

PENSION FUND COMMITTEE – 10 SEPTEMBER 2021

GOVERNANCE REVIEW

Report by the Director of Finance

RECOMMENDATION

- 1. The Committee is RECOMMENDED to:**
 - a. Adopt the Conflict of Interest Policy as set out in Annex 1;**
 - b. Review the job description for a new Governance Officer role as set out in Annex 2, and agree the establishment of the new position;**
 - c. Comment on the future agendas for the meetings of the committee to be based on the key roles and responsibilities of the Committee as set out in annex 3, and in particular the proposal to focus on a review of investment performance annually, and the need for a separate annual business meeting;**
 - d. Agree the proposals to amend the current Training Policy to include an annual assessment and an escalation procedure to cover cases on non-engagement with the Policy;**
 - e. Ask Officers in conjunction with Hymans Robertson to amend the draft Training Programme as set out in Annex 4 based on the results of the initial knowledge assessment and bring the revised programme back to the December meeting for approval.**

Introduction

- 2. At their meeting in September 2020, the previous Committee asked Hymans Robertson to undertake an independent review of the Fund's governance arrangements. A key aspect of this work was to ensure the Committee was on the front foot in advance of the Good Governance Review that Hymans Robertson were completing for the Scheme Advisory Board.**
- 3. The final report from Hymans Robertson was presented to the Committee at their meeting in March 2021. Whilst finding that the overall standard of the governance arrangements was good, the Report did highlight 10 proposed areas for further improvement.**
- 4. One of these recommendations was in respect of the constitution of the Committee itself to ensure wider representation of the scheme employers within the Fund, and this was taken forward at the March meeting. The Committee then asked the Officers to continue to work with Hymans Robertson to develop a response to the remaining nine recommendations to be brought to this meeting. This report sets out the latest position on each of the 10 and seeks the Committee's agreement as appropriate.**

Governance Recommendations

5. The latest position on each of the 10 recommendations is set out in turn below. These have all been discussed with the Team at Hymans Robertson, who in many cases have produced the initial draft proposal following the discussions, bringing in best practice observed from across the LGPS.
6. Develop a fund specific conflicts of interest policy. The main issue behind this recommendation was the potential conflicts of interest between the County Council's role as the Administering Authority and its role as a scheme employer, including the potential conflict of interest for County Council officers, in particular the Section 151 Officer. There was also a concern about the potential conflict of interest between the role of the County Council as a Shareholder of Brunel and its client role.
7. The draft Conflicts of Interest Policy included at Annex 1 has been prepared by Hymans Robertson in conjunction with the Fund's Officers and covers the points raised above as well as the general conflicts likely to be experienced in administering the Pension Fund. The Committee are invited to adopt the draft policy.
8. Review the Constitution of the Pension Fund Committee to widen Scheme Employer Representation. This recommendation was accepted at the March Committee meeting and the Constitution amended by the full Council meeting at the end of March. The Committee is now constituted with 5 voting members from the County Council representing the Administering Authority, and 5 non-voting members representing Oxford Brookes University, the City/District Councils, scheme members, and 2 representatives of the academy sector. No further action is required on this recommendation, although the new arrangements will be kept under review.
9. Review the Terms of Reference for the Pension Fund Committee and Pension Board, to clarify roles and improve communication between the two bodies. The roles and responsibilities of the Committee and Board are set out in the relevant legislation, and on review, appropriately reflected in the terms of reference for the 2 bodies. In short, the Pension Fund Committee is responsible for the administration of the Fund, including the investment of all surplus assets, and is responsible for all decisions required to be made under the relevant legislation. The Pension Board is not a decision-making body. It's role is twofold – both to support the work of the Committee and to review that all decisions made by the Committee are consistent with the Regulations. Whilst the Committee can seek the views of the Board in advance of making a decision, the Board does not have a right to be involved in the process, unless they believe the decision has been made in breach of the Regulations.
10. The main areas of concern identified during the independent governance review was in respect of the communication between the 2 bodies. From the initial meeting of the Board, the Committee have received the draft minutes of the Board and a report from the Chairman of the Board presented by one of the

Board members. This has allowed the Committee to understand the reasoning of the Board in respect of all issues raised.

11. In advance of the governance review it had been agreed that the Board would also receive the draft minutes of the most recent Committee meeting to aid their understanding of the decisions made by the Committee. At the June meeting of this Committee, it was further agreed that a representative of the Committee would attend future Board meetings to enable the Board to better understand the decisions of the Committee and how any advice from the Board has been taken into account in arriving at final decisions. This arrangement will be kept under review to ensure communications between the 2 bodies are fully effective. No further actions are deemed necessary at this time.
12. To reduce key person risk and to support the findings of the Good Governance Project, the Committee should consider the establishment of a Governance Officer role. This role would be to support the Service Manager (Pensions) and service delivery of the Fund. This recommendation reflected the view of Hymans Robertson that there was a key risk to the Fund in that responsibility for the majority of strategic work across the Fund as a whole rested with one person – the Service Manager (Pensions). This included responsibility for the annual business plan, the risk register and key policy documents. Hymans Robertson had seen this risk mitigated in a number of Funds by the establishment of a Governance Officer role.
13. Officers have had further conversations with Hymans Robertson in respect of this recommendation and have reviewed example job descriptions of the proposed role as implemented in other Funds. It is accepted that the Fund would benefit from a team supporting the Service Manager (Pensions) looking across the whole service and working with the Administration and Investment leads in managing the key strategic documents of the Fund.
14. To strengthen the robustness of this team it is recommended that this team also picks up responsibility for managing Fund communications, as well as administering the Funds Training programme. Responsibility of these two tasks currently sit in the administration and investment teams respectively. The change would mean a change in reporting lines for the current communication manager. The work involved in administering the training programme would move across to the new team without a transfer of resource as this work forms only a small element of the work of the investment officer.
15. A draft job description for the new Governance and Communications Officer is included at Annex 2. Once agreed, this role will be subject to job evaluation to determine the grade. It will also be necessary to determine whether there is a need for a part time administration role to support the new team. In advance of the job evaluation exercise and on the assumption of a half-time administration assistant, the full year costs of the proposal would be in the range £75,000 - £85,000, although given the timescales involved in any recruitment, it is expected that these costs could be absorbed within the current year's budget, and the full year budget implications then considered as part of the 2022/23

budget for the service. The Committee are invited to review the proposed job description at Annex 2 and agree the establishment of the new post.

16. Review the agenda content for the Pension Fund Committee and Pension Board. Consider and implement an annual business meeting for the Fund. This recommendation followed on from feedback from the members of the previous Committee and Board that they felt there was often insufficient time on agendas to fully discuss the issues being presented. However, they also felt that the number and timing of meetings was appropriate.
17. Officers have been working with Hymans Robertson on this recommendation and Hymans have produced a Governance Matrix and Calendar which has been included as Annex 3 to this report. These documents set out the various responsibilities of the parties involved in the governance of the Fund and the timetable for key decisions over the next couple of years.
18. It is the aim of the Officers to ensure that reports which are presented to future meetings of this Committee are tied into these strategic roles and responsibilities. Within the Governance Matrix included at Annex 3, the role of the Committee is specified as either approve, recommend, oversight, provide specific input or to be notified. The aim is to reduce reports simply for noting – even where reports are provided for oversight or to be notified, the Committee will be asked to determine that the information presented is consistent with their regulatory roles and responsibilities or be required to agree necessary action to address any issues or report breaches of regulations to the Pension Regulator as appropriate.
19. A key decision for the Committee will be the frequency and time allocated to reports monitoring investment performance. Traditionally this item has taken up a significant proportion of the Committee's agenda time each meeting. However it is very unusual for any actions to arise from these items, as short term variations in investment performance are not deemed significant, and the advice has always been to review investment performance over a minimum of a 3 year period. It is suggested that going forward, Brunel are invited to attend the Committee annually to present on investment performance, with the time released used to focus on specific investment issues including the significant challenges associated with managing the risks associated with climate change, and reviewing the overall cash management of the Fund, ensuring the asset allocation remains appropriate to meet the cash requirements to meet all pension payments as they fall due.
20. In respect of the recommendation to hold a separate meeting of the Committee to discuss the annual business plan and budget, Officers have had further discussion with Hymans Robertson to better understand the concern that led to this recommendation. The main concern was about the input of the Committee members themselves in setting the Funds objectives for the year and whether the current process enabled them to be sufficiently engaged in setting the objectives and specific targets. Members are invited to consider this recommendation further and determine whether they wish to add an additional annual business meeting to the calendar, or whether they believe greater

engagement can be achieved through a more informal consultation exercise in advance of the normal March Committee meeting which sets the Annual Business Plan and Budget for the forthcoming year.

21. Review the process for risk review at the Fund. The further discussions with Hymans Robertson on this recommendation identified that the current process was robust and working well. Whilst the majority of risks are identified and scored by Officers, both the Committee and the Board review the Risk Register on a quarterly basis, and both have proposed additions and deletions to the risks included within the register, and variations to the risk scores. No further action is proposed at this stage.
22. There should be a quarterly comparison of the progress on the business plan against the risk register. This issue was first raised by the Pension Board and since that time amendments have been made to the risk register to indicate against each risk whether it is a risk associated with the objectives of the business plan or to the business as usual activities of the Fund. The Committee are invited to comment on whether further information is required to enable them to assess the risks to achieving the business plan, and any further changes to the format of the reports which would facilitate this assessment.
23. Sign off evidence should be provided by the Chair and the Committee to the Funds Annual Business Plan. On reflection it was agreed that as the Annual Business Plan is formally agreed by the Committee each year, an appropriately worded Committee Minute is sufficient evidence. No further action is therefore required.
24. The Fund should set up a single storage site for all key documents related to the Fund easily accessible to members of the Committee and the Board. Initial conversations with the County Council's web team identified difficulties in setting up a secure site on the Council's website that would be accessible to all members of the Committee and the Board. The difficulties related to the fact that many of the Committee and Board members are external to the County Council.
25. Further conversations were therefore held with Hymans Robertson who offered use of their Focal Point site to act as a single storage point for the Pension Fund documents. Officers already use this site to access key documents. Work has therefore been undertaken to set up access arrangements for all members of the Committee and the Board, and to populate the site with all key documents. These key documents will include all the Fund's key policy documents, copies of the monthly governance newsletters as well as other relevant training materials. Additional documents can be added as required by Committee and Board Members. It is expected that the site will be ready to go live by the time of the Committee, and all members will be provided log on details and initial training on using the site. No further action is therefore planned on this recommendation.
26. Develop a mandatory training policy including an escalation process where members of the Committee and/or Board fail to engage appropriately. This was

seen as a key recommendation by members of the Pension Board, reflecting their concern that at present whilst there is a statutory requirement that all Board members must acquire the necessary skills and knowledge to sit on the Board, there is no similar requirement for Committee Members.

27. The Committee have previously agreed a minimum training policy for all committee members. This requires all Committee members to have completed either the 3 days LGA Fundamentals Training programme, or the relevant 9 on-line modules of the Pension Regulators Trustees Toolkit, within a year of taking up their position on the Committee. The Policy then requires a minimum of 2 days continuing professional development in each subsequent year a member serves on the Committee, as well as attendance at al pre-Committee training.
28. In further discussions with Hymans Robertson, it was agreed that the current policy was appropriate, but there needed to be a more robust process around the policy to ensure compliance and assess the overall effectiveness of the training. At present, all training undertaking by Committee Members must be included in the Annual Report and Accounts. The Pension Board have agreed to include a similar record in their own Annual Report. There is though no assessment of the effectiveness of the training undertaken.
29. Following the discussions with Hymans Robertson, it is therefore proposed that we undertake an annual knowledge assessment of all members of the Committee and Board. An initial exercise was undertaken during August which at the time of writing this report all 7 members of the Pension Board and 7 of the 10 members of the Pension Fund Committee had completed. The remaining 3 members of the Committee are strongly encouraged to complete the assessment so the initial benchmark scores for the Committee and Board represent the position of the full Committee and Board. The findings of this assessment will be available shortly.
30. The progress made in terms of developing the overall skills and knowledge of the Committee and the Pension Board can then be assessed on an annual basis on completion of subsequent knowledge assessments. Hymans Robertson intend to run the National Knowledge and Assessment every 2 years and have stated that they are happy to provide an interim assessment in the intervening years. Since the initial discussions with Oxfordshire, Hymans Robertson have had discussions with a number of other Funds who would also like to adopt the model.
31. The results of the assessment exercises will be used to determine key gaps in the skills and knowledge of the Committee and the Board which can then be reflected in the annual training programme. The programme will also be based on the key strategic decisions that the Committee will be required to make during the forthcoming year. A draft programme based on the initial governance calendar has been prepared by Hymans Robertson and is included at Annex 4. This programme will be reviewed in light of the findings from the initial knowledge assessment.

32. The recommendation from Hymans Robertson also included the need for an escalation procedure for where a member of the Committee or Board fails to appropriately engage in the training programme. The recommendation proposed that any case where a member fails to engage with the approved training programme is initially raised with the Chair of the appropriate body and the Service Manager (Pensions). An initial review will need to take account the circumstances of the individual member – an appropriate level of training will differ for a new member of the Committee or Board when compared to a long serving member who has completed significant training opportunities over the course of their membership of the Committee/Board.
33. The Constitution of the Pension Board already contains provision for the termination of an individual's membership of the Board on the grounds that they can no longer demonstrate the capacity to participate in the required training, or a serious failure to comply with the Knowledge and Understanding Policy in the opinion of the Monitoring Officer. It is recommended similar clauses are added to cover termination of an individual's membership of the Committee.
34. The Committee are invited to comment on the above and ask Officers to make the necessary changes to the Training Policy, Terms of Reference of the Committee and Council Constitution as appropriate to reflect the more robust principles set out above. The Committee are also recommended to ask the Officers in consultation with Hymans Robertson to revise the draft training programme as contained in Annex 4 to reflect the results of the latest knowledge assessment and bring it back to the next meeting of the Committee for approval.

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August 2021