

The background of the slide features a large, light blue outline of the Coat of Arms of the Government of Yukon. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on wavy lines representing water. The top-right quadrant shows a bison's head facing left. The bottom-left quadrant shows a bison's head facing right. The bottom-right quadrant shows a bison's head facing left. Above the shield is a crown with four points, each topped with a flower. A banner at the bottom of the shield contains the motto "A NE FOR A'".

AGENDA ITEM

8

GENERAL GOVERNANCE MATTERS

FALKIRK COUNCIL

Subject: GENERAL GOVERNANCE MATTERS
Meeting: JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD
Date: 23 JUNE 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. RISK REGISTER

- 2.1 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 project to transfer the pensioner payroll of 10,000 records from the current payroll system to a new platform within the Altair administration system is underway. It is intended to “go live” with the new system in either July or August.</p> <p><i>Mitigation –Parallel running to test the robustness and accuracy of the new systems has been taking place. There is also an option to continue with the old system for several months should any issues arise. An adviser from the Altair team will be on site at the point when it is decided to produce the first payrun in the new system.</i></p>
Failure to meet statutory deadlines	<p>The timescale for producing annual benefit statements has been brought forward to 31st August. Failure to meet the deadline will require the Fund to self-report to the Pensions Regulator. One employer has experienced difficulties in producing satisfactory year end data for 14/15 and has still to submit data for 15/16.</p>

<p>Funding position affected by falling asset values or falling bonds yields</p>	<p><i>Mitigation – The Pensions Team is working with this employer to accommodate the issues surrounding their data.</i></p> <p>The possibility of the UK leaving the European Union may create short term market volatility and may have an adverse impact on asset values.</p> <p><i>Mitigation – The Fund holds a diverse portfolio of global assets with around 70% being in assets other than UK or European Equities. Moreover, many of the UK Equities will be exposed to global rather than purely European markets. Should a worsening of the UK's credit rating lead to a rise in interest rates, this would actually reduce the value of the Fund's liabilities as they are benchmarked to bond yields. Equally, a fall in Sterling against other currencies would result in an appreciation of assets denominated in non-Sterling currencies.</i></p>
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3. PUBLIC SECTOR EXIT PAYMENTS

- 3.1 Under powers contained in the Enterprise Act 2016, the UK Government intends to place a cap of £95k on the total exit payments that can be made to public sector individuals where the payment is in connection with loss of employment. The £95k includes any “pension fund strain payments” and could therefore have an adverse impact on severance programmes. The provision is planned to come into force in Autumn 2016 and is UK wide.
- 3.2 The UK Government is also making provision for the recovery of exit payments where individuals earning £80k p.a. or more return to the public service with 12 months of having previously left it. The sum to be recovered from the individual will include any strain payment which an employer may have paid to the Pension Fund to secure the early payment of scheme benefits. This provision will require to be progressed by Scottish Ministers.

4. POOLING

- 4.1 The project to merge the assets of 89 LGPS Funds in England and Wales into roughly eight pools of £25bn each is continuing.
- 4.2 The proposals are being overseen by the Department of Communities and Local Government, but with HM Treasury being the primary driver for change. The Government's stated objectives are twofold – to reduce fund manager fees and to pool Fund assets so that in their aggregated state they can play a more significant role in the financing of large scale infrastructure projects.
- 4.3 Asset allocation decisions will continue to be made locally by Funds, but manager selection will be undertaken by independent Boards responsible for each of the separate pools. The savings being targeted are £200 - £300m p.a. after ten years. However, savings are to be defrayed initially by trading and re-alignment costs.

4.4 It is intended that:

- Current rules limiting the sums that can be invested in specific investment vehicles are to be abolished;
- In return for the limits on investments being removed, local funds will need to have their investment strategies approved by Government;
- Funds will have scope to set their own investment strategy and asset allocation on a “prudent man” basis;
- The governing body of the pool will be responsible for implementing the policies of the local funds policies on ESG;
- The majority of each Fund’s assets (i.e. 90 – 95%) will be in pools, with the remainder held by the Fund for investments in local infrastructure or direct property;
- There will be a significant allocation to passive investment; and
- liquid assets, such as private equity, will not transfer to the pool and will be held with the local Fund until realised.

4.5 The timetable for taking forward the initiative is as follows:

Feb - July, 2016	Funds to submit detailed proposals to Government including the composition of proposed pools
October, 2016	Government to sign off proposals
July, 2018	Assets to transfer to the pool

4.6 Although the proposals relate only to England and Wales, they will clearly be of interest to the Scottish LGPS community, including Scottish ministers and the Scottish Scheme Advisory Board.

5. CORPORATE GOVERNANCE MATTERS

5.1 The Fund is a member of the Local Authority Pension Funds Forum (LAPFF). LAPFF represents 70 local authority pension funds with combined assets of around £175 billion. Its exists to promote the highest standards of corporate governance and social responsibility amongst the companies in which member funds invest.

5.2 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.

5.3 Last quarter saw LAPFF hold face to face meetings or have written exchanges with

Tesco, SSE, Direct Line, ITV, Dixons Carphone and Google - tax transparency

BHP Billiton – Social Risk and Environment matters

BP – Climate Change

- 5.4 In relation to tax transparency, the release of “the Panama Papers” has heightened awareness of the issue. Whilst the papers focused mainly on personal taxation issues, LAPFF continues to lobby for full country-by-country disclosure going beyond EU proposals which are only seeking disclosure from EU countries and a selected list of tax havens.
- 5.5 Falkirk Council was one of 18 LGPS Fund 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. The resolution was passed with a 96% vote in favour and should lead to greater disclosure of Anglo American’s strategic approach to global climate and energy challenges.

6. TRAINING EVENT

- 6.1 Baillie Gifford is hosting an LGPS Training and Investment Seminar on 5th and 6th October in the Surgeons’ Hall, Edinburgh. The event will run from lunchtime on the 5th to lunchtime on the 6th.
- 6.2 The first day involves an introduction to asset classes and asset allocation, together with specialist workshops on topics such as climate change, technology and dealing costs. The second day will look at issues such as the return prospects for various asset classes and ESG matters. There will also be strategy roundtables and the opportunity to quiz the Baillie Gifford investment team.
- 6.3 The invitation is available for up to 5 members. The Baillie Gifford events are usually well organised and informative. Any members wishing to attend should contact Alastair McGirr so that acceptances can be registered.

7. RECOMMENDATION

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

pp **Director of Corporate & Housing Services**

Date: 13 June 2016

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL