

## NORTH YORKSHIRE COUNTY COUNCIL

### PENSION FUND COMMITTEE

21 NOVEMBER 2013

#### GOVERNANCE

##### Report of the Treasurer

### 1.0 PURPOSE OF REPORT

1.1 To present:-

- (i) the conclusions of a Governance Review undertaken by the Fund's Investment Consultant and
- (ii) a report by the Advisory Panel describing views on how the proposed Pensions Board could carry out its role and help to inform what changes, if any, the Committee would propose to governance arrangements in advance of national changes being brought in.

### 2.0 GOVERNANCE REVIEW

2.1 The Fund's Investment Consultant Aon Hewitt has carried out a governance review aimed at highlighting areas of good practice and potential areas for improvement, by comparing current practices against their governance framework. This approach was set out at the Committee meeting on 28 June 2013.

2.2 Information was gathered from:

- a desktop review of the Fund's governance documentation
- effectiveness questionnaires provided to PFC members, Advisory Panel members and key officers
- observations at PFC and Advisory Panel meetings
- discussions with individuals

2.3 The review is documented in the Governance Review Report attached as **Appendix 1**. Karen McWilliam of Aon Hewitt will go through the report at the meeting. The overall conclusion is that the governance of the Fund is of an extremely high standard in most areas, and a number of key areas of good practice have been identified.

2.4 Four recommendations are included in the Executive Summary of the Report:

- a. the Administering Authority should put in place strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clear framework

- b. the Administering Authority should introduce a three year rolling business plan covering all areas of Fund management
- c. more focus should be placed on the summary risk register when it is presented at PFC meetings
- d. ensure all new [PFC] members are required to undertake wide ranging induction training (including on conflicts and the role of the PFC member)

2.5 Officers will address the recommendations in 2.4a and 2.4b above after discussing these issues further with Aon Hewitt.

2.6 Members will be provided with the opportunity to discuss the Risk Register in more detail at each June meeting of the PFC. Consideration will be given to presenting the Risk Register more frequently, depending upon the extent of changes to circumstances.

2.7 Officers will liaise with colleagues in Committee Services to ensure a full induction is offered to new PFC members. A high degree of knowledge and understanding is required for all Members and a full induction programme is therefore essential. However, there is a need to ensure that skills and knowledge are constantly kept up to date. Views are therefore welcomed on what mandatory training regime should be put in place.

2.8 There are a number of minor additional recommendations included in the body of the Report. Officers will discuss the issues with Aon Hewitt and take action to address them where necessary. A brief report will be brought back setting out any actions agreed and details on implementation provided.

### 3.0 THE ROLE OF THE PENSION BOARD

3.1 The Public Service Pensions Act 2013 was passed on 25 April 2013, following which DCLG released a discussion paper relating to the governance arrangements for the LGPS.

3.2 At the PFC meeting on 28 June 2013 Aon Hewitt gave a presentation covering the Act and the discussion paper, including the implications for NYPF. There was a particular focus on the form the Pension Board might take and what its specific responsibilities might be, both of which have not yet been determined by DCLG. When the guidance from DCLG will be issued is unknown. We are still awaiting a timescale for the guidance to be issued by DCLG.

3.3 Advisory Panel members were therefore asked to report their views on certain issues in relation to the Pension Board. A paper including the scope of the work is attached as **Appendix 2**. Specifically, the following questions were posed:

- what legislation relates to “governance and administration”?
- are there any reports that are currently provided to the Pension Fund Committee that assist in demonstrating compliance in these areas?

- how can compliance be demonstrated?
- how could this be presented to a Pension Board?

- 3.4 The draft response from the pensioner representative is attached as **Appendix 3**. No other Advisory Panel members provided a response. The intention is that it will be adopted and approved by the Advisory Panel at their meeting on 20 November 2013. The Chairman of the Advisory Panel will attend the PFC meeting to provide confirmation and any supplementary comments from the Panel.
- 3.5 Members may find this response useful as it not only attempts to answer the questions but it but also poses a number of additional questions. This makes it very clear that it is essential that NYCC as the Scheme Manager receives unambiguous guidance from DCLG in time to make the necessary arrangements. The view of officers is that at this stage there is no value in progressing matters until such guidance is received.

#### 4.0 **RECOMMENDATIONS**

- 4.1 Members note the contents of this report
- 4.2 Members to note the recommendations included in the Governance Review Report (**Appendix 1**) and to approve the proposed responses (see **paragraphs 2.5 to 2.8**)
- 4.3 Members views are sought on the appropriate level of training and the extent to which it should be mandated (**paragraph 2.7**)
- 4.4 Members to note the Advisory Panel report (see **paragraph 3.4**)

GARY FIELDING  
Treasurer  
Corporate Director – Strategic Resources

County Hall  
Northallerton

8 November 2013

# North Yorkshire Pension Fund

## Governance Review



**Prepared for** Tom Morrison, Principal Accountant, North Yorkshire Pension Fund  
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**Date** 11 November 2013

# North Yorkshire Pension Fund Governance Review

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# Executive Summary

We have been asked by North Yorkshire County Council to carry out a governance review in relation to the North Yorkshire Pension Fund, which they are responsible for administering. The North Yorkshire Pension Fund participates in the Local Government Pension Scheme.

The purpose of this review is to highlight areas of good practice in relation to the governance of the Fund and also to recommend any potential areas for improvement. The approach taken has been to compare the Administering Authority's current practices (at a high level) against the Aon Hewitt governance framework. The framework considers the following key areas:

Direction – What is the Fund trying to achieve?

- Legislation
- Strategies and Policies

Delivery – How does the Fund meet its aims?

- Business Planning
- Performance Monitoring
- Risk Management

Decisions – Does the Fund have effective decision making?

- Governance Structure
- Behaviour
- Pensions Skills and Knowledge

Our overall conclusion is that the governance of the Fund is of an extremely high level in most areas and is amongst the best examples of governance we have seen in the LGPS environment. There is a general theme in our recommendations which is to ensure that the business of the Fund is clearly aligned to the Fund's agreed strategies, which in turn should flow into performance measurement and risk management.

Some key areas of good practice we identified included:

- The Fund has an administration strategy and an admissions/cessations policy which are not legally required but are best practice.
- High quality and wide ranging monitoring information is provided to the Pension Fund Committee at each meeting. This is supplemented by regular and effective Fund manager meetings.
- The governance of the Fund is of an extremely high standard in relation to structure, terms of reference/ delegations, representation, effective decision making, administration and transparency. These areas combined provide a robust and effective environment for the management of the Fund.
- The professionalism, enthusiasm and stewardship demonstrated by PFC members and observers is exemplary.

We made some recommendations including the following:

- The Administering Authority should put in place strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework.
- The Administering Authority should introduce a three year rolling business plan covering all areas of Fund management.
- More focus should be placed on the summary risk register when it is presented at PFC meetings.
- Ensure all new members are required to undertake wide ranging induction training (including on conflicts and the role of the PFC member).

# Introduction

## Purpose and Scope

This paper presents the results of a governance review by Aon Hewitt of the North Yorkshire Pension Fund, administered by North Yorkshire County Council. North Yorkshire County Council (the "Administering Authority") is responsible for managing and administering the North Yorkshire Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme ("LGPS").

The purpose of this review is to highlight areas of good practice in relation to governance of the Fund and also any recommended areas for improvement. The approach taken has been to compare the Administering Authority's practices against the Aon Hewitt governance framework.

The review has been carried out at a high level and does not include any detailed investigation into services such as administration, communications, funding or investments. Accordingly it does not provide any technical comment in relation to any of these areas, including technical content of the key governance documents relating to them. The review does include consideration, at a high level, of the legal requirements relating to governance, for example, the requirement to publish certain policies and strategies under Local Government Pension Scheme legislation. Though it includes some legal elements, these are presented by us in our capacity as pension consultants and not as legal experts, and as such nothing in this report should be considered as legal advice.

With effect from 1 April 2015 (at the latest) all public sector schemes will be required to have regard to the (as yet unpublished) Pension Regulator's Public Sector Code of Practice, as well as related legislation. This review does not have regard to those requirements as the details of these are still unknown.

## LGPS 2014

A new Local Government Pension Scheme is being introduced from 1 April 2014 and accordingly the legislation relating to the LGPS is changing. Within this review we have focussed mainly on the legislation that is in force at the time of writing i.e.:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 as amended
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 as amended
- The Local Government Pension Scheme (Administration) Regulations 2008 as amended
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended.

However, as the Local Government Pension Scheme Regulations 2013 have been made to implement the new scheme, we have also carried out checks against those provisions to identify any differences in requirements and highlighted them where appropriate.

## Research

The information upon which this review has been based has been gathered in a number of ways:

- Desktop review of documentation and web information as listed in Appendix A.
- Effectiveness questionnaires – provided to all key officers, Pension Fund Committee ("PFC") members, Advisory Panel members and key advisers to gather their views on areas such as the length of the meetings, how topics are presented, whether the members feel confident when making decisions, understanding risk and strategy and general engagement in matters. The findings are summarised in Appendix B.
- Observing at a Pension Fund Committee and at an Advisory Panel meeting.
- Discussions – informal discussions with various individuals associated with the Fund, generally to probe more in relation to information found as part of the desktop review or responses to the questionnaires.

We would like to thank the officers, members of the Pension Fund Committee and members of the Advisory Panel for their assistance throughout this review. It has been a pleasure working with them.

We hope the information contained within this report is useful to the Administering Authority in considering how to govern the Fund in the future. As you can see, the findings are extremely positive in most places and we would congratulate the Administering Authority in already achieving such a high standard of governance.

We look forward to answering any questions in relation to the report.

**Signed**



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# Governance Framework

*This Section describes the best practice framework against which this review was conducted.*

There are some key benefits from having effective governance in place, including:

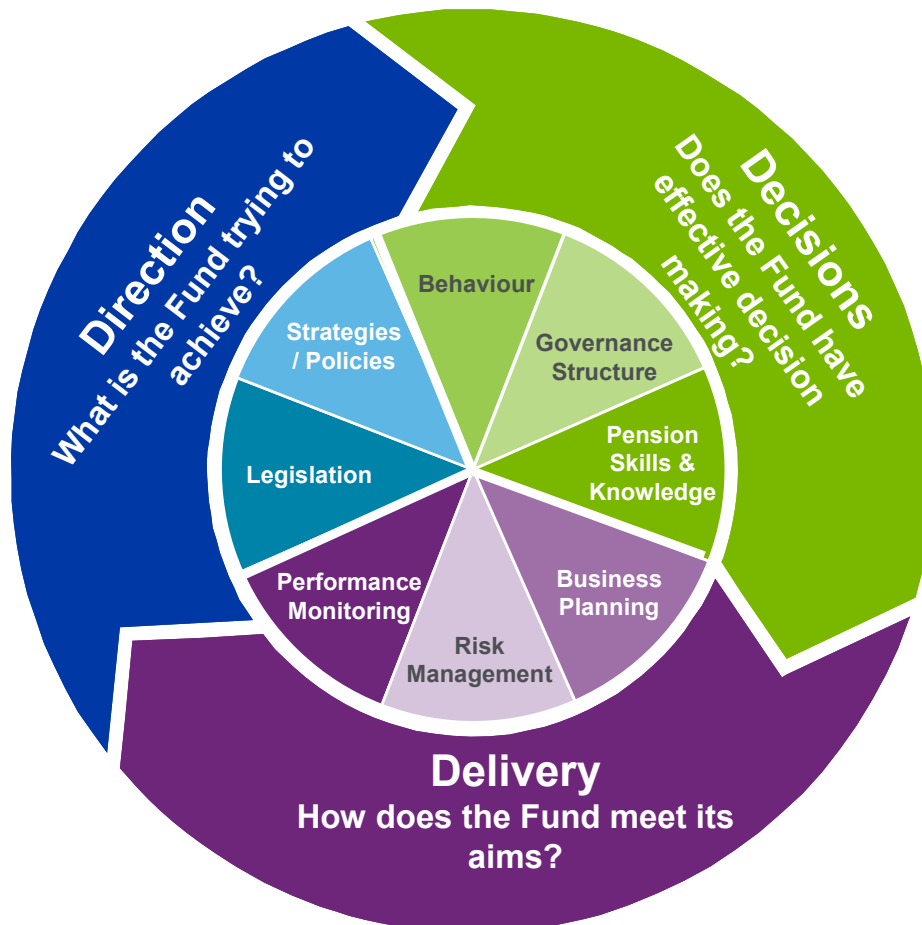
- robust risk management that can assist in avoiding issues arising or at least reducing their impact
- ensuring resources and time are appropriately focussed
- timely decision making and implementation of change
- a clear view of how the Fund is being operated for the Pension Fund Committee.

At Aon Hewitt, we have a number of beliefs when it comes to achieving good governance including:

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery
- Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge are key.

These beliefs are described in more detail below.

This governance review has been carried out with this framework providing a benchmark for comparison purposes.



## Direction

<b>Legislation</b>	The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.
<b>Strategies and policies</b>	<p>The Fund's strategies and policies should provide the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies:</p> <ul style="list-style-type: none"><li>▪ should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself</li><li>▪ should be clearly articulated, to provide a framework within which those managing the Fund will be able to operate</li><li>▪ should provide the focus for all future decisions and plans</li><li>▪ should be agreed by those responsible for governing the Fund.</li></ul>

## Delivery

<b>Business Planning</b>	<p>Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities:</p> <ul style="list-style-type: none"><li>▪ should be driven by the Fund's strategies and policies</li><li>▪ will include activities driven by changes in overriding legislation.</li></ul>
<b>Performance Measurement</b>	<p>Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should:</p> <ul style="list-style-type: none"><li>▪ illustrate whether the Fund's aims are being achieved</li><li>▪ illustrate whether the Fund's business plan is being achieved</li><li>▪ be updated in accordance with appropriate timescales</li><li>▪ be presented in a manner that is easy to follow and understandable to those governing the Fund</li><li>▪ assist in identifying changes to the Fund's business plan, strategies, policies and aims.</li></ul>

## Risk Management

Effective risk management is critical to minimise the impact and/or probability of unfortunate events and to maximise the realisation of opportunities. It should be:

- aligned with the Fund's aims
- a key consideration in decision making
- systematic or structured
- an integral part of the Administering Authority's processes and procedures on a daily basis.

## Decisions

### Governance structure

There is no one 'correct' governance structure. The Administering Authority's structure should:

- have clear terms of reference
- have a clearly documented scheme of delegation
- allow decision making at the appropriate level
- allow quick decision making where appropriate
- involve well presented information/reports
- allow sufficient time for discussion where necessary
- have good quality (committee) administration
- involve a process for managing conflicts
- provide transparency to stakeholders where appropriate.

### Behaviour

A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should:

- have a high level of attendance at meetings
- demonstrate integrity in relation to their Fund role
- be engaged and provide appropriate challenge
- be accountable for the decisions made
- highlight any potential conflicts they may have
- for a Chairperson, manage the meetings fairly without any bias to individuals or self
- prepare adequately for meetings.

## Skills and knowledge

The final, but perhaps most critical, element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should:

- clearly articulate the knowledge and skills requirements in a Fund policy
- provide ongoing training in an effective and suitable manner to meet those requirements
- regularly review whether knowledge aspirations are being met
- ensure they rely appropriately on officers and advisers to provide expert knowledge.

The next sections of this report consider how the North Yorkshire Pension Fund performs in relation to each of these areas.

# Direction

*In this section we consider whether the Fund has clear strategies and policies that also meet legislative requirements.*

## Legislation

The Fund's strategies and policies should be in line with legislative requirements and any related professional guidance.

### Range of Strategies and Policies

The following table shows the policies and strategies which are legally required under the LGPS and whether they are currently in place for the Fund:

Strategy / Policy Area	Fund Version In Place	LGPS Requirement	LGPS Specific Requirement / Terminology
Funding	Yes	Yes	Funding Strategy Statement
Investment	Yes	Yes <sup>1</sup>	Statement of Investment Principles
Governance	Yes	Yes <sup>2</sup>	Governance Policy
Communications	Yes	Yes	Communications Policy
Discretionary	Yes	Yes	Discretionary Policy
Administration	Yes	Optional	Administration Strategy

Notes:

1 – LGPS also requires a Compliance Statement against guidance on the Myners Principles in the LGPS

2 – LGPS also requires a Compliance Statement against Secretary of State guidance

It can be seen that the Fund has all the required policies and strategies in place as well as the Administration Strategy which is not legally required.

## Adherence to legislation and guidance

We have compared the policies required to be in place at a high level with the legal requirements and associated guidance and provide comment below on our findings:

Strategy / Policy	Adherence to Legislation and Guidance
<b>Funding Strategy Statement</b>	Meets requirements. It is noted that the Administering Authority will be reviewing the strategy in tandem with the 2013 actuarial valuation and, as part of that exercise, will be updating it in line with the latest CIPFA guidance.
<b>Statement of Investment Principles</b>	Appears fully compliant with all sections as required in legislation / guidance.
<b>Governance Policy/Compliance Statement</b>	Meets all requirements. We note that under the Local Government Pension Scheme Regulations 2013 there will be a requirement to extend this statement to include information relating to the Pension Board.
<b>Communications Policy</b>	Meets all requirements.
<b>Discretionary Policy</b>	Meets all requirements.

### Key Conclusions

All legally required policies and strategies are in place and meet the requirements in relation to content.

## Strategies and policies

The Fund's strategies and policies should provide the aims, principles, protocols and environment for how the Fund is managed. The strategies and policies:

- should be wide ranging covering all key areas including funding, investments, administration, communications and governance itself
- should be clearly articulated, to provide a framework within which those managing the Fund will be able to operate
- should provide the focus for all future decisions and plans
- should be agreed by those responsible for governing the Fund.

## Range of Strategies and Policies

A wide range of policies and strategies provide a good framework within which the Fund is operated. The following table highlights the policies and strategies we would recommend are in place (i.e. beyond those legally required), as well as showing which are currently in place for the Fund:

Strategy / Policy Area	Fund Version In Place
Training <sup>1</sup>	No
Conflicts of Interest <sup>1</sup>	No
Risk Management <sup>1</sup>	No
Treasury/Cash Management <sup>1</sup>	Yes
Admission / Cessation / Bulk Transfer Policy	Yes <sup>2</sup>

Notes:

1 – Though not legally required, these are all mentioned in CIPFA LGPS guidance as being good practice

2 – Relates to admissions and cessations with no specific reference to bulk transfers

It can be seen that the Fund has some additional strategies/policies that are not legally required but considered best practice. There is evidence of strategic thinking and development around areas such as training, conflicts of interest and risk management but no formally documented strategies and policies relating to the Fund in these areas. We would recommend developing these to ensure the key strategic elements are captured and formally agreed, which will provide a clearer framework for the management of the Fund.

## Quality and Structure of Policies and Strategies

### Development of strategies and policies

It is important that the Pension Fund Committee is fully engaged in the development of all strategies and policies, whilst receiving appropriate advice and expertise from the officers and advisers of the Fund. There is clear evidence of this approach being taken by the Administering Authority in some aspects, for example, a workshop being set up to review the Investment Strategy in October 2013, discussion of the Communications Strategy on an annual basis and the Fund Actuary being invited to the September 2013 to present the provisional valuation results and discuss the funding strategy.

However, we note that at the June 2013 meeting, there were a range of key documents provided for approval, including the Statement of Investment Principles, Governance Compliance Statement, Risk Register, Communications Strategy/Policy and Pensions Administration Strategy and there was little conversation around them. We do acknowledge that there were not significant changes to those documents and some had also been previously discussed, however, we consider it appropriate to ensure that all key strategies and policies are appropriately thought through on a regular basis (at least triennially). For example, when developing a Pension Administration Strategy, a key element should be to consider how the administration services are delivered, for example, in-house, shared service, outsourced etc. It would be appropriate for the reasons why in-house delivery has been chosen to be articulated (even at a high level) within the Strategy, which in turn would provide the Pension Fund Committee members with the opportunity to consider and buy into this approach, as well as being comfortable with the levels of service outlined in the Strategy.

Accordingly, we would recommend against having multiple reviews of key documents on the same agenda and further recommend the Administering Authority consider providing opportunities for greater discussion when any strategies/policies are being considered (as is demonstrated in relation to communications, investment and funding matters).

## General structure and quality

As a general principle we would recommend that any strategy or policy document should include the following elements in addition to the main contents/purpose of the document:

- Introduction including any relevant legislation and guidance
- The Fund's aims / objectives in this area
- What measurement / monitoring will be done in relation to those aims / objectives
- The key risks relating to the strategy and how they are being managed / monitored
- Who was consulted on the strategy / policy
- When / how it was approved and effective date of it
- When it will next be reviewed
- The roles and responsibilities of the key parties responsible for delivering the strategy (e.g. Pension Fund Committee, officers, fund managers, advisers etc).

In relation to the North Yorkshire Pension Fund's strategies and policies, the elements mentioned above are included in part in some of the documents. We would recommend ensuring all of these elements are incorporated into each of the Fund's strategy and policy documents when they are next reviewed. Our specific comments in relation to each of the documents are set out below:

Strategy / Policy	Specific Comments
<b>Funding Strategy Statement</b>	No additional comments.
<b>Statement of Investment Principles</b>	Though strictly meeting the requirements of legislation, this document feels relatively brief. In particular, though the document highlights that the Administering Authority is fully compliant with all six of the LGPS Myners Principles, it would be useful for there to be a brief description about the approach the Administering Authority takes in relation to each principle, or at least to provide a link to the Independent Professional Observer review of this statement.
<b>Governance Policy/Compliance Statement</b>	It is worth noting that this document refers to key strategies and policies that are available on the Fund's website, but unfortunately not all are available on the site.
<b>Communications Policy</b>	No additional comments.
<b>Discretionary Policy</b>	A useful summary of discretions that goes beyond the statutory requirements.
<b>Admission &amp; Cessation Policy</b>	We commend the Administering Authority for having this policy in place. It provides a useful framework setting out the treatment of employers within the Fund (or wishing to join the Fund), complementing the information in the Funding Strategy Statement. Though these policies are becoming more common, there are still a large number of LGPS Funds who do not have one in place.



## Key Conclusions

It is especially pleasing to see the Administering Authority has an administration strategy and admissions/cessations policy which are not legally required but are best practice.

We would recommend the Administering Authority put in place strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework.

The content of the strategy / policy documents is generally of a high standard albeit there are some useful areas that are not consistently included. Accordingly we would recommend reviewing the content of all the strategies and policies to ensure these key areas (including objectives / aims, when and how approved, when subject to review, risks and how the Administering Authority will monitor performance against its aims) are included.

The Administering Authority demonstrates excellent engagement when reviewing communication, investment and funding matters. It may wish to consider how increased engagement can be achieved in relation to other strategy reviews, including avoiding reviewing multiple strategies being considered at the same meeting.

# Delivery

*In this section we consider whether the Fund has a business plan that is aligned with its strategies, whether it appropriately monitors whether its strategies are being achieved and whether it has effective risk management in place.*

## Business Planning

Each Fund should have a business plan, setting out required activities in the forthcoming period. Those activities:

- should be driven by the Fund's strategies and policies
- will include activities driven by changes in overriding legislation.

It is good practice for Funds to have a clear business plan. The LGPS Myners Principles explicitly refers to this as follows:

- "The CFO should ensure that a medium term business plan is created for the pension fund, which should include the major milestones and issues to be considered by the committee. The business plan should contain financial estimates for the investment and administration of the fund, and include appropriate provision for training. Key targets and the method of measurement should be stated, and the plan should be submitted to the committee for consideration.
- The business plan should review the level of internal and external resources the committee requires to carry out its functions effectively and contain recommended actions to put right any deficiencies or to anticipate changing requirements in the future."

The North Yorkshire Pension Fund does not have an explicit business plan. They do, however, carry out some elements that would make up a business plan, including:

- Developing and monitoring a budget for the Fund
- An annual communications plan
- A range of other future planning in a less formal way, for example, as part of the Fund Manager Matters report.

There is also clear evidence of key tasks being carried out at appropriate intervals, for example the periodical review of AVC provides/funds offered.

The current practice however could be improved and made more transparent with the development of a central business plan. Some of the key benefits would be:

- Clearer visibility and agreement of key tasks, which would in turn make it easier to ensure those were in line with the agreed strategic direction of the Fund
- Ensuring the Committee are in agreement with the areas being focussed on/planned for, and accordingly where resources are being focussed
- A longer term view (we would recommend a three year rolling plan) where recurring elements could be captured, such as review of providers (e.g. AVCs, investment consultant) and which would provide Committee members with the opportunity to highlight anything they consider is currently missing

- Ensuring the Committee are aware of and in agreement with future plans across the full remit of the Fund (i.e. investment, funding, governance, administration and communications).

We would recommend incorporating tasks into a business plan relating to all of the following areas, all of which should be considered in the context of the agreed strategies/aims of the Fund:

- legislation (e.g. valuation, implementation of a new scheme),
- performance monitoring (e.g. the review of an area of a service that is failing to meet the agreed service standard)
- standard practice (e.g. review of advisers, issue of annual benefit statements),
- the evolving environment (e.g. new investment vehicles, a greater focus on information technology)
- risk management (e.g. reviewing a staffing structure due to increasing manpower risk)

It will be important for the Committee to recognise that that any business plan may need to be revised mid year, for example, if new legislation is passed or a particular task is deferred for a particular reason. Further, we would recommend the Committee are also provided with a regular update on progress against the agreed business plan, which can be presented at a high level, which in turn will help them to consider if it does need reviewed or realigned.

### Key Conclusions

The Administering Authority is demonstrating a number of areas of good practice in relation to areas of business being undertaken and appropriate setting and monitoring of budgets.

However, the Administering Authority does not centrally capture its plans and we would therefore recommend implementing a three yearly rolling business plan.

## Performance Measurement

Those responsible for governing the Fund should be provided with appropriate performance information. Measurements should:

- illustrate whether the Fund's aims are being achieved
- illustrate whether the Fund's business plan is being achieved
- be updated in accordance with appropriate timescales
- be presented in a manner that is easy to follow and understandable to those governing the Fund
- assist in identifying changes to the Fund's business plan, strategies, polices and aims.

At each Committee meeting, three key update reports are presented for information:

- Member and Employer Issues – including membership analysis, administration performance, consultations, changes in employers in the Fund, Pension Fund Committee / Advisory Board training and forward look of Pension Fund Committee meetings
- Budget / Statistics – including expenditure and income positions, performance against budget and cash deployment
- Performance of the Fund's Portfolio – including overall investment performance against benchmark and individual Fund Managers' performance.

In addition the officers and PFC members have a programme of separate manager meetings to monitor their individual performance. These meetings often occur once or twice a quarter (i.e. in addition to any Pension Fund Committee meetings or other workshops/training events).

The Pension Fund Committee reports overall provide extremely useful and wide ranging information which provide the Pension Fund Committee (and Advisory Panel) with a good overview of most Fund matters. We commend the Administering Authority in this regard as the quality of this information surpasses that which many other LGPS Funds provide to their respective governance bodies.

Our only comment in this regard relates back to a previous comment on the structure of strategies/policies, and that is to ensure that all such documents clearly articulate the aims/objectives together with how those aims/objectives will be measured and monitored. We would therefore recommend that the Administering Authority reviews their monitoring reports when they are next reviewing their strategies/policies to ensure they are appropriately aligned, though in many cases this will need little more than a clarification within one or both documents.

Some trustee boards in the private sector find it helpful when they are provided with a summary scorecard or other simple method of indicating at a high level any areas that are not meeting the requirements (but equally allowing members to easily identify how well the Fund is also doing); this could perhaps be an initial summary page within the appropriate report and assist in ensuring information is kept succinct where appropriate.

The manager monitoring meetings also appear extremely effective with a rolling programme of managers being seen at meetings that occur at least quarterly. The order of managers is sometimes adjusted to focus on managers who are not meeting targets or who have had changes that may concern the Administering Authority (e.g. a change in team). Further, if there are concerns about a manager, officers and advisors sometimes meet the manager prior to the formal manager monitoring meeting so that they can appropriately brief the Committee members in advance.

### Key Conclusions

High quality and wide ranging monitoring information is provided to the Pension Fund Committee at each meeting. This is supplemented by regular and effective Fund manager meetings.

We would recommend reviewing the Pension Fund Committee reports to ensure the information being provided covers and is aligned to all key aims/objectives in the Fund's strategies and policies.

# Risk Management

Effective risk management is critical to minimise the impact and/or probability of unfortunate events and to maximise the realisation of opportunities. It should be:

- aligned with the Fund's aims
- a key consideration in decision making
- systematic or structured
- an integral part of the Administering Authority's processes and procedures on a daily basis.

The Fund has a detailed risk log that has been developed by the Principal Accountant and Pension Manager, assisted by the Council's Insurance and Risk Team. This is reviewed at least every six months or more regularly where it is considered necessary (e.g. a financial crisis).

A summary of this risk register is provided to the Pension Fund Committee annually in June.

We have reviewed the contents of both of these documents and have found them to be of an extremely high standard and well thought out. When reviewing the risk register we would encourage the risks to be considered in light of the strategies of the Fund i.e. considering what risks could have an adverse impact on achieving the Fund's aims.

However, as we mentioned previously in relation to the review of the Fund's strategies, the summary risk register is presented to the Pension Fund Committee together with a number of other key documents and it was observed that there was no discussion around this document. We believe it is extremely important that the Pension Fund Committee are engaged in the management of the Fund's risks and the Pensions Regulator puts a great deal of focus on risk management, stating that a risk based approach allows trustees to focus on the key risks requiring adequate internal controls (i.e. appropriate action). This is included in the Regulator's guidance on internal controls which is expected to be rolled out to Public Service Pension Schemes during the next year.

We would therefore recommend:

- articulating the Administering Authority's approach to risk management within a strategy document
- trying to provide more focus on the risk register summary including ensuring it is presented as a stand alone item to the Pension Fund Committee at least twice a year
- considering other ways to ensure key risks help drive discussion, for example, highlighting one or two of the key risks as discussion points for each meeting, providing further background information to the members on what the risk is, how it is being managed and other potential options.

## Key Conclusions

The risk register maintained by officers is of an extremely high standard.

Pension Fund Committee members should become more engaged in the contents of the summary risk register.

# Decisions

*This section considers whether the Administering Authority has an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge.*

## Governance structure

There is no one 'correct' governance structure. The Administering Authority's structure should:

- have clear terms of reference
- have a clearly documented scheme of delegation
- allow decision making at the appropriate level
- allow quick decision making where appropriate
- involve well presented information/reports
- allow sufficient time for discussion where necessary
- have good quality (committee) administration
- involve a process for managing conflicts
- provide transparency to stakeholders where appropriate.

The governance structure of the North Yorkshire Pension Fund is outlined in their Governance Compliance Statement. The key elements of this are defined within the Council's Constitution (see Appendix C for the relevant extracts). The governance structure includes:

- The Pension Fund Committee (PFC)
- The Chief Executive and
- The Corporate Director – Strategic Resources

In addition the Pension Fund Committee has established an Advisory Panel to represent the views of the Fund's stakeholders and the North Yorkshire Pension Fund Officer Group (NYPFOG) to discuss administrative matters.

### Clear Terms of Reference

The PFC terms of reference are included within the Council's Constitution. We consider these terms of reference to be clearly articulated and appropriately encompassing. One minor question we would have is whether it is appropriate for the PFC to report to the Executive, given that Pension Fund duties are not Executive matters. We understand more common practice elsewhere is to provide a periodic report to Council.

We understand the Advisory Panel's terms of reference were agreed by the PFC and that these have been recently reviewed so that the focus at the moment is on representation of stakeholders, expressing views of stakeholders and liaising with NYPFOG. In our view, the terms of reference are clearly articulated and appropriate.

## Clearly Documented Scheme of Delegation

The Constitution delegates pension responsibilities to the Chief Executive and the Corporate Director – Strategic Resources (CD-SR) officers.

The delegations to the CD-SR are typical and in our view appropriate, effectively delegating day to day responsibility of the running of the Fund. We would suggest a minor clarification could be made to point 4.5(c) where a reference is made to discretions, without clarifying whether this is referring to administering authority discretions or employing authority discretions. The list of regulations will also need to be updated in due course to allow for the introduction of LGPS 2014.

The delegation to the Chief Executive Officer is not something we have seen before though that does not mean it is not used similarly elsewhere. However, we are concerned that there is potential for it to be interpreted as overlapping the role of the PFC and/or the CD-SR. Further we are not clear whether it relates to administering authority functions and/or employing authority functions.

The Financial Procedure Rules delegates responsibility to the CD-SR in relation to pension payments and all financial transactions in this area including income, fees/charges and budgets. Again all of this appears clearly articulated and appropriately encompassing.

We acknowledge that on a day to day basis, much of the CD-SR's responsibilities in relation to the Fund management will be delegated to the Pensions Manager, the Principal Accountant and perhaps other officers. As this is a high level review, we have not considered this onward delegation or any financial controls relating to it.

## Appropriate Representation

It is good practice for Administering Authorities to allow some representation for scheme members and employers. The Administering Authority provides this in a number of ways:

- The Pension Committee is established within the Council's Constitution and made up of:
  - Eight North Yorkshire County Council elected members – voting rights
  - Two elected members from other employers (City of York and Districts) – voting rights

In addition, the Pension Fund Committee (i.e. not part of the Constitution) has agreed that the following representatives may attend PFC meetings, albeit with no voting rights:

- Three union representatives
- Chairman of the Advisory Panel

This provides a range of non North Yorkshire County Council stakeholders to feed in views at the PFC.

- The Advisory Panel meets prior to each PFC meeting and can also feed in views via the officers of the Fund who attend that meeting. They are provided with all PFC papers
- The NYPFOG provides an opportunity for employers' officers to provide views.

We consider the structure of these representation arrangements to be of a high standard, providing good opportunity for a wide range of stakeholders to be consulted and to feed in views to the PFC and directly to officers, whilst not taking away the overall responsibility of North Yorkshire County Council as ultimate manager of the Fund.

## Effective Decision Making

It is important that decisions are made at the appropriate level and that the governance structure is flexible enough to ensure decisions are made in a timely manner. It is our understanding that all decisions are made by the PFC which can in many circumstances result in drawn out decision making. However, we also understand that in recent years there has been a greater focus on monitoring managers, training days and workshops being held in addition to the PFC. Though none of these are decision making forums, we understand they have resulted in improved preparation and understanding of issues, which in turn has resulted in more confident and timely decisions being taken at PFC. We also commend the Administering Authority for keeping manager monitoring separate from the PFC meeting as this can be time consuming.

There is also evidence of improved flexibility in the level of decision making, including:

- Use of diversified growth funds
- Delegating responsibility for implementation of a property portfolio to officers.

It is our view that the Administering Authority demonstrates robust decision making at the appropriate level in a timely manner, and it is particularly pleasing that they have achieved this without the need for an investment sub-committee.

## Well Presented Information/Reports

Information and reports are provided to the PFC by officers and various advisers (including fund managers). Our view is the information and reports are well constructed and presented. This view is backed up by the findings of the Effectiveness Questionnaire that we asked PFC and Advisory Panel members to complete. In particular:

- The level of information contained within reports and verbal introductions was considered about right by nearly all respondents,
- Though the majority felt information presented by PowerPoint presentation was about right, a small number (3 out of 12) felt they still didn't quite understand,
- On the whole members felt information presented by officers and advisers was understandable.

In addition when observing the PFC in June 2013, we were pleased to see a high quality of presentation/introduction by officers of the Fund including:

- Officers introducing reports in a clear and concise manner, and taking longer reports in a logical step by step manner,
- The Treasurer passing questions to other officers who are more specialist in the subject matter at hand.

However, one key finding of the questionnaire is that 7 out of 12 members felt the need for more training before a specific report/subject matter is brought to PFC for decision. Knowledge and skills is considered later in this report.

Finally, as mentioned earlier, the PFC should continually be focussed on the aims within the Fund's key strategy documents as well as being continually risk aware. To assist in this, it might be helpful to ensure each report has some reference to the relevant key strategic aim to which it relates as well as highlighting any risk associated with the area.

## Length of Meetings

Generally PFC meetings last for around three hours (four times a year). Further time is also spent at Fund Manager meetings, training sessions and strategy days. The Advisory Panel meeting also provides a forum for issues to be considered in advance. From observing the meeting in June 2013, we have the view that the time allocated to meetings is currently sufficient as much of the learning and development is carried outside of the PFC. However, we would recommend this remains under review given our previous comments on time spent on considering strategies, policies and risks. Further, we would not recommend spending much more than three hours at a decision making PFC meeting without a reasonable break.



## Good quality (committee) administration

The administration of the PFC appears to be of a high quality, including

- all reports being issued at least five working days in advance,
- minutes circulated for officer comment/input and signed off as a true record by the PFC,
- well laid out reports with clear purpose and recommendations, and
- well articulated minutes with clear recording of decisions made and key discussions

Our only minor recommendation would be to record the names of the officers, advisers and observers (e.g. union representatives and Advisory Panel chairperson) in attendance at each meeting to provide a clearer understanding of those who may have contributed to a conversation.

## Managing Conflicts

Each North Yorkshire County Council elected member and any co-opted member (with voting rights) is required to complete a registration of interest which is a public document declaring disclosable pecuniary interests such as land ownership and involvement with businesses. A pecuniary interest is generally considered as an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person.

There is a further requirement under the Code of Conduct for members to declare any such interest at the start of a Council meeting if it is not already on the register. Generally speaking, members cannot participate in decisions in relation to which they have a pecuniary interest. These procedures are quite clear and helpful in matters such as consideration of fund investment vehicles.

However, there will be examples where a member does not have a clear pecuniary interest but instead has a personal or professional conflict that may require managing. For example,

- Being a member of the LGPS
- Having separate responsibility for an employer who participates in the Fund

In this latter example, there may be circumstances where it is necessary for PFC members (administering authority and the two co-opted members) to balance their employing authority responsibilities (e.g. maintaining local service provision) against their administering authority responsibilities (e.g. ensuring appropriate payments by all employers into the Fund). The potential for non-pecuniary interests should always be recognised and managed appropriately, often not necessarily requiring individuals to be removed from meetings and/or decision making.

Some of our observations in relation to the Fund are:

- The Council's Code of Conduct requirements in relation to disclosable pecuniary interests are a useful starting point for managing conflicts, however there are circumstances where other interests could have an impact on impartiality in the Fund's decision making
- At the June 2013 meeting, we were pleased to observe that, although declarations of interest is not a formal agenda item (which is fine), a number of members at the beginning of the meeting highlighted their non-pecuniary interest in relation to being members of the Fund.
- At that same meeting there was a further brief discussion on the pensions for Councillors consultation paper later in the meeting where it was clear that members' personal interests were being viewed albeit there was no mention at that point of time in relation to those personal interests. Even though no decisions were required to be made or were made in relation to that matter, it would have been good practice for the potential for conflict to be acknowledged during that conversation.
- Further at that meeting there was a positive conversation around the potential conflicts of a member of the PFC also being involved in an audit committee or being the Leader of the Council. The conversation also covered the potential conflict of the Section 151 officer.
- We note that there is no registration of interest on the North Yorkshire County Council website in relation to at least one of the co-opted voting members on the PFC.

- Further, it is worth noting that the four formal observers on the PFC (three union members and the Chairperson of the Advisory Panel) are not required to highlight any pecuniary or other interests and yet are free to participate in discussions and present opinions to the PFC.
- It is worth noting that, in the results of the Effectiveness Questionnaire, five members state they have received training on Conflicts, but seven state they have not. We suspect the training referred to is providing by the Monitoring Officer and is in relation to the general role of elected member for North Yorkshire County Council (rather than being Fund specific).

Clearly there are some positive elements in relation to the existing arrangements and in particular to with regard to PFC members demonstrating knowledge of the potential for some Fund specific conflicts. However we believe this is an area that could be improved upon and should be an essential part of induction for new members on the PFC. Indeed, the Pensions Regulator will be placing greater focus on this area within Public Service Pension Schemes in the future.

The CIPFA Guidance for LGPS Funds in Preparing the Annual Report refers to the information contained within the Fund's Governance Compliance Statement including their "policy and processes for managing any conflicts of interest". Clearly this is not a legal requirement but, as mentioned earlier in this report, we would encourage the Administering Authority to develop such a policy outlining how conflicts will be managed and dealt with at a Fund level. This could include reference to

- the Council's Code of Conduct
- how it relates to co-optees and observers
- examples of Fund specific potential conflicts
- how conflicts will be managed
- guidance for officers and advisers of the Fund to also adhere to

We would recommend this policy is complemented by periodical training in relation to Fund specific conflicts.

## Transparency to Stakeholders

As with all public services, it is important that stakeholders have appropriate access to Fund information, including regarding the governance of the Fund. In this regard the Administering Authority's activities are appropriately driven by local authority legislation, for example:

- the requirement to provide public access to meetings (except for exempt items), and
- the requirement that all reports, agendas and minutes are to be published (except for exempt information).

In addition, the LGPS regulations require each Administering Authority to produce and publish an annual report and accounts providing key financial information, management information and strategies. This requirement is enhanced by the (non-statutory) CIPFA Guidance for LGPS Funds in Preparing the Annual Report.

Our observations are that the Administering Authority demonstrates compliance with all these requirements as well as stakeholder involvement being enhanced through the Advisory Panel and wider membership of the PFC.

Further the Administering Authority maintains an excellent website which includes the following information relating to the governance of the Fund:

- all of the Fund's key strategies and policies
- the Annual Report and Accounts
- links to PFC reports, agendas and minutes
- information on the remit and members of the Pension Fund Committee
- information and a means of contacting the Fund's pensioner representative.

We note that generally there are few items that are considered exempt from the public at PFC meetings, a litigation matter being one such example. We would recommend taking advice from the Council's Monitoring Officer in relation to whether some of the other information contained within reports should perhaps be made exempt, for example, references to specific employers in the Member and Employer Updates may be considered to be damaging to the employer (for example, weakening its ability to secure finance or damaging to its reputation). This is clearly a legal issue that we cannot fully comment on other than to note that we recognise a number of other local authorities might make similar reports exempt and we therefore recommend it as good practice for officers to check these matters with the Monitoring Officer on a periodical basis.

### Key Conclusions

The governance of the Fund is of an extremely high standard in relation to structure, terms of reference/delegations, representation, effective decision making, administration and transparency. In our view, these areas combined provide a robust and effective environment for the management of the Fund.

There are some minor elements we recommend consideration of within the officers' delegations, the format of minutes and exempt items.

Further, as mentioned earlier in this report, we recommend a Fund specific policy on Conflicts of Interest with regular training on potential Fund conflicts.

## Behaviour

A good governance structure will not be effective unless it involves the right people with the right attitude. Individuals should:

- have a high level of attendance at meetings
- demonstrate integrity in relation to their Fund role
- be engaged and provide appropriate challenge
- be accountable for the decisions made
- highlight any potential conflicts they may have
- for a Chairperson, manage the meetings fairly without any bias to individuals or self
- prepare adequately for meetings.

Much of the information in this section is driven by observations of the Pension Fund Committee and also the Advisory Panel. It also captures particular themes from the Effectiveness Questionnaire completed by PFC members, Advisory Panel members, officers and advisers. We separately consider the Pension Fund Committee and the Advisory Panel in this section.

## Attendance at Meetings

General perception is that the PFC meetings are well attended by its members. However there are no collated public records of this attendance. Manager Monitoring meetings are also well attended by PFC members.

Three union representatives and the Chairman of the Advisory Panel are also entitled to attend. The three union representatives are frequent attendees but the Chairman is not.

We would recommend formal collated records of attendance are kept of PFC meetings and that these are reported at least annually to the PFC for note.

## General Behaviour

These principles can be easily aligned with the General Principles of Public Life which are adopted by North Yorkshire County Council as part of their members' Code of Conduct:

1. Selflessness
2. Honesty and Integrity
3. Objectivity
4. Accountability
5. Openness
6. Personal Judgment
7. Respect for Others
8. Duty to Uphold the Law
9. Stewardship
10. Leadership

There is always the danger that decisions are made by PFC without appropriate discussion, debate and challenge. Equally too much time can be spent on matters of little importance/value. From our observations at the PFC meeting in June 2013, we could recognise the above principles being applied by Elected Members, observers and officers and felt that the balance of discussion was good. Some specific observations are:

- Members demonstrated respect for officers and advisers asking questions and providing appropriate time to hear their views
- Members were all engaged with all individuals at some point asking questions or providing views
- This continued into the training session where the Chairman welcomed open questions/less formality
- The range of questions being asked demonstrated the wish to ensure potential alternative options were also understood
- Members were keen to hear the views of all officers and advisers on specific matters
- All members appeared engaged throughout what many would consider a lengthy meeting
- One member who felt his question had not been answered, highlighted this was the case and finally asking for the question and response to be included in the minutes
- An all round willingness to make time for additional discussions/meetings
- A keenness to consider a wide range of Fund matters, not just investments
- The Chairman demonstrating excellent chairing skills; the meeting did not feel rushed and we observed on a number of occasions him ensuring there were no further questions before moving on.
- Equally the Chairman on one occasion brought an ongoing discussion to a close at a time when we agree it was appropriate to do so.

The only slight negative is that the Effectiveness Questionnaire highlighted that a majority of individuals felt that the PFC meetings sometimes went over old ground and that meetings were sometimes dominated by certain individuals. The latter point is reasonably typical, but members may wish to be mindful of the first point and try to avoid this occurring that where a clear thought-through decision had been previously made.

## Advisory panel

Though we believe the structure and terms of references are solid and should provide appropriate stakeholder engagement, we understand and observe that it is not as effective as it could be. For example, the Panel is made up of 11 members (3 scheme member representatives and 8 employer representatives) but our understanding is that Advisory Panel meetings are not well attended by the majority of the employer representatives (though again there is no formal record of attendance). Further a recent report from a member of the Advisory Panel highlights some concerns in relation to its ability to feed into PFC matters and also in relation to a historical 'scrutiny' role.

We would not recommend removing the Advisory Panel as we believe it is a useful mechanism for stakeholders to feed into the PFC and we commend those individuals who regularly attend both the Panel and the PFC. We believe it would be worthwhile continuing to highlight to stakeholders the purpose of the Panel and potentially considering substitutes or alternative members, though this may already have been done.

Next year it is expected that North Yorkshire County Council will be required to implement a Pension Board with equal numbers of member representatives and employer representatives to assist the Council in ensuring compliance with Fund governance and administration matters. At that point we would recommend revisiting the role and effectiveness of the Advisory Panel, but we would caution the Council against removing the ability for it to feed in views of the stakeholders to the PFC on all matters.

### Key Conclusions

Attendance at PFC meetings appears to be high but attendance is not so positive at Advisory Panels. We recommend that attendance should be formally recorded for all and reported periodically.

The professionalism, enthusiasm and stewardship demonstrated by PFC members and observers is exemplary in our view.

We recommend continuing to promote the Advisory Panel to the stakeholders of the Fund and revisiting this when considering the implementation of the Pension Board but would caution against reducing or removing its current remit.

# Skills and knowledge

The final but perhaps most critical element is the need for those managing the Fund to have the appropriate level of knowledge and skills. Administering Authorities should:

- clearly articulate the knowledge and skills requirements in a Fund policy
- provide ongoing training in an effective and suitable manner to meet those requirements
- regularly review whether knowledge aspirations are being met
- ensure they rely appropriately on officers and advisers to provide expert knowledge.

The current requirements relating to training of Pension Committee members and officers of LGPS Funds are included in the following documents:

- CIPFA Code of Practice on public sector pensions finance knowledge and skills
- CIPFA Knowledge and Skills Framework – Elected representatives and non-executives
- CIPFA Knowledge and Skills Framework - Officers

Though adhering to these documents is not statutory, they are considered as good practice and there is increasing acceptance of the need for high levels of knowledge as well as increasing scrutiny. This is expected to continue to increase in the immediate future with a greater role being given to the Pensions Regulator in monitoring such matters and potential LGPS legislation. Our focus within this section is on the requirements relating to PFC members.

## Training

We believe it is important to provide a wide range of training opportunities to PFC members in a range of manners. For example, in addition to ensuring PFC members are aware of all the key elements of managing the Fund, we believe it is important that they have the opportunity to learn about areas that the Administering Authority may not be immediately focussed on. A key skill of the PFC member is to be able to identify where information is not provided in reports and therefore be able to ask questions relating to alternative options that are not under consideration (i.e. turning the unknown unknowns into known unknowns).

It is clear to see that the Administering Authority provides a good level of training opportunities to PFC members and information is summarised in the Fund's annual report and accounts as well as at each meeting. A wide range of external events are made available to PFC members, all of which we would individually recommend to LGPS Funds. In addition there are internally arranged training sessions such as investment strategy workshops and specific manager workshops which are also open to Advisory Panel members. These generally relate to investment matters. Committee agenda items are often complemented by training as part of the PFC; recent examples relate to governance and funding strategy/the valuation. There appears to be less training focussed on non-investment issues including some of the areas outlined in the CIPFA Framework.

The annual report and accounts also refers to the availability of an on-line knowledge library and Training Needs Analysis though no assessment has been carried out of the take up of these tools nor areas identified as part of the Training Needs Analysis (albeit that we equally acknowledge that the existing Training Needs Analysis is lengthy and may be over complicated). Only three of the members who completed the Effectiveness Questionnaire said they had used on-line training (though this may or may not be the Knowledge and Skills Library).

Attendance at internal events appears to be good but external events appear to be attended by only two key members on the whole.

Officer provided induction training is offered to all new PFC members, including attendance at the LGE Fundamentals events (made available to all PFC members) which are an excellent event for new members. Unfortunately take up has historically been poor.

Though there is potential for improvement in these areas, our observations are that a good level of knowledge is collectively held by the PFC and this feeds into discussions and questions at the PFC meeting. Clearly much of this is due to the fact that the majority of the PFC members have been members for at least two election cycles. Further the Effectiveness Questionnaire findings were that the majority of the PFC felt they collectively had appropriate knowledge but not necessarily at an individual level.

That being said, the findings from the Effectiveness Questionnaire also highlight training as the area where improvement can be made. Key points are:

- 7 out of 12 members feel there could be more training on specific subjects prior to reports coming to PFC meetings
- Of the 12 members, 7 felt there were one or two areas where more training was required, 1 was worried about a number of areas, and 1 felt they did not receive sufficient training across the board.
- On-line and written material were generally not the preferred methods of training with internal training, external training and conferences being more preferred (6, 7 and 5 members respectively really like those methods of training).

We note that, in common with many other Funds, the focus of the CIPFA requirements are on PFC members, rather than officers. Clearly officers' skills need to be at quite a different level than PFC members. We observe that officers regularly attend external events which we consider to be useful to maintaining appropriate knowledge.

## Fund policy

Though the Administering Authority clearly embraces the CIPFA Frameworks and Code, it does not have a Training Policy in place. We would recommend the Administering Authority considers putting such a policy in place to articulate which could include the following:

- A statement regarding embracing the CIPFA Framework (or an alternative)
- How training will be provided
- Qualifications the Administering Authority will encourage (if relevant)
- Expectations in relation to training attendance (perhaps even to the degree that all PFC members must attend at least 1 key conference per year)
- Specific requirements in relation to new members (e.g. the requirement to undertake induction training)
- How knowledge aspirations will be assessed

We would recommend all of the above being considered separately for officers, PFC members and Advisory Panel members.

## Expertise from elsewhere

It clearly would be risky to rely on PFC members to make decisions on their own based on the training given to them. The Administering Authority provides a wide range of experts for the PFC members to tap into; officers (multiple), consultants and an independent investment adviser, as well as also engaging with Fund Managers for their expertise. From observing we were extremely encouraged by how PFC members engage with those experts and are keen to hear their views.

## Key Conclusions

It is good to see the Administering Authority has adopted the CIPFA requirements for knowledge and skills.

The Administering Authority demonstrates a good range of training opportunities for PFC members, both internally and externally, with internal events being well attended by all and external events being well attended by two members.

PFC members themselves acknowledge the need for more training in places and we would encourage the Administering Authority to investigate this further.

Further we strongly recommend that all new members are required to undertake wide ranging induction training (including on conflicts and the role of the PFC member).

We would recommend the Administering Authority develop a training policy with clear targets for officers, PFC members and Advisory Panel members.

The Administering Authority is extremely effective in its use of a wide range of officers and advisers to assist PFC members in their decision making.



# Conclusions and Recommendations

*This section summarises all the key conclusions and recommendations from within the report.*

Our overall conclusion is that the governance of the Fund is of an extremely high level in most areas and is amongst the best examples of governance we have seen in the LGPS environment. We hope, however, that you recognise the benefits our recommendations could bring to you given they relate to comparison with our best practice governance framework. As you will see, there is a general theme in our recommendations in relation to ensuring that the business of the Fund is clearly aligned to the Fund's agreed strategies, which in turn should flow into performance measurement and risk management.

The key conclusions from this report are summarised in the table below.

Area	Good Practice	Recommendations
<b>Direction:</b> <ul style="list-style-type: none"> <li>Legislation</li> </ul>	All legally required policies and strategies are in place and meet the requirements in relation to content.	
<b>Direction:</b> <ul style="list-style-type: none"> <li>Strategies and Policies</li> </ul>	<p>The Fund has an administration strategy and admissions/cessations policy which are not legally required but are best practice.</p> <p>The content of the strategy / policy documents is generally of a high standard</p>	<p>The Administering Authority should put in place strategies / policies in the areas of Conflicts of Interest, Training and Risk Management to provide a clearer framework.</p> <p>The Administering Authority should review the content of the strategy / policy documents to ensure all have key areas including objectives / aims, when and how approved, when subject to review, risks and how the Administering Authority will monitor performance against its aims.</p>
<b>Delivery:</b> <ul style="list-style-type: none"> <li>Business Planning</li> </ul>	The Administering Authority is demonstrating a number of areas of good practice including setting and monitoring of budgets and an annual communications plan.	The Administering Authority should introduce a three year rolling business plan covering all areas of Fund management.
<b>Delivery:</b> <ul style="list-style-type: none"> <li>Performance Measurement</li> </ul>	High quality and wide ranging monitoring information is provided to the PFC at each meeting. This is supplemented by regular and effective Fund manager meetings.	PFC reports should be reviewed to ensure the information being provided covers and is aligned to all key aims/objectives in the Fund's strategies and policies.

Area	Good Practice	Recommendations
<b>Delivery:</b> <ul style="list-style-type: none"> <li>• Risk Management</li> </ul>	<p>The risk register maintained by officers is of an extremely high standard.</p>	<p>More focus should be placed on the summary risk register when it is presented at PFC meetings.</p>
<b>Decisions:</b> <ul style="list-style-type: none"> <li>• Governance Structure</li> </ul>	<p>The governance of the Fund is of an extremely high standard in relation to structure, terms of reference/ delegations, representation, effective decision making, administration and transparency. These areas combined provide a robust and effective environment for the management of the Fund.</p>	<p>There are some minor elements within the officers' delegations, the format of minutes and exempt items which should be reviewed.</p> <p>A Fund specific policy on Conflicts of Interest should be implemented with regular training on potential Fund conflicts.</p>
<b>Decisions:</b> <b>Governance Structure</b>	<p>Attendance at PFC meetings is high.</p> <p>The professionalism, enthusiasm and stewardship demonstrated by PFC members and observers is exemplary.</p>	<p>Attendance should be formally collated for all meetings and reported periodically.</p> <p>Continue to promote the Advisory Panel to the stakeholders of the Fund. Revisit this when considering the implementation of the Pension Board but avoid reducing or removing its current remit.</p>
<b>Decisions:</b> <b>Skills and Knowledge</b>	<p>The Administering Authority has adopted the CIPFA requirements for knowledge and skills.</p> <p>The Administering Authority demonstrates a good range of training opportunities for PFC members, both internally and externally, with internal events being particularly well attended.</p> <p>The Administering Authority is extremely effective in its use of a wide range of officers and advisers to assist PFC members in their decision making.</p>	<p>Investigate what other areas of training PFC members require.</p> <p>Develop a training policy with clear targets for officers, PFC members and Advisory Panel members.</p> <p>Ensure all new members are required to undertake wide ranging induction training (including on conflicts and the role of the PFC member).</p>

We hope the Pension Fund Committee members, Advisory Panel members and officers of the North Yorkshire Pension Fund have found this report useful in providing assurance in their governance arrangements and identifying some areas where improvements can be made. We look forward to having the opportunity to discuss it further with them and, if appropriate, assist them considering how best to implement any improvements.

# Appendix A – Reference Material

*This appendix lists the various documents that were considered as part of this Governance Review.*

2012/13 Annual Report and Accounts including:

- Funding Strategy Statement
- Statement of Investment Principles
- Governance Policy/Compliance Statement
- Communications Policy Statement

Various Pension Fund Committee Minutes, Agendas and Reports – mainly during 2013

Administration Strategy

Admission and Cessation Policy

Summary and Detailed Risk Register

Risk Register (detailed version)

North Yorkshire County Council's Constitution

# Appendix B – Effectiveness Questionnaire

We show below the results of the effectiveness questionnaire which was provided to all members of the PFC, members of the Advisory Panel, key officers and advisers. Unfortunately the questionnaire was not completed by an appropriate number of the Advisory Panel to provide robust results. Therefore the results shown below relate to the PFC only (albeit the views of all those completing the questionnaire including officers, advisers and Advisory Panel members).

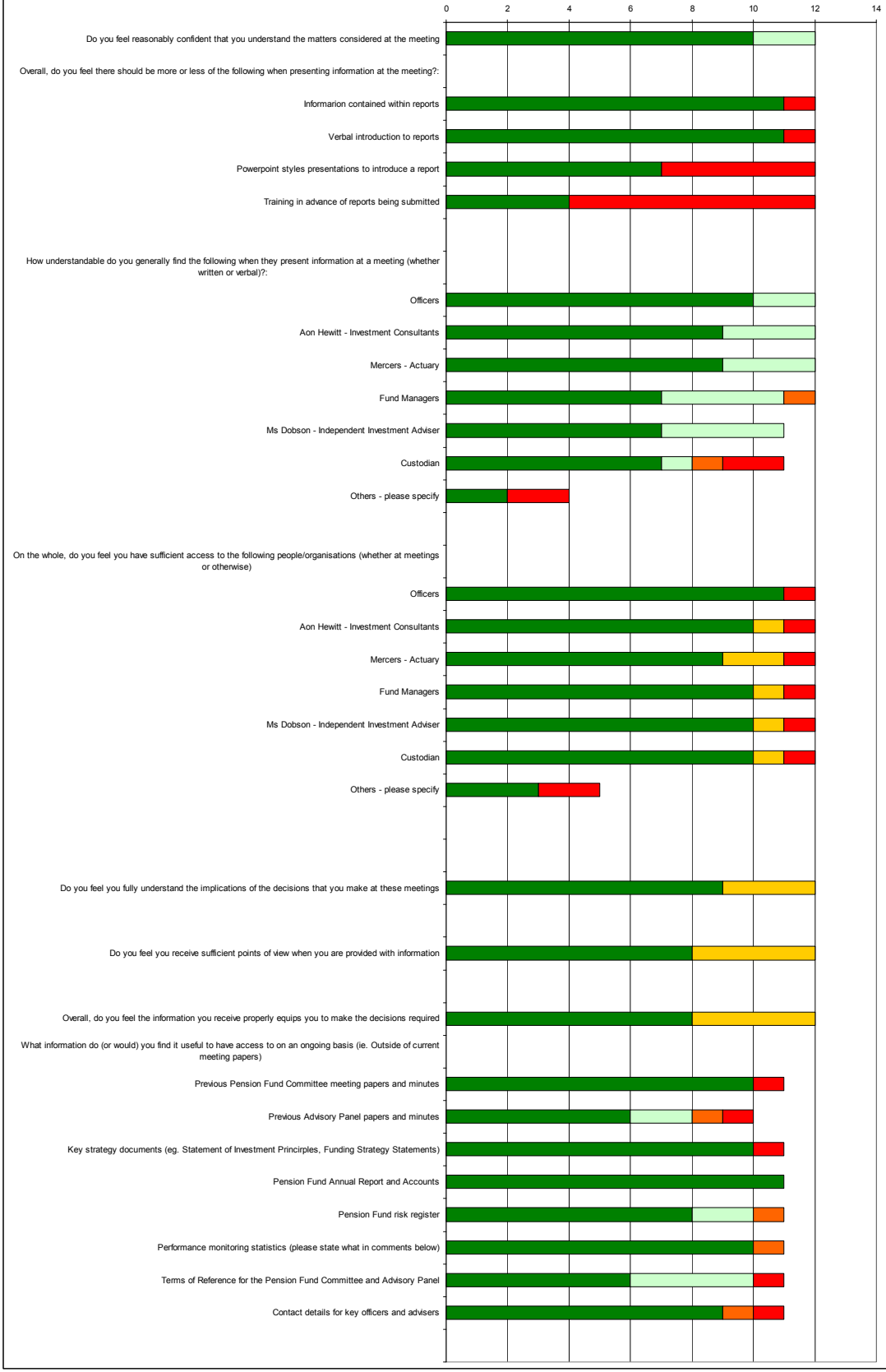
The graphs bars are colour coded to highlight particularly positive or negative answers. A key is provided on each page.

## Section 2 Effectiveness of Meetings

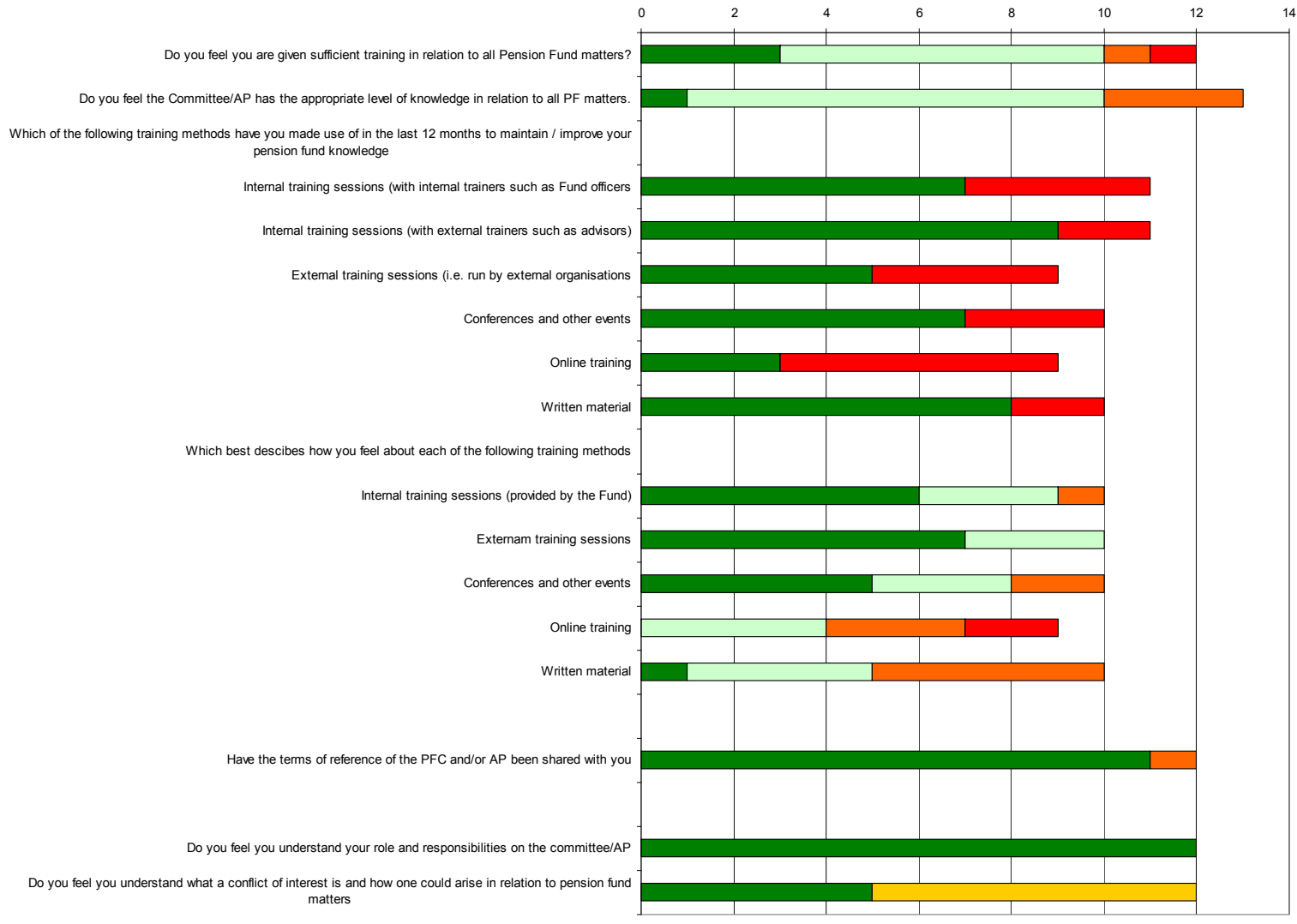


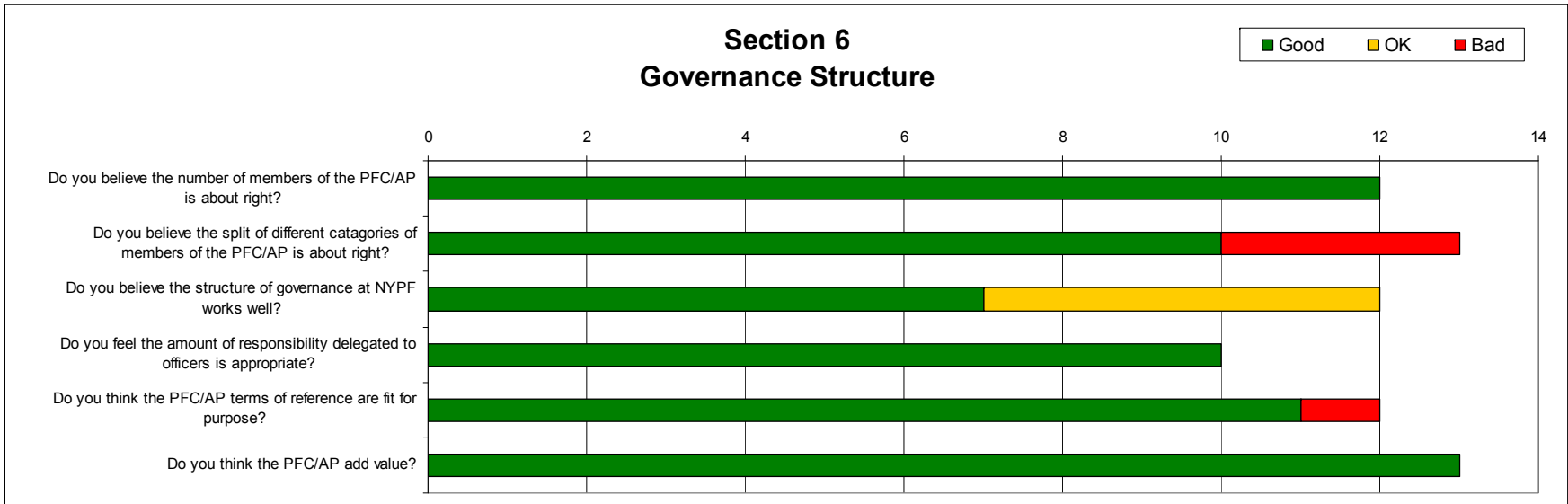
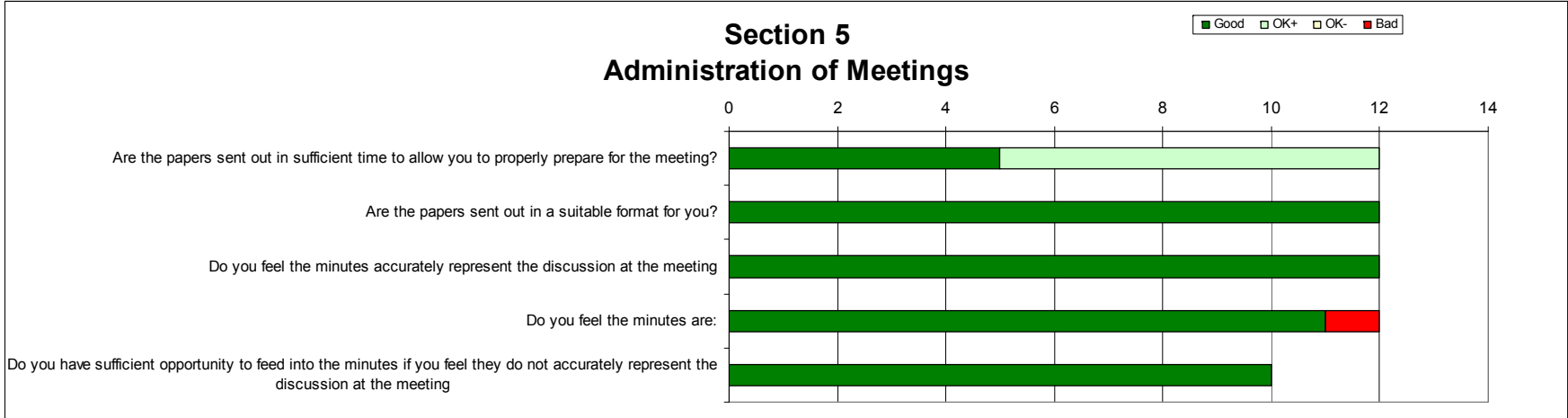
### Section 3 Accessibility and Format of Information

■ Good □ OK+ ■ OK ■ OK- ■ Bad



## Section 4 Knowledge and Understanding

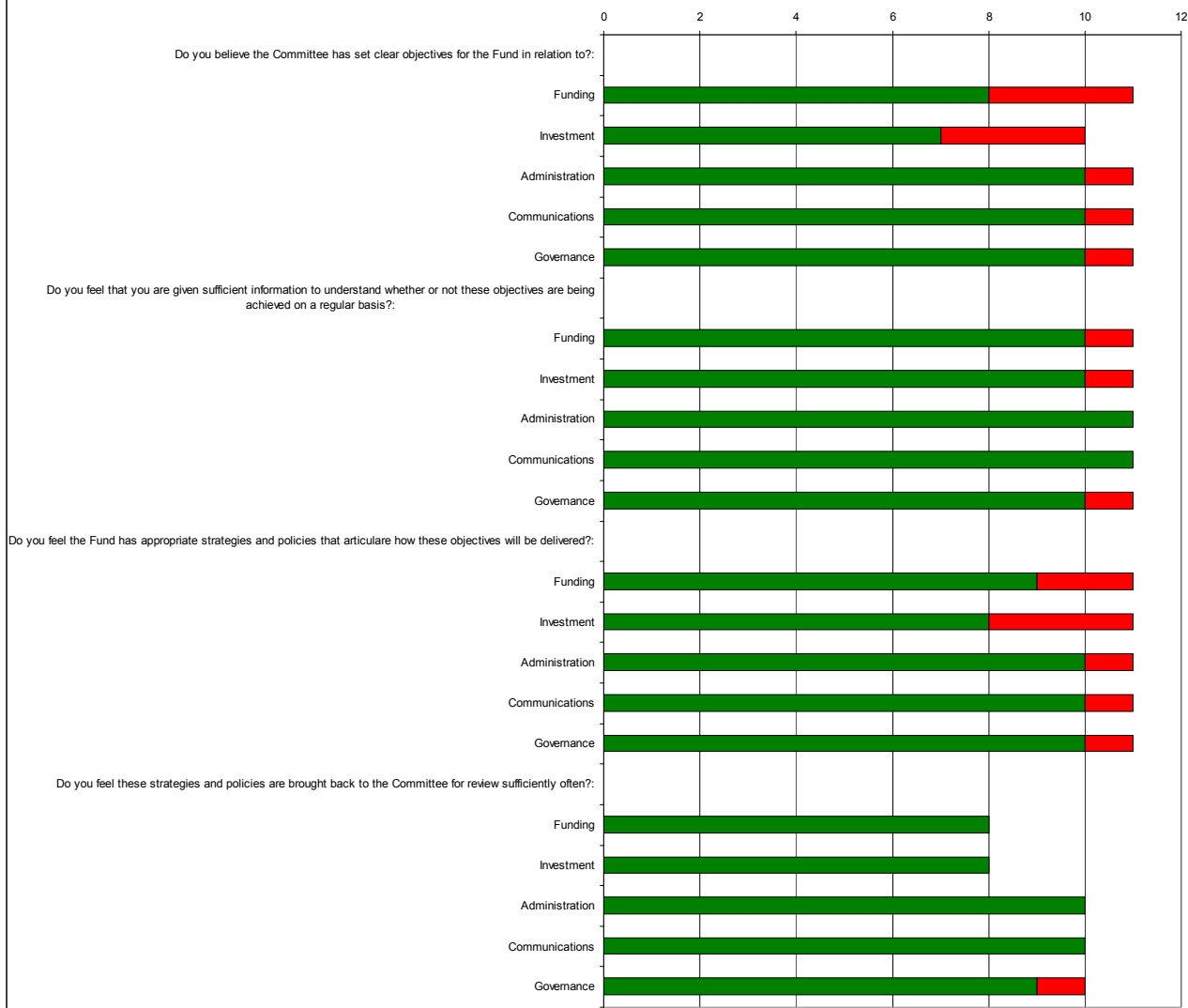






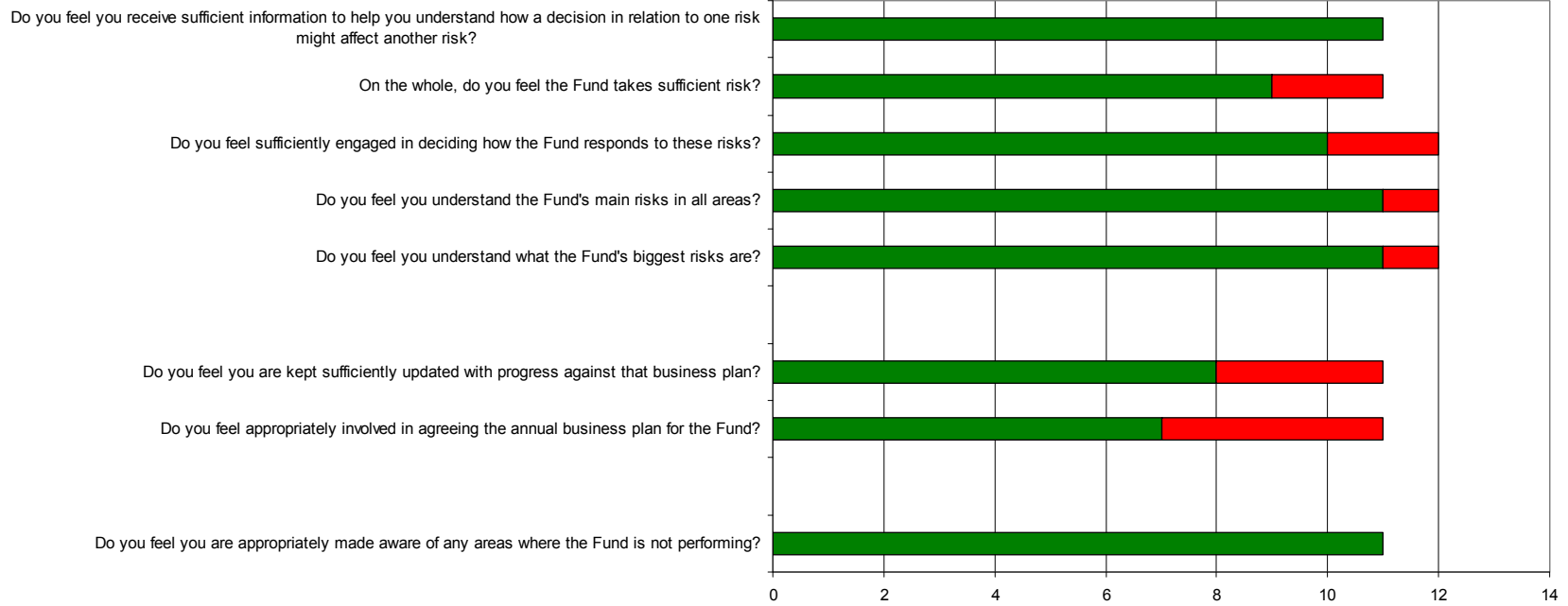
## Section 7 Vision for the Future

■ Good ■ Bad



## Sections 8 Compliance, 9 Business Planning & 10 Risk Management

■ Good ■ Bad



# Appendix C – Constitution Extract

Extracted from issue 11 (July 2013) on North Yorkshire County Council website.

## PENSION FUND COMMITTEE

### 1. Membership

<b>County Councillors (9)</b>							
<i>Councillors Names</i>				<i>Political Party</i>			
1	BLACKIE, John			NY Independent			
2	BATEMEN, Bernard MBE			Conservative			
3	CROSS, Sam			UKIP			
4	De COURCEY-BAYLEY, Margaret Ann			Liberal Democrat			
5	HARRISON-TOPHAM, Roger			Conservative			
6	MULLIGAN, Patrick			Conservative			
7	SWIERS, Helen			Conservative			
8	WEIGHELL, John			Conservative			
<b>Members other than County Councillors ( ) Voting</b>							
1	GUNNELL, Julie			City of York			
2	CLARK, Jim			Harrogate Borough Council			
<b>Total Membership – (10)</b>				<b>Quorum – (3) County Councillors</b>			
Con	Lib Dem	NY Ind	Labour	Liberal	UKIP	Ind	Other Voting Members
5	1	1	0	0	1	0	2

### 2. Substitute Members

<b>Conservative</b>		<b>Liberal Democrat</b>	
<i>Councillors Names</i>		<i>Councillors Names</i>	
1	PATMORE, Caroline	1	HOULT, Bill
2	LES, Carl	2	
3	MacKENZIE, DON	3	
4		4	
5		5	
<b>NY Independent</b>			
<i>Councillors Names</i>			
1	PARSONS, Stuart		
2			
3			
4			
5			

### 3. Substitute Members

1	Vacancy	City of York
2	PHILLIPS, Brian	Local Government North Yorkshire and York
3		Local Government North Yorkshire and York

## **PENSION FUND COMMITTEE**

### **Delegated Powers**

1. To exercise the powers of the County Council to invest monies forming part of the Pension Fund, including:-

- to determine and periodically review the Investment Strategy of the Fund
- to appoint managers to manage and invest Fund monies on the County Council's behalf;
- to receive reports from the appointed managers, at least once every three months, setting out the action they have taken under their appointment;
- to receive reports, at least once every three months from the Investment Adviser, Investment Consultant and the Performance Measurer, regarding the investment performance of the appointed investment managers and the Fund overall;
- from time to time to consider the desirability of continuing or terminating the appointments of any organisations involved in the investment of the monies of the Fund and / or advising / reporting thereon;
- to approve a Statement of Final Accounts and associated governance statements for submission to the Audit Committee; and
- from time to time reporting to the Executive.

2. To exercise all the County Council's powers as administering authority for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council.

3. To carry out the County Council's functions relating to local government pensions scheme (LGPS) under

- The Local Government Pension Scheme Regulations 1995 (As Amended), 1997 (As Amended) and 2007/2008 (As Amended);
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (As Amended) and 2008 (As Amended);
- The Local Government Pension Scheme (Administration) Regulations 2008 (As Amended);
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (As Amended) and 2006 (As Amended);
- The Local Government (Discretionary Payments) Regulations 1996 and the Local Government (Discretionary Payments) (Injury Allowances) Regulations 2011

and any future Regulations that relate specifically to the Council's responsibility to administer the LGPS in North Yorkshire.

#### **4.1 To the Chief Executive Officer**

(i) To carry out the County Council's functions relating to local government pensions under Regulations under Sections 7, 12 or 24 of the Superannuation Act 1972.

#### **4.5 To the Corporate Director – Strategic Resources**

(b) To manage from day to day the:-

(iii) Pension Fund, including:-

- The exercise of the Council's functions as administering authority, where such exercise does not involve use of discretion;
- The power to seek professional advice and to devolve day to day handling of the fund to professional advisors within the scope of the Pensions Regulations; and
- To change the mandate of a Fund manager, in consultation with the Chairman and at least one other member of the Pension Fund Committee, in circumstances when not to do so would lead to a real or

potential, loss in value of the Fund's investments. Any such action to be reported to the Pension Fund Committee as soon as practicable.

**NOTE: The Corporate Director – Strategic Resources is not empowered to change the fund manager structure of the Pension Fund.**

(c) To operate the Local Government Pension Scheme Regulations 1997 (as amended), the Local Government Pension Scheme Regulations 2007/2008 (as amended), the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended), the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), and the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), including the exercise of discretions.

(d) To implement increase payments under the Pension Increase Acts.



## North Yorkshire Pension Fund – Advisory Panel

### Securing Compliance of Administration and Governance

#### Introduction

The Public Service Pensions Act 2013, which received Royal Assent on 25 April 2013, implements a number of changes to reform Public Service Pension Schemes. One of these is the requirement for all schemes, including LGPS Fund Administering Authorities, to introduce a Pension Board.

The Pension Board will have responsibility for "*assisting the scheme manager in relation to the following matters:*

- a) *securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme,*
- b) *securing compliance with requirements imposed in relation to the scheme by the Pensions Regulator,*
- c) *such other matters as the scheme regulations may specify."*

Further the Act states that:

- the members of the Pension Board must not have a conflict of interest (though being a member of the LGPS is specifically mentioned as not being treated as a conflict in this circumstance), and
- the Pension Board must have equal numbers of employer representatives and member representatives.

The Department of Communities and Local Government are currently considering how these requirements should be implemented within the LGPS and will, in due course, make regulations outlining these requirements. As a result North Yorkshire County Council will be required to implement these Pension Board requirements later in 2014 or early in 2015.

---

#### Securing Compliance in the North Yorkshire Pension Fund

In preparation for this new Pension Board role, North Yorkshire County Council would be grateful for the North Yorkshire Pension Fund's Advisory Panel's views on what information the new Pension Board might need to carry out their compliance role. As the Pensions Regulator has not yet issued any requirements as referred to in (b) above, the Panel's focus should be on part (a) i.e.:

*"...assisting the scheme manager in relation to ..... securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme."*

The Advisory Panel are therefore asked to present their views on the following questions:

- What legislation relates to "governance and administration"?
- Are there any reports that are currently provided to the Pension Fund Committee that assist in demonstrating compliance in these areas?
- How can compliance be demonstrated?
- How could this be presented to a Pension Board?

These are considered in more detail in Appendix A.

The results of these views will be presented to the Fund Accountant and County Treasurer initially and may be summarised in future reports when the Pension Board is being established.

It is not the intention at this time to consider the membership or terms of reference of the new Pension Board. That will be considered by North Yorkshire Pension Fund at a later date when further guidance and/or legislation is published.

## Appendix A – Scope of Task

### What legislation relates to "governance and administration"?

The main\* LGPS Regulations will be made up as follows:

- the Local Government Pension Scheme Regulations 2013 (currently in draft)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The contents of these provisions are shown in Appendices B and C and the full text can be found at the following links (respectively):

- <http://www.clg.heywood.co.uk/system/files/Local+Government+Pension+Scheme+2014+-+June+Consultation.pdf>
- <http://timeline.lge.gov.uk/maninvst/20130410/ManInvest2009.htm>

The Advisory Panel are asked to give their view on which of these provisions and/or sections of provisions might be classed as relating to governance and administration (rather than, say, investments and funding), and hence be relevant to the role of the Pensions Board. The Advisory Panel may wish to consider ranking these, for example,

- Definitely relates to governance and administration
- Quite likely to relate to governance and administration
- Unsure – needs further investigation
- Not likely to relate to governance and administration
- Definitely does not relate to governance and administration

\*There are further pieces of legislation (LGPS and other) that may be relevant but these are likely to have less impact and so are ignored at this stage.

### Are there any reports that are currently provided to the North Yorkshire Pension Committee that assist in demonstrating compliance in these areas?

The Advisory Panel may wish to refer to historical reports produced over a full year cycle.

### How can compliance be demonstrated?

Given the answers to (1) and (2), are there any gaps and how might compliance in these areas be demonstrated?

### How could this be presented to a Pension Board?

Does the Advisory Panel have any views on how this information might be provided to the Pensions Board taking into consideration the following questions/points?

- How succinct do you feel the information could/should be?
- It is possible that the Pensions Regulator and/or the National Advisory Board may be reviewing the role of the Pensions Board and how they are carrying out their compliance role.



## Appendix B – Contents of the Local Government Pension Scheme Regulations 2013 (draft as at June 2013)

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## Appendix C – Contents of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as at 1 April 2013)

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### Management of pension fund

4. Management of pension fund

5. Power to borrow

6. Separate bank account

### Investment managers

7. Definition of “investment manager”

8. Choice of investment managers

9. Terms of appointment of investment managers

10. Review of investment manager’s performance

### Investment and use of fund money

11. Investment of pension fund money

12. Statement of investment principles

13. Investments under section 11(1) of the Trustee Investments Act 1961

14. Restrictions on investments

15. Requirements for increased limits

16. Use of fund money by an administering authority

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17. Revocations

## PENSIONS ADVISORY PANEL

### IMPLEMENTATION OF PUBLIC SERVICES PENSIONS ACT – PENSIONS BOARD

#### 1. FORWARD

The Advisory Panel (AP) has been asked by the Pensions Committee Independent Advisor AON Hewitt to consider how a Pensions Board would carry out its duties under Section 5 of the 2013 Act and which of the proposed regulations to be made under the Act fall within the category of governance and administration. A list of the proposed regulations has been provided.

#### 2. TERMS OF REFERENCE

The AP has been asked to consider the following specific questions:

- i. What regulations relate to the “governance and administration”?
- ii. Are there any reports that are currently provided to the NY Pensions Committee that assist in demonstrating compliance in these areas?
- iii. How can compliance be demonstrated?
- iv. How could this be presented to a Pensions Board?

#### 3. LEGISLATION

The Public Service Pensions Act 2013 Section 5 sets out requirements for the establishment of a Pensions Board and the role of the Board in assisting the Scheme Manager, (this can be a person or the Local Authority) in relation to:

- a) Securing compliance with the Scheme regulations and other legislation relating to the governance and administration of the Scheme and any statutory pensions scheme that is connected with it,
- b) Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator,
- c) Such other matters as the Scheme regulations may specify.

b) and c) are at this stage difficult to comment on as neither requirement has been implemented.

#### 4. QUESTION (i) – WHAT REGULATIONS RELATE TO GOVERNANCE AND ADMINISTRATION?

It is difficult to consider a list of draft regulations and decide which relate to governance or administration as there is no specific definition in the Act of either of these two words.

The dictionary definition of “governance” is: the actions, manner or system of governing, and “administration” as the management of the affairs of an organisation.

The two words are inter-related and it is difficult to definitely label a regulation as one or the other.

Governance (on Wikipedia) has also been defined as; relating to consistent management, cohesive policies, guidance, processes and decision rights for a given area of responsibility; For example managing at a corporate level might involve evolving policies on privacy, internal investment and the use of data..

Without a specific legal definition it is reasonable to interpret governance in its wider sense and as such all the legislation and policies governing the Pension Scheme are within the Pensions Board remit.

This is supported by the fact that the Pensions Board carries out its duties by assisting the Scheme Manager in ensuring compliance with Scheme regulations. The Scheme Manager will surely see complying with all regulation as a governance responsibility.

The explanatory notes accompanying the Act do not clarify the position to any degree, neither do they suggest for example that areas such as investment policy are not issues of governance. If regulations, for example, lay down specific guidelines for investment policies then surely ensuring they are complied with is "good governance".

Without a clearer indication of how Section 5 is to be interpreted or at the least legal Counsel's opinion then it would be sensible to include all regulations and policies affecting the Scheme within the remit of the Pensions Board unless specifically exempted by legislation or Government guidance.

In creating the new Pensions Boards it is clearly the intention of the 2013 Act to ensure the good governance of schemes. This relates not just to compliance with relevant regulations but to the way in which a scheme is managed and seen to be managed. Over recent years there have been many enquiries and reports on the need for good governance in running public companies and in the conduct of public life. These almost invariably come back to an understanding of the principles of good governance which might be taken to be as; independence, openness and transparency, accountability, integrity, clarity of purpose and importantly effectiveness.

5. QUESTION (ii) – ARE THERE ANY REPORTS THAT ARE CURRENTLY PROVIDED TO NY PENSIONS COMMITTEE THAT ASSIST IN DEMONSTRATING COMPLIANCE?

This is a difficult question to answer in view of the comments in Section 4 above and the fact that the structure of the new Scheme has yet to be determined. At present the role of the Advisory Board is limited to commenting on the quarterly reports provided to the Pensions Committee. It does not have a governance role which will form part of the remit of the Pensions Board. What is clear is that all the information presently provided in the Pensions Committee Reports including the Annual Report, Auditors Report and those of Investment and Independent Advisors, will be required by a Pensions Board however it is constituted. In simple terms what information is provided to the Scheme Manager should be available to the Pensions Board.

6. QUESTION (iii) - HOW CAN COMPLIANCE BE DEMONSTRATED?

In practice good governance and administration of the Scheme will be demonstrated by its compliance with the criteria listed in the final paragraph of Section 4. As well as ensuring compliance with regulations it is the Schemes performance which the Pensions Board must also be able to review and comment on.

To do this it will need the support of advisors both legal and financial and its review must be fully documented and reported to the Scheme Manager. This is one of the major, if not the major failing of the present Pensions Advisory Panel.

7. QUESTION (iv) - HOW COULD THIS BE PRESENTED TO THE PENSIONS BOARD?

The Pensions Board will need its own agenda and minutes. These together with specific reviews and reports should be presented to the relevant Scheme Manager (Committee) at their next meeting. The Chairman and specific members of the Pensions Board should be invited to the Committee Meetings and to present relevant reports.

8. CONCLUSION

In response to the question as to the categorisation of the proposed regulations, it is suggested that this is not necessary as all would be within the remit of the Pensions Board if the interpretation of “governance and administration” suggested is accepted.

It is very difficult to give specific, indeed evidenced answers for questions ii and iv as the answers depend on the structure of the North Yorkshire Scheme e.g. who or what will be the Scheme Manager?; will there be a Pensions Committee?; will the Committee also be the Pensions Board? What is suggested in this report is based on present (and hopefully) best practice.

It is recommended that the Pensions Advisory Panel be given the opportunity to consider and put forward suggestions to the Pensions Committee on the structure of the new Scheme and its role( if any) in it

Gordon Gresty LLB (Hons), DMA, DCA, FTSA

Pensions Representative – Pensions Advisory Panel



