Lancashire County Council

Pension Fund Committee

Friday, 3rd February, 2012 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Personal and Prejudicial Interests** Members are asked to consider any Personal/Prejudicial Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 18 November 2011** To be confirmed, and signed by the chair.	(Pages 1 - 8)

Part II (Not open to Press and Public)

No.	Item	
4.	**Exclusion of Press and Public** The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.	
5.	**Fund Performance Report** (Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).	(Pages 9 - 18)

Lancashire County Council

6. **Investment Panel Report** (Pages 19 - 36)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

Part I (Open to Press and Public)

7. **Update on procurement processes** (Pages 37 - 38)

8. **Knowledge and Skills Framework** (Pages 39 - 68)

9. **Proposed Changes to the Local Government Pension Scheme** (Pages 69 - 72)

10. **Audit Commission Audit Plan 2011 2012** (Pages 73 - 94)

11. **Urgent Business**

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

12. **Date of Next Meeting**

The next meeting of the Committee will be held on Friday 20 April 2012 at 10.00 a.m.at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 18th November, 2011 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	M Parkinson
M Brindle	T Pimblett
M Devaney	S Riches
P Evans	G Roper
M France	M Welsh
F De Molfetta	

Co-opted members

P Doyle	(Lancashire Leaders' Group representative)
B Harvey	(Trade Union representative)
P Hyett	(HE/FE Sector Establishments representative)
M Smith	(Blackpool Council representative)
D Walsh	(Blackburn with Darwen Borough Council representative)

Noel Mills and Eric Lambert, Independent Advisers to the Pension Fund were also present.

Announcements

The Chair reported that Blackburn with Darwen Borough Council had appointed Councillor Dorothy Walsh to serve on the Committee. Councillor Walsh had replaced Councillor O'Keeffe and the Chair welcomed Councillor Walsh to the meeting.

The Chair also congratulated Diane Lister and the Your Pension Services team on being shortlisted for the LGC Investment Awards, Quality of Service Award.

Noel Mills, independent adviser to the Pension Fund was welcomed on his return after a period of illness.

1. Apologies

Apologies for absence were received from County Councillor K Young and Gill Kilpatrick, Treasurer to the Pension Fund.

2. Disclosure of Personal and Prejudicial Interests

County Councillors P Evans, M Parkinson, F De Molfetta, M Brindle, T Pimblett, M France and D Westley, and Councillor D Walsh and Mr R Harvey disclosed personal non-prejudicial interests in the agenda as they were members of the Local Government Scheme.

3. Minutes of the Meeting held on 15 July 2011

The minutes of the meeting held on 15 July 2011 were presented.

Resolved: That the minutes of the meeting held on 15 July 2011 be confirmed and signed by the Chair.

4. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

5. Fund Performance Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee considered a report on the performance of the Fund as at 30 September 2011, focussing on the funding position, the investment performance and allocation, and risk management of the Fund.

There was a lengthy discussion on these issues and officers also responded to general questions about:

- The effects of changes in inflation on the Pension Fund;
- The effects of county council staff taking voluntary redundancy;
- The Fund's exposure to foreign bonds;
- Credit rating agencies; and
- The effects of quantative easing.

Resolved: That the report be noted.

6. Investment Panel Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee considered a report on matters considered by the Pension Fund Investment Panel on 12 September 2011 and members were given an update on issues and action taken since that meeting.

It was noted that the Panel had discussed a broad range of issues relating to:

- The investment Context in which the Fund was operating;
- The current position of the Fund, including specific manager performance and risk profile;
- On-going procurements;
- Further development of the Committee's investment strategy, particularly through the consideration of proposals for investment within the Lower Volatility Strategies Allocation; and
- An issue which had arisen in the wider business of one of the Fund's managers

Members expressed concerns about the effects of the current global economic climate on the Pension Fund. It was hoped that the Fund's Investment Strategy would help to mitigate risk particularly through the allocation of up to 40% of the Fund into Lower Volatility Strategies. Whilst this allocation was designed to enhance stability through the generation of income streams and stable revenues rather than a pure capital appreciation approach, in what were predicted to be extremely testing circumstances.

The Committee was informed that the Fund had been unsuccessful in its attempt to fund two healthcare facilities and with the purchase a public utility company. A concern was expressed about the Fund's ability to take over the control of a commercial enterprise. Members were informed that the Fund would only look to undertake such purchases in very limited circumstances and markets and that the Fund would engage relevant experts to undertake due diligence work and to provide other support and advice as necessary. It was suggested that a partner should be required to have an equity stake in any company purchased by the Fund. It was agreed that a further report setting out the principles and the implications including any risks to the Fund of acquiring ownership of a commercial enterprise should be presented to a future meeting.

Resolved:

1. That the report be noted.

2. That a report setting out the principles and the implications including any risks to the Fund of acquiring ownership of a commercial enterprise be presented to a future meeting.

The Committee then returned to the remaining Part I agenda items.

7. Consultation on proposed changes to the Local Government Pension Scheme

The Committee considered a report on the Government's consultation on proposed short term changes to the Local Government Pension Scheme (LGPS). The report provided a comprehensive appraisal of the proposals contained within the consultation, as well as a number of key principles that could be included within a potential response and alternative proposals to be made by the Committee.

There was considerable discussion on:

- the Government's proposals for short term changes to the LGPS;
- the impact of the cost reductions on the Fund and Employers;
- the potential impact of members opting out of the LGPS;
- the alternative options that would achieve the required £900m reduction in the cost of the LGPS without having to increase employee contributions, and options to reduce the risk of opt out; and
- the nature and content of the response to be submitted on behalf of the Lancashire County Pension Fund.

Members were reminded that the over-riding fiduciary duty of the Pension Fund Committee was to ensure that the Fund's deficits were reduced while maintaining stability in employer contributions rather than trading increased employee contributions for reduced employer contributions. With this in mind and upon being put to the vote, the Committee agreed that following key points should form the basis of the response to the Government's consultation:

1. The fact that Funds were operating with deficits must be recognised and any reduction in employer contributions should be considered at the next valuation, which would take into account the overall position of the Funds.

2. Any proposals for change from April 2012 need to minimise the risk of increased levels of opt out from the scheme.

3. Any proposals for change from April 2012 need to be administratively deliverable.

4. The preference of the Fund would be for a series of changes which did not require increases in employee contributions which at the current level were already higher than in many public sector

schemes where average member earnings were higher than in LGPS.

5. Given that Ministers were likely to view options which did not increase employee contributions unfavourably, a proposal which balanced all of these objectives would be to make changes to accrual rates from April 2013 with any accompanying increase in employee contributions structured so as to protect the lowest paid.

6. Some of the additional "savings" from an earlier move to a reduced accrual rate should be used to reduce the level of increase in employee contributions for members earning in the range £21,000 to £40,000, which was the group where the risk of further opt outs seemed most likely.

The Committee agreed that the response to the consultation should also include the following two alternative proposals that would achieve the Government's required £900m reduction in the cost of the LGPS. It was noted that the alternative proposals had been worked up with the assistance of the Fund's actuary.

Alternative 1

Savings of £450m would be achieved by a change in the scheme's accrual rate from the current rate of 1/60ths to 1/65ths with effect from April 2013. A further £450m would be achieved from a phased increase in employees' contribution rate.

Alternative 2

The preferred option would be to achieve £900m by a change in the scheme's accrual rate to 1/70ths from the current rate of 1/60ths with effect from April 2013. This would mean that any increase in contribution rates could be kept at a minimum and would only need to be effective from 2014/15 to achieve the required savings.

The Committee noted that the Government was also developing the post 2015 reference scheme that would provide a template for schemes across the public sector. Further information on the Government's proposals was awaited.

Resolved:

1. That the draft response and alternative proposals, as set out at Appendix 'B' and Appendix 'C' respectively, be agreed as the Lancashire County Pension Fund's submission to the Government's consultation on proposed short term changes to the Local Government Pension Scheme.

2. That a report on the Government's proposals for public sector pension schemes beyond 2015 be presented to a future meeting.

8. Update on Procurement Processes

The Committee received an update on the procurement process for the following contracts:

- Global Equity Managers;
- UK property management and independent valuers;
- Governance and proxy voting advisors; and
- Tax agents

It was confirmed that the procurements were progressing as planned.

Resolved: That the report be noted.

9. CIPFA Skills and Knowledge framework

At its meeting on 15 July 2011 the Committee requested a list of relevant training and conference events for members of the committee to attend. A list of suitable external events had been identified and details were presented at Appendix 'A'.

A process for determining and approving attendance at external events needed to be established. In the meantime, it was agreed that members should submit a request to attend an event to the Chair of the Committee. It was also agreed that attendance at any event be limited to no more than two members of the Committee and that members would be expected to provide feedback to the Committee on any events attended.

The Committee was informed that following the July meeting, CIPFA had announced that they were in the process of formally adopting a Code of Practice that would embed the requirement for the acquisition, retention and maintenance of appropriate knowledge and skills by both members and officers into a formal structure for public sector pension schemes. The full details of this code were released on 28 October 2011 and a full report would be presented to the next meeting. The report would also include details of proposed internal training events and briefings.

Resolved: That the report be noted.

10. Audit Commission
Annual governance report 2010/11

The Committee considered the Audit Commission's Pension Fund Annual Governance report for the year ended 31 March 2011.

It was noted that the Governance Report had already been considered by the Audit Committee. The report included the letter of representation which gave the Audit Commission specific management assurances regarding the accounts of the Lancashire County Pension Fund. This was a significant achievement on the part of the council's finance staff as it had been a particularly challenging year.

Resolved: That the Audit Commission's Pension Fund Annual Governance report 2010/11 be noted.

11. Urgent Business

None

12. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 3 February 2012 at 10.00 am at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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Document is Restricted

Pension Fund Committee
Meeting to be held on 3 February 2012

Electoral Division affected:
'All'

Update on Procurement Processes

Contact for further information:
George Graham, (01772) 538102, County Treasurer's Department,
George.graham@lancashire.gov.uk

Executive Summary

At its meeting in July 2011 the Pension Fund Committee approved the procurement process for the following contracts:

- Global Equity Investment Managers
- UK property management and independent valuers.

The purpose of this report is to provide the Committee with an update on these procurements.

Recommendation

The Committee is asked to note the contents of this report.

Background and Advice

At its meeting in July 2011 the Pension Fund Committee approved the procurement processes for Global Equity Investment Managers and UK property management and independent valuers.

(i) Global Equity Managers

The investment consultants, Bfinance, were appointed to manage the procurement of a panel of global equity investment managers on behalf of the Pension Fund following a mini-competition amongst the members of the Consultants' Framework Bench.

Bfinance prepared and issued the EU tender notice and tender pack in October 2011. When the tender closed on 9 December 2011, 86 responses had been received.

Bfinance have completed their analysis of the selection phase of the tender returns and are meeting with the Investment Panel on 2 February 2012 to review the results. This will give a list of around 25 investment managers, which have met the qualifying criteria and which move to the award phase.

The award phase returns of the 25 qualifying managers will be opened and analysed. Pension Fund officers and advisers will meet around 18 of the top scoring managers in London in late February with a view to arriving at a bench of around 10 approved investment managers.

These 10 Managers will then present to a formal selection panel of Fund officers and advisers, including the Treasurer to the Fund in late March. The decision on the selection of the managers is delegated to the Treasurer to the Fund. The selection panel will determine 3 or 4 managers to take on specific mandates within the overall global equities allocation. Based on this timescale the transition to any new managers will begin in the first quarter of the new financial year.

(ii) UK Property Management and Independent Valuers

The tenders of the UK Property Manager and Independent Valuer have had to be postponed to spring 2012.

The finalisation of the global equity investment manager documentation and the completion of due diligence work on funds identified for the lower volatility strategies allocation have involved much more time and resource than previously estimated.

The UK property portfolio remains one of the better performing parts of the Fund's investments. Knight Frank, the incumbent manager, continues to be active in rationalising and developing the portfolio.

The existing Independent Valuer, Cushman and Wakefield, has agreed to hold its fees at 2011 capped levels, which were already at a considerable discount to the rates formally in its contract.

Consultations
N/A.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A

Agenda Item 8

Pension Fund Committee
Meeting to be held on 3 February 2012

Electoral Division affected:
'All'

Knowledge and Skills Framework
(Appendices 'A' and 'B' refer)

Contact for further information:
Gill Kilpatrick, (01772) 534715, County Treasurer's Department,
Gill.kilpatrick@lancashire.gov.uk

Executive Summary

CIPFA published its code of Practice on public sector pensions finance knowledge and skills in October 2011. The Code 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". It also represents a key element in complying with the Myner's Principle on Effective Decision making.

The Code is intended to be used in conjunction with the CIPFA Pension Finance Knowledge and Skills Frameworks which enhances where necessary, levels of knowledge and skill held by all those involved in the management and oversight of public sector pension funds.

The Code becomes effective from 1 April 2012 and is mandatory for CIPFA members as part of their standards of professional practice. By adopting the Code the committee will be ensuring good governance and training practices. They will also be supporting the Treasurer who as a CIPFA member has a professional requirement to comply with the code.

The full code of practice is attached in Appendix 'A'.

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.

A Knowledge and skills self assessment tool has been developed by Hymans Robertson in conjunction with the CIPFA Pensions Network to enable officers and members to help identify these gaps. Full details of the self assessment tool and the associated knowledge library are set out in Appendix 'B'. It is recommended that officers and members use the toolkit to identify knowledge gaps. Once this is completed a training program for both members and officers will be developed,

Lancashire County Council

incorporating the training materials available in the toolkit, relevant seminars, conferences and internal training days. This training program will be devised to ensure compliance with the Code of Practice.

Recommendation

The Committee is asked to:

1. formally adopt the Knowledge and Skills Framework, as set out in the report, as part of the Policy Framework of the Lancashire County Pension Fund.

2. agree that work commences using appropriate tools to identify areas where the knowledge and skills of both officers and members require strengthening, and that following this a programme of activity to address any identified development areas be developed.

Background and Advice

CIPFA published its code of Practice on public sector pensions finance knowledge and skills in October 2011, coming into effect from 1 April 2012.

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. The Code of Practice is underpinned by four key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision making and other aspect of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.

2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.

3. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

4. The organisation has designated a named individual to be responsible for ensuring that the policies are implemented.

CIPFA recommend that that all organisations responsible for the financial management of public sector pension schemes adopt, as part of their standing orders, financial regulations and other policy documents the following statements:

1. This organisation adopts the key recommendations of *the Code of Practice on Public Sector Finance Knowledge and Skills.*

2. This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.

3. Accordingly this organisation will ensue that it has 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 and decision making.

4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills frameworks.

5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the County Treasurer who will act in accordance with the organisation's policy statement, and, where he/she is a CIPFA member with *CIPFA Standards of Professional Practice*.

The first year to which the Code has mandatory application to CIPFA members will be 2012/13. The full Code of Practice is attached in Appendix 'A'.
The Code is intended to be used in conjunction with the *Pensions Finance Knowledge and skills Framework – Technical Guidance for Elected Representatives and Non-executive members in the Public Sector* and *the Pensions Finance Knowledge and skills Framework – Technical Guidance for Pension Practitioners in the Public Sector.*

The framework was launched in January 2010 and it identified the following six areas of core technical requirements for both officers and members:

- Pensions legislation and governance context
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices

The frameworks are intended to have two primary uses, as a tool for organisations to determine whether that the right skill mix to meet their pension scheme financial management needs and as an assessment tool for individuals to measure their progress and plan their development.

Members and officers of the Fund already possess some of the required skills set out in the frameworks; however there may be some areas where knowledge and skills could be strengthened. A Knowledge and skills self assessment tool has been developed by Hymans Robertson in conjunction with the CIPFA Pensions Network to enable officers and members to identify such areas. Full details of the self assessment tool and the associated knowledge library are set out in Appendix 'B'.

It is recommended that officers and members use the toolkit to identify knowledge gaps. Once this is completed a training program for both members and officers will be developed, incorporating the training materials available in the toolkit, relevant seminars, conferences and internal training days. This training program will be devised to ensure compliance with the Code of Practice.

The cost of the officer and member toolkit and online training materials is £1,900 plus VAT, which can be accommodated within existing budgets.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

As set out in the report.

Financial

The cost of the toolkit and online training materials is £1,900 plus VAT.

Legal

Non-compliance with the CIPFA Code of Practice.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-Executive members in the Public Sector (CIPFA)	2010	Abigail Leech/County Treasurers Department/01772 530808
Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pension Practitioners in the Public Sector(CIPFA)		
Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (CIPFA)		

CIPFA The Chartered Institute of Public Finance & Accountancy

Appendix 'A'

Code of Practice on

public sector pensions finance knowledge and skills

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

3 Robert Street, London WC2N 6RL

020 7543 5600 \ publications@cipfa.org.uk \ www.cipfa.org.uk

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Acknowledgements

This Code of Practice has been developed by the CIPFA Pensions Panel, supported by Nigel Keogh (CIPFA pensions technical manager).

The current members of the Pensions Panel are:

Bob Summers (Chairman) – Treasurer, Norfolk Police Authority

Ian Coleman – Wirral Council

Terry Crossley – Department for Communities and Local Government

Paul Dale – London Borough of Bromley

Geoff Dobson – Suffolk County Council

Terry Edwards – Local Government Group/Local Government Pensions Committee

John Hattersley – South Yorkshire Pension Fund

Nicola Mark – Norfolk Pension Fund

Paul Mayers – Audit Commission

Richard McIndoe – Glasgow Council

Graeme Russell – Torfaen County Borough Council

Trevor Salmon – NILGOSC

Peter Tait – Audit Scotland

Mike Taylor – London Pension Funds Authority

John Wright – Hymans Robertson

We are also grateful to all those who participated in the development of this Code of Practice during the consultation process.

Contents

Purpose

All public sector organisations charged with the financial management of pension schemes will be aware of the growing complexity of pension schemes. Pension scheme financial management in the public sector demands appropriate skills, including a knowledge of financial markets and products, financial services procurement, pensions accounting and auditing, actuarial practices, investment performance and risk management, and the implications of legal and regulatory requirements.

Every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

Public sector organisations should also ensure that those charged with pension scheme governance, including audit committees and relevant scrutiny groups, have access to the skills and knowledge they require to carry out this role effectively.

CIPFA has produced this Code of Practice to put these requirements into a formal structure for public sector pension schemes.

Background

The *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector*, and *Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector* (the frameworks), published in January 2010, were launched as good practice guidance and were intended to have persuasive rather than mandatory force.

We hoped that organisations would voluntarily adopt the guidance as a useful tool in identifying the knowledge and skills levels and development needs of practitioners and members of their decision-making bodies.

We recommended that, as demonstration of good practice, users of the frameworks make a voluntary disclosure in their pension scheme annual reports that covers:

- how the frameworks have been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs.

In response to user requests and as part of the ongoing development of the frameworks, CIPFA prepared an interim compliance statement that all public sector pension schemes were encouraged to include within their annual reports. The statement asked schemes to detail their approach to, and activities in respect of, the acquisition and maintenance of pension finance knowledge and skills of those involved in the financial management and decision-making of public sector pension schemes. In this compliance statement, CIPFA set out its intention to work towards formalising the requirements set out in the statement as a Code of Practice.

The launch of this Code of Practice is timely. In the final report of the Independent Public Service Pensions Commission (March 2011), Lord Hutton recommended that *"every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board"*.

Consequently the case for a Code of Practice which embeds the requirements for the acquisition, retention and maintenance of appropriate knowledge and skills has never been stronger.

Status

In the local government sector, Local Government Pension Scheme (LGPS) fund administering authorities are required to report on a 'comply or explain' basis their adoption of, and compliance with, *Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles* (2009). The first of these principles, Effective Decision-making, requires LGPS funds to ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary 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.

This Code of Practice represents a key element in complying with this principle and is intended to complement the Myners requirements for knowledge and skills in decision-makers.

This Code of Practice has also been developed to work in conjunction with other Institute codes and statements, in particular the two key CIPFA statements on the role of the chief financial officer (CFO).

These statements set out several overriding principles which are relevant to this Code of Practice, and which are directed at CFOs. They are that the CFO must:

- lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively
- lead and direct a finance function that is resourced to be fit for purpose (principles 3 and 4 of *The Role of the Chief Financial Officer in Public Service Organisations)*
- support and advise democratically elected representatives
- support and advise officers in their operational roles
- maintain strong financial management underpinned by effective financial controls.

(Extracts from the *The Role of the Chief Financial Officer in Local Government*.)

Where this Code of Practice sets out particular requirements for chief financial officers, these should be seen in the context of the above principles.

Support for the Code of Practice

In preparing this Code of Practice, CIPFA regards it as essential that there be broad-based support for its recommendations.

Consequently the Institute has consulted widely with organisations with regulatory, professional and practitioner level responsibilities in the sphere of public sector pensions financial management.

The following organisations have fully endorsed the Code of Practice:

- Local Government Pensions Committee (Local Government Group)
- Society of County Treasurers
- Society of Welsh Treasurers
- South Yorkshire Pensions Authority
- Merseyside Pension Fund.

The CIPFA Pensions Panel is also grateful to the Department for Communities and Local Government for their support for this Code of Practice.

The Code applies to all organisations that have adopted it as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances.

CIPFA recognises that some organisations may not find the proposed form of wording to be precisely suitable to their circumstances. In such cases, organisations may, where justified, make alterations to the recommended wording without adversely affecting their stated adoption of the statement, provided that, when taken as a whole, any such changes do not materially deviate from the key aims and principles of the Code of Practice.

Nothing in this Code of Practice overrides or should be taken as overriding any statutory provision or requirement. Nor does the Code make intra vires anything that is otherwise ultra vires.

Key principles

The Code of Practice is underpinned by four key principles:

1 Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.

2 Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

3 The associated policies and practices are 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.

4 The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

CIPFA acknowledges that no two organisations in the public sector are likely to interpret these principles in precisely the same way. Therefore, in framing the principles, CIPFA does not seek to be prescriptive about how they might be implemented in practice.

Statements to be adopted

CIPFA recommends that all organisations responsible for the financial management of public sector pension schemes adopt, as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances, the following statement:

'1 This organisation adopts the key recommendations of *the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.*

2 This organisation recognises that effective financial administration and decision-making[1] can only be achieved where those involved have the requisite knowledge and skills.

3 Accordingly this organisation will ensure that it has 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 and decision-making.

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.

5 This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6 This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to [*insert position of officer*[2]], who will act in accordance with the organisation's policy statement, and, where he/she is a CIPFA member, with *CIPFA Standards of Professional Practice* (where relevant).'

1. In this context, decision-makers are those with executive authority serving on governing bodies: boards, pensions committees, investment committees, etc.
2. The officer in question should be the senior officer responsible for the financial administration of the pension scheme. In the case of the LGPS, this would usually be the chief financial officer; in the NHS (for example) it would be the accounting officer.

The knowledge and skills policy statement to be adopted

CIPFA recommends that an organisation's knowledge and skills policy statement (referred to in paragraph 3, page 11) adopt the following form of words (or similar):

'1 This organisation recognises the importance of ensuring that all staff and members charged with the financial administration 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.

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

Application guidance

This Code of Practice is intended to be used in conjunction with the *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector* and the *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector*, the first versions of which were published by CIPFA in January 2010 and which will be updated from time to time as required.

These frameworks attempt to determine what constitutes the right skill set for those in the organisation responsible for pension scheme financial administration and decision-making.

The frameworks are intended to have two primary uses:

- as a tool for organisations to determine whether they have the right skill mix to meet their pension scheme financial management needs
- as an assessment tool for individuals to measure their progress and plan their development.

Not all schemes will demand that their financial managers and decision-makers possess the full range of technical skills and knowledge outlined in the frameworks. However the frameworks are designed so that organisations and individuals can tailor them to their own particular circumstances. Users are therefore strongly encouraged to adapt the frameworks as necessary to meet their own requirements.

In applying the frameworks, there are a range of training courses and materials available to practitioners, such as the *CIPFA/Hymans Robertson Knowledge and Skills Framework Toolkit* (www.knowledgeandskillstoolkit.com), the Local Government Group's LGPS Fundamentals courses and the CIPFA Pensions Network, as well as a range of other training events.

Further reading and sources of guidance

PUBLICATIONS

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector (CIPFA, 2010)

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector (CIPFA, 2010)

Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (CIPFA, 2009)

Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/SOLACE Code of Corporate Governance in Local Authorities to their Management of LGPS Funds (CIPFA, 2009)

All of the above are available to purchase from the CIPFA online shop at www.cipfa.org.uk/shop

The following are available as free downloads from the CIPFA website:

CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) at www.cipfa.org.uk/panels/corporate_governance

CIPFA Statement on the Role of the Chief Financial Officer in Public Service Organisations (2010) at www.cipfa.org.uk/panels/finance_director

CIPFA Standards of Professional Practice (SoPPs) (2002) at www.cipfa.org.uk/conduct

The *CIPFA Statement of Expertise* at www.cipfa.org.uk/members

ONLINE RESOURCES

To support the implementation of the Knowledge and Skills Frameworks, CIPFA, in partnership with Hymans Robertson, has developed an online toolkit which includes:

- Training needs analysis (TNA) to measure skills and knowledge across the full range of CIPFA competencies. There are two versions of the TNA: one for practitioners and one for elected representatives. Sample questions can be viewed at www.knowledgeandskillstoolkit.com/documents/tna%20sample.pdf
- A knowledge library, which provides a valuable one-stop resource for elected representatives and practitioners, for pension funds who would like cost-effective, easy access to relevant and up-to-date material. Sample content of the knowledge library can be viewed at www.knowledgeandskillstoolkit.com/documents/library%20sample.pdf

The toolkit is a subscription service. More information can be found at www.knowledgeandskillstoolkit.com

TRAINING AND SUPPORT

The CIPFA Pensions Network (www.cipfanetworks.net/pensions) provides a range of seminars built around the themes in the Knowledge and Skills Frameworks, as well as tailored training for organisations.

The Local Government Pensions Committee runs training events for pension practitioners, elected members and employing authorities. Further details can be found at www.lge.gov.uk/lge/core/page.do?pageId=119624.

Toolkit Summary

The CIPFA Knowledge and Skills Framework defined six areas of learning for pension practitioners and elected representatives / non-executives.

Working alongside CIPFA, Hymans Robertson has created a toolkit to support the implementation of the Framework. This is made up of two elements:

- **Training Needs Analysis** – approximately 100 questions will thoroughly and objectively assess the user's understanding of their responsibilities and importantly, their knowledge gaps. There are two versions of the paper- based TNA: one for pension practitioners and one for elected representatives / non-executives.
- **Online Knowledge Library** – this secure website holds the supporting training material, categorised into the six areas. The material includes guidance notes, statutory guidance, a glossary and links to other websites. Content is targeted at either pension practitioners or elected representatives / non-executives, so although there is only one site, users will see different content depending on their role.

Screen shots of these are shown later in this paper.

Cost

The cost for 2011/2012 Annual Licence Fee is provided below. Subscribers to the toolkit who join part way through the financial year will be invoiced for a part year payment to 31 March 2012. All subscribers will then be invoiced in advance for the following year's full Annual Licence Fee from 1 April 2012.

The Initial Fee is the part payment paid in advance in respect of the period from the Commencement Date (the date we issue the toolkit documentation) to the Annual Payment Date. We will invoice you in respect of the Initial Fee on the Commencement Date. The Annual Licence Fee is the annual fee paid in advance. We will invoice you in respect of the Annual Licence Fee on the Annual Payment Date each year. Annual Payment Date is 1st April.

	System Element	Annual License Fee 2011/2012	Initial Fee (Commencement Date to 31 March 2012)
A	TNA for elected members	£600 +VAT	Annual license fee pro-rated to 31 March
B	TNA for officers	£600 + VAT	Annual license fee pro-rated to 31 March
C	Access to the Online Knowledge Library	£900 + VAT	Annual license fee pro-rated to 31 March
D	A, B and C combined	£1,900 + VAT	Annual license fee pro-rated to 31 March

Process

- You confirm to your usual Hymans Robertson contact that you wish to subscribe to the product
- You will then be issued with an E-Business Agreement (for signing) and User Form (to complete for those users you wish to have access to the Online Knowledge Library should this be included in the package you opt into)
- Once the agreement has been signed and returned:
  - You will be issued with the TNA documentation as subscribed to

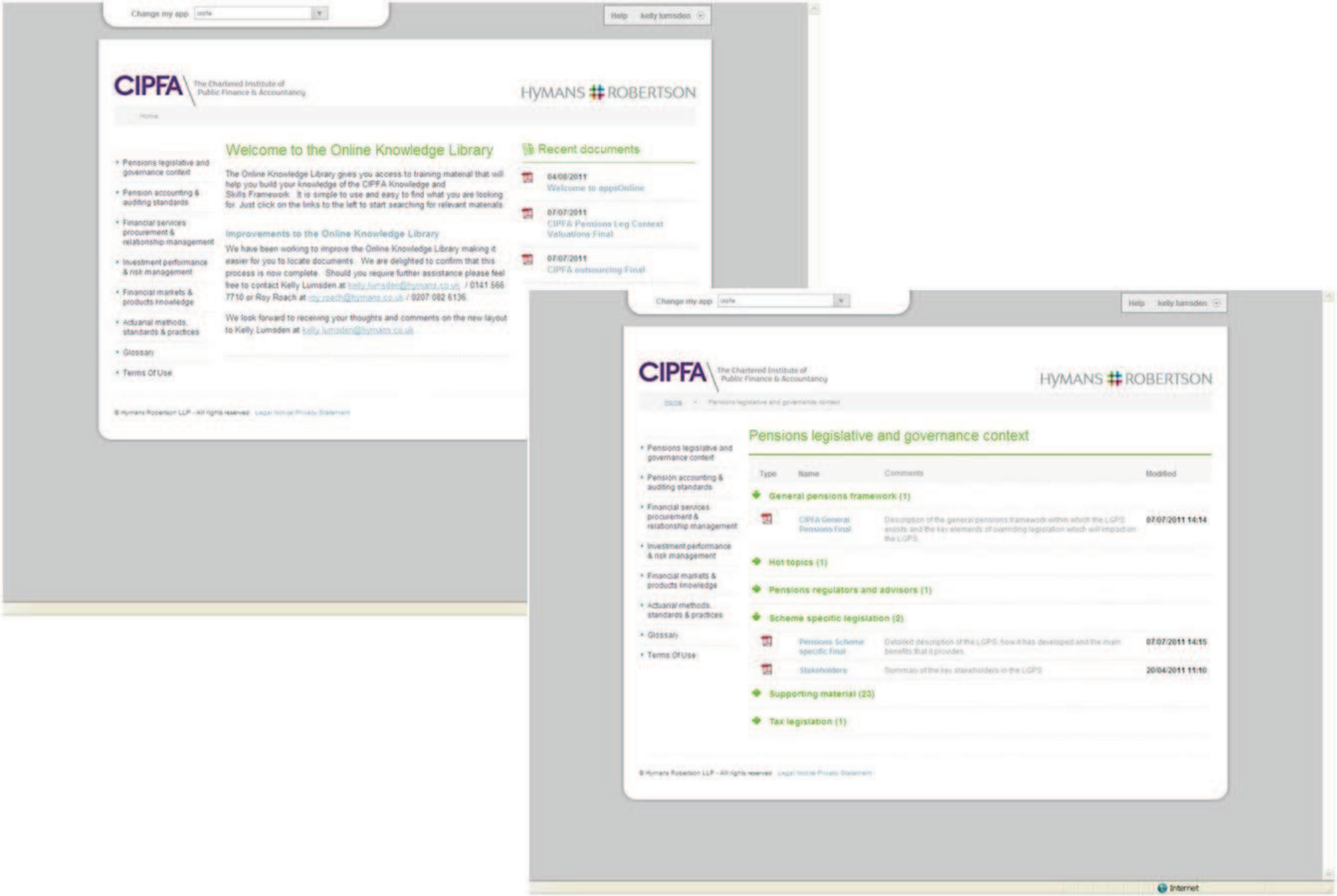
- All users of the Online Knowledge Library (should you opt into this) will be issued with their login details via secure email

You can have as many users as you wish for the Annual Licence Fee and add people during the year if required.

We can support your implementation of the KSF Framework in a variety of other ways. Please do speak to your usual Hymans Robertson consultant if you need more information. We will continue to review the product and would be interested in your feedback on it if, and when, you decide to sign up.

HYMANS ROBERTSON LLP

Online Knowledge Library Screen Shots & Sample Pages from Training Needs Analysis



Training Needs Analysis

for pensions practitioners in the public sector

General introduction

Public sector pension schemes, and the cost of providing them, have become headline news. It doesn't seem that a day goes by without some story or another on public sector pensions being in the national press.

At the same time governance of pension schemes in general, including public sector pension schemes like the LGPS, has become more important. Many would suggest that the legislative burden on pension schemes, and the level of scrutiny they face, has increased significantly since the Maxwell scandal. The skills and knowledge requirements of elected members and practitioners dealing with the LGPS have increased dramatically.

Private sector schemes have been faced with greater external influence, with the requirement for trustees to undergo skills assessments and, where skills or knowledge gaps are identified, training. Given the public spotlight on public sector schemes the need for similar disciplines in schemes such as the LGPS has been identified. CIPFA have developed a knowledge and skills framework setting out the requirements for both elected members and practitioners who have an involvement in the LGPS. This training needs analysis has been designed to help you measure your own knowledge and understanding against the CIPFA expectations.

Name: ____

Pension Fund: ____

Role: ____

1. Pensions legislative and governance context

The occupational pensions landscape is complex. Legislation has built up over many years, particularly so since the Maxwell affair of the 1990s, since when governance and transparency have become ever more sharply in focus. This means that all those with an involvement in managing and administering pension schemes have to navigate very complex rules and this is no different for those involved with the LGPS.

The questions set out in this section aim to measure your knowledge against the core knowledge requirements you are required to have in undertaking your role in relation to the LGPS.

1.1 General pensions framework

1.1.1 tick one box

Under which Act is the LGPS 'registered'?

A. Pensions Act 1995;

B. Finance Act 2004;

C. Pension Schemes Act 1993;

D. Superannuation Act 1972.

1.1.2 tick all that apply

In which of the following ways is the LGPS impacted by overriding pensions legislation?

A. Tax relief on pension contributions;

B The reference scheme test;

C. Disclosure of information requirements;

D. Reduced national insurance contributions;

E. None.

1.1.3

What are two types of sanction that can be imposed on an organisation or individual for failure to comply with overriding legislation/requirements?

1.2.9

Set out two ways in which the LGPS interacts with private and state pension provision.

1.2.10 tick one box

Early retirement can place a 'strain' on the pension fund. Which of the following approaches did the Audit Commission advocate is used by the administering authority in order that scheme employers plug any such funding strain?

A. Make capital payments into the LGPS over a fixed period;

B. Wait until the next funding valuation exercise.

1.2.11 tick one box

Effective from 2011 how and when will LGPS benefits be increased?

A. Retail prices index on the first Monday on or after 1 January;

B. Retail prices index on the first Monday on or after 6 April;

C. Consumer prices index on the first Monday on or after 1 January;

D. Consumer prices index on the first Monday on or after 6 April.

Advanced

1.2.12 tick one box

What are the minimum and maximum age requirements for entry into the LGPS?

A. 16 and 65;

B. No minimum age and 65;

C. No minimum age and 75;

D. 18 and 75;

E. 16 and 75.

Training Needs Analysis

for Elected Representatives and Non-executives in the Public Sector

General introduction

Public sector pension schemes, and the cost of providing them, have become headline news. It doesn't seem that a day goes by without some story or another on public sector pensions being in the national press.

At the same time governance of pension schemes in general, including public sector pension schemes like the LGPS, has become more important. Many would suggest that the legislative burden on pension schemes, and the level of scrutiny they face, has increased significantly since the Maxwell scandal. The skills and knowledge requirements of elected members and practitioners dealing with the LGPS have increased dramatically.

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Name: ______________________________

Pension Fund: ______________________________

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The occupational pensions landscape is complex. Legislation has built up over many years, particularly so since the Maxwell affair of the 1990s, since when governance and transparency have become ever more sharply in focus. This means that all those with an involvement in managing and administering pension schemes have to navigate very complex rules and this is no different for those involved with the LGPS.

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A. Tax relief on pension contributions;

B The reference scheme test;

C. Disclosure of information requirements;

D. Reduced national insurance contributions;

E. None.

1.2 Scheme specific legislation

1.2.1

What are the three key sets of Regulations which provide the legislative framework providing the benefit and administrative structure of the LGPS?

Advanced

1.3.4 tick one box

What vehicle is available via the LGPS to enable scheme members and their personal representative to have their issues considered?

A. Financial Services Authority (FSA);

B. Internal dispute resolution procedure;

C. Members' Trade Union.

1.3.5 tick all that apply

Which Government department is currently responsible for overseeing the LGPS?

A. Home Office;

B. Communities and Local Government;

C. Department for Work and Pensions;

D. Office of the Deputy Prime Minister.

1.3.6 tick all that apply

Indicate which matters the elected members/trustees at a scheme employer would need to consider in relation to the LGPS?

A. Contribution rates for members;

B. Setting discretionary policies;

C. Budgetary implications of employer contributions;

D. Maximum retirement age;

E. Early retirement decisions.

Pension Fund Committee
Meeting to be held on 3 February 2012

Electoral Division affected: All

Proposed Changes to the Local Government Pension Scheme

Contact for further information:
George Graham, 01772 538102, County Treasurers Department,
george.graham@lancashire.gov.uk

Executive Summary

At its last meeting the Pension Fund Committee considered a response on behalf of the Fund to a consultation exercise being conducted by the Government in relation to short term changes to the Local Government Pension Scheme. On 20 December 2011 the Government announced the "Heads of Terms" of a longer term agreement which will remove the need for the proposed short term changes. This report provides the Committee with a brief summary of the current situation.

Recommendation

The Committee is asked to note the current position.

Background and Advice

At its last meeting on 18th November 2011 the Committee approved a response on behalf of the Lancashire County Pension Fund to a consultation exercise being conducted by the Department for Communities and Local Government (CLG) on short term changes to the Local Government Pension Scheme (LGPS). These proposals formed part of the Government's overall negotiations around the reform of public sector pensions as part of their programme to reduce the deficit. The short term changes proposed to the LGPS aimed to reduce costs by £900m and involved a combination of changes in both employee contribution rates and accrual rates (the rate at which pension builds up).

On 20 December 2011 the Chief Secretary to the Treasury made a parliamentary statement setting out the agreements reached by the Government and Trades Unions in relation to the main public sector schemes. The statement is accessible through the following link

http://www.hm-treasury.gov.uk/press_146_11.htm

These agreements are described as "Heads of Terms" and set out the framework within which new schemes will be developed on a career average basis for implementation from 2014.

Lancashire County Council

The Heads of Terms in relation to LGPS were set out in a written statement by the Secretary of State for Communities and Local Government on the same day, which can be accessed at the link below:

http://www.lge.gov.uk/lge/aio/15184769

In summary the agreement provides for

- The introduction of a new Scheme in April 2014 (with regulations in place by April 2013) addressing the short term savings required as well as the longer term objectives.

- The new scheme will be a Career Average Scheme as set out in the Hutton report;

- The ability to have limited or no contribution rate increases for employees provided that the Government's financial constraints are met;

- Some elements of choice to encourage new members to join and existing members to remain in the Scheme;

- Normal Pension Age will match the rise in the State Pension Age for post 2014 service.

This means that the proposals for changes in employee contributions from April 2012 on which the Government was consulting will not now happen and there will be one set of changes from April 2014. The idea of making the regulations by April 2013 is that this will allow scheme actuaries to reflect the new regulations in the 2013 valuation which will be implemented from April 2014. Subject to the detail of the regulations and of course the impact on financial markets on the overall value of the Fund a move to a career average scheme and changes in the retirement age would be expected to have the impact of reducing employers' contributions.

These proposals while framed in a different context do address the key issues raised by the Committee in its response to the previous consultation of the already relatively higher contributions paid by LGPS members than those in other public sector schemes and measures to reduce the opt out rate.

The agreement of Trades Unions to these Heads of Terms was subject to their usual processes of consultation with executive committees. At the point of writing one union has indicated following this consultation that it is unwilling to continue to participate in the further discussions to turn the Heads of Terms into a new scheme. The two largest unions have indicated that they will continue to negotiate within the framework set out in the Heads of Terms through weekly meetings with Government officials and the Local Government Association,

Locally information setting out this position has been provided to employers and to staff within the County Council.

Further reports will be provided for members as the position becomes clearer.

Consultations

N/a

Implications:

Risk Management

There are clearly potentially significant implications for the Pension Fund from the proposed changes both in terms of the impact of changes in scheme design on the funding level and investment strategy and the changes required to systems and processes and communication with members as a result of a new scheme design, At this stage it is too early to say what these will be and officers continue to monitor the situation as closely as possible.

Local Government (Access to Information) Act 1985
List of Background Papers

N/A

Pension Fund Committee
Meeting to be held on 3 February 2012

Electoral Division affected: All

Audit Commission – Lancashire County Pension Fund Audit Plan 2011/12
(Appendix 'A' refers)

Contact for further information:
Fiona Blatcher, 0844 798 7056, Audit Commission,
f-blatcher@audit-commission.gov.uk

Executive Summary

This report sets out the Audit Commission's detailed audit plan including the key audit risks for 2011/12 and the planned audit strategy. The report also refers to a proposed increase in the audit fee.

Recommendation

The Committee is asked to note the Audit Commission's report.

Background and Advice

In July 2011 the Pension Fund Committee received the proposed fee letter for the audit of the County Pension Fund for 2011/12. Since then, the 2010/11 audit has been completed and a detailed audit plan has now been produced setting out in particular the key audit risks for 2011/12 and the planned audit strategy.

The plan set out the audit work the Audit Commission propose to undertake in relation to the audit of the pension fund financial statements (Appendix 'A'). It includes a summary of the key risks for the financial statements identified through the planning process together with the auditor's planned response.

During 2011/12 there have been some significant changes impacting on the management of the pension fund. Following an assessment of the impact of the changes in the operation of the pension fund and their impact on audit requirements an increase in the audit fee is proposed. The fee has now been set at £67,000, £5,205 higher than the 2010-11 fee and £11,911 higher than the initial fee set out in the letter which went to the July Pension Fund Committee.

This plan was reported to and considered by the Audit Committee on 23rd January 2012.

Lancashire County Council

Karen Murray, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the reports and respond to questions.

Consultations

These reports have been agreed with the County Treasurer.

Implications:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies		Fiona Blatcher Audit Commission 0844 798 7056
Audit Commission Act 1998		
Code of Audit Practice		

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Audit plan

Lancashire County Pension Fund

Audit 2011/12

audit commission

Contents

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve management or the Audit Committee and Pensions Fund Committee, as those charged with governance, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Fund;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Fund's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
Valuation of private equity investments The pension fund has over £100 million invested in private equity funds. These are not traded on an open market and therefore their valuations are estimated by the private equity fund operators. Valuations of such funds involve a significant degree of subjectivity by the fund operators.	I will complete work to understand the management controls around this area and will then complete detailed testing. The contract with the new custodian provides for some form of checking of valuations by the custodian. Previously, such checks were performed by the in-house pensions team. I plan to place reliance on the controls operated by the custodian over private equity valuations together with some substantive testing of detail. The level of substantive testing I undertake will depend upon the level of assurance I obtain from the work of the custodian.
Implementation of new pensions payroll system A new pensions payroll system was implemented during 2011, resulting in the payroll being run directly from the pensions administration system ALTAIR, rather than from a separate payroll system. The ledger file development for the new system has not yet been completed meaning that postings to the ledger for the new pensions payroll have not yet been made. The implementation of any new major financial system brings with it inherent risks of material misstatement and this is increased in this case due to the delay in being able to post entries to the ledger.	I will complete work to understand the management controls for implementation of the new system. I will complete tests to gain assurance that the final postings to the ledger are consistent with the payroll system. I will carry out testing of payroll transactions and the changeover of data from the old to the new payroll system. In addition I will complete predictive analytical review procedures. I will rely on work completed by Internal audit where possible to gain assurance when completing this work.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Testing**

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls review and testing	Substantive testing
Interim visit - February	Operation of new custodian contract Pensions payroll system			Management review of custodian information and investment journals Management of in-house portfolio including new style investments in infrastructure funds Information provided to actuary for purposes of IAS 19 estimates for admitted bodies	Transfer of data to new pensions payroll system and transactional testing of pensions payroll

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls review and testing	Substantive testing
Interim visit - May					Investments
Final visit		SAS70 reports - fund managers and custodians	Pensions liabilities – Mercers and my consulting actuary Valuation of direct property investments – Cushman and Wakefield		All material accounts balances and amounts Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Key milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February and May 2012	Progress reports to audit committee and pension fund committee as appropriate
Opinion: receipt of accounts and supporting working papers	30 June 2012	
Opinion: substantive testing	July – August 2012	Annual Governance Report
Present Annual Governance Report at the Audit Committee	26 September 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By 30 September 2012	Auditor’s report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor’s report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Karen Murray District Auditor	k-murray@audit-commission.gov.uk 0844 798 7041	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and liaison with the Treasurer.
Fiona Blatcher Senior Audit Manager	f-blatcher@audit-commission.gov.uk 0844 798 7056	Manages and coordinates the different elements of the audit work. Key point of contact for Pension Fund team.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 5: **Threats and safeguards**

Threat	Safeguard
A member of our audit team is related to a member of the pensions administration team	Our member of staff does not undertake, or is responsible for, the review of any of our work which assesses the work of the pensions administration team.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £67,000

The audit fee

The Audit Commission has set a scale fee of £55,089 which represents a 10 per cent reduction on the audit fee for 2010/11. The scale fee is calculated based on the net assets of the fund at 31/3/2010. Variations from scale fee will only occur where my assessment of audit risk and complexity are significantly different from those assumed within the scale fee. In the annual audit fee letter of 15 April 2011 we noted that various changes were being implemented in the management of the pension fund. At that stage it was too early to assess the impact of such changes on the audit and therefore the initial audit fee was set at the scale fee for 2011/12. The letter noted that we would need to assess the impact of the changes on the audit fee once the 2010/11 audit was complete.

Following my review of the impact of the changes introduced for 2011/12 I have identified a number of areas where additional audit work is required:-

- a new custodian contract commenced in August 2011. This involves a change in custodian and resultant transfer of assets between custodians. It also involves a significant change in the arrangements for review of the accuracy of information provided by the custodian and investment managers with more of the controls now taking place at the custodian rather than within the in-house pensions team. I will need to understand and obtain assurance over the controls operated by the custodian and the high level controls now operated by the pensions team prior to the submission of journals to reflect the movements on investments. I will also complete work to obtain assurance over the accurate and complete transfer of assets between the old and new custodians. Where possible I will rely on Internal Audit work to provide assurance over this from their planned review in January.

- a new pensions payroll system has been implemented during 2011/12 with the payroll now being run directly from the pensions administration system ALTAIR. As outlined in table 1, I have identified this change as creating a significant risk of material error and have planned to complete a range of procedures to address this risk. I will rely on Internal Audit work to provide assurance where possible.

- The Fund has changed the way in which it approaches the making of investments in the "alternatives" or "lower volatility" elements of the portfolio. This involves the Investment Panel making decisions within a framework agreed by the Pension Fund Committee to invest in specific fund products in areas such as infrastructure and non-UK property among others. I need to complete work to understand the governance arrangements for such investments and will complete additional work around the valuation basis for such funds.

My assessment of the impact of the above additional audit work on my audit fee is that it needs to increase from £61,795 in 2010/11 to £67,000 in 2011/12, (an increase of £5,205, 8%). This is largely because of one-off issues relating to changes in the way the pension fund is managed and should not be seen as an indication that future audit fees will remain at this level. Annual re-assessments of the audit fee will however, need to take into account the impact of the continuing changes over the management of the investment portfolio and the likely increase in investments into more complex investment instruments.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Treasurer and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have not identified any actions that you could take to reduce your audit fee.

Total fees payable

In addition to the fee for the audit, the Audit Commission will make charges for the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: **Fees**

	2011/12 proposed	2010/11 actual	Variance
	£	£	£
Audit	67,000	61,795	+5,205
Non-audit work	0	0	0
Total	**67,000**	**61,795**	**+5,205**

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice's Director – Standards and Technical, who serves as the Audit Practice's Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised. Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission. Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

Assumptions

In setting the fee, I have assumed the following:

- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
  - the full text of the Pension Fund Annual Report by 30 July 2012;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the [Pension Panel] before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, the Pension Fund Committee and the Audit Committee.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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January 2012