

**The Highland Council**  
**Pensions Committee - 23 May 2013**

Agenda Item	<b>8</b>
Report No	<b>PC/09/13</b>

**Governance Policy Statement**

**Report by Director of Finance**

**Summary**

This report provides an updated Governance Policy Statement for consideration by the Committee.

**1. Introduction**

- 1.1 The Governance Policy Statement is one of a number of key policy statements which must be held and maintained by the Pension Fund. The opportunity has been taken to review and update the statement, and present to Committee for consideration. The updated statement is enclosed as **annex 1**.
- 1.2 The Committee has in the past 12 months considered reports on other updated policy statements (Statement of Investment Principles – September 2012 and Funding Strategy Statement – February 2013).
- 1.3 One particular area to highlight to members, is at section 9 of the statement relating to training. The CIPFA Skills and Knowledge Framework is expected to become mandatory following a consultation period, and the Committee will consider a report on this matter later in the year, relating to implementing that framework for the Fund.

**Recommendation**

Members are asked to consider and agree the updated governance policy statement.

Designation: Director of Finance  
Date: 13 May 2013  
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## **The Highland Council Pension Fund**

### **Governance Policy Statement**

**May 2013**

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## 1. Introduction

- 1.1 This Statement sets out the governance policy that applies to the Highland Council Pension Fund (“the Fund”). This updated statement was submitted to the Highland Council Pension Committee on 23 May 2013 for consideration.
- 1.2 This policy statement is one of a number of key policy statements the Fund is required to hold, which are listed below:

Statement name	Purpose	Status
Governance Policy Statement	To set out a fund-specific governance policy	Updated May 2013 submitted for consideration to Pensions Committee 23 May 2013
Funding Strategy Statement	To establish a fund-specific funding strategy.	Considered at Pensions Committee 21 February 2013
Statement of Investment Principles	To establish a fund-specific investment strategy	Considered at Investment Sub-Committee 13 September 2012

## 2. Administering Authority and Regulatory Framework

- 2.1 The Highland Council is the Administering Authority of the Highland Council Pension Fund.
- 2.2 The Council administers the pension scheme in accordance with statutory regulations, as follows:
- Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.
  - Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008.
  - Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010.
- 2.3 The Scottish Public Pensions Agency (SPPA) is responsible for regulating the Local Government Pension Scheme (LGPS) in Scotland on behalf of the Scottish Government and regularly issues guidance to all administering authorities in Scotland with statutory responsibilities under the LGPS<sup>1</sup>.
- 2.4 Guidance was issued by the SPPA in April 2011 requiring LGPS administering authorities to measure compliance of their governance arrangements against compliance standards. The Highland Council has reported on compliance against these standards in the Fund’s Annual report and the relevant extract is attached at **Appendix 1**.

## 3. Committee Structure

- 3.1. The Highland Council as administering authority has delegated all pension scheme matters to the Pensions Committee (section 4). In addition an Investment Sub

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<sup>1</sup> <http://sppa.gov.uk>

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Committee (section 5) has been established to enhance the Council's management and investment of the assets of the Pension Fund in accordance with the respective objectives and strategies of the Fund.

## 4. Pensions Committee

4.1 The Pension Committee responsibilities are detailed in the Terms of Reference which were approved by Council on 27 October 2011<sup>2</sup>. These specific functions include setting the Funds' objectives and ensuring that appropriate strategies, policies and procedures are put in place to achieve these objectives in the following areas:

1. *Funding Strategy* and associated policies and to set the policy on funding matters for employers joining and leaving the Fund.
2. *Investment Strategy* (including strategic asset allocation) and associated policies for the Pension Fund and Inverness Common Good Fund, and oversee the Investment Sub-Committee in the implementation of Investment Strategy and policies. Determine the Fund's investment objectives and to set and review the long-term high level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite.
3. To ensure consistency between the *Funding Strategy* and *Investment Strategy* and the implementation of these.
4. *Administration Strategy* ensuring appropriate arrangements for the administration of benefits are in place and demonstrate the operational efficiency of the administration of benefits through the use of key performance indicators.
5. *Communication Strategy* which sets out the methods of communication with the various stakeholders including with Scheme employers and members of the Fund.
6. *Governance Policy* which outlines the key governance bodies for the Fund, including representation.

The Pensions Committee is also responsible for:

1. Ensuring that the Fund complies with the relevant Local Government Pension Scheme regulations and all other legislation governing the administration of the Fund.
2. Ensuring processes are in place to identify and follow best practice so that the Fund complies with this.
3. Review of the Annual Report and Accounts of the Fund reviewed.
4. Review of the results of the Triennial Actuarial Valuation of the Fund.

4.2 The Pension Committee are also responsible for ensuring that strategies, policies and procedures are regularly updated as required.

## 5. Investment Sub-Committee

5.1 The Investment Sub-Committee Committee responsibilities are detailed in the Terms of Reference which were approved by Council on 27 October 2011<sup>3</sup>. The Sub-Committee will exercise the delegated powers and duties of the Pension Committee in relation to the management and investment of the Fund's assets. This will include ensuring the following:

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<sup>2</sup> <http://www.highland.gov.uk/NR/rdonlyres/BF4B6B07-C746-4C87-A08D-E67D8D5EAC03/0/Item4Remit.pdf>

<sup>3</sup> <http://www.highland.gov.uk/NR/rdonlyres/BF4B6B07-C746-4C87-A08D-E67D8D5EAC03/0/Item4Remit.pdf>

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- The management and investment of the Fund's assets complies with the relevant LGPS Regulations and all other legislation.
- The management and investment of the Fund's assets complies with best practice.
- The delivery and implementation of the Fund's investment objectives (Funding Strategy), strategies and policies and that these are regularly updated and reviewed.
- To appoint, dismiss and assess the performance of investment managers.
- To undertake any task delegated to it by the Pensions Committee.

## **6. Representation**

6.1 Membership of the Pensions Committee is as follows:

- 11 Highland Council Members (voting rights).
- 2 members representing other employers (non-voting).
- 2 member representing scheme members (non-voting).

6.2 Membership and voting rights of the Investment Sub Committee is as follows:

- 7 Highland Council Members (voting rights).
- 1 Comhairle nan Eilean Siar Member (non-voting)
- 1 representative for the other employers (non-voting)

## **7. Frequency of meetings**

7.1 The Pension Committee meets at least four times a year with the option to hold special meetings as necessary.

7.2 The Investment Sub-Committee meets at least four times a year with the option to hold special meetings as necessary.

## **8. Role of Trustee**

8.1. Members of the Pensions Committee and the Investment Sub-Committee are in a similar position to trustees in the private sector<sup>4</sup>. Trustees owe a duty of care to their beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decision.

8.2 In relation to LGPS, member's role is often referred to as the "quasi trustee role".

8.3 The "quasi trustee role" can be defined as; the fiduciary duty to scheme beneficiaries, which must always be put before the interests of individuals, individual groups or sectors represented on the Committee.

8.4 Beneficiaries are defined as the Fund's members (employees, pensioners and deferred pensioners) as well as the Fund employers (there are 37 employers covered by the Fund). Membership of the Pensions Committee and Investment Sub-Committee includes 2 non-voting members representing other employers (Comhairle nan Eilean Siar and Police). These beneficiaries are a specifically defined group, distinct from the wider interests the Council will wish to serve through its normal

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<sup>4</sup> [http://sppa.gov.uk/Documents/Local%20Government/Useful%20Resources/Circulars/2011/Draft\\_Governance\\_compliance\\_guidance\\_Final\\_April\\_2011.pdf](http://sppa.gov.uk/Documents/Local%20Government/Useful%20Resources/Circulars/2011/Draft_Governance_compliance_guidance_Final_April_2011.pdf)

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course of business.

8.5 There is a body of case law and legal opinion which provide further clarification and reinforcement of the trustee and quasi trustee role in relation to Pension Funds. The Pension Fund has in the past sought its own specific legal advice in this area, most recently on the subject of the Fund's discretions and duties in relation to matters of ethical investment, in particular tobacco investments.

8.6 It is recognised that by acting in the interests of the Fund's beneficiaries, this may well conflict with the Council's wider interests in relation to the Highland community, economy, etc. Given the potential for conflicts of interest, the very specific governance arrangements relating to the pension Fund are addressed through:

- The establishment of the separate Pensions Committee and Investment Sub-Committee, separate to other Council Committees, to provide separate and distinct governance structures for the Pension Fund.
- To preparation and maintenance of a governance policy statement, setting out the specific governance arrangements for the Fund.
- Regular training for members in Pension Fund matters (covered further in the next section).

## **9. Training**

9.1 As part of good governance as outlined in the first of the six Myners principles, administering authorities should also ensure that there is effective decision making as follows:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively.
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

9.2 The Fund recognises the importance of training as a key aspect of good governance, and has undertaken regular training of members and officers, in the particular knowledge and skills relating to Pension Fund and Investment matters. Training is delivered through a number of arrangements, including:

- Internal training provided through Pensions Committee/Investment-Sub Committee.
- Seminars and conferences offered by industry wide bodies, such as the CIPFA Pensions Network, Local Government Employers Group and other relevant organisations.
- Seminars and training events offered by the Fund's investment managers and advisors.
- Fund events are held for employers as required where there are changes to regulations.
- Reading materials and online research & training.

9.3 CIPFA has issued a Code of Practice on Public Sector Pensions Knowledge and Skills (2011), with this currently having the status of best practice guidance rather than mandatory guidance. CIPFA is currently consulting on the code, with the expectation this is approved as mandatory guidance for LGPS Funds.

9.4 It is proposed that the Fund progresses adoption and implementation of the CIPFA

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Knowledge and Skills Framework during 2013. Further reports will be considered by the Pensions Committee on this subject.

## **10. Code of Conduct**

- 10.1 All members of the Highland Council must comply with the Highland Council Code of Conduct for Councillors<sup>5</sup>.
- 10.2 All members of the Pension Committee and Investment Sub-Committee, should be aware of any potential conflicts of interest and the correct process to follow in such circumstances.
- 10.3 Member training, and the implementation of the CIPFA Skills and Knowledge Framework (see section 9) will provide the Fund with further opportunities for training in areas of governance.

## **11. Risk Management**

- 11.1 Identified risks and any necessary actions relating to Pension Fund activities are incorporated at present within the Funding Strategy Statement (FSS) and the Council's Operational Risk Management Action Plan having had regard to the strategic risks set out in the Highland Council Corporate Risk Register. The Plan is reviewed and updated on an annual basis.
- 11.2 CIPFA has issued (Nov 12) updated guidance on "Managing risk in the LGPS". A commitment was given to the February 2013 Pensions Committee to incorporate any changes arising from that updated guidance in the next review of the FSS, with the intention to develop a Fund specific risk-register as part of that update.
- 11.3 Risk awareness is embedded into the investment strategy and investment performance management processes.

## **12. Fraud Detection and Whistleblowing**

- 12.1 As an extension of the Fund's risk management approach, through this policy statement the Fund has adopted the Highland Council Whistleblowing and Anti-Fraud/Ant-Corruption policies which are available from the following links.

Whistleblowing policy:

<http://www.highland.gov.uk/NR/rdonlyres/D02D1295-5B29-4022-B4C7-310A61BEBD77/0/WhistleblowingPolicy.pdf>

Whistleblowing form:

<http://www.highland.gov.uk/NR/rdonlyres/DDD5B1B2-2C0B-4A3E-B713-17DE5C12A937/0/whistleblowingform.rtf>

Anti-fraud/Anti-corruption policy:

<http://ntintra1/cx/policies/Revision-of-the-Councils-Anti-fraud-and-Anti-corruption-Policy.pdf>

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<sup>5</sup> [http://ntintra1/fin/internalaudit/finregs&guidance2010/councillors'\\_code\\_of\\_conduct\\_2010.pdf](http://ntintra1/fin/internalaudit/finregs&guidance2010/councillors'_code_of_conduct_2010.pdf)



### **13. Operational responsibilities**

- 13.1 Under delegated powers, the Director of Finance has responsibility for implementing the decisions of the Pensions Committee.
- 13.2 The administration of the Pension Fund is completed by the Pensions Section reporting to the Director of Finance. The investment management administration of the Pension Fund is completed by the Corporate Budgeting, Taxation and Treasury Section reporting to the Director of Finance.

### **14. Professional Advisers and External Providers**

- 14.1 Hymans Robertson were appointed to act as Actuary to the Fund from 01/04/13. The services provided include advice on funding, the provision of actuarial valuations and administrative facilities.
- 14.2 AON Hewitt were appointed with effect from 01/04/13 to act as Investment Advisers to the Fund. The services provided include advice on investment strategy, including the establishment of strategic asset allocation benchmarks and any associated ad-hoc investment considerations.
- 14.3 Six investment managers have been appointed to manage specific mandates. Details of the manager appointments are contained in the Fund's Statement of Investment Principles. Managers have responsibility for the selection, retention and realisation of individual investments held within their portfolios and the performance of their respective mandates.
- 14.4 The Fund has appointed Northern Trust as global custodian. They are responsible for ensuring safe custody of the Fund's assets managed by the appointed investment managers and providing consolidated accounting and performance reporting services to the Fund.

### **15. External and Internal Scrutiny**

- 15.1 There is a statutory requirement to prepare an Annual Report & Accounts for the Highland Council Pension Fund which is subject to external audit and which is separate from the accounts of Highland Council. The Fund's external auditors are appointed by Audit Scotland and this helps ensure that public funds are being properly safeguarded and accounted for in accordance with statutory and regulatory requirements.
- 15.2 The Highland Council provides an internal audit service to the Pension Fund and an annual audit program is agreed between the Director of Finance and the Head of Internal Audit and Risk Management.

### **16. Stakeholder Communication**

- 16.1 All papers and minutes for the Pensions Committee and Investment Sub Committee

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are available on the Council's website, (except for exempt items).

<http://www.highland.gov.uk/yourcouncil/committees/strategiccommittees/pensions-comm/>

16.2 A Pension Fund Annual Report and Accounts is prepared annually in accordance with regulatory and recognised Accounting Code of Practice requirements. Copies are emailed to all fund employers and to the Scottish Ministers. A summary of the Report and Accounts is made available to all pension fund members.

<http://www.highlandpensionfund.org/themes/highland/scheme%20documents/Annual%20Report.pdf>

16.3 All policy documents, including the Annual Report and Accounts, Valuation Reports and various policy documents are published on the Fund's website.

<http://www.highlandpensionfund.org/>

16.4 Communication with scheme members is undertaken through the annual distribution of a personal benefit statement and opportunity is provided on an annual basis to attend a presentation by an LGPS representative and representative from Prudential, which is the appointed Additional Voluntary Contributions (AVC) Provider. Pensioners receive a monthly pension advice slip. There is a Pension Fund website where all current newsletters and relevant publications are available for scheme members <http://www.highlandpensionfund.org/>

## APPENDIX 1

### Governance Compliance Statement (included in HCPF Annual Report)

Principle		Full Compliance	Comments
<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.	Yes	The Highland Council as administering authority has delegated all pension scheme matters to the Pensions Committee. In addition a small Investment Sub Committee has been established to enhance the Council's management and investment of the assets of the Pension Fund in accordance with the respective objectives and strategies of the Fund (Minute of The Highland Council 27 October 2011).
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes	The Pensions Committee have two non-voting members representing other employers and two non-voting members representing scheme members.  The Investment Sub Committee has two non-voting members representing other employers.
	That where a secondary committee of panel has been established, the structure ensures effective communication across both levels.	Yes	The minutes of the Investment Sub Committee are presented to the Pensions Committee and there is significant commonality in the membership of the two committees.
	That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The minutes of the Investment Sub Committee are presented to the Pensions Committee and there is significant commonality in the membership of the two committees.
<b>Representation</b>	<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</p> <p>These include:</p> <ul style="list-style-type: none"> <li>• Employing authorities (including non-scheme employers, e.g. admitted bodies);</li> <li>• Scheme members (including deferred and pensioner scheme members)</li> <li>• Where appropriate, independent professional observers, and</li> <li>• Expert advisors (on an ad-hoc basis).</li> </ul>	Yes	<p>As stated above there are employer and employee representatives on both Pension Fund Committees.</p> <p>The Fund's investment consultants regularly attend the Pension Investment Sub-Committee and the Fund's actuaries attend the Pension Committee when appropriate.</p> <p>In addition, Fund Managers attend the Investment Sub Committee on a rotational basis.</p>

## APPENDIX 1

### Governance Compliance Statement (included in HCPF Annual Report)

Principle		Full Compliance	Comments
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All Pensions Committee members are provided with training, as well as access to papers in advance of Committee meetings and have the opportunity to contribute to the decision making process.
<b>Selection and Role of Lay Members</b>	a) That committee or panel members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Yes	A comprehensive training programme including induction is in place.  Training for Pension Committee & Investment Sub Committee members includes presentations from investment managers, Custodian, actuary and investment advisors. Attendance at meetings and training is monitored and reported.
	b) 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.	Yes	The declaration of Member's interests is a standard item on the agenda of both Pension Fund Committees.
<b>Voting</b>	The policy of individual administering authorities 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.	Yes	The policy on voting rights is clearly stated in the remits of both Pension Fund Committees.
<b>Training / Facility Time /Expenses</b>	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Yes	There is a policy on training which was drafted in 2011 and is in the process of being updated to incorporate the CIPFA Code of Practice on Public Sector Pensions Knowledge and Skill (2011). The training policy states that members' training is funded from the Council's Pension Fund.
	b) 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.	Yes	All members are treated equally under the training policy regardless of whether they have voting rights or not.

## APPENDIX 1

### Governance Compliance Statement (included in HCPF Annual Report)

Principle		Full Compliance	Comments
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Yes	Members receive training each year and this is monitored and reported.
<b>Meeting Frequency</b>	a) That an administering authority's main committee or committees meet at least quarterly.	Yes	The Pensions Committee meets at least four times a year with the option to hold special meetings as necessary.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Yes	The Investment Sub-Committee meets at least four times a year with the option to hold special meetings as necessary. The Investment Sub-Committee meetings will be timed so minutes can be presented to the Pensions Committee.
	c) 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.	N/A	There is a Scheme Members representative on the Pensions Committee.
<b>Access</b>	That subject to any rules in the council's constitution, all members of 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.	Yes	All Members of both Pension Fund committees have full access to agendas, reports and minutes. Voting rights are restricted to Highland Council Elected Members.
<b>Scope</b>	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pension Committee has an overview of investment, funding and member benefit matters.
<b>Publicity</b>	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 interest in wanting to be part of those arrangements.	Yes	The Highland Council publishes governance documents and communicates regularly with employers and scheme members. <a href="http://www.highlandpensionfund.org/about-us/forms-and-publications.aspx">http://www.highlandpensionfund.org/about-us/forms-and-publications.aspx</a>

