

### **Falkirk Council Pension Fund - Stakeholder Consultation Revised Governance Arrangements**

#### **1. Introduction**

- 1.1 Good governance in the public sector is the cornerstone within which public organisations can deliver sound performance and effective stewardship of the finances entrusted to them. The Local Government Pension Scheme is no exception to this challenge and recent initiatives from the Scottish Government and CIPFA have placed increasing demands on local authority pension funds to conduct their business in a more open, inclusive and representative manner.
- 1.2 The updated version of the Local Government Pension Scheme which came into effect in April, 2009 introduced a requirement for Funds to publish a Governance Compliance Statement, setting out the extent to which their governance arrangements complied with statutory guidance issued by the Scottish Ministers. Delays in finalising the statutory guidance meant, however, that the requirement to publish the Governance Compliance Statement was postponed until 31st March, 2011.
- 1.3 A further amendment to the scheme rules in 2010 required that Pension Fund Accounts were to be published separately from those of the Administering Authority. In addition, the fund accounts were to be published as part of an Annual Report which was also to contain a copy of the Governance Compliance Statement.
- 1.4 The Scottish Public Pensions Agency (SPPA) was eventually able to issue the statutory guidance on governance in April, 2011. This contains a number of best practice principles to be adopted by pension fund authorities when formalising their governance arrangements. The details are set out in Circular SPN/LG 3/2011 and can be downloaded from [www.sppa.gov.uk](http://www.sppa.gov.uk) by following the links Local Government – Circulars – 2011.
- 1.5 The requirement to publish the Governance Compliance Statement in the 2010/11 Pension Fund Annual Report (and the late publication of the statutory guidance) meant that Falkirk Council had initially to produce a Governance Compliance Statement that did not fully comply with the statutory guidance but instead reflected the existing governance arrangements. This statement was approved by the Council in June, 2011 and was circulated to stakeholders shortly thereafter. The statement also appears in the unaudited Annual Report for 2010/11 and can be accessed at [www.falkirk.gov.uk](http://www.falkirk.gov.uk) by following the links to Local Government Pension Scheme and Annual Reports
- 1.6 Falkirk Council Pension Fund has over 25,000 members and assets of around £1 billion. Its pension fund governance responsibilities are therefore significant. The publication by SPPA of statutory guidance on governance matters now makes it necessary to revise and extend the existing governance arrangements with a view to these being formalised in an updated Governance Compliance Statement.

## **2. Statutory Guidance - Key Proposals**

2.1 The statutory guidance proposes a number of measures designed to improve and extend stakeholder engagement in the governance of the Funds.

2.2 The main provisions are:

- that representatives of all fund stakeholders sit on the main or secondary pensions committee
- that where a secondary committee is established, at least one seat on the main committee is allocated to a member from the secondary committee
- that committee members have equal access to papers and training
- that voting rights be considered for secondary committee members who are co-opted on to the main committee

2.3 In broad terms, Falkirk Council has agreed:

- to establish a secondary committee (or Pensions Panel) to represent fund stakeholders
- to co-opt three members of the secondary committee to the main committee
- to give members of both committees equal access to papers and training
- to give the co-opted members the right to vote on the main committee

## **3. Consultation Process and Timetable**

3.1 With the approval of the full Council, Falkirk Council's Investment Committee has drafted a revised governance framework and now wishes to consult with Fund stakeholders to seek a consensual way forward.

3.2 Appendix 1 to this paper sets out the best practice principles contained in the statutory guidance, together with Falkirk Council's proposed approach to each of those principles.

3.3 The Council's intention is that the new governance arrangements should be agreed and approved by 31<sup>st</sup> March, 2012 with a view to the new Committees being operational immediately after the May local government elections.

3.4 Comments on the consultation proposals should be sent to the Chief Finance Officer of Falkirk Council at the undernoted address by 21st October, 2011. This will allow the matter to be progressed at the meeting of the Investment Committee on 24<sup>th</sup> November.

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Comments can also sent by e-mail to [pensions@falkirk.gov.uk](mailto:pensions@falkirk.gov.uk)

Chief Finance Officer  
Falkirk Council  
13th September, 2011

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### Key Best Practice Principles and Draft Council Response

No.	Best Practice Principle	Council Proposal																		
(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	Falkirk Council, as the statutory administering authority of the Falkirk Council Pension Fund will establish a Pensions Committee (analogous to the existing Investment Committee) to which it will delegate the business of the investment <u>and</u> administration of the Pension Fund.																		
(b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of the main or secondary committee established to underpin the work of the main committee.	<p>A Pensions Panel (i.e. a secondary committee) will be established to support the workings of the Pensions Committee (i.e. the main committee).</p> <p>It is proposed that three members of the Panel will sit on the Pensions Committee to represent the respective interests of employers, non-pensioner members and pensioner members. Around 40 employers participate in the Council’s pension fund. It is impractical to have a Pensions Panel that consists of a representative from each employer. It is therefore proposed that the Panel be limited to 15 members, made up as follows:</p> <table><tr><td>Clacks Council</td><td>2 members</td></tr><tr><td>Falkirk Council</td><td>2 members</td></tr><tr><td>Stirling Council</td><td>2 members</td></tr><tr><td>SEPA</td><td>2 members</td></tr><tr><td>SCRA</td><td>1 member</td></tr><tr><td>Forth Valley College</td><td>1 member</td></tr><tr><td>Scottish Autism</td><td>1 member</td></tr><tr><td>Trade Union Representatives</td><td>3 members</td></tr><tr><td>Pensioner Representative</td><td>1 member</td></tr></table>	Clacks Council	2 members	Falkirk Council	2 members	Stirling Council	2 members	SEPA	2 members	SCRA	1 member	Forth Valley College	1 member	Scottish Autism	1 member	Trade Union Representatives	3 members	Pensioner Representative	1 member
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	<p>The employer organisations to whom places have been allocated on the Pensions Panel are largest employers within the Fund in terms of scheme membership. Two places have been allocated to the three Councils and SEPA on the basis that they all have in excess of 1,000 active members (and in the case of the three Councils they will also be representing the interests of the three Joint Boards – Police, Fire and Valuation Boards).</p> <p>Subject to the above arrangements being agreed, employers would be invited to nominate their representative(s). Trade Unions would be invited to nominate 3 representatives to be chosen by the Unions themselves. Comments are particularly sought on the most practical means of recruiting a pensioner representative. Options would be to select a representative from the Fund's pool of pensioners or to appoint an external finance/investment specialist to represent pensioner interests.</p> <p>Substitute members would not be permitted on the Panel in view of the knowledge and skills needed by representatives and in view of the on-going training that nominated representatives would be receiving</p> <p>The Panel, having elected its own chairperson, would be required to elect the one employer and the one employee representative to sit on the Pensions Committee. The pensioner representative would automatically sit on the Pensions Committee.</p> <p>The co-opted members of the Pensions Committee would have to submit themselves for re-election after an initial 2 years and then every 4/5years thereafter. It would be open to employers and Unions to change their Panel representatives having given due notice of this and bearing in mind the knowledge and skills required to fulfil the role. It would be open to the Pensions Committee to review and amend the composition of representatives on the Pensions Panel.</p> <p>Arrangements for employers not directly represented on the Panel will have to be considered. This could include attendance at Panel meetings as observers. Ultimately, however, all employer not directly represented on the Panel will have an opportunity to contribute to governance issues at an annual Pensions Conference or by direct engagement with the Pensions Section.</p>
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(c)	That where a secondary committee or Panel has been established, the structure ensures effective communication across both levels.	<p>It is intended that scheduled Panel meetings should be held in advance of the Pensions Committee meeting. The agenda for both meetings would be essentially identical. This approach should allow Panel views to be fairly represented at the Pensions Committee by the co-opted members.</p> <p>Provided the Panel meeting was sufficiently in advance of the Pensions Committee meeting, a draft minute of the Panel meeting could be tabled as an agenda item at the subsequent Pensions Committee. Minutes of the Pensions Committee would be circulated to all Panel members. It would be optional for a designated co-opted member (e.g. the Panel Chair) to provide an expanded briefing not to Panel members.</p>
(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.	Three members of the Panel will sit on the Pensions Committee to represent the respective interests of employers, non-pensioner members and pensioner members.
(e)	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include Employing Authorities, Scheme Members, Independent Professional Observers (where appropriate), Expert Advisors (on an ad hoc basis).	The arrangements proposed in response to principles (b) and (d) above are designed to ensure that employer and scheme member interests are appropriately represented. Investment Advisors, Actuarial Advisors and Fund Managers will be invited to attend the Pensions Committee and Pensions Panel as and when required.
(f)	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	All members who sit on the secondary committee will have full access to papers and training available to Pensions Committee members. Co-opted members who sit on the Pensions Committee will have a full opportunity to contribute to decisions and will have voting rights.

(g)	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.	The remit of the Pensions Committee will be set out in the Council's Scheme of Delegation and will operate in accordance with the Council's Standing Orders. The Council will also agree a clear remit for the Pensions Panel setting out its status, role and function.
(h)	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.	The Code of Conduct for Councillors provides a framework for the declaration of financial interests both at committees and more generally and applies to the Pensions Committee. In establishing the remit for the Pensions Panel, the Council will examine how best to apply the same principles to meetings of the Panel.
(i)	The policy of the administering authority 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.	It is proposed that the members of the Pensions Panel who sit on the Pensions Committee as co-opted members will have voting rights on the Pensions Committee.
(j)	That in relation to the way in which statutory and related discussions are taken by the administering authority, there is a clear policy on training time, facility time and reimbursement of expenses in respect of members involved in the decision making process.	<p>A policy addressing the issues of training time, facility time and reimbursement of expenses will be put in place.</p> <p>In general terms, members will be provided with on-site training as a standing item at Committee/Panel meetings and through a programme of external training events. Attendance at training events will be mandatory to ensure compliance with the more rigorous corporate governance standards being introduced.</p> <p>Expenses incurred as a result of attendance at the Pensions Committee or Panel will be recoverable except where members are already being re-imbursed or remunerated.</p> <p>It is intended that records of attendance at training events and meetings be publicised.</p>

(k)	That where such a policy exists, it applies equally to all members of committees, sub-committees advisory Panels or any other form of secondary committee	The arrangements in (j) above will apply equally to members of the Pensions Committee and Pensions Panel.
(l)	That the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.	The Council is supportive of having a comprehensive and structured training plan for Committee and Panel members, dovetailing as this does with the Myners principle of requiring investment decisions to be taken only by persons or organisations with the skills necessary to take them effectively. A comprehensive training plan would also assist in the Council's adoption and compliance with the CIPFA Knowledge and Skills Framework.
(m)	That an administering authority's main committee or committees meet at least quarterly.	It is proposed that the Pensions Committee meets 4 times per year.
(n)	That an administering authority's secondary or main Panel meet at least twice a year and is synchronised with the dates when the main committee sits.	<p>It is proposed that the Pensions Panel meets 4 times per year in advance of the corresponding Pensions Committee meeting</p> <p>It is recognised that 4 meetings will require a significant commitment to be made by Panel members in terms of attendance, training and preparation for meetings. Nonetheless, it is considered that this frequency of Panel meetings is required to mirror the activities of the Pensions committee in a comprehensive manner.</p>
(o)	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.	A Pensions Conference, operating outside of the formal Committee/Panel structure, will continue to be held annually. This will enable smaller Fund employers not directly represented on the Pensions Panel to be briefed on relevant Fund matters. It will also act as a conduit for key employer officers (e.g. Finance, Payroll and HR practitioners) to exchange views on technical and administrative developments in the LGPS.

(p)	That subject to any rules in the Council's constitution, all members of the 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.	<p>This principle is accepted.</p> <p>Committee and Panel business will be subject to the Council's Standing Orders. These will remind Committee and Panel members of the sensitivity and confidentiality of the business being discussed.</p>
(q)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Officers will bring wider scheme issues to the attention of the Pensions Committee and Pensions Panel. (This will be a continuation of the current arrangement whereby topical matters are brought to the attention of the Investment Committee and Investment Forum).
(r)	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	<p>The revised governance arrangements are only being put in place after a wide ranging consultation exercise involving Fund Employers and Trade Unions. Pensioners and Deferred Members will be alerted to the consultation through e-mail pension advice slips and benefit statements respectively. Details of the consultation process will also be posted on the Council's website.</p> <p>The new governance arrangements emerging from the consultation will be reflected in a revised Governance Compliance Statement to be published in the Annual Report for 2011/12.</p>

Chief Finance Officer  
Falkirk Council

13<sup>th</sup> September, 2011