

Agenda

Pensions Committee

Wednesday, 10 June 2015, 10.00 am
County Hall, Worcester

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اردو۔ اگر آپ اس دستاویز کی مشمولات کو سمجھنے سے قاصر ہیں اور کسی ایسے شخص تک آپ کی رسائی نہیں ہے جو آپ کے لئے اس کا ترجمہ کر سکے تو، براہ کرم مدد کے لئے 01905 765765 پر رابطہ کریں۔ (Urdu)

کوردی سۆزانی، ننگر ناتوانی تێبگدی له ناوهرۆکی نهم بێلگهیه و دستت به ههچ کس ناگات که و بیهێگریتوه بۆت، تکایه تهلپۆن بکه بۆ ژمارهی 01905 765765 و داوای پزنیوی بکه. (Kurdish)

ਪੰਜਾਬੀ। ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਮਸ਼ਹੂਨ ਸਮਝ ਨਹੀਂ ਸਕਦੇ ਅਤੇ ਕਿਸੇ ਅਜਿਹੇ ਵਿਅਕਤੀ ਤੱਕ ਪਹੁੰਚ ਨਹੀਂ ਹੈ, ਜੋ ਇਸਦਾ ਤੁਹਾਡੇ ਲਈ ਅਨੁਵਾਦ ਕਰ ਸਕੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਮਦਦ ਲਈ 01905 765765 'ਤੇ ਫ਼ੋਨ ਕਰੋ। (Punjabi)

DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Pensions Committee

Wednesday, 10 June 2015, 10.00 am, County Hall, Worcester

Membership: Mr R W Banks (Chairman), Mr R C Lunn (Vice Chairman), Mr D W Prodger MBE, Mr R J Sutton and Mr P A Tuthill

**Coopted Members
(voting)**

Mr V Allison	Employer Representative
Mr A Becker	Employee Representative
Mr R J Phillips	Herefordshire Council

Agenda

Item No	Subject	Page No
1	Named Substitutes	
2	Apologies/Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Head of Legal and Democratic Services in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case, 9 June 2015). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Pension Fund Governance Arrangements	1 - 24
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8	Pension Administration Update	47 - 58

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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 766621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Tuesday, 2 June 2015

Item No	Subject	Page No
9	Administering Authority Structure Report to follow.	

Pension Committee

10 June 2015

4. PENSION FUND GOVERNANCE ARRANGEMENTS

Recommendation

1. The Chief Financial Officer recommends that:
 - a) the updated Pension Fund Governance Policy Statement be noted;
 - b) the Pension Committee Terms of Reference be noted;
 - c) the Pension Board Terms of Reference be noted;
 - d) the extended Pension Fund Scheme of Delegation be endorsed; and
 - e) the arrangements for appointing the Chairman of Pension Investment Advisory Panel be noted.

Background Information

2. The Scheme decision-making and management role prior to 1 June 2015 was undertaken by the Chief Financial Officer, supported by a Shadow Pension Committee. Although it was not *required* as part of the change in governance arrangements, it was recommended to Council that formal decision-making is carried out by a Pensions Committee. This recommendation was intended to bring the governance arrangements of the pension fund in line with best practice, as recommended by the fund's external auditors. The Pension Committee is a formal committee of the Council, subject to the usual rules of political balance and access to information.

3. The new Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 required an Administering Authority to establish a local Pension Board by 1 April 2015. The Board will be responsible for:

Council Approved Pension Fund Governance Arrangements

- assisting the Council to comply with legal obligations relating to the Scheme and any requirements imposed by the Pensions Regulator
- assisting the Council to ensure the effective and efficient governance and administration of the scheme.

The Board will undertake an oversight role and will **not be** responsible for decision-making in relation to the management of the Scheme or the discharge of the Council's functions.

4. On 12 February 2015 Council approved the following recommendations proposed by the Head of Legal and Democratic Services and Chief Financial Officer:

- a) a Pensions Committee be established to discharge the responsibilities of the Council as Administering Authority of the Pension Scheme from the Annual Meeting 2015;
- b) a Chairman and Vice-Chairman of that Committee be appointed at the Annual Meeting;
- c) with effect from 1 April 2015 a Pension Board be established to assist the Council in ensuring the effective governance and administration of the Pension Scheme;
- d) the Pension Fund Governance Policy Statement as set out at Appendix 1 be adopted;
- e) the arrangements including the terms of reference set out in Appendices 1 and 2 to this report for the purposes of pension fund governance be adopted with effect from 1 April 2015 (subject to the delegated authority of the Chief Financial Officer continuing until the Pension Committee is established); and
- f) the Head of Legal and Democratic Services be authorised to finalise and implement those arrangements as necessary to reflect the legislation when finally brought into effect, including appointing members to the bodies within the Policy Statement in accordance with the wishes of the relevant political Group Leaders where politically balanced.

Policy Statement and Terms of Reference

5. The attached appendices set out the terms of reference and governance arrangements by which the Administering Authority will carry out these functions. Appendix 1 is a Governance Policy Statement.

Scheme of Delegation

Particular reference is made in Appendix 2 to the Local Pension Board and its Terms of Reference.

6. The Governance Policy Statement set out in Appendix 1 provides detail of the pension fund related tasks and actions delegated to the Chief Financial Officer by Council, however the proposed Scheme of Delegation detailed in Appendix 3 extends these tasks and actions to ensure the efficient operation of the fund.

Chairman of the Pension Investment Advisory Committee

7. The Pension Investment Advisory Panel will provide the Pension Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of Investment Managers and Independent Financial Advisers. It is not a decision-making body or formal committee, and will not normally meet in public. Point 5.2 of the pension fund Governance Policy Statement requires the Chairman of the Pension Investment Advisory Panel to be appointed from amongst its members by the Chairman of the Pension Committee.

Supporting Information

- Appendix 1 - Pension Fund Governance Policy Statement
- Appendix 2 - Pension Board Terms of Reference
- Appendix 3 - Pension Fund Scheme of Delegation (To follow)

Contact Points

County Council Contact Points
Sean Pearce, Chief Financial Officer, 01905 766268,
spearce@worcestershire.gov.uk

Background papers

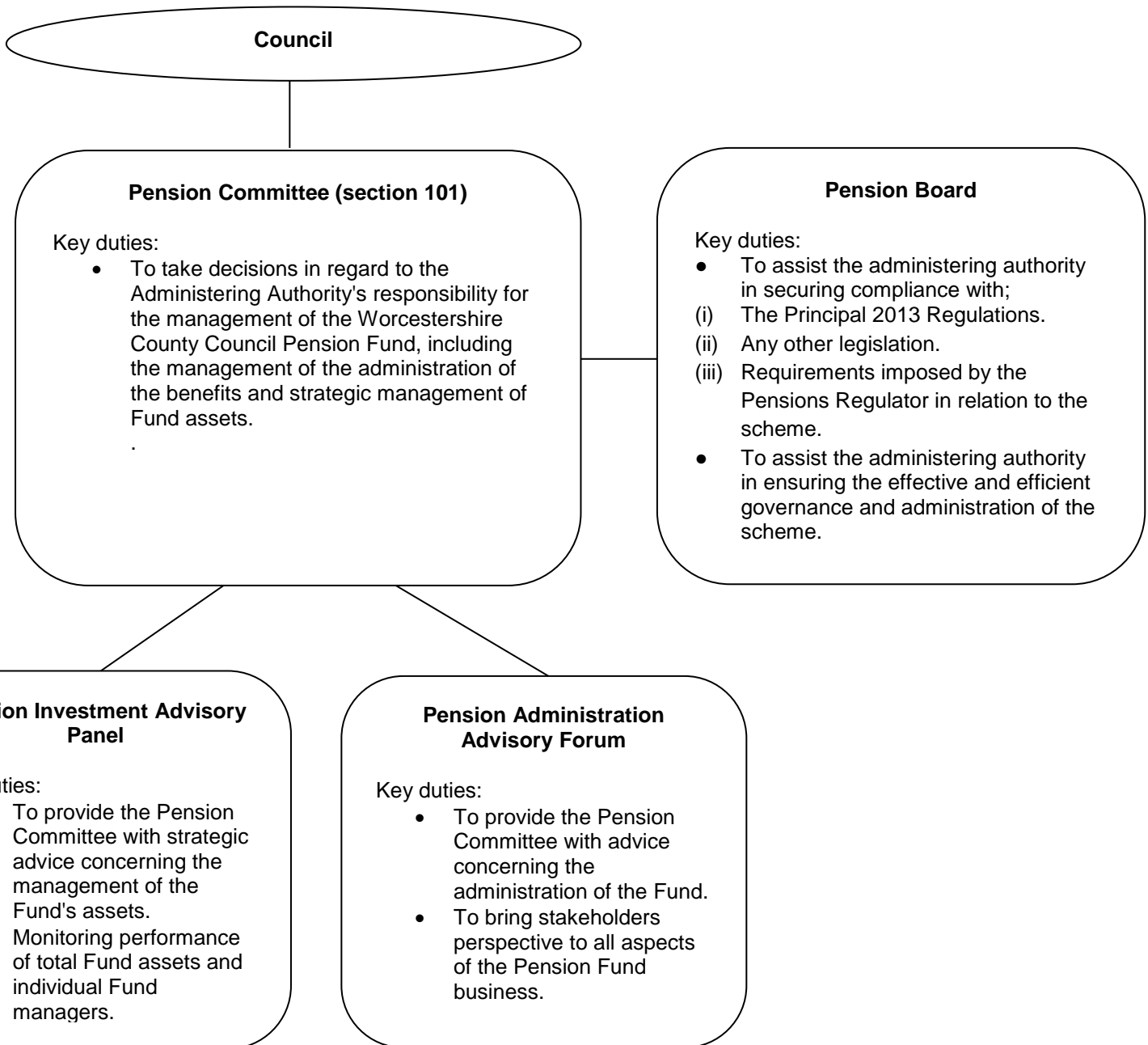
In the opinion of the proper officer (in this case, the Chief Financial Officer) there are no background papers relating to the subject matter of the report.

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Worcestershire County Council Pension Fund

Governance Policy Statement

Governance Structure



This statement has been prepared by Worcestershire County Council (the Administering Authority) to set out the governance policy strategy for the Worcestershire County Council Pension Fund (the Scheme), in accordance with Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended).

1. Introduction

- 1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees and those of over 140 other Scheme Employers in the administrative area of Herefordshire and Worcestershire, with 20,000 contributing members, 14,100 pensioners and beneficiaries and a further 14,200 deferred pensioners.
- 1.2 The Local Government Pension Scheme (Amendment) (no.2) Regulations 2005 SI 2005/3199 provides the statutory framework from which the Administering Authority is required to prepare a Fund Governance Statement. The regulations require that an Administering Authority after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement setting out:
- Whether the administering authority delegates their function or part of their function in relation to maintaining the pension fund to a committee, a sub-committee or an officer of the administering authority;
 - The frequency of any committee or sub-committee meetings;
 - The terms of reference, structure and operational procedures of the delegation;
 - Whether the committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or members, and if so, whether those representatives have voting rights.
- 1.3 This statement has been prepared by Worcestershire County Council in consultation with appropriate interested persons.

2. Administrative Arrangements

- 2.1 On 1 April 1998 Worcestershire County Council was constituted and vested, under section 16 of the Hereford and Worcester (Structural, Boundary and Electoral Changes) order 1996 (Statutory Instrument 1996 No 1867), with the rights and liabilities of the former pension fund Hereford and Worcester County Council. Therefore, the Council is the appropriate Administering Authority to maintain the Fund.
- 2.2 As the statutory Administering Authority and Scheme Manager for the Fund, Worcestershire County Council is responsible for ensuring effective stewardship of the Fund's affairs. Worcestershire County Council has established a Pension Committee to discharge the Council's responsibility for the management of the administration of the Fund.
- 2.3 Worcestershire County Council has also established a Pension Investment Advisory Panel to provide the Pension Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of investment managers and Independent Financial Advisers.
- 2.4 A Pension Administration Advisory Forum has also been established to provide wider stakeholder representation and communication in matters relating to the Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund, as set out in the Scheme of Assignment of Responsibility for Functions, however the Pension Committee takes advice from the Pension Administration Advisory Forum to enable the Pension Committee to discharge its responsibility effectively.

3. Pension Committee

- 3.1 The Pension Committee discharges the responsibilities of the Council as Administering Authority of the Fund pursuant to Section 101 and Regulations under Section 7 of the Superannuation Act 1972.

- 3.2 The Pension Committee discharges the responsibilities for management of the administration of the Fund. However it will take views from the Pension Administration Advisory Forum to enable it to discharge its duties effectively.
- 3.3 The Pension Committee discharges the responsibilities for the strategic management of the Fund's assets. However, it will take strategic advice from the Pension Investment Advisory Panel to enable it to discharge its duties effectively. The dates of Pension Committee meetings will be synchronised with those of the Pension Investment Advisory Panel to ensure investment decisions are reviewed without unnecessary delay.
- 3.4 The Council appoints the Chairman and Vice-Chairman of the Pension Committee. The Chairman of the particular meeting has a second or casting vote in the case of equality of votes.
- 3.5 The Pension Committee is a formal committee of the Council and comprises a total of 8 voting members:
- 5 Worcestershire County Councillors
 - 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)
 - 1 co-opted voting employer representative and
 - 1 co-opted voting employee representative from a relevant Union.

The 5 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders, and the 3 co-optees are co-opted by the Chairman of the Committee.

- 3.6 The Pension Committee will be advised by on an ad hoc basis by an Independent Financial Adviser and the Fund's Actuary.
- 3.7 Pension Committee Terms of Reference:

The Pension Committee will meet at least quarterly or otherwise as necessary to take decisions on:

- Changes to the Statement of Investment Principles, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- The termination and appointment of Investment Managers and associated professional service providers.
- The termination and appointment of the Fund's Independent Financial Adviser, Performance Measurement Consultant, Global Custodian and Actuary.
- The Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
- The Triennial and Interim Actuarial Valuations.
- The approval of the Pension Fund Annual Report and Accounts.
- The approval of the Pension Fund annual and triennial budgets.
- Key outstanding risks as identified in the Pension Fund Risk Register.
- The Pension Administration Advisory Forum arrangement and regular Forum reports, which consider and address outstanding member and employer issues and concerns.
- The Pension Investment Advisory Panel arrangement and regular Advisory Panel reports, which monitor performance of the Fund's assets.
- Requests for admission of qualifying Community and Transferee Bodies wishing to join the Fund.
- Key pension policy discretions that are the responsibility of the Administering Authority.

- 3.8 All elected members and voting co-optees of the Pension Committee are subject to the Worcestershire County Council Code of Conduct for Members, and must therefore register and keep updated their Disclosable Pecuniary Interests as required by the law and Code and disclose potential conflicts of interest as required by that Code.
- 3.9 Members of the Pension Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively – see Section 8.
- 3.10 The responsibility for advising the Pension Committee is delegated to the Chief Financial Officer.
- 3.11 Members of the Pension Committee have equal access to Pension Committee agenda papers and associated appendices in accordance with the legislation and constitutional Rules relating to access to information for committees. Formal meetings of the Committee will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

4. Pension Board

Please see separate Pension Board Terms of Reference document.

5. Pension Investment Advisory Panel

- 5.1 The Pension Investment Advisory Panel provides the Pension Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of Investment Managers and Independent Financial Advisers. It is not a decision-making body or formal committee, and will not normally meet in public.
- 5.2 The Chief Financial Officer appoints the members of the Pension Investment Advisory Panel, which comprises of:
- four County Councillors
 - the Chief Financial Officer
 - the Principal Accountant – Pension Fund and;
 - one employee representative.

The composition of the Pension Investment Advisory Panel is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets rather than political representation. All members of the Panel are entitled to vote if necessary for the Panel to fulfil its role and provide advice to the Pension Committee regarding the administration of the fund's assets.

The Chairman of the Panel is appointed from amongst its members by the Chairman of the Pensions Committee.

5.3 Terms of reference:

The Pension Investment Advisory Panel will meet at least quarterly or otherwise as necessary to produce strategic advice to the Pension Committee on:

- Changes to the Statement of Investment Principles, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- The termination and appointment of Investment Managers and associated professional service providers.
- The termination and appointment of the Fund's Independent Financial Adviser, Performance Measurement Consultant and Global Custodian.

The Pension Investment Advisory Panel will also:

- Monitor performance of total Fund assets and individual Investment Managers.
- Monitor compliance with the Statement of Investment Principles.
- Monitor performance of the Independent Financial Advisor.

- 5.4 The Pension Investment Advisory Panel is advised by an Independent Financial Adviser who attends all meetings.
- 5.5 Active Equities Investment Managers report to the Pension Investment Advisory Panel bi-annually, whilst the Fund's Bond Manager reports annually. Further monitoring meetings with Investment Managers are undertaken by officers of the Administering Authority and the outcomes reported to the Pension Investment Advisory Panel.
- 5.6 One of the regular quarterly meetings will include an annual meeting to consider the Fund's full year's performance.
- 5.7 The Fund's Statement of Investment Principles (SIP) sets out the arrangements in place for the management of the investments of the Worcestershire County Council Pension Fund.
- 5.8 The day to day management of the Fund's investments is divided between external Investment Managers, operating in accordance with mandates set out in the Statement of Investment Principles.
- 5.9 The Chairman of the Panel may attend the Pension Committee to ensure flow of information between the 2 bodies.
- 5.10 Members of the Pension Investment Advisory Panel must not have a conflict of interest and are required to provide the Chief Financial Officer with such information as the Chief Financial Officer reasonably requires for the purposes of ensuring no conflict of interest exists prior to appointment to the Pension Investment Advisory Panel and on an ongoing annual basis.
- 5.11 Members of the Pension Investment Advisory Panel are required to hold the appropriate knowledge and skills to discharge their responsibility effectively.

6. Pension Administration Advisory Forum

- 6.1 The Pension Administration Advisory Forum provides the Pension Committee with advice concerning the administration of the Fund. It is neither a decision-making body nor formal committee, and will not normally meet in public. No voting rights apply to the Pension Administration Advisory Forum as the purpose of the Forum is to provide transparency of information to scheme employers and for scheme employers to provide advice to, and raise concerns with, the employer representative.
- 6.2 The Pension Administration Advisory Forum comprises
 - all Fund employers who wish to attend following invitation by the Administering Authority
 - the Fund's Actuary (ad hoc basis)
 - the Administering Authority's Pensions Manager and HR Service Centre Manager
 - and the employer representative and employee representative of the Pension Committee.
- 6.3 Terms of reference:

The Forum will meet at least twice a year or otherwise as necessary to:

- Discuss an Annual Administration Report and respond to any issues raised by employers.
- Discuss Government Consultations relating to the administration and benefits of the LGPS.
- Discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.
- Discuss the minutes and updates from the Pension Committee and ensure flow of information between the Pension Committee and the Forum.
- To advise on service delivery to all stakeholders.

- To bring stakeholders perspective to all aspects of the Pension Fund business.
 - To ask the Administering Authority and the Pension Committee to consider topics which affect the Pension Fund.
- 6.4 All Fund employers are invited to attend the Pension Administration Advisory Forum along with the Fund's Actuary, Administering Authority officers and the employer and employee representatives on the Pension Committee.
- 6.5 Other meetings are held as required between Administering Authority officers and employers to discuss important issues such as discretionary policies and regulatory changes.
- 6.6 The Administering Authority also communicates with the Fund's membership through newsletters, road shows and presentations.
- 6.7 The Fund's Policy Statement on Communication Strategy explains in more detail engagement with all stakeholders.

7. Delegation

- 7.1 The day to day administration of, and investment decisions for, the Worcestershire County Council Pension Fund are delegated to the Chief Financial Officer.
- 7.2 The Chief Financial Officer may authorise other officers to exercise on his/her behalf those functions delegated to him/her.
- 7.3 The Chief Financial Officer has delegated responsibility for the following responsibilities concerning the management of the administration of the Fund including:
- Preparing and maintaining a Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
 - Provision of data for the Triennial and Interim Actuarial Valuations. The Chief Financial Officer will also negotiate over actuarial assumptions, set the appropriate funding target and associated recovery period.
 - Preparing the Pension Fund Annual Report and Accounts.
 - Preparing the Pension Fund annual and triennial budgets.
 - Preparing and maintaining a Pension Fund Risk Register and monitoring key outstanding risks.
 - Overseeing and administering the Pension Administration Advisory Forum arrangement and review regular Forum reports to consider and address outstanding member and employer issues and concerns.
 - Administering the Pension Investment Advisory Panel arrangement and reviewing regular Advisory Panel reports to monitor performance of the Fund's assets.
 - Deciding upon requests for admission of qualifying Community and Transferee Bodies and Scheduled and Designated Bodies wishing to join the Fund.
 - Deciding upon key pension policy discretions that are the responsibility of the Administering Authority.
 - Executing documentation relating to the implementation of new and existing investment mandates, Independent Financial Advisers, Performance Measurement Consultant, Global Custodians, Actuaries and any other associated professional service providers.
 - Quarterly monitoring of Investment Managers' performance for managers not presenting to the Pension Investment Advisory Panel.
 - The effective discharge of the pensions administration function, including the payment of pensions and collecting and reconciling of contribution income.
 - Maintaining the Fund's accounting records.

- Preparing and maintaining the Statement of Investment Principles, including implementing changes to the strategic benchmark for asset allocation.
- Implementing and maintaining a knowledge and skills training plan for members of the Pension Committee and Pension Investment Advisory Panel.
- Advising the Pension Committee.
- Implementing and maintaining the cash flow strategy for the Fund, which includes the transfer of cash to the Fund's Global Custodian to ensure cash is fully invested when available and the transfer of cash from the Global Custodian to pay pension liabilities as they fall due.

8. Knowledge and Skills

- 8.1 The Administering Authority has regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in creating a knowledge and skills policy for the Worcestershire County Council Pension Fund, to ensure all those involved in the decision-making process receive relevant training in order to obtain the appropriate knowledge and skills to discharge their responsibilities effectively.
- 8.2 Committee members and appropriate Administering Authority officers complete an annual knowledge and skills self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the Administering Authority. The annual training plans include a programme of external and internal training events designed to meet the requirements both of new members of the committee and the ongoing needs of existing members. These events are reported formally to members on an annual basis. Individual reports to authorise attendance by members at these events are put to the Chief Financial Officer on an event by event basis.

9. Further information

Additional information on the activities of the Pension Fund can be found in the Annual Report and Accounts, which is available on the Worcestershire County Council's website at: http://www.worcestershire.gov.uk/downloads/download/697/pension_fund_annual_report

February 2015

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LOCAL PENSION BOARD OF WORCESTERSHIRE COUNTY COUNCIL TERMS OF REFERENCE

Introduction

1. This document sets out the terms of reference of the Local Pension Board of Worcestershire County Council (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
2. The Board is established by the Administering Authority and operates independently of the Committee. Relevant information about its creation and operation are contained in these Terms of Reference.
3. The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.
4. Except where approval has been granted under regulation 106(2) of the Regulations the Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.

Interpretation

5. The following terms have the meanings as outlined below:

'the Act'	The Public Service Pensions Act 2013.
'the Code'	means the Pension Regulator's Code of Practice No 14 governance and administration of public service pension schemes.
'the Committee'	means the committee which has delegated decision-making powers for the Fund in accordance with Section 101 of the Local Government Act 1972.
'the Fund'	means the Fund managed and administered by the Administering Authority.

'the Guidance'	means the guidance on the creation and operation of local pension boards issued by the Shadow Scheme Advisory Board.
'the Regulations'	means the Local Government Pension Scheme Regulations 2013 (as amended from time to time), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended from time to time) including any earlier Regulations as defined in these regulations to the extent they remain applicable and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended from time to time).
'Relevant legislation'	means relevant legislation as well as the Pension Regulator's Codes of Practice as they apply to the Administering Authority and the Board notwithstanding that the Codes of Practice are not legislation.
'the Scheme'	means the Local Government Pension Scheme in England and Wales.

Statement of purpose

6. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:
 - (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
 - (b) to ensure the effective and efficient governance and administration of the Scheme.

Duties of the Board

7. The Board should at all times act in a reasonable manner in the conduct of its purpose. In support of this duty Board members should be subject to and abide by the Administering Authority's code of conduct for members.

Establishment

8. The Board is established from 1 April 2015 subsequent to approval by Council on 12 February 2015, and may establish sub-groups.

Membership

9. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board may be a member of the Board. The Board shall consist of four voting members appointed by the Chief Financial Officer, as follows:

Two Member Representatives; and

Two Employer Representatives.

10. There shall be an equal number of Member and Employer Representatives appointed to the Board.
11. There shall also be one other Board member to act as its independent chair, appointed in accordance with paragraph 20, who is not entitled to vote.

Member representatives

12. Member representatives shall have the capacity to represent scheme members of the Fund.
13. Member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.
14. Substitutes shall not be appointed.
15. A total of two member representatives shall be appointed from the following sources:
 - a) One member representative shall be appointed as nominated by the recognised trade unions representing employees who are scheme members of the Fund.
 - b) One member representative shall be appointed following a transparent recruitment process which should be open to all Fund members and be approved by the Chief Financial Officer of the Administering Authority.

Employer representatives

16. Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity, and must have the capacity to represent employers.
17. Employer representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

18. Substitutes shall not be appointed.

19. A total of two employer representatives shall be appointed to the Board by the Chief Financial Officer of the Administering Authority having asked all employers to submit any interest in undertaking the role of employer representative on the Board.

Other members

20. One Other member shall be appointed to the Board to act as its independent chair, as proposed by the Chief Financial Officer of the Administering Authority and agreed by a majority of the Board.

21. The Other member does not have voting rights on the Board.

Appointment of independent chair

22. The independent chair will be independent in terms of having no pre-existing employment, financial or other material interest in either the Administering Authority or any scheme employer in the Fund and shall not be a member of the Fund.

Duties of chair

23. The chair of the Board:

- (a) Shall ensure the Board delivers its purpose as set out in these Terms of Reference,
- (b) Shall ensure that meetings are productive and effective and that opportunity is provided for the views of all members to be expressed and considered, and
- (c) Shall seek to reach consensus and ensure that decisions are properly put to a vote when a consensus cannot be reached. Instances where a decision has been reached by a majority (with a vote against) will be recorded and published.

Notification of appointments

24. When appointments to the Board have been made, the Administering Authority shall publish the name of Board members, the process followed in the appointment together with the way in which the appointments support the effective delivery of the purpose of the Board.

Terms of Office

25. The term of office for Board members is four years.

26. Extensions to terms of office may be made by the Chief Financial Officer of the Administering Authority with the agreement of the Board.

27. Board membership may be terminated by the Chief Financial Officer prior to the end of the term of office due to:
- (a) A member representative appointed on the basis of their membership of the scheme no longer being a scheme member in the Fund.
 - (b) A member representative no longer being a scheme member or a representative of the body on which their appointment relied.
 - (c) An employer representative no longer holding the office or employment or being a member of the body on which their appointment relied.
 - (d) A Board member no longer being able to demonstrate to Worcestershire County Council their capacity to attend and prepare for meetings or to participate in required training.
 - (e) The representative being withdrawn by the nominating body and a replacement identified.
 - (f) A Board member has a conflict of interest which cannot be managed in accordance with the Board's conflict policy.
 - (g) A Board member who is an elected member becomes a member of the Committee.
 - (h) A Board member who is an officer of the Administering Authority becomes responsible for the discharge of any function of the Administering Authority under the Regulations
 - (i) or otherwise as the Chief Financial Officer considers appropriate.

Conflicts of interest

28. The Chief Financial officer must be satisfied that any person to be appointed to the Board does not have a conflict of interest as defined in section 5 (5) of the Public Service Pensions Act 2013. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.
29. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.
30. On appointment to the Board and following any subsequent declaration of potential conflict by a Board member, the Administering Authority shall ensure that any potential conflict is effectively managed in line with both the internal procedures of the Board's conflicts policy and the requirements of the Code.

Knowledge and understanding (including Training)

31. Knowledge and understanding must be considered in light of the role of the Board to assist the Administering Authority in line with the requirements outlined in paragraph 6 above. The Board shall establish and maintain a Knowledge and Understanding Policy and Framework to address the knowledge and understanding requirements that apply to Board members under the Act. That policy and framework shall set out the degree of knowledge and understanding required as well as how knowledge and understanding is acquired, reviewed and updated.
32. Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding policy and framework.
33. Board members shall participate in such personal training needs analysis or other processes that are put in place in order to ensure that they maintain the required level of knowledge and understanding to carry out their role on the Board.

Meetings

34. The Board shall as a minimum meet four times each year.
35. Meetings shall normally take place between the hours of 09:00am and 17:00pm at County Hall, Worcester.
36. The chair of the Board may call additional meetings. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and e-mails.

Quorum

37. A meeting is only quorate when at least 50% of both member and employer representatives are present, i.e. at least one member representative and at least one employer representative.
38. A meeting that becomes inquorate may continue but any decisions will be informal and non-binding.

Board administration

39. The Chair shall agree with the Chief Financial Officer (the 'Board Secretary') an agenda prior to each Board meeting.
40. The agenda and supporting papers will be issued at least 5 clear working days (as far as practicable) in advance of the meeting except in the case of matters of urgency.

41. Draft minutes of each meeting including all actions and agreements will be recorded and circulated to all Board members within ten working days after the meeting. These draft minutes will be subject to formal agreement by the Board at their next meeting. Any decisions made by the Board should be noted in the minutes and in addition where the Board was unable to reach a decision such occasions should also be noted in the minutes.
42. Any public minutes may be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data prevented from disclosure under the Data Protection Act 1998.
43. The Board Secretary shall ensure that Board members meet and maintain the knowledge and understanding as determined in the Board's Knowledge and Understanding Policy and Framework and other guidance or legislation.
44. The Board Secretary shall arrange such advice as is required by the Board subject to such conditions as are listed in these Terms of Reference for the use of the budget set for the Board.
45. The Board Secretary shall ensure an attendance record is maintained along with advising the Administering Authority on allowances and expenses to be paid under these terms.
46. The Board Secretary shall liaise with the Administering Authority on the requirements of the Board, including advanced notice for officers to attend and arranging dates and times of Board meetings.

Public access to Board meetings and information

47. The Board meetings can be open to the general public at the discretion of the Board or Chair (unless there is an exemption under relevant legislation or as referred to in paragraph 43 which would preclude part or all of the meeting from being open to the general public).
48. The following will be entitled to attend Board meetings in an observer capacity:
 - (a) Members of the Committee,
 - (b) Any person requested to attend by the Board.Any such attendees will be permitted to speak at the discretion of the Chair.
49. In accordance with the Act the Administering Authority shall publish information about the Board to include:
 - (a) The names of Board members and their contact details.
 - (b) The representation of employers and members on the Board.

- (c) The role of the Board.
- (d) These Terms of Reference.

50. The Administering Authority shall also publish other information about the Board including:

- (a) Agendas and minutes
- (b) Training and attendance logs
- (c) An annual report on the work of the Board to be included in the Fund's own annual report.

51. All or some of this information may be published using the following means or other means as considered appropriate from time to time:

- (a) On the Fund's website.
- (b) As part of the Fund's Annual Report.
- (c) As part of the Governance Compliance Statement.

52. Information may be excluded from being published on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data prevented from disclosure under the Data Protection Act 1998.

Expenses and allowances

53. The Administering Authority shall meet the out of pocket expenses of Board members (for travelling etc) in line with the Administering Authority's policy on expenses.

Budget

54. The Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Board will be met from the Fund and determined by the Chief Financial Officer. The Board will seek approval from the Chief Financial Officer for any specific expenditure it wishes to make.

Core functions

55. The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.

- b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.
- c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.
- d) Assist with the development of and continually review such documentation as is required by the Regulations.
- e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.
- f) Monitor complaints and performance on the administration and governance of the scheme.
- g) Assist with the application of the Internal Dispute Resolution Process.
- h) Review the complete and proper exercise of Pensions Ombudsman cases.
- i) Review the implementation of revised policies and procedures following changes to the Scheme.
- j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- k) Review the complete and proper exercise of employer and administering authority discretions.
- l) Review the outcome of internal and external audit reports.
- m) Review draft accounts and Fund annual report.
- n) Review the compliance of particular cases, projects or process on request of the Committee.
- o) Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.

56. The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) Assist with the development of improved customer services.
- b) Monitor performance of administration, governance and investments against key performance targets and indicators.
- c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- d) Monitor investment costs including custodian and transaction costs.
- e) Monitor internal and external audit reports.
- f) Review the risk register as it relates to the scheme manager function of the authority.
- g) Assist with the development of improved management, administration and governance structures and policies.
- h) Review the outcome of actuarial reporting and valuations.
- i) Assist in the development and monitoring of process improvements on request of Committee.
- j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.

- k) Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.
57. In support of its core functions the Board may make a request for information to the Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing.
58. In support of its core functions the Board may make recommendations to the Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Reporting

59. The Board should in the first instance report its requests, recommendations or concerns to the Committee. In support of this any member of the Board may attend a Committee meeting as an observer.
60. Requests and recommendations should be reported under the provisions of paragraphs 57 to 59.
61. The Board should report to the Committee any concerns (agreed upon by consensus or a majority vote of the quorate Board) over a decision made by the Committee.
62. On receipt of a report under paragraph 63 above the Committee should, within a reasonable period, consider and respond to the Board.
63. Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report.
64. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee under paragraph 63 and has not been rectified within a reasonable period of time it is under an obligation to escalate the breach.
65. The appropriate internal route for escalation is to the Head of Legal and Democratic Services and the Chief Financial Officer.
66. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.
67. Board members are also subject to the requirements to report breaches of law under the Act and the Code.

Review of terms of reference

68. These Terms of Reference shall be reviewed on each material change to those parts of the Regulations covering local pension boards and at least every four years.

69. These Terms of Reference were adopted 12 February 2015.

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Pension Committee
10 June 2015**5. KNOWLEDGE AND SKILLS SELF-ASSESSMENT****Recommendation**

1. **The Chief Financial Officer recommends that:**
 - a) **the Knowledge and Skills Self-Assessment Questionnaire set out as Appendix 1 to this report be noted;**
 - b) **the Questionnaire in line with the 'Next Steps' timeline be completed by Members of the Committee; and**
 - c) **the updated Knowledge and Skills Policy Statement be endorsed.**

Background Information

2. CIPFA published its code of Practice on public sector pensions finance knowledge and skills in October 2011, and redrafted in July 2013. The Code of Practice has been devised in response to Lord Hutton's recommendation that every public sector pension scheme (and individual LGPS fund) should have a properly constituted, trained and competent "Pensions Board". The code also represents a key element in complying with the Myners Principle on Effective Decision making. This principle requires LGPS funds to ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and necessary recourses to make them effectively and monitor their implementation, and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Knowledge and Skills Training Policy

3. The Knowledge and Skills Policy Statement, endorsed by the Shadow Pension Committee on 3 April 2014, details the CIPFA Knowledge and Skills Framework, which includes technical guidance for Elected Representatives on Pension Committees and non-executives in the public sector. The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context
- Pension accounting and auditing standards
- Financial services procurement and relationship development

Knowledge and Skills Self-Assessment Questionnaire

Next Steps

Supporting Information

Contact Points

Background Papers

- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice.

4. The Knowledge and Skills Framework sets the skill set for those responsible for pension scheme financial management and decision-making under each of the above areas in relation to understanding and awareness of regulations, workings and risk.

5. The Knowledge and Skills Self-Assessment Questionnaire (Appendix 1) details the required skill set and enables members to self-assess their current knowledge and skills to identify areas which require additional training.

6. The questionnaire will be circulated by email and Officers and Members are asked to complete and return the document to the Principal Accountant – Pension Fund Investments and Reporting prior to 31 July 2015.

Appendix 1 - Knowledge and Skills Self-Assessment Questionnaire

Appendix 2 - Knowledge and Skills Policy Statement

County Council Contact Points

Specific Contact Points for this Report :

Sean Pearce, Chief Financial Officer, 01905 766268,
spearce@worcestershire.gov.uk

In the opinion of the proper officer (in this case, the Chief Financial Officer) there are no background papers relating to the subject matter of the report.

Worcestershire County Council Pension Fund

Knowledge and Skills Self-Assessment Questionnaire

	0	1	2	3
	No Knowledge	Some Knowledge	Broad Knowledge	Expert / in depth Knowledge
LEGISLATIVE AND GOVERNANCE CONTEXT				
Scheme-specific legislation and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LGPS benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LGPS discretions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local government finance and council tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Constitutional framework for administering authorities and pension fund committees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Community representation, consultation and reporting to stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Combined code	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Myners principles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate change	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate Social Responsibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Role of the Pensions Regulator, Pensions Advisory Service and Pensions Ombudsman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ACCOUNTING AND AUDITING STANDARDS				
Accounts and audit regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Role of internal and external auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business and financial planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Efficiency reviews	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PROCUREMENT OF FINANCIAL SERVICES AND RELATIONSHIP MANAGEMENT				
UK and EU procurement regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Appointing Fund managers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Custody	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

INVESTMENT PERFORMANCE AND RISK MANAGEMENT				
Investment performance measurement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance of advisors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance of the committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance of support services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FINANCIAL MARKETS AND INVESTMENT PRODUCTS				
Asset allocation strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Liability driven strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Property	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private equity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hedge funds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commodities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Currency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock lending	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regulation of pension fund investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ACTUARIAL METHODS, STANDARDS AND PRACTICES				
Triennial actuarial valuations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Funding strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Actuarial monitoring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ill-health retirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Admitted bodies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outsourcing/bulk transfers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Worcestershire County Council Pension Fund

Knowledge and Skills Policy Statement

1. Introduction

1.1 CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice") was first published in October 2011 and redrafted in July 2013. CIPFA's Code of Practice embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge and skills required. It recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

1.2 Worcestershire County Council (The Council) as the Administering Authority for Worcestershire County Council Pension Fund (The Fund) recognises the importance of ensuring that it has the necessary resources to discharge its pensions administration responsibilities and that all staff and members charged with financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

1.3 The Council therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision-making and governance bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

1.4 The Pension Committee of the Worcestershire County Council Pension Fund fully support the intentions behind CIPFA's Code of Practice. This Knowledge and Skills Policy Statement formally sets out the arrangements the Fund will take in order to comply with the principles of the CIPFA Knowledge and Skills Code of Practice.

2. Adopted CIPFA statements

2.1 The Council adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

2.2 The Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.

2.3 Accordingly the Council 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.

2.4 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 Frameworks.

2.5 The Council will report annually on how these policies have been put into practice throughout the financial year.

- 2.6 The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and with CIPFA Standards of Professional Practice (where relevant).

3. Knowledge and Skills Framework

- 3.1 In January 2010 CIPFA launched technical guidance for Elected Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework.

The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

- 3.2 The Knowledge and Skills Framework sets the skill set for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk. CIPFA also provide Training Needs Analysis questionnaires on each of the six core areas above which the Fund will make use of as part of its assessment of current knowledge among Members and Officers.

4. Objectives

- 4.1 The Fund's objectives relating to knowledge and skills are to:

- Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and are well based.

To achieve these objectives, members require an understanding of:

- Their responsibilities as an administering authority of a local government pension fund;
- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the Fund.

- 4.2 To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and Code of Practice to meet the skill set within that Framework. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Pension Committee's agenda. For example, funding training was given immediately preceding the Committee meeting that discussed and endorsed Triennial Valuation results.

- 4.3 In order to achieve the objectives all those with decision making responsibility in relation to LGPS pension matters will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified; and
- seek to maintain their knowledge.

- 4.4 This policy statement will apply to all elected members and representatives with a role on the Pension Committee or Pension Investment Advisory Panel and to the Chief Financial Officer and his direct reports. Other officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

5. Knowledge and Skills

- 5.1 Members and officers of the Fund already possess some of the required skills set out in the Skills and Knowledge frameworks; however there may be some areas where knowledge may need supplementing or strengthening. It is important that these areas are identified and the appropriate training is undertaken, not only to demonstrate compliance with the CIPFA Code of Practice but also to ensure members are properly supported in their role.
- 5.2 The Knowledge and Skills Framework (members) provides details of the six core competencies and members are asked to review this to self-assess any personal knowledge and skills requirements they feel they may have.
- 5.3 A separate framework exists for officers, and it will be integrated with the Council's Personal Development Plan and Training Needs process to identify any specific individual officer training needs.
- 5.4 In reviewing the Knowledge and Skills Framework, it is important that members appreciate that an in-depth knowledge of all the core knowledge areas is neither assumed nor necessary. In many cases what the framework expects is only an understanding or awareness of the area, and knowledge of where more detailed knowledge could be sought e.g. members are not necessarily expected to have in depth knowledge of a matter, but a general awareness of the issue and understanding of where they might source further information if required.

6. Training

- 6.1 Induction Training will be provided for all new officers and members. This will involve covering the requirements of the Training Strategy alongside guidance and information on the requirements of their roles. It is expected that Induction Training for members could involve approximately the equivalent of a full day of training, albeit these sessions could be spread over a few days.
- 6.2 Following induction training new officers and members will be asked to complete a Training Needs Assessments to identify gaps in compliance with the CIPFA Knowledge and Skills Framework.
- 6.3 The aim of training provided to members and officers will be to:
- equip the necessary skills and knowledge to be competent in their role;
 - support effective and robust decision making;
 - meet the required needs in relation to the Fund's objectives.
- 6.4 Consideration will be given to various training resources available in delivering training to members or officers in order to achieve efficiencies. These may include but are not restricted to:
- Using an Online Knowledge Portal or other e-training facilities
 - Attending courses, seminars and external events
 - Internally developed training days and pre/post Committee sessions
 - Shared training with other Funds or Frameworks
 - Regular updates from officers and/or advisers
 - Desktop / work based training

- 6.5 Fund Training Plans will be developed at least on an annual basis. These will be updated as required taking account of the results of Training Needs Assessments completed by Officers and Members.
- 6.6 There will be costs incurred in subscribing and attending external events, as well as providing the appropriate training sessions. Where possible, officers will look for ways to minimise these costs, through early booking opportunities and joint training sessions with other funds.

7. Record Keeping

- 7.1 A log of potential external events which may count towards credits will be maintained on an ongoing basis by the Principal Accountant – Pension Fund Investments and Reporting. This will be updated as information on events becomes available and will be provided at Pension Committee meetings and meeting of the Pension Investment Advisory Panel.
- 7.2 Appropriate attendance at events for representatives of the Pension Committee and Pension Investment Advisory Panel will be agreed by the chairman. Appropriate attendance at events for officers will be agreed via their relevant line manager. A list of future events and seminars will be presented at each Pension Committee meeting.
- 7.3 Progress and achievement will be certificated at least on an annual basis individually to all officers and members. These will detail:
- The current assessment of an individual's acquired knowledge;
 - Their progress against achieving the credits from other internal/external training or events; and
 - All training courses and events attended by them to date.

Pension Committee
10 June 2015**6. PENSION FUND ACCOUNTS EXECUTIVE SUMMARY****Recommendation**

1. **The Chief Financial Officer recommends that the Pension Fund Accounts Executive Summary (pre-audit) be noted.**

Background Information

2. The Pension Fund Final Accounts Explanatory Foreword provides some key information that summarises the Pension Fund's performance in 2014/15 along with income and expenditure trends and movement in the Fund's membership. A summary of governance changes, detail of changes in the management of the Fund's assets over the financial year and the outcome of the 2013 Actuarial Valuation are also included.

Supporting Information

Appendix - Pension Fund Accounts Executive Summary

Contact Points

County Council Contact Points
Sean Pearce, Chief Financial Officer, 01905 766268,
spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case, the Chief Financial Officer) there are no background papers relating to the subject matter of the report.

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Explanatory Foreword and a Review of the Year 2014/15

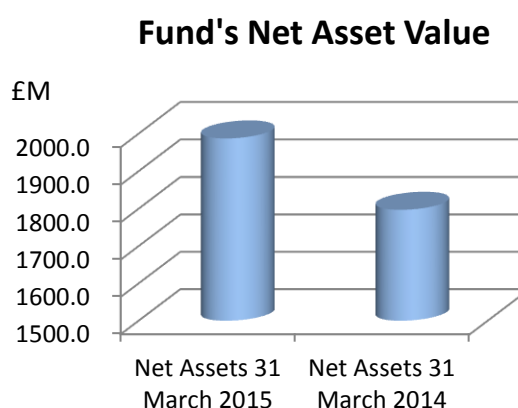
Foreword by the Chief Financial Officer

Welcome to the Worcestershire County Council Pension Fund 2014/15 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

Aims and purpose of the Scheme	
The aims of the Scheme are to:	
✓	enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies
✓	manage employers' liabilities effectively
✓	ensure that sufficient resources are available to meet all liabilities as they fall due, and
✓	maximise the returns from investments within reasonable risk parameters.
The purpose of the Scheme is to:	
✓	receive monies in respect of contributions, transfer values and investment income, and
✓	pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

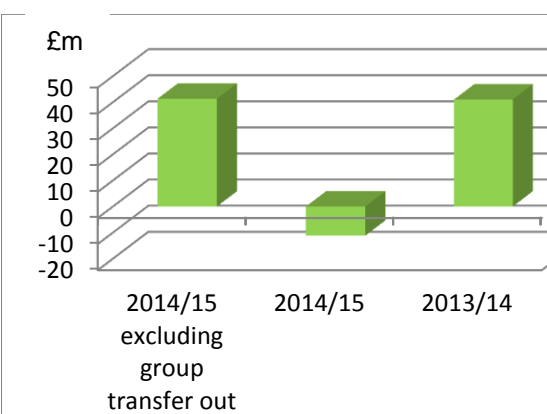
Key headlines

- The value of the Fund's net assets increased £190.2million from £1,797.1 million at 31 March 2014 to £1,987.3 million at 31 March 2015:
- Recurring income from contributions increased by 8.9%, as a result of an increased number of contributors to the fund, partly due to the impact of Auto Enrolment, combined with an uplift in contribution rates following the 2013 actuarial valuation. Net investment earnings decreased by 3.1%, whilst ongoing expenditure increased by 2.9%.
- Contributions from staff and employers plus interest and dividends received exceeded benefits paid in 2014/15 by £47.6 million. It is expected that an operating surplus will exist in the foreseeable future.



Surplus / Deficit on pension fund account

- During the year a deficit resulted on the Per Fund account totalling £ (11.2)million for 2014/15, a decrease of 52.1 million from the surplus of £41.0 million for 2013/14. A group transfer out of the Probation Service to the Greater Manchester Pension Fund of £52.3million took place in February 2015 due to the national restructuring of the National Offender Management Service, without which surplus of £41.3million would have resulted the pension fund account (£0.2million increase compared to 2013/14).



- An analysis of changes within the fund's me

	31 March 2014	31 March 2015	Change	Change %
Contributors to the fund*	20,739	21,569	830	+4.0
Pensions paid	15,308	15,768	460	+3.0
Deferred members**	16,829	17,938	1,109	+6.6
	52,876	55,275		

* The increase in contributors to the fund is in part a result of Automatic Enrolment, which came into effect during 2014/15.

** The increase in deferred members is in part due to employers reducing staff headcount and the ex-employees choosing to retain their accrued benefits in the scheme as opposed to transferring out.

Governance

The Public Service Pensions Bill was introduced in the House of Commons on 13 September 2012, which set out governance requirements for the new Local Government Pension Scheme (LGPS) to be introduced in 2014/15. LGPS regulations on the new governance requirements were published in the first quarter of 2015 and Council approved recommendations in February 2015 to introduce a new Pension Committee from 1st June 2015 and to implement a Pension Board from 1st April 2015. The new Pension Committee will replace the current Shadow Pension Committee, which has been in operation through out 2014/15.

The Pension Fund's Governance Policy Statement is published on the Council's website. The Policy Statement ensures that the Fund's governance arrangements comply with the LGPS Regulations and are aligned to prescribed best practice guidance

The new governance arrangements include the establishment of a Pension Investment Advisory Panel and Pension Administration Forum to support the Pension Committee in its role as Scheme Manager.

Management of the fund's assets

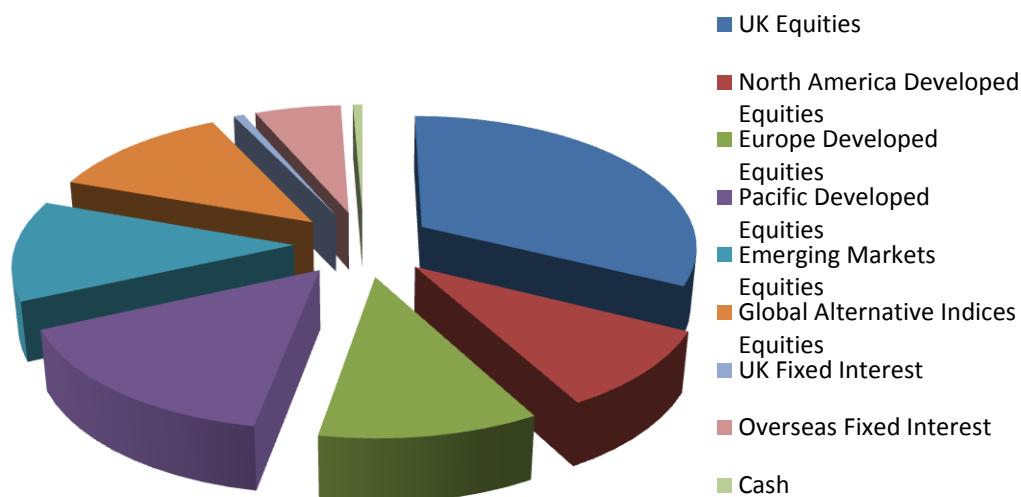
The management of the fund's assets is operated through five specialist external managers with six mandates in total. The Shadow Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Shadow Pension Investment Advisory Committee, which includes an independent financial adviser.

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Government Securities and Corporate Bonds. As a result of an asset allocation review that took place in November 2013, the following Shadow Pension Committee endorsed recommendations were progressed during 2014/15:

- a) An allocation of up to 10% of the Fund be made to 'Alternatives including property' should opportunities arise in Property or other Alternatives Investment Recommendations over the Fund's inter-valuation period. A move will only be made where a benefit can be demonstrated where returns can be maintained whilst adding diversification to reduce volatility.
- b) Introduce a rolling programme of mandate reviews over the inter-valuation period.

As at 31st March 2015 the Shadow Pension Committee, following a competitive tendering process, endorsed the investment of 10% of the fund's assets into two pooled property funds; Invesco Real Estate – European Fund and Venn Commercial Real Estate Fund, and two pooled Infrastructure funds; UK Green Investment Bank Offshore Wind Fund and Hermes GPE Infrastructure Fund (Core).

The following chart details the distribution of the fund's assets as at 31 March 2015:



Management of the fund's liabilities

The funding strategy is kept under regular review by the Shadow Pension Committee and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. The key outcomes of the valuation are detailed below:

- The Fund's assets of £1,721 million represented 69% of the Fund's past service liabilities of £2,488 million (the "Funding Target") at the valuation date. This compares to a similar 69% funded position as a result of the 2010 valuation.
- A common rate of contribution of 14.1% of pensionable pay per annum is required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.
- The deficit of £767 million would be eliminated by a contribution addition of £41m per annum increasing at 4.1% per annum (equivalent to 12% of projected Pensionable Pay at the valuation date) for 21 years.

The next actuarial valuation will be undertaken in 2016/17, with any changes to the employers' contribution rates being implemented with effect from 1 April 2017.

To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

Sean Pearce
CPFA
Chief Financial Officer

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Pension Committee

10 June 2015

7. PENSION INVESTMENT UPDATE

Recommendation

1. The Chief Financial Officer recommends that:

- a) the Independent Financial Adviser's fund performance summary and market background be noted; and**
- b) the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted.**

Background Information

2. The Committee will receive regular updates on fund performance. The fund's Independent Financial Adviser has provided a fund performance summary and a brief market background update (appendix 1). The market background update is provided to add context to the relative performance and returns achieved by the fund's investment managers.

3. The Committee will also receive regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Advisory Panel (appendix 1).

JP Morgan – Emerging Markets Equities

4. JP Morgan outperformed the benchmark by +0.3% in the quarter ended 31st March 2015. Their one year performance to March 2015 was 3.7% behind their +2.0% outperformance target. Since inception they are +0.4% against benchmark but behind their outperformance target by 1.6% per annum. It is recommended that they remain 'on watch' until consistent outperformance is achieved.

Capital International

5. Capital International outperformed the index benchmark in the quarter ended 31 March by +3.1%. Their twelve month performance to March 2015 was 1.8% behind their target performance (benchmark +1.5%).

6. It is recommended that officers negotiate with Capital International in order to extend their discounted fee period to December 2015, at which point a decision is taken regarding Capital's contract continuance. To assist with that decision the Shadow Pension Investment Advisory Committee requested that the Principal Accountant – Pension Fund carry out due diligence on Capital's controls and processes. The

Nomura

report is available to Committee members on request.

7. Nomura underperformed the index benchmark in the quarter ended 31 March 2015 by -1.1%, this negative quarterly return dragged down their twelve month relative return to +1.1%, which was 0.4% behind their target outperformance of +1.5%.

8. It is recommended that a period of sustained outperformance is required before the manager is taken off 'watch'.

Supporting Information

Appendix 1 - Independent Financial Adviser summary report

Appendix 2 - Bar Chart of investment managers' performance

Contact Points

County Council Contact Points

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spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case, the Chief Financial Officer) there are no background papers relating to the subject matter of the report.

Fund Performance Summary and Market Background

The value of the Fund in the quarter rose to £1.962m, an increase of over £78m compared to the end December value of £1,884m. The Fund produced a positive return of 7.1% over the quarter, which was an outperformance against the benchmark of 0.1%. This was attributable to stock selection (0.2%), with a negative impact from asset allocation (-0.1%). Over a 12 month period the Fund recorded a negative relative return against the benchmark of -0.2% (13.4% v. 13.6%).

The active elements of the Fund generally performed relatively well in Q1 2015. Starting on the equities side, Capital International (North America) produced an amazing outperformance of 3.1%. Schroders (Emerging Markets) had another good quarter with performance over benchmark of 1.3%, and JP Morgan (Emerging Markets) outperformed their benchmark by 0.3%. Nomura (Pacific) provided an underperformance against their benchmark of -1.1%. JP Morgan (Bonds) did slightly better in Q1 2015, with an outperformance of 0.5%.

The alternative passive strategies managed by UBS produced a return ahead of the respective benchmarks in each quarter over the first 12 months since inception, including a particularly encouraging Q1 2015.

World equity markets appear to continue to defy gravity, no doubt helped by waves of QE still washing around Japan and now Europe. The US and UK seem to have moved on with no particular side effects, so far. The next stage, interest rates "normalising", does seem to keep getting pushed to the right. The impact of lower energy prices is starting to show through in economic numbers, and to some extent the strength of the USD is having some impact on their export figures.

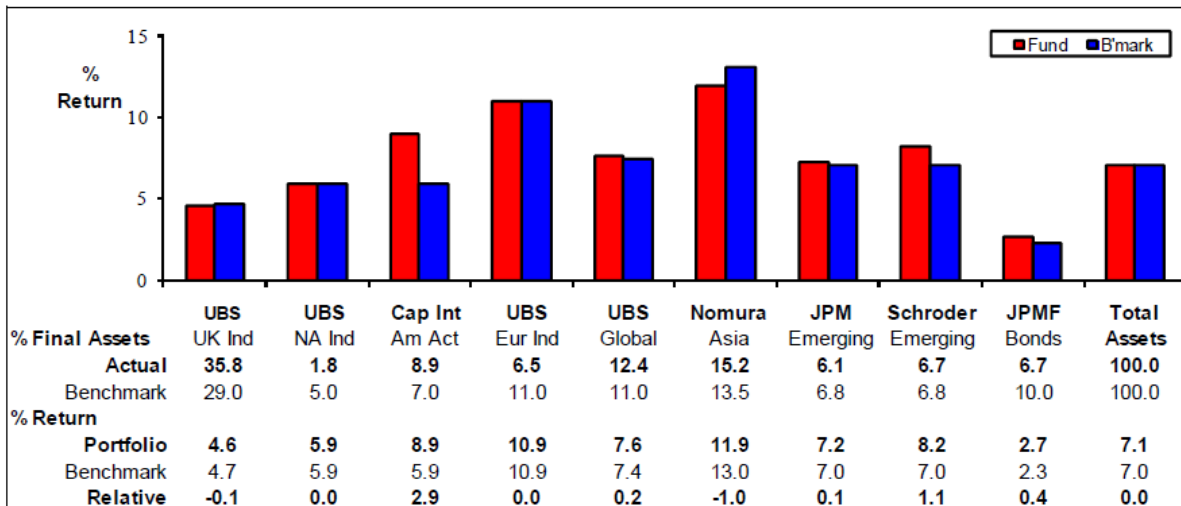
So the QE countries are the winners amongst developed markets over this quarter, with Japan well out in front, with Europe following. Hong Kong also showed a strong quarter, with the US and the UK trailing behind but still well into positive territory. Valuations do look pretty stretched to me, there is certainly risk on the downside.

In emerging markets, the valuation worry doesn't apply, but there are other concerns including the impact of currencies and commodity prices. There have been some strong performances, but not across the board. The Asian region performed best in aggregate, helped by the Philippines, India and China. Russia rebounded as tensions appear to ease in the Ukraine, but time will tell if this is a "dead cat" bounce, or should that be a dead bear? South America struggled, with the exceptions of Mexico and Chile.

There has been a fair amount of volatility in Bond markets over the quarter, but concerns remain about the long term low returns being seen. There is an increasing search by pension funds for lower risk income returns outside of the traditional bond markets as the acceptance grows that high valuation/low yields will persist, particularly in government

Worcester CC - Investment Overview

Quarter to end March 2015



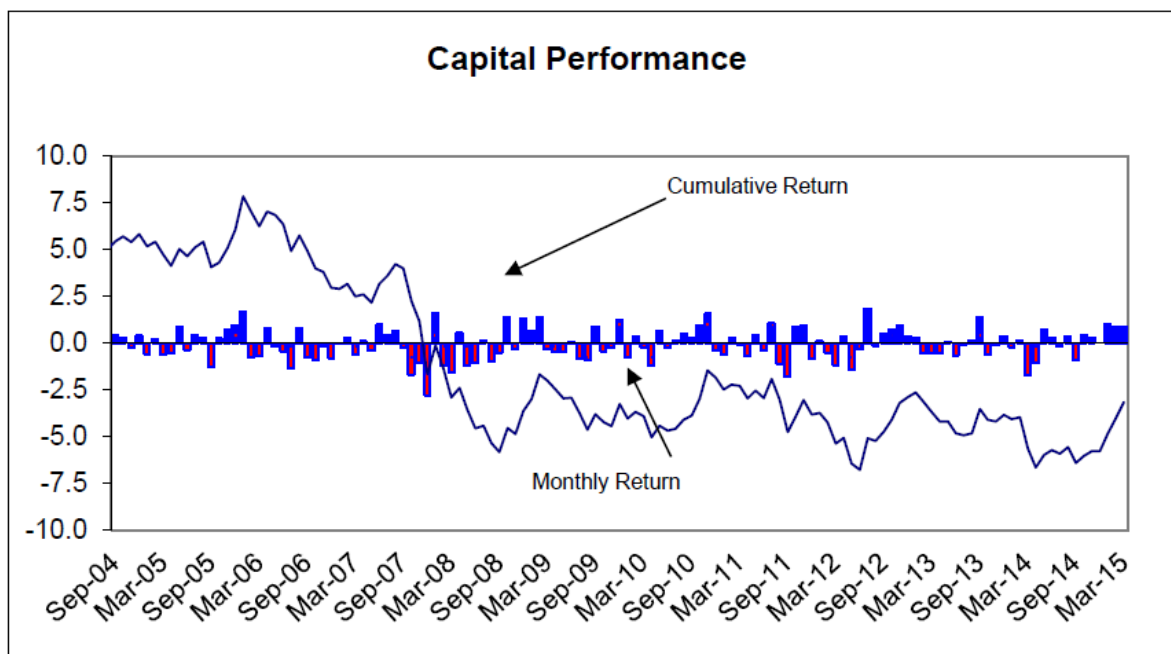
Performance update for managers 'On Watch' July 2014 to September 2014

Capital International- Active North America

Performance objective is to outperform the benchmark by 1.5% annually over rolling 3 years

Just as we thought that it was all over, Capital go and produce probably one of the best quarters performance that Worcestershire has seen in the last 12 years, outperforming by 3.1% (9.0% v. 5.9%). This has helped to drag up their 12 month performance to being just -0.3% behind their benchmark (10.8% v. 11.1%). This improvement has seen their three year performance move to 1.2% annualised (18.3% v. 17.0%).

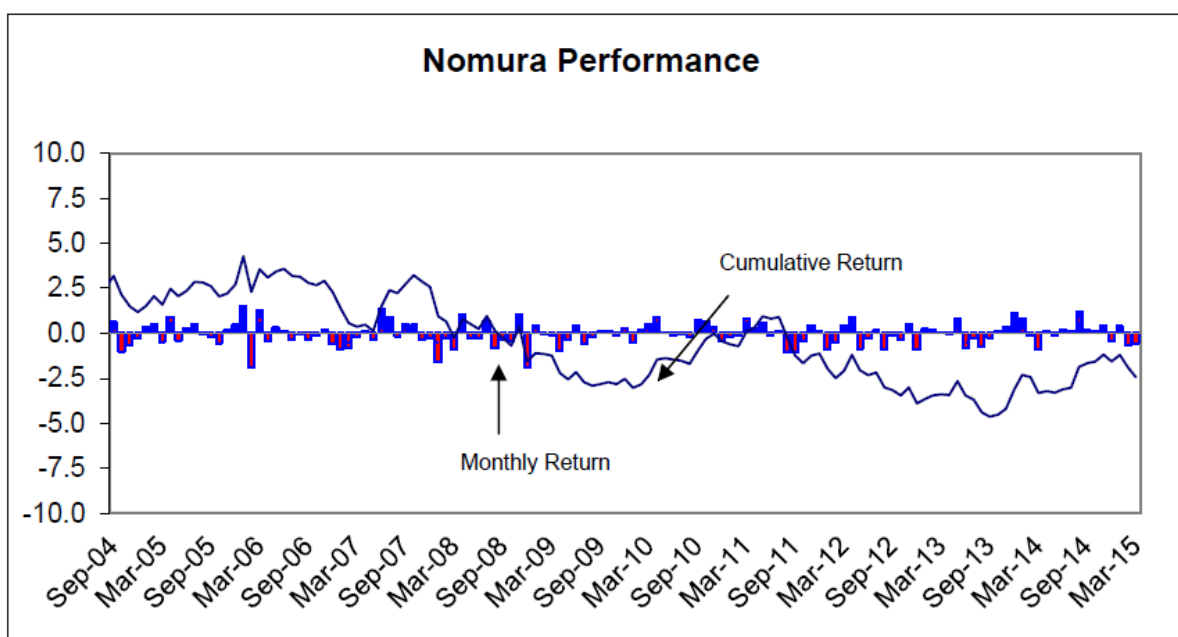
The US component returned 10%, against the benchmark of 6.4%. Overall performance was hindered by another poor quarter from Canada, -4.9% v. -1.4%.



Nomura- Developed Far East

Nomura are struggling again, with an underperformance of -1.1% against their benchmark over the quarter under review (11.9% v 13%). This has dragged down their performance over 12 months, which is now at 1.14% (20.86% v 19.72%), and the three year performance remains unsatisfactory at -0.21% annualised against benchmark.

In regional terms Japan let the side down badly, which underperformed the local benchmark by -1.95%. ex Japan outperformed by 0.52% over the quarter under review. Both sector and stock selection has hindered performance in Japan, whereas in the Pacific Basin (i.e. ex Japan) they again appear to have benefitted from country allocation, rather than necessarily sector or stock selection. This included some positive contributions from non benchmark countries (China and India).



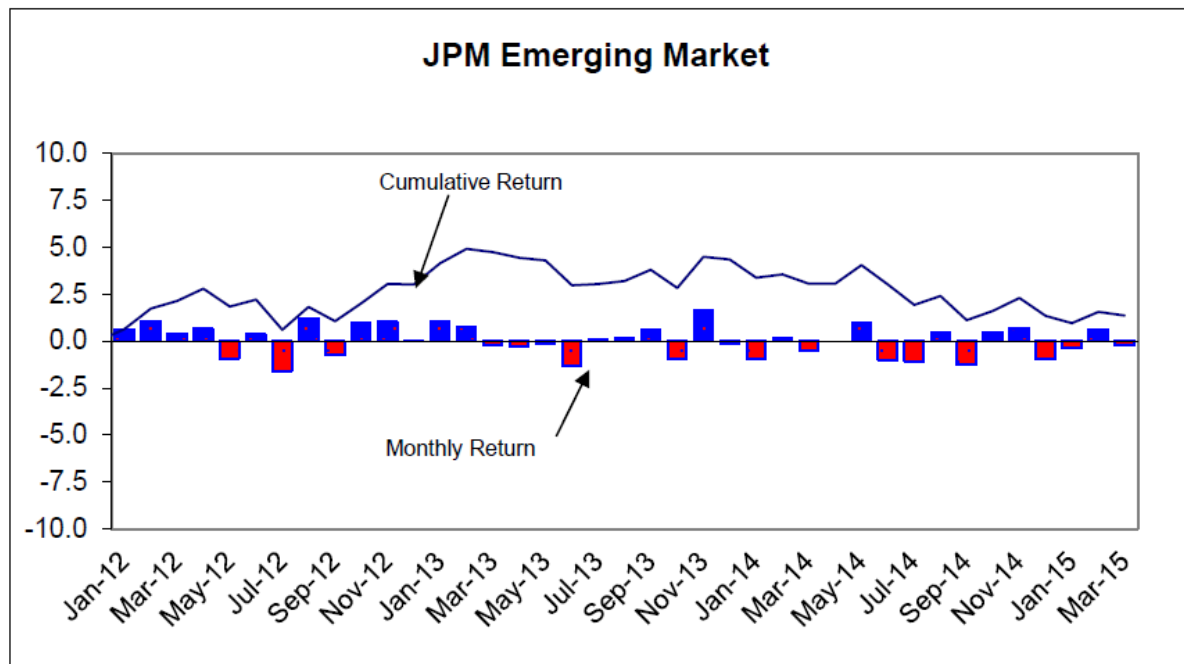
JP Morgan – Emerging Markets

JP Morgan performed slightly ahead of their benchmark over the quarter, by 0.3% (7.3% v. 7.0%). Although still extremely disappointing, their one year performance against their benchmark has improved marginally, now -1.7% (14.6% v. 16.3%), which excludes their performance target.

Since inception they have only outperformed by 0.43% against their benchmark, which is a long way short of their target outperformance.

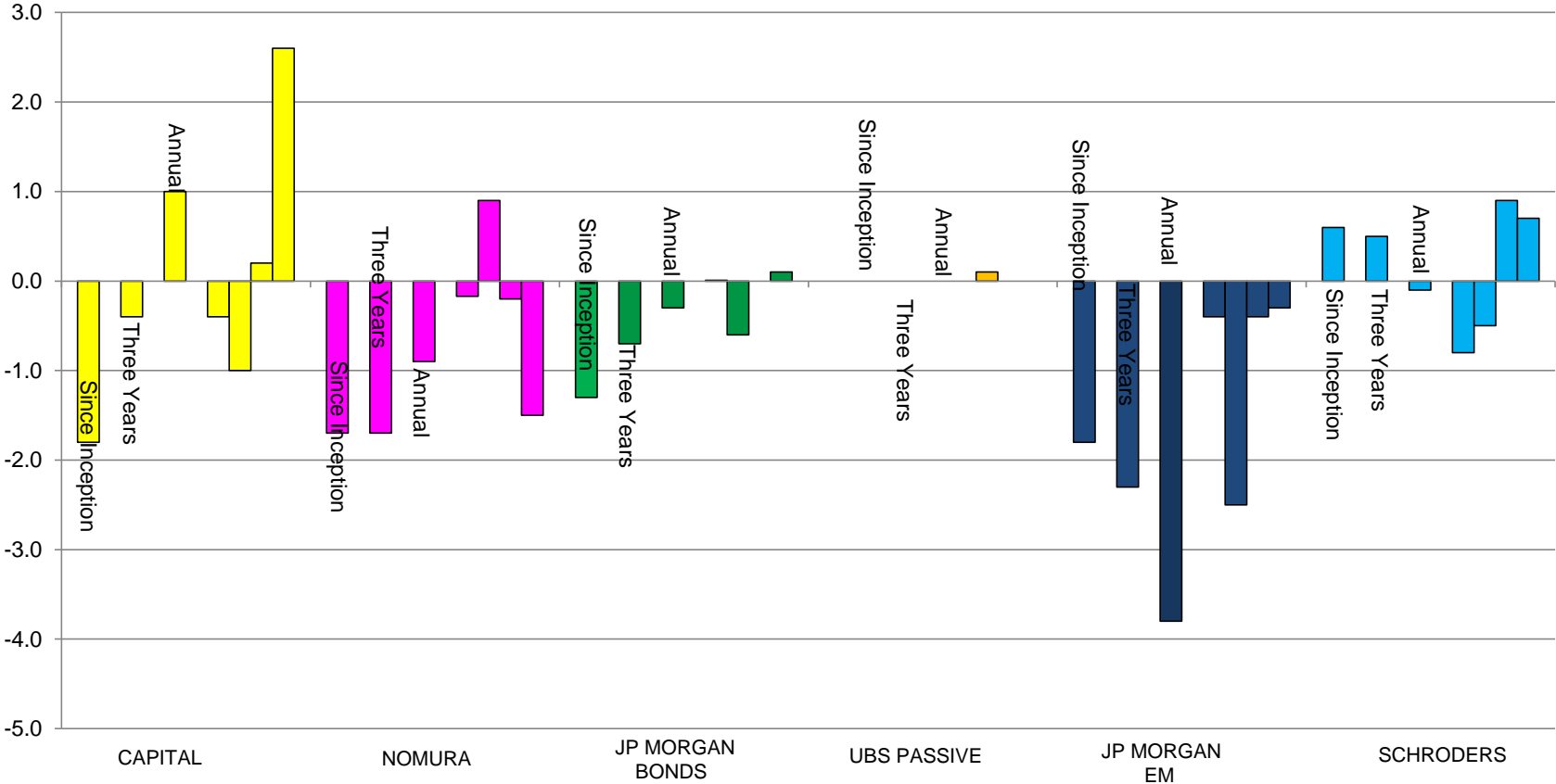
It should be noted at the time of the last SPIAC meeting on 19th March their performance in the quarter to date was quoted as being ahead by 1.12%, including an uplift to the 18th March of 72bps in that month alone. Clearly something went badly wrong in the last 13 days in March to see performance fall back to what they have reported for the total quarter. This has not been explained in their report.

JP Morgan's client relationship director for the Worcestershire Pension Fund, John Stainsby, has left the company. Monique Stephens will assume that role.



Worcestershire County Council Pension Fund - Chart showing for each manager: performance since inception, three years, annual performance April 2014 to March 2015 and latest year in quarter ends June 2014 to March 2015, relative to performance requirement

0 = Performance Requirement



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Pension Committee

10 June 2015

8. PENSION ADMINISTRATION UPDATE

Recommendation

Shadow Pension Administration Advisory Forum

- 1. The Head of Human Resources and Organisational Development recommends that:**
 - a) The Committee notes the Pension Administration Advisory Forum Update; and**
 - b) The Committee notes the general update from the Administering Authority.**
2. The Shadow Pension Administration Advisory Forum met on 5 May 2015 with 26 employers in attendance.
3. The Agenda included the following items:
 - Pension Board and Pension Committee – Governance Arrangements (Mark Forrester)
 - Investment Panel - Governance Arrangements (Mark Forrester)
 - Reporting Fund Performance (Mark Forrester)
 - Overview of CARE (Bridget Clark)
 - Year End Arrangements (Linda Probin)
 - Freedom and Choice (Linda Probin)
 - Cost Control in the LGPS (Ian Kirk, Mercers)
4. In advance of the meeting questions from 2 employers were received and these were responded to and distributed at the meeting for discussion.
5. A copy of the briefing note from Mercers re Cost Control in the LGPS is attached for your information.
6. No other matters were raised for the attention of the Shadow Pension Committee.
7. Copies of the slides and notes from the meeting have been circulated to all employers.
8. The next meeting of the Forum will take place on Tuesday 24 November at 2pm and the Agenda will include a section for an Employer Update and a section for Open Debate/Discussion and employers

will be asked to submit their questions and queries in advance.

CARE

9. The LGPS changed from a final Salary to a Career Averaged Re-valued Earnings (CARE), defined benefit scheme, with effect from 1 April 2014.

10. The key elements of the scheme are:

- Membership
- Opting out
- Leavers
- 50:50 scheme
- Pensionable Pay
- Additional Pension Contribution (APC)
- Termination notification
- Discretionary policies

11. The Local Government Association (LGA) have co-ordinated and produced all of the information, for members, employers and Administering Authorities and this is available on their website at www.lgpsregs.org

End of Year Arrangements

12. A number of changes have been made to this year's template to reflect first year of CARE.

13. The template was forwarded to all employers on 24 February and again on 18 March with detailed instructions on how to complete

14. The Administering Authority is reviewing completed returns and resolving queries/errors before the issue of Annual Benefit Statements and calculating the Annual Allowance by 31 August 2015.

Freedom and Choice

15. The new rules do not apply directly to LGPS defined benefits, individual members are free to leave the scheme (must be more than 1 year off their normal pension age) and request a transfer to a defined contribution scheme. After taking financial advice members will need to consider the consequences of swapping secure defined benefits for much riskier personal pension type arrangements.

16. The Pension Fund will monitor requests and consider any impact to the scheme's investment strategy.

Out-sourcing – Requests for estimates

17. The Administering Authority is continuing to receive high volumes of requests for estimates to both employers and employees.

GMP Reconciliation

18. The Administering Authority is preparing guidance on the end of contracting and delivering the national GMP reconciliation exercise.

Tri-annual Valuation

19. The Fund is required to undertake a tri-annual valuation. This is undertaken by the Fund's Actuary, Mercers Tri- annual valuations and the Administering Authority has to data cleanse all records in preparation for the next valuation which will for the 31/03/2016 Pension Fund Valuation.

Supporting Information

- Appendix - Cost control in the LGPS - A briefing note for members and employers

Contact Points

County Council Contact Points

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Background papers

In the opinion of the proper officer (in this case, The Head of Human Resources and Organisational Development) there are no background papers relating to the subject matter of the report.

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Shadow Advisory Board

Cost control in the LGPS - A briefing note for members and employers

Summary

Under the new public service pension scheme framework, the costs of the pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.

In the LGPS in England & Wales, there will be two mechanisms used to do this:

- a) the employer cost cap (ECC) process as operated by HM Treasury, and
- b) the future service cost (FSC) process as operated by the LGPS Scheme Advisory Board.

Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.

The target cost for the FSC process is 19.5% as a total of employer and member contributions at a 2:1 ratio (13% relating to employers' contributions and 6.5% relating to members'). The proposed target cost for the ECC process is 14.6% of employer contributions alone.

The cost cap mechanisms are both mainly concerned with calculating the cost of providing benefits that have been accrued since the career average reforms took effect in April 2014. The total employer contributions targeted are therefore notional figures, and most employers will find they pay contributions that are different to these notional rates.

There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered, but under either process, movement of 2% or more in either direction will require changes to be made to bring the Scheme cost back to the target.

Shadow Advisory Board

A member perspective

In the event that either of the processes demonstrate that the cost of the Scheme has increased or decreased to a point that a requirement for reform is triggered, the Scheme must be bought back to its target cost via one of the below two means:

- Changes to the design of members' benefits (for example, by changing the accrual rate or the normal pension age), or
- Changes to the member contribution rate.

The results of the cost control process could therefore lead to either, a) changes in the contributions which need to be paid in to the LGPS as part of Scheme membership, or b) to changes in the pension benefits eventually payable by the LGPS.

In the event that a design change cannot be agreed between the Government and the Scheme Advisory Board to bring the Scheme back to its target cost, an adjustment to the rate at which future benefits will accrue ('the accrual rate') must be made by DCLG.

An employer perspective

The figures calculated under the cost control processes will be broadly used to answer the question, "How much does the career average benefits structure cost across the LGPS in England & Wales?"

The results of the cost control processes are therefore highly unlikely to correlate with the contribution rates payable by individual employers. There are two main reasons for this:

- Local funding valuations are based on individual fund and employer experience and assumptions are made based on this experience. The cost control processes will be looking at Scheme experience nationally and consequentially making assumptions on this basis.
- Local funding valuations will include consideration of all the benefits payable by each fund and employer in their participation in the Scheme - including costs relating to the pre-April 2014 final salary benefits structure.

In the event that reforms to the Scheme do result from either of the processes, employers will also need to be aware of the crucial need to communicate with their employees to ensure that they understand the changes that will be made.

Shadow Advisory Board

1. Background

Key points: A crucial part of the new public service pension scheme framework is the requirement for schemes' costs to be periodically assessed against a cost control mechanism. In the LGPS in England & Wales, there will be two cost control mechanisms:

- a) the employer cost cap (ECC) process as operated by HM Treasury, and
- b) the future service cost (FSC) process as operated by the LGPS Scheme Advisory Board.

Both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the target.

In June 2010, the Chancellor of the Exchequer announced the formation of an Independent Public Service Pensions Commission to make recommendations on how public service pensions could be made more sustainable and affordable in the long term in a manner fair to both the public service workforce and the taxpayer.

The Commission, chaired by Lord Hutton of Furness, [published its final report](#) in March 2011 and this outlined a variety of proposals to reform public service pension schemes in order to achieve better sustainability and affordability. One of the proposals, recommendation 12, stated:

"The Government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached."

In making this recommendation, the Commission has demonstrated that a crucial aspect of the package of reforms will be continually reviewing the public service pension schemes to ensure that the aims of sustainability and affordability are being met.

A new legislative framework for public service pension schemes was introduced by the Public Service Pensions Act 2013. In keeping with recommendation 12, this requires that public service pension schemes, including the Local Government Pension Scheme (LGPS), are regularly assessed against a cost control mechanism.

Shadow Advisory Board

Crucially, if an assessment under the cost control mechanism shows that the costs of the Scheme have moved sufficiently from the target cost, changes must be made to bring the Scheme cost back to the target.

This is known as the cost control process and, in the LGPS in England & Wales, there will be two mechanisms for assessing the cost of the Scheme:

- an Employer Cost Cap mechanism (ECC), operated by HM Treasury on advice from GAD which is the mechanism formally required by the Public Service Pensions Act 2013, and
- a Future Service Cost mechanism (FSC), operated by the LGPS Scheme Advisory Board, on advice from GAD and to the satisfaction of the Department for Communities and Local Government (DCLG).

Both processes will be undertaken in the LGPS every three years in line with the local triennial valuations that are undertaken by each pension fund to determine funding levels and the employer contributions payable in the coming period. The cost control mechanisms will first be used to assess the cost of the Scheme at the same time as the 2016 valuations, using data as at 31st March 2016.

Any changes to the Scheme's benefits structure or its employee contribution rates which arise from the 2016 cost control process will be effective from 1st April 2019.

Please note - All references within the remainder of this document to the Local Government Pension Scheme or the LGPS should be taken to mean the Local Government Pension Scheme in England & Wales.

2. The two mechanisms

Key points: There are two mechanisms because the ECC process has been partly established in order to demonstrate consistency between the public service pension schemes. Because of this, the LGPS Scheme Advisory Board FSC process has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms.

There will be a number of differences between the two processes, which will mean that the figures calculated through the ECC process won't always match the figures calculated through the FSC process.

In the event that the ECC is triggered but the FSC isn't, the ECC mechanism as operated by HM Treasury will take precedence.

Shadow Advisory Board

There are two mechanisms for assessing the costs of the LGPS. The ECC process as operated by HMT will in some respects be standardised across all public service pension schemes to allow for some consistency of comparison between the schemes. The FSC process as operated by the Scheme Advisory Board has therefore been established to reflect the specifics of the LGPS.

Whilst both are actuarial estimations of how much it will cost to provide the benefits of the Scheme, there are certain differences between the calculations which will mean that each gives a different answer to the question, "How much does the career average benefits structure cost?".

For instance, the LGPS is alone amongst the public service pension schemes in offering a 50/50 section to its members. This section offers members the opportunity to broadly pay half the contributions and receive half the benefits. If there is a high take up of 50/50 section membership in the LGPS, that could cause an overall reduction in the total cost of the Scheme. However, the ECC process operated by HM Treasury will not take 50/50 membership into consideration in its calculations - instead it will assume that all members are in the full section of the Scheme. This could mean that different figures will emerge from the two processes because of the differing treatments of 50/50 members.

In addition, the processes may make different assumptions in respect of what will happen within the Scheme in the future. For example, when members come to retire they can choose to commute some of their pension and instead take this as a lump sum. The government currently plan that an assumption will be made across all public service pension schemes that on average 15% of the maximum a member can convert from annual pension is commuted to lump sum. In the event that the LGPS has different experience, the Scheme Advisory Board may choose to use a different assumption in its FSC calculations.

Crucially, in the event that the HM Treasury ECC process suggests that corrective action needs to be taken to bring the Scheme back to its target cost, but the Scheme Advisory Board FSC process suggests that no action needs to be taken, the HM Treasury process takes precedence and changes would need to be made to the Scheme.

Shadow Advisory Board

3. The target costs

Key points: The target cost for the Scheme Advisory Board FSC process is 19.5% as a total of employer and member contributions at a 2:1 ratio (13% relating to employers' contributions and 6.5% relating to members'). The proposed target cost for the HM Treasury ECC process is 14.6% of employer contributions alone.

There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered, but under either process, movement of 2% or more from the respective targets in either direction will require changes to be made to bring the Scheme cost back to either target.

The cost cap mechanisms are both only concerned with calculating the cost of providing benefits that have been accrued since the career average reforms took effect in April 2014. The total employer contributions targeted of 13% for the FSC and 14.6% for the ECC are therefore notional figures, and most employers will find they pay contributions that are different to these notional rates (for a number of reasons, as outlined further in the next section).

The target cost for the FSC process is 19.5% as a total of employer and member contributions at a 2:1 ratio (13% relating to employers' contributions and 6.5% relating to members'). The proposed target cost for the ECC process is 14.6% of employer contributions alone.

It is important to note that both processes are only designed to look at certain elements of the cost of the Scheme. Significantly, the mechanisms are being established to ensure that the new career average framework is sustainable and affordable, and therefore costs relating to LGPS Scheme membership accrued up to and including 31st March 2014 under the final salary structure will broadly not be considered in the calculations. That means that for employers, any contributions relating to prior to 31st March 2014 (ie. pre- April 2014 deficit contributions) will not be considered in the respective targets of 19.5% and 14.6% respectively. Further detail of the differences between the cost control mechanism and individual employer contribution rates as calculated during local funding valuations are outlined in the next section.

There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered.

For the Scheme Advisory Board FSC process:

Shadow Advisory Board

- A movement of between 0% and 1% from the target in either direction *may* result in agreed recommendations for action to move back to the target.
- A movement of between 1% and 2% from the target in either direction *should* result in agreed recommendations for action to move back to the target.
- A movement of 2% or more from the target in either direction *must* result in agreed recommendations for action to move back to the target.

By contrast, for the HM Treasury ECC mechanism, no corrective action will be required to move the Scheme back to the target unless there is a movement of 2% or more from the target in either direction.

4. The cost control mechanisms and local funding valuations

Key points: Whilst local funding valuations and the cost control processes will be undertaken in parallel every three years from 2016, there are significant differences in the purposes of these and the processes through which these are undertaken.

Local funding valuations include consideration of all benefits that will become payable by the Scheme in each fund, whereas the cost control processes will only be looking at the costs arising from the post-April 2014 career average benefits structure.

In addition, the calculations of local funding valuations and the assumptions as to future experience will be specific to each fund and to each employer, whereas the cost control processes will be looking at the membership across the LGPS, and will similarly be making assumptions at a Scheme-wide level.

For these reasons, the contribution rates of individual employers are not comparable with the results that will emerge from either of the cost control processes.

The cost control mechanisms and local funding valuations will both be undertaken every three years from 2016, and will be calculated using the data provided to each fund actuary to undertake local funding valuations. However, they are very different in process and the results of the cost control mechanisms should not be compared with individual fund and employer results as calculated through local funding valuations.

As mentioned above, a crucial difference is that the cost control processes have been implemented to answer the question, "What is the cost of the career average benefit structure implemented from April 2014?" By contrast, local funding valuations

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are undertaken to determine the contributions that need to be paid in by the participating employers to pay all the benefits payable to members. Local funding valuations and individual employer contributions therefore include consideration of benefits accrued by members prior to April 2014 under the final salary benefit structure.

In addition, whereas local funding valuations are undertaken by a locally appointed fund actuary, using assumptions about life expectancy, salary increases, etc, that are tailored to the experience of each pension fund, the cost control process calculations undertaken by GAD are based on national experience and so may differ from the assumptions used within each pension fund.

In determining individual employer contribution rates, fund actuaries also consider each organisation's membership profile. The cost control processes, however, look at the Scheme nationally ('the model fund') and this means that if, for instance, an organisation has a higher average age of LGPS members than the Scheme does across the board, that may mean there are differences between that employer's contribution rate and the average contribution rate calculated under either of the cost control processes.

For the above reasons, the contribution rates of individual employers are highly unlikely to correlate with the results that will emerge from either of the cost control processes.