

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a yellow diagonal cross on a white background. The top-right quadrant depicts a white caribou head with large antlers on a yellow background. The bottom-left quadrant shows a white sailing ship on wavy lines representing water on a yellow background. The bottom-right quadrant features a white eagle with spread wings on a yellow background. Above the shield is a crown with four white maple leaves. A white banner at the bottom contains the text 'ANE FOR A' in capital letters.

Agenda Item 7

General Governance Matters

FALKIRK COUNCIL

Subject: General Governance Matters

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 15 March 2018

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 contents of this report.**

3. Risk Register

- 3.1 This section highlights current areas of heightened risk for the Fund:

Identified Risk per Risk Register	Reason for Change in Risk Rating
Funding position affected by falling asset values	<p>Recent weeks have seen a decline in asset values as market euphoria has given way to anxiety over higher interest rates, Brexit, and the possibility of increased trade tariffs.</p> <p><i>Mitigation – Investment activity remains under regular review by the Joint Investment Strategy Panel. However, as a long term investor with a well-diversified portfolio of investments and no immediate cash flow requirement, the Fund has the capacity to withstand short term market turbulence.</i></p>
Business continuity issues	<p>The bad weather at the start of March meant that the Municipal Buildings were closed for two days, resulting in an interruption to normal service (but not delaying the monthly pensioner payroll).</p> <p><i>Mitigation – Some Pensions staff have the capacity to work remotely. Options to extend this facility will be investigated.</i></p>

Business continuity issues	<p>Banking arrangements for Falkirk Council (and for the Fund) are changing in the near future with the Royal Bank of Scotland taking over from the Clydesdale.</p> <p><i>Mitigation – The Pensions team are liaising with the RBS transition team to ensure that the revised Bacs payment function is understood and operates successfully.</i></p>
Employers unable to pay contributions	<p>The outcome of the 2017 Valuation means that a small number of Fund employers may have difficulties in paying the contribution rates requested – particularly in years 2019/20 and 2020/21.</p> <p><i>Mitigation – The Pensions team will investigate options for these employers to exit the Scheme to minimise the impact on remaining Fund employers.</i></p>

4. Scottish Scheme Advisory Board

- 4.1 The latest Scheme Advisory Board (SAB) Newsletter has been published and is attached as an appendix to this report.
- 4.2 Committee and Board will recall that as part of the agreement leading to the introduction of the Career Average version of the LGPS in 2015, a review of the structure of the Scheme in Scotland was to be undertaken.
- 4.3 To take this forward, the SAB commissioned a piece of work to identify potential options. The findings were delivered to the Cabinet Secretary for Finance and Sustainable Growth early in 2017, but made no specific recommendation.
- 4.4 The Cabinet Secretary has now responded by asking the SAB to consult more widely on the options previously identified, namely:
 - To maintain the status quo of eleven funds in Scotland
 - To retain the eleven funds, but with closer collaboration
 - To create one or more common investment pools
 - To merge the funds into one or more new funds
- 4.5 SAB officers are drafting a consultation paper and timetable for the next SAB meeting in April.

5. Pensions Increase

- 5.1 In the 12 months to September 2017, CPI was 3%. As a result, an increase of 3% will be applied to LGPS pensions in payment from 9 April 2018.
- 5.2 It is expected that the 3% increase will also be applied to the Career Average Benefits of active members as these are generally increased in line with CPI as well.

6. GDPR

- 6.1 The General Data Protection Regulations (GDPR) come into effect on 25 May 2018 and extend the legal measures in place to safeguard personal data.
- 6.2 Priorities in complying with the new regulations are:
 - Ensuring adequacy of key internal systems (e.g. document management, confidential waste disposal, etc)
 - Having data sharing agreements in place
 - Ensuring data transfers are done in a safe and secure manner
 - Ensuring Privacy Notices are up to date
- 6.3 Legal advice is that individual consent from members to process their personal data will not be required for LGPS Funds. This is because such processing is undertaken by Funds to comply with a legal obligation (i.e. to maintain membership records in accordance with the LGPS Scheme rules).
- 6.4 A report on progress towards meeting the GDPR requirements will be provided at the next Joint Meeting.

7. GMP Reconciliation

- 7.1 The introduction of the New State Pension on 6 April, 2016 coincided with the abolition of contracting out. Contracting-out started in 1978 and is where members of good quality pension schemes - like the LGPS - and their employers paid a lesser rate of National Insurance and in return *the member* gave up their rights in the State Second Pension (aka SERPS) and *the pension scheme* agreed to pay a pension not less than a guaranteed minimum amount.
- 7.2 When the member retires, the State becomes responsible for increasing that part of the member's pension which would broadly have corresponded to the SERPS pension they had foregone. This element is calculated by HMRC and referred to as the Guaranteed Minimum Pension (GMP). *The State* pay their share of the increase via the member's State pension entitlement whilst *the pension scheme* pays the original retirement pension plus any increases on the excess above the GMP.

- 7.3 HMRC is conducting a reconciliation exercise to compare its contracting out data with that of pension scheme providers. The UK wide GMP reconciliation is necessary to ensure that as far as possible pensioners are receiving their correct level of pension and that no liabilities have been incorrectly attributed to the Fund. The exercise involves examining data going back to 1978 when contracting out was first introduced.
- 7.4 If GMPs have not been applied correctly (e.g. not notified to Funds by HMRC or notified but with the wrong value), then pensions may have received incorrect increases leading to over or underpayment situations.
- 7.5 In the event that overpayments are identified, the Scottish Public Pensions Agency (SPPA) have issued a Circular, advising that
- any LGPS pension in payment affected by the GMP exercise should not be reduced going forward; and
 - any decision around the recovery of accrued overpayments should be assessed in the light of factors such as the degree of reliance placed on the pension payments by the individual and 5 year limit for seeking recovery of overpayments set out in the Prescription and Limitation (Scotland) Act 1973
- 7.6 Previous government guidance directed to the public sector has indicated that given the scale and complexity of the reconciliation exercise, records can be deemed reconciled if the Fund GMP is within £2 p.w. of the corresponding HMRC records.

8. MIFID 2

- 8.1 In order to comply with the terms of MiFID 2 and have access to the full range asset classes and vehicles needed to deliver its investment strategy, the Fund has had to apply to its asset managers (and financial service providers) for professional investor status.
- 8.2 The opting up process has now been completed and the Fund has been accepted as professional investors by relevant managers and service providers.

9. Corporate Governance

- 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 Recent engagement activity has seen LAPFF:
- raise the issue of Gender Pay gap with **Diageo**

- raise the issue of Executive Pay with **Hargreaves Lansdowne**
 - discuss merger and acquisition policy with **AstraZeneca**
 - meet with **WPP** to discuss a recent cyber attack and internet content issues
 - raise concerns with **Sports Direct** around a proposed payment to the brother of Mike Ashley
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- speak positively in support of **JD Wetherspoon's** pay policy which eschews any long term incentive plan for directors
 - discuss the disclosure of climate change metrics and targets with **BP**
 - challenge **BHP Billiton** on the lessons learned from the Samarco dam tragedy which led to fatalities in Brazil in 2015
 - engage with **Provident Financial** concerning the difficulties faced by their home credit division

9.4 A revised constitution for LAPFF is being voted upon at its next Business Meeting on 29 March. This positives are that:

- from 2019, Executive members will be limited to serving a maximum of 9 years
- the Secretarial role will be separated from the Research and Engagement role
- there will be better consultation of members where more than 20% of votes are recorded against a LAPFF resolution

Possible negatives are that:

- Defeated resolutions will now be time limited before being capable of re-submission
- The primary purpose of LAPFF is to be extended from merely promoting the long-term investment interests of UK local authority pension funds to assisting Administering Authorities discharge their statutory responsibilities

9.5 The current fee for LAPFF membership is £8,460 p.a. (held at this level since 2003/04). The LAPFF Executive are proposing to increase fees as follows:

- Annual membership fee of £9,000 for 2018/19
- Increasing to £9,500 in 2019/20 and £10,000 in 2020/21
- Linked to CPI-inflation thereafter

9.6 Committee and Board members will be saddened to learn of the untimely death in late December of Councillor Kieran Quinn. Councillor Quinn had been Chair of LAPFF for the past 5 years and was a passionate advocate in promoting the highest standards of corporate governance and the important role that LAPFF could play towards this. Longer standing Committee and Board members may recall that Councillor Quinn presented at the Annual Conference in 2016.

10. Voting

10.1 During Q4, PIRC voted at the following 12 company meetings and cast 143 votes.

Company	Type of meeting	Date
BHP BILLITON GROUP (GBR)	AGM	19/10/2017
AIB GROUP PLC	COURT	03/11/2017
AIB GROUP PLC	EGM	03/11/2017
ORACLE CORPORATION	AGM	15/11/2017
DISCOVERY COMMUNICATIONS INC	EGM	17/11/2017
SOUTH32 LTD	AGM	23/11/2017
FERGUSON PLC	AGM	28/11/2017
MICROSOFT CORPORATION	AGM	29/11/2017
ASSOCIATED BRITISH FOODS PLC	AGM	08/12/2017
MEDTRONIC PLC	AGM	08/12/2017
CISCO SYSTEMS INC.	AGM	11/12/2017
SPORTS DIRECT INTERNATIONAL PLC	EGM	13/12/2017

10.2 Details of how these Fund votes were cast are attached at Appendix 1.

11. Annual Conference

11.1 The Fund's Annual Conference is being held on 12th April at Callendar House, Falkirk from 9:30 am until approximately 1:00 pm.

11.2 This will be an opportunity to hear from a range of speakers including the Actuary and Fund Investment Adviser.

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Director of Corporate & Housing Services

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Appendices

Appendix 1 – Scheme Advisory Board Newsletter

Appendix 2 - Q4 Voting Analysis

List of Background Papers:

None



February 2018

BULLETIN

Structure Review

The Cabinet Secretary for Finance has responded to the SAB's options paper on the structure review. He has asked the SAB to consult on the future structure of the scheme based on the options identified in the report:

- Status quo of eleven funds in Scotland.
- Retain the eleven funds, but with closer collaboration.
- One or more common investment pools.
- Merge the funds into one or more new funds.

SAB officers are drafting a consultation paper and timetable for the next SAB meeting in April.

Audit Scotland overview report

The SAB received a presentation from Audit Scotland on their overview report on local government pension funds. This is a high level look at funds based on their financial accounts. Audit Scotland highlighted the significant increase in asset value and liabilities as well as other challenges facing the scheme. These will be addressed in more detail when the scheme valuation is considered later this year.

http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_171128_local_government_finance_supp2.pdf

Governance Review

The SAB agreed an action plan on the implementation of governance review. The main actions for the SLGPS involved strengthening training and communications, particularly with pension boards at fund level.

Annual report

A revised draft report was agreed at the last SAB meeting. The final statistical analysis is being completed and the report should be published later this month.

Regulations

The SPPA reported on draft regulations that had been out for consultation. Some changes will be made and the final regulations will be presented to Parliament in April.

Pension Developments

The FCA's Investor Disclosure Working Group (IDWG) is working on templates for cost and fee disclosure by asset managers to institutional investors, including pension funds. Many of the biggest advisors have already signed up to the LGPS code. The working group has recently published an update of its work.

<https://www.fca.org.uk/publication/minutes/idwg-progress-december-2017.pdf>

The UK government has announced that it intends to lower the age for automatic enrolment in workplace pensions from 22 to 18. However, the change will not take place until the mid 2020s.

The UK government is consulting on rules that will make it easier for pension schemes to make investment decisions to fight climate change. Friends of the Earth Scotland has published a new analysis of fossil fuel investment in Scotland and UNISON has commissioned a guide on this issue from Share Action.

Further details on our website www.lgpsab.scot

Votes made in the portfolio per resolution category

