

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

28 JUNE 2012

## GOVERNANCE ARRANGEMENTS OF THE NORTH YORKSHIRE PENSION FUND

## Report of the Corporate Director – Finance and Central Services

**1.0 PURPOSE OF REPORT**

- 1.1 To provide the Committee with details of the governance arrangements of the North Yorkshire Pension Fund.

**2.0 BACKGROUND**

- 2.1 As Members will be aware from reports to previous meetings, the Audit Commission requires that the Statement of Final Accounts of the North Yorkshire Pension Fund (NYPF) be audited as if the Pension Fund was an entity separate from the County Council.
- 2.2 Given the regulatory requirements relating to local authority Final Accounts, it is necessary:
- (a) for the Audit Committee (not the Executive) to approve Final Accounts
  - (b) for the Final Accounts to be accompanied by an Annual Governance Statement, and therefore
  - (c) the arrangements in (a) and (b) have to be applied to the NYPF.

**3.0 GOVERNANCE ARRANGEMENTS**

- 3.1 The Governance arrangements for NYPF fall into two categories, viz
- (a) those that govern the processes and procedures of NYPF because it is “hosted” by the County Council. Thus the procedural arrangements for the Pension Fund Committee, the procurement rules for appointing fund managers, etc, are all based on those operated within the County Council.

To that extent they will be covered, for year end purposes, by the Annual Governance Statement that is prepared for the County Council as a whole (**see Item 10 on Agenda**).

- (b) those that relate specifically to the NYPF. It is these that form the substance of the attached report (see **Appendix 1**) that was approved by the Pension Fund Committee at its meeting on the 21 June 2012.

Members will note in **Part A of Appendix 1** reference is made to various documents being attached to that report (**paragraphs 3.2 to 3.8**) and other documents that were not attached (**paragraph 3.9**).

**For the convenience of Members of this Committee all of these documents are now provided in a separate 'NYPF governance set' circulated as a supporting document to the principal Agenda.**

- 3.2 Members of the Audit Committee will note that in **Part B of Appendix 1** there is a submission to the Pension Fund Committee from the Independent Professional Observer (IPO) appointed by the Fund in 2008 to provide an independent review of the Fund's governance arrangements. Members may find the opinion of the IPO informative when considering the standard of governance of the North Yorkshire Pension Fund.

#### 4.0 **RECOMMENDATION**

##### 4.1 That Members

- (i) take into account the governance arrangements for the North Yorkshire Pension Fund as part of their consideration of the Statement of Final Accounts for the Pension Fund
- (ii) identify any items relating to governance that they feel the Pension Fund Committee should address in the future

JOHN MOORE  
Corporate Director – Finance and Central Services

County Hall  
Northallerton

20 June 2012

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

21 JUNE 2012

## GOVERNANCE ARRANGEMENTS

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To consider the Governance arrangements of the Fund with a view to approving certain documents for referral to the County Council's Audit Committee as a necessary part of the evidence set relating to Governance required to accompany the Statement of Final Accounts.

**2.0 BACKGROUND**

- 2.1 For the convenience of Members, this report is split into two parts viz

- PART A** - details of the various Governance documents of the Fund and how they are to be reported as part of the year end process for the Statement of Final Accounts
- PART B** - a review of the Fund's governance compliance undertaken by the Independent Professional Observer

**3.0 RECOMMENDATIONS**

- 3.1 The Recommendations arising are detailed at the end of the separate PART reports.

JOHN MOORE  
Corporate Director – Finance and Central Services

County Hall  
Northallerton

7 June 2012

**Background documents : None**

**NORTH YORKSHIRE COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**21 JUNE 2012**

**GOVERNANCE ARRANGEMENTS**

**PART A – GOVERNANCE DOCUMENTS**

**Report of the Treasurer**

**1.0 PURPOSE OF REPORT**

- 1.1 To seek Committee approval to refer certain documents to the County Council's Audit Committee as a necessary part of the evidence set relating to Governance required to accompany the Statement of Final Accounts of the Pension Fund.

**2.0 BACKGROUND**

- 2.1 As Members will be aware from reports to previous meetings, the Final Accounts of the Pension Fund have to be audited as if the Pension Fund was an entity separate from the County Council. This process started with the 2008/09 financial year.
- 2.2 Given the regulatory requirements relating to local authority Final Accounts, it is necessary:
- (a) for the Audit Committee (not the Executive) of the County Council to approve the Final Accounts for submission to the External Auditor, and
  - (b) for the Final Accounts to be accompanied by an Annual Governance Statement
  - (c) and therefore, the arrangements in (a) and (b) have to be applied to the NYPF.
- 2.3 In relation to 2011/12, the Audit Committee (meeting on 28 June 2012) will therefore receive:
- (a) a Statement of Final Accounts for the County Council
  - (b) an Annual Governance Statement (AGS) for the County Council
  - (c) a Statement of Final Accounts for the NYPF (see separate item on this agenda)
  - (d) a set of Governance papers relating to NYPF (see **paragraph 3** below)

### 3.0 GOVERNANCE ARRANGEMENTS for NYPF

3.1 As previously described to Members the Governance arrangements for NYPF fall into two categories, viz

- (i) those that govern the processes and procedures of NYPF because it is “hosted” by the County Council. Thus the operating arrangements for this Committee, the procedure rules for appointing fund managers etc are all based on those operated within the County Council.

To that extent they will be covered, for year end purposes, by the Annual Governance Statement (AGS) that is prepared for the County Council as a whole.

The County Council’s AGS will be circulated with the papers for the Audit Committee in the next few days. Once available, a copy will be circulated “for the information” of this Committee.

- (ii) those that relate specifically to NYPF. It is these that form the substance of this report.

#### **NYPF - Specific Governance Arrangements**

3.2 At its meeting on the 23 June 2011, the Committee approved a full set of governance documents for the purposes of submission to the Audit Committee in relation to the 2010/11 Final Accounts. There have subsequently been a small number of amendments to some of these documents to address “best practice” principles or simply to update where necessary.

3.3 A list of the relevant governance documents, updated and appended where indicated is described in **paragraphs 3.5** et seq.

3.4 This year the **Part B report** by the Independent Professional Observer makes no specific recommendations for the governance documents of the Fund, however it does draw Members’ attention to an issue on training which will need to be addressed in time for the 2012/13 Annual Report.

#### **Statement of Investment Principles (Appendix A)**

3.5 The Statement of Investment Principles (SIP) has been updated primarily to reflect the appointment of three new UK property managers (see **paragraph 3.27 of the SIP**).

3.6 This updated version of the SIP is recommended for approval by the Committee at this meeting.

#### **Governance Compliance Statement (Appendix B)**

3.7 The Fund’s Governance Compliance Statement (GCS) has had a small number of very minor amendments. The Committee is asked to formally approve the updated GCS at this meeting.

## **Risk Register (Appendix C)**

- 3.8 The assessment of the impact of these risks relative to each other is contained in the updated Risk Register. This document was updated in June 2012 and is due to be updated once again in February 2013.

## **Other Governance Documents**

- 3.9 There are a number of additional documents which have either recently been approved by the Committee or have not required any amendment in the year since June 2011. Consequently they have not been appended to this report but will need to be submitted to the County Council's Audit Committee as part of the Fund's governance set. They are:
- (i) the **Communications Strategy 2011/12** approved by the Committee on 23 February 2012
  - (ii) the **Funding Strategy Statement**, approved on 17 February 2011
  - (iii) the **Communications Policy Statement** approved on 23 June 2010
  - (iv) the **Pensions Administration Strategy** approved on 23 June 2010
  - (v) the **Treasury Management SLA** approved on 23 June 2010

## **4.0 RECOMMENDATIONS**

4.1 Members to approve the following updated governance documents

- (a) Statement of Investment Principles (**Appendix A**)
- (b) Governance Compliance Statement (**Appendix B**)
- (c) Risk Register (**Appendix C**)

4.2 Subsequent to Recommendation 4.1, Members agree to submit the full set of governance documents to the County Council's Audit Committee as referred to in **paragraphs 3.5 to 3.9** respectively.

JOHN MOORE  
Treasurer

Finance and Central Services  
County Hall, Northallerton

11 June 2012

# NORTH YORKSHIRE PENSION FUND

## PENSION FUND COMMITTEE

21 JUNE 2012

### GOVERNANCE ARRANGEMENTS

#### PART B – PEER REVIEW OF GOVERNANCE COMPLIANCE

##### 1.0 PURPOSE OF THE REPORT

1.1 To present to the Committee the findings of the Independent Professional Observer.

##### 2.0 BACKGROUND

- 2.1 At the Committee meeting held on 14 February 2008 Members approved the appointment of Peter Scales of Allenbridge EPIC as the Independent Professional Observer (IPO) to the Fund.
- 2.2 His remit is to provide advisory services on governance and compliance to the NYPF. To this purpose, he conducted a review of these arrangements as they operated during the subsequent financial years and made a number of recommendations, all of which were incorporated into the governance documents of the Fund as reported to the Committee, most recently in June 2011.
- 2.3 This latest report (attached as **Appendix A**) provides an update of his review of the current governance compliance arrangements for the Fund, comments on the evolving regulatory environment and progress towards a new look LGPS expected to be in place from 2014.
- 2.4 Governance is described as of a “high standard” and “an excellent example of good practice to other LGPS Funds”.
- 2.5 Also mentioned in the IPO’s report is the latest position on the Knowledge and Skills framework. The CIPFA guidance published in 2010 has been incorporated into a formal Code of Practice, one consequence of which is that specific statements will need to be included in the governance documentation forming part of the Annual Report, from 2012/13.
- 2.6 The recommended statements are as follows.
- “(1) this organisation adopts the key recommendations of the *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*
  - (2) this organisation recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills

- (3) accordingly this organisation will ensure that it has formal and comprehensive objectives, policies 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 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) this organisation will report on an annual basis how these policies have been put into practice throughout the financial year
- (6) this organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Treasurer of the Fund, who will act in accordance with the organisation's policy statement, and, where he is a CIPFA member, with *CIPFA Standards of Professional Practice* (where relevant)."

2.7 Subparagraph (3) above effectively refers to a "knowledge and skills policy statement" and recommends incorporating the following wording into governance documentation.

- "(1) this organisation recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- (2) it therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills."

2.8 It is recommended by CIPFA that the above wording is formally adopted by the Administering Authority (ie the County Council) in its Standing Orders, Financial Regulations or other governance documents as appropriate. The Treasurer will discuss this matter with Legal Services and submit a recommendation to the Committee in due course.

2.9 These statements make specific reference to decision makers (ie the Committee) having and evidencing adequate knowledge and skills to fulfil their role. This places an even greater emphasis on Members' use of the CIPFA – Hymans Robertson Knowledge and Skills Toolkit and library of information the Committee agreed to adopt at the PFC meeting on 23 February 2012, to meet this very need. Also agreed at the 23 February 2012 meeting, was that the use of the Toolkit and library will be reported quarterly on the Members' Training register.



**3.0 RECOMMENDATIONS**

3.1 That Members note the content of the report.

3.2 That the Treasurer shall submit a recommendation to a subsequent meeting regarding how the requirements of the CIPFA Code be formally adopted.

JOHN MOORE  
Treasurer

County Hall, Northallerton  
7 June 2012

REPORT PREPARED FOR

**North Yorkshire Pension  
FundCommittee**

**21<sup>st</sup> June 2012**

**Annual Governance ComplianceUpdate**

**Peter Scales**

**AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)**

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## **Introduction**

This is my fourth annual report on the governance arrangements for the North Yorkshire Pension Fund, providing an update for the Committee on the current position, based on issues considered by the Committee over the past year and those in hand to be addressed.

## **Executive overview**

- ✓ All the recommendations from my previous reviews have been acted upon and incorporated into the governance documentation.
- ✓ I have reviewed the business and minutes of the Committee's meetings over the past year and I am satisfied that governance standards are being maintained and improved.
- ✓ There have been no regulatory changes on governance in the past year and all documentation is in order and compliant.
- ✓ Training and performance assessment has now become mandatory under the CIPFA Code of Practice but is not yet subject to regulation.
- ✓ The likelihood of significant upheaval to the LGPS is now a real prospect with final details of change to be announced in the near future.

I am pleased to report that the Committee has continued its proactive approach to maintaining and improving governance standards for the North Yorkshire Pension Fund and in responding to current developments relating to the future of the LGPS. In my view, the Fund continues to demonstrate a high standard of governance and would be an excellent example of good practice to other LGPS funds.

## **Business considered during the past year**

The fact that I have been able to access and read agendas, minutes and reports of each Committee meeting readily and without recourse to officers demonstrates that the Committee is operating in an open and transparent manner.

I am pleased to note that the Committee has continued to develop its approach to knowledge and skills requirements and has agreed to make use of the Trustee Needs Analysis; has monitored developments in the design of the new LGPS; developed communications with employers and scheme members; and has considered a wide range of administration and investment issues, particularly as they affect the future administration of the Fund.

## **Review of documentation**

I have not been asked by the officers to review any specific documentation this year but I have reviewed all the formal documents included in the annual report and accounts and elsewhere on the website. I am satisfied that they all not only comply with the regulatory requirements but are also extremely clear, representing a high standard of governance.

## **Investment Regulations**

When the current version of the investment regulations came into effect on 1<sup>st</sup> January 2010, CLG indicated that further consideration would be given to simplifying and de-regulating the current framework. Discussions on this started in early 2011 but had stalled while the new Scheme negotiations took place, and the CLG subsequently withdrew from the small working group of interested parties.

As far as I can ascertain, some work has been done at officer level in conjunction with the Investment Management Association (IMA), the Society of Pension Consultants (SPC) and the Association of Pension Lawyers (APL). These organisations have been involved in the evolution of the investment regulations for many years (I held meetings with them in the 1990s) and have been helpful in generating comparisons with the private sector and promoting less regulation. It has to be said though that they have vested interests both in reducing the restrictions on certain investments (e.g. use of pooled funds) and providing greater clarity on certain investment products (e.g. derivatives)

It would appear that these discussions are making little headway without the involvement or commitment of CLG to consider change. However, I sense the prospect of greater regulation coming through as the new LGPS goes through the final stages of negotiation which may introduce more controls on governance and the use of investment vehicles.

While I have no firm basis for this feeling, there is, and has been for some time, a suggestion that investment activity has let funds down over the past decade due to a lack of skills and proper controls, insufficient attention to risk, and exorbitant costs. Such claims go hand in hand with demands for greater representation of members on decision-making bodies, mandatory requirements on training and fund mergers. Investment by pension funds in infrastructure is a tangential issue but could be regulated in some way.

### **Training – Knowledge and skills framework**

I referred in my report last year in some detail to the CIPFA Guidance on Knowledge and Skills Framework published in January 2010 and the details, including the Trustee Needs Analysis will be well known to the Committee. Following consultation during 2011, that guidance has now been incorporated into a formal Code of Practice issued in September 2011.

The Code is linked principally to Myners Principles 1 and 4 in relation to effective decision making and performance assessment, but it is also intended to work in conjunction with other CIPFA codes and statements, particularly in relation to the role of the chief financial officer.

The Code does not strictly affect regulatory requirements in relation to compliance with the Myners Principles as it post-dates the regulation. However, it is an area where compliance with the CIPFA Code is mandatory and while the onus of compliance bears directly on the chief financial officer, the Committee will need to consider how to respond to this.

Both CLG and CIPFA have indicated to me in the past that it is not expected that further regulation on compliance in this respect will be introduced, however as I suggest below, there is a strong risk that if funds don't comply, regulation will be imposed or may be imposed in any event.

The Code is quite specific about the form of a statement to be adopted in governance documentation, e.g. as part of standing orders, financial regulations, and specific wording is recommended for adoption in the knowledge and skills policy statement. This includes a requirement to report annually on how these policies have been put into practice throughout the financial year.

I am not able to replicate the wording in this report as it is subject to copyright but the Code is available to officers. While the Committee has already put into practice much of the requirements of the Code, the new formal statements will need to be considered during the coming year as the first annual report to include them must be 2012-13.

### **Other current developments**

The Committee has been informed of progress in developing a new LGPS and although the new Scheme design was due to be finalised by the end of March 2012, there still remains uncertainty over the outcome although finalisation is said to be imminent. While a new Scheme that is sustainable over the long term can be designed, I am still unclear how the budget savings set by central government of circa £900 million will be achieved and what the likely impact on funding levels, contribution rates, and membership will be – I am aware that the Committee has considered this point.

Furthermore, governance issues are being considered which relate to governance at both a national and local level. Unfortunately, details of these discussions are being held confidential for the time being and it is unclear what the local implications will be and what other governance issues will be picked up in the wake of the Hutton Report, particularly in relation to representation of stakeholder interests, and knowledge and skills.

However, from the limited information that I have, I believe there may be minimum standards of governance introduced, no doubt with copious guidance, and that Government may establish a national body in some form to improve guidance and monitor compliance. These are not new ideas and I have always indicated in my reports the prospect of more regulated governance arrangements, but it appears that matters are coming to a head under the negotiations for the design of the new LGPS. Hopefully more information will be forthcoming in the form of public consultation in the near future.

As the Committee has considered already, there continues to be press and industry speculation on the prospects for merging funds, administration processes and/or administering authorities, with developments continuing on joint working and framework agreements. All of these could impact on the future governance arrangements for North Yorkshire and other funds.

To some extent such speculation is fuelled by political motivation, particularly in London, confused by infrastructure initiatives; by discussions on the new LGPS design; by the desire for greater cost efficiency; and by well-publicised initiatives in Scotland, Wales, SW England, London and elsewhere.

I have been involved in merger discussions at various stages of my career which started not long after the possible merger of London funds was dismissed in the early 60s. I remain of the view that in most instances, the merger of pension fund investments is not practicable, democratic or likely to save much in costs, unless in-house investment teams could be set up without undue risk of concentration, and I doubt there is political motivation for combining funds. However, there will be continuing pressure for more efficient administration arrangements on the back of enhanced governance but hopefully not enforced by regulation.

**Peter Scales**  
**29<sup>th</sup> May 2012**