

## **Pension Fund Committee**

**12 March 2020**

## **Governance Compliance Statement**



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### **Report of John Hewitt, Corporate Director of Resources**

#### **Purpose of the Report**

- 1 To update members on the revisions to the Pension Fund Committee Governance Compliance Statement, following a review with the MJ Hudson Allenbridge in February 2020.

#### **Executive summary**

- 2 The review of the Compliance Statement was undertaken in line with 2008 guidance issued by the Secretary of State for, at the time of issue, Communities and Local Government (CLG) and Regulation 55 of The Local Government Pension Scheme Regulations 2013.

#### **Recommendation(s)**

- 3 Members are asked to:
  - (a) note the report and to advise of any comments they may have on the Governance Compliance Statement set out in the appendices to this report,
  - (b) authorise the Corporate Director of Resources to publish details of training activity and attendance at Committee meetings, and;
  - (c) authorise the Corporate Director of Resources to finalise the wording of the Compliance Statement, taking into account where appropriate both professional advice as well as comments received from employers, and publish a final version by 31 March 2020.

## **Background**

- 4 Under Regulation 55 of the Local Government Pension Scheme Regulations 2013 Durham County Council in its capacity as Administering Authority for the Pension Fund must prepare a written statement setting out “the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying”.
- 5 The written statement must be kept “under review, and make such revisions as are appropriate”. Following a review conducted with MJ Hudson Allenbridge, the Statement has been updated to reflect current requirements and practices. It is recommended as best practice that the Statement is augmented with a summary of training activity and attendance at Committee meetings.
- 6 The revised Statement will be shared with employers for comment, with the finalised version published on the council’s website and in the Fund’s Annual Report.

## **Good Governance Review**

- 7 The Compliance Statement reflects the Fund’s approach to current governance requirements, but it should be noted that these requirements are currently under review by the LGPS Scheme Advisory Board (SAB).
- 8 SAB is currently examining the effectiveness of current LGPS governance models with a focus on standards, consistency, representation, conflict management, clarity of roles and cost. The Board will consider a detailed paper in May 2020 which will likely result in new statutory guidance on Governance Compliance.

## **Next Steps**

- 9 The revised Governance Compliance Statement will be circulated to all Pension Fund employers for comment within two weeks. A Final version of the Statement for inclusion in the Annual Report will be published on 31 March 2020.
- 10 Officers will report back to Committee in June, with an update on the Good Governance Review, recommendations in light of any changing requirements, as well as a Training Plan informed by Member Self-Assessments.

**Author(s)**

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## **Appendix 1: Governance Compliance Statement**

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# GOVERNANCE COMPLIANCE STATEMENT

Durham County Council is the Administering Authority for the Durham County Council Pension Fund.

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with 2008 statutory guidance issued by the Secretary of State (CLG) and the provisions of regulation 55 Of the Local Government Pension Scheme Regulations 2013.

The following sections set out the principles of governance as prescribed in the guidance and describe the Fund's current arrangements for compliance.

Principle A – Structure	Fully compliant
<p>a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> <p>b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	

The constitution of the Council delegates to the **Pension Fund Committee** “powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder” regarding the administration of the Scheme and investment of funds, including:

- Approval of applications from bodies seeking admission to the Local Government Pension Scheme;
  - Appointment of external investment managers and advisers.
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The following function is delegated to the **Corporate Director of Resources** by the Council:

“To take all necessary actions of a routine nature to properly administer the financial affairs of the Council including ... the Council’s functions as a pension fund administering authority under the Superannuation Act 1972 and associated regulations.”

The structure of the Pension Fund Committee was reviewed in December 2008 and revised with effect from 1 April 2009 to reflect the composition of Durham County Council as a unitary authority from that date. The structure of the Pension Fund Committee is as follows:

<b>Body / category of bodies represented</b>	<b>Number of Committee Members</b>
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Scheduled Bodies	1
Admitted Bodies	1
Active Members	1
Pensioners	1
<b>Total</b>	<b>18</b>
<i>(plus 2 non-voting union observers)</i>	

The Terms of Reference of the Committee is available at [www.durham.gov.uk/lgps](http://www.durham.gov.uk/lgps). A secondary committee or panel has not been established due to the full extent of representation on the Committee.

The Local Pension Board is established by Durham County Council and will be governed by Durham County Council’s Constitution. The Board was established on 1 April 2015 under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) and operates independently of the Pension Fund Committee.

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

- a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
- b) To ensure the effective and efficient governance and administration of the Scheme.

The Board consists of six voting members of which three represent Scheme Members and three represent Scheme Employers, and there shall be an equal number of Member and Employer representatives. The Board appoints a chair from its membership.

All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

Knowledge and understanding must be considered in the light of the Board's purposes as set out above. The Board shall establish and maintain a record of training to address the knowledge and understanding requirements that apply to Board members under the Regulations.

The Board meets four times each year and may hold additional meetings if agreed by the Board. The quorum for each meeting is one Scheme Member representative and one Scheme Employer representative. A meeting that becomes inquorate may continue but any decisions will be non-binding.

The Chair shall agree with the Monitoring Officer (the 'Board Secretary') an agenda prior to each meeting which, together with supporting papers, will be issued at least five working days (where practicable) in advance of the meeting to all members of the Board. The Board meetings can be open to the general public.

The Administering Authority may meet the expenses of Board members as agreed by the Corporate Director of Resources in consultation with the Leader and Deputy Leader of the Council. The Administering Authority shall not pay allowances for Board members.

The Board should in the first instance report its requests, recommendations or concerns to the Pension Fund Committee. In support of this, any member of the Board may attend a Committee meeting as an observer.

The detailed terms of reference of the Local Pension Board may be found on the Council's website [www.durham.gov.uk/article/6164/Durham-County-Council-Pension-Fund-Local-Pension-Board](http://www.durham.gov.uk/article/6164/Durham-County-Council-Pension-Fund-Local-Pension-Board).

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<b>Principle B - Representation</b>	<b>Fully compliant</b>
<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers e.g. admitted bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers,</li> <li>iv) expert advisers (on an ad-hoc basis).</li> </ul> <p>b) That where lay members sit on a main or secondary committee they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	

The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund.

The two Trade Union representatives are invited as observers.

The Committee does not consider it appropriate to appoint an independent professional observer to the Committee but these governance arrangements have been independently audited by Peter Scales of MJ Hudson Allenbridge on behalf of the Committee.

Investment Consultancy is provided to the Fund by Mercer, and the Committee has appointed Anthony Fletcher of MJ Hudson Allenbridge to provide independent investment advice.

All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.

<b>Principle C - Selection and role of lay members</b>	<b>Fully compliant</b>
<p>a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	

The representatives from Durham County Council and Darlington Borough Council are appointed by decisions of the respective councils.

The representatives of the Colleges, other Statutory Bodies, and Admitted Bodies are selected by the Committee from nominations made by the employers and appointed for a period of 4 years.

The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter - one from active scheme members and one from pensioner members.

All Committee members are made fully aware of their role and functions as set out in the terms of reference for the Committee and other documentation.

Applicants from the scheme membership are provided with an information pack setting out the duties and responsibilities of a Pension Fund Committee Member together with a description of the type of individual qualities and experience seen as essential or desirable for the role.

All members are also made aware that as well as having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms they have a clear fiduciary duty to participating employers, local tax payers and scheme beneficiaries in the performance of their responsibilities.

There is a standing agenda item at the start of each meeting inviting members to declare any financial or pecuniary interest related to specific matters on the agenda. The register of Members' interests is available online at [www.durham.gov.uk](http://www.durham.gov.uk).

<b>Principle D - Voting</b>	<b>Fully compliant</b>
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	

All members appointed to the Committee have voting rights.

Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

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<b>Principle E - Training/Facility Time/Expenses</b>	<b>Fully compliant</b>
<p>a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p> <p>b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p> <p>c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</p>	

The Committee has established a policy on training, facility time and reimbursement of expenses which applies to all members of the Committee.

Consideration has been given to the adoption of annual training plans and the maintenance of a log of all such training undertaken. The Committee receives specific training before making investment decisions. The training requirements of individual Committee Members is informed by Member self-assessment.

<b>Principle F – Meetings (frequency/ quorum)</b>	<b>Fully compliant</b>
<p>a) That an administering authority’s main committee or committees meet at least quarterly.</p> <p>b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</p> <p>c) That an administering authority which does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</p>	

The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting each year to which all employers are invited.

The quorum for each regular meeting of the Committee is 5.

<b>Principle G - Access</b>	<b>Fully compliant</b>
<p>a) That subject to any rules in the council's constitution all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	

All members of the Committee have equal access to committee papers, documents and advice to be considered at each meeting. Public documents are posted on the website.

<b>Principle H - Scope</b>	<b>Fully compliant</b>
<p>a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>	

As set out in the terms of reference, the Committee regularly considers "wider issues" and not just matters relating to the investment of the Fund.

<b>Principle I - Publicity</b>	<b>Fully compliant</b>
<p>a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	

The Governance Compliance Statement is distributed to all employers, is reproduced in the Annual Report, and is published on the Council's website. The appointment of member representatives was advertised to all members for them to express an interest.

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## **Appendix 2: Pension Fund Committee Terms of Reference**

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## **Pension Fund Committee – Terms of Reference**

### **1. Objectives**

1.1. The Pension Fund Committee's objective is to ensure effective stewardship of the Fund's affairs. The Pension Fund is governed by Local Government Pension Scheme Regulations and the Committee will ensure that the Pension Fund is run in accordance with the Regulations.

### **2. Authority**

2.1 The Local Government Pension Scheme is a statutory scheme governed by Regulations. Durham County Council, acting as Administering Authority for the Pension Fund has determined to delegate all functions relating to the maintenance of the Pension Fund to the Pension Fund Committee for its governance, and for prudent and effective stewardship.

2.2 Members act as committee members and not as Trustees. There is no Trust Deed or Agreement as with Private Pension funds. Nonetheless, Members have fiduciary duties to participating employers and scheme members and take decisions with advice from Corporate Director Resources, officers and professional advisors, in accordance with the committee rules and voting procedures.

2.3 Under the terms of the County Council's Constitution, the Pension Fund Committee has been delegated the following terms of reference:

2.3.1. Powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder including:

approval of applications from bodies seeking admission to the Local Government Pension Scheme;

appointment of external investment managers and advisers.

### **3. Composition**

3.1. The Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. In order to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. The Fund holds training sessions in advance

of decisions being taken, in particular when the investment strategy is considered, presentations on topical issues, related to possible choices of future investment. Further training in time for actuarial valuations is also undertaken.

3.2. The structure of the Pension Fund Committee is as follows:

<b>Body/ category of bodies represented</b>	<b>Number of Committee Members</b>
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Other Statutory Bodies	1
Admitted Bodies	1
Member representatives	2
<b>Total</b>	<b>18</b>
<i>plus non-voting union observers</i>	2

3.3. The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund. It has appropriate representation for the large employers within the Fund whilst maintaining a manageable governance framework for the size of the committee. The two trade union representatives are invited as observers.

3.4. The representatives from Durham County and Darlington Borough Councils are appointed by decisions of the respective councils. Representatives of the colleges, other statutory bodies, and admitted bodies are selected by the Committee from nominations made by the employers and are appointed for 4 years. The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter: one from active scheme members and one from pensioner members.

3.5. All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.

3.6. All members appointed to the Committee have voting rights. Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

3.7. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required.

3.8. The quorum for each regular meeting of the Committee is 5.

3.9. Minutes of the Committee are reported under the existing County Council Committee framework.

3.10. Detailed performance reports will remain confidential items on Committee agenda as will any other item deemed as such by the Chairman although the Committee will aim to operate as transparently as feasible.

#### 4. Terms of Reference

Number	Term of Reference	Frequency of Reporting
	The Pension Fund Committee's objective is to ensure effective stewardship of the Fund's affairs. The Pension Fund is governed by Local Government Pension Scheme Regulations and the Committee will ensure that the Pension Fund is run in accordance with the Regulations.	
1	To prepare, monitor and undertake an annual review of policy documents including the:  Funding Strategy Statement Statement of Investment Principles Governance Policy Communications Policy Administration Strategy (discretionary)	Annually
2	To review policy on social, environmental and ethical matters and on the exercise of rights, including voting rights.	Annually
3	To appoint and terminate, within the procurement and contract rules,:  investment managers custodian actuary independent external advisers Additional Voluntary Contribution (AVC) providers, and other contracts related to the management of the Pension Fund	In line with contractual requirements and as and when required
4	To consider the appropriateness of the committee structure to deliver the outcomes required by the Terms of Reference, e.g the establishment of an investment sub-committee.	Annually

Number	Term of Reference	Frequency of Reporting
5	To be responsible for governance arrangements including regulatory compliance and implementation of audit recommendations	Quarterly
6	To approve the annual internal audit plan and monitor progress on it's delivery.	Annually and quarterly monitoring
7	To review and monitor the Pension Fund Risk Register.	Annually
8	To determine the overall investment strategy and strategic asset allocation, ensuring that investments are sufficiently diversified, not over concentrated in any one type of investment and that the pension fund is invested in suitable types of investments;	Minimum of 2 yearly reviews
9	To obtain, and have due regard to, professional advice from the fund managers, investment advisers, officers and the fund actuary as appropriate;	Quarterly and as and when required
10	To monitor and review the investment managers' performance against established benchmarks and to be satisfied of the investment managers' expertise and the quality of their internal systems and controls;	Quarterly
11	To take appropriate and timely action in cases of unsatisfactory performance of the investment managers and independent external advisers;	Quarterly and as and when required
12	To monitor the cash flow forecasts of the fund;	Quarterly
13	To review the resources allocated to investment managers on a regular basis;	Quarterly
14	Ensure appropriate arrangements are in place for the administration of benefits and contributions.	Annually

Number	Term of Reference	Frequency of Reporting
15	To approve, apply and decide upon employers joining and leaving the Fund. To consider, and if appropriate, approve applications of employers to become admitted bodies to the fund.	As and when required
16	To agree an accounting policy for the Fund consistent with IFRS and relevant authoritative guidance in order to prepare and publish a Pension Fund Annual Report including an abstract of accounts.	Annually
17	To review the Annual Report and Accounts of the Pension Fund and report its findings to the Audit Committee, where the Accounts are approved.	Annually
18	To consider all other relevant matters to the investment and administration of the fund.	As and when required
19	To establish constitutional documents, codes, policies, plans, frameworks and protocols connected with the establishment and operation of the Local Pension Board	As and when required

## 5. Meetings

5.1. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting to which all employers are invited. This maintains a manageable governance framework in terms of the frequency of meetings.

## 6. Programme of Work

6.1. An annual programme of work, cross referenced to the terms of reference, will be agreed annually by the Pension Fund Committee showing expected documents and reports to be presented and any training requirements.

## 7. Performance and Review

7.1. The Pension Fund Committee will carry out an annual self-assessment, including a review of these terms of reference, to evaluate its own performance and determine any action required to improve its effectiveness.