

FALKIRK COUNCIL

Subject: GENERAL GOVERNANCE MATTERS
Meeting: JOINT MEETING OF THE PENSIONS PANEL AND COMMITTEE
Date: 12 MARCH 2015
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

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

2. PENSION FUND GOVERNANCE ARRANGEMENTS

- 2.1 At the joint meeting of the Pensions Committee and Pensions Panel on 11 December 2014, the Pensions Committee recommended that:
- the Pensions Panel be discontinued;
 - a Pension Board be established;
 - the Pensions Committee remain as presently configured (i.e. 6 Falkirk Council members plus 3 co-opted members with one each drawn from Unions, Employers and Pensioners);
 - the Pension Board should consist of 4 employer members and 4 trade union members;
 - the Trade Union members would be drawn from Unison, GMB, Unite and UCATT;
 - the employers would be drawn from Clackmannanshire Council, SEPA, SCRA and one other Scheduled or Admitted Body;
 - the place for Clackmannanshire Council would be shared with Stirling Council depending on which one was already represented on the Pensions Committee.
- 2.2 In accordance with the scheme of delegation, the recommendations were considered at the meeting of Falkirk Council on 17 December 2014 and agreed in full.
- 2.3 It was a recommendation of the Committee that in the event of the final Governance regulations allowing the Board to contain non-Union representation, then the Board should consist of 5 member and 5 employer representatives in order to accommodate a non-Union member. As it happens, the final regulations state that Board members must be from a recognised Trade Union, in which case this recommendation is no longer of relevance.
- 2.4 The Employers and Unions named above have been invited to nominate an individual to sit on the Pension Board.
- 2.5 A constitution for the Falkirk Pension Board is currently being constructed based on the model constitution agreed by the Scottish Local Government Pensions Advisory Group and will enable appropriate Governance arrangements to be put in place for the Fund.

- 2.6 The requirement for the Board to have nominated substitutes has been dropped from the final Governance regulations.
- 2.7 The Chief Finance Officer has written to the employers and Unions being represented on the Pension Board to seek nominations from them. Formal documentation relating to the Board will be finalised once nominees have been confirmed.
- 2.8 The first meeting of the Joint Pensions Committee and Pension Board will be held on 26 June 2015. Initial training for new Board Members will be arranged in late May/early June. Ongoing training will also be provided.

3. RISK REGISTER

- 3.1 The Committee has asked officers to provide a regular update on any areas of heightened risk. The following items are considered worthy of reporting:

Identified Risk per Risk Register	Reason for Change in Risk Rating
Failure of IT Systems	<p>The new pension administration system (“Altair”) is scheduled to “go live” from week commencing 9th March, 2015. The Council’s Public Service Network protocol requires that Altair runs on a network separate to that of other Council networks. This may result in technical issues in the short term.</p> <p><i>Mitigation – Staff have been provided with additional PCs that connect only to the “Altair” network. Testing has been undertaken with no adverse results. External specialist resource is being procured by ICT as a further safeguard.</i></p>
Staff error or inability to carry out duties	<p>Due to migration taking place within a compressed timescale, staff will require time in order to familiarise themselves with the new systems configuration.</p> <p><i>Mitigation – On site training has been delivered to staff by the contractor and a further tranche will be available shortly after the go live date</i></p>
Failure to implement material changes to Scheme rules	<p>LGPS 2015 contains an array of new rules for both scheme employers and the Fund. There is a risk that these rules may not be applied or may be misapplied.</p> <p><i>Mitigation – Training has been delivered to both employers and Pension Fund staff. In addition, the national websites to which employers have been directed contain valuable information about the Scheme including comprehensive guides for Payroll and HR Administrators. The new Pensions administration system will provide the full range of calculations needed to comply with LGPS 2015.</i></p>

Funding position deteriorates	<p>From April, 2015, individuals from the age of 55 in a defined contribution (DC) scheme will be able to access their pension pot by taking the proceeds as a lump sum, albeit with the element in excess of 25% being subject to a tax charge. There is a risk that a material number of LGPS members will transfer their rights to a DC arrangement in order to realise the cash sums on offer. This could lead to the Fund a) having to hold more cash, and b) facing a drain on its assets.</p> <p><i>Mitigation – individuals will be required to take advice from a professional adviser who is authorised by the Financial Conduct Authority (FCA) before transferring. Ministers will have powers to reduce the value of transfers if they consider that the cumulative scale of transfers will increase the risk of tax-payers having to intervene to support a scheme.</i></p>
-------------------------------	---

4. **SOCIAL HOUSING**

- 4.1 The Committee has agreed to make a £30m commitment to Hearthstone plc to fund Social and Affordable Housing. The Fund objective is to deliver returns of RPI + 2%.
- 4.2 An initial drawdown of £15m has been invested in a short term debt instrument pending deployment of the capital to support the Social Housing initiative. A further £1.8 million has been drawdown to support the first phase of the Affordable Housing investment. This relates to a unit in Bo'ness which the Housing Fund for Scotland intend to acquire and lease to Castle Rock Edinvar (CRE).
- 4.3 There has been a series of meetings between CRE, the Scottish Government and the housing leads of the three Councils to facilitate the social housing builds on a local basis. The position so far is that:
- The investment will be split on a ratio of 3/2/1 across Falkirk / Stirling / Clackmannanshire
 - Provisional site locations have been identified and CRE are progressing more detailed development proposals including unit numbers and sizes for agreement
 - Rent levels are to be kept under review to ensure that they are comparable to local operators and in accordance with Scottish Government funding criteria
 - In accordance with the decision of Falkirk Council's Executive on 13 January 2015 further discussions are ongoing with the Scottish Government regarding Affordable Housing Grant in order to meet the identified funding gap. Once these have been concluded a further report will be submitted to Executive for consideration.

5. **LOCAL INFRASTRUCTURE – COLLABORATION WITH LOTHIAN PENSION FUND**

- 5.1 The Pensions Committee at its meeting of 5 June 2014 agreed to invest £30m in UK infrastructure projects in collaboration with the Lothian Pension Fund.

5.2 At present, two potential investments are under serious consideration – a Scottish renewable asset and a UK regulated utility. The expected return from the investments is around 10%.

5.3 The Resourcing Agreement, whereby staff from the Lothian Pension Fund are considered to be Falkirk Council employees when working on Falkirk Fund business, has now been signed. This agreement extends to both infrastructure other investment related work being undertaken.

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 submitted pensioner and deferred pensioner data to the Commission in October, the main aim being 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 show that one elderly pensioner, resident in a Nursing Home, had died in mid-2014 and that his pension had continued to be paid until his death was identified through the NFI exercise. A survivor's pension is payable to the deceased's 85 year old widow which will allow the pension overpayment to be recovered. No other irregularities were reported.

7. ABOLITION OF CONTRACTING OUT

7.1 As part of the Government initiative to introduce a Single Tier State pension, contracting out is being abolished from April, 2016.

7.2 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. In return, the Scheme has to guarantee that pensions in retirement will be not less than a guaranteed minimum – the Guaranteed Minimum Pension (GMP). Broadly speaking, the State is responsible for indexing the GMP and the Scheme responsible for indexing the rest of the pension.

7.3 The impact on Falkirk Council alone of losing the Contracting – Out Rebate has been estimated at around £4m per annum.

7.4 The GMP is calculated by HM Revenue and Customs (HMRC), based on employers' national insurance returns, and is a key component in ensuring that scheme members receive the correct inflationary increases on their benefits.

7.5 HMRC will only accept queries in relation to the GMP until 2018. They have launched a reconciliation service to assist schemes in verifying that all GMP liabilities attributed to their scheme are valid.

- 7.6 The scale of the reconciliation exercise is such that it is likely to be more cost effective for the work to be carried by an external provider. Initial estimates suggest that the cost of preliminary reconciliation and analysis will be in the order of between £8,000 - £10,000. This work is considered necessary to satisfy the Regulator's data quality standards; to ensure that as far as possible that pensioners are receiving the correct level of pension; and to check that no liabilities are being incorrectly attributed to the Fund.

8. STAFF TRANSFER – ADVICE SERVICE PARTNERSHIP

- 8.1 Agreement has been reached in principle for a small section of staff from Stirling Council to be transferred to the Advice Services Partnership (ASP). This is a not for profit social enterprise, which specializes in providing financial advice to the local community.
- 8.2. Stirling Council, in its role as a fund employer wishes to protect the pension rights of the dozen staff being transferred by allowing them continued access to the Local Government Pension Scheme. To this end, Stirling has agreed to act as guarantors of ASP's admission to the Scheme and has accepted responsibility for all pension liabilities of transferred staff. This includes any underpayment by ASP of employer contributions and any current or future funding deficit.
- 8.3 Where a local authority is entering into a contract with a third party which involves a staff transfer and the local authority wishes the staff to have continued access to the Scheme, then the Fund is obliged to allow the new employer to have access to the Scheme.
- 8.4 As Stirling Council has accepted responsibility for ASPs participation in the Scheme, there is no financial risk to other fund employers as a result of the staff transfer.

9. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

- 9.1 The LAPFF represents the interests of over 60 local authority pension funds with combined assets of around £120 billion. Its mission is to promote the highest standards of corporate 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 During the last quarter, LAPFF activity has included:
- Meeting the chairmen of BP and Shell to discuss their carbon management strategy and promoting a resolution calling for Shell to disclose a longer term carbon strategy
 - Holding conference calls held with various defence companies regarding the sale and production of cluster munitions
 - Meetings with Kier and Carillion over alleged blacklisting of Trade Union members
 - Successive meetings and calls with Trinity Mirror regarding the phone hacking scandal
 - Meetings with the BG Group regarding the nature of their CEO's remuneration package

- 9.4 The LAPFF have signalled that corporate tax avoidance will be a focus of their activities in 2015.
- 9.5 Councillor Kieran Quinn, chairman of LAPFF, has agreed to attend the September meeting of the Pensions Committee / Board to talk about the work of LAPFF.
- 9.6 The LAPFF Annual Conference is being held in Bournemouth on 2nd – 4th December, 2015. Committee may wish to consider sending delegates to this event.

10. PENSION FUND ANNUAL CONFERENCE

- 10.1 The Fund Annual Conference is taking place on the morning of 16th April, 2015 at Callendar House, Falkirk. Formal invitations will be issued shortly.
- 10.2 Speakers will include representatives from Hymans Robertson, Northern Trust and Legal and General.

11. RECOMMENDATION

- 11.1 The Pensions Panel and Committee are asked to note the contents of this report and invited to comment as appropriate.

Chief Finance Officer

Date: 27 February 2015

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL