

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. 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 depicts a stag's head with large antlers. The bottom-left quadrant contains a beaver. The bottom-right quadrant shows a grizzly bear standing on its hind legs. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

## **Agenda Item 9**

### **General Governance Matters**

## FALKIRK COUNCIL

**Subject: General Governance Matters**

**Meeting: Joint Meeting of Pensions Committee and Pension Board**

**Date: 21 June 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 areas of heightened risk for the Fund:

Identified Risk per Risk Register	Reason for Change in Risk Rating
Failure to meet statutory requirements	<p>The coming into effect of the General Data Protection Regulations (GDPR) places new obligations on bodies that hold personal data. Failure to comply with the regulations carries the risk of fines from the Information Commissioner.</p> <p><i>Mitigation – As outlined in a separate report, various measures have been taken to aid compliance with the new legislation (i.e. creation of a Privacy Notice and the exchange of data protocols with 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 appendix 1 to this report. The main items highlighted are:
- Structural Review of the Scheme
  - Financial state of Funds following the 2017 Valuations

- New Scheme Regulations
- Cost Transparency (i.e. relates to investment costs)

4.2 The structural review of the Scheme is taking place as part of the agreement between employers and Unions leading up to new version of the LGPS in 2015. Following consideration by Derek Mackay, the Cabinet Secretary, the SAB have been asked to consult stakeholders on various 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

4.3 A consultation paper will be published in June 2018 with the consultation expected to run until December, A seminar publicising the consultation is taking place on 27<sup>th</sup> June. Unfortunately, this coincides with the next meeting of Falkirk Council and prevents any Falkirk Council elected members attending. A number of Pension Board members are however attending along with some non-Falkirk members of the Committee.

## **5. Administration Issues**

5.1 The following administrative tasks have recently been completed successfully:

- Pensioners paid their annual pensions increase (3% this year)
- P60 documents mailed to pensioners

5.2 A new set of LGPS Regulations came into effect on 1 June 2018. These consolidate the regulations made since 2014 and introduce several new provisions, namely:

- to give members the right to “cash in” their AVC once they attain age 55 without having to retire
- to give members the right to take their benefits on retirement from age 55 without requiring employer consent
- to give administering authorities more flexibility in managing the liabilities of employers who leave the Scheme.

5.3 Committee and Board will recall that following the recent Fund valuation, a number of very small Fund employers indicated that in view of the costs of scheme membership they would like to leave the Fund and the Local Government Pension Scheme. One option, which was outlined at the March meeting of the Committee and Board and which is being progressed, is for the three Councils in the Fund to act as guarantors of the organisations’ pension fund liabilities.

5.4 The proposal, if approved by the Councils, would allow the various organisations to exit the Fund without having to make substantial exit payments. There would be no

cost to the Councils as the organisations would only be allowed to leave on these terms if they were fully funded.

- 5.5 A report seeking the approval of Falkirk Council (in its role as a scheme employer) is being tabled at the next full Council meeting on 27<sup>th</sup> June. Similar reports are expected to be tabled at Stirling and Clackmannanshire Councils in the near future.

## **6. Corporate Governance**

- 6.1 The Fund discharges its obligations as a responsible investor:

- by voting its shares;
- by monitoring the engagement efforts of its Managers; and
- by being a member of the Local Authority Pension Funds Forum (LAPFF).

- 6.2 LAPFF is supported by PIRC Ltd, who are the Forum's research and engagement partner. PIRC are also the Fund's voting agents and advisers on ESG matters.

- 6.3 Recent activity has seen LAPFF engage with:

- Lloyds Banking Group on cybersecurity
- Rolls-Royce and Volkswagen on the companies' approach to climate risk
- Wizz Air regarding fuel efficiency measures
- Ford on their fleet emissions being inconsistent with Paris Climate accord
- National Express on their relationship with Trade Unions
- Motorola regarding business activities in the West Bank and East Jerusalem
- Provident Financial on their staffing reorganisation programme

- 6.4 LAPFF have also recently published reports into:

- the potential risks of investing in companies using zero hours contracts and agency workers (sometimes referred to as precarious work); and
- share buybacks, debating whether these are vehicles for releasing shareholder value or simply a device to enhance earnings per share and boost director bonuses.

- 6.5 In relation to climate change, LAPFF are partnering the "50:50" Climate Change Project which is an initiative to encourage the 50 largest public companies to create effective long term climate change strategies. An initial report showed that 8 of the top 10 asset managers including Blackrock, Fidelity, JP Morgan and BNY Mellon had relatively poor records in supporting key climate related resolutions at company AGMs. It was noted that Northern Trust who is the Fund's custodian but is also an asset manager had a comparatively good record.

## 7. Voting

7.1 During Q1, PIRC voted at the following 20 company meetings and cast 211 votes.

APPLE INC	AGM	13/02/2018
BANCO BRADESCO	CLASS	12/03/2018
BANK HAPOALIM B M	EGM	05/02/2018
COMPUTACENTER PLC	EGM	12/02/2018
COSTCO WHOLESALE CORPORATION	AGM	30/01/2018
CVS HEALTH CORP	EGM	13/03/2018
DEBENHAMS PLC	AGM	11/01/2018
EBARA CORP	AGM	28/03/2018
FOMENTO ECONOMICO MEXICANO	AGM	16/03/2018
INTUIT INC.	AGM	18/01/2018
JAPAN TOBACCO INC	AGM	27/03/2018
NOVARTIS AG	AGM	02/03/2018
PROVIDENT FINANCIAL PLC	EGM	21/03/2018
SAMSUNG SDI CO LTD	AGM	23/03/2018
SUNTORY BEVERAGE & FOOD LTD	AGM	29/03/2018
TESCO PLC	EGM	28/02/2018
VISA INC	AGM	30/01/2018
TRINITY MIRROR PLC	EGM	27/02/2018
WAL MART DE MEXICO SA	AGM	22/03/2018
WALGREENS BOOTS ALLIANCE	AGM	17/01/2018

7.2 Some specific instances where oppose votes were cast were as follows

APPLE INC	Excessive executive pay
COSTCO WHOLESALE CORPORATION	Auditor in place for more than 10 years
DEBENHAMS PLC	CEO Pay was 57 times average worker's pay
INTUIT INC.	Combined Chair and CEO
NOVARTIS AG	Chair is former Chief Operating Officer
VISA INC	5 Non Exec. Directors in place for more than 9 years

7.3 The majority of oppose votes were in relation to

- Executive Pay
- Directors serving on company boards for more than 9 years
- Auditors in place for more than 10 years
- Auditors receiving high fees from a company for non-audit services

- 7.4 Details of how the Fund votes were cast across various categories are attached at Appendix 1.

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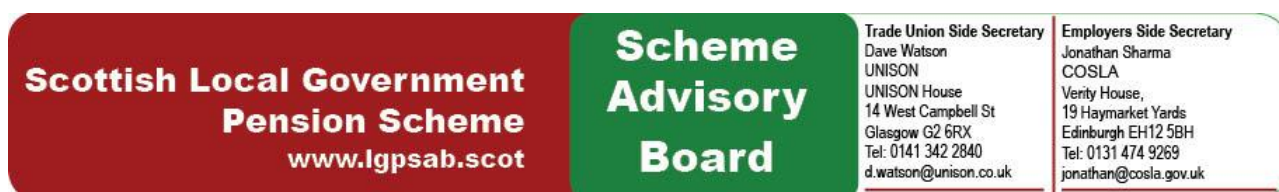
**Appendices**

Appendix 1 – Scheme Advisory Board Newsletter

Appendix 2 – Q1 2018 Voting Analysis

**List of Background Papers:**

None



May 2018

## BULLETIN

### Structure Review

The Board has agreed a consultation process for the structure review. Consultants from the Pensions Institute are drafting a consultation paper and this will be published in mid-June. There will be a seminar on the morning of 27 June in Edinburgh, to introduce the consultation. An invitation to pension board/committee members, employers and trade unions has been circulated.

The consultation will close in December and the Board will consider its advice to ministers early in 2019.

### Fund valuation

The Board received an update on Hymans assessment of the 2017 Valuation. In summary, the picture is broadly healthy, although there are still challenges to face around the cost of the scheme going forward. Fund assumptions will not necessarily be consistent across the scheme as fund actuaries use different demographic assumptions and discount rates. There is no timetable as yet for the s13 report on the overall scheme as required by pensions legislation.

### Regulations

New SLGPS regulations which contain important changes on early retirement from the age of 55 without consent and cessation flexibilities have been laid before the Scottish Parliament. The new regulations will apply from 1<sup>st</sup> June 2018.

### Annual report

The 2017/18 annual report has been published and can be viewed on the SAB website. A working group will be looking at common data sets across the scheme to inform next year's annual report.

### Governance

In line with the governance review there will be a meeting of pension board/committee chairs with the Scheme Advisory Board on a date to be agreed.

### Pension Developments

The Board considered a paper on current Pension issues, including the cost transparency work by the FCA, pension increase update and GMP regulation. It noted developments in the England and Wales transparency code and will consider how to link in with that work at its next meeting.

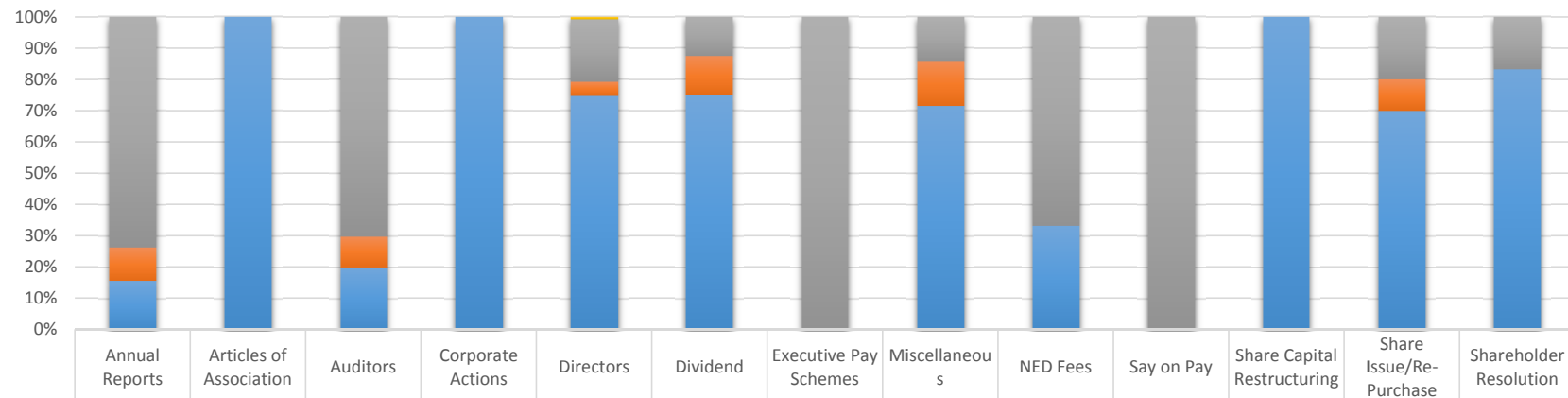
Further details on our website [www.lgpsab.scot](http://www.lgpsab.scot)

## Votes Made by Region per Resolution Category - Portfolio

2018-01-01 - 2018-03-31

	For	Abstain	Oppose	Withheld
Annual Reports	3	2	14	0
Articles of Association	3	0	0	0
Auditors	2	1	7	0
Corporate Actions	3	0	0	0
Directors	98	6	26	1
Dividend	6	1	1	0
Executive Pay Schemes	0	0	4	0
Miscellaneous	5	1	1	0
NED Fees	1	0	2	0
Say on Pay	0	0	6	0
Share Capital Restructuring	1	0	0	0
Share Issue/Re-Purchase	7	1	2	0
Shareholder Resolution	5	0	1	0
	<b>134</b>	<b>12</b>	<b>64</b>	<b>1</b>

Votes made in the portfolio per resolution category



■ For ■ Abstain ■ Oppose ■ Withheld