

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest includes a crown with four maple leaves, a shield divided into four quadrants (top-left: saltire, top-right: anchor, bottom-left: sailing ship, bottom-right: eagle), and a banner at the bottom with the motto 'CITY OF VANCOUVER' in a circular arrangement.

AGENDA ITEM

7

General Governance Matters

FALKIRK COUNCIL

Subject: General Governance Matters

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 16 March 2017

Submitted by: Director of Corporate and Housing Services

1. Purpose of Report

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

2. Recommendation

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

3. Risk Register

- 3.1 No new significant areas of risk have been identified during the quarter, although as reported to the last meeting and as detailed below, asset values remain volatile in view of the political uncertainties issuing from the Trump Presidency:

Identified Risk per Risk Register	Reason for Change in Risk Rating
Asset values affected by political uncertainty	<p>The election of Donald Trump to the US Presidency and concerns as to how his policies (e.g. protectionism) may impact on global growth are likely to increase market volatility over the coming months.</p> <p><i>Mitigation – As a long term investor with a well-diversified portfolio of investments and no immediate cash flow requirement, the Fund has the capacity to weather short term market noise. Investment strategy remains under regular review and can be adjusted if better sources of risk adjusted return are identified.</i></p>

4. Pensions for Unmarried Partners

- 4.1 Prior to 2009, the LGPS did not provide pensions for unmarried partners. From 2009, partners pensions were payable provided the scheme member had made a written declaration nominating his or her partner to receive a partner's pension. The requirement for there to be a written declaration was dropped from the Scheme in 2015.
- 4.2 A recent decision in the Supreme Court (the Brewster case) makes it clear that payment of a partner's pension between 2009 and 2015 should not have depended on a written declaration having been made, but should have been based on other criteria (e.g. proof of existence of a long term relationship of more than 2 years).
- 4.3 The judgement means that retrospective claims for partners pensions may be received from the surviving partners of members who died between April, 2009 and 2015. Comment is awaited from HM Treasury on the financial implications of the judgment for public service schemes in due course.

5. Actuarial Services Tender

- 5.1 The Scheme rules require that "An administering authority must obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2017 and on 31st March in every third year afterwards". Various other sections of the regulations also require the Fund to take actuarial advice. The actuary also provides some services to the Fund's employers.
- 5.2 A new five year contract for actuarial services has been tendered to cover both the 2017 and 2020 valuations. The tender is being carried out by running a mini-competition between suppliers drawn from the National Local Government Pension Scheme (LGPS) Framework for actuarial services.
- 5.3 Total spend will depend on the specific services required over the contract period. Total cost is expected to be in the region of £80k per annum, though much of this is recovered from employers for accounting calculations and other reports provided to them by the actuary.

6. Scheme Closure by Fund Employers

- 6.1 Two employers – Scottish Autism and Plus - have intimated that they are leaving the Scheme.
- 6.2 Scottish Autism has around 800 active members and 150 pensioners. Their intention is to close the Scheme to new entrants from 1st April, 2017. Existing members will continue to be able to access the scheme. Scottish Autism's employer contribution rate will be adjusted to a "closed" contribution rate, which is likely to result in their contribution rate increasing in the short term.

- 6.3 Plus has only two remaining active members and has decided to close the scheme to any further accrual. This means that they will be required to make a cessation payment in accordance with the Scheme rules. The Pensions Manager has been in discussions with Plus and the Fund Actuary with a view to a settlement figure being agreed.

7. Government Actuary – Section 13 Review

- 7.1 The Government Actuary's Department (GAD) are required to carry out a review of local Fund valuations under the terms of Section 13 of the Public Service Pensions Act 2013. The review requires GAD to report on various aspects including:
- compliance: whether a fund's valuation is in accordance with the scheme regulations
 - consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS Scotland
 - solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- 7.2 The first formal Section 13 valuation is due after the 2017 valuations, however GAD have recently completed a "dry run" based on the 2014 valuations. They have concluded that all Scottish Funds are both compliant and solvent. They observed that there could be greater consistency in the assumptions adopted and greater clarity in explaining these within valuation reports, but recognised that this probably reflected local circumstances and the deployment of different actuarial firms.

8. State Pension Age

- 8.1 The UK Government has asked John Cridland (former Director General of the CBI) to conduct a review of State Pension Age arrangements.
- 8.2 A number of Pension Board members attended a briefing session given by Mr Cridland in February and heard of the various pressures likely to be felt by the State Pension system due to improving longevity. There was an acknowledgement from Mr Cridland of a general disparity in life expectancy between England and Scotland. It was noted however that within both countries there was a wide variation in life expectancies especially relating to characteristics such as affluence and poverty.
- 8.3 Potential increases to the State Pension Age have added significance for the LGPS (and other public service scheme) members since any change will feed through directly to the Normal Pension Age in the LGPS (currently between age 65 and age 68 depending on each member's date of birth).

9. Corporate Governance Issues

- 9.1 The Fund discharges its obligations as a responsible investor by monitoring the engagement efforts of its Managers and by being a member of the Local Authority Pension Funds Forum (LAPFF).
- 9.2 LAPFF is supported by PIRC Ltd, who are the Forum's research and engagement partner. PIRC are also the Falkirk Fund's voting agents and advisers on ESG matters.
- 9.3 At the recent LAPFF AGM, it was announced that Cllr Kieran Quinn had been re-elected as LAPFF Chair and Cllr Denise Le Gal and Cllr Ian Greenwood had been elected as Deputy Chairs of the LAPFF executive
- 9.4 Recent engagement has seen LAPFF:
- lobbying **Sky** to treat shareholders fairly in the takeover bid from 21st Century Fox
 - meeting **Rio Tinto** and **Rolls Royce** to discuss their respective corruption scandals
 - voting against Keith Hallawell's re-election as Chairman of **Sports Direct** as a result of the company's questionable workplace practices
 - discussing Brexit and EE merger with **BT**
- 9.5 A copy of Legal and General's Q4 2016 ESG impact report - Corporate governance and active ownership – has been placed on the Objective Connect portal. This details engagement LGIM have held with Schneider Electronics, SAB Miller and Wells Fargo amongst others.

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Appendices

None

List of Background Papers:

None