

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**LAPFF ANNUAL CONFERENCE 2018****Purpose of the Report**

1. To report on the Local Authority Pension Fund (LAPFF) Conference 2018

Information & Advice

2. The 23rd LAPFF Conference entitled 'The Financial Aspects of Corporate Governance – Back to the future' was held between 5 and 7 December 2018 in Bournemouth. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Councillor Eric Kerry and Nigel Stevenson (Service Director – Finance, Infrastructure & Improvement). Details of the main sessions are set out below.

Day one

3. The conference began with a minutes silence and delegates remembering Councillor Ian Greenwood OBE and Councillor Kieran Quinn. Councillor Greenwood, who died in November, became the Chairman of LAPFF upon the death of Councillor Quinn, who passed away in December 2017.
4. ***LAPFF Engagement updates including Ryanair, Tesla and National Express (Moderator: Cllr Barney Crockett, LAPFF Executive)***
LAPFF executive members set out the number of engagement activities with Ryanair, Tesla, National Express, Sports Direct and Amazon. This included two cabin crew from Ryanair explaining the history to the industrial relationship breakdown which included the company trying to establish a new operating model for the cabin crew, whereby cabin crew are being asked to become self-employed,
5. ***Hired: six months undercover in low-wage Britain: James Bloodworth (Moderator: Cllr Ian Brookfield, LAPFF Executive)***
James set out his experiences from working and living in the UK's low wage economy. His book set out his 6 months working in the Amazon warehouse in Rugeley, Admiral's call centre in Cwm (Blaenau Gwent, South Wales), the Care Sector in Blackpool and as an Uber cab-driver in London. He set out the hardship of working on zero hours contracts for companies with high disciplinary regimes and minimum wages.
6. Day one finished with Nigel Keogh from the Norfolk Pension Fund explaining the progress being made on updating the National LGPS Frameworks.

Day Two

7. **Directors' remuneration: Deborah Hargreaves, Founder, High Pay Centre, author of 'Are Chief Executives overpaid' (Moderator: Cllr Doug McMurdo, LAPFF Executive)**

Deborah set up the High Pay Centre in 2012 and she began her presentation by setting out a number of examples of company CEO's who had been paid substantial amounts, e.g. Bet365, Persimmon plc. Her belief as to this increase was due to:

- The increasing globalisation had created larger companies
- The need for companies to fish in an international talent pool
- An increase in the use of performance related pay (PRP) incentives linked to share price

It was the last point that was of particular concern for Deborah. The increased use of PRP acted as too much of an incentive for executives to drive short-term company planning including methods to increase share price such as company share buy-back, little capital investment and more riskier terms and conditions for employees and use of agency workers. Her desire then was to roll back on PRP and the need for more workforce say on executive remuneration as seen on Continental Europe. During questions Deborah did admit that although Europe executive pay was behind the UK it was rising faster and that the buy-back of shares was a sensible company approach to reducing debt rather than just used as a booster for executive pay.

8. **The global financial crisis: ten years after: George Magnus, economist and author (Moderator: John Plender, Financial Times)**

George explained that despite the fact that banks may be safer and regulatory bodies may be able to spot issues early he was not convinced systematic failure in the financial sector could be prevented. The balance sheets of some banks are too big, too big to fail. In addition, although UK GDP may be passing 2008 levels he is worried that underneath there are issues, e.g. low wages, low productivity and wage inequality. The main issue for Government is to decide what the right level of intervention is, e.g. should retail banking be split from investment banking. George also mentioned that Brexit was taking our attention from the fundamental issues in the financial sector. His concerns also spanned into China. China manages its finances differently to the West and a financial crisis in China might not be one we recognise but would have similar global effects.

9. **Fair Value accounting?: Jonathan Ford, Financial Times journalist (Moderator: Cllr Eddie Pope, LAPFF Executive)**

Jonathan's argument was about the history of accounting for complex financial transactions between companies. Fair value accounting has added to this complexity, such as the error by PWC in auditing Goldman Sachs (GS) and an insurance policy arrangement that existed between GS and AIG to offset the losses on bad loans. PWC audited both companies and allowed differing valuations which proved in the end to be based on;

- lack of evidence,
- widely over optimistic values, and
- allowed managers to set these out as facts rather than estimates.

Jonathan set out a number of other accounting estimates that appear in accounting standards that are open to interpretation, e.g. accounting for Goodwill (IFRS3), recognising revenue (IFRS9), Pension Liabilities (FRS102).

Enforcement of accounting standards needs to improve. He hoped for widespread changes to the Financial Reporting Council through the Kingman Review (splitting the large accounting firms into consultancy and auditing businesses).

10. *What's wrong with the Financial Conduct Authority?: Alan Miller, CIO and Founding Partner, SCM Direct (Moderator Cllr Alasdair Rankin, LAPFF Executive)*

Alan's view was of a poor record of the FCA, with;

- Lack of enforcement with a reduction in prosecutions
- Lack of understanding their own rules, demonstrated through failed prosecutions
- Failure to listen to industry concerns to make improvements
- Slowness in responding to issues
- Concentrating too much effort on issuing guidance and consultations

Alan thought it was time for the FCA to go back to the overarching principles rather than into the detailed rules and spending less time on consultations that inevitably watered down guidance. He wanted to see an increase in enforcement, an increase in fines and protecting clients over the interests of the financial industry.

11. *Changing our ways: Julia King, Baroness Brown of Cambridge Chair of adaptation Committee on Climate Change (Moderator: Tom Harrington, LAPFF Executive)*

Julia began by retitling her presentation to 'Time for Change' and setting out a number of climate statistics as to why we need to change now, e.g. summers being 5.4% hotter by 2070, 2018 summer being the norm by 2050, London sea-level rising by 1.15m by 2100, 47% less rain in summer and 37% more in winter by 2070. The Committee's last report to Parliament in 2013 showed CO2 emissions in Transport was increasing, and that from waste and the energy sector was decreasing, the latter due to the shift away from coal. She thought the explanation given by shareholders, in particular pension funds, to Friends of the Earth etc. on why they continue to hold shares in energy companies so as to influence behaviour was having limited value due to the length these are held. People needed to be convinced your influence was working.

12. *The triumph of the accountants and how they broke capitalism: Richard Brooks, Private Eye journalist, author Bean Counter (Moderator: Cllr Rob Chapman, LAPFF Executive)*

Apart from a brief history of accounting, beginning with Luca Pacoli in 1494, Richards's contention is that the big four accountancy firms have moved away from auditing companies to earning from consultancy work. This is reflected in the various accounting scandals in recent years but these issues go much further back in history. Richard's solution to this structural issue was either to split these firms into its constituent parts or to create a state run institution to undertake the auditing of companies.

13. *How companies are responding to the plastics crisis: Steven Butts, Head of Corporate Services, WM Morrison's plc (Moderator: Cllr Barney Crockett, LAPFF Executive)*

Steven gave an interesting presentation on the way Morrison's had approached the need to reduce and aim to remove non-recyclable plastics from its products.

14. *The future of the FRC: Baroness Sharon Bowles (Moderator: Rodney Barton, LAPFF Executive)*

Baroness Bowles set out her response on the review currently being undertaken on the FRC (The Kingman Review). She set out a number of areas she saw as needing addressing, namely

- those responsible for setting accounting/auditing standards and of regulating auditing would be separated
- issues of conflicts of interest for FRC Board Members needed to be resolved

- setting up of one Ombudsman for dealing with complaints
- all company directors, not just directors of finance, should be held accountable and subject to prosecution
- removing the anti-competitive effects of International Financial Reporting Standards
- auditors in accountancy firms should have a separate link to a senior board member tasked with the auditing side of the business as an alternative to the breakup of the big four
- Limiting the number of audits that partners can undertake/supervise.

Day Three

15. ***Directors' remuneration at Diageo and developments since the Davies Report: Lord Mervyn Davies of Abersoch, CBE (Moderator: Racheal Brothwood, LAPFF Executive)***

Lord Davies provided his insights into the management of companies and financial institutions. There is a need to understand the private equity world more and more as investors. More transparency is needed on executive pay which has risen to one of the more contentious issues on company governance. He believed more dialogue is needed from investors to influence large companies and praised the work of LAPFF in being able to bring investors together to have more influence on corporate governance. His view continues to be that boardrooms are still too male dominated which requires a change of culture.

16. ***Closing the gender pay gap: Ann Franke, Managers organisation (Moderator: Cllr Yvonne Johnson, LAPFF Executive)***

Building on Lord Davies' last point, Ann continued with the significant gender pay gap that requires a change in company's culture. She suggested a number of good practices that work to reduce this gap, namely:

- Transparency, targets and quotas
- Learning from best recruitment and promotion practices
- Inclusive culture champions, including men fulfilling these roles
- Flexible, agile and results-based working practices
- Sponsorship and mentoring programmes

Her evidence by having more women in company boardrooms can be demonstrated by companies that do so have better ethics and engagement, better decision making and attract and retains better talent.

17. ***Update on engagement with National Express: Ian Gold International Brotherhood of Teamsters, Director of Strategic Research and Campaigns Director (Moderator: Cllr Paul Doughty)***

A representative from the Teamsters (IBT) thanking LAPFF for their assistance in improving the governance and working conditions for drivers/employees of National Express Group in the USA over the last 4 years. As a consequence agreements have been reached with the US Company to allow employees to join a recognised union. Dialogue continues on improving standards and driver/passenger safety

18. ***The bank that lived a little: Barclays in the age of the very free market: Philip Augar (Moderator John Plendor, Financial Times)***

The conference concluded with a presentation by Philip Augar. He explained the history that surrounds Barclays and the missed opportunities as far back as 1998 when it could have demerged the retail business from the riskier investment banking opportunities. Since then the share price has fallen by a quarter; during the same time the FTSE has risen by a quarter.

That missed opportunity resulted in a strategy to build the bank through acquisitions. The failed acquisition of BMO was seen as a lucky miss, but the takeover of the remnants of Lehman's did prove costly. This resulted in the need to raise finance from Qatari investors and to sell some profitable business to avoid a government bailout. Apart from the fraud trial this demonstrates the complexity that now exists in banking and Philip's belief is that as a board member you have little hope of understanding this complexity and therefore fulfilling your role. As a result you can be over reliant on the management of the bank. One good change has seen the deferring of bonuses and the ability to clawback bonuses to reduce the risk of short-term risks being taken that have longer-term consequences.

Statutory and Policy Implications

19. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

- 1) That Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to investments.
- 2) That Members consider if there are any actions they require in relation to the issues contained within the report

Nigel Stevenson

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For any enquiries about this report please contact: Nigel Stevenson

Constitutional Comments (SLB 10/04/2019)

20. Pension Fund Committee is the appropriate body to consider this report.

Financial Comments (NS 24/12/2018)

21. There are no financial implications arising from this report

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None.