

**FALKIRK COUNCIL**

**Subject: PENSION FUND – GENERAL GOVERNANCE MATTERS**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 JUNE 2013**  
**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. PENSION REFORM**

- 2.1 The Public Service Pensions Act 2013 has become law and will require public sector pension scheme to adhere to a new set of principles from April, 2015, most notably career average basis and later retirement ages. A Scottish response to the reform programme is being considered by the tripartite Scottish Local Government Pensions Advisory Group (SLOGPAG)
- 2.2 In relation to the LGPS in England and Wales, the Local Government Minister, Brandon Lewis, has indicated that he intends to review the structure of the Scheme and in particular examine whether there is a case for Fund mergers. His starting point is that *“there is compelling evidence from around the world to suggest that the scheme could benefit from a smaller number of optimal funds”*. It is expected that a consultation on this topic will be launched by the Minister later in 2013.

**3. AUTO ENROLMENT**

- 3.1 Auto Enrolment (AE) legislation requires Fund employers to enrol employees into a pension scheme if certain conditions, such as age and level of earnings are met.
- 3.2 Falkirk Council - the first employer in the Fund to be subject to auto enrolment – has elected to postpone AE implementation until 1<sup>st</sup> June, 2013 in order to allow the newly developed Payroll / HR software to be more fully tested. Stirling Council implemented AE on 1st May, however they have invoked transitional arrangements and will only be auto enrolling new entrants and not existing non-joiners. Other Fund employers will be “staging” in the coming months. The variation in employer AE strategies serves as a reminder that this is primarily an employer rather than Fund issue.

#### 4. POLICE AND FIRE SERVICES

- 4.1 The following scheme members in the Falkirk Fund were transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1<sup>st</sup> April, 2013. Under the scheme rules, the members will continue to contribute to the Falkirk Fund.

From	To	No. of Members
Central Scotland Police	Scottish Police Authority	299
Scottish Police Services Authority	Scottish Police Authority	32
Central Scotland Fire and Rescue Service	Scottish Fire and Rescue Service	47

#### 5. PENSIONS LIBERATION

- 5.1 The minimum age for the release of pension benefits is normally age 55, with benefits paid prior to this age being deemed "unauthorised" by HMRC and subject to penal tax charges.
- 5.2 The Pensions Regulator has recently issued documentation warning that unscrupulous individuals are encouraging former scheme members under age 55 to transfer their (deferred) pension rights to alternative pension arrangements with the promise that pension benefits will be liberated. At worst, the bogus schemes may be intending to misappropriate the member's funds. At best, the member may stand to lose a large portion of their rights through tax and commissions.
- 5.3 The conundrum for schemes being asked to make transfer payments is that many of the receiving schemes have been approved as *bona fide* arrangements by HM Revenue and Customs, and that, legally, if a member requests a transfer payment to such an entity, the paying scheme is obliged to make it. Pensions Schemes, such as the LGPS, must ensure that members considering a transfer have been provided with information warning of the possible dangers.
- 5.4 The Pensions Section monitors all transfer requests and where a transfer appears to be of a questionable nature, they will engage with the member to ensure that they are aware of the pitfalls.

#### 6. RECORD KEEPING

- 6.1 In 2010, the Pensions Regulator set targets aimed at improving the standard of record keeping in pension schemes. This included having 100% accuracy for new "Common Data" such as National Insurance Number, Forename, Surname, Sex, Date of Birth, Address, Postcode, Date Pensionable Service Commenced and expected retirement age; and 95% accuracy for pre-2010 "Common Data".
- 6.2 The guidance also recommends that administrators review "Conditional Data" (i.e. data other than "Common data" that is essential to the calculation of benefits) with a view to gradual improvement.
- 6.3 The Regulator's guidance does not apply *per se* to Public Sector Pension Schemes, but clearly represents the standards to which all such schemes should aspire.

- 6.4 A recent review of the Falkirk Fund common data disclosed that out of a total of 286,000 data items, 1,850 items were missing, resulting in a 99% accuracy level. The missing items relate primarily to deferred members who have failed to keep the Pensions Section informed of a current address.
- 6.5 Strathclyde Pension Fund is currently leading on a framework agreement which will enable Scottish local authority pension funds to procure member tracing services to re-connect “lost” deferred members with their benefits. Falkirk’s participation should allow there to be a further reduction in missing data.

## **7. CORPORATE GOVERNANCE**

- 7.1 Spring is traditionally the time of year when many companies choose to hold their AGMs. As a result, the Fund’s corporate governance advisers and proxy voting agents - Pension Investments Research Consultants Ltd (PIRC) – have been voting recently on the Fund’s behalf at these corporate meetings.
- 7.2 The main areas where PIRC has voted against company motions have been as follows:
- excessive remuneration packages for senior executives
  - inappropriate long term incentive plans for senior executives
  - the CEO and Chair is a combined role
  - independence of directors (i.e. where they have been on Boards for more than the recommended 9 years)
  - high fees paid to auditors for non-audit work, calling into question the independence of the formal audit
- 7.3 It is worth noting that PIRC are attending the Committee Meeting and will be available to discuss any of these points in more detail.

## **8. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)**

- 8.1 Falkirk Council Pension Fund is a member of the LAPFF which is a lobbying group made up of 56 local authority pension funds. The group exists to promote good corporate practices within the companies in which Funds invest.
- 8.2 Recent activity undertaken by LAPFF includes:
- Opposing AstraZeneca’s remuneration report at its AGM, particularly the “Golden Hello” of £991k offered to the company’s new CEO, Pascal Soriot
  - Opposing BAE Systems remuneration report at its AGM, particularly the remuneration package offered to the company’s CEO, Ian King
  - Engaging with British American Tobacco to discuss health risks related to the manufacture and sale of tobacco products
  - Holding discussions with Tesco regarding business risks and labour concerns at its Fresh & Easy operations in the United States

- Launching new 'Expectations for Executive Pay,' agenda and seeking comments from FTSE 350 Chairmen for consideration.
- Joined carbon action group which asks companies to implement cost effective carbon emissions reductions
- Continues to be an active supporter of the Forest Footprint Disclosure project, which lobbies companies with ties to deforestation

8.3 LAPFF also recommended opposing Barclays' Annual Report and Accounts on the basis that the IFRS Accounting Standard used by the bank did not provide a true and fair view of the company's position. (The recent Parliamentary Commission on Banking Standards looking into the failure of HBOS also cited the failure of IFRS as a contributory factor).

## 9. FINANCIAL SERVICES AUTHORITY

9.1 The Financial Services Authority, which had been responsible for regulating the financial services industry, has been succeeded on 1<sup>st</sup> April, 2013 by the Prudential Regulation Authority and the Financial Conduct Authority.

9.2 The Prudential Regulation Authority remit is to ensure that banks, building societies, credit unions, insurers and investment firms are financially sound.

9.3 The Financial Conduct Authority will be responsible for the behaviour of financial services organisations with respect to their customers.

## 10. NATIONAL FRAUD INITIATIVE

10.1 The National Fraud Initiative is a data matching exercise conducted every two years by the Audit Commission to detect fraud and irregularities in various areas of public finance.

10.2 The Pensions Section submitted pensioner and deferred pensioner data to the Commission in October 2012, the main aim being to identify pensioners who have died but for whom payments are still being claimed. The exercise also helps identify deferred pensioners who may have died without the Council being notified.

10.3 The Fund's results of the 2012 exercise are summarised in the following table:

Case Type	Number of Cases
Deceased Pensioners	2
Deceased Deferred Beneficiaries	3
Re-employed Pensioners	5

10.4 In one case, a pensioner died in May 2012 but the pension continued to be paid until February, 2013 when the circumstances were identified by the NFI report. The Pensions Section is trying to recover an overpayment of around £1,500 and evidence may be provided to the Police as this may be a case of fraud.

**11. RECOMMENDATIONS**

- 11.1 The Committee is asked to note the contents of this report and is invited to comment as appropriate.**

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL