

FALKIRK COUNCIL

Subject: GENERAL GOVERNANCE MATTERS
Meeting: PENSIONS COMMITTEE
Date: 6 MARCH 2014
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This report updates the Pensions Committee on various matters associated with the business of Falkirk Council Pension Fund.

2. AUTUMN STATEMENT – STATE PENSION REVIEW

- 2.1 In his autumn statement, the Chancellor announced that further increases to State Pension Age (SPA) were anticipated. Based on current life expectancy data, SPA is expected to be 68 for those retiring in the mid-2030s, and 69 by the late 2040s. A statutory review will take place at some time between 2015 and 2017 with the guiding principle being that persons should expect to spend, on average, no more than one-third of their adult lives in receipt of State pension.
- 2.2 The new Local Government Pension Scheme arrangements from April 2015 require the scheme normal retirement age to be aligned with State Pension Age.

3. RISK REGISTER

- 3.1 The Pensions Committee has asked officers to provide a regular update on any significant changes in risk. The following item is considered worthy of reporting:

Identified Risk per Risk Register	Reason for Change in Risk Rating
Employer taking action with potential impact on Fund	The majority of Stirling Council scheme members have suffered a reduction in pay through no fault of their own. This has resulted in around 2,100 Pension Protection Certificates being awarded. This has a significant administration overhead for the Pensions Section in terms of ensuring that pensionable pay for these members is correctly calculated. There are also implications for the Stirling Council employer contribution rate.

4. INVESTMENT IN UK INFRASTRUCTURE

- 4.1 The Committee will recall that the preferred option for providing the Fund with greater exposure to the UK Infrastructure market is to partner the Lothian Pension Fund and utilize their internal investment expertise.
- 4.2 Discussions are continuing between the two Funds and with Hymans Robertson as part of due process.

5. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

- 5.1 The LAPFF represents the interests of 58 local authority pension funds with combined assets of around £120 billion. Its mission is to promote the highest standards of corporate responsibility amongst the companies in which member funds invest.
- 5.2 LAPFF business meetings are held four times per year and the annual membership fee is currently £8,350 p.a.
- 5.3 The Forum works to an annually agreed workplan and includes proposals put forward by member funds. Details are published on the LAPFF website – www.lapfforum.org.
- 5.4 The LAPFF is supported by PIRC Ltd, who are the Forum's company research and engagement partner. PIRC are also the Falkirk Fund's proxy voting agents and advisers on ESG matters.
- 5.5 Recent LAPFF engagement has included meetings with:
- BP and Shell in relation to Carbon Asset Risk;
 - Standard Chartered, BT Group and Easyjet on executive pay;
 - Next and Tesco on robustness of supply chain factory premises abroad; and
 - Financial Reporting Council on shortcomings of the IFRS accounting standard

LAPFF have also collaborated with other institutional investors in writing to the world's 50 largest energy companies regarding carbon asset risk and capital expenditure on recoveries in future.

- 5.6 The workplan for 2014 will focus on:
- Accuracy of company accounts
 - Executive pay
 - Employer standards and practices
 - Revamp of LAPFF machinery pending structural changes to LGPS in E&W.
 - Encouraging gender diversity at boardroom level (LGIM and Aviva have introduced plans to vote against the chair of nomination committees if there are no women on company boards).

6. FIDUCIARY DUTY

- 6.1 It is generally considered that pension trustees have an overriding duty, described as a fiduciary duty, to act in the best financial interests of the scheme beneficiaries / stakeholders.
- 6.2 As case law has developed and been accompanied by various legal opinions, the position has become less clear. For that reason, the Investment and Engagement Sub Committee of the England and Wales Shadow Advisory Board has commissioned a further legal opinion on the matter. This follows on from a Law Commission consultation on fiduciary duty. The consultation, which runs to almost 300 pages, has just recently closed. The Law Commission view set out in the consultation was that:
- A trustee's core duty is to promote the purpose for which the trust was created, which in the case of a pension scheme is the duty to provide pensions.
 - Trustees may take into account environmental, social and governance factors when making investment decisions but should only take ethical factors into account where members will share the moral view point and it will not result in lower returns.
- 6.3 The recent Falkirk Council response to the LGPS Governance consultation asked that the position regarding fiduciary duty be clarified.

7. ANNUAL PENSION AND INVESTMENT CONFERENCE 2014

- 7.1 The above conference will take place at Callendar House, Falkirk on 17 April, 2014.
- 7.2 The Conference is open to all Panel and Committee members as well as stakeholders not directly represented on the Panel or Committee.

8. RECOMMENDATION

- 8.1 **The Committee is asked to note the contents of this report and invited to comment as appropriate.**

Chief Finance Officer

Date: 20 February 2014

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL