

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**31 July 2019**

**Report of the Director of Finance and ICT**

**GOVERNANCE POLICY AND COMPLIANCE STATEMENT**

**1 Purpose of the Report**

To seek approval for the draft updated Governance Policy and Compliance Statement (the Statement) for Derbyshire Pension Fund (the Fund) attached as Appendix 1.

**2 Background**

The Local Government Pension Scheme Regulations 2013 require an administering authority, after consultation with such persons as it considers appropriate, to prepare, publish and keep under review, a written statement setting out:

- whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority
- the terms, structure and operational procedures of any such delegations
- the frequency of any committee or sub-committee meetings
- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether these representatives have voting rights
- 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
- details of the terms, structure and operational procedures relation to the local pension board

The Statement sets out the governance arrangements for Derbyshire Pension Fund and records the extent to which the Fund complies with the statutory guidance issued by the Secretary of State in respect of these matters.

The Pensions and Investments Committee (the Committee) approved the Fund's inaugural Government Policy and Compliance Statement in August 2018. The Statement has been updated to: include the Fund's governance objectives; reflect the Committee Terms of Reference approved by Full Council in May 2019; reflect the development of a Fund Conflicts of Interest Policy; and to report the up to date position with regard to compliance with best practice.

### **3 Financial Considerations**

All costs related to the operation and implementation of this Policy will be met directly by Derbyshire Pension Fund.

### **4 Other Considerations**

In preparing this report the relevance of the following further factors has been considered: legal, human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

### **5 Background Papers**

Background papers are held by the Head of Pension Fund.

### **6 Officer's Recommendation**

That the Committee approves the attached draft Derbyshire Pension Fund Governance Policy and Compliance Statement.

**Peter Handford**  
**Director of Finance and ICT**



# Governance Policy and Compliance Statement

July 2019

## Introduction

This is the Governance Policy and Compliance Statement (the Statement) for Derbyshire Pension Fund (the Fund) which is part of the Local Government Pension Scheme (the LGPS). The Fund is managed and administered by Derbyshire County Council (the Council) in accordance with the Local Government Pension Scheme Regulations 2013 (2013 Regulations). At a national level, the LGPS is governed by the Ministry of Housing, Communities and Local Government (MHCLG) and the LGPS Advisory Board.

The 2013 Regulations require an administering authority, after consultation with such persons as it considers appropriate, to prepare, publish and keep under review, a written statement setting out:

- whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- the terms, structure and operational procedures of any such delegations;
- the frequency of any committee or sub-committee meetings;
- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether these representatives have voting rights;
- 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; and
- details of the terms, structure and operational procedures relation to the local pension board.

## Governance Objectives

The Pension Fund's governance objectives are to:

- Meet the highest standards of good governance through the application of the key principles of openness and transparency, accountability, integrity, clarity of purpose and effectiveness.
- Ensure robust governance arrangements are in place to facilitate informed decision making supported by appropriate advice, policies and strategies, which do not unreasonably favour one group of stakeholders over another.
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise.
- Comply with all appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance.

Commented [DK(CaP1): These objectives have been added.]

The identification and management of conflicts of interest is integral to the Fund achieving its governance objectives. A Conflicts of Interest Policy has, therefore, been developed for the Pension Fund and it was approved by the Pensions and Investments Committee on [ ].

## Governance Arrangements

Under the terms of the Council's Constitution, responsibility for the functions of the Council as the administering authority of Derbyshire Pension Fund is delegated to the Pensions and Investments Committee. A Local Pension Board, set up in 2015 in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015, assists the Council with the governance and administration of the Fund.

The day to day management of the Pension Fund is delegated to the Director of Finance & ICT who is supported by the Head of Pension Fund and in house investment and administration teams.

## Pensions and Investments Committee

The Committee comprises eight voting Councillors representing the County Council and two voting Councillors representing Derby City Council. The County Council members of the Committee reflect the political balance of the Council. Two trade union representatives are also entitled to attend meetings of the Pensions and Investments Committee as non-voting members.

Officers of the Council and an independent investment adviser also attend meetings to provide advice and support to members of the Committee. Other experts attend Committee to provide advice as required.

The Committee meets eight times a year and its responsibilities include reviewing and approving the Fund's:

- Governance Policy and Compliance Statement
- Investment Strategy Statement
- Funding Strategy Statement
- Treasury Management Statement
- Quarterly tactical asset allocation
- Other statutory policies required by the Local Government Pension Scheme Regulations and strategy/policy statements in line with best practice

**Commented [DK(CaP2)]:** This section has been updated to reflect the PIC TOR approved by Council in May 2019.

The Committee also receives and considers the Fund's:

- Triennial actuarial valuation report and annual funding reports
- Annual Report
- Administration and investment performance reports
- Risk Register

The Committee ensures arrangements are in place for:

- Communicating with the Fund's stakeholders
- Considering admission body applications
- The adjudication of applications under the Application for Adjudication of Disagreements Procedure (AADP) (including the appointment of adjudicators)

The Committee is responsible for appointing the Fund's:

- Actuary
- Independent investment adviser
- External fund managers for segregated mandates in advance of the management of the investment assets transitioning to the investment pool
- AVC providers

To oversee the Fund's involvement in investment pooling, the Committee:

- Ensures that the Fund is effectively represented in the Pool's governance structure
- Determines what is required from the Pool to enable the Fund to deliver its Investment Strategy
- Is responsible for the selection, appointment and dismissal of an investment pooling operator (the Operator) to manage the Fund's assets
- Monitors the performance and effectiveness of the Operator both as a shareholder in the Operator and as an investor in the Operator's products
- Ensures that appropriate measures are in place to monitor and report on the ongoing costs and cost savings of investment pooling
- Ensures that the responsible investment, corporate governance and voting policies of the Fund are delivered effectively
- Receives and considers reports and recommendations from the Pool's Joint Committee, Shareholders' Forum and Practitioners' Advisory Forum

### **Derbyshire Pension Board**

The Public Service Pensions Act 2013 introduced a framework for regulatory oversight by the Pensions Regulator and introduced a new governance structure for the LGPS which came into effect in April 2015 and included the requirement for administering authorities to establish Local Pension Boards.

Derbyshire Pension Board (the Board) consists of two Scheme Member representatives and two Scheme Employer representatives together with a non-voting Independent Chair.

Officers of the Council attend Pension Board meetings to provide advice and support to members of the Board.

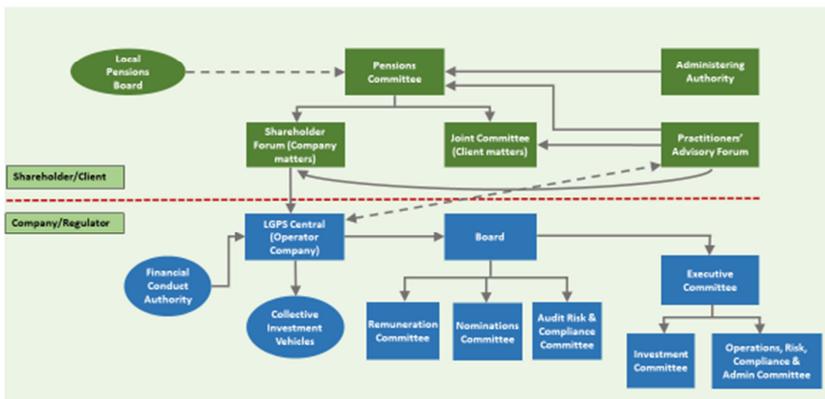
The role of the Pension Board is to assist the administering authority to ensure the effective and efficient governance and administration of the LGPS, including:

- Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme

### LGPS Central Pool

Derbyshire Pension Fund has partnered with the LGPS pension funds of Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, Worcestershire and West Midlands to form a collective investment pool, known as LGPS Central (the Pool), in accordance with Government requirements for the pooling of LGPS investment assets.

### LGPS Governance Arrangements



The governance arrangements of the Pool include the following bodies:

**Joint Committee:** to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and

**Commented [DK(CaP3):** Governance chart updated for ORCA committee.

recommendations to the individual Councils, taking into consideration the conflicting demands and interests of the participants within the Pool. The Joint Committee does not have delegated authority to make binding decisions on behalf of the participating Councils.

Membership of the Joint Committee consists of one elected member from each participating council. The Vice Chair of the Pensions and Investments Committee represents Derbyshire on the LGPS Central Joint Committee.

**Shareholders' Forum:** to oversee the operation and performance of LGPS Central Ltd and to represent the ownership rights and interests of the shareholding councils with the LGPS Central Pool. Collective shareholder discussions take place in the Shareholders' Forum and aim to ensure that the Councils act in a unified way in company meetings, having agreed to a common set of principles. Unanimous decisions are required for certain reserved company matters. Shareholder Forum meetings are distinct from LGPS Central Ltd company meetings, however members of the Shareholders' Forum also represent the councils at company meetings.

Membership of the Shareholders' Forum consists of one representative from each shareholding council. The Chair of the Pensions and Investments Committee represents Derbyshire at the Shareholders' Forum and at LGPS Central Ltd company meetings. Decisions are made in advance of the Shareholders' Forum and company meetings to enable the Council's representative to vote at these meetings. Wherever possible, any matter regarding LGPS Central Ltd which requires a shareholder decision will be taken to the Pensions and Investments Committee for consideration. Where the timetable does not allow for this, decision making is delegated to the Director of Finance and ICT following consultation with the Chair of the Pensions and Investments Committee.

**Practitioners' Advisory Forum:** a working group of officers appointed by the shareholding councils within the Pool to support the delivery of the objectives of the Pool and to provide support for the Pool's Joint Committee and Shareholders' Forum. The Director of Finance and ICT, the Head of Pension Fund and the Investment Manager represent Derbyshire on the Practitioners' Advisory Forum as required. PAF is supported by four individual working groups: Client Oversight & Governance Group; Finance Working Group; Investment Working Group; and Responsible Investment Working Group.

## Review and Compliance with Best Practice

This Governance Policy and Compliance Statement will be reviewed annually and will be revised following any material change in the governance arrangements of the Pension Fund.

The 2013 Regulations require Administering Authorities to prepare and publish a statement which sets out the extent to which the governance arrangements of the Fund comply with

statutory guidance issued by the Secretary of State which is based on best practice principles. The Fund's statement is set out below:

| Principle   | Compliance  |
|---|---|
| <b>Structure</b>  |   |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.   | <b>Compliant</b> The Pensions and Investments Committee is responsible for these functions under the Terms of Reference included in the Council's constitution.   |
| The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee.   | <b>Partially Compliant</b> Membership of the Pensions and Investments Committee includes two representatives from Derby City and two non-voting Trade Union representatives as well as eight representatives from the administering authority (also the largest employing body). In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer representation will be kept under review. |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.   | <b>Not applicable</b>   |
| 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.  | <b>Not applicable</b>   |
| <b>Representation</b>   |   |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> <li>Employing authorities (including non-scheme employers e.g. admitted bodies)</li> </ul> | <b>Partially Compliant</b> Membership of the Pensions and Investments Committee includes two representatives from Derby City and two non-voting Trade Union representatives, as well as eight representatives from the administering authority (also the largest employing body).   |

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| <ul style="list-style-type: none"> <li>• Scheme members (including deferred and pensioner scheme members)</li> <li>• Where appropriate, independent professional observers</li> <li>• Expert advisors (on an ad-hoc basis)</li> </ul>                         | <p>In practice the Trade Union representatives tend to represent the interests of all scheme members. Membership and employer representation will be kept under review.</p> <p>The Fund's Independent Investment Advisor attends the investment related Pensions and Investments Committee meetings. Other independent experts attend meetings of the Committee as required e.g. the Fund's Actuary attends to discuss the triennial valuation.</p> <p>Derbyshire Pension Board (the Board) includes two employer representatives (currently one represents a District Council and one represents a Multi-Academy Trust) and two member representatives. The Board has an independent Chair.</p> |
| <p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to reports, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p> | <p><b>Partially Compliant</b> All members of the Pensions and Investments Committee, the Pension Board and trade union representatives receive the same Committee meeting reports and have access to the same training that is delivered locally. Certain members of the Committee and the Board have accessed the LGA Fundamentals Training. This training will, in future, be offered to all new members of the Committee and the Board. All voting and non-voting members of the Committee are given full opportunity to contribute to the decision making process.</p>   |
| <p><b>Selection and Role of Lay Members</b></p>   |  |
| <p>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>Compliant</b> All members of the Pensions and Investments Committee receive training on the status, role and function they are required to perform when they join the Committee.</p>   |

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| 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.  | <b>Compliant</b> Declarations of interest are required at each Pensions and Investments Committee meeting and recorded in the minutes of the meeting.  |
| <b>Voting</b>  |  |
| The policy 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.   | <b>Compliant</b> The policy on voting rights is clear and transparent. All elected members on the Pensions and Investments Committee have voting rights. The elected members represent employers, local taxpayers and scheme beneficiaries.  |
| <b>Training/Facility Time/Expenses</b>   |  |
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process. | <b>Compliant</b> The Fund has a training policy which applies to all members of the Pensions and Investments Committee and the Pension Board. A training plan has been developed based on self-assessment forms completed by the members of both bodies and a log of all training is maintained. The reimbursement of member expenses is in line with the County Council's policy of member reimbursement. |
| 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.  | See above.   |
| That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.  | See above.   |
| <b>Meetings</b>  |  |
| That an administering authority's main committee or committees meets at least quarterly.   | <b>Compliant</b> The Pensions and Investments Committee meets eight times a year.  |
| That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.  | <b>Not applicable</b>  |

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|---|---|
| That an administering authority who 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.   | <b>Not applicable</b> However, an annual Employers' Forum is held to which all employing bodies are invited.  |
| <b>Access</b><br>That subject to any rules in the Council's constitution, all members of the 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.             | <b>Compliant</b> All members of the Pensions and Investments Committee (and the Pension Board) have the same access to committee papers, documents (excepting papers and documents relating to Derbyshire County Council employer matters which are only available to members of the Pensions and Investments Committee) and advice to be considered at the Pensions and Investments Committee. |
| <b>Scope</b><br>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.   | <b>Compliant</b> The Pensions Committee and the Investments Committee have been combined into the Pensions and Investments Committee which covers all aspects of investment, administration and governance. The Committee is now also supported by the Pension Board which assists with governance and administration matters.  |
| <b>Publicity</b><br>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. | <b>Compliant</b> The Governance Policy and Compliance Statement is published on the Pension Fund's website. Vacancies for Derbyshire Pension Board are advertised on the website.   |

**Commented [DK(CaP4):** This has been changed to Compliant as vacancies for the Pension Board are advertised on the Fund's website.