

Falkirk Council

Subject: General Governance Matters

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 22 September 2016

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. Recommendations

- 2.1 **The Pensions Committee and Pension Board are invited to note the contents of this report.**
- 2.2 **The employer side of the Pension Board is invited to nominate a Chair.**

3. Matters for Consideration

- 3.1 The following matters are considered in the body of the report
- Risk Register
 - Annual Benefit Statements
 - Board Membership and Governance Review
 - Public Sector Exit Payments
 - Corporate Governance Issues
 - Training Opportunity

4. Risk Register

- 4.1 The project to transfer the pensioner payroll of 10,000 records to a new platform within the Altair administration system was completed on schedule in July. This had been highlighted as an area of increased risk at the June Committee. All pensioners are now being successfully paid via the new system.
- 4.2 The main area of heightened risk that is considered worthy of reporting this quarter is as detailed overleaf:

Identified Risk per Risk Register	Reason for Change in Risk Rating
Funding position affected by falling asset values or falling bonds yields	<p>The UK vote to leave the European Union could impact on economic growth and result in interest rates remaining lower for longer. This in turn could push liabilities higher and lead to more pressure on employer contribution rates. Employers with a weaker covenant could find it difficult to maintain contributions at the required level.</p> <p><i>Mitigation – The Fund is a long term investor with the capacity to survive adverse economic conditions. A proportion of the Fund's assets such as Bonds, Property and Infrastructure are designed to match liabilities and be stable sources of return irrespective of economic conditions. Recognising the difficulties that could be faced by employers, discussions are underway with the actuary to determine whether certain funding assumptions can prudently be relaxed to dampen contribution increases. The Funding Update presented to the Committee and Board makes reference to this early engagement with employers.</i></p>

5. Annual Benefit Statements

- 5.1 The time available to Funds in which to produce member benefit statements has been reduced from 12 months after year end to 5 months (i.e. by 31 August). Failure to meet the deadline requires a Fund to self-report to the Pensions Regulator if a breach is material. Whilst 70% of the Falkirk Fund statements have been issued on or around 31 August, the balance of 30% continues to be worked upon. This constitutes a breach of the regulations and will require to be reported to the Regulator.
- 5.2 Two employer returns for 2015/16 remained outstanding at the beginning of September and a number of other returns were received after the requested submission date of May, 2016. In some cases, data had not been reconciled by employers to payments made during the year and there had been a failure to notify the Fund of all in year starters and leavers.
- 5.3. To minimise the risk of a breach occurring in the future and in line with the recommendation in the Annual Audit Plan, it is suggested that an Administration Strategy document be drafted to reinforce the timescales and standards expected of employers. The document would be framed to include sanctions for non-compliance.

6. Board Membership and Governance Review

- 6.1 There have been a number of recent changes to the Pension Board. Gordon Laidlaw has retired and his replacement is Simon Hunt, the new Director of Finance at Scottish Autism. The full list of Board members is as follows:

Employer Members	
Councillor Balsillie	Clacks C.
Ed Morrison	SCRA
Jennifer Welsh	SEPA
Simon Hunt	Scottish Autism

Union Members	
Susan Crook	Unison
Tommy Murphy	GMB
Sandy Harrower	UCATT
Gordon Irvine	Unite

- 6.2 The current Board Chair is Susan Crook. As the Board chair is rotated annually between the Employer and Union sides, the employer side is invited to nominate their chair. The employer nominated chair would become Board chair with effect from June, 2017. It is anticipated that the majority of Board meetings will continue to be joint meetings with the Committee, in which case the meeting will be chaired by the Convener of the Pensions Committee.
- 6.3 The Scottish Government is undertaking a review as to the effectiveness of how Pension Boards are operating. The review will cover all 11 Boards set up for the Scottish Local Government Pension Funds as well as those covering Police, Fire and NHS. Falkirk Fund Board members have been invited to submit any comments on the review terms of reference to the Board chair.

7. Public Sector Exit Payments

- 7.1 It has now been clarified that the powers contained in the Enterprise Act 2016 capping exit payments (including pension fund strain) at £95k are subject to Scottish Government approval rather than having automatic UK wide application.
- 7.2 Similarly, the requirement for those earning over £80k p.a. to repay exit payments if returning to public service within 12 months of having so left is also subject to Scottish Government approval.

8. Corporate Governance Issues

- 8.1 The Fund discharges its obligations as a responsible investor by monitoring the engagement efforts of its Fund Managers and by being a member of the Local Authority Pension Funds Forum (LAPFF). LAPFF represents 70 local authority pension funds and exists to promote the highest standards of corporate governance and social responsibility amongst investee companies.
- 8.2 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.

- 8.3 Last quarter saw LAPFF hold face to face meetings or have written exchanges with
- Sainsbury - tax transparency
 - Halfords – Board Diversity
 - Total, BP, Glencore, Rio Tinto and Shell – carbon and environmental risk
- 8.4 Significant engagement has also taken place at manager level with Newton having one to one engagement with the management of 217 companies (including 20 meetings on ESG matters) and Schroder 59 meetings with UK companies. A high profile example of manager intervention has been Legal and General's call for institutional investors to vote against the re-election of the Sports Direct Chairman in response to the working practices of the company.
- 8.5 Corporate governance reform appears to have been given renewed impetus with one of Theresa May's first public pronouncements as Prime Minister being to call for:
- greater worker representatives on boards
 - greater pay transparency, and
 - binding votes on executive pay
- 8.6 A Fund Seminar on ESG matters is being held on 24 October 2016 in Falkirk Town Hall. This will be a morning and afternoon event. Invitations are being issued to employer and union representatives as well as members of the Pensions Committee and Board. The event will be an opportunity for attendees to hear the views of Advisers, Fund Managers and Environmentalists. A provisional agenda for the day is attached as Appendix 1 to this report

9. Training Opportunity

- 9.1 An Investment seminar with free places for local authority delegates is taking place on 27 and 28 October in Edinburgh. The event is being promoted by the Local Government Chronicle and is being held in the Radisson Blu in the Royal Mile.
- 9.2. The theme of the event is "Generating Growth for your Fund". Details of the event are attached at Appendix 2.
- 9.3 Please email Alastair McGirr if you wish to attend this event.

pp **Director of Corporate & Housing Services**

Author: Alastair McGirr, Pensions Manager
01324 506333 alastair.mcgirr@falkirk.gov.uk

Date: 8 September 2016

Appendices

Appendix 1 – Provisional agenda for ESG Seminar on 24 October 2016

Appendix 2 – LGC Investment Seminar 27-28 October 2016

List of Background Papers:

None

Falkirk Council Pension Fund
Seminar on ESG issues – 24 October 2016

Outline Agenda

09.30 Chair's introduction

- What are the objectives for the day? What are the anticipated outputs? Ground rules.

09.40 Background/Framework (William)

- Legislative/regulatory background
- Fund specifics. Investment beliefs.
- Embedding ESG considerations into an investment strategy process

10.15 Sustainability and the environment (Terry Ahearn, SEPA)

10.45 Coffee break

11.00 Panel session on sustainability, carbon risk & climate change

- Background to the problem/financial risk (Carbon Tracker)
- Advocating for change (FoE)
- Investment managers perspective (Schroder/Newton?)

Aim is to give each speaker 15 minutes to set out their thoughts on the issue and then move into a Q&A session initially with questions from the Chair and then questions from the floor.

12.30 Measuring and monitoring carbon risk (Simon/Alastair)

How is carbon risk measured and what information has been provided by the fund managers on current carbon exposure? How can this information be used by the fund?

This session could also touch quite naturally on carbon tilted indices.

13.00 Lunch

13.30 Dealing with other ESG issues

- Embedding ESG issues into an active investment process (Baillie Gifford)
- Engagement/Voting as a means of adding value (LGIM)

14.15 Case study (ideally, representative from EAPF)

- What can be done by market leaders?

15.00 Coffee break

15.15 Discussion on issues that concern Falkirk (Q&A session moderated by Chair)

15.45 Summary (William/Bryan)

16.00 Close

Patrick, John

From: Sarah Ovens [Sarah.Ovens@emap.com]
Sent: 02 September 2016 11:55
To: Patrick, John
Subject: Venue now confirmed for the LGC Investment Seminar in Scotland
Follow Up Flag: Follow up
Flag Status: Red

Hi John,

You should have received the below invitation last week. If you could let us know as soon as possible if you are free to join us I would be most grateful as places are filling fast and we would love a representative from Falkirk. Also, if you could forward this on to anyone on your team who may wish to join us free of charge, that would be great.

Thanks,

Sarah

[Local authority delegates can attend for free](#)
[View email in browser](#) | [Forward to a friend](#)


27 - 28 October
 Edinburgh, 2016

FREE TO ATTEND!

For local authority delegates
 - learn more

[ABOUT](#)[SPEAKERS](#)[WHY VISIT](#)[SPONSORS](#)

Venue now confirmed for the LGC Investment Seminar in Scotland

Dear Colleague,

Through a combination of topical plenary sessions and workshops dedicated to particular groups, the LGC Investment Seminar Scotland will provide an ideal opportunity for funds in Scotland to network, gain critical insight and share knowledge.

The venue is now confirmed for this educational seminar. It is taking place from lunchtime to lunchtime on **27-28 October 2016** at the **Radisson Blu situated on the Royal Mile in Edinburgh**.

For the inaugural event, delegate places will be complimentary for pensions officers, councillors with pension committee responsibilities and pensions board members from the LGPS funds in Scotland, NILOGSC and the north of England. This will include attendance at the networking dinner and accommodation for the night of 27 October.

The theme of the event is "Generating growth for your fund" and programme is currently being finalised. Our sessions include:

- Update on infrastructure (including housing, transport and energy) and impact investing. Explanation of the investment regulations and fiduciary duty; outlining where there are potential opportunities in Scotland and how to deliver it locally. **Richard McIndoe**, Head of Pensions from **Strathclyde Pension Fund** will outline the effect of impact investing
- Debate on what keeps the investment managers awake at night? Which economic and investment issues should funds start thinking about now which will have implications on

investment strategy in the next 2 or 3 years

- Update on the national picture from key stakeholders including the SSPA and CIPFA Scotland
- Case study on the **Universities Superannuation Scheme (USS)** experience: **Howard Brindle**, Chief Operating Officer will outline the pros and cons, scale needed, and other considerations for in house investment management
- Catch up on pooling in England/Wales. Topical discussion of the current and prospective ways in which funds in England and Wales are working together to deliver savings and optimise investment returns. What is the knock on effect from pooling for funds not involved
- 2 dedicated stream sessions (1 for committee members and pension board members and 1 discussion session for pension fund officers)

The event is kindly supported by BlackRock, Capital Dynamics, Columbia Threadneedle Investments, Fidelity International, Legal & General Investment Management and Wellington Management.

More information on the event will follow but to secure places for your fund, please contact Juliet Cavanagh-Eyre:

- Tel - 020 3033 2651
- Email - Juliet.cavanagh-eyre@emap.com
- Web - [Register your interest online](#)

Kind Regards,

Jenny Vyas
Public Sector Events Director

P.S. - Interested in sponsoring this event?

Please contact Francis Barham on tel 020 3033 2912 or email francis.barham@emap.com

Sponsors

BLACKROCK

CapitalDynamics



**COLUMBIA
THREADNEEDLE**
INVESTMENTS

Fidelity
INTERNATIONAL

**Legal &
General**
INVESTMENT MANAGEMENT

**WELLINGTON
MANAGEMENT***

This email was sent to juliet.cavanagh-eyre@emap.com

If you wish to unsubscribe to emails from Local Government Chronicle with information about **events and related products and services** please click [here](#)

If you wish to unsubscribe from all marketing communications from all [EMAP brands](#) please click [here](#)

EMAP Publishing Limited, Company number 7880758.
C/o Ascential Group Plc, The Prow, 1 Wilder Walk, London, W1B 5AP. Registered in England and Wales.