

# Key Risk Area 1 Regulatory Compliance

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# 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.....

# 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

- Annual Report
  - review of performance
  - actuary statement
  - fund account
  
- Pensions Administering Strategy (discretionary)
  - communication with employers
  - performance / pay over of contributions requirements

# Statutory Documents

- Statement of Investment Principles
  - Investment types, balance, risk, return
  - Social, environmental & ethical considerations
  - Voting rights, stock lending
- Myners Principles
  - Need for knowledge / skills
  - Investment objective
  - Understanding liabilities
  - Measurement
  - Responsible investment
  - Communications

## 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

## CIPFA / SOLACE Principles

- Focussing on purpose of the authority and outcomes for the community, creating and implementing a vision for the local area
- Members / officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting authority values and demonstrating good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

# 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)

<b>Principle 4: Performance assessment</b>	<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>
<b>Principle 5: Responsible ownership</b>	<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>
<b>Principle 6: Transparency and reporting</b>	<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 Background

- Economic & Financial Considerations
- Changed Investment Landscape
- Governance & Legislative Context
- Myners Requirements
- Trustee TKU

# 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

## Reports and Accounts

- CIPFA Code of Practice on Local Authority Accounting 2011/12 (“the Code”)
- Now fully IFRS compliant
- PRAG Sorp
- CIPFA Example Accounts
- Separate External Audit work and Report
- Part of Administering Authority Accounts
- Included in Pension Fund Annual Report



## Accounting/Audit Issues

- Financial Instrument Disclosures
- Valuations
- Existence
- Rights & Obligations
- Completeness
- Contributions

## Annual Report

- No 'official' Guidance
- Reg 34 LGPS (Admin) Regs 2008
- Funds to publish separate PF report
- Content prescribed in the Regs:
  - Management & Financial Performance Report
  - Investment & Performance Report
  - Administration Report
  - Actuarial Statement
  - Fund Account, Notes and Disclosures

## Actuarial Valuation

- Triennial Valuation
- Reg 36 LGPS (Admin) Regs 2008
- Produce Report and Rates & Valuations Cert
- State all demographic assumptions
- Reflect policies in the FSS
- Calculates Contribution rates
  - Common Contribution rate/Future Accrual rate
  - Deficit Recovery rate (as £ or %)

# Questions?



# Thank You