AGENDA ITEM 8

FALKIRK COUNCIL

Subject: **PENSION FUND – GENERAL GOVERNANCE MATTERS**
Meeting: **PENSIONS COMMITTEE**
Date: **13 September 2012**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 This report updates the Pensions Committee on various matters associated with the business of Falkirk Council Pension Fund.

2. AUTO ENROLMENT

2.1 The Committee will be aware that the Government's Workplace Pensions Initiative – Auto-enrolment – comes into effect on 1st October, 2012. The legislation will require Fund employers to enrol certain categories of employee into the pension scheme automatically. Auto enrolment is being introduced on a phased basis with larger employers being the first to be subject to the new rules.

2.2 Individual fund employers will be in the process of being notified of their "staging date" by the Pensions Regulator. Falkirk Council, with a staging date of 1st April, 2013 has the earliest staging date of all employers in the Fund.

2.3 Initially, employers will have to satisfy themselves that the Local Government Pension Scheme (LGPS) meets the legislative criteria to qualify as an auto enrolment scheme. However, in general terms, a contracted out, final salary scheme, that allows the automatic enrolling of employees will meet the criteria.

2.4 To comply with the provisions, employers will have to identify the following three categories of worker –

Eligible Jobholder	Is between Age 22 and State Pension Age (SPA) with earnings above £8,105 p.a.
Non-Eligible Jobholder	Is between Age 16 and 21 or SPA and Age 74 with earnings above £8,105 p.a., or Between Age 16 and 74 with earnings between £5,564 and £8,105
Entitled Worker	Is between Age 16 and 74 with earnings below £5,564

2.5 Eligible Jobholders who are not already scheme members will require to be enrolled automatically on the staging date. Non-Eligible Jobholders and Entitled Workers will have the option to join the scheme. All employees will be able to opt out of the scheme, however employers will normally have to apply automatic re-enrolment every three years.

2.6 Employers will be able to issue Postponement Notices to delay enrolment for up to 3 months. This may be a strategy to avoid enrolling casual or short term workers. At a higher level, there is also a possibility that employers could invoke transitional measures and postpone the enrolment of eligible jobholders altogether until 2017.

2.7 Employers will have to ensure that their auto enrolment strategy:

- takes account of the likely costs arising from a large influx of scheme members
- includes processes to identify auto-enrolment triggers (e.g. when employees turn 22 or reach the minimum level of earnings)
- does not encourage jobholders to opt out of auto-enrolment nor encourage job applicants to do so during the recruitment process

2.8 Following the staging date, employers must register their auto enrolment scheme with the Pensions Regulator and be prepared to provide statistical information.

2.9 The task facing HR and Payroll administrators in making auto enrolment a reality is challenging and onerous. Whilst responsibility for ensuring compliance with the legislation rests with individual fund employers, the Pensions Section will be as supportive as possible in assisting employers to meet their responsibilities. A training day for larger fund employers (i.e. those with the most imminent staging dates) has been arranged for 21st September, 2012. A further training event will be arranged for remaining fund employers if there is sufficient demand.

3. POLICE AND FIRE REFORM

3.1 Non uniformed employees of Police and Fire Services in Scotland currently have access to the Local Government Pension Scheme, with employees of Central Scotland Police and Central Scotland Fire and Rescue Service having access to the Falkirk Council Pension Fund.

3.2 The new Scottish Police Service and the new Scottish Fire and Rescue Service come into operational effect on 1st April, 2013. The Scottish Public Pensions Agency (SPPA) is in the process of making regulations to provide that, in general, transferred staff will remain in their existing Funds and that any new staff will be enrolled in the Funds that would have been appropriate for them prior to April, 2013.

3.3 Specifically,

i) Employees of Central Scotland Police who transfer to the new Police Service on 1st April, 2013 will continue to be members of the Falkirk Council Pension Fund;

ii) Employees of the Scottish Police Services Authority (SPSA) who were previously transferred to SPSA from Central Scotland Police and who transfer to the new Police Service on 1st April, 2013 will continue to be members of the Falkirk Council Pension Fund;

iii) Any new employees of the Scottish Police Authority who prior to 1st April, 2013, based on location of employment, would have been employed by Central Scotland Police will be enrolled in the Falkirk Council Pension Fund; and

iv) Employees of Central Scotland Fire and Rescue Service who transfer to the new Fire and Rescue Service on 1st April, 2013 will continue to be members of the Falkirk Council Pension Fund;

v) Any new employee of the Scottish Fire and Rescue Service who prior to 1st April, 2013, based on location of employment, would have been employed by Central Scotland Fire and Rescue Service will be enrolled in the Falkirk Council Pension Fund.

3.4 Prior to the recent SPPA announcement, there had been some support for Police and Fire staff to have their rights administered solely by one Fund. This would have avoided the new bodies having to interact with 8 different pension funds. The single fund approach was abandoned due to the level of assets that would have had to be transferred to the host fund and the negative effects (e.g. on staffing) that such a transfer could have posed for the ceding funds.

3.5 No specific proposals have been made in respect of the administration of uniformed Police and Firefighters pension benefits. Given the short time period remaining until 1st April, 2013, it is expected that pension fund authorities will be asked to continue administering these benefits until a single administration solution can be agreed.

4. INFRASTRUCTURE INVESTMENT

4.1 The National Association of Pension Funds (NAPF), together with the Pension Protection Fund, is co-ordinating the launch of a Pensions Infrastructure Platform (PIP) which it hopes will act as an investment vehicle for local authorities and other public bodies wishing to invest in UK infrastructure projects.

4.2. The PIP, which has Treasury backing, is initially seeking to raise £2 billion from around 10-12 founding funds. These funds are expected to contribute around £100 million each to finance set up costs, oversee the installation of a management board and investment team and to fund initial investments. To date, only Strathclyde Pension Fund have publicly stated their support for the PIP, but Joanne Segars, Chief Executive of the NAPF, has stated that the pool of founding members is almost in place.

4.3 According to the NAPF, the PIP will target projects with:

- a low risk profile (e.g. brownfield investments)
- an income stream that is not GDP correlated (i.e. does not depend on economic growth)
- returns in the range of RPI plus 2%-5%

4.4 If the PIP can be successfully established, it promises the prospect of long term stable cash flows – a good match for scheme liabilities – against a backdrop of low fees and increased bidding power. The launch is being targeted for early 2013.

4.5 In a separate development, a consortium, spearheaded by pensions lawyers Pinsent Mason, is understood to be in discussions with several pension schemes with a view to establishing an alternative to the PIP. This particular fund would be concentrate on the available returns from infrastructure debt (i.e. schemes receiving income from loans taken out to fund infrastructure projects).

4.6 Investment advisers, Hymans Robertson, whilst welcoming the PIP initiative, have made certain cautionary comments such as whether there will be a sufficient availability of "brownfield" investments and how construction risk can be mitigated in the event of "greenfield" investment taking place.

4.7 The issue of infrastructure investment in Scotland, and in particular, investment in social housing was discussed at a meeting of Pension Fund conveners on 14 March 2012, at which time, Alex Neill, the Cabinet Secretary for Infrastructure and Capital Investment was present.

4.8 The discussion recognised the pressing need for investment, but noted that the lack of a clear investment vehicle, uncertainty over liquidity risk and the prospect of a UK wide initiative could act as a deterrent to a Scottish Initiative. The matter is likely to be discussed at the next convener's meeting in September.

5. ADMINISTRATION UPDATE

5.1 It is an audit recommendation that the Pensions Committee is provided with performance information relating to key administration activities.

5.2 The following table gives details of fund activities over the 12 months to 30th June, 2012 against performance targets:

Activity	No of Cases	Performance Target	Actual Performance
Transfer In Offers	154	Respond to 70% of cases in 21 days	63%
Estimate Requests	718	Respond to 70% of cases in 7 days	62%
Pension Payments (per month)	10,250	Make 100% of payments by 15th of each month	100%
Payment of Retirement Lump Sums	296	Pay 90% of cases in 7 days	97%
Ad hoc enquiries (mail/phone)	14,963	Respond to 70% of cases in 7 days	65%
Complaints	1	Respond to 100% of cases in 3 days	100%

The response times that are below target are primarily areas where information has to be sought or clarified with Fund Employers, Members or other pension schemes.

5.3 Annual Exercises completed in the period from April, 2012 to June, 2012 include:

- Application of 2012 Pensions Increase of 5.2% to 10,000 pensioners
- Submission of Year End P14 and P35 to HMRC
- Issue of P60s to 10,000 pensioners
- Issue of 4,500 Statements and Newsletters to Deferred Members

6. PENSION COMMITTEE TRAINING EVENTS

Local Authority Pension Fund Forum (LAPFF)

6.1 The Annual Local Authority Pension Fund Forum Conference is taking place in Bournemouth from 28th to 30th November, 2012.

6.2 Membership of the LAPFF entitles the Falkirk Fund to two complimentary places with accommodation and travel costs payable by the Fund.

6.3 Although the programme has not yet been finalised, the Conference provides an additional training platform for Stakeholders and the opportunity for networking with colleagues from other local authority pension funds and various major institutional investor groups.

CIPFA (Scotland) – Treaury Forum, Pension Sub-Group

6.4 A Seminar for "trustees" of local authority pension funds is being convened on 24 October, 2012 at the offices of Baillie Gifford, Edinburgh. The programme for the day is attached at Appendix 1.

6.5 Each Fund has been asked to nominate 6 delegates and 2 reserves. Lunch will be provided.

7. CORPORATE GOVERNANCE UPDATE

7.1 The last few months have seen a number of high profile shareholder revolts and companies in the news due to governance failures. The focus of attention has been executive remuneration and the integrity and reputation of the financial sector.

7.2 Barclays, Aviva, BT Group, Vodafone and Trinity Mirror are all Falkirk Fund stocks where an apparent disconnection between executive pay and long term performance led to substantial votes against remuneration resolutions. In the case of Aviva and Trinity Mirror, the votes played a part in the respective Chief Executive Officers leaving the companies.

7.3 A UK Government initiative is underway to improve the ability of shareholders to engage with companies on pay. Reforms are scheduled to be enacted by October, 2013 and will give shareholders a binding vote on company pay policy and exit payments. The Business Secretary Vince Cable has said *"At a time when the global economy remains fragile, it is neither sustainable nor justifiable to see directors' pay rising at 10 per cent a year, while the performance of listed companies lags behind and many employees are having their pay cut or frozen"*.

7.4 The manipulation of LIBOR has resulted in financial penalties being levied by the Financial Services Authority and the Securities and Exchange Commission against Barclays. The serious reputational damage to the Barclays brand may yet transcend other banks. The Chief Executive and Chairman of Barclays have both been casualties. Given the malpractice, LAPFF has issued a call for past bonuses to be clawed back from both the Chief Executive and senior directors using legal means if necessary.

7.5 Banks have also been under fire from the LAPFF regarding their accounting standards which in the opinion of LAPFF do not reflect the "true and fair view" required by the Companies Act 1985.

7.6 The last quarter saw the resignation of James Murdoch as chairman of BSkyB following pressure from various shareholder groups, including LAPFF. This followed his resignation as executive chairman of News International and was related to the ongoing "phone hacking" scandal. The ramifications have led Ofcom to investigate whether BSkyB is a fit and proper entity to hold a broadcasting licence.

7.7 With regard to the Fund's overseas equity investments, the corporate governance issues most recently highlighted by PIRC Ltd are the independence of board members (e.g. Medtronic, Bank Sarasin) and the lack of separation of the roles of Chairperson and Chief Executive (e.g. Kraft, Flir Systems and Comcast).

7.8 Corporate Governance matters are brought to the attention of the Fund through its membership of the LAPFF and through the service of PIRC Ltd. The latter are contracted to provide the Fund with a corporate governance monitoring service and proxy voting service until summer, 2013.

8. ANNUAL PENSION AND INVESTMENT CONFERENCE 2013

8.1 The above conference will take place at Callendar House, Falkirk on 28th March, 2013.

8.2 The Conference is an opportunity for key stakeholders not directly represented on the Panel or Committee to be briefed about scheme developments.

9. RECOMMENDATIONS

9.1 The Pensions Committee is asked to:

i) note the contents of this report
ii) agree the delegates to attend the LAPFF Conference in Bournemouth on 28, 29 and 30 November, 2012; and
iii) agree the delegates to attend the CIPFA (Scotland) Pensions sub-group seminar on 24 October 2012.

Chief Finance Officer

Date: 4 September 2012

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<u>LIST OF BACKGROUND PAPERS</u>

NIL