

Pension Fund Committee

10 September 2015



Self-Assessment of the Pension Fund Committee

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Purpose of the Report

- 1 To review the role of the Pension Fund Committee and summarise the key activities and achievements in 2014/15 that demonstrate how the committee has fulfilled its role in order to be able to complete a self-assessment in line with the Terms of Reference for the 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 In order to effectively carry out their role, the Committee obtains professional advice, as and when required, from officers of the Council, plus suitably qualified persons including external advisers and investment managers.
- 4 The Terms of Reference attached at Appendix 1, clarify the responsibilities of the Pension Fund Committee and ensure that they are clearly defined and understood.
- 5 In March, each year, the Pension Fund Committee reviews its Terms of Reference to ensure that they include any changes, particularly with reference to amendments to the authority delegated from the County Council through the Council's Constitution.
- 6 Section 7 of the terms of reference requires the Pension Fund Committee to assess its own performance on an annual basis.
- 7 The previous self-assessment was undertaken by PricewaterhouseCoopers in their capacity as Internal Auditors and a report brought to Pension Fund Committee in December 2011.

Review of Committee's work in 2014/15

- 8 The Pension Fund Committee has responsibility for the strategic management of the Pension Fund, which at 31 March 2015 had a value of £2.335bn and comprised of 18,011 contributing members and 30,358 pensioners, including deferred pensioners. The Committee is responsible for the overall asset allocation of the Pension Fund as well as ensuring the long term ability of the Fund to pay the pensions of past, present and future members. The Pension Fund has considered reports at each of its quarterly meetings which have covered a wide range of issues and have taken a number of key decisions.
- 9 Appendix 2 details all reports presented to the Pension Fund Committee in 2014/15 and to date. Each report is linked to one of the Pension Fund Committee's Terms of Reference.
- 10 The Terms of Reference broadly fall into five categories:

Category	Term of Reference
Governance	1 to 7
Investments	8 to 13
Administration	14 to 15 and 18
Accounting and Reporting	16 to 18
Local Pension Board	19

11 **Governance**

The Committee has reviewed the policy documents of the Pension Fund and appropriate changes have been made in conjunction with the Advisers.

In September 2014 the Committee considered the Law Commission's view on the fiduciary duty of the Committee to investment and, in the light of this report, in December 2014 the Committee considered the Fund's approach to ethical and social issues.

The Committee has overseen the movement of assets to three, new Global Equity Managers following their appointment in the previous financial year, as well as the movement of assets from another Manager, following Advisers' concerns over risk and future performance.

In March 2015, the Terms of Reference of the Committee were reviewed and a new action added, necessitated by the introduction of Local Pension Boards.

The Committee has received reports detailing Internal Audit's plan of work for 2014/15 and 2015/16 and Progress Reports which monitored work against their Plan. Consideration was given to reports providing assurance over debt recovery and a review of the arrangements in place to mitigate against the risks associated with Admitted Bodies.

12 **Investments**

At each quarterly meeting the Committee receives extensive reports from each Investment Manager detailing the performance of their part of the Pension Fund's investments over the quarter.

The Pension Fund Adviser reports quarterly on the economic background and market movements throughout the quarter, as well as providing an independent analysis of each Manager's performance.

Each Manager has attended the Committee and discussed their performance with the Committee and provided an opportunity for Members to question Managers directly about their investment strategy and performance.

Each quarter, the Global Custodian's report on the performance of each Manager is also reported to the Committee.

The overall value of the Fund is reported with an assessment, based on the Pension Fund's estimated cash flow, of any additional cash to be allocated to or taken from Managers. A cash flow forecast for the next 12 months is also reported quarterly. This enables the Committee to consider action to remedy any cash shortfalls which may occur in the Fund.

The Committee has also rebalanced the Fund's assets to ensure that the Pension Fund retains its strategic asset allocations.

The Committee has put in place an agreement with the Council for the management of the investment of the Fund's short term cash balances. This agreement is updated annually and the interest received by the Fund as a result of this arrangement is reported to the Committee quarterly.

13 **Administration**

The Committee has been advised of a new admission body into the Fund.

At the Annual Meeting of the Pension Fund, a presentation was given which gave a recap of the changes implemented by LGPS 2014 Regulations and the Future Structure of the LGPS. Updates were given on the Pension Reforms as a result of the 2014 Budget, and an update on the introduction of a new Pension Administration system.

14 **Accounting and Reporting**

The Audit Committee of the Council has responsibility for the approval of the Statement of Accounts for the Council. The Accounts for the Pension Fund are included in this statement.

The Pension Fund Committee considers and approves the Accounting Policies to be used in the preparation of the Pension Fund's accounts.

The draft accounts for the Pension Fund were reported to the Committee in advance of their presentation for approval to the Audit Committee.

The Audit Completion Report provided by the Pension Fund's External Auditors was also reported to Committee. This report gives assurance to the Committee that the Accounts of the Pension Fund present a 'true and fair view' of the transactions of the Pension Fund and that they were properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This report also gave assurance that there were no significant issues to report during the audit.

An Annual Report is also published, which is circulated to all employers in the Fund in advance of the Annual Meeting of the Pension Fund.

15 Local Pension Board

In line with the LGPS (Governance) Regulations 2015, the Pension Fund has established a Local Pension Board. The Committee has established the constitutional documents, codes, policies, plans, frameworks and protocols for the Board.

Self-Assessment of the Committee

- 16 The requirement for self-assessment of the Pension Fund Committee's work is set out in the Terms of Reference for the Committee. It is also necessary in line with the requirement of the LGPS (Management and Investment of Funds) Regulations 2009 for Administering Authorities to state the extent to which they comply with guidance given by the Secretary of State.
- 17 Appendix A of the Statement of Investment Principles sets out the Pension Fund's compliance statement. Principle 4 covers 'Performance Assessment'. The Pension Fund is only partially compliant with this principle.
- 18 Although appropriate assessment of the performance of the Investment Managers is in place, the assessment of the Pension Fund Committee and advisers is recorded as 'yet to be established'.
- 19 This report begins the process of the assessment of the performance of the work of the Committee.
- 20 The Committee should have a good knowledge of their role and responsibilities in respect of the Pension Fund and understand the implication of their decisions. It is normal practice for the Pension Fund

Committee to refer to the advice of Investment Advisers, Managers or Officers when taking key decisions.

- 21 Effective decision making requires knowledge and understanding of a range of complex factors, and is promoted by ensuring that Members are well-informed on issues and understand their responsibilities. This also helps to protect the interests of the Fund and its stakeholders. It has been the practice for Members to have training in advance of key decisions, for example, changes to the Strategic Asset Allocation.
- 22 An assessment of the effectiveness of meetings, as well as the administration of meetings, the quality and format of Committee Reports is also a key consideration.
- 23 The Committee is responsible for compliance with Regulations, taking advice from Officers and independent advisers, where appropriate. The Committee aims to be compliant at all times, but understands that there could be minor compliance issues. When any such cases are brought to their attention, the Committee will act to resolve the issues.
- 24 In the future, the introduction of the Local Pension Board will assist the Pension Committee. The Local Pension Board has the responsibility for assisting the administering authority to secure compliance:
- with the Regulations;
 - with other legislation relating to the governance and administration of the LGPS; and
 - with the requirements imposed by the Regulator in relation to the LGPS.

It also has the responsibility for ensuring the effective and efficient governance and administration of the LGPS.

- 25 The Committee recognises the main risks of the Pension Fund and has a Risk Register which is updated by officers twice a year and reported to the Committee. Reports to the Committee will supply information to Members when risks are identified and what action is to be taken.

Recommendation

- 26 Members are asked to consider:
- their effectiveness in fulfilling their role as a Pension Fund Committee
 - whether additional information and/or reports are required, and
 - whether any training requirement has been identified.

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 March 2015 – Terms of Reference
- (g) Statement of Investment Principles

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Appendix 1: 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:

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

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"> • 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,,: <ul style="list-style-type: none"> • 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 its 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.

Appendix 2: Pension Fund Committee – Reports received in 2014/15

Committee Report	Reported to Meeting	Term of Reference
PART A		
Graphs showing recent movements of the Stock and Share Indices	June 2014 September 2014 December 2014 March 2015	8, 9
Graphs showing recent movements of the major currencies against sterling	June 2014 September 2014 December 2014 March 2015	8, 9
Performance Measurement of the Pension Fund Investments	June 2014 September 2014 December 2014 March 2015	9, 10
Overall Value of the Pension Fund Investments – including rebalancing	June 2014 September 2014 December 2014 March 2015	12, 13
Short term Investments	June 2014 September 2014 December 2014 March 2015	12
Statement of Accounts	September 2014	17
Pension Boards – Draft LGPS Regulations on Scheme Governance	September 2014 December 2014	19
Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles	June 2014 September 2014 March 2015	1
Change in Pension Fund Adviser – River and Mercantile Group	June 2014	9
Valuation Report	June 2014	9
County Durham Housing Group – New Admission Body	September 2014	15
Audit Completion Report	December 2014	5
Agreement of Accounting Policies for Application in the Statement of Accounts	March 2015	16
The Requirement to set up a Local Pension Board	March 2015	19
Terms of Reference – Annual Review	March 2015	Para 7
Investment of the Pension Fund's Cash Balances	March 2015	5, 12

Committee Report	Reported to Meeting	Term of Reference
PART B		
Report of Pension Fund Advisor	June 2014 September 2014 December 2014 March 2015	8, 9, 10
Report of Investment Managers	June 2014 September 2014 December 2014 March 2015	8, 9, 10
Fiduciary Duties of Investment Intermediaries	September 2014	8
Internal Audit Plan	September 2014 March 2015	5, 6, 7
Review of Dynamic Asset Allocation Investments	September 2014	11
Verbal update on Global Equity Transition	September 2014	9
Ethical Investment Policy for Durham County Council Pension Fund	December 2014	2
Internal Audit Progress Report	September 2014 December 2014 March 2015	5, 6
Transition Manager Post Trade Report	March 2015	9