



Grant Thornton

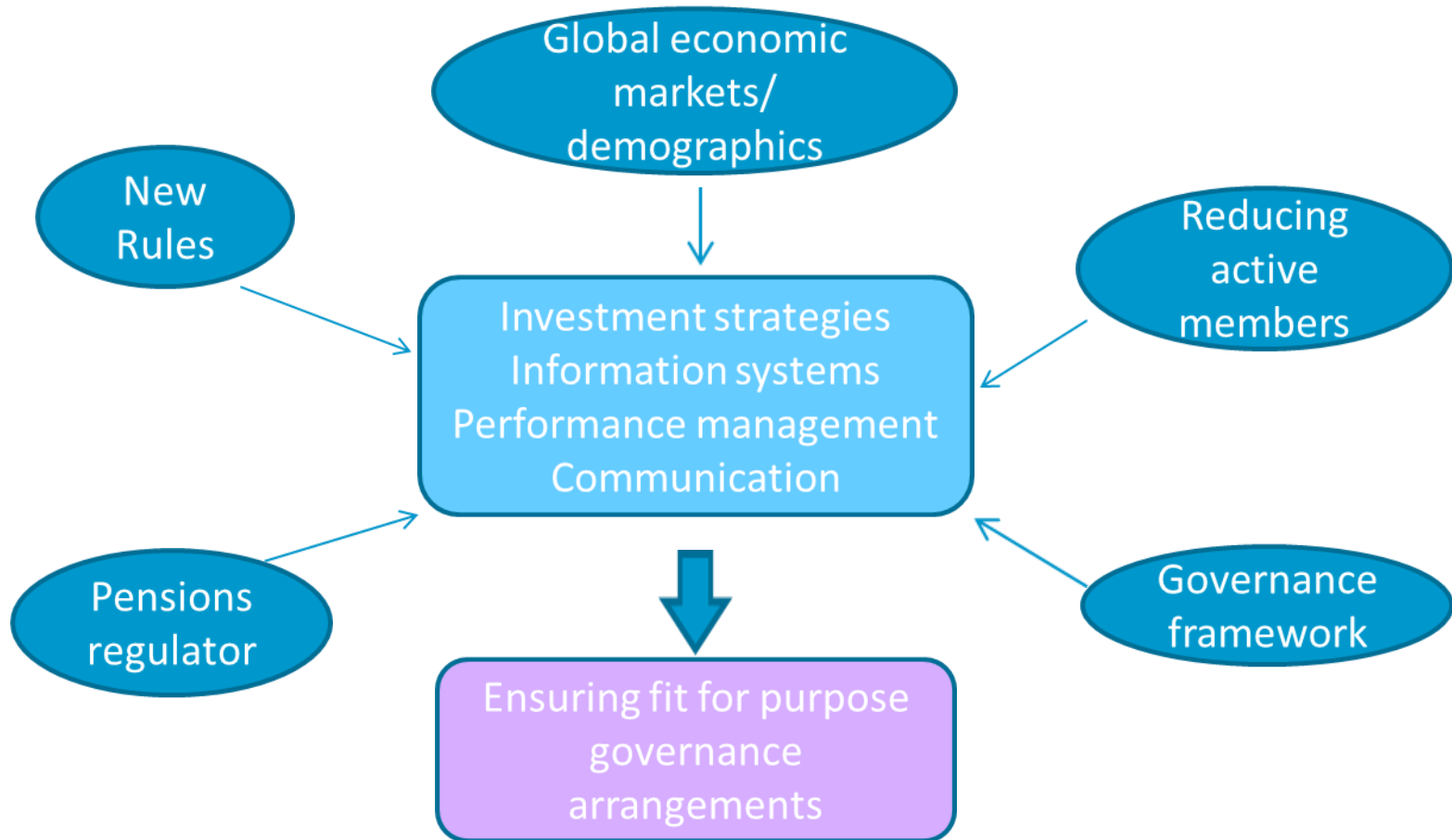
An instinct for growth™

Governance in the LGPS

Coming of age: development of the LGPS

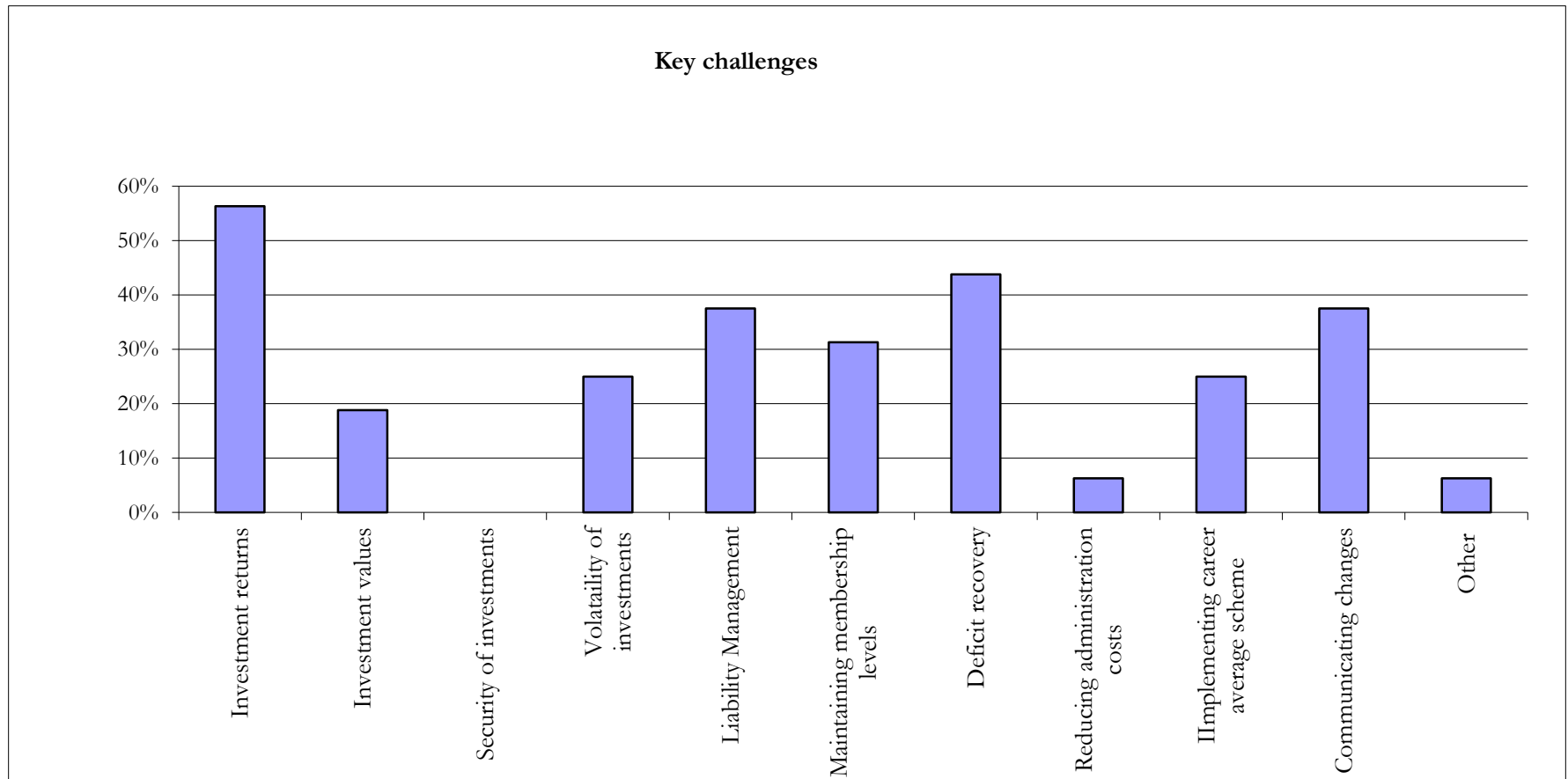


Governance context



Key challenges

Senior officers perceived investment returns and deficit recovery to be the top two challenges facing their pension funds. Liability management and communication came a joint third.



Ensuring fit for purpose governance arrangements

- Pensions committees/panels/boards
- Capacity and skills
- Investment strategies
- Risk management
- Administration costs and investment management expenses
- Internal control and internal audit

Overall message

- Lots of good practice nationally
- Not replicated across all funds
- Significant change coming
- All funds need to challenge themselves to ensure they are best placed to deal with future changes

Pensions Committees/panels/boards

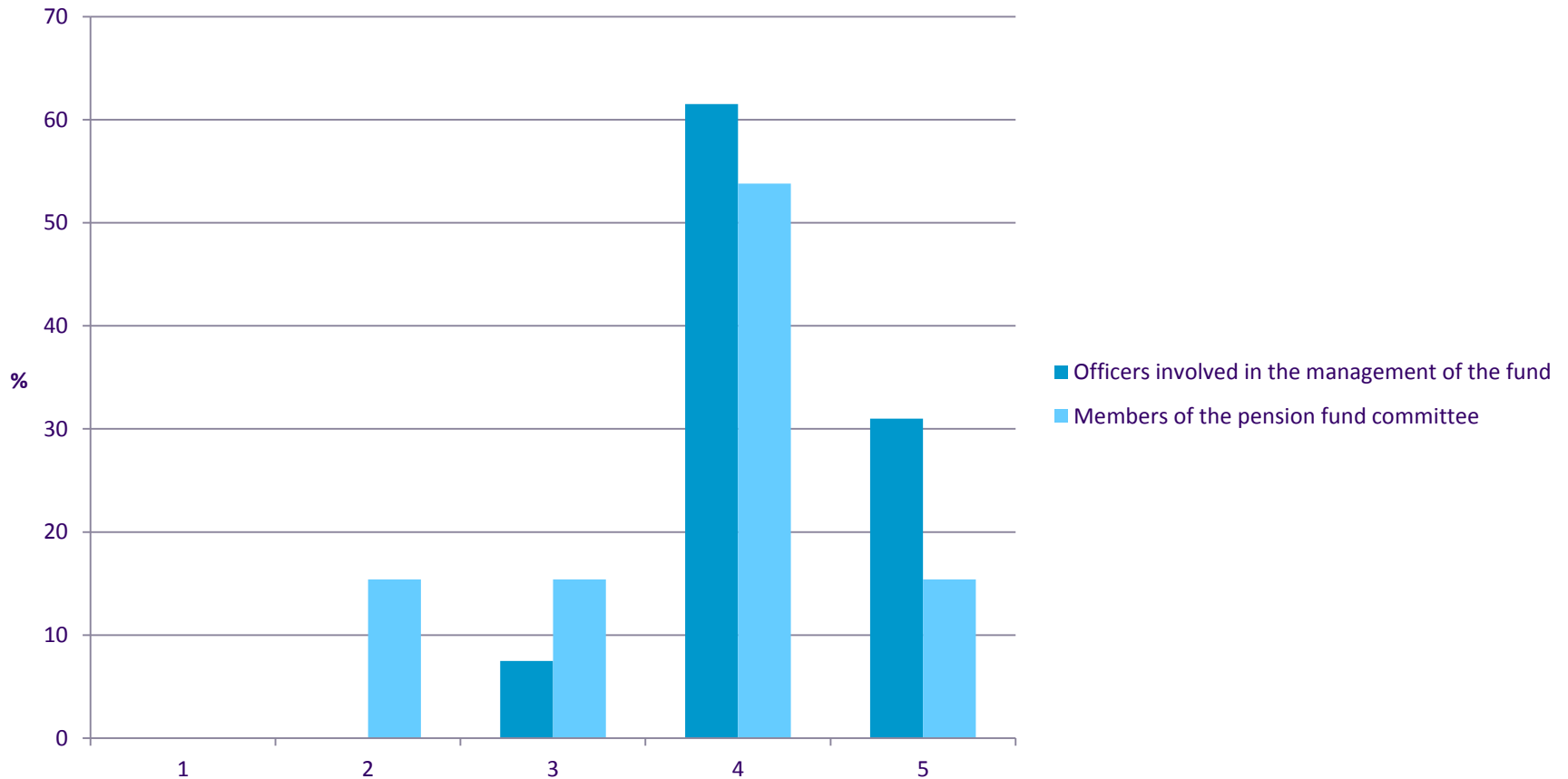
Current Practice	Future Needs
Most funds have one	Pensions Board and scheme manager will be required in all cases
Scope only covers investments in some cases	Need to cover all aspects of managing the fund
In many cases focuses on investment performance and fund manager performance	New aspects like monitoring of cost cap
Only 50% receive regular reports on administration performance	More responsive
Meet quarterly to bi-monthly	Information needs will change

Pension Committees/Panels/Boards

- 70% of funds have a single pension committee with no supporting sub-committees, panels or groups
- 95% receive a performance report at each meeting
- in majority of cases doesn't cover funding level, liabilities, cash flow, risk management or administration performance
- over 50% have not reviewed the way in which they work in recent years
- over 55% have considered the usefulness of the information they receive and made changes as a result
- most report close to full compliance with governance standards set by DCLG re. make up and operation of the pensions committee

Capacity and skills

Senior officer confidence in the skills and capacity to respond to future challenges



Source: Grant Thornton survey of Local Government Pension Funds May 2013

Capacity and Skills

- over 90% of funds provide pensions specific training for officers and members
- 86% of funds adopted CIPFAs 2011 Code of Practice for knowledge and skills
- only 22% had implemented action plans as a result of completing the self assessment general recognition that need targeted training
- recent elections – new committee members
- consideration of independent professional trustees
- buying in additional skills/ working in partnership with other funds

Investment strategies

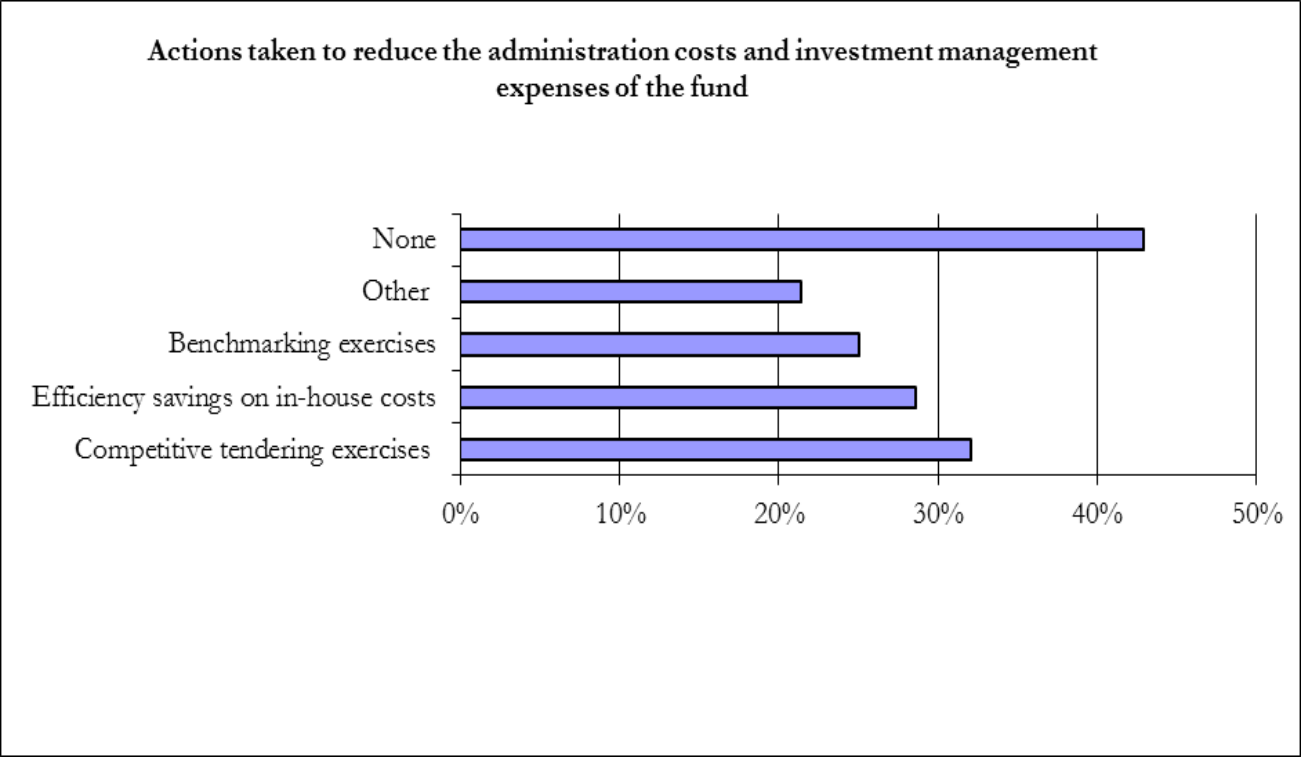
- Over 50% made significant changes in recent years
- Main aims to reduce volatility and improve performance
- Around 20% to increase investment income
- Small number looking at using investment strategy to mitigate inflation/longevity risks
- More complex investment strategies – skills, capacity, risk management implications

Risk Management

- Only 25% have regular reporting, (more than once a year) on important risks affecting the fund
- Most commonly reported are investment risks
- About 50% also report on liability, administration and processes risks
- CIPFA – Managing Risk in LGPS November 2012
- needs to be integral to performance reporting and for significant decisions

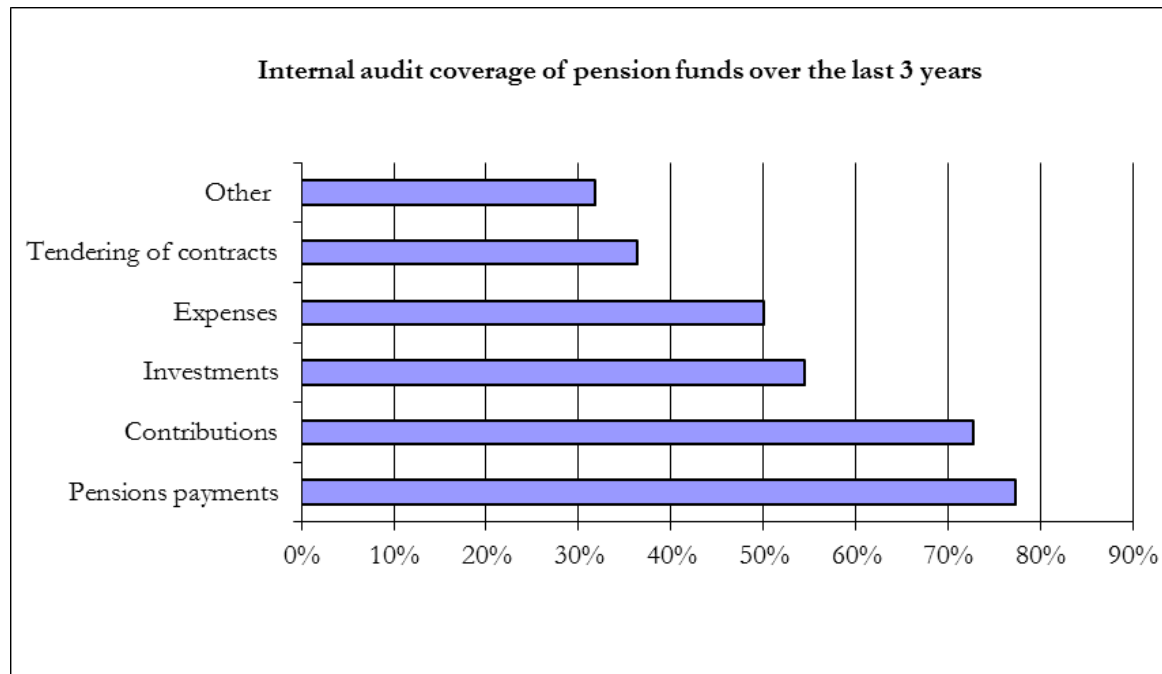
Admin costs and investment expenses

- On average reported at £6m per fund but over 97 funds



Internal control and internal audit

- 25% of annual governance statements refer to the pension fund
- 93% of funds have internal audit coverage



- Only 40% report the plan and outcome of their work to the pensions committee

Governance Summary

Key areas to consider going forwards	
Pension Fund Committees – scope, work plan, information needs, underlying panels etc	Capacity and skills - progress self assessments in context, targeted training, other options
Investment strategies – on-going review, expertise	Risk management – progress current developments, build into on-going management, coverage
Admin costs – are you doing enough? - do you know the real costs?	Internal control – have you got enough assurance over all aspects of fund management?
Learning from each other	