

FALKIRK COUNCIL

**Subject: LOCAL GOVERNMENT PENSION SCHEME –
CONSULTATION ON GOVERNANCE ARRANGEMENTS**
Meeting: INVESTMENT COMMITTEE
Date: 24 November 2011
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This report updates members on the pension fund governance consultation exercise undertaken recently and the next steps in the implementation process.

2. BACKGROUND

- 2.1 The Scottish Public Pensions Agency (SPPA) issued guidance in April, 2011 concerning the governance arrangements that should be adopted by Scottish local authority pension funds as a matter of best practice. Where the best practice terms are not being met, it is a statutory requirement to report non-compliance.
- 2.2 The key principles of the guidance are that:
- the administration and management of the Fund rests with the main pensions committee;
 - representatives of all fund stakeholders sit on the main or secondary pensions committee;
 - where a secondary committee is established, at least one seat on the main committee is allocated to a member from the secondary committee;
 - committee members have equal access to papers and training; and
 - voting rights be considered for secondary committee members who are co-opted on to the main committee.
- 2.3 A report dealing with the new governance requirements was considered at the Investment Committee of 16th June, 2011 where it was agreed that the following package of measures be referred to full Council for endorsement:
- that the Investment Committee should be re-titled as the Pensions Committee;
 - that a secondary committee – a Pensions Panel - should be established;
 - that the panel should meet quarterly ahead of the Pensions Committee;
 - that panel members would have equal access to training and papers;
 - that three panel members should sit as lay members on the Pensions Committee;
 - that the three members should have voting rights on the Pensions Committee;
 - that the number of Falkirk Council members on the Pensions Committee be increased from six to nine; and
 - that the proposals be the subject of a consultation with fund stakeholders.

- 2.4 The proposals put forward by the Investment Committee were endorsed by Falkirk Council at its meeting on 22nd June, 2011.

3. CONSULTATION RESULTS

- 3.1 The consultation documents, as set out at Appendix 1 of this report, were sent to the following stakeholders:

- Fund Employers;
- Fund Pensioners;
- Elected Members of the Investment Committee;
- Elected Members of Clackmannanshire and Stirling Councils who have been nominated by their respective Councils to attend the Investment Forum; and
- Trade Unions

Pensioners were notified of the consultation via a message on their pension advice slip. A copy of the proposals was also placed on the Council's web site.

- 3.2 Six organisations responded to the consultation. Three responses advised total agreement with the proposals and the remainder commented on varying aspects of the proposals. The responses are set out in full at Appendix 2

4. MATTERS ARISING

- 4.1 Members may wish to consider the undernoted consultation comments in more detail.

- 4.2 *There should be an independent professional advisor on the Pensions Committee .*

It would be possible to engage an advisor to sit on the Pensions Committee or to attend the Panel. One option might be to appoint an independent advisor to sit on the Pensions Committee with a specific brief to represent the interests of pensioners. The inclusion of a professional advisor on the Committee would be welcomed by the external auditors as further proof of the Fund's adherence to the best practice principles. There would, however, be an additional cost.

- 4.3 *Should the Community Trust be afforded a representative on the Pensions Panel?*

Bearing in mind the requirement to ensure that all panel members are trained, the consultation document proposed limiting membership of the Pensions Panel to 15 persons, drawing the panel members from the larger employers within the Fund. Whilst the Trust is a significant employer within the Fund, its pension fund liabilities are fully underwritten by Falkirk Council and therefore its interests could expect to be represented by the Falkirk Council panel members

- 4.4 *Does the opportunity for employers not represented on the Panel to contribute via the annual pension conference or by direct engagement with the Pensions Section fulfil the best practice principle which seems to imply that participating employers should be members of the main or secondary committee?*

The best practice guidance confirms that it is a matter for the Council to determine the number of members on the panel. Whilst the necessity of providing effective channels of communication with all employers is recognised, there are practical reasons for limiting the number of members with access to the Pensions Panel. These include the significant training that panel members will have to undergo, the costs of that training; and the administrative support (and costs) that would be required to service a Panel with say 45 members (i.e. one member for each fund employer plus Union and pensioner representation).

- 4.5 Overall, the comments received have been of a positive nature and will help to frame the Council's approach to the practicalities of implementing the proposals.

5. COMMITTEE MEMBERSHIP

- 5.1 In my report to Council, I indicated in paragraph 2.1 c) that increasing the co-opted membership of the Pensions Committee from two to three would require an increase in the number of Falkirk Council members from six to nine. This advice has been reviewed by the Chief Governance Officer and it is confirmed that, if Committee is so minded, the number of Falkirk Council members can remain as six.

6. PROCESS AND TIMETABLE

- 6.1 The process and timetable for implementing the revised governance arrangements remain as previously notified to Members and is as set out below.
- 6.2 Subject to the new arrangements being approved by Council on 7th December, 2012, officers will prepare a revised governance compliance policy statement for consideration and approval at the Investment Committee on 1st March, 2012. The first meetings of the new Pensions Committee and Pensions Panel would take place after the May elections.
- 6.3 Prior to the inaugural meetings of the Pensions Committee and Pensions Panel, the following matters will require to be addressed:
- the remit of the Pensions Committee under the Council's Scheme of Delegation;
 - the constitution, status, role and function of the Pensions Panel;
 - training needs for Committee and Panel Members, including adoption and compliance with the CIPFA Knowledge and Skills Framework;
 - the optimum arrangements to enable *all* fund employers to be engaged in fund matters; and
 - consideration of the representation arrangements for pensioners.

Proposals on these and any other operational matters arising will be presented to the March meeting of the Investment Committee.

7. RECOMMENDATIONS

7.1 The Investment Committee is invited to recommend to Council that:

- (i) the proposals set out in the Stakeholder Consultation document – “Revised Governance Arrangements” and dated 13th September, 2011 be approved;**
- (ii) the number of Falkirk Council Members on the Pensions Committee be set at six;**
- (iii) membership of the Pensions Panel be limited to fifteen;**
- (iv) officers be authorised to progress matters in accordance with the stakeholder consultation; and**
- (v) officers report back to the Investment Committee in March.**

Chief Finance Officer

Date: 16 November 2011

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

1. SPPA Guidance Note April, 2011 - Governance Compliance Statements

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506304 and ask for Alastair McGirr.