

FALKIRK COUNCIL

Subject: PENSION FUND – GENERAL GOVERNANCE MATTERS
Meeting: PENSIONS COMMITTEE
Date: 6 December 2012
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. AUTO ENROLMENT

- 2.1 The Government's Workplace Pensions Initiative – Auto-enrolment – came into effect on 1st October, 2012. The legislation requires Fund employers to enrol certain categories of employee into the pension scheme automatically.
- 2.2 Auto enrolment is being introduced on a phased basis with larger employers being the first to be subject to the new rules. Falkirk Council, with a staging date of 1st April, 2013, will be the first employer in the Fund to have to apply the new rules.
- 2.3 A training day for fund employers with staging dates in 2013 was hosted by the Fund on 21st September, 2012. Those employers should now be formulating action plans and, in particular, deciding whether to implement auto enrolment in full from the staging date or, as is permitted by legislation, postpone certain aspects of it until, at the latest, 2017.
- 2.4 Full implementation of auto enrolment means that, in addition to new recruits being automatically enrolled into the pension scheme, employees who have previously elected not to join the scheme will also be enrolled on the staging date. Under transitional arrangements, employers may delay enrolling previous non-joiners until 2017, but still have to enrol persons recruited after the staging date.
- 2.5 Employers may wish to invoke the transitional arrangements in order to avoid the additional employer pension contribution costs that will arise from a large influx of new members. Employers need to bear in mind, however, that in the longer term, an inflow of new members could help to maintain a healthy balance between the numbers of fund contributors and pensioners, and thus have a beneficial effect on employer contributions.
- 2.6 A report outlining Falkirk Council's own auto enrolment responsibilities was considered at the recent Joint Consultative Committee meeting and will be shared with Fund employers in due course. It is however a matter for each employer to determine their own policy and strategy in meeting their obligations under the auto enrolment legislation.

3. LGPS REGULATIONS MADE

- 3.1 The Local Government Pension Scheme (Administration) (Scotland) Amendment Regulations 2012 have been made with effect from 12th October, 2012.
- 3.2 As a result, the Scottish Police Authority and the Scottish Fire and Rescue Service become “scheduled bodies”, thus enabling staff to participate in the Local Government Pension Scheme.
- 3.3 The impact of the regulations on the Falkirk Fund is that:
 - i) employees of Central Scotland Police and Central Scotland Fire and Rescue Service who are transferred to the new entities will remain members of the Falkirk Fund
 - ii) employees of the new bodies, who, if they had been employed prior to 1/4/2013, would have been employed by Central Scotland Police and Central Scotland Fire, will be enrolled into the Falkirk Fund.

4. LGPS REGULATIONS IN DRAFT FORM

- 4.1 The Draft Local Government Pension Scheme (Miscellaneous Amendments)(Scotland) Regulations 2012 have been issued for consultation.
- 4.2 The regulations make a number of technical changes to the scheme rules addressing issues such as auto enrolment, the annual allowance tax charge and admission agreements.
- 4.3 The regulations also give Funds scope to amend an employer’s contribution rate if the Fund becomes aware that the employer is going to cease participation in the Fund.

5. CONSUMER PRICE INDEX

- 5.1 The Consumer Price Index (CPI) for September indicated that UK inflation was 2.2%. The September inflation rate is traditionally the figure used by the UK Government to increase public sector pensions (and various State benefits) from the following April.
- 5.2 Until 2010, Government used the Retail Price Index (RPI) as the basis for determining pension increases. Generally, RPI is higher than CPI due to the way the indices are calculated and due to RPI including housing costs (e.g. the September, 2012 RPI was 2.6%).
- 5.3 The Office of National Statistics is consulting about the way RPI is calculated. It is possible that a change in the method of calculation may be recommended which will reduce the gap that normally exists between RPI and CPI.
- 5.4 As index linked bonds are based on the rate of RPI, any reduction in the rate could lead to a fall in value of these securities. Because of the possibility of bond holders being detrimentally affected, the change may require the approval of the Chancellor of the Exchequer.

6. NATIONAL FRAUD INITIATIVE

- 6.1 The National Fraud Initiative is a data matching exercise conducted every two years by the Audit Commission to detect fraud and irregularities in various areas of public finance.
- 6.2 The Pensions Section has recently submitted pensioner and deferred pensioner data to the Commission. The main aim will be to identify pensioners who have died but for whom payments are still being claimed. The exercise also helps identify deferred pensioners who may have died without the Council being notified.
- 6.3 The results will be notified to Panel and Committee in due course.

7. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

- 7.1 The LAPFF is a lobbying group made up of 55 local authority pension funds. It exists to promote good corporate practices within the companies in which funds invest.
- 7.2 The Annual LAPFF Conference is taking place in Bournemouth from 28th to 30th November, 2012. Councillors Patrick and Blackwood have agreed to attend on behalf of the Fund.
- 7.3 In the light of the “shareholder spring”, this year’s conference will focus on how investors can add their weight to reform. Topics on the agenda include tackling top pay and restoring standards in the banking sector.
- 7.4 In terms of recent engagement with companies, LAPFF have:
- met with directors at Barclays, Lloyds, HSBC and Standard Chartered to discuss ‘true and fair view’ accounting, as well as recent fines and reputational risk in the banking sector;
 - signed an open letter to Rupert Murdoch asking the News Corp board to appoint an independent Chair at its successor companies;
 - written to the Chair of Lonmin to express deep concern regarding violence at the company’s South African platinum mine and to encourage the board to implement best practice principles in its relationships with police and security forces;
 - discussed sustainability and supply chain management with Kingfisher, the parent of B&Q; and
 - sent letters to various companies in the FTSE 350 encouraging them to improve boardroom gender balance as set out by the Davies Review.
- 7.5 The next formal meeting of the LAPFF which will set the business agenda for 2013 will be held in London in early January. The Panel and Committee may wish to consider whether they would like a delegate to attend this meeting.

9. RECOMMENDATION

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

Chief Finance Officer

Date: 1st November 2012

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL