations 2008
- Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009
- Plus various CIPFA Guidance.....

## LGPS in Operation

- Funded Scheme i.e. assets circa £150bn
- National benefits package
- Administered Locally (99 Funds)
- Statutory responsibility of Administering Authority
- Delegated to Pension Committee
- Local Accountability
- Largely externally invested
- Range of employing body participants

# Roles & Responsibilities

- Pension Committee
  - Agree Funding / Valuation
  - Set Investment Strategy / Approach
  - Appoint Fund Managers / Monitor performance
  - Statutory Statements
  - Administration / Accounting etc:
- Members
  - Prudent / efficient stewardship
  - Fiduciary responsibility

# Roles & Responsibilities

- Administering Authority
  - Collect employer / employee contributions
  - Administer / pay benefits
  - Manage funding / investment strategy / accounting
  - Communications
- Fund Administrator
  - Treasurers responsibilities / SI5I role
- Employers
  - pay over employer / employee contributions
  - Administer benefits from employer perspective



## Roles & Responsibilities

- Investment Managers
  - Deliver performance / manage (Mandate)
- Custodian
  - Safe keeping securities
  - Collect / account for dividends etc:
- Actuary
  - triennial valuation
  - transfer advice
- Advisers
  - investment / legal / procurement etc:

# Statutory Documents

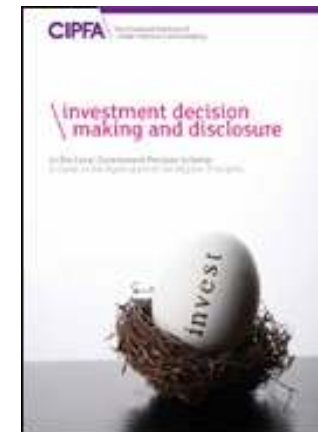
- Funding Strategy Statement
  - responsibility / solvency / target funding levels
  - risk / control
  - approach to employer contribution rates
- Communications Policy
  - information / publicity / promotion
  - format / frequency / distribution
- Governance Compliance Statement
  - delegation arrangements
  - frequency of meetings / membership
  - compliance with CLG guidance

# Statutory Documents

- Statement of Investment Principles
  - Investment types, balance, risk, return
  - Social, environmental & ethical considerations
  - Voting rights, stock lending
  
- Annual Report
  - review of performance
  - actuary statement
  - fund account
  
- Pensions Administering Strategy (discretionary)
  - communication with employers
  - performance / pay over of contributions requirements

## Governance Compliance Statements

- DCLG Guidance 2008
- Reg 31 LGPS (Admin) Regs 2008
- Funds to publish Statement
- Assess state of current arrangements
- Aim for consistent best practice
- DCLG Survey 'Overall high' compliance
- Did identify 'weaknesses' to be addressed



# Governance Compliance Statements

- 9 'Best Practice' Principles:
  - Structure
  - Membership & Representation
  - Selection and role of lay members
  - Voting
  - Training/Facility time/Expenses
  - Meetings
  - Access
  - Scope
  - Publicity

# LGPS Fund Governance

## CIPFA / SOLACE



- Authorities must be able to demonstrate that they are complying with principles of good governance.
- Six core principles defined in the Framework are taken from the Good Governance Standard developed by the Independent Commission on Good Governance in Public Services with support from the Office for Public Management (OPM) and CIPFA, in partnership with the Joseph Rowntree Foundation.
- Pension Panel 2009 Guidance on application to LGPS

# LGPS Fund Governance

## Myners Requirements

- Review of institutional decision-making
- Updated Principles (6) in 2004
- LGPS Investment Governance Sub-Group
- Pensions Panel Guidance

# LGPS Fund Governance

## Myners Principles (1)

<p><b>Principle 1: Effective decision making</b></p>	<p>Administering authorities should ensure that:-</p> <ul style="list-style-type: none"> <li>▪ Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>▪ Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>
<p><b>Principle 2: Clear objectives</b></p>	<p>An overall investment objective (s) should be set out for the fund that takes account of the scheme’s liabilities, the potential impact on local tax payers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</p>
<p><b>Principle 3: Risk and liabilities</b></p>	<ul style="list-style-type: none"> <li>▪ In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities</li> <li>▪ These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>



# LGPS Fund Governance

## Myners Principles (2)

<p><b>Principle 4: Performance assessment</b></p>	<ul style="list-style-type: none"> <li>▪ Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers</li> <li>▪ Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>
<p><b>Principle 5: Responsible ownership</b></p>	<ul style="list-style-type: none"> <li>▪ Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,</li> <li>▪ Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and</li> <li>▪ Report periodically to scheme members on the discharge of such responsibilities.</li> </ul>
<p><b>Principle 6: Transparency and reporting</b></p>	<ul style="list-style-type: none"> <li>▪ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;</li> <li>▪ Provide regular communication to scheme members in the form they consider most appropriate</li> </ul>

## CIPFA Knowledge & Skills Framework

- Launched January 2010 / Best Practice
- Application Members / Officers
- Adapt to Fund, Gap Analysis, Training Programme
- Annual Report disclosure – Code of Practice
- CIPFA / Hymans Robertson toolkit



# LGPS Fund Governance Knowledge & Skills / Key Areas

- Pensions Legislative and Governance Framework
- Pensions Accounting and Auditing Standards
- Financial Services Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge
- Actuarial Methods, Standards and Practices

# Questions?

