

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

Governance – Pensions Committee – Self-Assessment and Assessment of Advisers	Classification PUBLIC	Enclosures None
	Ward(s) affected ALL	
Pensions Committee 27th June 2016		

1. INTRODUCTION

1.1 This report covers the self-assessment of Pension Committee members and a review of advisers to the Committee.

2. RECOMMENDATIONS

2.1 **The Pensions Committee is recommended to note the report.**

3. RELATED DECISIONS

3.1 Pensions Committee 27th June 2016 – Pension Fund Business Plan 2015-2018

3.2 Pensions Committee 23rd March 2016 – Governance: Self-Assessment and Performance of Advisers

3.3 Pensions Committee 21st September 2015 – Approval of the Statement of Investment Principles

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 There are no immediate financial consequences arising as a result of this report, however, the self-assessment and review of advisers ensures that Members understand their responsibilities as quasi-trustees of the Pension Fund and can assess the performance of their advisers. By reviewing the outcome of the assessment, officers will be able to focus further training needs and areas for development.

4.2 Ensuring that Members of the Pensions Committee are well informed and understand their responsibilities as quasi-trustees ensures that the financial decisions made by the Committee on behalf of the Fund are made with the requisite skill and knowledge and will help to protect the longer term financial interests of the Fund and its employers.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The London Borough of Hackney is the Administering Authority for the London Borough of Hackney Pension Fund and delegated powers have been given to the

Pensions Committee to oversee the administration of the Fund. This places a significant responsibility on the Committee's Members to ensure that they are adequately trained and understand the decisions which they have to make in respect of the Fund.

5.2 The LGPS Regulations 2013 (Regulation 55) requires Administering Authorities to prepare, publish and maintain statements of compliance against a set of best practice principles for scheme governance and stewardship. The LGPS (Management and Investment of Funds) Regulations 2009, regulation 12(3) require Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State (in respect of the updated Myners Principles) and give reasons for non-compliance. The Fund is required to include the compliance statement within the published Statement of Investment Principles. The fourth Principle is a Performance Assessment which requires the Administering Authority have arrangements in place to measure the performance of its investment, investment managers and advisers and to periodically make a formal assessment of their own effectiveness as a decision making body. The assessment being undertaken will ensure that the Fund is compliant with this Principle.

5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, Regulation 12(3) require Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State and give reasons for non-compliance. The Guidance relates to the updated Myners Principles of which there are 6. This paper is covering the fourth Principle namely the one concerned with Performance Assessment. The Principle and the Fund's compliance statement are outlined in the table below:

Principle	Compliance Statement
<p>Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of the investments, investment managers and advisers</p> <p>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</p>	<p>Compliant</p> <p>Formal arrangements are in place for monitoring both quarterly and longer term performance of the Fund's investments and investment managers with the use of external performance measurement services</p> <p>The Pensions Committee produce an annual report of the work of the Committee and training undertaken by the Committee. Members are also involved in a dedicated training programme to ensure that they meet the requirements under the CIPFA Knowledge and Skills Framework.</p>

- 6.2** The Committee monitors on a quarterly basis both the investments held by the Fund and the performance of its investment managers, covering both the quarterly and longer term performance of each manager. In addition the Committee have a rolling programme of meetings with its external managers and Officers meet with managers on a regular basis outside of the formal presentations to Committee. Assessment of the Fund's advisers has been more ad-hoc, although officers meet regularly with the Fund's advisers and provide feedback on performance.
- 6.3** At the Committee meeting in March 2016, members were provided with a web link to a survey which covered a self-assessment and review of advisers due for completion and review by the next meeting. 75% of the Pensions Committee including the Co-opted members have completed the survey. Officers have reviewed responses and the results are summarised in this report. The results will be considered for the programme of training sessions and will also assist in the planning of future agendas.
- 6.4** In addition The Local Government Pension scheme (Administration) Regulations 2008 – Regulation 31 requires LGPS Administering Authorities to measure their governance arrangements against the standards set out in the Statutory Guidance issued by the Communities and Local Government Department. Part of the Governance Compliance Statement refers to training of Committee Members and the availability of training for all Committee Members. The London Borough of Hackney Pension Fund sets out a training programme for Members which is held in advance of Committee meetings to ensure that training is accessible for all Committee members including non-elected members.
- 6.5** By undertaking the ongoing training and assessing effectiveness, the Committee is able to demonstrate compliance with both the Myners Principles as part of the Secretary of State's Guidance and compliance with the CIPFA Code of Practice. The annual report of the Pension Fund will also contain details of the steps taken by those charged with governance to ensure that they have the requisite knowledge and skills to manage the Fund.
- 6.6** Members, when agreeing the business plan for the financial year, will as a matter of course continue to approve a training programme for the year. The training programme will be delivered by both external providers, including the investment and benefits consultants, and officers of the Fund to ensure that Members retain the knowledge and skills to carry out the responsibilities as 'quasi trustees'.
- 6.7** Members will also be provided with the tools in order to undertake regular assessments of the effectiveness of both their advisers and of their own decision making.
- 6.8** The Public Service Pensions Act 2013 and the Pensions Regulator's Code of Practice require the establishment of a Pensions Board and for Board members to have the capacity to be on the Board and to undertake the necessary training in order to develop the necessary knowledge and understanding of both pensions legislation and the individual scheme that they sit on the Board of. Going forwards therefore it is anticipated that Board Members will also have to undertake a self-assessment in order to assess any gaps in knowledge.

7. REPORT OF RESULTS

7.1 INTRODUCTION

7.1.1 Effective decision-making for the Pension Fund requires knowledge and understanding of a range of complex factors. Ensuring that members of the Pensions Committee are well-informed on these issues and understand their responsibilities helps to promote this effective decision-making and protect the interests of the Fund and its stakeholders.

7.1.2 This report covers the results of a self-assessment survey completed by Pensions Committee Members to assess their views on the advisers to the Pensions Committee and to assess their own knowledge and understanding about their role and responsibilities as a Committee Member. The results contained in this report are from the responses of 75% of the Pensions Committee including the Co-opted members. These results will be used to identify any training needs and tailor training and development accordingly.

7.1.3 This report covers the effectiveness and administration of Committee meetings, accessibility and format of information provided at meetings, effectiveness of training sessions provided to Committee members, review of Consultants and Advisers to the Committee, self-assessment of Committee Members and future planning for the activities within the Pensions Committee with the detailed results set out below.

7.2 EFFECTIVENESS OF MEETINGS

7.2.1 There has been an overall positive response towards the structure and coordination of Pensions Committee meetings. There is sufficient time available at Committee meetings to have detailed constructive discussions, whereby Committee members are able to raise any questions and concerns openly with each other, officers and advisers to the Committee. At times there can be a number of topics which require more time for discussion which sometimes leads to lengthy Committee meetings; however it is important that Committee members are engaged in discussions and have the opportunity to request further explanations during presentations to allow them to make informed decisions on behalf of the Fund. There have been two dedicated strategy meetings arranged in addition to the quarterly meetings, one focused on the preparation of the upcoming actuarial valuation and the other on fossil fuels, climate change and low carbon transition. Feedback suggests that the dedicated strategy meetings were very useful which demonstrates the need to review long term strategies to ensure the long term sustainability of the Fund. Generally, Committee members feel there is sufficient opportunity to include specific areas of business to the agenda and some areas which could be considered further include the following:

- The effectiveness of active management vs passive management
- Investments in infrastructure
- Review of the choice of benchmarks for performance measurement
- The impact of a merger of pension funds
- Cost effective asset management

The meetings play an important role in bringing Committee members together to share their views and raise any questions and concerns. Members have the opportunity to catch up on meetings with the help of minutes, Committee papers and arranging meetings with officers.

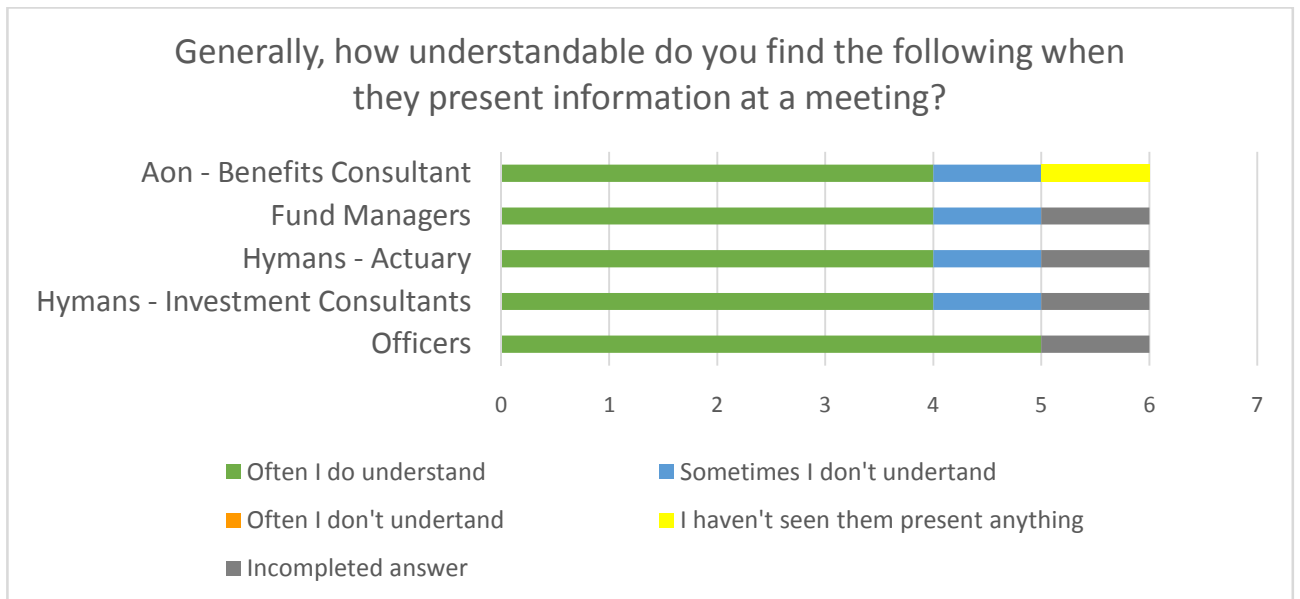
7.3 ADMINISTRATION OF MEETINGS

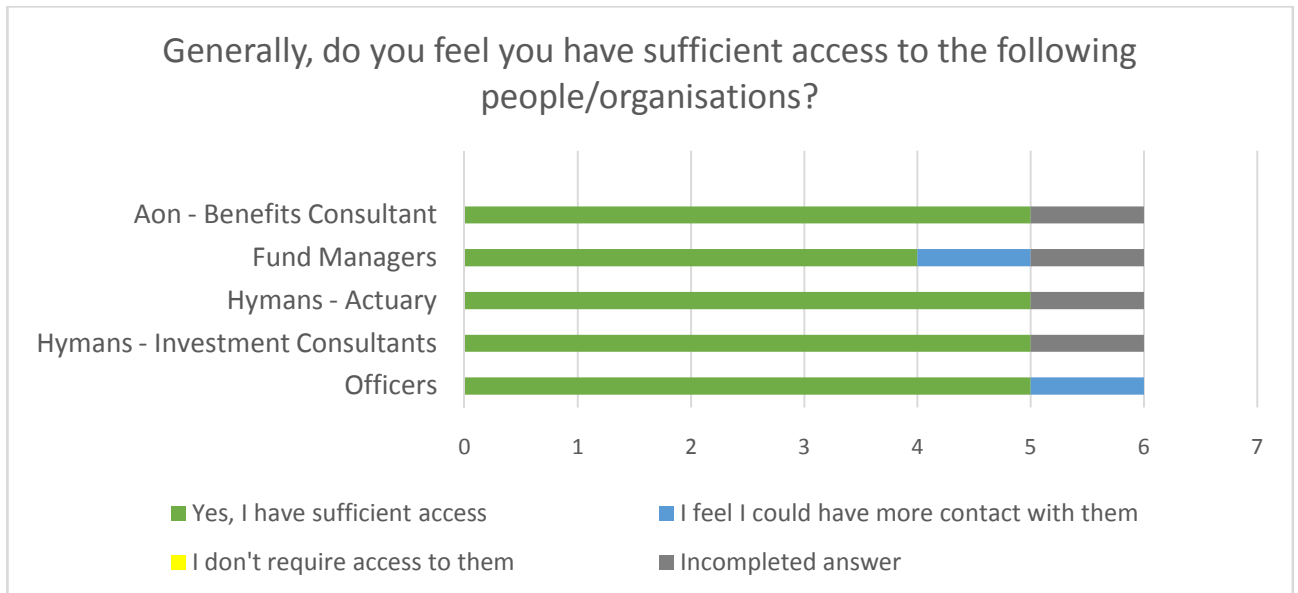
7.3.1 Committee papers are provided to Committee members in sufficient time to allow them to prepare for meetings. The minutes are considered to be an accurate representation of the discussions at meetings. The level of detail in the minutes is considered appropriate, generally, members feel they have sufficient opportunity to feed into the minutes if the minutes are not accurately represented.

7.4 Accessibility & Format of Information

7.4.1 It is important that the information provided for Committee meetings is suitable and sufficient for members to understand matters being discussed. Information is provided prior to meetings via Committee reports and supplemented with additional

information during meetings. An assessment on how information is presented to Committee members suggests that there is a sufficient amount of information contained within reports, however there could be more graphical representation to help illustrate points.



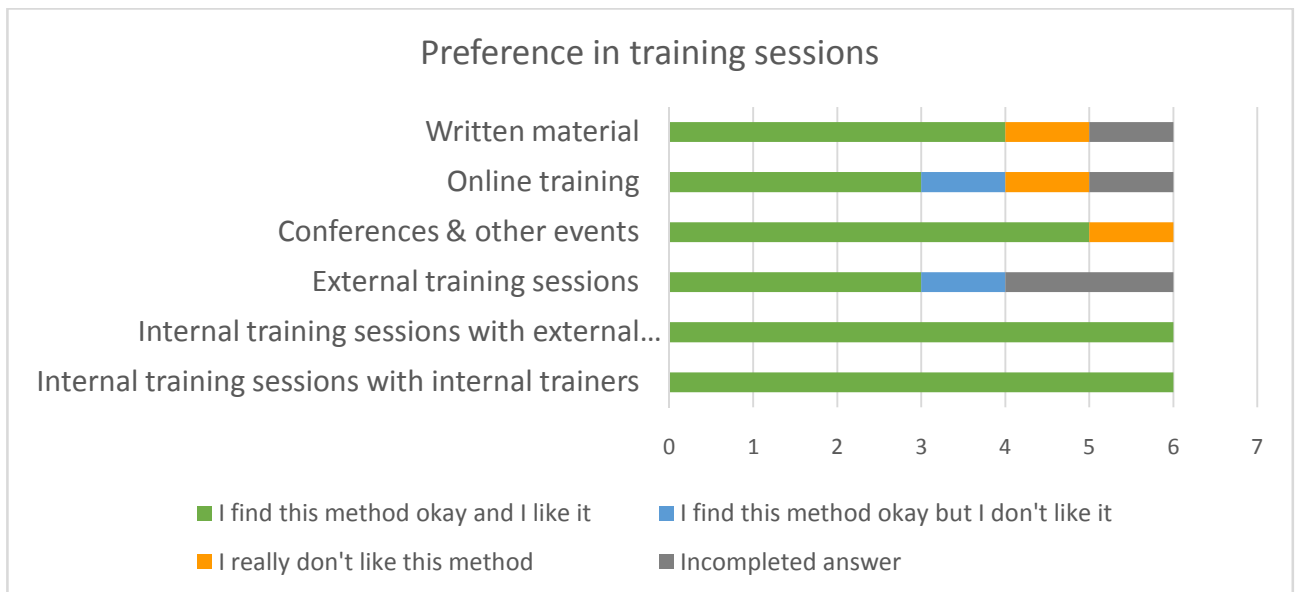


Collectively, Committee members have a good understanding on the topics presented to them and have sufficient access to officers and advisers should they wish to have further discussions. Members also have access to relevant documentation such as: previous Committee meeting papers, minutes, key documents (Statement of Investment Principles, Funding Strategy Statement, Communications Policy, Governance Policy, Compliance Statement and Pensions Administration Strategy), Pension Fund Annual Report and Accounts, Pension Fund Risk Register, Terms of Reference and performance monitoring statistics.

The quality of reports, updates and responses to Committee member questions is generally good and provides members with appropriate recommendations to enable the Committee to make decisions. The financial comments in the reports are generally good to enable the Committee to understand the financial implication of decisions.

7.5 Training Sessions

7.5.1 Training sessions are provided internally by officers and advisers and externally by other training providers. Generally, members feel that the training sessions are in-depth and cover all the appropriate matters at regular cycles.



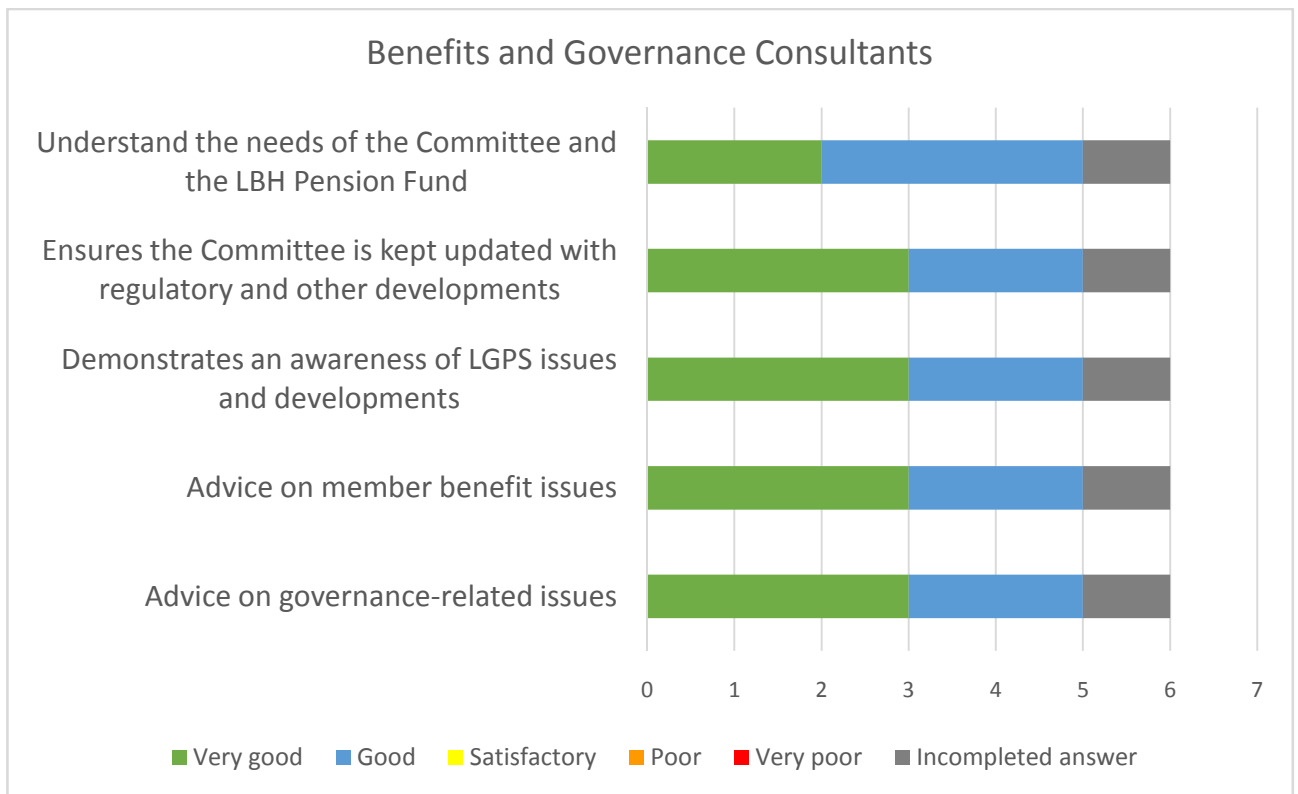
7.5.2 Internal training sessions appeared to be preferred over external training, this is likely due to tailored training specific only to the Fund. There is good attendance at training sessions, the sessions are generally good at focusing on the importance of decision making. Useful training has also been provided such as developing a better understanding of The Pensions Regulator and the TPR Codes of Practice. Regular training increases the awareness, understanding and knowledge of Committee members. The results from the survey used within this report are also reviewed to identify any training needs and tailor training and development accordingly.

7.6 PERFORMANCE OF ADVISERS AND CONSULTANTS

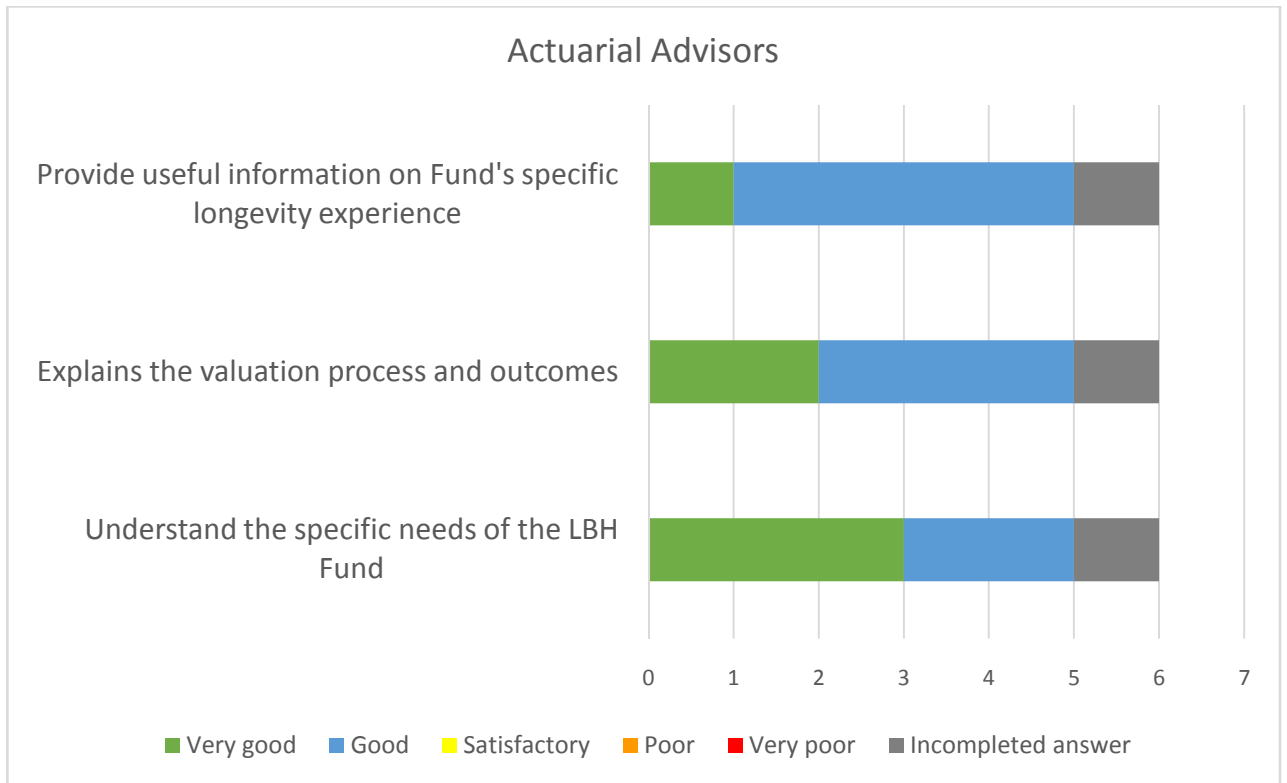
The Consultants and Advisers to the Committee have been rated on their ability to provide sound advice and recommendations towards the Pension Fund.



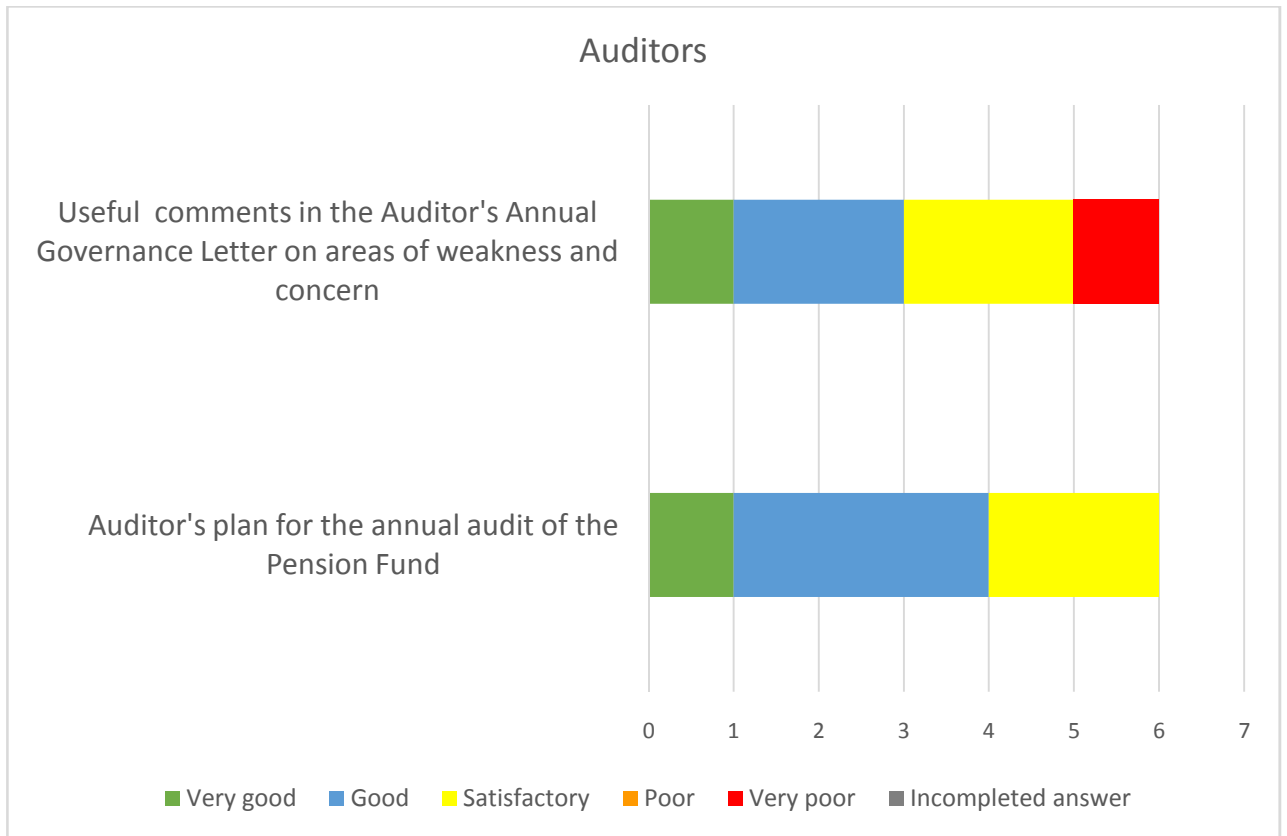
The responses from the Committee suggest that the investment consultants generally understand the needs of the Committee and the Fund, providing strong recommendations, clear asset allocation advice, an awareness of current issues and developments and keeping the Committee updated with industry developments. The responses suggest that their performance with regards to advising on investment managers is viewed as slightly weaker.



Where completed, the responses for the Fund’s Benefits and Governance consultants describe performance as ‘good’ or ‘very good’. The consultants are seen to have added value to the Fund in terms of improving the governance of the Fund; in particular a review of employers and pension contribution data. The consultants continue to work with the Committee members and officers to improve on issues such as data quality, monitoring pension contributions and the Fund’s compliance with the TPR Code of practice.



The Committee's view of the actuarial advisors is generally very positive; the responses provided rate their performance as 'good' or 'very good' on all questions. Understanding the specific needs of the Fund will provide value as estimations and assumptions are pulled together to provide the employers in the Fund with employer pension contribution rates to cover the benefits payable for both past and future service.



The Committee's perception of the Auditors is mostly good or satisfactory; however there is some concern over the usefulness of comments in the Auditor's Annual Governance letter detailing areas of weakness and concern.

7.6.1 The consultants and advisors play an important role in guiding the Committee, keeping up to date with markets and changes to the LGPS and wider pensions landscape. Ultimately, decision-making with regards to the Fund rests with the Committee, who must act in the best interests of the Fund and its stakeholders.

7.7 Compliance

7.7.1 The Committee generally feel confident that they seek and obtain appropriate advice before making decisions

7.7.2 There is regular review on the performance of the Fund's 3rd party administrator, however it may be useful to provide the Committee with some of the administration issues faced with employers and the payment of pension contributions.

7.7.3 The Committee is confident in their proactive approach to remain compliant with TPR Codes of Practice.

7.8 Roles & Responsibilities

7.8.1 Committee members feel they have good knowledge on their role, responsibilities and duties. Generally, members feel that they understand the implications of decisions made at Committee meetings.

7.8.2 Members feel that the amount of responsibility delegated to officers is appropriate and officers are capable of carrying out functions and progressing recommendations on behalf of the Committee.

7.9 Knowledge & Understanding

7.9.1 The Committee is made up of six Committee members and two Co-opted members. There is a range of knowledge between the members with different strengths in different areas. Some of the areas chosen to assess knowledge and understanding included:

- Role of The Pensions Regulator and the TPR Codes of practice
- CIPFA's Knowledge and Skills Framework
- LGPS regulations
- Strategic asset allocation
- Actuarial valuation, funding and contribution rates

As a collective body the Committee has a sufficient level of knowledge in relation to all Pension Fund matters to be able to discharge their duties as quasi-trustees of the Pension Fund.

7.10 Risk Management

7.10.1 Members are aware and understand the risks that could affect the Fund especially being able to identify the Fund's biggest risks. They are able to use the risk register to record risks which are monitored and managed appropriately. The main risks are generally well understood in areas such as administration, communications,

governance and investments; members are well engaged in deciding how the Fund responds to these risks. Generally, members feel that the Fund takes sufficient risks that either aim to achieve greater reward or to minimise ongoing costs. Sufficient information is provided to members to help the decision making process; one improvement suggested could be to provide the Committee with information that demonstrates how a decision with regards to one risk could affect another. Risk management requires assessing risks and finding ways to improve benefits or reduce negative effects.

7.11 Future Planning

7.11.1 Future planning involves setting clear objectives and regularly reviewing these objectives to ensure they fit in with the Fund's strategies and policies. Generally, members feel that the Committee has set clear objectives in relation to funding, investment, administration and governance. They receive sufficient information to understand whether or not these objectives are being achieved on a regular basis. There may be some work required to set clear objectives for communications as the number of employers and scheme members in the Fund continues to grow.

7.11.2 Committee members have responsibilities to ensure that there are appropriate strategies and policies that articulate how long-term objectives will be delivered. Generally, Committee members feel that there are appropriate strategies and policies in relation to funding, investment, administration communications and governance. There is also a general view that there is sufficient review of the strategies and policies at Committee meetings. Investment strategies is an area which may require more focus which ties in with some of the earlier suggestions to consider further discussions on asset management.

7.11.3 The quarterly monitoring report is included in the quarterly Pension Committee papers provided for Committee meetings. The monitoring report covers an update on funding position, governance, investment performance, engagement and corporate governance, pension administration and reported breaches. Members found the report either sufficiently useful or highly useful; this clearly is an effective report which demonstrates some of the wider issues that can affect the Fund. Updates are provided with the best available information at the time which can change significantly due to unforeseen circumstance, which is why it is important that committee members, officers and advisers can actively engage with each other to ensure there is an active and adaptable plan for the future of the Fund.

7.12 FURTHER COMMENTS/RECOMMENDATIONS

7.12.1 Discussion topics of interest

- The impact of the EU referendum
- The effectiveness of active management vs. passive management
- Investments in infrastructure
- Review of the choice of benchmarks for performance measurement
- The impact of a merger of pension funds
- Cost effective asset management

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BACKGROUND PAPERS

None