

Committee(s): Policy and Resources	Dated: 17 February 2022
Subject: Pension Committee – Proposed Terms of Reference, Membership and Operation	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	All
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain’s Department?	N/A
Report of: The Chamberlain	For Decision
Report author: Kate Limna – Corporate Treasurer	

Summary

At your November 2021 meeting, Members considered a report covering the committee structure proposals arising from the Governance Review (Governance Review: Committee Structure Considerations). Within that report, Members were asked to consider the creation of a new body to have responsibility for discharging the Corporation’s responsibilities as an administering authority of the Local Government Pension Scheme (LGPS). The creation of such a committee had been raised during the Member engagement process for the Governance Review.

At that meeting Members agreed to the creation of a Pension Committee, noting that a report would be brought back specifying terms of reference and membership arrangements (modelled on best practice across the sector). This was subsequently endorsed by the Court of Common Council in December 2021.

This report now sets out the proposed terms of reference, membership and meeting arrangements for the new Pension Committee, based on best practice arrangements across the sector.

Recommendation(s)

Members are asked to:

- (i) note the report; and
- (ii) agree to the proposed terms of reference, membership and operational arrangements as set out in the report and in Appendix 1

Main Report

Background

1. The Corporation has a distinct and separate role from its other functions as an administering authority of the Local Government Pension Scheme (LGPS). As an administering authority the Corporation is responsible for operating the Pension Fund, establishing investment arrangements and employer contribution rates that safeguard the payment of benefits to scheme members as and when they fall due. The administering authority must also safeguard the solvency of the Fund through periodic actuarial valuations; actively manage risks around potential employer default; and monitor all aspects of the Fund's performance.
2. The Pension Fund has investment assets valued at £1.3bn and estimated liabilities of £1.4bn (as at 31 March 2021), making this a key area of risk for the organisation. At present, responsibility for discharging this role resides variously with the Investment Committee (via the Financial Investment Board), the Establishment Committee, and the Finance Committee. Whilst these arrangements have enabled the Corporation to fulfil its statutory responsibilities satisfactorily to date, regulatory guidance is that governance should be improved further via the establishment of a dedicated Pension Committee with decision-making powers (it should be noted that the role of the existing non-executive Local Government Pension Board is to scrutinise decision making, so it cannot absorb this function).
3. Although not a strictly mandatory requirement, Pension Committees are the overwhelmingly dominant mode of governance across the LGPS and the City Corporation is increasingly out of alignment in failing to manage its arrangements in this way (it is believed that we may be the only body operating under differing arrangements).
4. A separate Pension Committee ensures that all key strategic decisions are taken by one body, supporting streamlined, consistent and aligned decision-making across the function. It also cultivates, in one place, the specific knowledge and understanding needed to effectively oversee the Pension Fund in its entirety. Finally, it allows the administering authority to manage potential conflicts of interest and to demonstrate to external stakeholders, in a transparent and straightforward manner, that decisions are taken in the interests of scheme members and employers without privileging the host authority. If agreed, one of the first activities for this new Committee would be to carry out the next triennial actuarial valuation and the resultant investment strategy review.

Proposals

5. The Pension Committee will be formed under s101 of the Local Government Act 1972 and will exercise, on behalf of the City of London Corporation, all of the powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the City of London Corporation Pension Fund ("the Fund"). The Pension Committee will exercise its functions in accordance with the fiduciary duties of the Corporation as the administering authority of the City of

London Corporation Pension Fund. This will necessitate a series of consequential changes to the terms of reference of other committees, which will be dealt with through the “white paper” process in the usual way and which are highlighted below.

6. The Pension Committee’s overarching responsibility is the safeguarding of the assets and payment of pensions. In keeping with this, it should be noted that any policy decision made by the Court of Common Council that affects the Pension Committee will need to be considered by that Committee (see paragraph 17 for further detail).
7. The following sections set out the proposed terms of reference, membership, and operational arrangements in detail and which are summarised in Appendix 1. Officers have reviewed the terms of reference and membership of the Pension Committees operating within other London Authorities and have drawn on these for best practice.

Terms of Reference

8. The Terms of Reference for the Pension Committee will be as follows:
 - a) To undertake statutory functions on behalf of the Local Government Pension Scheme (LGPS) and ensure compliance with the Local Government Pensions Scheme Regulations (“the Regulations”), relevant legislation, and best practice as advised by the Pensions Regulator.
 - b) To formulate, publish and periodically review strategies and policies around the Pension Fund, for example (but not limited to) investments, responsible investment, funding and administration.
 - c) To select and appoint suitability qualified external service providers, such as investment managers and advisors as required.
 - d) To monitor the Fund’s investment arrangements including asset allocation, the performance of investment managers and advisors, and asset pooling arrangements (noting that the Pension Fund is a shareholder of the London CIV pool).
 - e) To monitor liabilities, make arrangements for the triennial actuarial valuation of the Fund, and to consider and approve the required employer contribution levels for each employer within the Fund.
 - f) To deal with the admission and cessation of employers as and when necessary and to review the ability of admitted bodies to meet their obligations to the Fund.
 - g) To ensure the Corporation effectively discharges its obligations to scheme members and employers as an administering authority.
 - h) To consider and approve the Pension Fund’s Annual Report as well as all other statutory statements required under the Regulations.
 - i) To work with, receive and consider comments from the Local Government Pensions Board (a scrutiny and non-decision-making body established under the Regulations) in pursuit of good governance of the LGPS.

- j) To ensure that arrangements are in place for consultation with stakeholders as necessary.
- k) To develop and maintain the appropriate level of knowledge and understanding to carry out their duties effectively (including completion of the Pensions Regulator's Public Service toolkit).

Membership

- 9. In determining the appropriate membership arrangements for the Pension Committee, officers have reviewed how other London local authorities are constituted to identify best practice. The number of elected members on a Pension Committee across peer authorities reviewed varies from 4 to 10 with some additionally appointing one or two independent members (who are generally non-voting). To ensure continuity on the Pension Committee, Members will have staggered terms but with a maximum of 3 terms of up to 4 years.
- 10. Whilst training will be provided, Members will be expected to complete the Pension Regulator's Public Services Toolkit within 12 months of joining the Committee and to keep their knowledge up to date.
- 11. It is proposed that the Membership of the Pension Committee will be as follows:
 - a) The Pension Committee will be composed of up to 8 elected Members who shall be nominated by the Court of Common Council.
 - b) Up to 3 non-voting independent members may be co-opted on to the Pension Committee (particularly around certain skill bases) on the advice of the Chamberlain.
 - c) The Chair and Deputy Chair are to be determined by the Pension Committee and must be elected Members.
 - d) The quorum is any three elected Members of the Pension Committee.
 - e) No Member of the Pension Committee shall be a Member of the Local Government Pensions Board, be the Chair or Deputy Chair of the Establishment Committee, the Finance Committee or the Policy and Resources Committee simultaneously.
- 12. It is recognised that this is a slightly smaller Committee than the 12-15 optimal size recommended for most Committees/Boards through the Governance Review process. Nevertheless, given the experience of others across the sector and desire to replicate best practice, a somewhat reduced membership is recommended for this Committee.

Operational Arrangements

- 13. It is proposed that the Pension Committee shall meet a minimum of 4 times per year (1 April to 31 March), with the expectation that it may meet more frequently in the first two years and in years when, for example, there is an actuarial valuation.

14. At its first meeting the Pension Committee will be expected to elect a Chair and Deputy Chair and to review the current policies (both investment and administrative) of the Pension Fund.
15. There are a number of activities involved with the administration of the LGPS that are currently discharged by officers under the remit of various committees, and which will now fall under the remit of the Pension Committee. This will be continued for the purpose of operational efficiency and overseen by the Pension Committee. Therefore, unless reserved for the Pension Committee or the Court of Common Council, the Pension Committee will delegate all Pension Fund matters to the Chamberlain and Section 151 Officer and, as appropriate, the Chamberlain will delegate aspects of the role to other officers of the City Corporation including the Corporate Treasurer.

Impact on Other Committees/Boards

16. Currently, responsibility for pension matters broadly fall to the Financial Investment Board and Finance Committee. All such matters will now come under the remit of the Pension Committee. This includes but is not limited to the following:
 - The appointment and monitoring of fund managers, asset allocation, setting and reviewing investment strategy (including responsible investment), authorisation of investments and approving parameters within which the fund managers will be authorised to operate, investment of all new Pension Fund monies – currently with the Financial Investment Board but will move to the Pension Committee
 - Arrangement for the triennial actuarial valuation and approval of the employer contribution levels for each employer within the Pension Fund - currently with the Finance Committee but will move to the Pension Committee
 - Dealing with the admission and cessation of employers as admitted bodies to the Pension Fund – currently with the Finance Committee but will move to the Pension Committee.
17. It should be noted that whilst it would be the expectation and intention that corporate policies are applied in respect of the Pension Committee's activities, such matters must always be considered in light of the specific regulatory requirements that apply to the administration of the LGPS. Therefore, where relevant and insofar as such policies impact the Pension Fund, they will need to be reviewed by the Pension Committee. For the avoidance of doubt this does not introduce any new limitation on corporate policymaking and under current governance arrangements LGPS regulatory requirements are already taken into consideration when formulating policies that impact the Pension Fund.

Local Government Pension Board

18. As Members will be aware, there is a separate Local Government Pensions Board (LGP Board) within the existing governance structure. This is an advisory Board and does not have decision making powers. In line with the requirements of the Public Services Pensions Act 2013 for the management of the City of London

Corporation's Pension Scheme, the Board is responsible for assisting the Scheme Manager (the City of London Corporation) in the following matters:

- a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that it is connected to;
- b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- c) other such matters as the scheme regulations may specify

19. The LGP Board will, therefore, play a vital and complimentary role in scrutinising the work of the Pension Committee.

Conclusion

20. Pension Committees are the overwhelmingly dominant mode of governance across the LGPS and the City Corporation is increasingly out of alignment in not managing its arrangements in this way. The creation of a separate Pension Committee will ensure that all key strategic decisions are taken by one body, supporting streamlined, consistent and aligned decision-making across the function. It will cultivate, in one place, the specific knowledge and understanding needed to effectively oversee the Pension Fund in its entirety.

21. It will also allow the administering authority to manage potential conflicts of interest and to demonstrate to external stakeholders, in a transparent and straightforward manner, that decisions are taken in the interests of scheme members and employers without privileging the host authority.

Appendices

- Appendix 1 – Proposed Terms of Reference

Background Papers

18/11/2021 P&R Cttee Governance Review; Committee Structure Considerations

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PENSION COMMITTEE – TERMS OF REFERENCE

1. Constitution

A non-ward committee consisting of:

- Up to 8 Members elected by the Court of Common Council , at least one of whom shall have fewer than five years' service on the Court at the time of their appointment
- Up to 3 non-voting independent members (i.e. non-Members of the Court of Common Council) co-opted to the Committee on the advice of the Chamberlain

N.B. - No Member of the Pension Committee shall be a Member of the Local Government Pensions Board, be the Chair or Deputy Chair of the Establishment Committee, the Finance Committee, or the Policy & Resources Committee simultaneously

2. Quorum

The quorum consists of any three elected Members.

3. Membership

Subject to election by the Court of Common Council, April 2022.

4. Terms of Reference

To undertake statutory functions on behalf of the Local Government Pension Scheme (LGPS) and ensure compliance with the Local Government Pensions Scheme Regulations ("the Regulations"), relevant legislation, and best practice as advised by the Pensions Regulator.

To be responsible for:-

- l) formulating, publishing and periodically review strategies and policies around the Pension Fund, for example (but not limited to) investments, responsible investment, funding, and administration.
- m) selecting and appointing suitability qualified external service providers, such as investment managers and advisors as required.
- n) monitoring the Pension Fund's investment arrangements including asset allocation, the performance of investment managers and advisors, and asset pooling arrangements (noting that the Pension Fund is a shareholder of the London CIV pool).
- o) monitoring liabilities, making arrangements for the triennial actuarial valuation of the Pension Fund, and considering and approving the required employer contribution levels for each employer within the Fund.

- p) dealing with the admission and cessation of employers as and when necessary and to review the ability of admitted bodies to meet their obligations to the Pension Fund.
- q) ensuring the Corporation effectively discharges its obligations to scheme members and employers as an administering authority.
- r) considering and approving the Pension Fund's Annual Report as well as all other statutory statements required under the Regulations.
- s) working with, receiving and considering comments from the Local Government Pensions Board (a scrutiny and non-decision-making body established under the Regulations) in pursuit of good governance of the LGPS.
- t) ensuring that arrangements are in place for consultation with stakeholders as necessary.
- u) developing and maintaining the appropriate level of knowledge and understanding to carry out their duties effectively (including completion of the Pensions Regulator's Public Service toolkit).

NOTE: whilst it is the expectation and intention that corporate policies are applied in respect of the Pension Committee's activities, such matters must always be considered in light of the specific regulatory requirements that apply to the administration of the LGPS. Therefore, where relevant and insofar as such policies impact the Pension Fund, they will need to be reviewed by the Pension Committee.