

LGPS National Knowledge Assessment

National Report 2020

In this report:

Executive summary	2
Thoughts from England and Wales Scheme Advisory Board	3
Introduction	4
The Results	5
Engagement	11
Insight into the questions	13
Training feedback from participants	15
Conclusion	17
Appendix - Methodology	18



Executive summary

“ An investment in knowledge pays the best interest ”
- Benjamin Franklin

Pension Committees and Pension Boards in the LGPS have a significant responsibility. Acquiring, developing and maintaining a good level of knowledge is key to carrying out their role effectively and ensuring the successful running of their fund. The push for higher levels of knowledge and understanding in LGPS Committees and Pension Boards has two fundamental aims –

1 Informed decision making

2 Informed scrutiny

The goal of the National Knowledge Assessment (NKA) is to present participating LGPS funds with an insight into the level of knowledge of their Committee and Pension Board members, both individually and as collective groups.

We're pleased to share the results of the first ever National Knowledge Assessment.

Our key findings

- **Traditional topics are still dominating** – there are higher levels of knowledge in the traditional Committee and Pension Board topics of Investment and Financial Markets and lower knowledge levels on topics such as Administration and Actuarial Methods, Standards and Processes. A similar theme was found in the 2018 National Confidence Assessment.
- **Training engagement will come from varied and topical training subjects** – respondents to the assessment suggested that they would like more frequent training across a wide range of subjects – training needs to be kept topical and interesting!
- **Different knowledge levels at funds but crucially a good spread of knowledge** – funds did find a fluctuation in knowledge levels of participants – as they may have expected. Crucially though there is a good spread of knowledge on most topics which allows funds to evidence that appropriate challenge and decision making exists at their fund.

What should funds do next?

- 1 Ensure they have assessed the current knowledge levels of their Committee and Pension Board
- 2 Use the results to identify weaker areas of knowledge
- 3 Produce a training plan to improve on these areas and track and record Committee and Pension Board training

We hope you find this report insightful. If you would like to discuss any of our findings further, please do get in touch.



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Thoughts from England and Wales Scheme Advisory Board

“ A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than the members of that body, owes a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution ”

These words taken from the iconic case of *Roberts v Hopwood* are often cited to describe the duty owed by councils to the beneficiaries of their decisions. Although the fiduciary duty owed by decision makers in the Local Government Pension Scheme (LGPS) is an issue we and others are still wrestling with, we can take from this case the clear requirement for decisions to be made with care, skill and caution. It is difficult to envisage this being possible if those responsible for taking such decisions do not themselves possess, or have access to, the necessary knowledge of the environment in which they operate.

As Chair of the Scheme's advisory board I welcome the work that has been undertaken to assess the level of knowledge of both LGPS pension committees and local pension boards as a follow up to the 2018 assessment of confidence. The findings of these national assessments will contribute significantly to the Board's Good Governance project, in particular how we can assist both committees and boards in matching the standards required by the Pensions Regulator.

Readers will of course reach their own conclusion on what the national confidence and knowledge assessments say about the effectiveness of LGPS pension committees and local pension boards but for me there are several aspects that deserves further consideration.

Firstly, the findings appear to suggest that pension committees still tend to be investment-centric, which is understandable given the significant assets in the scheme. However, that leaves less time and focus for the equally important areas of scheme administration and governance, especially when scheme changes such as McCloud are on the horizon. I fully recognise that in many cases

administering authorities make full use of their pensions board in these areas or have established separate advisory groups or sub-committees to focus on these issues. Where this is the case, proper engagement between committees and these bodies will be paramount. On the plus side, I am pleased to see that on training requirements, governance and administration score very highly.

Secondly, it is noticeable that in most of the eight sections of work explored, the level of confidence exceeds the level of knowledge for members of both pension committees and local pension boards. Again, this is understandable given the 'collective knowledge' provided through the support of both officers and advisors, however, care should perhaps be taken to ensure that such support is not taken for granted or maybe relied on a little too heavily. To that end, the good governance project will be seeking to assist administering authorities in evidencing how this collective knowledge is both achieved and maintained.

Finally, we shouldn't forget that the acquisition of knowledge and understanding is a statutory requirement for members of local pension boards but not for members of pension committees. I therefore take a considerable amount of comfort in the outcome that there is no significant difference between the knowledge of pension committee and local pension board members across the eight sections of work explored in both assessments.

To conclude, we are reaching a critical stage under the good governance project where aims and aspirations are developing into practical and real world changes to improve the governance and administration of the scheme on a consistent and measured basis that will match the standards expected by The Pensions Regulator. The results of the national assessment on both confidence and knowledge will greatly assist the good governance implementation group in making their final recommendations to the scheme advisory board.

Councillor Roger Phillips
Chair of the Scheme Advisory Board
(England and Wales)

Introduction

Following the success of the 2018 LGPS National Confidence Assessment, the 2020 LGPS National Knowledge Assessment takes the next step in our journey towards understanding and developing knowledge levels in the LGPS.

The NKA aims to provide LGPS funds, and other stakeholders, with an insight into the pensions-specific knowledge and understanding of the people who hold decision making and oversight responsibility at LGPS funds. It is a key barometer for the knowledge levels across the 8 topics of the CIPFA Knowledge and skills framework. This assessment allows funds to provide targeted training to help develop the knowledge of Committee and Board members, who play such a vital role within the LGPS.

Participation

Having assessed over 225 members participating across 20 LGPS funds, the NKA provides a clear indication and insight of national knowledge levels for the decision makers within the LGPS.

The breakdown on participants as at June 2020 is shown below.

	Chair	Member	Total
Committee	12	118	130
Board	18	78	96

Measuring engagement

The world of pensions and investments is continually evolving. Engagement is vital for effective informed decision making and maintaining strong collective knowledge within both groups.

As part of the assessment, we provided participating funds with a benchmark position on the level of engagement from both their Committee and Pension Board. This is a crucial insight for funds as a strong set of results based only on the knowledge performance of a small number of participants would not tell the full story. Understanding your engagement levels in comparison to your peers helps to round that insight.

This assessment was taken in participants own time. We're delighted that over 60% of those eligible to respond chose to do so.

Why does good knowledge matter?

In recent years, a number of events have seen a marked increase in the scrutiny of public service pension schemes, including the 100 regional funds that make up the LGPS across the UK. The below are the 'roots' for the National Knowledge Assessment:

- TPR – Pension Board knowledge requirements
- MIFID II – evidence from Committee training
- TPR 21st Century Trustee campaign – applicable to LGPS
- Hymans National Confidence Assessment 2018
- SAB (E&W only) Good Governance project

These recent events have reaffirmed that LGPS funds should evidence the training provided and current knowledge and understanding levels retained within their Committee and Board.

The results

Firstly, we look at the overall scores from the assessment, based on the sections used to group the individual questions.

We also made a comparison between the results from the National Confidence Assessment and National Knowledge Assessment.

We then analysed the results further to summarise the results of various sub-groups including:

- Board vs Committee
- Chair vs Members
- Tenure
- Highest and lowest answered questions
- Insight into engagement levels at funds
- Collective knowledge across a participant fund
- Engagement levels
- Training topic feedback

An overview

The responses for **all members** who participated have been collated and analysed. The first set of results show the average participant score across all 8 sections.

The highest scoring section is Financial Markets and Product Knowledge, with an average score of 83% – scoring well above all other areas in the assessment. The lowest scoring sections are Actuarial Methods, Standards and Processes (53%), followed by Pensions Administration (59%).

It's interesting that the highest scoring sections are probably those that are considered the more traditional areas which Boards and Committees might focus on. The lowest scoring sections would typically have less time spent on them at Committee and Board meetings. That's not to say these sections are any less important, it simply reflects our experience of the coverage of these sections on meeting agendas.

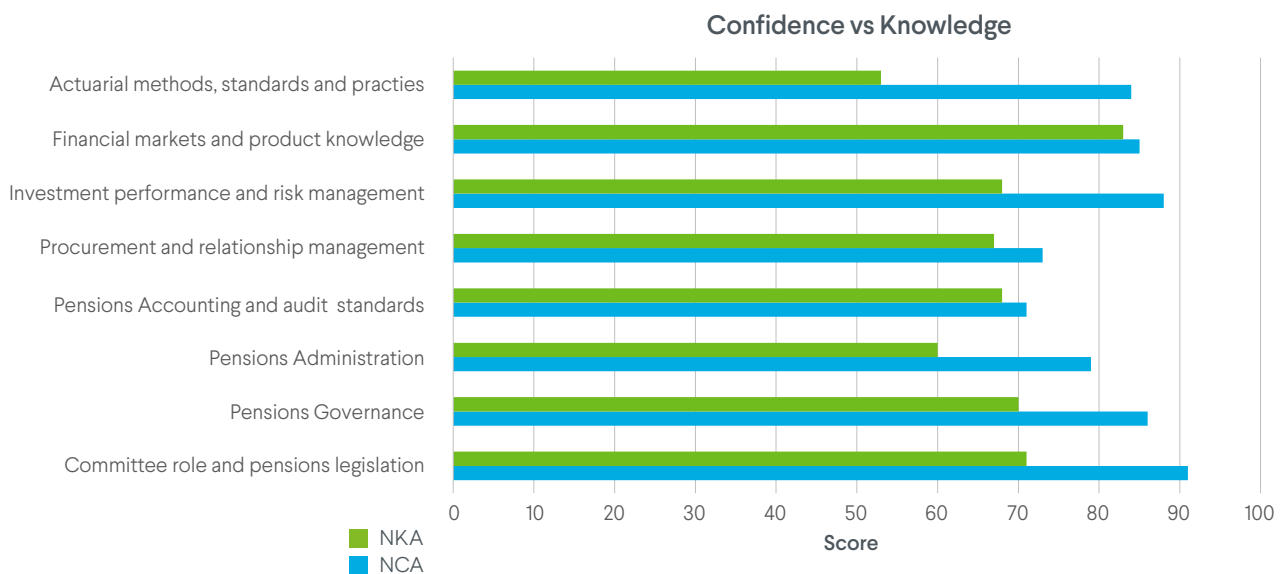
This in itself poses a challenge. It's easy to see why knowledge levels might be lower if they have less time dedicated to them on meeting agendas. To address this issue, it requires a concerted effort to develop knowledge in these areas.



Confidence vs Knowledge

So, how do the NKA results compare to those from our National Confidence Assessment (NCA) in 2018?

The NCA asked members to gauge how confident they were in the same 8 topics covered in the NKA. The chart below shows the comparison between confidence and knowledge.



The NCA score reflects the percentage of responses answered with either “mostly confident” or “completely confident” to questions under each section.

The NKA score reflects the average number of questions answered correctly in each section.

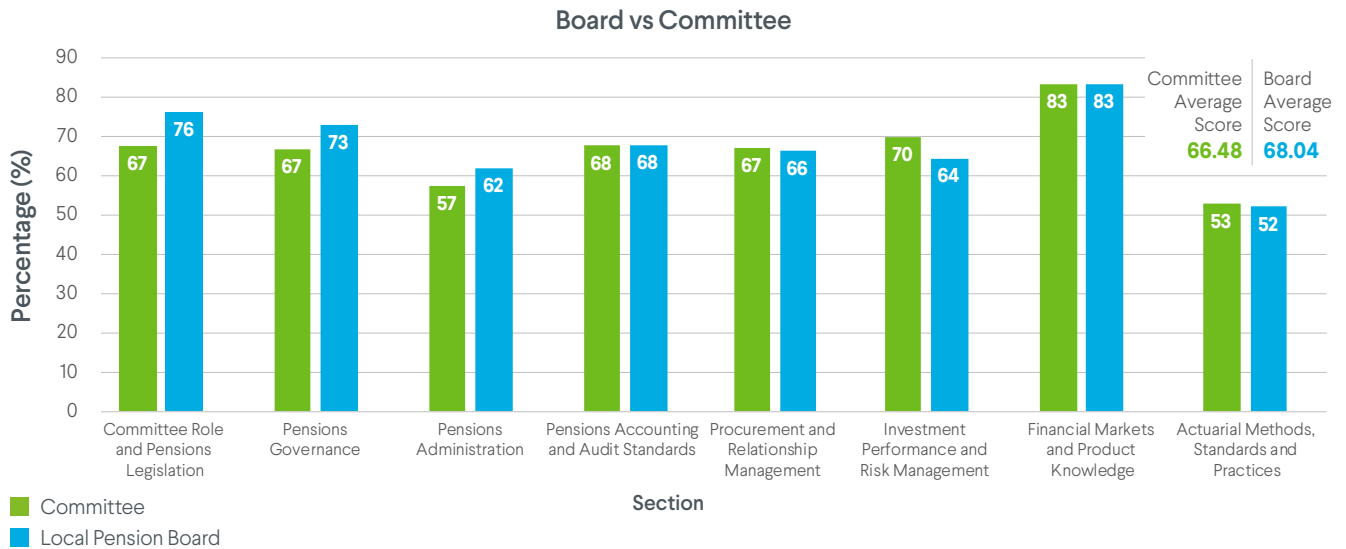
It should be noted that the NCA questions were subjective, with members asked to rate their confidence in the subject areas from very confident to not at all confident. There is no direct quantitative comparison between the 2 surveys, rather it is the gap between levels of knowledge and confidence in each subject area that is most relevant.

The confidence in Financial Markets is borne out in practice based on the NKA results. The biggest discrepancy between confidence and knowledge is for Actuarial Methods, Standards and Practices – the lowest scoring area overall. This suggests members felt confident in this subject area, but when tested with questions on the topic, they did not perform as well as expected. It may also suggest that NCA respondents were confident on the 8 areas due to advice from Officers and Advisers.

Members were most confident in the role of the Committee and Pensions Legislation, and this is reflected in the results of the NKA with this topic scoring second highest but lagging some way behind Financial Markets and Product Knowledge.

Board vs Committee

We have also compared the results of the Committee and the Boards to see if there is any pattern of results. The results indicate that the overall knowledge levels of the Board are marginally higher than those of the Committee, although this varies by section.

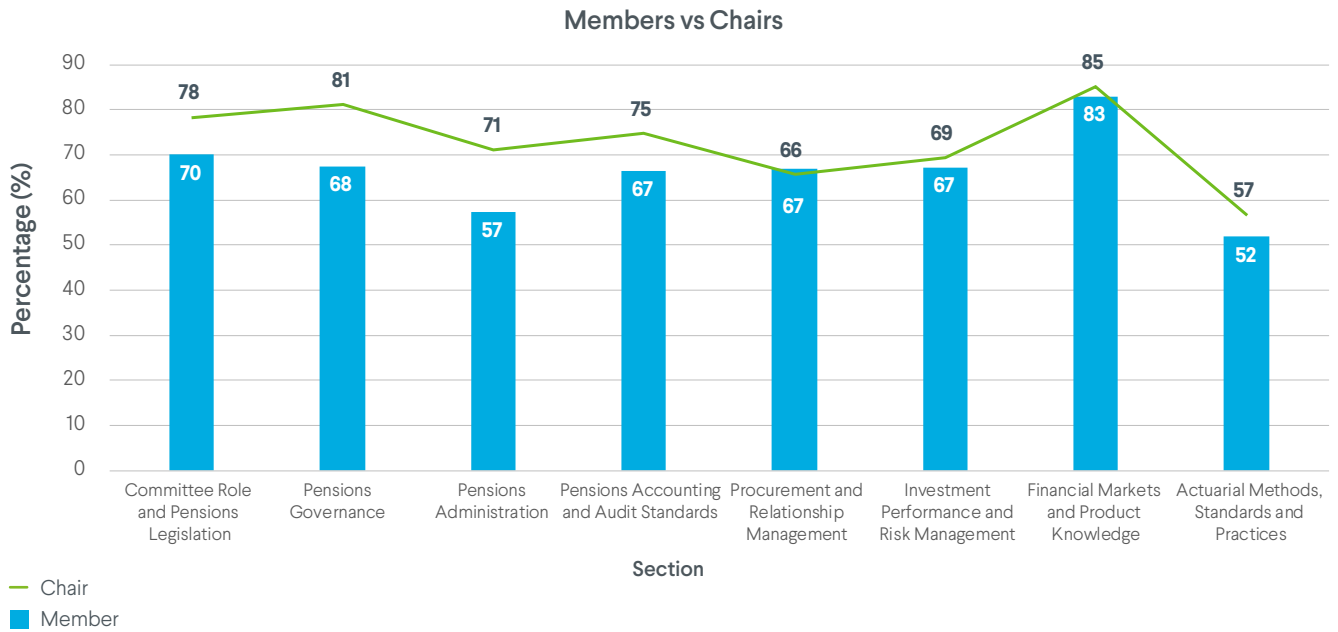


It's interesting that the Board have higher average scores in the sections on Committee Role and Pension Legislation, as well as Pensions Governance. This is not altogether unexpected, given the Board's oversight role. The Committee members' area of outperformance against the Board relates to investment performance. Again, this is not unexpected given the typical roles of both bodies.

The Board and Committee scored similarly in all other areas. As there is no current statutory requirement for Committees to attain a certain level of knowledge, it is encouraging that there is not a vast difference between them and the Pension Board who do have that requirement.

Members vs Chairs

As well as looking at the Committee scores and Board scores together, we have compared the results of the Chairs versus members. The Chair results reflect the results of both Committee and Board, against the remaining members of the Committees and Boards.



The knowledge levels of the Chairs are greater than that of the members on almost every topic. This is as you might expect given these roles are typically taken by individuals with experience of serving on the Committee / Board and often bring with them external experience relevant to the role.

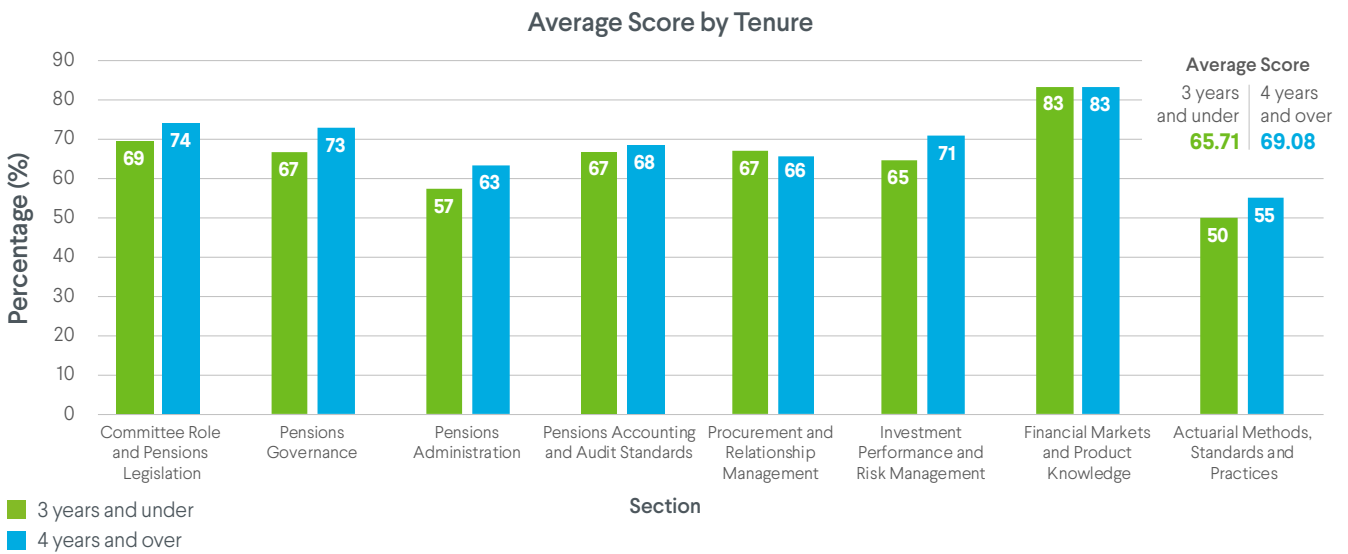
The average score for **members is 66%** and for **Chairs, 73%**.

Chairs outperform the members in all but one section – that of Procurement and relationship management.

There are some distinct differences in the scores of some sections with the Chairs outperforming most in governance and administration. As a key driving force for raising standards at individual funds, these Chair results are very encouraging as the LGPS continues that push.

Tenure

When completing the survey, we asked members to indicate the amount of time they had spent in their role. We have used tenure to gauge whether the time spent on a Committee and/or Board is reflected by the level of knowledge a member has. You would perhaps expect that those who serve longer have more knowledge in certain areas – this is clearly a generalisation but is supported by the results.



Of those who participated, around 4 years is the average length of service on the Committee/Board. We have used this to analyse the results based on tenure. The chart above shows the results of those who have a tenure of 3 years or less versus those 4 years or more.

As you might expect, the scores are higher for those with longer service on the respective Committee or Board. This will most likely reflect experience these members have had tackling the relevant issues as well as training sessions they have attended. The only section where those with a shorter tenure outperformed was in Procurement and Relationship Management.

There is not a huge divergence in the scores when using tenure as a marker. This probably reflects the fact that the Committee and Board members have a variety of backgrounds and working experiences. Background and experience will, of course, have an impact on a member's knowledge levels.

Spread of knowledge



The above chart highlights the spread of knowledge at a typical participating fund. Taken on its own, you may draw the conclusion that an area like Pension Administration will not be appropriately scrutinised at this Fund. However, as highlighted within the Good Governance project, decision making and scrutiny relies on both the collective knowledge of your decision makers and also on individual skills and knowledge levels within your Committee and Pension Board teams.

We recommend that funds continue to improve their overall scores in all areas, but they should also be encouraged to provide evidence that appropriate decision making, and scrutiny can be provided by at least some of their 'team', if not every member.

Commentary on results

We would fully expect there to be gaps in the knowledge of all members, no matter their role on the Committee or Pension Board, their tenure or indeed their background in terms of pensions experience.

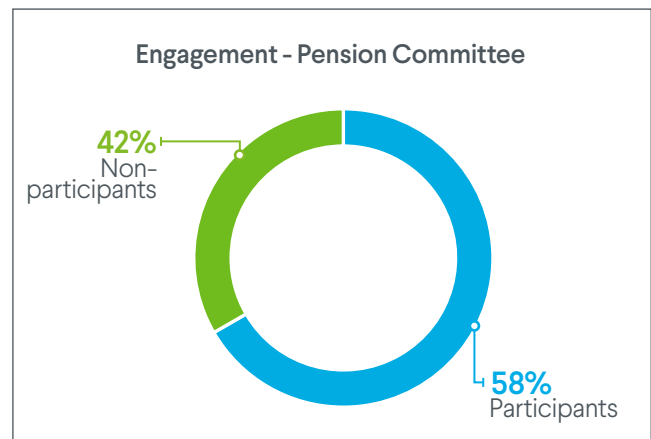
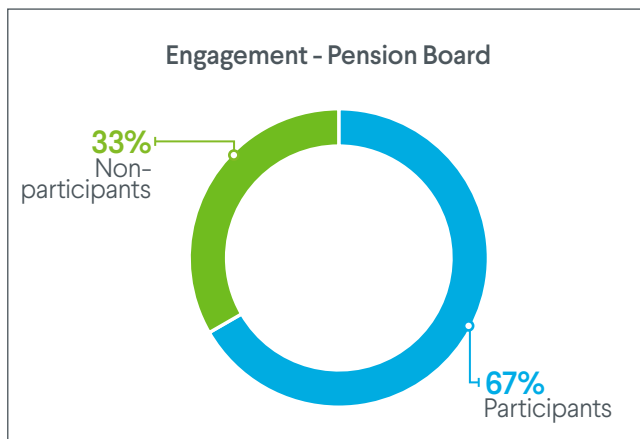
The most important thing to emphasise is that not everybody needs to be an expert in all areas, rather there should be a spread of knowledge across LGPS Committees and Pension Boards which is supported by advice from officers and professional advisors. This will help ensure informed decision making and informed scrutiny takes place up and down the LGPS land.

Engagement

One of the key outcomes from this assessment is being able to gauge the level of engagement of Committee and Board members, both at local fund level, but crucially at a national level as well.

It's very encouraging that 20 Funds signed up to participate in this assessment. However, what is most reassuring, is the level of uptake within those funds. The average participation level – the number of participants as a proportion of those eligible to participate – was over 60%. Given the current circumstances of home-working, this is a good result.

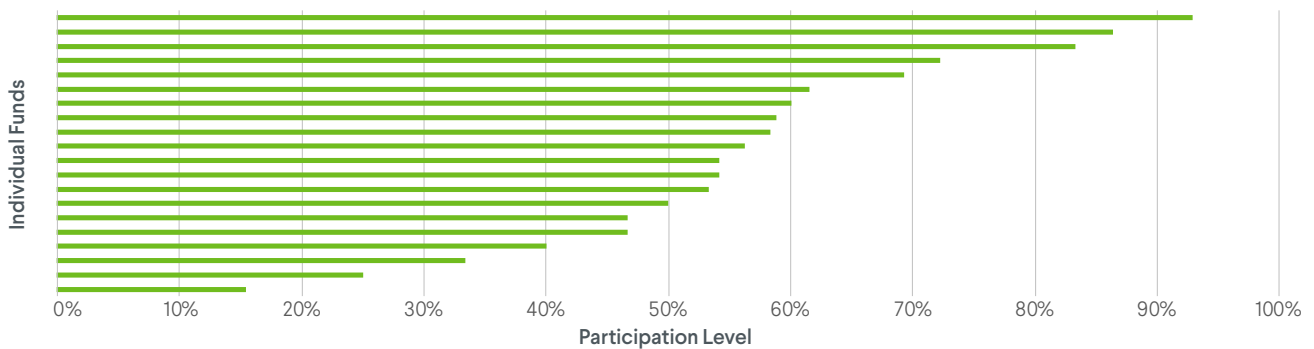
The diagrams below show the breakdown of the total number of Committee and Board participants nationally, as a proportion of those who could have responded from the participating funds.



Members should not only be willing, but keen to develop their knowledge and understanding across the raft of topics upon which they will need to make, or oversee, decisions. Regardless of tenure, past experience or current knowledge levels, the landscape and Regulations of the LGPS changes so quickly (and often) that developing and enhancing knowledge is a continual part of their role.

Fund-level engagement

The following anonymised chart shows the breakdown of participation at fund-level.



We understand that different Committees function in different ways and have different numbers of members. We therefore draw no conclusions or make any inferences about specific funds from these results. The information is simply useful to demonstrate the wide differences in engagement between funds who participated.

With one fifth of the LGPS participating, we feel this can be extrapolated across all funds and suggests that there is great disparity with regards to engagement levels.

The decision making and scrutiny processes will be performed best by Committees and Boards which are fully engaged in their roles.

How to improve engagement levels

- 1 Keep training sessions varied, topical and interesting
- 2 Where possible, training sessions should be short and interactive – it's hard to maintain focus and energy levels within long training sessions
- 3 Introduce options for members to learn within their own time and without needing to be at a specific physical location
- 4 Have a clear training plan for the group and, where required, for individuals who require more training
- 5 If face to face training is required, ensure that the format is split between a presentation and a question and answer session

Insight into the questions

Highest scoring questions

We have picked out the top 3 questions in terms of correct answers from participants:

7.3 By lending money to companies or to Government you would be investing in which asset class?

- A** Bonds
- B Property
- C Equities
- D Cash

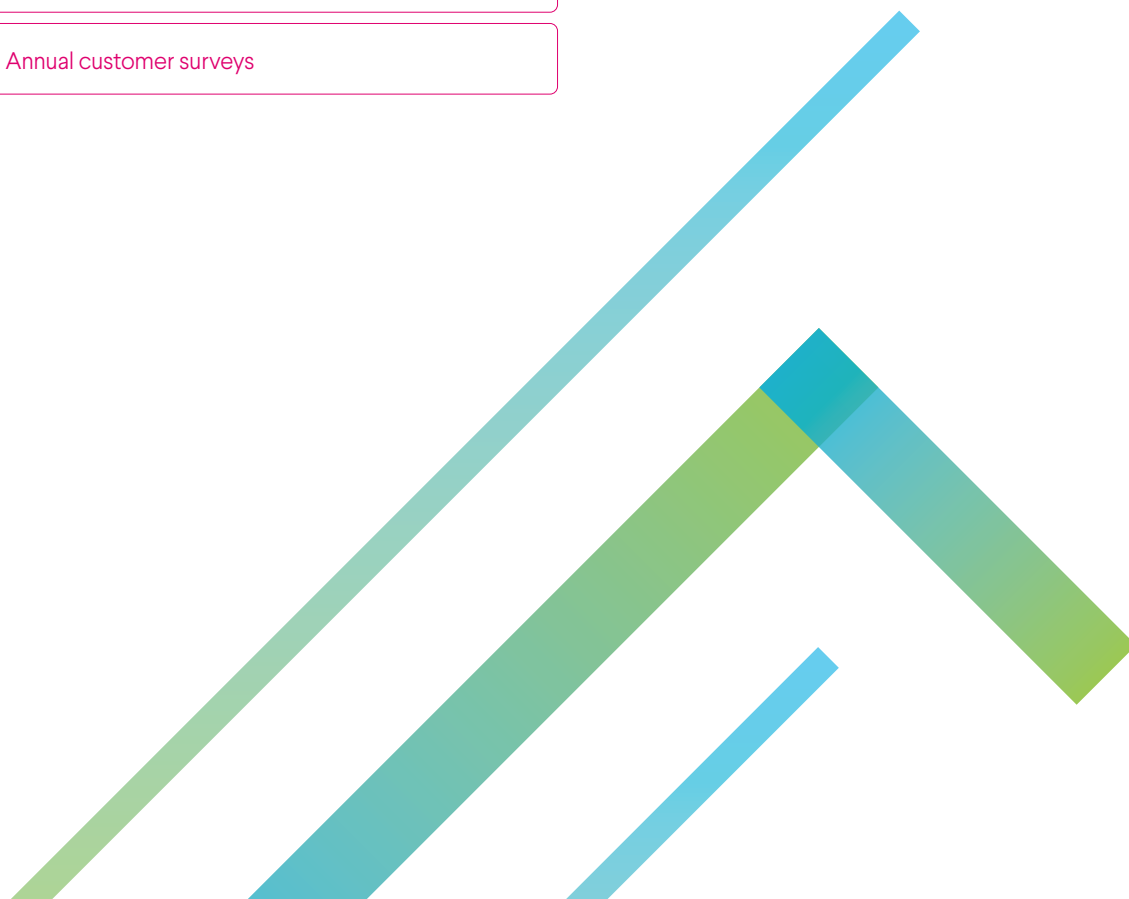
3.4 Which of the following is not one of The Pensions Regulator's measures of good practice set out in its code of practice 14?

- A Appropriate knowledge and understanding
- B Strong internal controls and good data and record keeping
- C Providing high quality information to members
- D** Maximising investment returns

5.6 How should the Fund ensure the services it receives are satisfactory?

- A Receive annual reports from providers on the services provided
- B** Have in place a contract management regime with regular reporting and challenge of provider performance
- C Review at the end of the contract term
- D Annual customer surveys

These 3 questions with most correct answers were spread over 3 different topics. In each case they were answered correctly by **more than 90%** of respondents.



Lowest scoring questions

Similarly, we have picked out the 4 questions (8.2 and 8.3 had identical average scores) which were answered most poorly overall:

5.1 Who in the Council is responsible for ensuring that procurement rules are followed?

- A The committee
- B Relevant Director and Fund officers
- C A specialist Procurement Officer
- D Head of HR

8.2 Which of the following is not a key principle of the Funding Strategy Statement?

- A Prudent view of Fund solvency
- B Adequate monitoring of Fund Manager performance
- C Transparency of governance process
- D Contribution stability

3.2 Which of the following is not a requirement but which a Fund may currently have in place?

- A Funding Strategy Statement
- B Administration strategy
- C Governance compliance statement
- D Communications policy

8.3 An employer's "primary rate" (expressed as a percentage of pensionable pay) is...?

- A The cost of new benefits accruing to the employer's active members
- B The cost of the pensions due to be paid out in the next year to the employer's former employees
- C A standard contribution rate calculated by the government for the LGPS as a whole
- D The minimum contribution payable by the employer

These 4 questions were answered correctly by less than one third of respondents, with the question regarding procurement rules answered correctly in only 10% of responses. This indicates there is clearly some work which can be done to raise awareness of procurement rules and procedures.

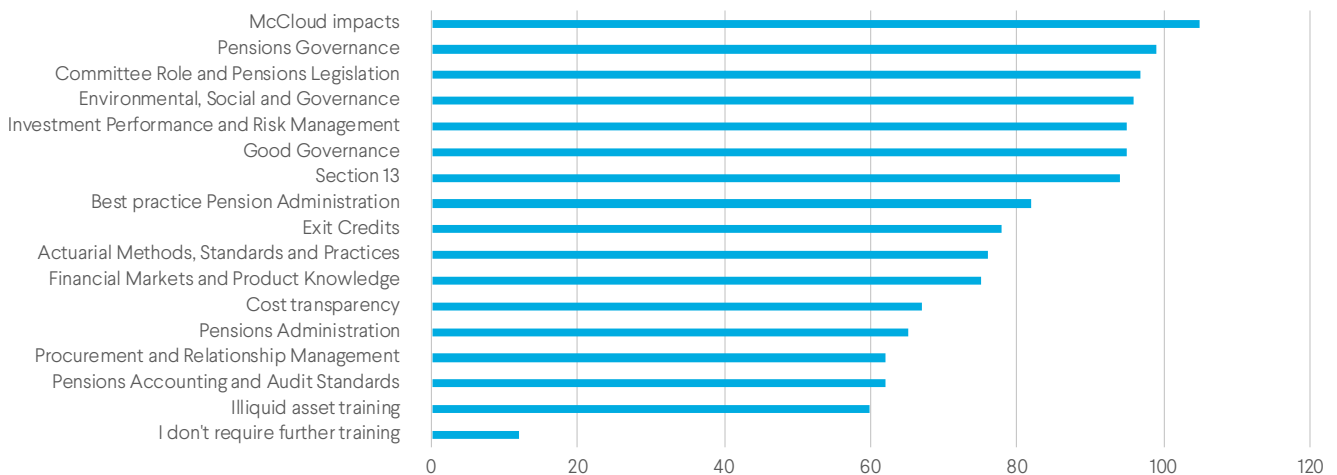
Two of the bottom 4 questions relate to the section on Actuarial methods, standards and practices. This is not surprising since this topic was the lowest scoring section overall but provides an indication of specific areas in which knowledge is lacking.

Training feedback from participants

One of our key aims from conducting this assessment is to facilitate putting in place bespoke training plans for all participating funds. This will allow members to get the most value from their structured training. We provided participating funds with a focussed training guide as part of their individual tailored results report. We hope that funds who opted not to participate in the assessment will still benefit from the aggregated national results and use these as the basis of structuring their training plan over the coming months and indeed years.

We asked members to indicate which topics they would like to receive training on. The list of options available covered a broad range of topics which we believe are most relevant to allow Committee and Board members to effectively perform their roles.

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



McCloud

The impact of the McCloud ruling is the single most requested training topic. As this is such an important current development in the LGPS, it's perhaps unsurprising. The fact that nearly half of all participants specifically requested training on this issue highlights the lack of confidence and understanding of the issue. We recommend that each fund has a McCloud section at their next Committee or Pension Board meeting if they have not already done so.

Committees could well be asked to approve project plans and measures put in place by the funds' officers to deal with the McCloud issues. Pension Boards will need to have oversight of this and sufficient knowledge to be able to scrutinise the decisions taken. It is apparent that a proportion of Committee and Board members do not feel equipped to do so currently, and that they would value further training.

Governance

Governance also features heavily in terms of requested training topics. Three of the top five topics requested concern governance. This has been a topical area in the LGPS over the past few years, and one which is quite rightly at the forefront of members' minds. That these topics have been requested by such numbers, suggests there is not only a desire, but a need, for further training in these areas.

Training support

Tools such as this online assessment offer different ways for members to take part in training. We have noted some training materials and websites below which might help you deliver focussed sessions to your Committee and Board and keep them informed on the most pertinent pension areas.

- CIPFA Knowledge and Skills Framework
- [TPR Public Service Toolkit](#)
- [LGA fundamental training](#)
- [LGA monthly bulletins](#)
- Hymans Robertson Training videos for Committee and Board members (more info below)

Hymans Robertson's Online training for Pension Committee and Local Pension Board members

We recognise that it's difficult to cover the extensive training requirements at quarterly meetings and understand elected members have limited time to dedicate to long training sessions outside of these meetings. That's why we're developing an online course to make it easier for members to obtain the knowledge they require, in a more efficient and engaging way.

Our online training course for Committee and Board members covers all the key areas that members need to understand in order to successfully manage the running of a fund, including:

- 1** An introduction to LGPS oversight bodies, governance, legislation and guidance
- 2** LGPS administration, including policies and procedures, pension fund auditing and accounting
- 3** LGPS valuations, funding strategy and LGPS employers
- 4** Investment strategy, pooling and responsible investment
- 5** Performance monitoring and procurement
- 6** Current issues in the LGPS

The benefits of going online

- Short and engaging 10 to 20 minute videos with extra learning materials
- Members can go at their own pace
- Regular reporting to funds on progress of their members
- Funds can easily evidence their members' knowledge and skills
- Limits the need for officers to create training material
- More cost effective than delivering training in person
- New members can benefit from training without going through a full cycle of meetings

Conclusion

Pension Funds

With increasing external pressures in the LGPS, there is a greater expectation on funds to improve knowledge levels for their Committees and Pension Boards. This first ever LGPS National Knowledge Assessment has provided the starting point for funds to measure where they are now and how they can measure progress for both groups in the future.

Regardless of external pressures, setting a goal to increase knowledge and understanding will provide strong informed decision making and informed scrutiny at each LGPS Fund. Those NKA benchmark numbers will be key for funds when planning future Committee and Pension Board Training.

Recommendations

We recommend the following action:

- For funds that haven't yet taken part in the National Knowledge assessment, please get in contact to discuss how your Fund can still take part in this assessment and tap into this wealth of benchmarking information. It is not too late for you to receive a 2020 local national report for your fund and gain a clear insight into your Committee and Pension Boards current knowledge levels.

For funds that have received their reports, we recommend you:

- Engage with your fund's Committee and Board members to agree the topics which are most relevant and create a **structured training plan** for the next 18 months, covering the main areas highlighted in this report.
- Plan for the **delivery** of training over a 6-month period while meeting restrictions might continue to be in place.
- **Assess** the tools available to the Fund to assist with training.
- Consider ways of **maintaining** and **increasing** the engagement of both the Board and Committee. This could include providing them with more information, training materials, briefing notes etc.
- Ensure that the fund's training strategy is up to date and **appropriate** for purpose.
- Keep a **training log** showing attendance by members at various training sessions, to ensure members are gaining a sufficient spread of knowledge.

Assessment, planning and recording of this work are key to ensuring your fund progresses and meets both the external and your own internal expectations of an informed Committee and Pension Board now and in the future.

We thank each fund and every participant for taking part in the 2020 National Knowledge Assessment – we look forward to working with you in assessing and measuring your progress in the years to come!



Appendix – Methodology

Approach

Participants were invited to complete the same set of 47 questions on the 8 areas below:

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

Under each subject heading, there were at least 5 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct. This allows us to build a picture of the knowledge levels of each individual member in each of the topics, but crucially to help inform you of the overall levels of knowledge in each area.

The subject areas exactly mirror those that were used in the National Confidence Assessment in 2018. This allows a comparison to be made between the confidence members have in these areas and the knowledge they exhibit through participating in the NKA.

“ An excellent initiative, hopefully leading to increased skills & knowledge. ”

“ By answering these questions it is obvious that there is still a great deal to learn and I would be happy to take part in any future training courses held. ”

“ Good test. Should be set as a minimum entrance requirement to be member of the Pension Fund Committee. ”

“ Thanks. This has been very well put together as it tests your field of knowledge. It also shows how much is still to learn and to keep abreast of. ”