

## London Borough of Hammersmith & Fulham

**Report to:** Full Council

**Date:** 28 April 2021

**Subject:** Pension Fund Governance Arrangements

**Report of:** The Leader of the Council – Councillor Stephen Cowan

**Responsible Director:** Rhian Davies, Director of Resources

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### SUMMARY

This report recommends changes to the governance arrangements of the Local Government Pension Scheme (LGPS) in H&F following an independent review by John Raisin Financial Services Limited.

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### RECOMMENDATIONS

1. That Full Council note the recommendations of the independent review by John Raisin Financial Services Limited and the officer responses, as set out in the report.
  2. That Full Council approve the establishment of a Pension Fund Committee with its membership and terms of reference as set out in Appendix 1.
  3. That Full Council approve the changes to the terms of reference of the Audit and Pensions Committee (to become the Audit Committee) set out in Appendix 1.
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**Wards Affected:** None

<b>Our Values</b>	<b>Summary of how this report aligns to the H&amp;F Values</b>
Building shared prosperity	Continuing to provide assurance regarding the governance of the Pension Fund thereby encouraging employees to join and/or remain members of the LGPS.
Being ruthlessly financially efficient	To review and assess governance and efficiency of the Pension Fund, recommending and making changes where necessary.
Taking pride in H&F	Ensuring a high standard of governance

	of the Pension Fund that continues to underpin the retention and recruitment of employees.
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### **Financial Impact**

The annual cost of additional Special Responsibility Allowances and any co-optee allowances will be met in full from the Pension Fund.

### **Legal Implications**

Under Section 101 of the Local Government Act 1972, a local authority may arrange for the discharge of their functions by a committee or sub-committee.

This report is requesting approval of changes to committee terms of reference which will also create a Pension Fund Committee.

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### **Background Papers Used in Preparing This Report**

Independent review of the Governance arrangements of the H&F Local Government Pension Scheme (LGPS) produced by John Raisin Financial Services Limited

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## DETAILED ANALYSIS

### Proposals and Analysis of Options

John Raisin Financial Services Limited undertook a review of the Governance arrangements of the LBHF Local Government Pension Scheme that concluded in November 2020.

The review concluded that the Pension Fund Sub-Committee has, since 2015, exercised careful and considered oversight, governance and positive decision making in respect of the LBHF Pension Fund. The Members of the Pension Fund Sub-Committee have, based on the evidence examined, sought to discharge their responsibilities diligently. The level of support provided to the Sub-Committee in respect of Investment Issues and generally by the Tri-Borough Pensions and Treasury Team appears to have been of a very high standard.

The report noted that there are a number of areas where there is scope for improvement in the future Governance of the Fund. 6 out of the 32 recommendations related to constitutional matters and which are copied below with officer commentary.

### Recommendations with officer comments

#### Recommendation 1

1. That the Council give consideration to the removal of all reference to the Pensions function from the Terms of Reference of the Audit and Pensions Committee and that this Committee be renamed the Audit Committee.
2. **Officer Comment:** It is considered that a higher level of governance and clarity between the Audit and Pensions functions of the committee would result if the two were separated. This will allow the Audit Committee to give sufficient attention to important audit matters.

#### Recommendations 2 and 2b

3. That the Council give consideration to revising the Constitution to place all responsibility for the LGPS pensions function with the Pension Fund Sub-Committee and that this sub-committee be renamed "The Pension Fund Committee" and that its Elected Member membership be six voting councillors.
4. Any additional Special Responsibility Allowance (SRA) payable as a result of this change would be payable from the Pension Fund not the General Fund.
5. **Officer Comment:** Currently, the Audit and Pensions Committee plays no role in LGPS decision making. The function is wholly exercised by the Pension Fund Sub-Committee. The renaming of the Pension Fund Sub-Committee as "The Pension Fund Committee" would bring the Council's approach in its decision making in line with the vast majority of other LGPS Administering

Authorities across England and Wales. We support that any additional SRA should be paid from the Pension Fund.

### **Recommendation 3**

6. To amend the Responsibilities of the Pension Fund Sub-Committee (The Pensions Fund Committee) as set out below.
7. **Officer Comment:** The proposed terms of reference for the Pensions Fund Committee more broadly cover investment issues, governance and pensions administration. In addition, they reflect changes in the LGPS Regulations 2013 and the LGPS (Management and Investment of Funds) Regulations 2016.

### **Pensions Fund Committee – Suggested Revised Responsibilities**

To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Hammersmith and Fulham Pension Fund. This includes but is not limited to the following matters:

- a) Reviewing and approving the statutory policies of the Fund including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Pension Administration Strategy, Communications Strategy.
- b) To determine the arrangements for the appointment of the Fund Actuary, Investment Consultant and any other Advisor that it may be determined appropriate to appoint.
- c) To receive an annual Internal Audit Plan in respect of the Pension Fund which will include, at least, an annual assurance review of the Pensions Administration service and a report on the outcome of planned internal audit activity.
- d) To regularly receive and review a comprehensive Risk Register relating to the activities of the Pension Fund.
- e) To agree the Business Plan and Annual Budget of the Fund.
- f) To agree the Pension Fund Annual Report and Financial Statements.
- g) To determine, approve and regularly monitor the arrangements relating to the provision of all matters relating to Pensions Administration functions and the provision of a Pensions Administration Service to the Pension Fund.
- h) To receive regular performance monitoring reports, in such form as it determines, in respect of the Pensions Administration Service.
- i) To review and approve a Reporting Breaches of the Law procedure for the Pension Fund and to regularly receive the Breaches Log.
- j) To make and review an Admission Policy in relating to the admission of Employers to the Fund and be responsible for determining the admission of Employers to the Fund.

- k) To agree the investment strategy and strategic asset allocation having regard to the advice of the Investment Consultant.
- l) To determine the Fund management arrangements, including the appointment and termination of the appointment of Fund Managers.
- m) To monitor the performance of the Pension Funds appointed Fund Managers.
- n) To determine the relationship of the Pension Fund with the London Collective Investment Vehicle and to monitor its activity and performance.
- o) To determine the arrangements for the provision of Additional Voluntary Contributions for Fund members.
- p) To ensure that the Covenants of Employers are thoroughly assessed as required and at least during every Triennial Actuarial Valuation.
- q) To receive, from the Fund Actuary, Actuarial Valuations of the Fund.
- r) To consider and determine a response to any advisory Recommendation received from the Pension Board.
- s) To receive and consider the External Auditors Annual Plan and Annual Report on the Pension Fund.
- t) To ensure compliance with all relevant statutes, regulations, government guidance and other codes and best practice as applicable to the Local Government Pension Scheme.
- u) To determine such other policies that may be required so as to comply with the requirements of Government or bodies acting on behalf of Government.
- v) To ensure all members of the Sub-Committee undertake appropriate, and ongoing, training to fulfil their responsibilities.

#### **Recommendation 4**

8. That the Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt one or two non-administering authority non-voting members in order that Employers beyond the LBHF may participate in the decision making forum of the LBHF Pension Fund. If more than one employer representative is co-opted these should ideally be from different forms of employer (e.g. Academy school, contractor, charity).
9. **Officer Comment:** While there is no requirement for representatives of the employer and scheme members to be represented on the Pension Fund Sub-Committee, this would be good practice as indicated in the 2008 Statutory Guidance.

#### **Recommendation 5**

10. That the Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt a non-voting Employee representative. Seeking an Employee

representative through the Trade Unions would likely be the most practical approach.

11. **Officer Comment:** While there is no requirement for representatives of the employer and scheme members to be represented on the Pension Fund Sub-Committee this would be good practice as indicated in the 2008 Statutory Guidance.
12. Given that the statutory responsibility for the governance and maintenance of the LGPS as administered by the LBHF lies with the authority, it is entirely appropriate, that the voting membership of the Pension Fund Sub-Committee (or a future Pension Fund Committee) should be retained wholly by serving Councillors of the LBHF.

### **Recommendation 6**

13. That consideration be given to paying an allowance to Pension Board Members for actual attendance at Board Meetings (including any training held before a Board meeting).
14. **Officer Comment:** In line with the Council's Members allowance scheme, Pension Board Members can be paid a flat rate allowance of £504 per annum payable by equal monthly instalments of £42.00 on the 15<sup>th</sup> of each month. Any allowances approved would be payable from the Pension Fund.

### **Conclusion**

15. Officers support the six recommendations listed above. On 3 March 2021 the recommendations and proposed terms of reference of the Pension Fund Committee were endorsed by the Pension Fund Sub-Committee. Appendix 1 contains the full terms of reference for the new Pension Fund Committee and updated terms of reference for the Audit Committee, removing references to the pension fund.

### **Equality Implications**

16. The Council has considered its obligations under the Equality Act 2010 and it is not anticipated that there will be any direct negative impact on groups with protected characteristics, as defined by the Act, from the recommendations in this report.

### **Risk Management Implications**

17. The report sets out officers' responses to the recommendations relating to the governance arrangements for the Hammersmith and Fulham Pension Fund. The actions which officers are recommending are in line with the Council's priorities, including being Ruthlessly Financially Efficient, and will also help to ensure that the Pension Fund both meets its regulatory requirements and

demonstrates effective and good practice in terms of its governance arrangements.

*Implications verified/completed by: David Hughes, Director of Audit, Fraud, Risk and Insurance, Tel no: 07817 507 695*

**List of Appendices**

Appendix 1 – Terms of Reference for the Pension Fund Committee and Audit Committee

### Pension Fund Committee Terms of Reference

**Members**

6 voting councillors

**Quorum**

3 Members of the Committee

**Political proportionality**

5 Administration members  
1 Opposition member

**Co-opted Members**

The Committee may co-opt non-voting independent members, including employee representatives and non-administering authority members, as appropriate

**1. Membership**

- 1.1 The Chair will be drawn from one of the Administration Councillors; the Vice-Chair will be an Opposition Councillor.
- 1.2 The Committee may co-opt non-voting members, including employee representatives and non-administering authority members, as appropriate.

**2. Voting**

- 2.1 All Councillors on the Committee shall have voting rights. In the event of an equality of votes, the Chair of the Committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair will take the casting vote.

**3. Procedures**

- 3.1 Except as provided herein, Council Standing Orders (as applicable to Committees) shall apply at meetings of the Committee. In the event of a conflict between these procedures and any guidance or law then the latter will prevail.
- 3.2 Meetings of the Committee shall be held in public, subject to the provisions for considering exempt items in accordance with sections 100A-D of the Local Government Act 1972 (as amended).

**4. Meetings**

- 4.1 The Pensions Fund Committee will meet at least four times a year.
- 4.2 The Chair of the Committee may convene additional meetings as necessary.
- 4.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

**5. Reporting**

5.1 The Pension Fund Committee will formally report back in writing to the full Council at least annually.

## **6. Responsibilities**

6.1 To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Hammersmith and Fulham Pension Fund. This includes but is not limited to the following matters:

- a) Reviewing and approving the statutory policies of the Fund including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Pension Administration Strategy, Communications Strategy.
- b) To determine the arrangements for the appointment of the Fund Actuary, Investment Consultant and any other Advisor that it may be determined appropriate to appoint.
- c) To agree an annual Internal Audit Plan in respect of the Pension Fund which will include, at least, an annual assurance review of the Pensions Administration service.
- d) To regularly receive and review a comprehensive Risk Register relating to the activities of the Pension Fund.
- e) To agree the Business Plan and Annual Budget of the Fund.
- f) To agree the Pension Fund Annual Report and Financial Statements.
- g) To determine, approve and regularly monitor the arrangements relating to the provision of all matters relating to Pensions Administration functions and the provision of a Pensions Administration Service to the Pension Fund.
- h) To receive regular performance monitoring reports, in such form as it determines, in respect of the Pensions Administration Service.
- i) To review and approve a Reporting Breaches of the Law procedure for the Pension Fund and to regularly receive the Breaches Log.
- j) To make and review an Admission Policy in relating to the admission of Employers to the Fund and be responsible for determining the admission of Employers to the Fund.
- k) To agree the investment strategy and strategic asset allocation having regard to the advice of the Investment Consultant.
- l) To determine the Fund management arrangements, including the appointment and termination of the appointment of Fund Managers.
- m) To monitor the performance of the Pension Funds appointed Fund Managers.
- n) To determine the relationship of the Pension Fund with the London Collective Investment Vehicle and to monitor its activity and performance.
- o) To determine the arrangements for the provision of Additional Voluntary

Contributions for Fund members.

- p) To ensure that the Covenants of Employers are thoroughly assessed as required and at least during every Triennial Actuarial Valuation.
- q) To receive, from the Fund Actuary, Actuarial Valuations of the Fund.
- r) To consider and determine a response to any advisory Recommendation received from the Pension Board.
- s) To receive and consider the External Auditors Annual Plan and Annual Report on the Pension Fund.
- t) To ensure compliance with all relevant statutes, regulations, government guidance and other codes and best practice as applicable to the Local Government Pension Scheme.
- u) To determine such other policies that may be required so as to comply with the requirements of Government or bodies acting on behalf of Government.
- v) To ensure all members of the Committee undertake appropriate, and ongoing, training to fulfil their responsibilities.

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## **Audit Committee Terms of Reference**

### **Members**

6 voting councillors

### **Quorum**

3 Members of the Committee

### **Political proportionality**

4 Administration members  
2 Opposition members.

### **Co-opted Members**

The Committee may co-opt non-voting independent members as appropriate

## **1. Membership**

- 1.1 The Chair will be drawn from one of the Administration Councillors; the Vice-Chair will be an Opposition Councillor.
- 1.2 The Committee may co-opt non-voting independent members as appropriate.
- 1.3 The Committee may ask the Director of Audit, Fraud, Risk and Insurance, a representative of External Audit, the Risk Management Consultant, and any other official of the organisation to attend any of its meetings to assist it with its discussions on any particular matter.

## **2. Voting**

- 2.1 All Councillors on the Committee shall have voting rights. In the event of an equality of votes, the Chair of the Committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair will take the casting vote.

### **3. Procedures**

- 3.1 Except as provided herein, Council Procedure Rules (as applicable to all Committees) shall apply in all other respects to the conduct of the Committee.
- 3.2 Meetings of the Committee shall be held in public, subject to the provisions for considering exempt items in accordance with sections 100A-D of the Local Government Act 1972 (as amended).

### **4. Meetings**

- 4.1 The Audit Committee will meet at least four times a year.
- 4.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chair of the Committee may convene additional meetings as necessary.
- 4.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

### **5. Reporting**

- 5.1 The Audit Committee will formally report back in writing to the full Council at least annually.

### **6. Responsibilities**

- 6.1 The Audit Committee will advise the Executive on:
  - the strategic processes for risk, control and governance and the Statement on Internal Control;
  - the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
  - the planned activity and results of both internal and external audit;
  - the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
  - the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
  - assurances relating to the corporate governance requirements for the organisation;
  - (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.
- 6.2 The Committee's responsibilities in relation to the annual accounts will include:
  - to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts and Audit Regulations 2003;
  - acting as the Approval of Accounts Committee;

- to consider any report as necessary from the External Auditor under Statement of Auditing Standard 610;
  - to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.
- 6.3. The Committee's responsibilities in relation to risk management will encompass the oversight of all risk analysis and risk assessment, risk response, and risk monitoring. This includes:
- the establishment of risk management across the organisation, including partnerships;
  - awareness of the Council's risk appetite and tolerance;
  - reviewing the risk portfolio (including IT risks);
  - being appraised of the most significant risks;
  - determining whether management's response to risk and changes in risk are appropriate.
- 6.5. The Council has nominated the Committee to be responsible for the effective scrutiny of the Treasury Management Strategy and policies.
- 6.6. The Council has nominated the Committee to be responsible for the effective scrutiny of anti-fraud arrangements and activities.