Agenda Item 9

General Governance Matters

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Falkirk Council

Subject: **General Governance Matters**

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

Date: **19 March 2020**

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. Scheme Advisory Board

3.1 The role of the Scheme Advisory Board (SAB) is to advise the Scottish Ministers on the desirability of changes to the Scheme rules and to assist Funds in the effective management of the Scheme. The Annual Report of the Scheme Advisory Board (SAB) for 2018/19 was published in mid February.

3.2 The report noted that collectively the Scottish LGPS Funds had over 575,000 members and assets in excess of £48bn. Falkirk are the 6^{th} largest Fund out of the 11 Scottish funds.

3.3 The report noted that a significant part of the SAB's work related to the structural review of the Scheme which, as previously reported, is still ongoing with a further tranche of work expected to be commissioned from consultants in the near future.

3.4 The report highlighted areas of continuing interest to the SAB, including

- Cessation Issues (surrounding admitted bodies)
- McCloud Ruling
- Cost Transparency of Investments

3.5 The full report can be found at the SAB website https://lgpsab.scot

4. McCloud

4.1 This relates to the Supreme Court ruling that a certain provision of the 2015 LGPS Scheme was age discriminatory. The offending regulation – known as the underpin – provided that members who were within 10 years of retiring on 31 March, 2012 would not be made worse off by having to retire under the terms of the new 2015 Scheme.

4.2 In order to remedy the discrimination, it is expected that all members in the scheme on 31 March 2012 will have to be provided with "underpin" protection - at least for the period up to March 2022 (i.e. 10 years from 2012).

4.3 Additional sums payable to members are expected to be minimal (perhaps nil in most cases). However, in order to assess this, all scheme leavers from 2015 and any new leavers will need to be reviewed in order to determine if they would have qualified for an underpin payment.

4.4 A large implementation group made up of practitioners, member representatives, actuaries, software providers, employers and representatives from all UK LGPS Funds has been established to consider the challenges of implementing and communicating the scheme change that will be needed.

5. Pensions Increase

5.1 The UK Government has confirmed that Public Sector Pensions will be increased by 1.7% from 6 April 2020. Career Average benefits will also be revalued by the same percentage.

6. Corporate Governance Issues

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 During the quarter to December, 2019. LAPFF undertook 50 engagements with companies on the following matters: including:

- ArcelorMittal – securing agreement of company to publish details of trade body memberships
- National Grid – on the company's net zero transitioning plans
- Southern Company - on setting net zero targets and getting the company to withdraw from the American Coalition for Clean Coal Electricity trade body
- National Express – on improved labour relations
- Boeing - on its governance arrangements in the light of the 737 Max disasters

- Sainsbury - on the imminent release of its formal sustainability strategy including cutting single use plastic by 50% by 2025 and reporting in line with the Taskforce on Climate-related Financial Disclosure (TCFD).
- BP – on further developing carbon intensity reporting of capital projects

6.4 LAPFF also met with members of the communities affected by the South American dam catastrophes involving Vale and BHP Billiton.

6.5 The LAPFF engagement report for Quarter 4 has been uploaded to the Sharefile portal. Copies of most recent Fund manager investment and engagement reports have also been uploaded.

7. Climate Change Engagement

7.1 On the theme of climate change and positive engagement, several corporate commitments have been made recently designed to align business practices with the Paris agreement. Of stocks held by Falkirk, this has included BP and RBS.

7.2 BP has published its "Five aims to get BP to net zero" as follows:

1. Net zero across BP's operations on an absolute basis by 2050 or sooner.
2. Net zero on carbon in BP's oil and gas production on an absolute basis by 2050 or sooner.
3. 50% cut in the carbon intensity of products BP sells by 2050 or sooner.
4. Install methane measurement at all BP's major oil and gas processing sites by 2023 and reduce methane intensity of operations by 50%.
5. Increase the proportion of investment into non-oil and gas businesses over time.

7.3 RBS have committed to "helping to end the most harmful activity by progressively withdrawing support from non-net zero aligned activity in the coal, oil and gas sectors, if they do not have credible transition plans in line with the Paris Agreement in place by end of 2021", to "at least halve the climate impact of our financing activity by 2030."

7.4 The RBS commitment is similar to a resolution co-sponsored by Falkirk which will be voted on at the forthcoming Barclays AGM. A briefing note on the background to the resolution is attached at Appendix 1 of the report. The 11 investors who sponsored the resolution are the Arcus Foundation; As You Sow; Brunel Pension Partnership; Falkirk Pension Fund; Folksam; Jesuits in Britain; Lankelly Chase; LGPS Central; Merseyside Pension Fund; Methodist Church; Sarasins & Partners. The Church of England Pension Board and NEST have now both publicly declared their support for the resolution.

8. Voting

8.1 Details of how Fund votes have been cast across various categories during the last complete quarter (Quarter 4) have been uploaded to Sharefile.

9. Annual Conference

9.1 The Pension Fund Annual Conference is being held on the morning of 23 April, 2020 at Callendar House, Falkirk.

9.2 Topics to be covered will include the Fund Valuation, Property as an asset class and recent market developments

9.3 Details of the event will be circulated shortly meantime please note the date and venue.

Director of Corporate & Housing Services

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Appendices

Appendix 1 – ShareAction Note on Barclays Climate Change Shareholder Resolution

List of Background Papers:

None

ShareAction»

Barclays Plc
Shareholder resolution on climate change

Overview

- 11 institutional investors managing over £130 billion in assets have filed a climate-related shareholder resolution at Barclays;
- The proposal requests that the bank publishes a plan to gradually phase out the provision of financial services to energy companies and to utilities that are not aligned with the goals of the Paris climate agreement;
- Barclays is the largest financier of fossil fuels in Europe and the sixth largest globally, providing US $85 billion of finance to fossil fuel companies since 2015;
- Shareholders will vote on the resolution at Barclays' annual general meeting in May 2020.

The Resolution

The shareholder resolution at Barclays is the first climate change resolution filed at a European bank.

The resolution requests that Barclays publishes a plan to gradually phase out the provision of financial services (including project finance, corporate finance, and underwriting) to companies in the energy sector, and to gas and electric utilities that are not aligned with Article 2.1(a) and Article 4.1 of the 2015 Paris climate agreement.

It also encourages Barclays to consider the social dimension of the transition to a low-carbon economy by including a "just transition" ask in the supporting statement. Investors representing more than US $5 trillion have expressed support for the just transition[1].

You can find the full resolution wording and supporting statement on the ShareAction website.

Who is involved?

The resolution was co-filed by 11 institutional investors managing over £130 billion in assets, alongside over 100 individual Barclays shareholders.

The 11 institutional investors are: Arcus Foundation; As You Sow; Brunel Pension Partnership; Falkirk Pension Fund; Folksam; Jesuits in Britain; Lankelly Chase; LGPS Central; Merseyside Pension Fund; Methodist Church; Sarasins & Partners.

ShareAction, the responsible investment charity, co-ordinated the resolution and is the point of contact for any queries (jeanne.martin@shareaction.org; anne-marie.williams@shareaction.org).

Why the banking sector?

The global banking sector continues to fund companies active across the fossil fuel cycle, which are active agents in driving the climate crisis.

The Bank of England, in its supervisory statement issued in April 2019, recognises that failure to meet the Paris goals could result in the most severe financial risks crystallising in the banking sector, and that banks, as lenders to the whole economy, will inevitably feel the consequences of events caused by >1.5°C scenarios[2]. These events include physical risks, such as extreme weather events, which can impact the value of assets held by banks and increase credit risks.

There are also significant transition risks if the Paris goals are met. Changes in policy and technology will prompt a reassessment of the value of high-carbon assets. A sudden drop in asset value, particularly in the event of a disorderly transition, would create stranded assets and pose systemic risks to the banking sector, investors' portfolios and the entire global economy[3].

The International Energy Agency estimates that US $359 trillion of investment is required by 2050 to avoid catastrophic climate change[4]. Current outlays are still very far from this. However, banks have the potential to play a positive role by redirecting capital away from high-carbon companies and actively financing the low-carbon transition.

Why Barclays?

Barclays is a founding member of the Principles of Responsible Banking, which includes a commitment to align its business strategy with the goals of the Paris Agreement[5]. Despite this apparent commitment, however, Barclays falls significantly short of achieving this goal.

Barclays has one of the weakest energy sector policies of all European banks, lagging behind its peers on exclusion criteria for high-carbon fossil fuel projects as shown in the table below.

Fuel Type	Barclays		19 other largest European banks	
	Project finance exclusion	**Corporate finance exclusion**	**Project finance exclusion**	**Corporate finance exclusion**
Coal mining	Yes	No	16	14
Coal power	Yes	No	17	13
Tar sands	No	No	13	4
Arctic oil	No	No	10	3
LNG export	No	No	0	0
Ultra-deepwater drilling	No	No	0	0

The lack of a sufficiently stringent policy becomes apparent in the bank's actual involvement with the fossil fuel sector. Since the Paris Agreement was signed in 2015, Barclays has provided US $85 billion of finance to fossil fuel companies and projects. This is the highest level of fossil fuel financing of any European bank, exceeding comparative financing by the bank's peers by over US $27 billion. This is also the sixth highest out of the 33 largest global banks[6].

Barclays has recently promised £150 billion of social and environmental financing by 2025. However, a closer analysis of Barclays's own figures shows that of the £27.3 billion of sustainable finance provided in 2018, just £5 billion was 'green'[7]. Many other large banks have similarly sized funding targets that are exclusively climate and environment focused.

Barclays' peers have also demonstrated more commitment in other areas, for example:

- HSBC committed not to provide project financing or general purpose lending where the majority of such financing is used for new offshore oil and gas in the Arctic, and new greenfield oil sands projects, amongst other things[8];
- Crédit Agricole committed to align exposure of its portfolios to the coal industry with a full-fledged coal phase-out by: 2030 for EU and OECD countries; 2040 for China; 2050 for the rest of the world[9].
- BNP Paribas committed not to provide financial products or services to exploration and production companies that own or operate pipelines or LNG export terminals supplied with a significant volume of unconventional oil and gas, and diversified companies for which unconventional oil and gas production represent a significant share of total revenues[10].

This resolution represents a significant opportunity for Barclays to bring its lending practices in line with global climate ambition, and play an active role in accelerating the low-carbon transition.

What's next?

All shareholders are encouraged to vote in favour of this shareholder resolution at the Barclays annual general meeting (AGM) in May 2020. Shareholders are also encouraged to publicly pre-declare their support for the resolution, if so inclined.

Barclays will issue its formal voting recommendations in its AGM notice in mid-March. As such, it is important that investors supportive of the resolution engage with the board prior to this.

ShareAction will publish a more in-depth investor briefing on the resolution in mid-February.

Resolution wording and supporting statement

You can find the resolution wording and supporting statement online at https://shareaction.org/wp-content/uploads/2020/01/Barclays-Plc-2020-shareholder-resolution-ShareAction.pdf

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1 LSE (2018). *"New report shows it is vital for investors to support a just transition for workers: Institutions with US$5 trillion in assets back efforts to link climate action to social inclusion"*. LSE. Available online at: http://www.lse.ac.uk/GranthamInstitute/news/new-report-shows-it-is-vital-for-investors-to-support-a-just-transition-for-workers-institutions-with-us5-trillion-in-assets-back-efforts-to-link-climate-action-to-social-inclusion/ [accessed 15 January 2020]

2 Bank of England (2019). *Enhancing banks' and insurers' approaches to managing the financial risks from climate change. Bank of England.* Available online at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319.pdf?la=en&hash=7BA9824BAC5FB313F42C00889D4E3A6104881C44 [accessed 15 January 2020]

3 Morgan, J. (2020). *"Financing fossil fuels risks a repeat of the 2008 crash. Here's why"*. World Economic Forum. Available online at: https://www.weforum.org/agenda/2020/01/financing-fossil-fuels-repeat-2008-crash-heres-why/ [accessed 15 January 2020]

4 Walsh, B. (2018) "This Is How Much Money It Will Cost to Save the World". Mother Jones. Available online at: https://www.motherjones.com/environment/2015/12/cost-to-save-the-world-cop21/ [accessed 15 January 2020]

5 United Nations Environment Programme Finance Initiative (No Date). P*rinciples for Responsible Banking*. Available online at: https://www.unepfi.org/banking/bankingprinciples/ [accessed 15 January 2020]

6 Rainforest Action Network (2019). *Banking on Climate Change*. Rainforest Action Network. Available online at: www.ran.org/bankingonclimatechange2019/ [accessed 15 January 2020]

7 Barclays PLC (2019). *Annual Report 2018. Barclays.* Available online at: https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2018/2018-barclays-plc-annual-report.pdf [accessed 15 January 2020]

8 HSBC (2018). *HSBC strengthens energy policy.* HSBC. Available online at: https://www.hsbc.com/news-and-insight/2018/hsbc-strengthens-energy-policy [accessed 15 January 2020]

9 Credit Agricole (2019). *Our commitment: make green finance a growth driver for the Group.* Credit Agricole. Available online at: https://www.credit-agricole.com/en/responsible-and-committed/our-csr-strategy-partnering-a-sustainable-economy/climate-finance [accessed 15 January 2020]

10 BNP Paribas (2017). *Unconventional oil and gas – Sector policy.* BNP Paribas. Available online at: https://group.bnpparibas/uploads/file/csr_sector_policy_unconventional_oil_and_gas_19_12_2017_v_standardized.pdf [accessed 15 January 2020]