

The Highland Council

Pensions Committee – 22 September 2016

Agenda Item	9
Report No	PC/11/16

Governance Policy Statement

Report by Director of Finance

Summary

This report provides a copy of the Highland Council Pension Fund Governance Policy Statement to Committee for approval.

1. Background

- 1.1 This Statement sets out the governance policy statement that applies to the Highland Council Pension Fund (“the Fund”).
- 1.2 This policy statement is one of a number of key strategies, policies and procedures the Fund is required to hold, which are listed below:
 - Statement of Investment Principles – details fund specific investment strategy (Approved by Pensions Committee and Board 18 February 2016) http://www.highland.gov.uk/meetings/meeting/3652/pensions_committee_and_board
 - Funding Strategy Statement – details fund specific funding strategy (Approved at Pensions Committee and Board 19 February 2015) http://www.highland.gov.uk/meetings/meeting/3418/pensions_committee_and_board
 - Administration strategy - details roles and responsibilities of both the Fund and employer, the level of services the parties will provide to each other and the performance measures used to evaluate these <http://www.highlandpensionfund.org/themes/highland/scheme%20documents/Administration%20Policy.pdf>

2. Administering Authority and Regulatory Framework

- 2.1 The Highland Council is the Administering Authority of the Highland Council Pension Fund covering local government employees and elected member in the Highland Council area and scheduled and admitted organisations that provide public or charitable services.
- 2.2 The Council administers the pension scheme in accordance with statutory regulations, as follows:
 - The Public Service Pensions Act 2013
 - The Local Government Pension Scheme (Governance) (Scotland)

Regulations 2015

- The Local Government Pension Scheme (Transitional Provisions and Savings)(Scotland) Regulations 2014
- Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010.
- Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.
- Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008.

2.3 The introduction of the 2015 Regulations, set out the following roles and responsibilities and introduced new regulatory responsibilities for the Pensions Regulator <http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>:

- Responsible Authority – responsible for policy decisions on the pension scheme in question and for scheme regulations. Scottish Ministers fulfil this role in Scotland;
- Scheme Manager - legally responsible for the operational management of the scheme in line with legislation. Scottish Ministers have delegated this function to the Scottish Public Pensions Agency (SPPA <http://sppa.gov.uk>) for the eleven existing fund authorities for the Local Government Pension Scheme (LGPS).
- Scheme Advisory Boards established for Local Government schemes. Firmly focussed on the policy of the scheme in question, Scheme Advisory Boards provide an important route for Ministers to seek advice around policy matters relating to the pension scheme in question. <http://lgpsab.scot/>
- Pension Boards will exist to assist the Scheme Manager (Highland Council) in the operational delivery of the pension scheme in line with scheme regulations and expectations set by The Pensions Regulator (e.g. in Codes of Practice).

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 reports on compliance against these standards in the Fund's Annual report. The most recent version of the Annual Accounts containing the Governance Compliance statement can be found on the Highland Council Pension Fund website <http://www.highlandpensionfund.org/about-us/forms-and-publications.aspx>

2.5 In order to comply with the 2015 Regulations a Pensions Board was established from 1 April 2015. http://www.highland.gov.uk/meetings/meeting/3430/highland_council (Item 22).

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 Committee (section 4) 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. The Pension Board has been in place since April 2015 and meets at the same time as the Pension Committee to consider the same agenda.

3.2 The Pension Committee and Investment Sub Committee specific responsibilities are detailed in the Scheme of Delegation.

http://www.highland.gov.uk/downloads/download/614/full_list_of_powers_and_duties_of_committees_scheme_of_delegation

3.3 Pensions Board

The Public Service Pensions Act 2013 (effective from 1 April 2015) required a local Pension Board to be established to assist the Scheme Manager (Highland Council) in securing compliance with the rules relating to scheme governance and administration and complying with the requirements set out by the Pensions Regulator. The role of the Pension Board is to help ensure the Highland Council Pension fund complies with governance and administration requirements.

3.4 Pensions Committee

The Pensions Committee specific functions include setting the Funds' objectives and ensuring that appropriate strategies, policies and procedures are put in place to achieve these objectives. This requires setting and agreeing the following strategies, policies and procedures and reviewing these:

- a) 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.
- b) Funding Strategy and associated policies and to set the policy on funding matters for employers joining and leaving the Fund.
- c) To ensure consistency between the Funding Strategy and Investment Strategy and the implementation of these.
- d) 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.
- e) To set the strategy for communicating with Scheme employers and employees in the Fund.
- f) Governance Policy which outlines the key governance bodies for the

Fund, including representation.

3.5 The Pensions Committee is also responsible for the following:

- i) To ensure the delivery of the Funding Strategy ensuring the ongoing monitoring and management of the liabilities as appropriate.
- ii) To ensure that the Fund complies with the relevant Local Government Pension Scheme regulations and all other legislation governing the administration of the Fund.
- iii) To ensure appropriate Additional Voluntary Contribution (AVC) arrangements are in place and review investment performance on such contributions.
- iv) To ensure processes are in place to identify and follow best practice so that the Fund complies with this.
- v) Review of the Annual Report and Accounts of the Fund reviewed.
- vi) Review of the results of the Triennial Actuarial Valuation of the Fund.
- vii) Review of the Governance Structure of the Fund.
- viii) To develop and maintain a trustee training policy.
- ix) To develop and maintain a risk management strategy.
- x) To exercise Pension Fund discretions on behalf of the Administering Authority.
- xi) To appoint dismiss and assess the performance of advisors to the Fund including investment advisers and actuaries.
- xii) To agree where appropriate the Administering Authority responses to consultations by Central Government, professional and other bodies in relation to key consultations.
- xiii) The approval of Admitted Bodies.
- xiv) To monitor and oversee the work of the Investment Sub-Committee and carry out any of that Sub-Committee's responsibilities if appropriate.

3.6 Investment Sub-Committee

The Investment 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 the specific functions:

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

4. Representation

4.1 Details of all Committee Membership can be found on the Council's website http://www.highland.gov.uk/info/20003/committee_information/483/pensions_committee_and_board/5

4.2 The membership of the Committees is as follows

- Pensions Committee 11 Highland Council Members
- Pensions Board 1 Comhairle nan Eilean Siar Member (non-voting)
1 other scheme employer representative
4 scheme member representatives a
2 Highland Council Members
- Investment Sub Committee 7 Highland Council Members
1 Comhairle nan Eilean Siar Member (non-voting)
1 scheme member representative (non-voting)
2 Pension Board observers

5. Frequency of meetings

5.1 The Pension Committee meets at least twice a year with the option to hold special meetings as necessary.

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

6. Role of Trustee

6.1 Members of the Pensions Committee and the Investment Sub-Committee are in a similar position to trustees in the private sector¹. 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.

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

6.3 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.

6.4 Beneficiaries are defined as the Fund's members (employees, pensioners and deferred pensioners) as well as the Fund employers (there are 36 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) and 2 Pension Board observers. These beneficiaries are a specifically defined group, distinct from the wider interests the Council will wish to serve through its normal course of business.

6.5 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. Guidance on the role of trustees has been provided by the Scheme Advisory Board <http://lgpsab.scot/fiduciary-duty-guidance/>

¹http://sppa.gov.uk/Documents/Local%20Government/Useful%20Resources/Circulars/2011/Draft_Governance_compliance_guidance_Final_April_2011.pdf

6.6 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 Board 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).

7. Training

7.1 As part of good governance, administering authorities should also ensure that

- 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.

7.2 The Fund recognises the importance of training as a key aspect of good governance, and has a separate training policy available which will be considered as a separate item on this agenda.

7.3 There are a number of statements that were adopted by Pensions Committee in 2013 with regards to training which are as follows:

1. The Pensions Committee adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
2. The Pensions Committee recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.
3. Accordingly the Pensions Committee will ensure that it has adequate resources, formal and comprehensive objectives, policies (see below) and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.
4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
5. The Pensions Committee will report annually on how these policies have

been put into practice throughout the financial year.

6. The Pensions Committee has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Director of Finance, who will act in accordance with the Pension Committee's policy statement, and with CIPFA Standards of Professional Practice (where relevant).

8. Code of Conduct

- 8.1 All members of the Highland Council must comply with the Highland Council Code of Conduct for Councillors.
http://www.highland.gov.uk/directory/19/personnel_policies_procedures_and_guidance/category/142
- 8.2 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.
- 8.3 Member training and the implementation of the CIPFA Skills and Knowledge Framework (see section 8) provide the Fund with further opportunities for training in areas of governance.

9. Risk Management

- 9.1 There is a risk strategy in place that set out the Fund's approach to risk management.
- 9.2 A key element of this strategy is to have a risk register in place which is regularly reviewed and reported to Committee. This risk register was drafted using the best practice set out in the CIPFA guidance on "Managing risk in the LGPS" (Nov 12).
- 9.3 As part of the risk management process the following was identified and recorded in the risk register:
 - the key objectives of the Fund;
 - risks that would prevent these being achieved; and
 - mitigating controls

The risks were then graded and scored as Red, Amber or Green depending on the impact and likelihood of the risk and taking into account any mitigating controls.

- 9.4 Risk awareness is embedded into the investment strategy and investment performance management processes.

10. Fraud Detection and Whistleblowing

- 10.1 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/downloads/file/4033/whistleblowing_policy

Whistleblowing form:

<http://www.highland.gov.uk/downloads/file/4032/whistleblowingformrtf>

Anti-fraud/Anti-corruption policy:

http://www.highland.gov.uk/staffsite/downloads/file/2132/revision_of_the_councils_anti_fraud_and_anti_corruption_policy

11. Operational responsibilities

- 11.1 Under delegated powers, the Director of Finance has responsibility for implementing the decisions of the Pensions Committee.
- 11.2 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.

12. Professional Advisers and External Providers

- 12.1 Hymans Robertson was 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.
- 12.2 AON Hewitt was 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.
- 12.3 Seven 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.
- 12.4 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.

13. External and Internal Scrutiny

- 13.1 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.
- 13.2 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.

14. Stakeholder Communication

- 14.1 All papers and minutes for the Pensions Committee and Investment Sub Committee are available on the Council's website, (except for exempt items).
http://www.highland.gov.uk/info/20003/committee_information/483/pensions_committee_pc
- 14.2 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/about-us/forms-and-publications.aspx>
- 14.3 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/>
- 14.4 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/>

Recommendation

It is recommended that Committee approve the updated Highland Council Pension Fund Governance Policy Statement to Committee.

Designation: Director of Finance

Date: 13 September 2016

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