

COUNCIL
16 MAY 2019**CONSTITUTIONAL REPORT - WORCESTERSHIRE PENSION
FUND GOVERNANCE ARRANGEMENTS**

Recommendation

1. **The Pensions Committee recommends that:**
 - a) **Council endorses the creation of the Investment Sub-Committee (replacing the Pensions Investment Advisory Panel) with the Terms of Reference for the Pensions Committee and Investment Sub-Committee attached as Appendix 1; and**
 - b) **The revised and updated Governance Policy Statement attached as Appendix 2 be approved;**

Review of Governance Arrangements

2. The Council is the administering authority for the Worcestershire Pension Fund, which is the Local Government Pension Scheme for its own employees and also those of many other Scheme employers in Worcestershire and Herefordshire. On 12 February, Council approved new governance arrangements and a Pension Fund Governance Policy Statement, which now need updating.

3. In summary, it is proposed to add a specific delegation to the Pensions Committee for the transition of investments to LGPS Central or other pooling arrangements and to replace the current Pensions Investment Advisory Panel with a formal Investment Sub-Committee (ISC) which can make decisions and therefore improve the timeliness and effectiveness of some investment decisions and free up time for the main Pensions Committee to address key issues. The Pensions Committee has supported these changes so Council is being asked to update its previous decision on governance arrangements.

Background Information

4. At its meeting on 19 March 2019, the Pensions Committee considered changes to the Worcestershire County Council Pension Fund governance arrangements. The Pensions Committee, the LGPS and the Fund fall under the responsibility of the Pension Regulator and must therefore adhere to the relevant codes of practice. This Fund continues to be subject to scrutiny at a national level from the Scheme Advisory Board, and locally from our Pensions Board.

5. During the past year there has been more focus and scrutiny on governance and administration through reports relating to the Government Actuary Department, Guaranteed Minimum pensions, Stewardship code, covenant monitoring, LGPS Central

updates to name but a few. This is alongside the investment and funding performance and hence greater agenda time will be allocated to these issues.

6. In addition, it is crucial to make timely investment decisions for instance on the process of transitioning assets to LGPS Central or changes to the existing investment mandates. The table in the report to the Pensions Committee provides examples of the decisions that would be taken at the proposed Investment Sub Committee and those at Pensions Committee if this proposal were agreed.

7. Therefore, in effect extending the remit of the current Pensions Investment Advisory Panel (to be recreated as a formal decision-making body and renamed the Investment Sub Committee) would increase the timeliness and effectiveness of some aspects of investment decision-making process as well as releasing more time for discussion on key Pensions Committee items.

8. This proposal would mean that the ISC would meet in public quarterly, ahead of the main Committee meetings, to review manager performance and make decisions within the agreed strategic asset allocations.

Expanded Role of the Pensions Investment Sub-Committee (ISC)

9. The expanded role of the ISC would consider in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives. The ISC may also be requested by the Pensions Committee to undertake research and report back on specific investment areas. The attached draft Terms of Reference is summarised below:

Membership

10. The membership of ISC would consist of 4 voting members who will be appointed for 1 year:

- 3 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)

Non-Voting

- 1 co-opted employee representative from a relevant Union.

11. The 3 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders. The co-optees are co-opted by the Chairman of the Pensions Committee.

12. The ISC will be advised by an Independent Financial Adviser who will attend all meetings, and on an ad hoc basis by the Fund's Actuary.

Remit

13. It is the intention is to make the ISC responsible for the following:

- a) Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee;
- b) Reporting regularly to Committee on the performance of investments, transition of assets and matters of strategic importance;

- c) Monitor investment managers' investment performance and recommend decision to terminate mandates on performance grounds to Committee; and
- d) Researching and providing a report back to the Worcestershire County Council Pension Fund Committee on any specific investment areas requested.

14. It is proposed the ISC will have delegated authority to:

- a) Approve and monitor tactical positions within strategic allocation ranges;
- b) Implement investment management arrangements in line with strategic policy, including the agreed transition of assets, setting of mandate parameters and the appointment of managers;
- c) Approve amendments to investment mandates within existing return and risk parameters; and
- d) Delegate specific decisions to officers as appropriate.

Reporting

15. The minutes of the ISC meetings (whether or not approved by the ISC) would appear as an item on the next agenda of the meeting of the Pensions Committee that follows.

Funding

16. The current Pensions Investment Advisory Panel already meets 4 times a year and therefore the only anticipated additional costs that this proposed revised arrangement will incur is additional Committee Services recharges of £1,200 and printing of approximately £500 per annum as a new democratic decision-making body needs administering.

Governance Policy Background

17. Regulation states, and best practice dictates, that a Pension Fund should have a range of written policies and procedures in place. Having such not only proves regulatory compliance, but more importantly demonstrates good governance and provides a range of information to stakeholders. This report provides an update to the Governance Policy Statement.

Governance Policy Statement

18. **Regulation 55** of the Local Government Pensions Scheme Regulations 2013 states: (1) An administering authority must prepare a written statement setting out-

- a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- b) if the authority does so:
 - i. the terms, structure and operational procedures of the delegation,
 - ii. the frequency of any committee or sub-committee meetings,
 - iii. whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

- c) 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;
- d) Details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment);
- e) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph;
- f) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate; and
- g) An administering authority must publish its statement under this regulation, and any revised statement.

19. The Governance Policy Statement was last updated by Council on 12 February 2015 to reflect the introduction of the Local Pensions Board in 2015. The latest version attached as Appendix 2 has been reformatted slightly and has also been updated to reflect the proposed changes to the governance arrangements for the Pensions Investment Sub Committee and LGPS Central Limited. As the statement reflects the actual Governance arrangements in place, no wider consultation is considered necessary.

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Supporting information

Appendix 1 - Revised Terms of Reference for the Pensions Committee and Investment Sub Committee

Appendix 2 – Updated Governance Policy Statement

Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services), there background papers relating to the subject matter of this report are the agenda papers for Council in February 2015 and Pensions Committee in March 2019.