

**FALKIRK COUNCIL**

**MINUTE of MEETING of the PENSIONS COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 25 SEPTEMBER 2014 at 9.30 A.M.**

**PRESENT:**

Councillors:  
Jim Blackwood  
Steven Carleschi  
Tom Coleman  
Depute Provost Patrick (Convener)  
Craig Martin

Councillor Callum Campbell, Stirling Council  
Mary Keggan  
Alistair Redpath

**ATTENDING:**

Jason Koumides, Pensions Accountant  
Alastair McGirr, Pensions Manager  
Bruce Miller, Investment Manager, Lothian Pension Fund  
Elliot Roy, Trainee Committee Services Officer  
Bryan Smail, Chief Finance Officer  
Antonia Sobieraj, Committee Services Officer

**ALSO IN**  
**ATTENDANCE:**

Christopher Down, Hearthstone Investment Management  
Bruce Miller, Investment Manager, Lothian Pension Fund  
Catherine McFadyen, Hyman's Robertson  
Allan MacDougall and Janice Hayward, PIRC Ltd  
Jim Rundell and Brendan Clark, Audit Scotland

**PE15. APOLOGIES**

No apologies were intimated.

**PE16. DECLARATIONS OF INTEREST**

No declarations were made.

**PE17. MINUTES**

**Decision**

- (a) The minute of the meeting of the Pensions Committee held on 5 June 2014 was approved; and

- (b) The minute of the meeting of the Pensions Panel on 11 September 2014 was noted and that the Panel had during discussion indicated that it would be supportive of an independent review of the Fund's Private Equity programme should this be taken forward by the Pensions Committee.

**PE18. FALKIRK COUNCIL PENSION FUND – REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2013/14 AUDIT**

The Committee considered a report by the Chief Finance Officer on a report by Audit Scotland issued in accordance with the International Standard on Auditing (ISA 260) "Report to those charged with Governance on the 2013/14 Audit".

The report indicated that Regulation 31A of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 required administering authorities to publish a Pension Fund Annual Report and Accounts which were separate from the other accounts of the administering authority. The report and associated accounts were also subject to a separate audit. The Pension Fund's Unaudited Annual Report and Accounts for 2013/14 were submitted for audit on 30 June 2014 in line with the required statutory deadline.

Under the International Standard on Auditing 260 (ISA 260), auditors, before certifying the accounts, were required to communicate matters relating to the audit to those charged with governance. The report, referred to as the ISA 260, was to be provided in sufficient time to enable remedial action to be taken if necessary.

The ISA 260 reported that, subject to a final review, the audit would be unqualified.

The matters on which the auditor has specifically commented were as follows: -

- Investment Management Expenses;
- Presentational Matters;
- Employee/ Employer Contributions;
- Bank Account; and
- Cash Balances.

The Fund's external auditors, Audit Scotland, had completed their report to those charged with governance and anticipated being able to issue an unqualified audit certificate. Matters arising from the audit would be taken forward as appropriate in preparing the 2014/15 accounts.

**Decision**

**The Committee noted the report.**

#### **PE19. PENSION FUND - ANNUAL ACCOUNTS 2013/14**

The Committee considered a report by the Chief Finance Officer on the Falkirk Pension Fund's Annual Accounts for 2013/2014 and (a) referring to Regulation 31A of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, which requires administering authorities to publish a Pension Fund Annual Report, recognising that Pension Fund accounts were separate from other accounts of the administering authority, and (b) attaching as an appendix for inspection, a copy of the Fund's Audited Accounts for 2013/14.

##### **Decision**

**The Committee agreed to approve the Falkirk Council Pension Fund Annual Report and Audited Annual Accounts for 2013/14.**

#### **PE20. LONGEVITY ANALYSIS REPORT - CLUB VITA - UPDATE BY HYMANS ROBERTSON**

The Committee considered a report by the Chief Finance Officer on the initial findings of the Pension Fund's participation in the Club Vita longevity analysis.

The Committee had agreed at its meeting on 12 December 2013 to the proposal from Hymans Robertson for the Fund to participate in Club Vita. This would enable a detailed analysis of the Fund's longevity experience to be undertaken and allowed for the use of data which was specific to the Falkirk Pension Fund. The availability of the more accurate longevity data meant that Fund calculations, such as cessation valuations, bulk transfers and funding assessments would in future be of a more reliable nature. Other benefits included having robust evidence based longevity assumptions allowing the Fund to pay due attention to longevity risk

The Committee also heard from Catherine McFadyen, Hyman's Robertson who provided detail on the following:-

- The longevity risk including addressee and scope;
- The longevity, affluence, lifestyle, retirement health and occupational 'DNA' data;
- The concentration of longevity risk;
- The implications for funding; and
- The future longevity uncertainty.

The Convener thanked Ms McFadyen for her comprehensive presentation.

##### **Decision**

**The Committee noted the report and presentation.**

## **PE21. LOCAL GOVERNMENT PENSION SCHEME - NEW SCHEME DEVELOPMENTS**

The Committee considered a report by the Chief Finance Officer providing an update on the recent developments in relation to the ongoing reform of the Local Government Pension Scheme (LGPS) through the Public Service Pensions Act 2013 with effect from 1 April 2015.

The report detailed that a Heads of Agreement on scheme design and governance had now been reached between COSLA, Trades Unions and the Scottish Government.

The statutory arrangements requiring to be set in place were as undernoted:-

- The main scheme regulations were made and described how benefits and contributions would be determined under the CARE arrangements. A number of defects had been identified in the Regulations and a set of amendments was awaited;
- The transitional regulations were made and described how existing members' accrued rights would be treated in the new scheme; and
- Governance regulations would be available in first draft in October 2014 with the final version expected in January 2015 and would specify how the governance requirements of the 2013 Act were to be applied in the LGPS.

The report thereafter highlighted that the necessary work on the main scheme and transitional regulations was unlikely to impede software development or Fund implementation plans. In contrast however the timetable for the production of the governance regulations meant that in order to comply with the April 2015 deadline, Funds would have to undertake their governance reviews in advance of final regulations being available.

The other pertinent developments included:-

- Employer training - training events for fund managers on 18 September and 2 October 2014 aimed mainly at Payroll and HR practitioners. Around 35 employer delegates were signed up for each event. A further resource for employers was provided at [www.lgpsregs.org](http://www.lgpsregs.org) for scheme rules and explanatory guides;
- Employee information - the Fund members' information website [www.scotlgps2015.org](http://www.scotlgps2015.org); and
- The new Pensions Administration System would replace the existing in-house system and was Heywood's "Altair" product used by the majority of Scottish and English/Welsh LGPS Funds.

### **Decision**

**The Committee noted the latest developments in relation to the implementation of the LGPS (Scotland) 2015.**

## **PE22. LOCAL GOVERNMENT PENSION SCHEME - GOVERNANCE ISSUES**

The Committee considered a report by the Chief Finance Officer providing an update on the recent developments in relation to the governance arrangements in respect of the ongoing reform of the Local Government Pension Scheme (LGPS) through the Public Service Pensions Act 2013 with effect from 1 April 2015.

The report detailed that a Heads of Agreement on scheme governance had now been reached between COSLA, Trades Unions and the Scottish Government and the statutory regulations underpinning governance rules would be finalised in early 2015.

The key milestones were as detailed below:-

- The consultation period for the draft regulations from 16 October to 27 November 2014;
- The Scottish Public Pensions Agency (SPPA) review of consultation comments from 28 November to 19 December 2014;
- The final drafting of regulations from 5 to 16 January 2015; and
- The ministerial signing off of the regulations on 27 January 2015.

The report thereafter detailed the following requirements within the Act for the operation of the Pensions Board including:-

- Ensuring the secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and the Pensions Regulator;
- To undertake any such other matters as the scheme regulations may specify;
- Having an equal number of employer and member representatives (a minimum of 4 trade union and 4 employer);
- That the scheme manager should be satisfied that members did not represent a conflict of interest; and
- That meetings should take place concurrently with the Pensions Committee.

In furtherance of the requirement to establish a Pension Board it was proposed to consult Fund Employers and Trade Unions for their views as to how the new arrangements could best operate and the report provided information on the consultation action plan and associated implementation timescales.

### **Decision**

**The Committee:-**

- (1) noted the report; and**
- (2) agreed that a joint meeting between the Committee and the Panel would be convened in December 2014 at a date to be confirmed.**

## **PE23. GENERAL GOVERNANCE MATTERS**

The Committee considered a report by the Chief Finance Officer presenting an update on various matters associated with the governance of the Falkirk Council Pension Fund.

The areas covered within the report included the following:-

- The Pension Fund's Risk Register;
- Social Housing;
- Local Infrastructure;
- Prudential Additional Voluntary Contributions (AVC's); and
- The Local Authority Pension Fund Forum (LAPFF) of 58 local authority Pension Funds.

### **Decision**

**The Committee noted the report.**

Councillor C Martin entered the meeting prior to consideration of the following item of business.

## **PE24. CORPORATE GOVERNANCE UPDATE**

The Committee received a presentation by Allan MacDougall and Janice Hayward, PIRC Ltd

The presentation included information on the undernoted:-

- The value of corporate governance including the key milestones and fundamental objectives;
- The Regulators including the Financial Conduct Authority, the Prudential Regulatory Authority (PRA) and the Financial Reporting Council (FRC);
- The Boardroom themes; and
- Practice and Stewardship including shareholder engagement in terms of the UK Stewardship Code principles, responsible investment and the development of a broader Stewardship Plan and the protection of shareholder value.

The Convener thanked Mr MacDougall and Ms Hayward for their comprehensive presentation.

### **Decision**

**The Committee noted the presentation.**

## **PE25. ORDER OF BUSINESS**

In terms of Standing Order 14.2(i), the Depute Provost Patrick advised of a variation to the order of business from that detailed on the agenda for the meeting. The following items have been recorded in the order that they were taken.

## **PE26. FUND MANAGER REVIEW**

The Committee received a verbal update by Christopher Down, Hearthstone Investment Management which had been appointed by the Committee at its meeting on 17 March 2014 to manage a £30m investment in social housing and affordable housing.

The areas covered in the update included:-

- The investment of £15m in a Places for People Bond to back the social and affordable housing programme;
- The expected associated grant funding of £10m;
- The proposals for the first development at Bellsdyke, Larbert on a 50:50 ratio for social and affordable housing by early 2015;
- The development of other projects by 2016/2017 and that options included Bonnybridge, Stirling and Clackmannanshire; and
- The ongoing discussions with Castle Rock, Edinvar on future projects.

The Convener thanked Mr Down for his comprehensive presentation and welcomed further updates in due course.

### **Decision**

**The Committee noted the progress in relation to the investment in social and affordable housing.**

## **PE27. PRIVATE EQUITY AND ALTERNATIVES UPDATE**

The Committee Panel considered a report by the Chief Finance Officer on the progress of the Pension Fund's private equity and alternatives programme arising from the Investments Programme of SL Capital (Standard Life), Wilshire Associates, Grosvenor Capital and M&G for the quarter ending 30 June 2014.

### **Decision**

**The Committee:-**

- (1) noted the progress of the Pension Fund's private equity, infrastructure and credit markets programme for the quarter ending 30 June 2014; and**
- (2) agreed that it would be supportive of an independent review of the Fund's Private Equity programme.**

## **PE28. FUND MANAGER PERFORMANCE REVIEW**

The Committee considered a report by the Chief Finance Officer reviewing the overall performance of the Fund and of the undernoted Fund Managers:-

- Aberdeen Asset Management;
- Baillie Gifford Bonds;
- Baillie Gifford Diversified Growth;
- Legal and General;
- Newton Investment Management;
- Schroder Investment Management UK Equities; and
- Schroder Investment Management Property.

### **Decision**

**The Committee noted the Fund Managers' performance and the action taken by them during the quarter to 30 June 2014, in accordance with their investment policies.**