

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 9

PENSION FUND COMMITTEE REPORT

10 MARCH 2021

DIRECTOR OF FINANCE – IAN WRIGHT

National Knowledge Assessment Outcome

1. PURPOSE OF THE REPORT

- 1.1 To report to Members the outcome of the National Knowledge Assessment recently undertaken by Teesside Pension Board and Pension Fund Committee members, and to discuss a potential training plan to address gaps in knowledge identified by the assessment.

2. RECOMMENDATIONS

- 2.1 That Members note and discuss this report and agree that:
- The proposed training plan in Appendix A should be delivered to Committee and Board members.
 - A training budget initially set at £40,000 is set aside to allow external companies and individuals to be commissioned to assist with this training where appropriate.
 - Expenditure on external training will be determined by the Head of Pensions Governance and Investments in consultation with the Chair and Vice Chair.

3. FINANCIAL IMPLICATIONS

- 3.1 There is a suggested budget of £40,000 (or £2,000 per Committee and Board member) which, if agreed, will be set aside to fund external training, this will be recharged to the Fund's governance costs and will be reviewed at least annually..

4. BACKGROUND

- 4.1 The Local Government Pension Scheme (LGPS) Regulations 2013 were amended in line with requirements introduced by the Public Service Pensions Act 2013 for all public service pension schemes to establish a pension board. Under the LGPS Regulations, each LGPS administering authority had to set up a Local Pension Board with effect from 1 April 2015.
- 4.3 In order to fulfil this function, and to comply with the requirements of the overriding regulations and legislation, the Board needs to have and maintain appropriate knowledge and understanding of the LGPS and pensions in general, In particular (as set out in the Board's Terms of Reference: a member of the Board **must be conversant with:**

- the legislation and associated guidance of the Local Government Pension Scheme (LGPS), and
- any document recording policy about the administration of the LGPS that is adopted by the Teesside Pension Fund.

a member of the Board **must have knowledge and understanding of –**

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

4.4 The Board is a reviewing and scrutiny body, whereas the Pension Fund Committee retains the decision-making power relating to all the Pension Fund's activities including investment, administration and governance. Nevertheless there is currently no legal requirement for Committee members to have a specific level of knowledge and understanding in relation to pensions or investments in general or the Local Government Pension Scheme in particular. However, the expectation is that this anomaly will not continue for long and the Scheme Advisory Board has recently carried out a review of governance in the LGPS which recommends to government that Committee members should be required to have appropriate knowledge and understanding in future.

5. KNOWLEDGE ASSESSMENT

5.1 Actuarial and consultancy firm Hymans Robertson developed a knowledge assessment tool which has already been used by at least 20 LGPS Funds to help assess the knowledge and understanding of their local pension boards and pension fund committees. The knowledge assessment tool consists of at least five multiple choice questions in each of the following areas:

- 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

5.2 The Committee and the Board agreed to participate in the knowledge assessment and a summary of the main outcomes is included in this report. As well as giving an indication of individual strengths and weaknesses, more importantly this type of assessment helps identify any areas where collectively the Board and the Committee require development. This then allows more targeted training to be developed and delivered.

6. ASSESSMENT PROCESS

6.1 Ten out of fourteen Pension Fund Committee Members and three out of six Board Members participated in the assessment. This represents a collective participation rate of 65%, just above average compared with the 22 Fund that have carried out the assessment nationally.

6.2 Each respondent was given the same set of 47 questions on these 8 areas:

1. Committee Role and Pensions Legislation
2. Pensions Governance
3. Pensions Administration
4. Pensions Accounting and Audit Standards
5. Procurement and Relationship Management
6. Investment Performance and Risk Management
7. Financial Markets and Product Knowledge
8. Actuarial Methods, Standards and Practices

Under each subject heading, there were at least 5 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct. This builds a picture of the knowledge levels of each individual member in each of the topics, and identifies overall levels of knowledge in each area.

6.3 Consultants Hymans Robertson analysed the outcome and as well as providing each participant with individual scores and feedback collated the information into a report. Extracts from the report are enclosed at Appendix A.

7. OUTCOME AND NEXT STEPS

7.1 The outcome of the Knowledge Assessment was discussed with the Board at its 8 February 2021 meeting, which agreed that a training programme should be discussed and agreed by the Committee which Board members could also participate in.

7.2 The report identifies a number of areas where the Committee and Board would benefit from additional training. Hymans Robertson included a suggested training plan which is also shown in Appendix A.

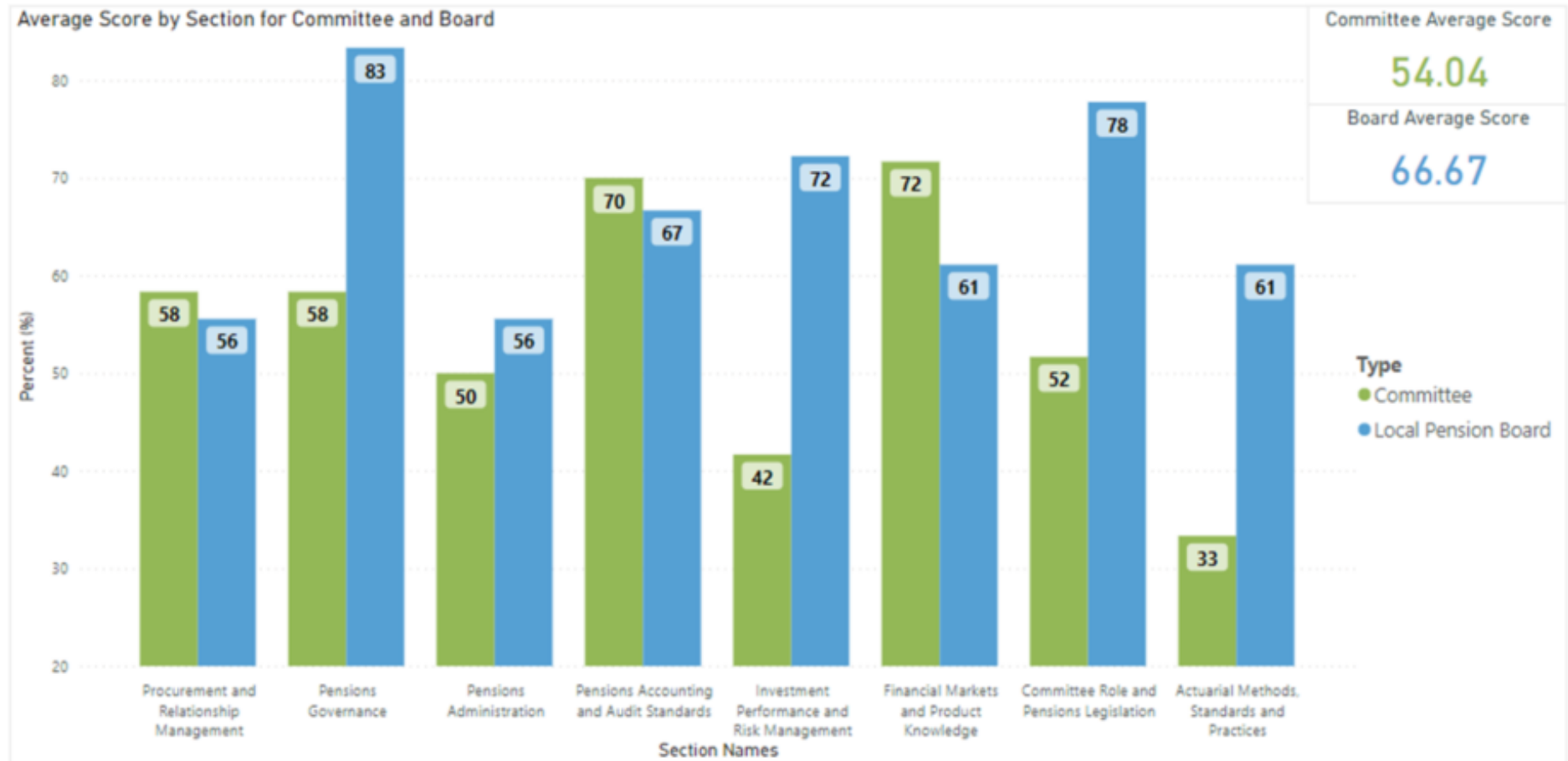
7.3 The provision of a specific training budget allows more flexibility on how training can be delivered. An initial budget of £40,000 representing £2,000 per Committee and Board member is suggested, with any expenditure subject to discussion and agreement with Chair and Vice Chair as well as appropriate use of procurement processes and procedures.

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National Knowledge Assessment Outcomes

For each of the assessment's eight areas this graph shows the results for both the Committee and Board. These have been shown in the order in which the sections appeared in the survey. There is also a summary showing the average scores across all sections for the Committee and Board



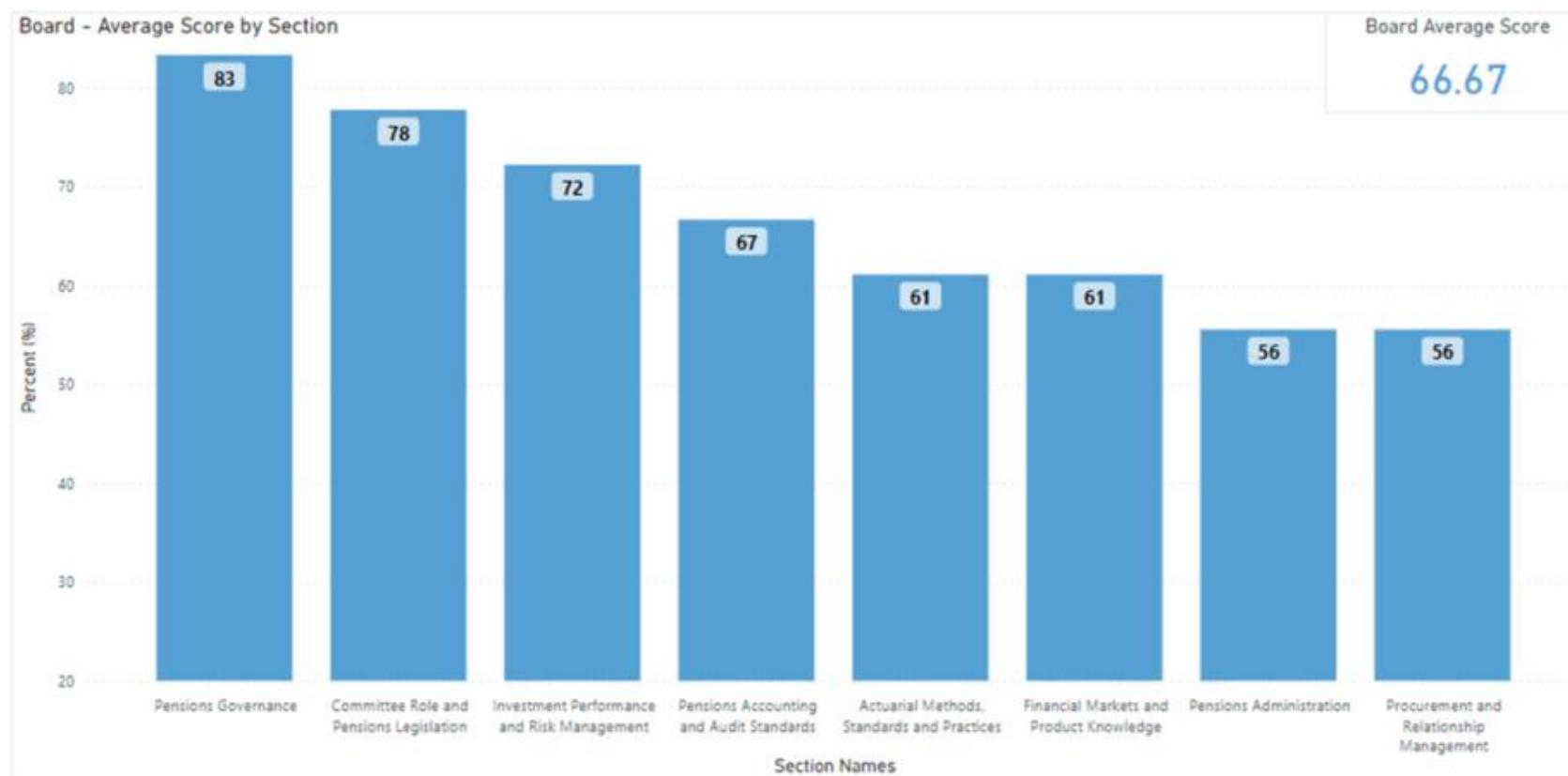
Performance in each area

The results can be ranked for each section from the highest score (greatest knowledge) to lowest score (least knowledge). This is shown separately for both the Committee and the Board. The intention is that training plans and/or timetables can be tailored to focus on the areas of least knowledge, whilst ensuring the Committee and Board maintain the high level of knowledge in the stronger areas.

Pension Committee



Financial markets and product knowledge was the highest scoring area for the Committee. Pensions accounting also scored well. Actuarial methods was the lowest scoring area with a significantly low score, while the score for investment performance and risk management was also low.

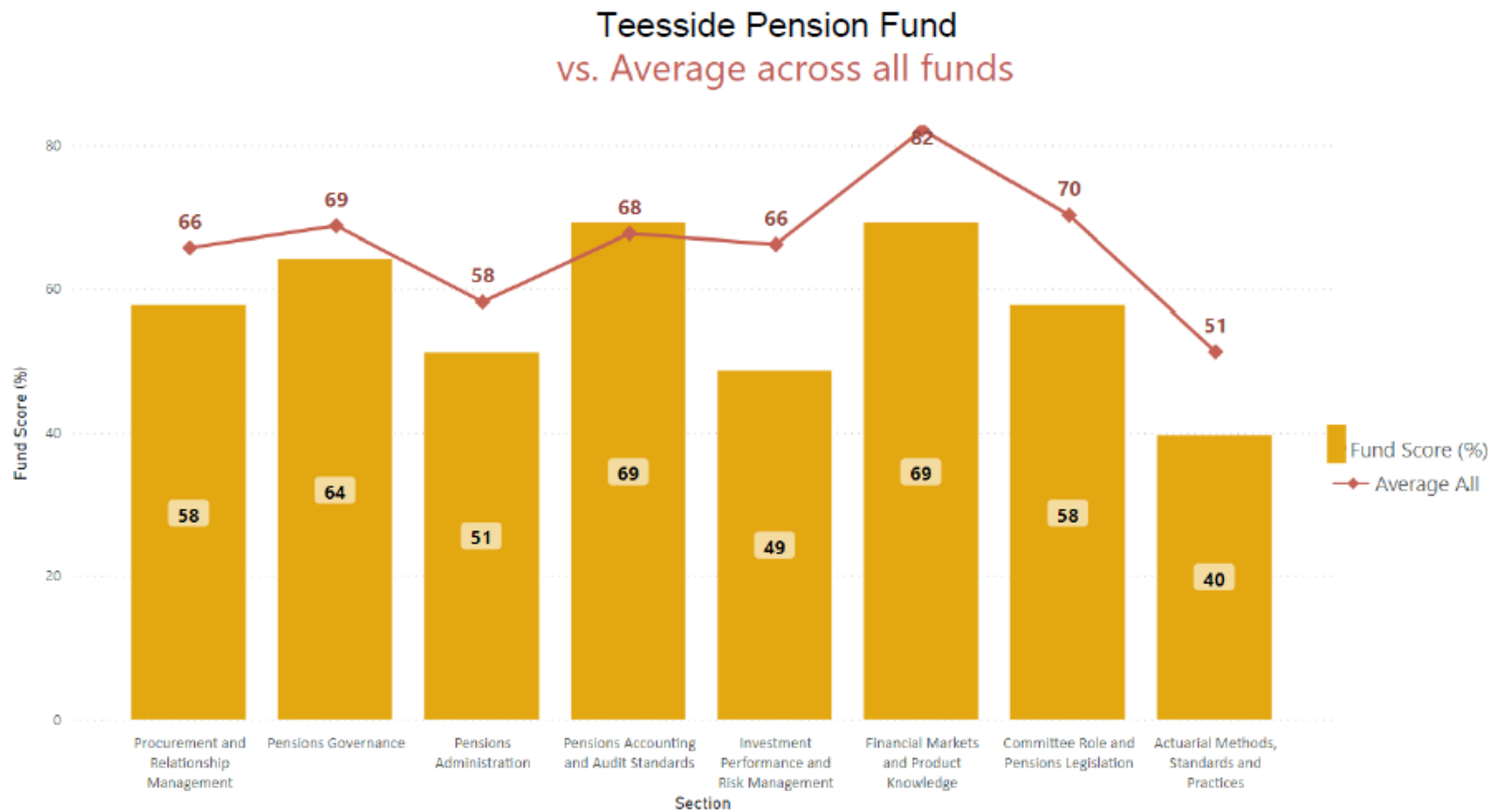
Pension Board

Pensions governance was the highest scoring section for the Board which, given the role of the Board, is very encouraging. Questions on the Committee's role and investment performance were also answered strongly. It does appear that the Board's knowledge across most areas is generally good. Procurement and pensions administration would be the key areas to focus on based on these results. This is highlighted further in the following section which compares the Teesside results, with all participating funds' results.

Benchmarking

As this assessment has been conducted at national level across 22 LGPS funds the report provides details of how our Fund's results compare to those across the average of all funds who have taken part to date. The following charts provide a comparison of the results for both the Fund's Committee and Board, versus the average scores nationally for each group. This gives an idea of the knowledge levels across these groups, relative to the national average.

Committee and Board combined



Pension Committee



Pension Board



Comments from Hymans Robertson on the outcomes:

“It is clear that there are areas of greater knowledge levels as well as areas in which knowledge should be developed over time. We would fully expect there to be gaps in the knowledge of all members, no matter their role on the Committee/Board, their tenure or indeed their background in terms of pensions experience. The most important thing to emphasise is that not everybody needs to be an expert in all areas, rather there should be a spread of knowledge across your Committee and Board which is supported by advice from officers and professional advisors.

Just as important as gaining the relevant knowledge and understanding expected of a Pension Committee or Board is the application of that knowledge and understanding, including the utilisation of an individual’s own background and perspective. To supplement a Fund’s training plan, we recommend that case study analysis is also included as part of both the Committee and Board training plans, allowing time for reflection on how both groups react and act on issues.

Committee

The results show that financial markets and pensions accounting topics have the highest levels of knowledge, but that the areas to focus any specific initial training on might be actuarial methods, as well investment performance and risk management in particular, which you might expect to be stronger for the Committee.

Local Pension Board

The results show that the highest levels of knowledge relate to pension governance and the role of the Committee, but that the areas to focus any initial specific training on might be procurement and pensions administration for the Board. The next step would be to try and develop the knowledge of the lower scoring areas.”

Engagement

One of the key areas that we recommend funds focus on is Committee and Board engagement. With the ever-increasing pace of change in the pensions and investments world, member engagement is critical to maintaining strong collective knowledge. There is an expectation that they need to be not only willing, but keen to develop their knowledge and understanding across the raft of topics upon which they will need to make, or ratify, decisions.

Overall engagement

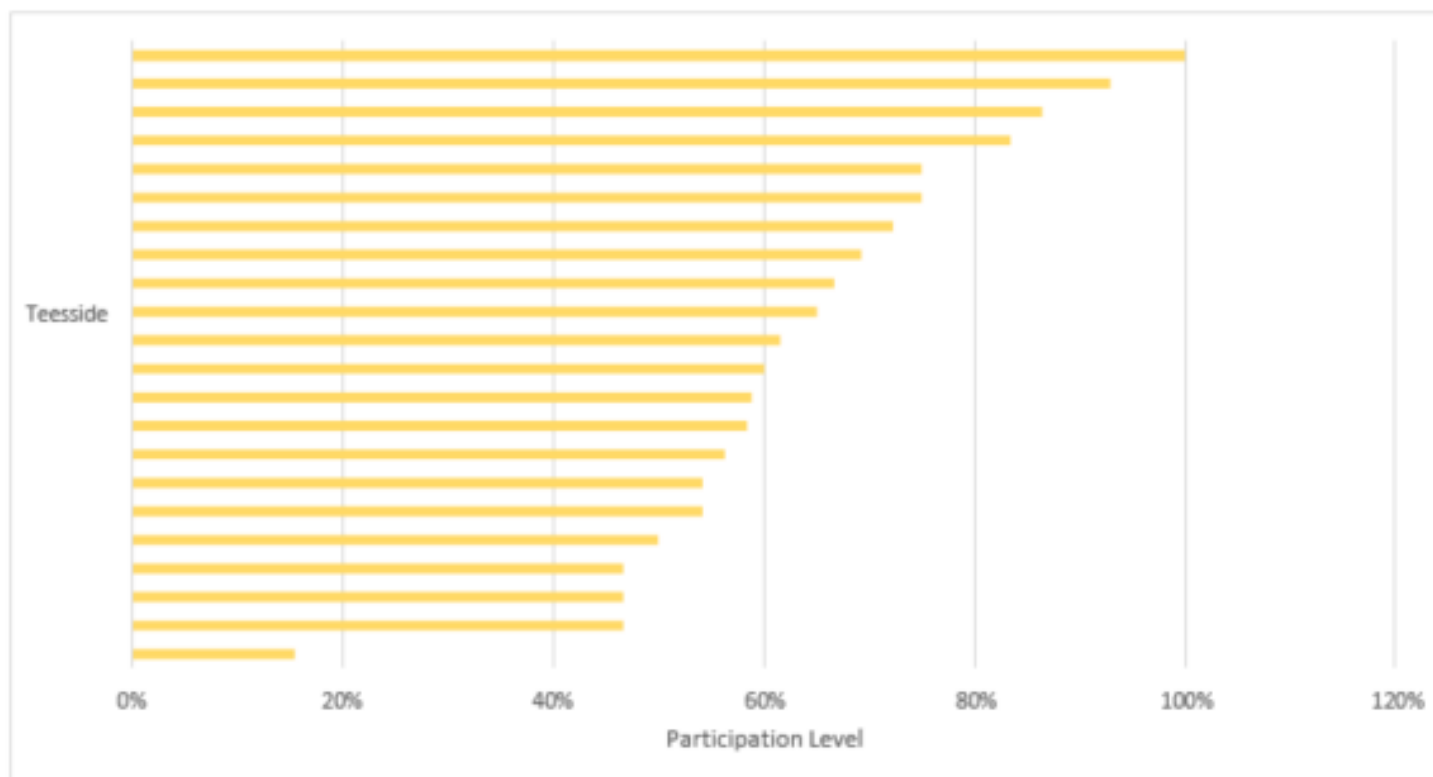
One measure of the engagement of members is their willingness to participate in training. As such, we have used the participation level of this survey to measure the engagement of your Committee and Board members. The table below shows the breakdown of the total number of participants from the Teesside Pension Fund, as a proportion of those who could have responded.

	Participants	Total Number	Participation rate
Committee	10	14	71%
Board	3	6	50%
Total	13	20	65%

We understand that different Committees function in different ways and have different numbers of members. We therefore draw no conclusions or make any inferences from these results. The information is simply being provided to the Fund officers, as they will be best placed to draw any conclusions.

Engagement benchmarking

The chart below shows how your Fund's participation level compares with that of all other funds who took part.

**Training feedback from participants.**

One of the final sections of the survey asked participants to indicate which topics they would like to receive training on. There was a list of options available, covering a broad spectrum of the topics believed to be most relevant to allowing Committee and Board members to effectively perform their roles.

The chart below summarises the areas in which members indicated training would be beneficial.



Suggested Training Plan

We have put together a summarised training plan below, picking out the key areas for development based on participant assessment results and the training requests. We would further advise that the Fund remains flexible with the training topics chosen and that regular reviews of the most pertinent training given assessed at regular (monthly) intervals. By keeping track at this level of frequency, the Fund can properly assess its progress against its Training plan and training strategy.

2021/22 – Q2	<ul style="list-style-type: none"> Pensions administration, which as well as being low scoring for the Board and Committee, was also the second most requested topic. It might also be beneficial to include McCloud as part of the session.
2021/22 – Q3	<ul style="list-style-type: none"> The impact of COVID-19 on the Fund + investment performance and Environmental, Social & Governance topic(s). We would also suggest that some time is included to discuss the SAB Good Governance project.
2021/22 – Q4	<ul style="list-style-type: none"> For the Board – procurement and relationship management and pension administration For the Committee – the role of the committee which was one of the lower scoring areas and is arguably one of the most important areas for the Committee to understand. We would also advise a session is devoted to pension administration.
2022/23 – Q1	<ul style="list-style-type: none"> For the Committee – actuarial methods For the Board – financial markets and product knowledge.
2022/23 – Q2	<ul style="list-style-type: none"> Valuation training sessions – purpose, role, outcomes etc. This has been timed to coincide with the 2022 Actuarial Valuations.
2022/23 – Q3	<ul style="list-style-type: none"> Pensions governance