

London Borough of Haringey
Pension Fund

Pensions Knowledge, Understanding and Skills

A paper by the Independent Advisor
June 2016

Summary

This paper reviews and provides the background including the legal requirement for the members of the Joint Pensions Committee and Board to have a broad range of Pensions Knowledge, Understanding and Skills (the term Knowledge, Understanding and Skills has been used as the title of the overall approach to training as CIPFA refer to “Knowledge and Skills” and the Pension Regulator to “Knowledge and Understanding”).

The paper details the legislative and regulatory background as at June 2016, relevant Pension Regulators guidance, relevant CIPFA frameworks, and the previous (Corporate) Committee decision of March 2013 in relation to Pensions Knowledge, Understanding and Skills.

The paper highlights the fact that given the Secretary of State for Communities and Local Government has approved the creation of a Joint Pensions Committee and Board for the Haringey Fund all its members are under a particularly rigorous obligation (arising from primary legislation, regulations and statutory guidance) to undertake training to ensure they have the Knowledge, Understanding and Skills to enable them to effectively make decisions across all aspects of the responsibilities of the Joint Committee and Board and to monitor their implementation.

The paper proposes that all members of the Joint Pensions Committee and Board are required to complete the Pensions Regulator’s online “Public Service Toolkit” by 31 October 2016. Completion of this training though highly desirable only satisfies a very limited element of the Knowledge, Understanding and Skills required by Members of the Joint Pension Committee and Board.

The paper proposes that the Joint Pension Committee and Board adopt the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (July 2013 version) together with a broad based Pensions Knowledge and Skills Framework (see **Table 1**) based on the 2010 CIPFA “*Pensions Finance Knowledge and Skills Framework Technical Guidance for Elected Representatives and Non-Executives in the Public Sector*” with the addition of the

expanded emphasis on Legislation and Governance and the new area of Pensions Administration included in the CIPFA publication "*Local Pension Boards, A Technical Knowledge and Skills Framework*" of July 2015.

The paper also suggests that a number of "core" training sessions are delivered by the Independent Advisor to provide coverage of this framework. It is also suggested that Members of the Joint Pensions Committee and Board are regularly informed of external conferences and seminars relevant to the LGPS in order to facilitate further training, knowledge and understanding tailored to the needs of individuals.

The paper also emphasises the need for formal records to be kept of all training undertaken by Joint Pension Committee and Board members and that a report on Training, Knowledge, Understanding and Skills is presented to the Joint Pensions Committee and Board on an annual basis at its June/July meeting.

The paper also proposes that a Training Needs Analysis be issued to each Joint Pensions Committee and Board member who be requested to complete this so as to provide guidance to the Officers and Independent Advisor in the preparation and suggestion of further training for the Joint Pensions Committee and Board.

The proposals from this paper are presented as recommendations in the Officers' covering report which accompanies this paper.

Background and Legislative requirements

The Terms of Reference of the Joint Pensions Committee and Board give this body an extensive range of complex responsibilities which encompass those which in almost all the other LGPS Pension Funds in England and Wales are exercised by a separate Pensions Committee and Pensions Board. Therefore good practice requires that the members of the Joint Pensions Committee and Board have a broad range of Pensions Knowledge, Understanding and Skills.

Governance is defined as the action, manner or system of governing. Good governance is vital if the Pension Fund is to function effectively and will be promoted in the context of a Local Government Pension Fund by having decision makers who have the ability, knowledge and confidence to challenge and to make effective and rational decisions. Therefore comprehensive training (otherwise referred to as "Knowledge, Understanding and Skills") is clearly a requirement for the members of the Joint Pensions Committee and Board.

The members of the Haringey Joint Pensions Committee and Board are under not only a good practice but also a very clear legal obligation to have a good level of Knowledge, Understanding and Skills in relation to both general and LGPS specific Pensions issues and requirements. Given that the Secretary of State for Communities and Local Government has given specific approval for the Haringey Fund to combine the normally separate functions of Pensions Committee and Pensions Board the members of the joint body are subject to the legal requirements relating to both Pension Board and Pension Committee members.

It is a statutory requirement under Schedule 4 of the Public Service Pensions Act 2013 and Section 248A of the Pensions Act 2004 (As amended) that members of Pension Boards have “knowledge and understanding” of pensions law and be “conversant” with the Scheme Regulations and Fund documents. Paragraphs 34 to 60 of the Pensions Regulators Code of Practice No 14 “*Governance and Administration of Public Service Pension Schemes*” (April 2015) cover the issue of Knowledge and Understanding required by Pension Board members in detail. The Code is clear that Pension Board members will require a broad range of “knowledge and understanding.” This includes the Scheme Regulations which in the case of the Local Government Pension Scheme (LGPS) are the various LGPS Regulations together with policies and documents within those Regulations adopted by individual Funds such as risk assessment/management policies, administration policies including record-keeping, communication policies/documents, funding and investment policies. Pension Board members must also have knowledge and understanding of the wider law as it relates to pensions. Paragraphs 47 to 54 of the Code make it clear that knowledge and understanding must be of a sufficient depth to enable members to effectively carry out their role. Paragraph 60 states that “*Schemes should keep appropriate records of learning activities of individual pension board members and the board as a whole....*” Code No 14 relates to all the Public Service Pension Schemes covered by the 2013 Act. CIPFA therefore issued in July 2015 “*Local Pension Boards, A Technical Knowledge and Skills Framework*” which was prepared specifically for LGPS Pension Boards in England and Wales and which “*is offered as good practice....*” (page 4).

The Pensions Regulator in its “*Regulatory Strategy Public Service Pension Schemes*” (Page 7, January 2015) explicitly states that there is a clear legal requirement to have “*appropriate knowledge and understanding*” and failure to comply with this requirement “*is a breach of the law.*”

The Pensions Regulator has also clearly indicated in its “*Compliance and Enforcement Policy for Public Service Pension Schemes*” (June 2015) that it regards Knowledge and Understanding relating to Pension Board members (which members of the Joint Committee and Board are) as a “critical” area of risk. Therefore it is reasonable to assume that the Pensions Regulator will require information in respect of training undertaken by Pension Board Members from individual LGPS Funds.

Pensions Knowledge, Understanding and Skills are also required of Pension Committee members by virtue of guidance authorised by the Secretary of State for Communities and Local Government under Regulation 12(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (As amended).

The relevant guidance, authorised by Secretary of State, is the CIPFA publication *“Principles for investment decision making and disclosure in the LGPS (2012).”* Under the heading **“Effective Decision Making”** (page 7) it is stated that:

Administering Authorities should ensure that:

- **decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation**
- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**

On pages 8 and 9 in relation to “Key issues to consider” in relation to **Effective Decision Making** it is stated that *“the committee should ensure that it has appropriate skills.....**The CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills**, launched in 2011, requires that administering authorities have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for decision making. The accompanying CIPFA Public Sector Pensions Finance Knowledge and Skills Frameworks set out the key skills areas.....”*

Therefore given the Secretary of State for Communities and Local Government has approved the creation of a Joint Pensions Committee and Board for the Haringey Fund all its members are under a particularly rigorous obligation (arising from primary legislation, regulation and statutory guidance) to undertake training to ensure they have the Knowledge, Understanding and Skills to enable them to effectively make decisions across all aspects of the responsibilities of the Joint Committee and Board and to monitor their implementation. Furthermore given that Haringey is one of only two Funds to have been given approval for such an arrangement by the Secretary of State the Governance of the Fund will likely be subject to greater scrutiny by both the DCLG and Pensions Regulator than those that have the usual arrangement of a separate Committee and Board.

The Pensions Regulators Public Service Toolkit

From April 2015 the Pensions Regulator acquired some supervisory powers in respect of the Governance and Administration of the public service pension schemes covered by the Public Service Pensions Act 2013. In addition as already highlighted the Pensions Regulator has clearly set down high expectations in respect of the Pensions Knowledge and Understanding it expects of Pension Board Members.

To assist Pension Board Members in acquiring Pensions Knowledge and Understanding the Pensions Regulator has issued an online “Public Service Toolkit” which may be accessed at www.thepensionsregulator.gov.uk/public-service-schemes.aspx This on line toolkit is concerned with Governance and Administration and consists of seven modules which correspond to areas covered in the Pensions Regulators Code of Practice No 14 “*Governance and administration of public service pension schemes.*” These modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law

Completion of all seven modules results in the award of a “Development record” certificate. The modules give a broad introduction and understanding of these areas of Governance and Pensions Administration and it is clearly highly desirable that members of the Joint Pension Committee and Board complete the toolkit. Indeed some Pension Boards (which unlike the Haringey Joint Pensions Committee and Board do not have decision making powers) have resolved that their Members should complete the Pensions Regulator’s on line toolkit within a specified period and forward their “Development record” certificate to the Officers of the Board.

Given the powers of the Pensions Regulator and its clear statements on Pensions Knowledge and Understanding it is clear that members of the Joint Pension Committee and Board should complete the Regulator’s online “Public Service Toolkit” within a specified timescale. Completion by the end of October 2016 would appear an appropriate timescale. Completion of the Pensions Regulator’s “Public Service Toolkit” will provide clear evidence of obtaining Knowledge and Understanding of Governance and Administration. However completion of this toolkit only provides some of the necessary coverage of Governance and Administration as it only covers requirements that are general to all the public service pension schemes covered by the Public Service Pensions Act 2013. There are also important LGPS specific Governance and Administration requirements that members of the Joint Pensions Committee and Board also need to be aware of. In addition the Pension Regulator’s toolkit does not address Investment, Actuarial or Accounting issues all of which are crucial areas that any person involved in the Governance of the LGPS must be “conversant” with. Consequently the Joint Committee and Board will need to agree a broad based policy in respect of Pensions Knowledge, Understanding and Skills and then implement that policy. Such an approach is provided by the CIPFA Code of Practice on Public Sector Pensions Knowledge and Skills and the CIPFA frameworks for Pensions Knowledge and Skills issued in 2010 and 2015.

Adoption of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (July 2013 version)

On 14 March 2013 the Corporate Committee (which was at that time the Committee responsible for the Pension Fund) considered a paper from the Independent Advisor “Pension Knowledge and Skills” which included a description and explanation of the CIPFA “*Code of Practice on Public Sector Pensions Finance Knowledge and Skills*”. The Independent Advisors paper explained that in 2011 CIPFA had produced a Code of Practice on Public Sector Pensions Finance Knowledge and Skills and that by adopting the Code the Committee would be promoting and making a clear commitment to good governance and effective training. Having considered this issue the Committee resolved to adopt the Code of Practice.

Given that the Code of Practice approved in March 2013 has been superseded by a revised version issued by CIPFA in July 2013 (to reflect changes since the original Code was issued in 2011 and in anticipation of the reforms to the LGPS of 2014 and 2015) and the creation of the Joint Pensions Committee and Board it would be good practice for the joint body to formally adopt the July 2013 version of the CIPFA “*Code of Practice on Public Sector Finance Knowledge and Skills*”

The 2013 version of the Code of Practice is underpinned by a number of key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making, governance and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
2. Organisations have the necessary resources in place to acquire and retain the necessary public sector pension scheme finance knowledge and skills.
3. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.
4. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as those set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
5. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

CIPFA recommends that all organisations responsible for the financial management of public sector pension schemes adopt the following statement

1. This organisation adopts the key recommendations of the *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.
2. This organisation recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.
3. Accordingly this organisation will ensure that it has adequate resources, formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision- making.
4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Framework.
5. This organisation will report annually on how these policies have been put into practice throughout the financial year.
6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Operating Officer who will act in accordance with the organisation's policy statement, and, where he/she is a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

The covering report to this paper recommends the Joint Pensions Committee and Board adopt the above six part statement.

The Adoption of a Comprehensive Framework of Knowledge and Skills requirements based on the CIPFA Pensions Finance Knowledge and Skills Frameworks

One of the principles underpinning the CIPFA "*Code of Practice on Public Sector Finance Knowledge and Skills*" (July 2013 version) is that the policies and practices relating to training are guided by reference to a comprehensive framework of knowledge and skills requirements such as those set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

In 2010 CIPFA produced its "*Pensions Finance knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector.*" This Framework identified six areas of knowledge and skills as the core technical requirements for those involved in decision making. They are

- Pensions legislative and governance context

- Pensions accounting and auditing standards
- Financial markets and product knowledge
- Financial services procurement and relationship management
- Investment performance and risk management
- Actuarial methods, standards and practices

The paper from the Independent Advisor considered by the Corporate Committee on 14 March 2013 gave a detailed explanation of this Framework and the covering Officer report recommended that it be adopted as the basis for the training and development programme for the Corporate Committee and Pensions Working Group which at that time were responsible for the decision making/governance of the Fund.

Since 2013 this Framework has been utilised by the Independent Advisor as the basis of the training he has provided. However having recently examined the Minutes of the Corporate Committee of 14 March 2013 it appears that the Corporate Committee did not formally adopt the 2010 CIPFA "*Pensions Finance knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector.*" Furthermore since March 2013 the framework of Governance of the LGPS has fundamentally changed (and significantly increased in complexity) as a result of both the implementation of the Public Service Pensions Act 2013 (which was fully implemented from 1 April 2015) and the new LGPS Pension Benefit arrangements which came into effect from 1 April 2014.

Given that the Fund has never formally approved a Framework of Pensions Knowledge and Skills together with the fact that the 2010 Framework referred to in the Independent Advisor's paper to the Corporate Committee in March 2013 does not cover the present Legislation, Governance and Pensions Administration arrangements applicable to the LGPS it is necessary for the Joint Pensions Committee and Board to formally approve a framework which covers the all the present arrangements relating to the LGPS.

A framework can be constructed which reflects the LGPS as at June 2016 by supplementing the 2010 CIPFA Knowledge and Skills Framework already referred to by adding additional areas covered in a CIPFA publication of July 2015. This publication is the CIPFA "*Local Pension Boards A Technical Knowledge and Skills Framework.*" In particular this 2015 framework gives greater emphasis to Pensions Governance than the 2010 framework for Elected Members and also includes Pensions Administration as a new and separate area of knowledge and skills.

Having examined the 2010 Framework (which was developed for decision making Pension Committees) and the July 2015 Framework (which though developed for non decision making Pension Boards reflects changes to the LGPS, to July 2015, since the 2010 Framework was issued) and also the Government's proposals with regard to the Investment Pooling announced in November 2015 it is proposed that the Joint Pensions Committee and Board

adopt as its Framework of Pensions Knowledge and Skills the Framework detailed in **Table 1** below:

HARINGEY PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK

Core technical areas

Areas of knowledge

Legislative and Governance

General pensions framework

Scheme-specific legislation for LGPS

Pensions regulators and advisors

Pension Scheme governance

Role of the DCLG

Role of the Scheme Advisory Board

Role of the Pensions Regulator

Role of the Administrating Authority/ Joint Pensions Committee and Board

Role of the Fund Officers

Role of Employers

Role of the Pensions Advisory Service & Pensions Ombudsman

Updating for latest changes to Scheme rules

Pension Administration

To include:

Record Keeping

Scheme Communications

Contributions collection

Pension Administration Strategy

Discretionary powers

Performance and Cost measures

Use of third party suppliers, their selection, performance management & assurance processes

Internal Dispute Resolution

Pension Accounting and Auditing standards

Accounts and Audit Regulations & CIPFA guidance

Role of Joint Committee and Board

Role of internal and external audit

Role played by third party assurance providers

Financial markets and Investment products

Investment Strategy

Financial markets

Asset Classes

LGPS Investment Regulations

Procurement of Financial services and Relationship management

Procurement legislative requirements

Supplier risk management

Investment Pooling

Investment Performance and Risk management

Monitoring of investment performance & Liabilities

Performance of Advisors

Performance of Joint Committee and Board

Performance of Investment Managers & support services

Actuarial methods, Standards and Practices

Role of the Fund Actuary

Valuations and funding strategy

Outsourcing and bulk transfers

Admitted bodies including employer covenant

III- health and early retirement

In adopting the above Framework the Joint Committee and Board would be approving a Framework which reflects CIPFA guidance in relation to both Pension Committees and Pension Boards and which also reflects broad developments in the LGPS to June 2016.

Proposals for the development, delivery and recording of training to cover the seven areas within the proposed London Borough of Haringey Joint Pensions Committee and Board Pensions Knowledge and Skills Framework.

To obtain an understanding of Governance and the other major aspects of the LGPS including Legislation; Investment Strategy, Procurement and Investment Monitoring; Pensions Administration; Actuarial Methods and Pensions Accounting it is necessary for members of the Joint Pensions Committee and Board to undergo a structured training programme.

Completion of the Pensions Regulator's online "Public Service Toolkit" will provide clear knowledge and understanding of the some crucial aspects of Governance and Pensions Administration. Although completion of this toolkit is highly desirable (it will also demonstrate a commitment by members to a clear understanding of the specific areas of responsibility of the Pensions Regulator in respect of the LGPS) it forms only one element of an approach necessary to meet the legal and regulatory requirements upon members of the Joint Pensions Committee and Board for Pensions Knowledge, Understanding and Skills

It is therefore proposed that the Independent Advisor to the Pension Fund prepare and present "core" training sessions to cover the seven areas of the proposed London Borough of Haringey Joint Pensions Committee and Board Pensions Knowledge and Skills Framework as detailed at **Table 1** of this paper. The Independent Advisor has significant experience in preparing and presenting Pensions training relating to the Local Government Pension Scheme. This includes training relating to Legislative, Regulatory, Governance, Investment, Actuarial, Accounting and Administration issues. The Independent Advisor has recently provided specific training on the revised LGPS Governance framework, roles and responsibilities to a number of Funds. The Independent Advisor also holds a recognised investment qualification (the CFA UK Level 4 Certificate in Investment Management) and is a CIPFA qualified Accountant.

All Joint Pensions Committee and Board Members need however to supplement the training provided by the Pensions Regulator's "Public Service Toolkit" and the Independent Advisors training sessions. It is therefore vital that Members are proactively afforded opportunities to supplement this "core" training by more detailed training on specific topics through presentations to the Committee by external presenters or attendance at relevant external conferences and seminars.

Therefore members of the Joint Pensions Committee and Board should continue to be regularly informed of and invited to attend relevant external conferences and seminars relevant to the LGPS in order to facilitate further Training, Knowledge, Understanding and Skills tailored to the needs of individual members of the Joint Pensions Committee and Board.

In order to prioritise training provided to the Joint Pensions Committee and Board collectively and focus individual members attention on specific areas where they

may need to particularly obtain further training it is proposed to issue members with a Training Needs Analysis (prepared by the Independent Advisor) whereby each individual will be asked to score their understanding of the main areas within the “core” areas of the Knowledge and Skills Framework detailed at **Table 1** of this report. It is proposed that the Training Needs Analysis form be issued in July 2016 and that all members of the Joint Pensions Committee and Board are asked to return it to the Head of Finance (Treasury and Pensions) by 31 August 2016.

The CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* requires that a report is presented (to the Committee) on an annual basis in relation to activities and progress in relation to Pensions Knowledge and Skills. Therefore formal records need to be kept of all training undertaken by Joint Pensions Committee and Board Members and a report on Training, Knowledge, Understanding and Skills be presented to the Joint Pensions Committee and Board on an annual basis at its June/July meeting.

John Raisin
Independent Advisor

9 June 2016

Background Sources:

London Borough of Haringey Pensions Committee “*New Terms of Reference for the Joint Pensions Committee and Board*,” Agenda Item 10 pages 29-36, 11 April 2016.

London Borough of Haringey Corporate Committee “*Pension Fund Training & Development*” (and attached paper by the Independent Advisor), Agenda Item 8 pages 37-48, 14 March 2013.

The Public Service Pensions Act 2013.

The Local Government Pension Scheme Regulations 2013 (As amended).

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (As amended).

Principles for Investment Decision Making and Disclosures in the Local Government Pension Scheme in the United Kingdom 2012, CIPFA, November 2012.

Code of Practice No 14, Governance and Administration of Public Service Pension Schemes, The Pensions Regulator, April 2015.

Regulatory Strategy Public Service Pension Schemes, The Pensions Regulator, January 2015.

Compliance and Enforcement Policy for Public Service Pension Schemes, The Pensions Regulator, June 2015.

Code of Practice on Public Sector Pensions Finance Knowledge and Skills, CIPFA, 2011.

Code of Practice on Public Sector Pensions Finance Knowledge and Skills, CIPFA, 2013.

Pensions Finance Knowledge and Skills Framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector, CIPFA, 2010.

Local Pension Boards, A Technical Knowledge and Skills Framework, CIPFA, 2015.

Local Government Pension Scheme: Investment Reform Criteria and Guidance, Department for Communities and Local Government, November 2015.

John Raisin Financial Services Limited
Company Number 7049666 registered in England and Wales.
Registered Office 130 Goldington Road, Bedford, MK40 3EA
VAT Registration Number 990 8211 06

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