

## Committee Minutes

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# Pensions and Trusts Committee

Edinburgh, 3 October 2012

**Present:-** Councillors Child (Convener), Bill Cook, Orr and Rose.

**Also Present:**

**Members of the Consultative Panel** – Eric Adair, Archie Arnott, Allison Cosgrove, Eric MacLennan, Darren May and Norman Strachan.

**Audit Scotland** – Brendan Clark.

## 1 Minute

### Decision

To approve the minute of the Pensions and Trusts Committee of 27 June 2012 as a correct record.

## 2 Audited Pension Funds Annual Report 2011/12

The external auditor's report on the audit of the Lothian Pension Funds Annual Report 2011/12 was presented in compliance with the requirements of the International Standard on Auditing (ISA) 260. The ISA 260 report had also been considered by the Council's Audit Committee.

Brendan Clark (Audit Scotland) highlighted the principal areas covered in the report and responded to questions from members.

### Decision

- 1) To note the contents of the ISA 260 report.

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- 2) To note the Audited Pension Funds Annual Report for the year ended 31 March 2012.

(References – Audit Committee 27 September 2012 (item 2(a)); report by the Director of Corporate Governance, submitted.)

### **3 Review of Pension Fund Governance**

An update was given on the Lothian Pension Funds' governance arrangements and constitutional changes to the Consultative Panel were proposed, following approval of the Council's new governance arrangements.

External legal advice on the issue of liability in respect of elected members and external members of the Pensions Committee was detailed and a Code of Conduct for members of the Committee and the Consultative Panel was proposed.

#### **Decision**

- 1) To note the changes to pension fund governance agreed by the Council in September 2012.
- 2) To note the external legal advice regarding the position from a liability perspective with regard to members of the Pensions Committee, including the external members.
- 3) To approve the updated constitution and the guidance on the operation of the Consultative Panel as detailed in appendix 2 to the report by the Director of Corporate Governance.
- 4) To agree that a Governance Policy Statement was no longer required.
- 5) To ask the Director of Corporate Governance to report further on the Code of Conduct for members of the Pensions Committee and the Lothian Pension Funds' Consultative Panel.
- 6) To note that the new arrangements would be put in place over the coming months and an update provided to the next Pensions Committee in December.

(References – Pensions and Trusts Committee 27 June 2012 (item 7); Act of Council No 8 of 20 September 2012; report by the Director of Corporate Governance, submitted.)

#### **4 Investment Strategy Review – Lothian Pension Fund**

The conclusions of the review of investment strategy of the Lothian Pension Fund were detailed and approval was sought for amendments to the Fund's investment strategy.

##### **Decision**

- 1) To note the review of investment strategy, the inherent volatility in investment markets and the challenges faced by the Fund over the next 3-5 years due to weaknesses in global economies.
- 2) To approve the revised investment strategy and asset allocation ranges for the Lothian Pension Fund as detailed in paragraph 3.3.2 of the report by the Director of Corporate Governance.
- 3) To delegate investment activity outwith the agreed strategy and asset allocation ranges in the event of extreme investment market fluctuations to the Director of Corporate Governance, in consultation with the Convener of the Pensions Committee, with the activity reported to the Pensions Committee.
- 4) To delegate the implementation of the revised investment strategy and the themes identified to the Director of Corporate Governance in consultation with the Investment Strategy Panel.
- 5) To instruct the Director of Corporate Governance to review the budgetary and staffing implications of the revised investment strategy and report the conclusions of the review to the Committee.
- 6) To agree that there should not be a specific outperformance target and note that the future focus on risk, income and capital protection was likely to mean that the Fund would perform better if markets fell significantly but would perform less well if equity markets rose significantly.
- 7) To agree to consider requests for low-risk investment strategies for different employers, subject to practicalities of implementation.

(References – Pensions and Trusts Committee 27 June 2012 (item 8); report by the Director of Corporate Governance, submitted.)

## **5 Investment Strategy Review – Lothian Buses Pension Fund**

The conclusions of the review of investment strategy of the Lothian Buses Pension Fund were detailed and approval was sought for amendments to the Fund's investment strategy.

### **Decision**

- 1) To note the review of investment strategy, the inherent volatility in investment markets and the challenges faced by the Fund over the next 3-5 years due to weaknesses in global economies.
- 2) To approve the revised investment strategy and asset allocation ranges for the Lothian Buses Pension Fund as detailed in paragraph 3.3.2 of the report by the Director of Corporate Governance.
- 3) To delegate investment activity outwith the agreed strategy and asset allocation ranges in the event of extreme investment market fluctuations to the Director of Corporate Governance, in consultation with the Convener of the Pensions Committee, with the activity reported to the Pensions Committee.
- 4) To delegate the implementation of the revised investment strategy to the Director of Corporate Governance in consultation with the Investment Strategy Panel.
- 5) To agree that there should not be a specific outperformance target and note that the future focus on risk, income and capital protection was likely to mean that the Fund would perform better if markets fell significantly but would perform less well if equity markets rose significantly.

References – Pensions and Trusts Committee 27 June 2012 report by the Director of Corporate Governance, submitted.)

## **6 Investment Strategy Review – Scottish Homes Pension Fund**

The conclusions of the review of investment strategy of the Scottish Homes Pension Fund were detailed and approval was sought for amendments to the Fund's investment strategy.

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**Decision**

- 1) To note the review of investment strategy, the inherent volatility in investment markets and the challenges faced by the Fund over the next 3-5 years due to weaknesses in global economies.
- 2) To approve the revised investment strategy and asset allocation ranges for the Scottish Homes Pension Fund as detailed in paragraph 3.3.2 of the report by the Director of Corporate Governance.
- 3) To delegate investment activity outwith the agreed strategy and asset allocation ranges in the event of the actual funding level exceeding the target funding level or in the event of extreme investment market fluctuations to the Director of Corporate Governance, with the activity reported to the Pensions Committee.
- 4) To delegate the implementation of the revised investment strategy to the Director of Corporate Governance in consultation with the Investment Strategy Panel.
- 5) To agree that there should not be a specific outperformance target and note that the future focus on risk, income and capital protection was likely to mean that the Fund would perform better if markets fell significantly but would perform less well if equity markets rose significantly.
- 6) To note the further investigations into potential use of any surplus which might arise in the Fund and the use of other vehicles to reduce risk.

(References – Pensions and Trusts Committee 27 June 2012 (item 10); report by the Director of Corporate Governance, submitted.)

## **7 Statement of Investment Principles**

A revised Statement of Investment Principles for the Pension Funds was proposed for adoption to replace the statement agreed by the Committee in June 2011.

**Decision**

To adopt the revised Statement of Investment Principles.

(References – Pensions and Trusts Committee 28 June 2011 (item 7); report by the Director of Corporate Governance, submitted.)

## **8 Update on Employers' Participation in Lothian Pension Fund**

Updates were provided on:

- employers who had recently joined the fund and employers currently looking to join;
- college mergers; and
- current matters relating to the Forth Estuary Transport Authority, Police and Fire Services reform and the Lothian Centre for Inclusive Living.

### **Decision**

To note the report.

(References – Pensions and Trusts Committee 28 March 2012 (item 10); report by the Director of Corporate Governance, submitted.)

## **9 Service Plan 2012-2015 Monitoring Update**

An update was provided on the 2012-2015 Service Plan objectives for Lothian Pension Fund (including Lothian Buses and Scottish Homes Pension Funds) and the projected outturn for 2012/13 compared to the approved budget.

### **Decision**

To note the report.

(Reference – report by the Director of Corporate Governance, submitted.)

## **10 Charitable Trusts Update on Consolidation**

An update was provided on the plan to consolidate and simplify the administration of existing trusts. The consolidation aimed to make the management and administration of the trusts more effective in order to maximise the benefit of the funds. The main elements of the plan to reorganise the Council's trust funds were nearing completion.

Details were given on the conditional award of funding from the Boyd Anderson Trust to Save Our Suntrap and a recommendation was made on the safekeeping of the Boyd Anderson artefacts.

Following the Council's approval of its new governance arrangements, governance of the charitable trusts would be transferred from the Pensions and Trust Committee to the Finance and Budget Committee.

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**Decision**

- 1) To keep the situation regarding the award of £57k from the Boyd Anderson Trust to Save Our Suntrap under review and report back to the Finance and Committee in due course.
- 2) To agree that the Boyd Anderson artefacts should be subject to the Council's Museums and Galleries Acquisition and Disposal Policy.
- 3) To note the proposed new arrangements for the governance of the remaining trust funds.
- 4) To thank the Fund Accounting Manager for his work on the consolidation of the charitable trusts.

(References – Pensions and Trusts Committee 28 March 2012 (item 3); report by the Director of Corporate Governance, submitted.)