

Pension Fund Committee

4 December 2012

Terms of Reference



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 To inform Members of the progress in determining terms of reference for the Pension Fund Committee.

Background

- 2 The Pension Fund Committee has responsibility delegated from the Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made following from this, including:
 - approval of applications from bodies seeking admission to the Local Government Pension Scheme;
 - appointment of external investment managers and advisers.
- 3 An Internal Audit report considering the Governance and Funding of the Pension Fund was presented to this committee on 6 December 2011 by the Internal Auditor in order to provide assurance over the governance arrangements in place for the Pension Fund. The report recommended that a review should take place to clarify that the responsibilities of the Pension Fund Committee were clearly defined and understood.
- 4 The audit approach involved reviewing documentation provided by the Fund, as well as interviews with County Council officers and members of the Pension Fund Committee
- 5 This report gave the committee only limited assurance and stated:

Our review has highlighted a number of areas that we believe officers and members should consider. These are as follows:

- *There is a lack of clarity regarding the roles and responsibilities of the Pension Fund Committee, reflected in the lack of a formal terms of reference for the Committee;*

- *The level of engagement with external audit and, until recently, internal audit has been low;*
- *Meeting agenda items tend to be heavily weighted towards investments, whilst the meeting minutes do not always cover all relevant information;*
- *Members are not always seen as providing appropriate challenge within Pension Fund Committee meetings;*
- *The level of training of members and attendance at Committee meetings is not always seen as adequate;*
- *There is no process for the approval of the Pension Fund accounts and annual report by the Committee; and*
- *There should be greater oversight of funding risks around bodies in the Fund defaulting.*

6 The establishment of clear Terms of Reference for the Committee was a recommendation of the report and this is considered to be necessary as a precursor before all the other recommendations of the Internal Auditor's report are to be implemented.

Delegated Authority

7 The delegation of authority from the County Council is wide-ranging and covers the management of all of the Pension Fund's activities. Any changes to this delegation would require the consideration and agreement of the Constitution Working Group.

8 No changes are suggested to be made to this delegation.

Terms of Reference

9 In order to discharge the functions delegated to the Pension Fund Committee, Operational Terms of Reference should be established.

10 The Operational Terms of Reference should provide clarity to the members of the Pension Fund Committee in a number of areas:

- Roles and Responsibilities of Members
- High level objectives of the Committee
- Authority of the Committee
- Composition of the Committee
- Detailed Terms of Reference to achieve the High Level Objectives
- Meetings
- Programme of work
- Performance and Review

A draft Terms of Reference is attached at Appendix 1.

Actions

- 11 Before formally agreeing the Terms of Reference, it would be beneficial for Committee members to review the draft and consider amendments. The information requirements of members need to be considered and documented in the Terms of Reference so that Members can gain assurance that the functions of the committee are being addressed.
- 12 As the Terms of Reference will determine the future programme of work of the committee, it is recommended that a workshop session is arranged to enable members to review the draft terms of reference and develop a final document that can then be agreed by the County Council.

Recommendations

- 13 It is recommended that:
 - Members note the draft operational Terms of Reference
 - A workshop session is arranged to agree the Terms of Reference and the information requirements of the Committee for the future.

Background papers

- (a) Pension Fund Committee – 6 December 2011 – Internal Audit Progress Report
- (b) Durham County Council Constitution
- (c) CIPFA – Pensions Finance – Knowledge and Skills Framework: Technical Guidance for Pensions Practitioners in the Public Sector
- (d) CIPFA – Pensions Finance – Knowledge and Skills Framework: Technical Guidance for Elected Representatives and Non-executives in the Public Sector
- (e) CIPFA – Investment Decision Making and Disclosure in the Local Government Pension Scheme: A guide to the Application of the Myners Principles

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Pension Fund Committee Operational Terms of Reference

1 Authority

- 1.1. 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.
- 1.2. Under the terms of the County Council's Constitution, the Pension Fund Committee has been delegated the following terms of reference:
 - 1.2.1. 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.
- 1.3. In order to deliver the terms of reference delegated, further detailed functions of the committee need to be identified. These will be the Operational Terms of Reference for the Committee.

2 Composition

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

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

- 2.2. 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.

- 2.3. 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.
- 2.4. All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.
- 2.5. 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.
- 2.6. 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.
- 2.7. The quorum for each regular meeting of the Committee is 5.
- 2.8. Minutes of the Committee are reported under the existing County Council Committee framework.
- 2.9. 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.

3 Background

- 3.1. Each LGPS Administering Authority should have a designated group of elected members appointed to a committee which has been assigned the responsibility for the management and administration of the pension fund.
- 3.2. The committee should be governed by specific terms of reference and operational procedures that define those responsible for taking decisions.
- 3.3. The committee should review its structure and composition regularly and provide each member with a copy of the terms of reference and operational procedures.

- 3.4. The committee may consider establishing sub-committees and/or panels where necessary to take responsibility for progressing significant areas of activity between meetings of the committee.
- 3.5. The committee should obtain proper advice at reasonable intervals from suitably qualified persons, including officers and external investment managers. The chief finance officer should assess the need for proper advice and recommend to the committee when such advice is necessary from an external adviser. The committee should ensure that it has sufficient internal resources, and where necessary external resources to carry out its responsibilities effectively.
- 3.6. The chief finance officer should have responsibility for the provision of a training plan for members to help them to make effective decisions, and to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role.
- 3.7. Papers and related documentation should be clear and comprehensive and circulated to members of the committee sufficiently in advance of the meeting to allow them to be read and understood.

4 Operational Terms of Reference

- 4.1. To prepare, monitor and review policy documents including the:
 - Funding Strategy Statement
 - Statement of Investment Principles
 - Governance Policy
 - Communications Policy
 - Administration Strategy
- 4.2. To appoint and terminate:
 - investment managers
 - custodian
 - actuary
 - independent external advisers
 - Additional Voluntary Contribution (AVC) providers, and
 - other contracts related to the management of the Pension Fund
- 4.3. 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;

- 4.4. To review the resources allocated to investment managers on a regular basis;
- 4.5. To monitor and review, on a quarterly basis, the investment managers' performance against established benchmarks and satisfy themselves on the investment managers' expertise and the quality of their internal systems and controls;
- 4.6. To take appropriate action in cases of unsatisfactory performance of the investment managers and independent external advisers;
- 4.7. To obtain, and have due regard to, professional advice from the fund managers, investment advisers, officers and the fund actuary as appropriate;
- 4.8. To monitor the cash flow forecasts of the fund on a quarterly basis;
- 4.9. To review policy on social, environmental and ethical matters and on the exercise of rights, including voting rights.
- 4.10. 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.
- 4.11. To review the Annual Report and Accounts of the Pension Fund and report its findings to the Audit Committee, where the Accounts are approved.
- 4.12. To approve the annual internal audit plan and monitor progress on its delivery.
- 4.13. To review and monitor the Pension Fund Risk Register.
- 4.14. To consider all other relevant matters to the investment and administration of the fund.

5 Key Responsibilities

- 5.1. **The Pension Fund Investment Managers are responsible for:**
 - The investment of the Pension Fund assets in respect of which they are appointed in compliance with applicable rules and legislation, the constraints imposed by the Statement of Investment Principles and the detailed Investment Management Agreement covering their portion of the Pension Fund's assets;
 - Stock selection within asset classes;

- Preparation of quarterly reports, including a review of investment performance;
- Attending meetings of the Pension Fund Committee as requested.

5.2. The Global Custodian is responsible for:

- Its own compliance with prevailing legislation;
- Providing the administering authority with monthly or quarterly valuations of the Pension Fund's assets and details of all transactions during the quarter;
- Collection of income, tax reclaims, exercising corporate administration and cash management;
- Such other services as the Pension Fund shall procure, for example, in connection with performance measurement and reporting or fund accounting

5.3. The Independent Advisers are responsible for:

- Assisting the Corporate Director, Resources and Pension Fund Committee in determining:
 - the overall investment strategy
 - the strategic asset allocation
 - that the Pension Fund is invested in suitable types of investment
 and ensuring that investments are sufficiently diversified.
- Assisting the Corporate Director, Resources and Pension Fund Committee in the preparation and review of Policy documents;
- Assisting the Corporate Director, Resources and Pension Fund Committee in their regular monitoring of the investment managers' performance;
- Assisting the Corporate Director, Resources and Pension Fund Committee in the selection and appointment of investment managers, custodians and Pension Fund Actuary;
- Advising and assisting the Corporate Director, Resources and the Pension Fund Committee on other investment related issues, which may arise from time to time;
- Providing continuing education and training to the Pension Fund Committee.

5.4. The Actuary is responsible for:

- Providing advice as to the structure of the Pension Fund's liabilities, the maturity of the Pension Fund and its funding level in order to aid the Pension Fund Committee in balancing the short term and long-term objectives of the Pension Fund
- Undertaking the statutory triennial valuation of the Fund's assets and liabilities.

5.5. The Corporate Director Resources has delegated authority:

- To exercise the County Council's function as administering authority relating to the Local Government Pension Scheme.
- To exercise those discretions under the Local Government Pension Scheme Regulations as appear from time to time in Pension Fund Statements of Policy;
- To authorise, in cases of urgency, the taking of any action by a Manager of the Pension Fund this is necessary in order to protect the interests of the Fund.
- To take any decision relating to the investment or management of the Pension Fund that cannot reasonably await the next meeting of the Pension Fund Committee.
- To maintain all necessary accounts and records in relation to the Pension Fund, including the calculation of and payment of benefits, reconciliation and investment of contributions, preparation of the Annual Accounts and preparation of membership data for actuarial valuation purposes.
- To maintain the system of internal control.
- To manage the triennial valuation of the Pension Fund.
- To accept for admission into the Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community Admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.
- To be the local referee for disputes under the Local Government Pension Scheme
- To set the appropriate funding target for the Fund under the rules of the Local Government Pension Scheme.
- To carry out, in consultation with the Pension Fund Committee, the requirement to monitor and review the investments made by

the Fund Managers and report to each meeting of the Pension Fund Committee on the exercise of this delegation.

- To manage cash flow, allocate funds between investment managers in order to ensure that the Fund's asset allocation is maintained and invest the residual cash balances.
- To arrange and authorise the provision of appropriate Member training, including the attendance at conferences and other similar pension fund related events by Members of the Pension Fund Committee.
- To prepare and submit the necessary Policy Statements to Pension Fund Committee and to arrange for the implementation and review of those statements, strategies, policies and procedures, as required. These include the Funding Strategy Statement
- To prepare and submit the necessary plans and principles to the Pension Fund Committee and to arrange for the implementation and review of those plans and principles, as required. These include the Pension Fund Annual Report and the Statement of Investment Principles.
- To produce as part of the Funding Strategy Statement, an assessment of all the specific risks that can be identified in relation to the management of the Pension Fund.

6 Meetings

- 6.1. 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.

7 Programme of Work

- 7.1. 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.

8 Performance and Review

- 8.1. 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.