

LGPS National Confidence Assessment



Assessing confidence - the cornerstone of strong leadership

In this paper we launch the results from the first ever national assessment of confidence across the Local Government Pension Scheme (LGPS).

With confidence being a fundamental basis from which leadership grows, assessing committee and pension board members' confidence has given us a unique insight into the strength of leadership across the LGPS on a national scale.

There are 5 key drivers for carrying out this assessment:

- 1 Continuing regulatory pressure on LGPS funds.** Governing bodies such as MHCLG¹, Scottish Ministers, the Northern Ireland Assembly and the Pensions Regulator (TPR), continue to put pressure on funds to ensure that those tasked with managing the LGPS understand the issues and topics under their responsibility.
- 2 Introduction of MiFID II.** This was an important reminder to funds that their pension committees have to evidence their knowledge and understanding in order to be treated as professional investors.
- 3 TPR's 21st Century Trusteeship campaign.** TPR have ramped up the expectation of Trustee knowledge within the private pension world, and the same standards are expected in the public sector too.
- 4 Adopting good governance practice.** It's important to continually take a "temperature" check on committee and pension board members' knowledge and understanding to gain an indication on how comfortable they feel on a range of topics.
- 5 Identifying training and development needs.** We believe this is an important assessment for the LGPS as a whole, helping both individual funds and the national LGPS groups with future training plans for committees and pension boards.

¹Ministry of Housing Communities and Local Government

Representing the views of over 250 committee and pension board members across 50 participating funds, our assessment gives a clear sense of the level of confidence across the 8 headline requirements of CIPFA's Knowledge and Skills framework. Two findings from the process are clear:

- 1** fund officers are prioritising the knowledge and understanding of their committee and pension board members; and
- 2** there is good engagement from the committee and pension board members, suggesting they are very aware of the importance of their personal knowledge and understanding requirements.

We hope you find this report useful, if you would like to discuss anything in more detail, or find out the results from your own specific fund please don't hesitate to get in touch.

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Introduction

Why look at confidence in relation to leadership and decision making?

The landscape of public sector pension scheme governance, including the LGPS, has changed significantly in recent years. The spotlight is increasingly focused on the governance of these schemes. As a result, there is a far greater need to demonstrate that those responsible for the management and administration of the LGPS are suitably equipped to perform their duties and provide the decision making the scheme members and employers require.

In order to gain an insight and indication of committee and pension board member knowledge and understanding, we chose to look at the confidence of these groups.

What did we do and what process did we follow?

We based the assessment and questions on the 8 headline requirements of CIPFA's Knowledge and Skills framework, supplemented by TPR code of practice 14 and recent hot topic issues (e.g. investment pooling). Respondents were asked to assess their confidence on each of the 29 questions set out in the survey – going from not confident through to completely confident.

Technical and specific questions were presented to respondents on each of the topics being assessed. Respondents then considered how confident they felt on each area. Those who answered with a high degree of confidence believed they understood the details needed to answer questions on each topic.



The results

Below we have set out the results from this first national assessment.

Firstly, we look at the overall picture of the results and then we have analysis of various interesting sub-sets from the assessment. These include:

- Traditional strong focus vs lower focus
- Committee members vs pension board members
- 'Completely confident' or 'mostly confident' responses
- Confidence of Chairs
- Confidence across investment pools and Scotland
- Areas of most confidence vs least confidence
- Areas of least confidence across investment pools and Scotland

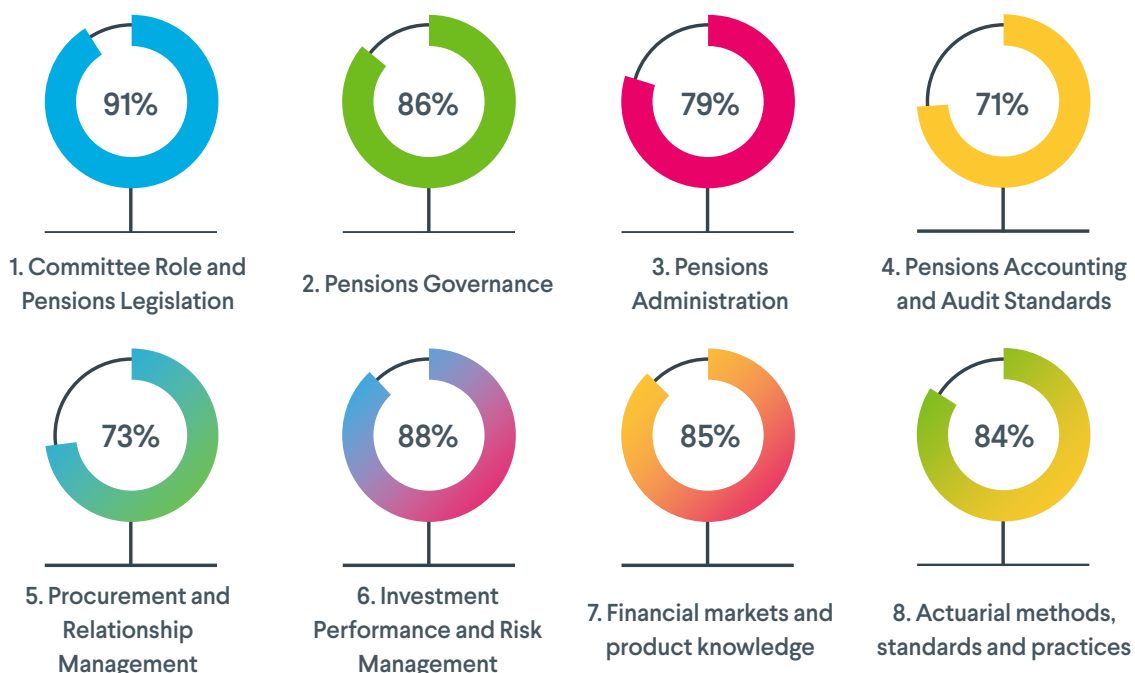
An overview

The results affirm that overall committee and pension board members do feel confident in their knowledge and understanding on all topics assessed - 83% of all the responses being either 'mostly' or 'completely' confident.

The order from the highest confident topic – **Committee Role and Pension Legislation** – to the least confident topic – **Pensions Accounting and Audit Standards** – is perhaps unsurprising. We would expect members to be confident in the role they are fulfilling and have a good grasp of the pertinent pension legislation. Whereas, a lack of knowledge (or confidence) of Pensions Accounting and Audit standards could be attributable to the fact that little time is generally given to these topics within committee and pension board meetings.

Whilst there is a 20 percentage point difference between the highest and lowest scoring topics, the lowest percentage is still a strong 71%. Consequently, our findings from the results highlight that none of the areas assessed are significantly trailing behind. This is a strong result and a good place from which to move forward.

"Mostly" or "Completely" confident responses

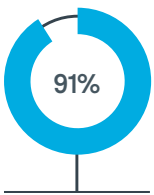


Traditional strong focus vs lower focus topics

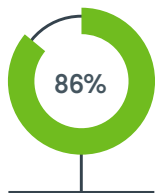
One key trend in the survey results is that respondents are noticeably higher in confidence on topics that have traditionally been given more time on committee agendas than other topics, such as, pension administration, to which committees may not have had the same level of exposure in the past. With the continually increasing pressure from TPR for overall excellence in all knowledge areas, funds need to recognise that both their committee and pension board should be well versed in all aspects of running an LGPS fund.

TRADITIONAL

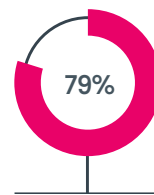
LOWER FOCUS



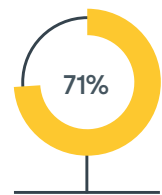
1. Committee Role and Pensions Legislation



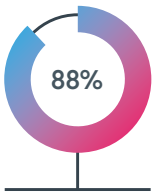
2. Pensions Governance



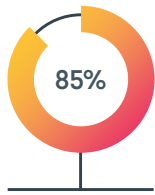
3. Pensions Administration



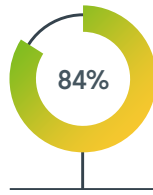
4. Pensions Accounting and Audit Standards



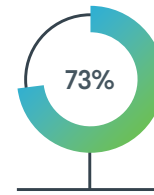
6. Investment Performance and Risk Management



7. Financial markets and product knowledge



8. Actuarial methods, standards and practices



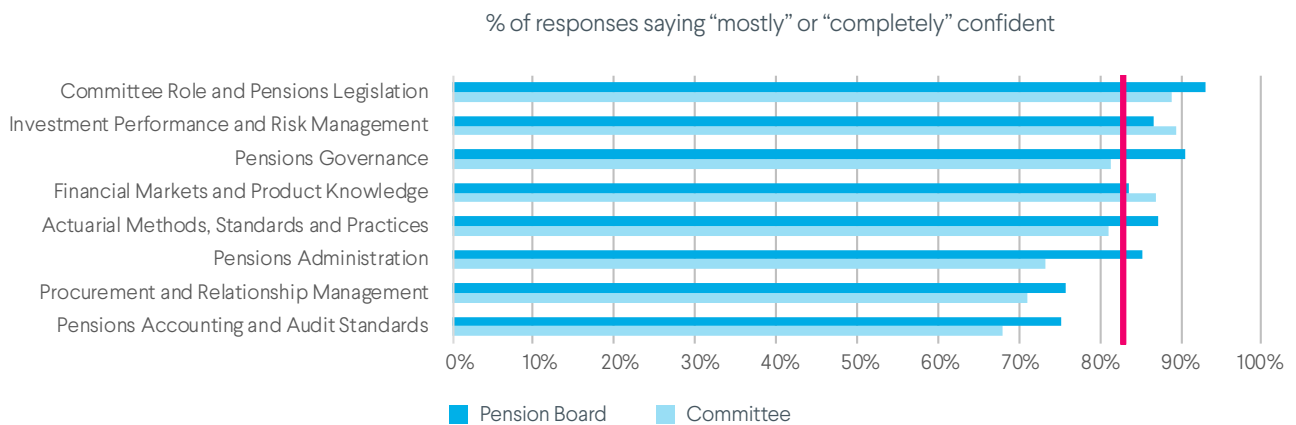
5. Procurement and Relationship Management

Committee members vs pension board members

In almost all areas assessed – except Investment Performance and Risk Management and Financial Markets and Product Knowledge – the pension board respondents are more confident than the committee respondents.

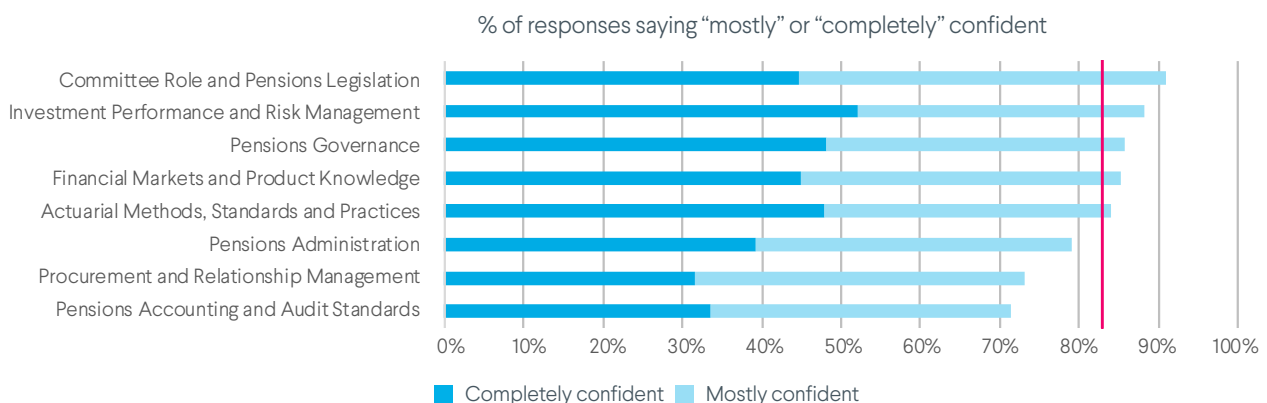
Given that there is nearly a 50/50 split in the respondent numbers from both of these groups, this area of analysis suggests that:

- due to the statutory knowledge requirements for pension board members, they have more pressure to understand all areas of the LGPS;
- pension board members are being set up with a wider agenda; and
- committees still favour the traditional areas such as investments.



‘Completely confident’ or ‘mostly confident’

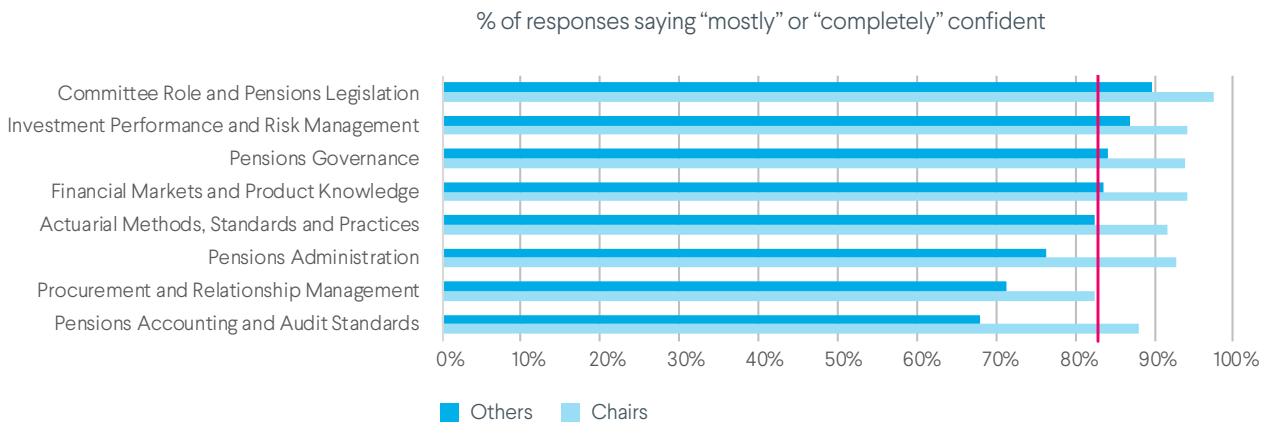
The results of the assessment are strong with 83% of responses to the questions being ‘mostly’ or ‘completely’ confident. However, if we raise the bar and only concentrate on ‘completely’ confident responses then there is a slight difference in the order of topics as can be seen in the darker blue lines below. Investment Performance and Risk Management is the topic where most respondents answered ‘completely’ confident with Committee Role and Pensions Legislation falling back in the order. These results indicate that though a sizeable proportion of responses are either ‘mostly’ or ‘completely’ confident, there are still gaps in committee and pension board knowledge and understanding.



Confidence of chairs

Chairs of both committees and pension boards, 41 of them, express greater confidence in all topic areas than the rest of the survey respondents. However, the gap between chairs and the remaining members is not significant. This points to an appropriate level of challenge existing across committees and pension boards.

Chapter 9 of TPR’s 21st Century Trusteeship campaign focuses on the important role the chair plays in the governance and leadership of a pension scheme. Our results indicate that for the most part, chairs in the LGPS are confident in the areas that sit under their responsibility.



Confidence across investment pools and Scotland

We also analysed the results based on the 8 Investment pools of England and Wales, and the Scottish funds’ respondents. Although the trends for each group are very similar, by breaking the results down into smaller groups, it allows for possible variances at individual fund level.

By doing so, the results reveal that the Welsh committee and pension board members come out as the most confident combined group, with very strong levels of confidence in their knowledge and understanding across the topics.

Pool Respondees	ACCESS 47	B2C 36	Brunel 41	Central 19	London 36	LPP 7	Northern 15	Wales 25	Scotland 27	Overall 253
Committee Role and Pensions Legislation	95%	94%	92%	91%	86%	76%	91%	95%	88%	91%
Pensions Governance	89%	90%	84%	85%	85%	69%	88%	91%	81%	86%
Pensions Administration	80%	84%	72%	79%	76%	67%	89%	89%	75%	79%
Pensions Accounting and Audit Standards	77%	68%	69%	77%	73%	62%	73%	73%	65%	72%
Procurement and Relationship Management	79%	65%	80%	77%	74%	52%	56%	83%	69%	74%
Investment Performance and Risk Management	89%	88%	89%	83%	86%	71%	88%	96%	91%	88%
Financial Markets and Product Knowledge	85%	88%	89%	84%	82%	50%	90%	90%	88%	86%
Actuarial Methods, Standards and Practices	86%	88%	85%	78%	79%	68%	87%	93%	83%	84%
Overall	86%	84%	83%	82%	81%	65%	84%	89%	81%	83%

Top 3 questions of most and least confidence - overall

Most confident questions

96%

I am clear what the objectives are for the Fund

94%

I understand my role and obligations under the LGPS Regulations and committee's/pension board's own terms of reference

94%

I understand the Fund's investment objectives

It is encouraging that over **90%** of responses are highly confident on their fund's objectives and the role that they are fulfilling. This suggests that the main cornerstone areas of fund management (objectives and role obligations) are on solid foundations.

Least confident questions

60%

I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

69%

I have a clear sense of how I will assess the Fund's providers (managers, Pool, advisors etc).

69%

I understand the Pensions Regulator's measures of good administration practice set out in its code of practice 14

The area of pension administration, and in particular, 'good administration practice', is one which respondents felt less certain about in comparison to other topics. Due to the pressures being placed on all LGPS fund administration teams, having committees and pension boards understanding what 'good administration practice' looks like, would be a welcome support to fund officers and any requests for further resources.

Assessing fund providers, which references investment pooling, is the joint second least confidently answered area. The recent introduction of investment pooling, for English and Welsh funds, has possibly contributed to making this area less clear to committees and pension boards.

Respondents had least confidence on actuarial valuations. With the England and Wales 2019 Valuation process soon to begin and the recent release of Government Actuary's Department's Section 13 recommendations, valuations are a hot topic which committee and pension board members need to feel comfortable with.

Regional focus

Below we have detailed the lowest confidently answered question for each of the 8 investment pools in England and Wales and the Scottish funds.

Border to Coast Pension Partnership

I understand the role of procurement frameworks in procuring services

Local Pension Partnership

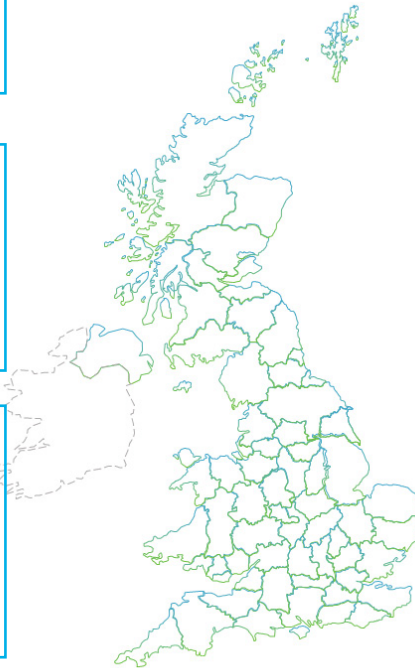
I have a general understanding of the Accounts and Audit Regulations and the regulatory requirements for sound internal controls and proper accounting practice

Wales Pension Partnership

I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

Brunel Pension Partnership

I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)



Scotland

I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

Northern Pool

I have a clear sense of how I will assess the Fund's providers (managers, Pool, advisors etc).

ACCESS

I understand the Pensions Regulator's measures of good administration practice set out in its Code of Practice 14

London CIV

I understand the difference between the different types of valuations that are carried out e.g. the triennial funding valuation, IAS19/ FRS102 accounting valuations and the Government Actuary's valuation (Section 13)

LGPS Central

I understand the roles and powers of MHCLG, the Pensions Regulator and the Pensions Ombudsman as they relate to the working of the scheme

Comments received from respondents

“ Quite confident on aspects....but sheer level of detail and complexity of LGPS resulted in my scores ”

“ Training, high quality Board papers, Officers and Actuaries have all helped us ”

“ I'd like to see a clearer disclosure of the ESG approach used ”

We gave respondents the opportunity to provide comments in each of the sections and were really encouraged with the high number of comments received. There were some very useful insights given from the respondents comments. Some of the key themes highlighted were:

- 1 ESG debates taking place within committee and pension board meetings
- 2 The complexity of the LGPS
- 3 The importance of training

The comments centred more on investment issues than the other topics assessed. As stated earlier, this is probably due to the traditional focus given to issues such as investments over other topic areas. Perhaps this focus will shift as committees adjust their roles due to investment pooling (for England and Wales) and the continuing pressure from governing bodies for committees and pension boards to focus on the complete range of topics under their responsibility – not just a chosen few.

National picture

We are delighted to share this LGPS good news story in the shape of our National Confidence Assessment results. Those with an interest in how the LGPS is run will welcome the fact that this first ever national confidence survey, shows an LGPS that is gearing up for the challenges ahead.

TPR has chosen to take a deep dive into the workings of a selected group of LGPS funds and has declared that they'll be “clearer, quicker and tougher” on those they feel are not making the grade. This means funds need to be confident in demonstrating that they understand and are complying with the standards expected of a 21st Century Trustee.

As English and Welsh funds transfer assets to investment pools, they are becoming familiar with entirely new relationships and challenges as the interaction between the pool and existing governance arrangements of the fund plays out.

Meanwhile, the Scheme Advisory Board (SAB) work stream on separation of funds from their host authority asks some fundamental questions about what is the best way to run the LGPS.

With so much scrutiny and change to come, it is encouraging to see that the high percentage of individuals who sit on pension committees and boards feel confident that they are well placed to discharge their complex roles effectively. We would urge funds to build on the results of this survey and place quality training at the heart of what they do.

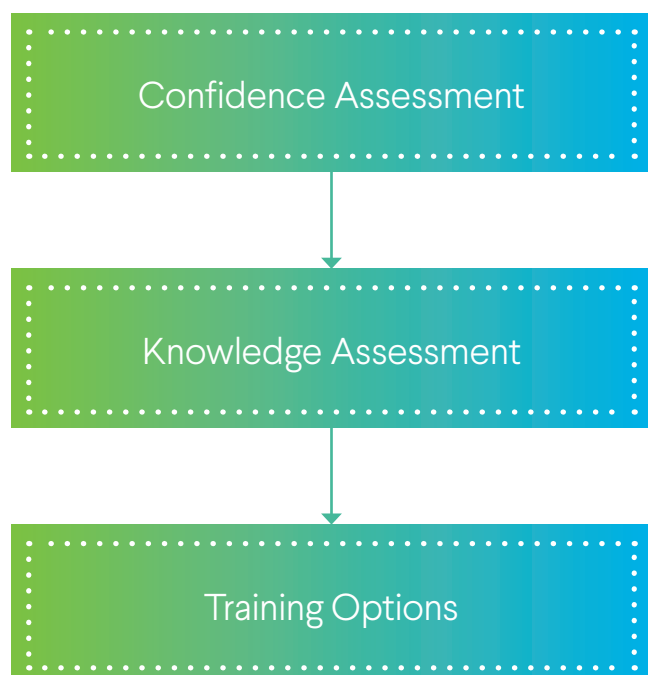
Next steps

It is important to note that our assessment is an indication of participants' own perceptions, rather than their actual knowledge and understanding.

Assessing perceptions vs reality

The most logical next step would be to assess committee and pension board members' actual knowledge and understanding of the 8 topics in order to get a true sense of perception versus reality.

This evidence can also be used if a fund is challenged from TPR on their awareness of their committee and pension board knowledge and understanding and, importantly, how they are tracking progress.



National next steps

The National Confidence Assessment provides us with the first ever snapshot of confidence across the LGPS, and while the results are positive, it is important not to be complacent. We would recommend that funds use their individual National Confidence Assessment results to inform their own training strategies.

When developing a training strategy it is important to think about how you will use training to deliver your fund's objectives. You should also think about how you will make training effective in terms of identifying skills gaps, prioritising, delivering and assessing the effectiveness of your training.

A training strategy that supports regular assessment of what committee and board members actually know, distinct from what they say they know, is the only guaranteed way to know that training has been effective. When developing a training strategy you should also consider what elements will form the core of the training you deliver, whilst recognising the need for ad hoc or additional training. Your strategy should be flexible enough to adapt and respond to the changes that are inevitable in the LGPS.

The National Confidence Assessment demonstrates that there are many engaged and dedicated members of committees and pension boards in the LGPS. These individuals lead the way and we hope that the survey results can be used to raise the overall level of knowledge and understanding across the LGPS.

Closing remarks

So what are our key findings from the first ever LGPS National Confidence Assessment?

1. Confidence is high, but there's still work to be done

The overall picture is one of high confidence. Members assessed themselves with strong knowledge and understanding even in the most technical and specific areas. However, the purpose of the assessment was to get an indication of knowledge and understanding, not a verification. So while we are pleased that confidence is high on a self-assessment basis, we recognise that this doesn't necessarily translate into confirmation of knowledge.

We also recognise that any score below 100% means there are still some members who aren't fully confident. The overall average confidence level of 83% (responses being mostly or completely confident) indicates that around 1 in 5 members are somewhat lacking in confidence on some of the topics under their responsibilities. As a rough approximation, that means around 2 or 3 members of your committee and 2 or 3 members of your pension board require some training to improve their level of knowledge and understanding.

2. Funds recognise the importance of knowledge and understanding

We're delighted with the number of funds who participated in this first national assessment of confidence, and the level of enthusiasm we were met with. This resulted in over 250 respondents taking part in the assessment. This strength of engagement is an indication of the importance funds place on ensuring committees and pension boards understand their responsibilities, and have the knowledge to enable them to perform their roles effectively. This engagement and enthusiasm was just as important an outcome as the number of member completions.

3. Focus needs to evolve beyond traditional issues

It is clear from the results and from the comments received that committees remain comfortable in those areas they have traditionally focused. However, the governance landscape of the LGPS is unrecognisable from 10 years ago with the introduction of the Scheme Advisory Board and a role for TPR. We would expect that in years to come, the focus for committees (in particular) and pension boards will need to be far broader than it has been previously.

It was notable from the comments that members truly value the training they've received from their funds. This may point to the concerted effort fund officers have placed on committee and pension board training in the more recent years, we would like to see this momentum continue, as the governance landscape of the LGPS evolves.

We recommend that funds' next steps are to measure their committee's and pension board's actual knowledge to get a true sense of perception vs reality. Being able to evidence both the level of confidence and actual knowledge of members will help strengthen funds' defence against those that challenge the quality of governance in the LGPS.

Our experts

If you would like to discuss our assessment in more detail, or find out the results for your specific fund, please don't hesitate to get in touch.



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First ever National Confidence Assessment for every LGPS committee and pension board member

54
LGPS funds participated



250+ surveys completed

51% Committee
49% Pension board

15 Committee Chairs
26 Pension board Chairs

8 Topics



Committee Role and Pensions Legislation

Pensions Governance

Pensions Administration

Pensions Accounting and Audit Standards

Procurement and Relationship Management

Investment Performance and Risk Management

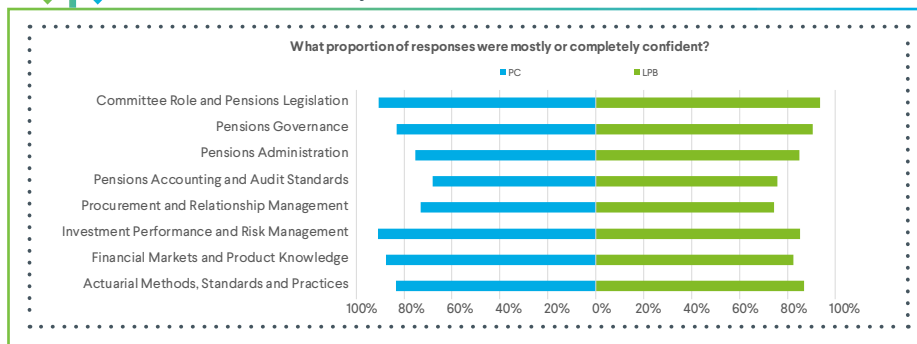
Financial markets and product knowledge

Actuarial methods, standards and practices



29 Questions

RESULTS TABLE



MOST CONFIDENT TOPICS

Committee



Investment Performance and Risk Management

Pension board



Committee Role and Pensions Legislation



Committee Role and Pensions Legislation



Pensions Governance

LEAST CONFIDENT TOPICS

Committee



Pensions Accounting and Audit Standards

Pension board



Procurement and Relationship Management



Procurement and Relationship Management



Pensions Accounting and Audit Standards

