

FALKIRK COUNCIL

Subject: PENSION FUND – GENERAL GOVERNANCE MATTERS
Meeting: PENSIONS COMMITTEE
Date: 5 JUNE 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. PENSIONS AND THE BUDGET

- 2.1 The Chancellor of the Exchequer presented his Budget to Parliament on 19 March 2014. This contained the proposal for members of defined contribution pension schemes to be able to take the whole of their pension pot as a lump sum, 25% of which would be tax free and the remaining 75% taxable. The position prior to the Chancellor's proposal is that individuals are only allowed 25% of their pot as a lump sum with the remainder of the benefit having to be taken in pension form – usually as an annuity. The new facility does not extend to members of defined benefit schemes such as the Local Government Pension Scheme.
- 2.2 The Budget announcements also included a package of measures intended to strengthen the battle against pension liberation fraud. These will now include powers for HM Revenue to investigate where they believe the scheme administrator is not a fit and proper person or where they believe the scheme has not been established to provide pension benefits.

3. PENSIONS ACT 2014

- 3.1 The Pensions Bill 2014 received Royal Assent on 14 May 2014, becoming the Pensions Act 2014. The Act introduces a variety of important changes:
- contracting out to be abolished from 6 April 2016;
 - single-tier State pension for those reaching State pension age (SPA) on or after 6 April 2016;
 - increase in SPA to age 67 is accelerated - it will now be phased in between 2026 and 2028 rather than 2034 and 2036
 - Future changes to SPA will be based upon a five-yearly review (with the first scheduled for the next Parliament)
 - For money purchase schemes only, there will be an automatic transfer of small pension pots (those less than £10,000) when workers change jobs
 - The relevant Government Minister will be given the power to make exceptions to the general requirement on employers to automatically enrol all eligible persons.

4. RISK REGISTER

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

Identified Risk per Risk Register	Reason for Change in Risk Rating
Employer taking action with potential impact on Fund	<p>It is understood that a formal agreement has been reached whereby Clackmannanshire Council employees will be suffering an across the board cut in pay in the near future.</p> <p>This is likely to result in a further 2,000 scheme members being awarded Pension Protection Certificates. This will be in addition to around 2,000 certificates recently awarded to Stirling Council employees who suffered a pay cut. Certificates of protection carry a significant administration overhead for the Pensions Section in terms of ensuring that pensionable pay for these members is correctly calculated. The bulk issuing of certificates also has implications for employers' contribution rates as members benefits are effectively being protected at a level that is higher than is being paid for by their contributions.</p>
Falling asset values putting an upward pressure on Employer Contributions	The reduction in quantitative easing by the US Federal Reserve and various other economic indicators makes it expected that interest rates will rise in 2015. Whilst this may be priced in by the market to some extent, increased interest rates could result in reduced company earnings and thus reduced dividends and falling equity prices.

5. COUNCILLORS PENSIONS

- 5.1 Regulations have been made in England and Wales which abolish the right of Councillors and other elected office holders to be members of the Local Government Pension Scheme from 1 April 2014. Councillors who are already members of the Scheme will be able to retain their membership until the end of their current fixed term of office.
- 5.2 There is no similar policy intention in Scotland to restrict Councillors from being members of the Scheme.

6. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

- 6.1 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.
- 6.2 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.

6.3 Recent LAPFF engagement has included meetings with:

- Barclays over improved governance and financial sector pay;
- Nestlé SA, Easyjet, BT and Roche Holding on executive pay; and
- Lonmin as part of ongoing engagement around labour relations

LAPFF have also provided a response to the Law Commission's fiduciary duty consultation as well as being vocal in recommending a vote against the Board of Trinity Mirror due to their perceived failure to properly 'bottom out' potential exposure to phone hacking claims.

6.4 Many of the Fund's investee companies have been reporting recently. The main areas which have resulted in PIRC voting against motions at AGMs are as follows:

- Excessive remuneration packages including an unacceptable ratio of Chief Executive pay to other employees pay
- Excessive Long Term Incentive Plans
- Directors serving for more than 9 years and therefore not considered independent
- Chief Executive role and role of Chair combined
- Lack of target for female members on Boards
- High fees paid to auditors but not for audit work – calling into question auditor independence

7. RECOMMENDATION

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

Chief Finance Officer

Date: 23 May 2014

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LIST OF BACKGROUND PAPERS

NIL