

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a yellow sun with rays. The top-right quadrant shows a white caribou head with antlers. The bottom-left quadrant shows a white sailing ship on blue wavy lines representing water. The bottom-right quadrant shows a white eagle with spread wings. Above the shield is a crown with four white maple leaves. A white banner at the bottom of the shield contains the text "ANE FOR A'".

Agenda Item 8

Governance Compliance Statement

FALKIRK COUNCIL

Subject: Governance Compliance Statement

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 24 August 2017

Submitted by: Director of Corporate and Housing Services

1. Purpose of Report

- 1.1 The report seeks Committee approval for an updated version of the Fund's Governance Compliance Statement.
- 1.2 The changes made to the Statement reflect the decisions taken by the Pensions Committee at the joint meeting of 16 March 2017.

2. Recommendations

- 2.1 **The Pensions Committee and Pension Board are asked to note the updating of the Governance Compliance Statement.**
- 2.2 **The Pensions Committee is asked to approve the updated version of the Governance Compliance Statement.**

3. Governance Compliance Statement

- 3.1 The Pension Fund is required to maintain and publish a Governance Compliance Statement, setting out the Fund's governance arrangements.
- 3.2 The Governance Compliance Statement has been updated in line with the governance changes agreed at the joint meeting of 16 March, namely that:
 - i) the implementation of investment strategy is to be delegated to the Chief Finance Officer subject to proper advice having been received from the Joint Investment Strategy Panel; and
 - ii) the setting of investment strategy remains the responsibility of the Pensions Committee
- 3.3 A copy of the revised Statement is attached as an appendix to this report. The main sections to have been updated are predominantly Sections 1, 5, 6, and 7.

- 3.4 The governance changes have also been incorporated within the Fund's Statement of Investment Principles (SIP) and a separate report seeking approval for the updated SIP has been tabled at this meeting.

4. Implications

Financial

- 4.1 None.

Resources

- 4.2 None.

Legal

- 4.3 There is a statutory requirement for the Fund to maintain a Governance Compliance Statement.

Risk

- 4.4 Failure to update the Governance Compliance Statement would be a breach of statutory responsibilities and could lead to uncertainty and a lack of transparency surrounding the Fund's governance arrangements.

Equalities

- 4.5 None.

Sustainability/Environmental Impact

- 4.6 None.

Director of Corporate & Housing Services

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Date: 10 August 2017

Appendix:

Governance Policy and Compliance Statement

List of Background Papers:

None



Falkirk Council

*Chief Executive Office
(Finance Services)*

Falkirk Council Pension Fund

Local Government Pension Scheme

Governance Policy and Compliance Statement

August 2017

Part 1 – Governance Policy

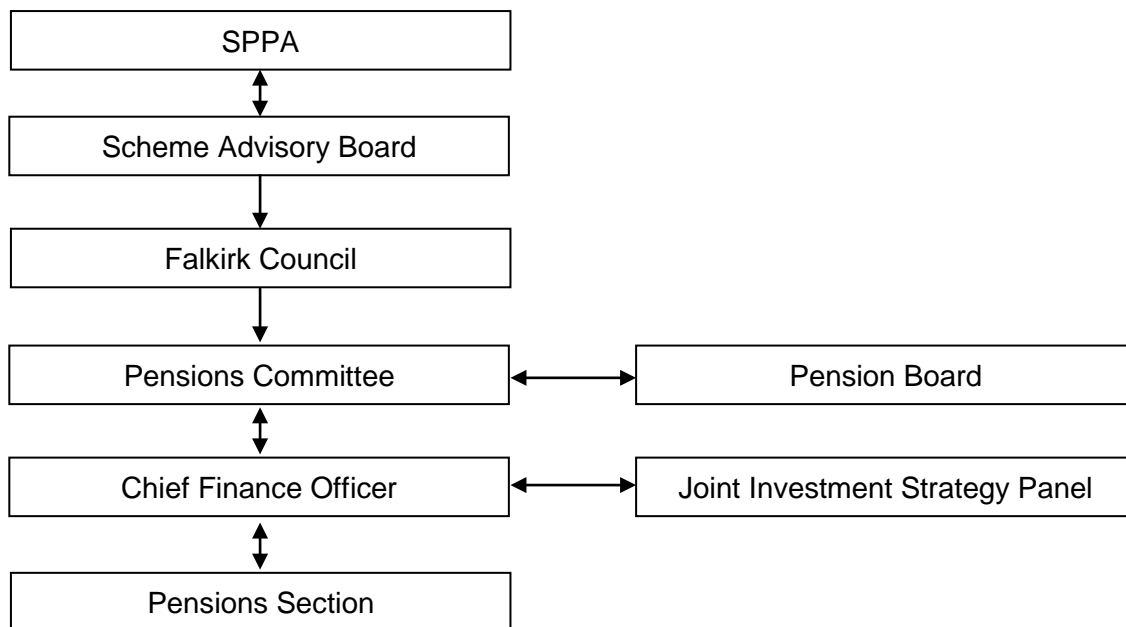
1. Introduction

- 1.1 This Statement sets out the governance arrangements that apply to Falkirk Council Pension Fund (“the Fund”) with effect from 24th August, 2017. The previous version of the statement was agreed by the Pensions Committee on 11th December, 2014 with the current version reflecting decisions taken by the Pensions Committee at its meeting on 16th March, 2017.

2. Administering Authority and Regulatory Framework

- 2.1 Falkirk Council is the Administering Authority of the Falkirk Council Pension Fund covering local government employees and elected members in the geographical area comprising Clackmannanshire, Falkirk and Stirling Councils. In addition, employees of certain other scheduled and admission bodies that provide public services or charitable functions have been admitted to membership of the Pension Fund.
- 2.2 The Council administers the pension scheme in accordance with statutory regulations. From 1st April, 2015, the main regulatory instruments are as follows:
- The Public Service Pensions Act 2013 (“the 2013 Act”)
 - The Local Government Pension Scheme (Scotland) Regulations 2014
 - The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
 - The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015
 - The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010
- 2.3 Collectively, the above legislation made changes to the governance arrangements of local authority pension funds from April, 2015. These included the introduction of a national Scheme Advisory Board and a local Pension Board.
- 2.4 In addition, the powers of the Pensions Regulator were extended to cover standards of governance and administration in the Local Government Pension Scheme.
- 2.5 The Scottish Public Pensions Agency (SPPA) is responsible for maintaining the rules of the Local Government Pension Scheme in Scotland on behalf of the Scottish Ministers and is deemed a “Responsible Authority” under the terms of the 2013 Act.
- 2.6 Falkirk Council is responsible for administering and maintaining a pension fund and is designated as a “Scheme Manager” under the 2013 Act

- 2.7 The governance arrangements which are set out in this policy document include the formal Governance Compliance Statement as required under Scheme rules.
- 2.8 In summary, the Fund's governance structure can be illustrated as follows:



3. Scheme Advisory Board

- 3.1. The role of the Scheme Advisory Board is
- to provide advice to the Scottish Ministers, where this has been requested, on the desirability of changes to the Scheme
 - to provide advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme and any Funds within the Scheme
- 3.2 The Board consists of 7 representatives appointed by scheme employers and 7 representatives appointed by trade unions. The Chair of the Board will be rotated annually between the two groupings. The Chair requires to be approved by the Scottish Ministers. Associated costs are met by the local authority funds.
- 3.3 The Scottish Ministers must be satisfied that Board members do not have a conflict of interest.

4. Pension Board

- 4.1 The Public Service Pensions Act 2013 requires the establishing of a local Pension Board with effect from 1st April, 2015. The role of the Board is to assist the Scheme Manager (i.e. Falkirk Council) in:
- securing compliance with the rules relating to scheme governance and administration; and
 - securing compliance with requirements imposed by the Pensions Regulator
- 4.2 Falkirk Council has established a Pension Board, details of which are set out in the Board constitution.
- 4.3 The structure of the Board is as follows:
- it will consist of 4 employer representatives and 4 trade union representatives;
 - the Trade Union members will be drawn from Unison, GMB, Unite and UCATT; and
 - the Employer members will be drawn from Clackmannanshire Council/Stirling Council, SEPA, SCRA and one other Scheduled or Admitted Body (currently Scottish Autism);
- 4.4 The Chair of the Board will be rotated on an annual basis between employer and trade union representatives.
- 4.5 Whilst the Board may convene its own meetings, it will normally meet jointly with the Pensions Committee in which case the Chair of the Pensions Committee will chair the meetings.
- 4.6 Board members will be expected to undertake their roles in accordance with the Code of Conduct and the principles of Standing Orders relating to meetings.
- 4.7 There will be a standing agenda item at each Pensions Committee or Board meeting for Members to declare any conflicts of interest. Any such declarations or absence of declarations will be minuted.
- 4.8. A conflict of interest occurs where there is the existence of a financial or other interest which is likely to prejudice the way a person exercises their functions as a member of the Committee or Board but does not include a financial or other interest arising merely by virtue of being a member of the scheme
- 4.9 The Council will take steps from time to time to satisfy itself that Board members do not have any conflicts of interest and a member of the Board, or a person proposed to be a member of the Board, must provide such information as the scheme manager reasonably requests for this purpose.
- 4.10 Where a conflict is declared, the Chair of the meeting will determine whether the member should remain in the room and if so whether they will be permitted to speak on the matter in question.

- 4.11 Where a conflict emerges but has not been declared, the member will not be permitted to be present when any related matter is discussed. The undeclared conflict may lead to the member being required to vacate membership of the Board.
- 4.12 A policy document dealing with conflicts of Interest will be maintained.

5. Pensions Committee

- 5.1. Falkirk Council has delegated the business of maintaining and administering its pension fund to the Pensions Committee. This includes all aspects of fund business including governance, administration, investment, accounting and funding matters.
- 5.2 The Pensions Committee comprises 6 Councillors from Falkirk Council and 3 co-opted members. All members have equal voting rights and access to papers. The co-opted members are drawn from the Union, Employer and Pensioner groupings within the Fund.
- 5.3 The Committee will meet at least four times per year.
- 5.4 The Committee's terms of reference are set out in full in the Council's Scheme of Delegation. The Committee's responsibilities include:-
- Overseeing the Council's role as an Administering Authority in terms of the relevant legislation (i.e. the Local Government etc (Scotland) Act 1994 and the Public Service Pensions Act 2013, Local Government Pension Scheme Regulations)
 - Setting investment beliefs, policies and strategy
 - Approving and monitoring compliance with the Statement of Investment Principles
 - Considering reports from the Chief Finance Officer on the monitoring and implementation of strategy, and
 - Taking proper advice
 - Supervising the administration of the Fund in accordance with relevant legislation and codes of practice;
 - Formulating and monitoring a funding policy for the Fund;
 - Ensuring that a Statement of Investment Principles, Funding Strategy Statement, Risk Register and Governance Compliance Statement are maintained in accordance with strategy and policy;
 - Ensuring that the Fund is subject to actuarial valuations as required;
 - Approving the Pension Fund Annual Report and Accounts;
 - Agreeing the training arrangements for Committee and Board members; and
 - Ensuring appropriate communication and consultation with Fund stakeholders.
- 5.5 Committee papers, with the exception of sensitive items, are publicly available on the Council's website, www.falkirk.gov.uk.

6. Joint Investment Strategy Panel

- 6.1 The Joint Investment Strategy Panel is responsible for making recommendations to the Committee and to the Chief Finance Officer on a range of investment matters as set out in the Panel's Terms of Reference.
- 6.2 Responsibility for implementing investment strategy has been delegated by the Committee to the Chief Finance Officer (or his nominated substitute – the Pensions Manager) on the basis of the CFO (or Pensions Manager) receiving advice from the Joint Investment Strategy Panel.
- 6.3 The Joint Investment Strategy Panel includes specialist external advisers and officers from LPFI Ltd (the regulated investment vehicle of the Lothian Pension Fund) who hold accreditations with the Financial Conduct Authority. A key responsibility of the Panel is to make recommendations to the Chief Finance Officer on the selection and retention of fund managers.
- 6.4 The establishment of a Joint Investment Strategy Panel follows the Fund's decisions to enter into a Memorandum of Understanding with the Lothian Pension Fund with a view to working jointly in relation to investment matters.
- 6.5 More information on the role of the Panel can be found in the Fund's Statement of Investment Principles.

7. Chief Finance Officer and Pensions Section

- 7.1 Under delegated powers, the Chief Finance Officer has a general responsibility to implement the decisions of the Pensions Committee.
- 7.2 More specifically, the Committee has delegated to the Chief Finance Officer:
 - the implementation of investment strategy (including the selection and retention of Fund Managers), subject to proper advice having been taken from the Joint Investment Strategy Panel; and
 - the decision, on a case by case basis, as to whether the Fund should invest in a particular infrastructure opportunity through the collaborative arrangement with the Lothian Pension Fund, and if agreeing to do so, the size of such an investment.
- 7.3 The day-to-day management of the Pension Fund is carried out by the Pensions Section reporting to the Pensions Manager who in turn reports to the Chief Finance Officer. The Section deals with all aspects of pension and investment management and Fund accounting.
- 7.4 The Fund has an ongoing Resourcing Agreement with the Lothian Pension Fund which enables investment and accounting expertise to be available.

8. Fund Stakeholders

- 8.1 The Fund generally convenes a Pensions and Investment Conference in the spring of each year to which representatives from all participating scheduled and admission bodies are invited, together with Trade Union representatives.
- 8.2 The Conference provides a means of communicating pension fund business to the wider Pension Fund audience, including those employers not directly represented through the Pensions Committee or Board. A range of issues are discussed including benefits updates, regulatory changes, investment performance and investment manager/adviser presentations.

9. Professional Advisors / External Providers

- 9.1 The Fund tenders for actuarial services on a regular basis. The current actuary was re-appointed in May 2017. Services provided include advice on funding, the provision of actuarial valuations and associated administrative matters.
- 9.2 Investment advice is provided by the independent advisers who sit on the Joint Investment Strategy Panel. The services provided include advice on investment strategy and manager appointments. Further specialist support is provided from the FCA accredited officers who sit on the Panel.
- 9.3 A number of investment managers have been appointed to manage specific mandates granted by the Pensions Committee. Details of the manager appointments are contained in the Fund's Statement of Investment Principles and in the Fund Annual Report. Managers have responsibility for the selection, retention and realisation of individual investments held within their portfolios and the performance of their respective mandates.
- 9.4 The Fund has appointed a global custodian who is responsible for ensuring safe custody of the Fund's assets as managed by the appointed investment managers and for providing consolidated accounting and performance reporting services to the Fund.
- 9.5 The Fund has appointed a voting and engagement adviser to provide the following services:
- Global Corporate Governance Research
 - Global Proxy Voting Service
- 9.6 The Fund is a member of the Local Authority Pension Funds Forum (LAPFF). The LAPFF acts on behalf of over 60 local authority UK pension funds and seeks to promote the highest standards of corporate responsibility amongst the companies in which member funds invest.

10. Risk Management

- 10.1 Pension fund management is not immune from risk. These may be the risks faced by the Fund as an investor or it may be related to the Fund's administrative functions in which case the risks may relate to systems failures or regulatory breaches. Whilst it is not possible to eliminate risk completely from day to day activity, the nature of risk has been evaluated and strategies put in place to minimise the adverse effects. These are set out in the following documents:
- the Pension Fund Risk Register
 - the Corporate & Housing Services - Finance Business Continuity Recovery Plan
- 10.2. Risk awareness is embedded into the investment strategy and investment performance management processes.

11. Training

- 11.1 Training for Members of the Pensions Committee and Pension Board is in accordance with the Fund's Training Policy and may include:
- Addressing specific topics at Committee or Board meetings
 - Investment Manager presentations
 - Attendance at relevant industry conferences/seminars
- 11.2 Committee and Board members will be required to undertake and participate in training (a record of which will be maintained) sufficient for them to be capable of discharging their roles. Attendance at training sessions will generally be obligatory. Because of these requirements, substitute members are not allowed to sit on the Pension Board.

12. External and Internal Scrutiny

- 12.1. There is a statutory requirement to prepare an Annual Report & Accounts for the Falkirk Council Pension Fund which is subject to external audit and which is separate from the accounts of Falkirk Council. The Fund's auditors are generally appointed for a period of 5 years and this helps ensure that public funds are being properly safeguarded and accounted for in accordance with statutory and regulatory requirements.
- 12.2. Falkirk Council provides an internal audit service to the Pension Fund and a regular audit program is agreed between the Chief Finance Officer and the Audit Manager.

13. Stakeholder Communication

- 13.1 All papers and minutes for the Pensions Committee and Pension Board (other than exempt items) are available on the Council's website, www.falkirk.gov.uk.
- 13.2 A Pension Fund Annual Report and Accounts is prepared annually in accordance with regulatory and recognised Accounting Code of Practice requirements. Copies are uploaded onto the Fund website at www.falkirkpensionfund.org emailed to all fund employers and to the Scottish Ministers. A summary of the Report and Accounts is made available to all pension fund members.
- 13.3 All policy documents, including Valuation Reports and various policy documents are published on the Fund's website www.falkirkpensionfund.org
- 13.4 Communication with scheme members is undertaken through the annual distribution of a newsletter and, in the case of active and deferred members, a personal benefit statement. Pensioners receive a monthly pension advice slip which includes a messaging facility.

Chief Finance Officer
Falkirk Council

24 August, 2017

Falkirk Council Pension Fund

Local Government Pension Scheme

Governance Compliance Statement

24th August, 2017

Part 2 – Governance Compliance Statement

Regulation 53 of the Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014/164) requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Falkirk Fund's compliance with the best practice principles as set out in the SPPA Best Practice Guidelines of April, 2011.

Principle A – Structure

Requirement		Level of Compliance	Arrangements in Place
(a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	Full Compliance	Falkirk Council, as administering authority of the Fund, has established a Pensions Committee to which it has delegated the administration of benefits and strategic management of fund assets. The implementation of investment strategy has been delegated to the Chief Finance Officer subject to proper advice being provided by a Joint Investment Strategy Panel comprising specialist officers and independent advisers.
(b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Full Compliance	The Pensions Committee includes three co-opted members reflecting the Fund's composition of members, pensioners and employers.

c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Full Compliance	The main channel of communication between the Pensions Committee and Board lies in the fact that quarterly Committee meetings are joint meetings with the Board, with a shared agenda and with both parties having full access to papers.
d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Compliant (as no longer relevant)	The statutory role of the Pension Board with oversight of Committee activity means it is not appropriate for a Board member to also sit on the Committee.

Principle B – Representation

Requirement		Level of Compliance	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	(i) Employing authorities (including e.g. admission bodies);	Full Compliance	Representatives of fund employers, including an admission body, sit on the Pension Board. An employer representative also sits on the Pensions Committee.
	(ii) Scheme members (including deferred and pensioner scheme members);	Full Compliance	Active, deferred and pensioner members are represented by Trade Union members who sit on the Pension Board. A Trade Union member also sits on the Pensions Committee. Pensioners are represented by a pensioner member who sits on the Committee.

Requirements		Level of Compliance	Arrangements in Place
	(iii) Where appropriate, independent professional observers; and	Not Compliant	<p>There are no independent professional observers of Committee or Board business.</p> <p>It is considered that:</p> <ul style="list-style-type: none"> ▪ the diversity of representation; (employers, pensioner and Unions) ▪ the Joint Investment Strategy Panel ▪ the training arrangements; ▪ the annual audit process; and ▪ attendance of professional advisors <p>provide robust and adequate scrutiny of pension fund business.</p>
	(iv) Expert advisors (on an ad-hoc basis).	Full Compliance	<p>Support for the Pensions Committee and Pension Board is provided by specialists in the following areas:</p> <ul style="list-style-type: none"> • actuarial and investment advisers • corporate governance advisers • investment managers and custodian
(b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Full Compliance	<p>The co-opted members on the Pensions Committee and the Pension Board all have equality of access to papers, meetings and training. The co-opted members also have full opportunity to contribute to the decision making process, including the right to vote.</p>

Principle C – Selection and role of lay members

Requirement		Level of Compliance	Arrangements in Place
(a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Full Compliance	<p>Members of the Pensions Committee will be subject to the agreed Code of Conduct.</p> <p>Members of the Pension Board will be appointed on the understanding that they will be subject to the agreed Code of Conduct.</p> <p>Appropriate training will be delivered to Committee and Board members.</p>
(b)	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Full Compliance	Declaration of interests is a standard procedure at the start of all Committee and Board meetings. Declarations are noted in the minutes.

Principle D – Voting

Requirement		Level of Compliance	Arrangements in Place
(a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full Compliance	All members of the Pensions Committee including co-opted members will have voting rights on the basis that they have executive responsibility for pension fund decision making.

Principle E – Training / FacilityTime / Expenses

Requirement		Level of Compliance	Arrangements in Place
(a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Full Compliance	<p>The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pension Board members.</p> <p>Training is delivered in large part by addressing specific items at Committee and Board meetings and complemented by visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences.</p> <p>Expenses incurred by Committee and Board members are met either by the Fund or the Falkirk Council scheme for payment of members' expenses.</p>
(b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full Compliance	The Training Policy for the Pensions Committee and Pension Board applies uniformly to all members.
(c)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Full Compliance	The Training Policy for the Pensions Committee and Pensions Board includes the requirement for members to undergo training needs analysis and the development of commensurate training plans. A register of training undertaken is maintained.

Principle F – Meetings (Frequency/Quorum)

Requirement		Level of Compliance	Arrangements in Place
(a)	That an administering authority's main committee or committees meet at least quarterly.	Full Compliance	The Pensions Committee hold quarterly meetings. Additional meetings are called as required.
(b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Full Compliance	Pension Board meetings are held concurrently with Pensions Committee meetings which will result in a minimum of four meetings per year. Additional meetings are called as required.
(c)	That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Full Compliance	The Council <i>does</i> include lay members on its Pensions Committee. However, in order to ensure that the interests of wider fund stakeholders can be represented, the Fund generally holds a Pensions & Investment Conference each year.

Principle G – Access

Requirement		Level of Compliance	Arrangements in Place
(a)	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Full Compliance	Members of Pensions Committee and Pension Board have equal access to any committee papers, documents and advice that falls to be considered at meetings of the Pensions Committee.

Principle H – Scope

Requirement		Level of Compliance	Arrangements in Place
(a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full Compliance	The agendas for Pensions Committee / Board meetings include reports pertaining to both administration and investment matters such as regulatory changes, actuarial valuation and funding level updates, admission agreements, investment strategy and Fund / Investment Manager performance.

Principle I – Publicity

Requirement		Level of Compliance	Arrangements in Place
(a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Full Compliance	<p>Through their representation on the Committee and Board, employers, Unions and Pensioners have been involved in the development of the Fund's governance arrangements</p> <p>Full details of the Governance arrangements are published on the Fund's website.</p>

Chief Finance Officer
Falkirk Council
24th August, 2017