

The background of the slide features a large, light blue outline of the coat of arms of the Government of Yukon. The coat of arms consists of a shield divided into four quadrants. The top-left quadrant shows a ship on the water. The top-right quadrant shows a bison's head. The bottom-left quadrant shows a mountain range. The bottom-right quadrant shows a bison's head. Above the shield is a crown with four points, each topped with a flower. Below the shield is a banner with the motto 'A NE FOR A'.

**AGENDA ITEM**

**10**

**GENERAL GOVERNANCE  
MATTERS**

**FALKIRK COUNCIL**

**Subject: GENERAL GOVERNANCE MATTERS**  
**Meeting: JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD**  
**Date: 11 MARCH 2016**  
**Author: DIRECTOR OF CORPORATE & HOUSING SERVICES**

**1. INTRODUCTION**

1.1 This report updates the Board and Committee on miscellaneous matters associated with the business of Falkirk Council Pension Fund.

**2. PENSIONS INCREASE**

2.1 Due to the September, 2015 inflation rate being negative (-0.1%), there will be no increase in the rate of pensions paid to LGPS pensioners this year.

2.2 The UK Government has now indicated that it intends to apply the negative revaluation of -0.1% to the career average benefits earned by LGPS members during 2015/16. This power to apply a negative factor is permitted under the terms of the Public Service Pensions Act 2013.

**3. PENSION SCHEME TAX ISSUES**

3.1 During last year, the UK Government issued a Green Paper on reforming tax relief with the aim of ‘strengthening the incentive to save’. One of the options proposed in the Green Paper was for the pensions system to move away from the current “EET” approach (i.e. pension contributions *exempt* from tax, investment growth *exempt*, and pensions in payment *taxed*) and move to a “TEE” system (contributions made from *taxed* income, investment growth *exempt*, pension payments *exempt*).

3.2 If the above proposal is not taken forward, a further option being considered is to restrict tax relief on contributions to a flat rate of 20%.

3.3 These matters should be clarified during the Chancellor’s Budget on 16<sup>th</sup> March.

3.4 The following matters have already been determined:

- Lifetime Allowance reducing from **£1.25m** in 2015/16 to **£1m** in 2016/17
- Annual Allowance remains at **£40k** for 2016/17 except for earners with “adjusted income” of over **£150k** in which case the allowance is **£10k**.

3.5 The latest round of reductions to annual and lifetime allowances means that an ever increasing number of members will be caught by the provisions. This is a complex and technical area which continues to require an increasing level of resource from the Pensions Section.

#### **4. SCHEME CHANGES**

4.1 The Scottish Public Pensions Agency has made the following amendments to the Scheme rules as follows:

- surviving spouse of a same sex marriage and the surviving partner of a same sex partnership are now entitled to the same benefits as couples of the opposite sex
- where a scheme employer ceases to have any active members, the administering authorities may delay seeking a cessation payment for a period of up to 3 years, provided they are satisfied the employer will have active members in that period
- to recognise that if the cost to employers of funding the scheme exceeds the cost cap by more than a permitted margin, then Scottish Ministers will agree with Funds the steps to be taken to achieve the target cost. This may involve adjusting the rate at which member benefits accrue. The cost cap has been set at 15.5% of members' earnings. The permitted margin is 2% above or below the cost cap. The next assessment of scheme cost will be 31<sup>st</sup> March, 2017.
- the proportion that local authority pension funds can invest in partnerships has been increased from a maximum of 15% of the fund to a maximum of 30%. The Falkirk Fund's investments with SL Capital, Wilshire and Grosvenor all use a partnership structure and currently amount to around 7.5% of the Fund.

#### **5. ANNUAL BENEFIT STATEMENTS**

5.1 Historically, Administering Authorities have had 12 months after the 31<sup>st</sup> March year end in which to issue annual statements. Under new scheme rules, this timeframe has been shortened to 5 months after the year end (i.e. by 31<sup>st</sup> August). This places a significant responsibility on fund employers to submit year end data returns promptly after the year end and to deal with follow on queries swiftly.

5.2 Failure to meet the deadline would require the Pensions Committee and Board to consider reporting the breach to the Pensions Regulator. The Regulator's Public Service Code of Practice provides guidance on judging whether a breach needs to be reported.

5.3 It is noted that in the first year of the Career Average Scheme being introduced in England and Wales, a number of Funds self-reported to the Regulator. The Regulator's response was that where the breach was attributable to data and IT system issues faced by Funds and Fund employers, they would expect Funds to issue statements by the 30 November. Where Funds were unable to meet this timeframe, Funds would need to submit a plan of action for remedying the breach. Plans would be considered on a case by case basis and the Regulator would consider what action to take.

## **6. NEW STATE PENSION SCHEME**

- 6.1 The new State Pension Scheme is being introduced from 6 April, 2016 for persons reaching State Pensions Age (SPA) on or after that date. It is a single tier benefit which replaces the existing basic and additional state pensions. The amount currently set for the new State Pension is £155.65 pw, however not everyone will receive this amount (e.g. you need at least 35 years of National Insurance credits).
- 6.2 As part of the new arrangements, contracting-out is being abolished.
- 6.3 Contracting Out allows employees and employers who participate in a contracted out pension scheme, such as the Local Government Pension Scheme, to pay a reduced rate of national insurance. This concession will disappear on 6 April and employees will incur an increase of 1.4% on their earnings between £5,824 and £40,040 (roughly £5 pw for someone earning £25k and £9 pw for someone earning £40k)
- 6.4 For those who qualify for the new State Pension and who have been in a contracted out scheme, the amount of new State Pension allocated on 6 April will be at least as much as the individual would have received under the former arrangements.
- 6.5 Documentation explaining the new arrangements has been uploaded to the News area of the Pension Fund website ([www.falkirkpensionfund.org](http://www.falkirkpensionfund.org)).
- 6.6 From the Fund's perspective, the abolition of contracting out means that the Fund will have to meet the full cost of indexing scheme pensions. Up till now, part of the pension known as the Guaranteed Minimum Pension has been indexed by the State.
- 6.7 With the new arrangements coming on stream, HMRC are conducting a reconciliation exercise to compare its contracting out data with that of pension scheme providers. This work is considered necessary to satisfy the Pension Regulator's data quality standards; to ensure as far as possible that pensioners are receiving the correct level of pension; and to check that no liabilities have been incorrectly attributed to the Fund. Steps are in hand to recruit a temporary Pensions Support Assistant to take forward the Fund's own reconciliation process. The scale of the exercise, however, in looking at records going back to 1978 means that it will be necessary to engage external providers to assist with data management process.

## **7. RECOVERY OF PUBLIC SECTOR EXIT PAYMENTS**

- 7.1 The UK Government has powers under the Small Business, Enterprise and Employment Act 2015, to recover exit payments where a high earner takes up a post anywhere within the public sector within 12 months of having exited their employment.
- 7.2 The "payments threshold" at which the provisions will apply has been set at £80k. The significance for LGPS Pension Funds is that this includes any strain payment which an employer may have paid to secure the early payment of scheme benefits.

- 7.3 The provisions are expected to apply in England from April, 2016. It will, however, be a matter for devolved administrations in Scotland, Wales and Northern Ireland to decide the extent to which they wish to make similar provision.
- 7.4 The UK Government is also consulting on the actual costs associated with early termination of employment across the public sector. Options being considered are to restrict the level of termination payment through capping the number of weeks' pay and level of salary taken into account and capping or removing the ability for employers to fund early release of pension benefits on redundancy, or increasing the minimum age at which an employee can receive such payments from an employer (5 years from an individual's normal pension age has been suggested).

## **8. NATIONAL LGPS DATABASE AND TELL US ONCE**

- 8.1 The 2015 version of the Scheme requires Funds to ascertain whether:
- a) a member has had a break in continuous public sector service of more than 5 years;
  - b) a member has an entitlement to more than one death grant; and
  - c) a member has previously been retired on ill health grounds
- 8.2 To assist all Funds in meeting these new requirements, a national LGPS database is being established. The database is being hosted by the South Yorkshire Pensions Authority with whom data sharing agreements are being completed.
- 8.3 In due course, it is intended that the database will be extended to enable Funds to participate in the Tell Us Once initiative which allows citizens to report a family member's death to a number of government entities in one go.
- 8.4 As well as simplifying the process of reporting deaths, participation in the facility should reduce the chance of deaths not being notified to Funds and thereby reduce the risk of overpayments. All LGPS pension funds in England, Wales and Scotland are expected to participate in the Tell Us Once Service

## **9. CORPORATE GOVERNANCE MATTERS**

- 9.1 To help discharge its obligations as a responsible investor, the Fund is a member the Local Authority Pension Funds Forum (LAPFF). The LAPFF represents the interests of 68 local authority pension funds with combined assets of around £175 billion. Its mission is to promote the highest standards of corporate governance and social responsibility amongst the companies in which member funds invest.
- 9.2 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.
- 9.3 The recent quarter has seen LAPFF hold face to face meetings or have written exchanges with:

**BP** – discussing the steps being taken to mitigate its climate change impacts, including: calling on governments to implement a carbon price; developing BP’s renewable business in biofuel and wind; improving energy efficiency; and contributing to research and development.

**Shell** – discussing current oil price; the importance of communicating climate change science simply and clearly to investors; improving disclosure following the Aiming for A campaign; the proposed BG acquisition; and, in anticipation of the declining demand for coal, Shell’s increasing focus on integrated gas.

**SSE** – discussing succession planning process; living wage and home energy efficiency.

**BHP Billiton** – querying management response to the recent burst dam at a mine in Brazil resulting in a number of fatalities.

**Sports Direct** – expressing concern over the use of zero hours contracts.

- 9.4 Falkirk Council was one of 18 LGPS Funds which with other investors co-filed a strategic resilience shareholder resolution at the AGM of Anglo American calling on the company to be more transparent over climate change risks to their business.

## 10. OBJECTIVE CONNECT

- 10.1 Committee and Board members are reminded that it is a statutory requirement for the performance of external managers to be reviewed at least every 3 months. For that reason, it is a requirement that manager booklets are made available to Committee and Board members.
- 10.2 It is recognised that the provision of the quarterly booklets in hard copy format can be cumbersome for Committee and Board members and may be wasteful in terms of the paper expended in producing the reports. There is now an option for the booklets to be made available to members electronically using a product called Objective Connect.
- 10.3 Using Objective Connect, it would be possible to upload the manager booklets each quarter to a secure shared folder on the web from where they could be accessed by registered users (i.e. only registered users would have access to the files). In terms of data security, Objective Connect is endorsed by the Council’s ICT section; meets the International Standard of ISO 27001:2013 for Information Security Management Objective Connect; and has appropriate accreditation under Cabinet Office’s G-Cloud programme.
- 10.4 If this proposal is acceptable to Committee and Board members, the pensions manager will issue an email inviting members to register for Objective Connect. Members who prefer to continue receiving hard copies of reports will be able to do so.

**11. RECOMMENDATION**

**11.1 The Pensions Committee and Pensions Board are invited to note the content of this report.**

pp **Director of Corporate & Housing Services**

**Date: 25 February 2016**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL