

## **Pension Fund Committee**

**7 March 2013**



## **Terms of Reference**

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**Don McLure, Corporate Director Resources**

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### **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 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 to the other recommendations of the Internal Auditor's report being implemented.
- 6 A workshop was held on 6 February 2013 when the proposed Terms of Reference were discussed in detail. A note of the main points raised at that meeting is attached at Appendix 1.

### **Terms of Reference**

- 7 Following discussions at the workshop, amendments have been made to the draft Terms of Reference presented to the Committee in December. A revised Terms of Reference is attached at Appendix 2. The amendments have been shaded in the Appendix.
- 8 The Operational Terms of Reference attached provide clarity to the members of the Pension Fund Committee in a number of areas:
- High level objective of the Committee
  - Authority of the Committee
  - Composition of the Committee
  - Detailed Terms of Reference to achieve the High Level Objective
  - Meetings
  - Programme of work
  - Performance and Review
- 9 The Terms of Reference will determine the future programme of work of the committee and following discussions, the frequency of reporting on the individual term of reference has been included.
- 10 It is recommended that the Terms of Reference be reviewed at least annually to ensure that they include any changes to items described in paragraph 8.

### **Delegated Authority**

- 11 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.
- 12 No changes are suggested to be made to this delegation.

### **Recommendations**

- 13 It is recommended that:
- Members agree to adopt the Terms of Reference as shown in Appendix 2
  - The Terms of Reference are reviewed at least on an annual basis.

## **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
- (f) Pension Fund Committee -4 December 2012 - Terms of Reference

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**Contact: Hilary Appleton Tel: 03000 266239**

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## **Appendix 1: Pension Fund Committee Workshop Session – 6 February 2013**

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### **Agenda**

- Items that are in the Constitution and accepted:
  - The delegated authority for the Committee
  - The delegated authority for the Corporate Director, Resources
  - The composition of the Committee
  
- Items for discussion:
  - Objectives for the Committee
  - Terms of Reference
  - Programme of Work for the Committee
  
- Next Steps
  - Report the amended Terms of Reference to Pension Fund Committee for approval.
  - Implement the agreed programme of work

### **Notes of the Meeting**

Present:

Councillors:

A Turner, N Martin, J Chaplow, A Hopgood, P Jopling, J Lethbridge, D Morgan, R Ord, G Richardson. D Sanders, N Hancock.

Officers:

N Orton, H Appleton, P Monaghan, B White, A Merritt, P Turner, R Auty.

The meeting discussed the Terms of Reference in line with the Agenda circulated at the meeting.

Points raised at the meeting:

- Should Internal Audit's recommendations influence the Terms of Reference for the Committee? Member responsibilities and the discharge of their duties should be the main driver for the TOR and the programme of work.
- Clarification of the difference between members and trustees was requested.

- Responsibility for the appointment and termination of Investment Managers – how does this fit into the current procurement process, and how does the Committee gain assurance over the Investment Managers' selection process? There needs to be a relationship of respect and trust between Members and the Investment Managers.
- Training for Committee was discussed – in particular induction for new Members of the Pension Fund Committee – should the June meeting be postponed until training is completed?
- An investment sub-committee was discussed as a way of having a more active role with the Investment Managers – possibly holding sub-committee meetings between the quarterly Pension Fund Committee meetings to have more time to interrogate the Investment Managers.
- An investment sub-committee would require a skills set to provide more challenge to the Managers; training items could be put on the Agenda. It was thought that it would be useful to have the capacity to do this.
- It was thought that the Investment Managers were not held to account sufficiently. Members were unsure that the right questions were being asked of the Managers and in some cases, whether the answers were fully understood.
- An alternative view was given that 'common sense' questions are useful. The committee having two advisers who could give contrasting views was also considered useful in this context.
- The time taken to terminate the contract of a Manager was also discussed; it was felt that this should have happened in a more timely manner.
- It was felt that the committee ought to be informed of any late payments of contributions from employers due to the implications on the fund, e.g. reducing amounts available for investments, or problems with an employing organisation.
- An annual review of the Terms of Reference, as well as consideration of the appropriateness of the reports presented, and their frequency was accepted. This should be done at December Committee, with revised Terms of Reference being reported in March.

As a result of the meeting, the draft Terms of Reference were amended to reflect the discussions, and a 'frequency of reporting' added to each of the terms.

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

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### 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: <ul style="list-style-type: none"> <li>• Funding Strategy Statement</li> <li>• Statement of Investment Principles</li> <li>• Governance Policy</li> <li>• Communications Policy</li> <li>• Administration Strategy (discretionary)</li> </ul>	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,: <ul style="list-style-type: none"> <li>• investment managers</li> <li>• custodian</li> <li>• actuary</li> <li>• independent external advisers</li> <li>• Additional Voluntary Contribution (AVC) providers, and</li> <li>• other contracts related to the management of the Pension Fund</li> </ul>	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

## 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.