

The background of the slide features the coat of arms of the City of Vancouver. It 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 stag's head with large antlers. The bottom-left quadrant shows a beaver. The bottom-right quadrant shows a grizzly bear. 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 11

General Governance Matters

Falkirk Council

Subject: General Governance Matters

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 13 August 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 related to the Falkirk Pension Fund business.

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 Scheme Advisory Board (SAB) exists to advise the Scottish Ministers on changes to Scheme rules and to assist Funds in managing the Scheme. The SAB's Annual Report 2018/19 was published in mid February, 2020.
- 3.2 The report noted that Scottish LGPS Funds had over 575,000 members and £48bn of assets. Falkirk were the 6th largest Fund out of the 11 Scottish funds.
- 3.3 The report indicated that a significant part of the SAB's work related to the Scheme structural review which is ongoing. A further tranche of work is expected to be commissioned from consultants in the near future, however the process has been slowed further by the Covid-19 pandemic.
- 3.4 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 the 2015 LGPS Scheme was age discriminatory. The offending regulation – known as the underpin – provided that only members who were within 10 years of retiring on 31 March, 2012 would not be made worse off under the terms of the new 2015 Scheme. This clearly discriminated against younger members.

- 4.2 In order to remedy this, 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 as a result of the ruling are expected to be minimal (perhaps nil in many cases). However, in order to assess this, all scheme leavers from 2015 will need to be reviewed in order to determine if they qualify for an underpin payment. This may necessitate the collection of additional data from employers.
- 4.4 A consultation exercise regarding the statutory changes needed to correct the discrimination has been launched by the Scottish Public Pensions Agency (SPPA) and is running until mid-October.

5. Goodwin and Walker Cases

- 5.1 SPPA have also recently issued a Circular referring to the “Goodwin” and “Walker” cases. It appears that schemes rules will again require to be revisited this time to ensure there is parity in relation to dependants survivor benefits – specifically benefits paid to the male survivor of a female scheme member need to be the same as the survivor benefits being paid to a same sex survivor.

6. Cost Cap

- 6.1 The Cost Cap is the mechanism by which changes in scheme cost are shared between members and employers, albeit only certain costs are taken into account (e.g. investment returns are excluded).
- 6.2 To assess whether “costs” have changed, a “cost cap” valuation is carried out by the Government Actuary (GAD). The first round of valuations were carried out for England and Wales at 31 March 2016 and showed that the scheme was less expensive than had been for predicted due to lower salary increases and higher mortality rates.
- 6.3 The cost saving was over 3% of pay and under the cost cap mechanism where costs have moved by more than 2%, steps must be taken to return the scheme to the target cost. The first cost cap valuation for LGPS Scotland was due to take place as at 31 March 2017, however this was paused in 2019 pending the resolution of McCloud judgement.
- 6.4 The pause has now been lifted, but the timescale for taking the exercise forward remains uncertain. On 13 May, SPPA wrote to administering authorities saying *“We regret that we are currently unable to suggest how provision might be made for any running of the cost cap process but hope to have more clarity in the next two months.”*

7. Pensions Increase 2020

- 7.1 Scheme benefits were increased by 1.7% from 6 April 2020. Career Average benefits were also revalued by the same percentage.

8. 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).

8.2 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.

8.3 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 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

8.4 During the recent quarter to March, 2020, LAPFF undertook 55 engagements, including:

- Barclays and ANZ Banks – on companies' lending policy to energy companies
- Community Groups affected by the Brazilian Dam collapses
- Shell, BP and Total and the Big Four Audit firms on better climate related disclosures.

8.5 The LAPFF engagement report for Quarter 1 has been uploaded to the Sharefile portal. Copies of the most recent Fund manager investment and engagement reports have also been uploaded.

9. Voting

9.1 Details of how Fund votes have been cast across various categories during the last available quarter (Quarter 1 of 2020) are attached at appendix 1.

10. Future Committee Dates

10.1 The next scheduled dates for Committee and Board meetings are:

- 24 September, 2020
- 10 December, 2020

Director of Corporate & Housing Services

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Date: 4 August 2020

Appendices

Appendix 1 – PIRC Voting Update for Q1 2020

List of Background Papers:

None



Falkirk Council Pension Fund

PROXY VOTING REVIEW

PERIOD 1st January 2020 to 31st March 2020

1 Resolution Analysis

- Number of resolutions voted: 167 (note that it MAY include non-voting items).
- Number of resolutions supported by client: 107
- Number of resolutions opposed by client: 46
- Number of resolutions abstained by client: 14
- Number of resolutions Non-voting: 0
- Number of resolutions Withheld by client: 0
- Number of resolutions Not Supported by client: 0

1.1 Number of meetings voted by geographical location

Location	Number of Meetings Voted
UK & BRITISH OVERSEAS	1
EUROPE & GLOBAL EU	3
USA & CANADA	3
ASIA	1
JAPAN	3
TOTAL	11

1.2 Number of Resolutions by Vote Categories

Vote Categories	Number of Resolutions
For	107
Abstain	14
Oppose	46
Non-Voting	0
Not Supported	0
Withhold	0
US Frequency Vote on Pay	0
Withdrawn	0
TOTAL	167

1.3 List of meetings not voted and reasons why

Company	Meeting Date	Type	Comment
ROCHE HOLDING AG	17-03-2020	AGM	No ballot received

1.4 Number of Votes by Region

	For	Abstain	Oppose	Non-Voting	Not Supported	Withhold	Withdrawn	US Frequency Vote on Pay	Total
UK & BRITISH OVERSEAS	17	0	2	0	0	0	0	0	19
EUROPE & GLOBAL EU	49	2	20	0	0	0	0	0	71
USA & CANADA	9	1	23	0	0	0	0	0	33
ASIA	0	11	0	0	0	0	0	0	11
JAPAN	32	0	1	0	0	0	0	0	33
TOTAL	107	14	46	0	0	0	0	0	167

1.5 Votes Made in the Portfolio Per Resolution Category

	Portfolio						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	0	0	0	0	0	0	0
Annual Reports	4	2	6	0	0	0	0
Articles of Association	2	0	2	0	0	0	0
Auditors	2	0	6	0	0	0	0
Corporate Actions	0	0	0	0	0	0	0
Corporate Donations	1	0	0	0	0	0	0
Debt & Loans	0	0	0	0	0	0	0
Directors	77	11	26	0	0	0	0
Dividend	6	0	0	0	0	0	0
Executive Pay Schemes	0	0	1	0	0	0	0
Miscellaneous	3	1	0	0	0	0	0
NED Fees	2	0	0	0	0	0	0
Non-Voting	0	0	0	0	0	0	0
Say on Pay	1	0	3	0	0	0	0
Share Capital Restructuring	1	0	0	0	0	0	0
Share Issue/Re-purchase	5	0	1	0	0	0	0
Shareholder Resolution	3	0	1	0	0	0	0

1.12 List of all meetings voted

Company	Meeting Date	Type	Resolutions	For	Abstain	Oppose
COSTCO WHOLESALE CORPORATION	22-01-2020	AGM	8	1	0	7
ACCENTURE PLC	30-01-2020	AGM	17	12	1	4
IMPERIAL BRANDS PLC	05-02-2020	AGM	19	17	0	2
APPLE INC	26-02-2020	AGM	12	4	0	8
NOVARTIS AG	28-02-2020	AGM	29	19	1	9
APPLIED MATERIALS INC	12-03-2020	AGM	13	4	1	8
ROCHE HOLDING AG	17-03-2020	AGM	25	18	0	7
SAMSUNG SDI CO LTD	18-03-2020	AGM	11	0	11	0
JAPAN TOBACCO INC	19-03-2020	AGM	12	12	0	0
EBARA CORP	27-03-2020	AGM	11	11	0	0
SUNTORY BEVERAGE & FOOD LTD	27-03-2020	AGM	10	9	0	1