

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on wavy lines representing water. The top-right quadrant depicts a stag's head with large antlers. The bottom-left quadrant contains a beaver. The bottom-right quadrant shows a grizzly bear. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield reads "CITY OF VANCOUVER".

Agenda Item 3

Minute

Draft

FALKIRK COUNCIL

Minute of Joint Meeting of the Pensions Committee and Board held in the Municipal Buildings, Falkirk on Thursday 27 June 2019 at 10.30 a.m.

Present:

Committee:-
Councillors Falkirk Council:-
Jim Blackwood
Niall Coleman
John Patrick
Pat Reid

Andy Douglas, Unison

Board:-
Susan Crook, Unison
Sandy Harrower, UCATT
Simon Hunt, Scottish Autism
Tommy Murphy, GMB
Jennifer Welsh, SEPA

Attending:

Justyna Korszen-Bennett, Senior Accountant
Alastair McGirr, Pensions Manager
Brian Pirie, Democratic Services Manager
Bryan Smail, Chief Finance Officer

**Also in
Attendance:**

Scott Jamieson, Independent Advisor to the Pension Fund
Bruce Miller, Lothian Pension Fund
Olga Potapova, Ernst & Young

In the absence of the convener, Councillor Blackwood took the chair.

PE1. Apologies

Apologies were intimated on behalf of Provost Buchanan; Councillors Balsillie, Brisley and McCue; Ed Morrison, SCRA.

PE2. Declarations of Interest

There were no declarations.

PE3. Minute

Decision

The minute of the joint meeting of the Committee and Board held on 21 March 2019 was approved.

PE4. Pension Board – Appointment of Board Members

The Committee and Board considered an update report by the Director of Corporate and Housing Services on various governance matters affecting the Pension Board.

Appointments to the Board were for four years. Five members of the Board were due to complete their term of appointment. Members can be appointed for further terms. It was proposed that officers write to the employers and Trades Unions to confirm whether the current nominees would be re-nominated or whether new members would be appointed. Additionally, interest had been received in regard to the vacant pensioner position on the Committee. It was proposed that the selection and appointment process for this vacancy be taken forward by a group consisting of the Convener of the Committee, the Chair of the Board (or nominated substitutes) and an officer of the Board.

Additionally nominations were sought for the position of Chair of the Board. This rotated annually between the Trade Unions and Employer memberships with the following appointment falling to the Employer side. Following discussion between Employer representatives, Simon Hunt was nominated. In regard to the Board, the constitution provided for four Trades Unions representatives. These were currently filled by Unison, Ucat, Unite and the GMB. However Ucat and Unite had merged. It was proposed that the four places be filled by 2 Unison, 1 GMB and 1 Unite representatives. Additionally one of the representatives should be from an employer other than Falkirk Council. If agreed the Board constitution would be amended accordingly.

Decision

The Pensions Committee:-

- 1) agreed that the four Trades Union places on the Board will be filled by 2 Unison, 1 GMB and 1 Unite representatives and that one union member should be from an employer other than Falkirk Council;**
- 2) noted that the Employer members of the Board had confirmed Simon Hunt as their nominee as Chair for the coming year; and**

- 3) agreed that a panel comprising the Convener of the Committee and the Chair of the Board (or named substitutes) plus an officer would undertake the appointment of a pensioner representative.**

PE5. Internal Audit Annual Assurance Report 2018/19

The Committee and Board considered a report by the Internal Audit Manager providing details on Internal Audit work undertaken in respect of the Falkirk Council Pension Fund during 2018/19.

Audits of Pension Fund Transactional Testing and Investment Management Arrangements had been undertaken in 2018/19. Based on these and operational activity during the year Internal Audit had provided substantial assurance on arrangements for risk management, governance and control for the year to 31 March 2019.

Following a question the Chief Finance Officer explained the term 'broadly compliant' in respect of Internal Audit's compliance with the Public Sector Internal Audit Standards 2019. This he confirmed equated to 'substantial'.

Decision

The Committee and Board noted that Internal Audit was able to provide Substantial Assurance in respect of the Fund's arrangements for risk management, governance, and control for the year to 31 March 2019.

PE6. Internal Audit Plan 2019/20

The Committee and Board considered a report by the Internal Audit Manager proposing the Internal Audit Plan for 2019/20 for approval.

The plan for 19/20 would include Pensions Fund Transactional Testing. The aim of the work would be to ensure:-

- member contributions to the Pension Fund were properly calculated;
- the correct values of pension rights either transferred into, or out of, the Pension Fund had been received or paid;
- the correct pension payments were paid to retiring Fund members;
- the correct lump sum payments were made in respect of deceased Fund members; and
- the controls around i-Connect (electronic transfer of data from employers creating starters and leavers) were operating effectively.

The work would also include a review of the Fund's Business Continuity Planning.

Following a question the Chief Finance Officer undertook to provide contextual information to show where the plan for 2019/20 sat within the medium term audit arrangements.

Decision

The Committee agreed the proposed Falkirk Council Pension Fund Internal Audit Plan 2019/20, and noted that an Annual Assurance Report would be provided.

PE7. Unaudited Annual Report and Accounts 2018/19

The Committee and Board considered a report by the Director of Corporate and Housing Services which provided the Unaudited Fund Annual Report and Accounts 2018/19 and the Fund Annual Governance Statement for consideration.

The key points from the Annual Report and Accounts 2018/19 were:-

- Administration costs had been £22.41 per member (£22.32 in 18/19)
- 25 Freedom of Information requests had been answered (23 in 17/18)
- Assets were £2.5bn (£2.3bn in 17/18)
- Liabilities were £2.7bn (£2.5bn in 17/18)
- Funding level was 92% (91% at 31/3/2018)
- Funding Deficit was £218m (£228m at 31/3/2018)
- Scheme membership was 34,635 (33,560 in 17/18)
- 1 year return was 8.5% against a benchmark of 6.8%
- Annualised 5 year return was 9.1% against a benchmark of 7.8%
- Votes were cast on 1,915 motions at 130 company meetings
- Contributions of £87m were paid in (£80m in 17/18)
- Benefits of £73m were paid out (£69m in 17/18))

A section on Financial Performance outlined how the Fund had performed against budget (an underspend of £700k arising mainly from lower than expected investment management costs). The Fund's declining cash flow position has been halted temporarily by the increased employer contributions being made in 2018/19 following the 2017 valuation.

The Annual Report and Accounts included an Annual Governance Statement which focussed on the controls to ensure that:-

- effective governance arrangements exist;
- funding arrangements are adequate;
- safeguards are in place to monitor investment manager activity;
- payments are made correctly to scheme beneficiaries; and

- data is securely held.

The Annual Report and Accounts were welcomed by the Committee and Board. Members of the Board sought clarification on processes for dealing with regular non-attendance by members. It was also suggested that clarification of the relationship with Lothian Pension Fund would have been beneficial.

Decision

The Committee and Board noted the Unaudited Annual Report and Accounts for 2018/19.

The Committee approved the Annual Governance Statement.

PE8. General Governance Matters

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on a number of miscellaneous matters associated with the business of the Falkirk Council Pension Fund, including:-

- review of scheme structure
- administration issues
- the implication of the McCloud judgement
- investment cost benchmarking
- risk management
- corporate governance matters
- institutional Investors Group on Climate Change/ Climate Action 100+
- voting
- training opportunities

The Committee had agreed on 21 March 2019 (ref PE50) to apply to join Climate Action 100+. In order to do so the fund was required to be a member of an investor network such as Principles for Responsible Investment (PRI) or the Institutional Investors Group on Climate Change (IIGCC). It was proposed that the fund join IIGCC at a cost of £2340 p.a.

Decision

The Committee and Board noted the report.

The Committee agreed to the Fund making application to join the Institutional Investors Group on Climate Change.

PE9. Market Review and Fund Manager Performance

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on recent investment market developments; the Fund's strategic allocation and performance; and on the monitoring activity of the Fund's investment mandates during the most recently completed quarter.

Decision

The Committee and Board noted:-

- (1) recent investment market developments;**
- (2) the Fund's strategic allocation;**
- (3) the Fund's performance for the period ending 31 March 2019; and**
- (4) the investment monitoring activity of the Joint Investment Strategy Panel (JISP).**

PE10. Exclusion of Public

Agreed in terms of section 50A(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting for the following items of business on the ground that they would involve the likely disclosure of exempt information as defined in Paragraph 9 of Part 1 of Schedule 7A to the said Act.

PE11. Commentary on Fund Manager Performance

The Committee and Board considered a report by the Director of Corporate and Housing Services providing details on individual manager mandates, including any current developments and issues identified through the wider monitoring process for the period to 31 March 2019.

Decision

The Committee and Board noted the report.

PE12. Transition of Assets to New Mandate

The Committee and Board considered a report by the Director of Corporate and Housing Services summarising the arrangements for managing £260m of assets which had been previously managed by one of the Fund's global equity managers.

Decision

The Committee and Pension Board noted the arrangements made for Fund assets previously under the management of the Fund's global equity managers.

PE13. Joint Investment Strategy Panel Update

The Committee and Board considered a report by the Director of Corporate and Housing Services which summarised key points arising from the meeting of the Joint Investment Strategy Panel (JISP) held on 10 June 2019.

These had included:-

- Falkirk's investment strategy,
- ESG - the decision of BP to align its business model with the aims of the Paris climate change agreement (a 99% vote in favour at AGM).
- changing macro economic environment (i.e. slowdown in US growth altering interest rate expectations).
- work to develop appropriate de-risking triggers and follow on actions for the three Funds.
- the core philosophy which underpinned the Lothian equity strategies – capital preservation, downside protection in weak markets, low volatility and income generation.
- considerations as to whether the value tilt in Lothian's equity strategies should be targeted more evenly across global markets as opposed to being predominantly US focussed.

The JISP was required to review its effectiveness annually and to report the outcome to the Committee. The outcomes and recommendations arising from the review had been considered at the meeting on 10 June 2019 and were set out in the report. The review had confirmed that it was fulfilling its role and was working efficiently.

The terms of reference of the JISP have been updated:-

- to provide for the inclusion of a second FCA regulated LPFI officer as a member of the JISP; and
- to note that amongst its responsibilities the JISP would be monitoring the incorporation of environmental, social and governance analysis and decision-making within the investment processes.

Decision

The Committee and Board noted:-

- (1) the matters considered by the JISP at its meeting on 10th June 2019;**
- (2) the updated terms of reference of the JISP; and**
- (3) the annual review into its own effectiveness undertaken by the JISP.**