

# Pensions Committee

2.00pm, Monday, 26 March 2018

## Governance Update

Item number	5.4
Report number	
Executive/routine	
Wards	All
Council Commitments	<a href="#">Delivering a Council that works for all</a>

### Executive Summary

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The purpose of this report is to update the Committee on the rotation of the Pension Board chair, training activities over 2017/18 and various other governance matters.

## Governance Update

### 1. Recommendations

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Committee is requested to:

- 1.1 Note the verbal update from the Pension Board regarding the newly appointed chair of the Pension Board effective from 1 April 2018 to 31 March 2019;
- 1.2 Thank Darren May for his significant contribution during his tenure as the Chair of the Pension Board;
- 1.3 Thank Eric Adair for his significant contribution to the Fund as a Consultative Panel Member and a Pension Board member;
- 1.4 Note the update on the Scottish Government's review of structure and governance; and
- 1.5 Note the Accounts Commission's Local Government Pensions supplement overview prepared by Audit Scotland.

### 2. Background

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- 2.1 The Fund reports annually to Committee on governance matters including its compliance with the Appointments and Nominations Policy and its Training and Attendance Policy, and any other related matters that arise.

### 3. Main report

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#### **Rotation of the Pension Board Chair & Membership of the Pension Board**

- 3.1 The Fund's constitution states that '*the chairman of the Pension Board will be rotated on an annual basis*'. The 2018/19 chair is required to be from the member representatives of the Pension Board.
- 3.2 The Pension Board are meeting in advance of the Pensions Committee and are expected to provide a verbal update to the Committee regarding who they have appointed as chair.
- 3.3 Over the last year the Pension Board have received one resignation, John Rodgers, (a member representative). Diane Hogarth and Brian Robertson (both member representatives) have joined the Board. At the time of writing, Eric Adair has notified the Fund and Pension Board that he will be submitting his resignation within the coming months. Eric has contributed to the Fund's governance

arrangements since 2012 as a member of the Fund's Consultative Panel and thereafter in 2015 as a member of the Pension Board representing the employers of the fund. He also served as chair for 2015/16. The Fund has alerted the employers of the potential for a vacancy on the Pension Board.

#### **City of Edinburgh Council Meeting – 15 March 2018**

3.4 At the time of writing, the City of Edinburgh Council is expected to consider the following motion from Councillor Claire Miller:

“Council:

- Recognises the benefits of conducting council business in public, and the benefit that webcasting some council business has brought;
- Notes that some public meetings are held in public but are not currently webcast;
- Calls for a report within one cycle to the next meeting of City of Edinburgh Council into the feasibility, benefits and costs of introducing webcasting for public meetings, including but not limited to the Integration Joint Board, Licensing Board, and Pensions Committee.”

3.5 Also, due to a change in the political balance in the Council, an SNP member of the Pensions Committee is expected to be replaced by a representative from the Scottish Liberal Democrats.

3.6 A verbal update on these matters will be provided to Committee.

#### **Training hours 2017/18 for the Pensions Committee and Pension Board**

3.7 The Fund's training policy sets out that a minimum of three days (21 hours) training hours are expected of Pensions Committee and Pension Board members. The Pensions Regulator also requires those involved with the governance of local government pension schemes to develop and build sufficient knowledge to effectively carry out their role.

3.8 Appendix 1 of this paper provides a breakdown of training of the Pension Committee and Board. As at 14 March 2018, six members of the Pensions Committee and all the members of the Pension Board have met the minimum of three days (21 hours) training required under the Fund's training policy.

3.9 The Fund continues to emphasise the importance of training to both Committee and Board members. Taking an active role in ensuring skills, knowledge and understanding are sufficient is vital for both members of the Board and Committee to ensure the effective governance of the Fund. To support this, the Fund provides quarterly reminders of training hours, details of future training opportunities and reading material to all the Pensions Committee and Pension Board members.

## **Scottish Public Service Pensions Agency Governance Review**

- 3.10 As previously reported to Committee, the Scottish Public Pension Agency (SPPA) commissioned KPMG to undertake a Pensions Governance Review to assess the new governance arrangements introduced in April 2015 for public sector pension schemes, including the Scheme Advisory Board and Pension Boards.
- 3.11 Appendix 2 provides the most recent Scheme Advisory Board bulletin which provides further updates on the Scheme Advisory Board's activities including an action plan on the implementation of the governance review. The Fund will report to the Committee on any further updates when available.

## **Accounts Commission Overview of the LGPS**

- 3.12 The Accounts Commission, the public spending watchdog for the Local Government, publish a financial overview of accounts and audit each financial year including a supplementary report on the Local Government Pension Scheme. This is provided in Appendix 3 of this report. It sets out various comparisons of the Pension Funds in Scotland.

## **4. Measures of success**

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- 4.1 The Fund is governed effectively with each Pensions Committee and Pension Board member having a clear knowledge of their responsibilities and a fully functioning Committee and Board.
- 4.2 The Pensions Committee and the Pension Board function in accordance with their respective remits and mandates/constitutions.
- 4.3 The Pensions Committee and Pension Board members meet the required training and knowledge standards set out by the Pension Regulator.

## **5. Financial impact**

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- 5.1 None.

## **6. Risk, policy, compliance and governance impact**

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- 6.1 The Pensions Committee must undertake training in line with the Training and Attendance policy. Training and attendance must be monitored and reviewed.
- 6.2 The Pension Board has the knowledge and understanding to enable its members to properly exercise their functions. All training and attendance is monitored and is compliant with the Pension Regulator Code.

## **7. Equalities impact**

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- 7.1 None.

## 8. Sustainability impact

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8.1 None.

## 9. Consultation and engagement

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9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

## 10. Background reading/external references

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10.1

### **Stephen S. Moir**

Executive Director of Resources

Contact: Struan Fairbairn, Chief Risk Officer, Lothian Pension Fund

E-mail: [struan.fairbairn@edinburgh.gov.uk](mailto:struan.fairbairn@edinburgh.gov.uk) | Tel: 0131 529 4689

Susan Handyside, Customer Service & Compliance Officer, Lothian Pension Fund

E-mail: [susan.handyside@edinburgh.gov.uk](mailto:susan.handyside@edinburgh.gov.uk) | Tel: 07771 378238

## 11. Appendices

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Appendix 1 – Committee and Pension Board Members' Training Record for 2017/18 (to 14 March 2018)

Appendix 2 – Scheme Advisory Board bulletin February 2018

Appendix 3 – Audit Scotland Overview Report LGPS Supplement

# Appendix 1

Committee and Pension Board Members' Training Record  
From 1 April 2017 to 31 March 2018

Event:	TPR online training	Sarah Smart Session	Internal Training Pension Fund	Induction training	Sarah Smart Session	Audit Sub Committee Preparation	Pension Committee Preparation	Actuarial Valuation Training	Investment Seminar COSLA Office	PLSA Conference	IGG/SPLG Training Agenda	Annual LAPFF Conference	Sarah Smart Session	Audit Sub Committee Preparation	Pension Committee Preparation	Internal training session	PLSA, Investment Conference	Procurement meeting	Audit Sub Committee Preparation	Pension Committee Preparation	Pensions & Lifetime Savings Conference.	IPO Session	Pension Committee Preparation	Additional training/ reading	Total
Date	n/a	28/6/17	28/6/17	13/9/17	26/9/17	26/9/17	27/9/17	25/10/17	31/10/17	17/11/17	21/11/17	6-8 /12/17	12/12/17	11/12/17	12/12/17	5/2/18	7-9 /03/18	13/3/18	25/3/18	26/3/18	7-8/03/18				
<b>Pensions Committee</b>																									
Maureen Child	0	0	0	0	0	0.5	1	0	6	0	0	0	0	0.5	1	3.25	8.75	1						2.5	24.5
Claire Miller	0	1	3	3	1	0	1	0	6	0	7	0	0.75	0	1	3.25	12	1							40
Adam McVey	0	1	3	0	0.75	0	1	2	0	0	0	0	0	0	1	0	0	1						1	10.75
Alasdair Rankin (Convener)	0	0	3	0	0	0	1	2	6	0	0	13.5	0	0	1	0	7.75	1						3	38.25
Cameron Rose	0	0	3	0	0	0.5	1	2	6	0	0	0	0.5	0.5	1	3.25	12	1							30.75
John Anzani	0	0	3	0	1	0.5	1	2	6	0	0	13.5	0	0.5	1	3.25	19.75	0.75							52.25
Richard Lamont	0	0	3	0	0	0	1	2	6	0	0	0	0	0	1	3.25	16.5	0						10	42.75
<b>Lothian Pension Funds' Pension Board</b>																									
<b>Employer Representatives</b>																									
Eric Adair (EDI Group)	0	0	0	0	0	0	1	0	6	0	0	0	0	0	1	3.25	13.75	0							25
Darren May, Chair (Scottish Water)	0	0	3	0	0.5	0	1	2	6	3	0	0	1	0	1	3.25	13.75	0						11	45.5
Sharon Dalli	0	0	0	0	0.5	0	1	0	0	0	0	0	0	0	1	3.25	0	0						21	26.75
Alan Williamson	0	0	0	0	0.5	0.5	1	0	6	0	0	0	0	0.5	1	3.25	21.5	0						5	39.25
Paul Ritchie	0	0	3	0	0	0	0	0	0	0	7	0	0	0	0	3.25	8.75	0							22
<b>Member Representatives</b>																									
Brian Roberston (UNITE)	0	0	0	3	0	0	0	2	0	0	0	0	1	0	1	3.25	21.5	0						1	32.75
Jim Anderson (UNISON)	0	0	3	0	0	0	1	2	0	3	0	0	0	0	1	3.25	21.5	0						13	47.75
Catrina Warren (UNISON)	0	0	3	0	0.2	0.5	1	0	6	0	0	0	0	0	0	3.25	0	0						12	25.95
Diane Hogarth (UNITE)	0	0	0	3	0.3	0	1	2	6	3	7	0	1	0	1	0	0	0						1	25.3
Thomas Carr Pollock (GMB)	0	0	3	0	0	0	1	2	6	0	0	0	0	0	1	3.25	8.75	0							25
<b>Total</b>																									315.25

Notes regarding additional reading and training:

Clr McVey had separate induction with Struan Fairbairn on Wed 20 September for 1 hour.

Jim Anderson - PLSA Roadshow 7 September 2017 - 3 hours, Unison Pension Seminar 17 October 2017 4 hours, additional e.g. Professional Pensions etc reading of 1 hour per month.

Darren May additional reading e.g. Professional Pensions - (5.5 hours over 6 months)

Clr Alasdair Rankin LAPFF meeting in August 3 hours. Clr Alasdair Rankin's hours for 7 March estimate only to be confirmed.

Richard Lamont - PMI trustee training 10 hours.

Catrina Warren - Unison Pension Seminar Jan 2018 - 6 hours and additional reading 6 hours throughout the year.

Sharon Dalli additional training includes, Finance Transformation Roadshow 17 Nov - 2hours, BTP programme Workshops - 3 hours, PLSA LGPS Conference May 2017- 12 hours, Police pensions post review meeting, April 2017 - 2 hours, BTP pensions integration project, 26 April - 2 hours

Brian Roberston and Diane Hogarth - requested further training on Pension Benefits 23 January 2018 - 1 hour.

Maureen Child - Reading credit 2.5 hour

Alan Williamson - additional reading over the course of the year - 5 hours

**Scottish Local Government  
Pension Scheme**  
www.lgpsab.scot

**Scheme  
Advisory  
Board**

Trade Union Side Secretary  
Dave Watson  
UNISON  
UNISON House  
14 West Campbell St  
Glasgow G2 6RX  
Tel: 0141 342 2840  
d.watson@unison.co.uk

Employers Side Secretary  
Jonathan Sharma  
COSLA  
Verity House,  
19 Haymarket Yards  
Edinburgh EH12 5BH  
Tel: 0131 474 9269  
jonathan@cosla.gov.uk

February 2018

## BULLETIN

### Structure Review

The Cabinet Secretary for Finance has responded to the SAB's options paper on the structure review. He has asked the SAB to consult on the future structure of the scheme based on the options identified in the report:

- Status quo of eleven funds in Scotland.
- Retain the eleven funds, but with closer collaboration.
- One or more common investment pools.
- Merge the funds into one or more new funds.

SAB officers are drafting a consultation paper and timetable for the next SAB meeting in April.

### Audit Scotland overview report

The SAB received a presentation from Audit Scotland on their overview report on local government pension funds. This is a high level look at funds based on their financial accounts. Audit Scotland highlighted the significant increase in asset value and liabilities as well as other challenges facing the scheme. These will be addressed in more detail when the scheme valuation is considered later this year.

[http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr\\_171128\\_local\\_government\\_finance\\_supp2.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_171128_local_government_finance_supp2.pdf)

### Governance Review

The SAB agreed an action plan on the implementation of governance review. The main actions for the SLGPS involved strengthening training and communications, particularly with pension boards at fund level.

### Annual report

A revised draft report was agreed at the last SAB meeting. The final statistical analysis is being completed and the report should be published later this month.

### Regulations

The SPPA reported on draft regulations that had been out for consultation. Some changes will be made and the final regulations will be presented to Parliament in April.

### Pension Developments

The FCA's Investor Disclosure Working Group (IDWG) is working on templates for cost and fee disclosure by asset managers to institutional investors, including pension funds. Many of the biggest advisors have already signed up to the LGPS code. The working group has recently published an update of its work.

<https://www.fca.org.uk/publication/minutes/idwg-progress-december-2017.pdf>

The UK government has announced that it intends to lower the age for automatic enrolment in workplace pensions from 22 to 18. However, the change will not take place until the mid 2020s.

The UK government is consulting on rules that will make it easier for pension schemes to make investment decisions to fight climate change. Friends of the Earth Scotland has published a new analysis of fossil fuel investment in Scotland and UNISON has commissioned a guide on this issue from Share Action.

Further details on our website [www.lgpsab.scot](http://www.lgpsab.scot)

# Local Government Pension Scheme 2016/17



ACCOUNTS COMMISSION

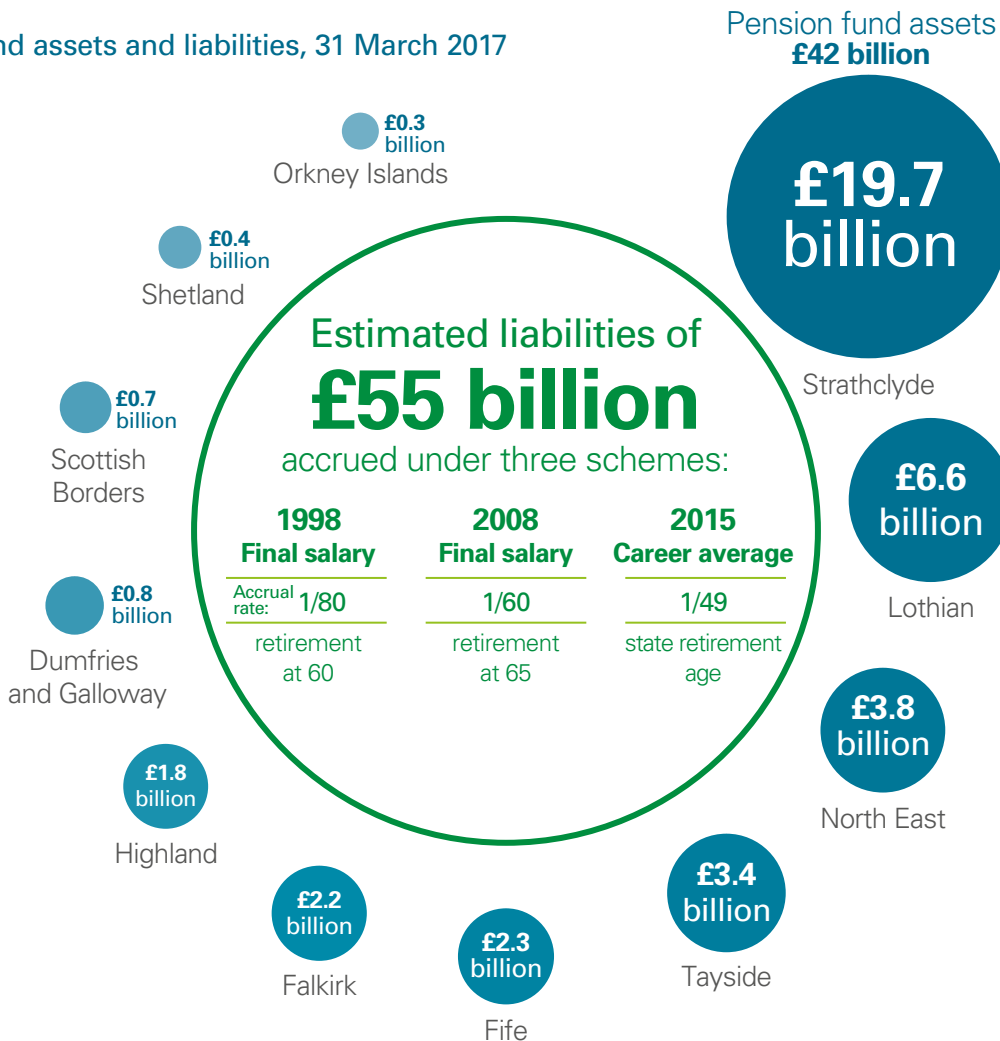
## Introduction

1. This supplement accompanies our Local Government in Scotland: Financial Overview 2016/17 and provides an overview of the LGPS in Scotland. We have drawn on the annual reports and accounts of the 11 pension funds administered by councils in Scotland and on the reports of their appointed auditors. In this, the first year of new five year auditor appointments, we are pleased that all 11 pension funds received an unqualified audit opinion on their accounts.

2. It was a good year for pension fund assets, which increased from £34.5 billion to £42 billion. However, the estimated value of liabilities also increased from £42 billion to almost £55 billion ([Exhibit 1](#)).

## Exhibit 1

LGPS Scotland assets and liabilities, 31 March 2017



Source: Pension Fund Annual Accounts 2016/17



**3.** The estimated value of LGPS liabilities is in respect of all scheduled and admitted bodies not just councils. Councils have pension liabilities associated with added years awarded on retirement that do not fall on the pension fund and are not included in [\(Exhibit 1, page 1\)](#). Council net pension fund liabilities as at 31 March 2017 were estimated to be £11.5 billion (including unfunded liabilities).

## Governance and administration

**4.** This is the second year of the LGPS 2015 scheme, which links pension benefits to career average earnings (a move away from final salaries under the previous LGPS schemes). We reported last year that pension funds had coped well with the introduction of the scheme and associated governance arrangements, but that the outlook remained challenging.

**5.** The new governance arrangements introduced under the 2015 scheme are more complex than under the previous LGPS schemes, with more stakeholders being involved. The range of stakeholders is shown in [Exhibit 2 \(page 3\)](#).

**6.** During 2016/17 the Scottish Scheme Advisory Board reported to the Scottish Minister on the future structure of the LGPS in Scotland. The report has not been made public so any proposed changes to the structure of the LGPS in Scotland are unclear. Irrespective of any proposed changes, a number of pension fund annual reports highlight plans for greater collaboration.

**7.** A survey<sup>1</sup> undertaken by the Pensions Regulator across all UK public service schemes found improvements in ensuring and demonstrating compliance with the public service code of practice on governance and administration. Auditors confirmed that LGPS pension funds in Scotland had improved arrangements and procedures in this area.

**8.** During the year the Scottish Public Pensions Agency (SPPA) commissioned KPMG to review governance across all public service pension schemes in Scotland.<sup>2</sup> One of the key issues raised by KPMG is whether there would be benefit in clarifying the role of the LGPS pension boards established under the 2015 LGPS scheme. The remit of LGPS pension boards goes beyond that for other public service schemes, requiring them to consider any pensions matters they deem relevant. The risk is that LGPS boards become overstretched and do not adequately assist scheme managers to comply with regulations and the public service code.

**9.** Councils rotated the chairs of their pension boards in 2016/17. They have also experienced wider changes in councillor membership of pension committees following the local elections in May 2017. Ensuring that elected members and appointed board members have the requisite skills and knowledge in this highly technical area is an ongoing challenge for pension funds.

## Investment performance and pension fund assets

**10.** Overall, investments performed surprisingly well in a year where several high profile political events including the Brexit referendum and U.S. presidential results, affected investor confidence. The associated fall in the pound resulted in equity prices rising and this contributed to investment returns of around 22 per cent. [Exhibit 3 \(page 4\)](#) shows investment returns for the 11 pension funds.

**11.** The average return on LGPS investments in Scotland will be strongly influenced by the returns achieved by the larger funds, in particular the Strathclyde fund which accounts for almost 47 per cent of Scotland's £42 billion of LGPS assets.

<sup>1</sup> *Public service governance and administration survey – Summary of results and commentary*, Pensions Regulator, May 2017.

<sup>2</sup> *Scottish Public Service Pensions Governance Review*, KPMG, February 2017.

## Exhibit 2

### LGPS governance arrangements

#### UK



#### The Pensions Regulator

- Issues codes of practice on governance and administration
- Provides guidance and self assessment tool kits
- Undertakes governance and administration surveys
- Significant breaches of regulation must be reported

#### Scotland



#### Scottish Ministers

- Responsible for policy and regulations
- Currently considering a report on the future structure of LGPS



#### Scottish Public Pensions Agency

- Advise Scottish Ministers on public service policy and regulation
- Commissioned a review of governance in 2016/17



#### Scottish Scheme Advisory Board

- Advise Scottish Ministers on policy and changes
- Can advise scheme managers and pension boards
- Issued report to Scottish Ministers on future structure of LGPS

### 11 administering authorities



#### Pension Committees

- Responsible for decisions on pension fund policy
- Composed of Councillors but may include representatives and advisors
- New members in May 2017



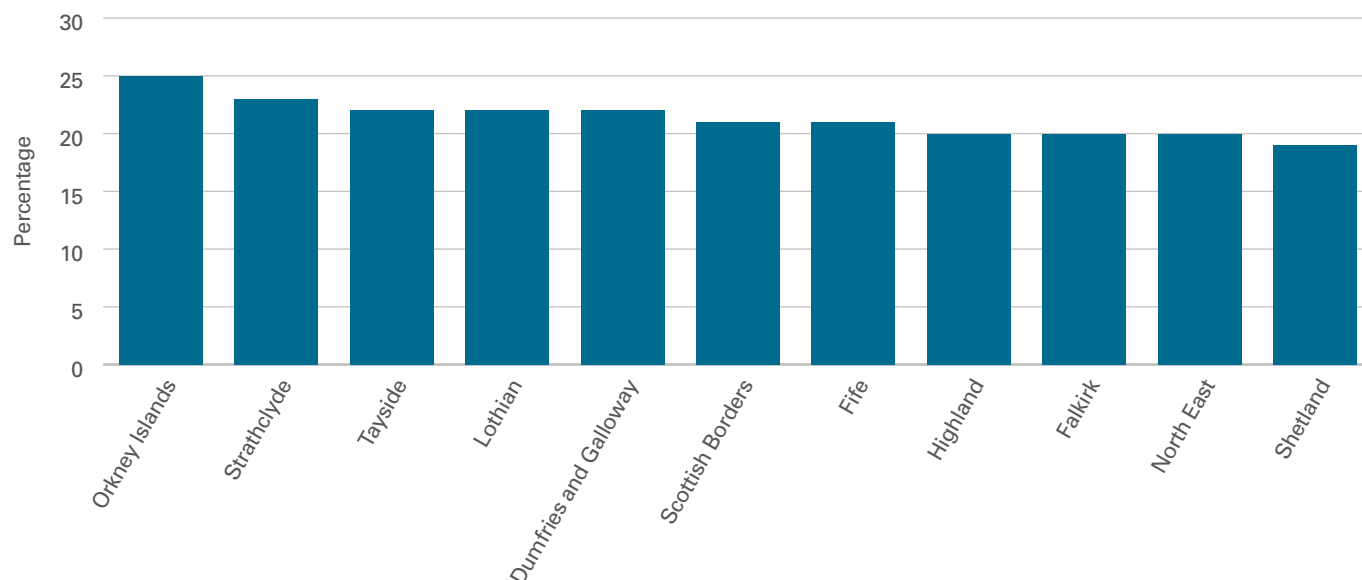
#### Pension Boards

- Supports compliance with law and regulation
- Can consider any matter deemed relevant
- Membership 50:50 employer and union representation
- May request Pension Committee to review decisions

### Exhibit 3

#### Return on investments as a percentage of opening investment assets 2016/17

Orkney had the highest investment returns in the year but is the smallest fund.



Source: Pension fund annual accounts 2016/17

**12.** There has been a continued interest across the pensions sector in the transparency of investment management costs. We welcome developments in this area, as even small reductions in cost arising from a better understanding and level of scrutiny can make a difference when compounded over time. In last year's supplement we expressed our support for full disclosure of costs in pension fund annual reports.

#### Present value of promised retirement benefits

**13.** Estimates of the present value of promised retirement benefits or 'pension liabilities' are required under both the pension regulations for funding valuations (forming the basis for employer contributions) and under accounting standards (for disclosure in the pension fund accounts). Funding valuations are carried out every three years whilst estimates of pension liabilities for accounting purposes are updated each year. Pension funds are currently awaiting their final funding valuations for 31 March 2017.

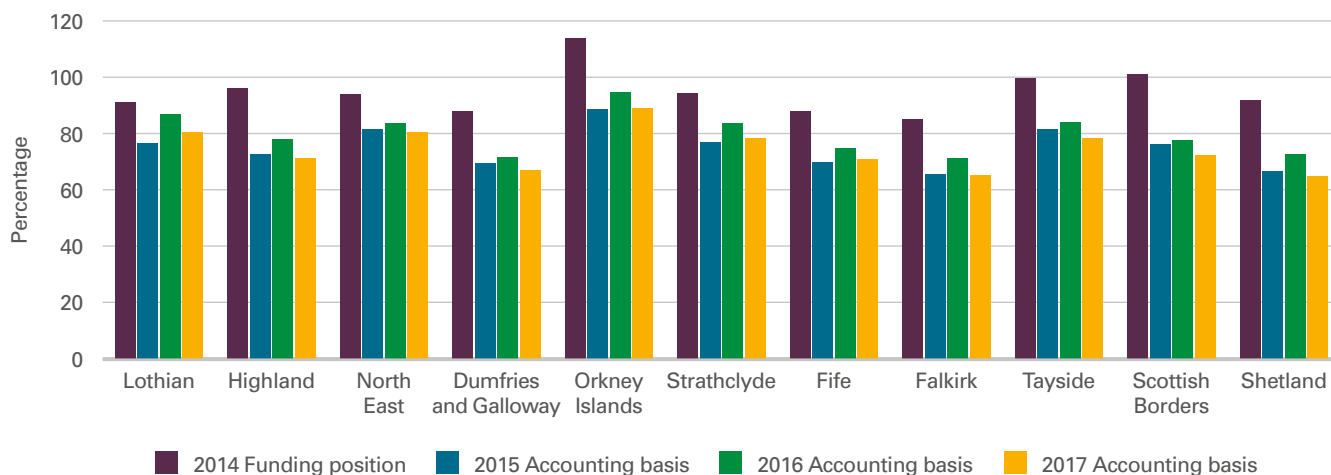
**14.** Accounting valuations produce higher estimations of liabilities and lower indicative funding levels as a result. Indicative funding levels on an accounting basis for 2017 are broadly similar to those in 2015 ([Exhibit 4, page 5](#)).

**15.** Actuaries will revisit their assumptions and use up to date data to calculate funding valuations as at 31 March 2017. It is this triennial funding valuation that will determine whether employer contributions will need to increase over the next three year period from 2018/19. Any increases for employers will be limited under the cost sharing mechanism in the LGPS 2015.

## Exhibit 4

### Pension fund assets as a percentage of estimated liabilities 2014 to 2017

Accounting valuations result in lower funding levels than those for funding purposes (2014).



Source: Pension fund annual reports and accounts

## Cost control and the employer cost cap

**16.** Under Section 13 of the Public Service Pension Act 2013 (the 2013 Act) the Government Actuaries Department (GAD) will review the 2017 triennial valuation on behalf of Scottish Ministers. This review will look at the consistency with which actuaries have undertaken valuations in Scotland and their compliance with regulations. The review will also look at the solvency and long term efficiency of the funds and may make recommendations in relation to future cost sharing between employers and active members of the scheme.

**17.** The cost sharing mechanism in the LGPS 2015 is designed to ensure that the LGPS remains affordable for employers. Under this mechanism (GAD) has established a Scotland wide LGPS employer cost cap of 15.5 per cent. If the cost of providing benefits to members increases by more than two per cent above the employer cost cap then employee contributions and/or benefits will be reviewed.

**18.** GAD recently undertook a 'dry run' review<sup>3</sup> based on the 2014 funding valuations. This raised no concerns about the solvency or longer term efficiency of the LGPS in Scotland but did raise concerns about inconsistencies in valuations by different actuaries across Scotland's 11 pension funds. We understand that actuaries are looking to address GAD's concerns before reporting in 2018.

## Outlook

**19.** Pension funds face ongoing administrative pressures including those arising from:

- councils severances
- complexities of the new career average scheme.
- guaranteed minimum pension reconciliations (with HMRC records)
- pensions auto enrolment.


**20.** To help to reduce their costs and improve services, pension funds are increasingly providing online services to employers and members through programmes of digitalisation. As services evolve pension funds will need to be alert to cyber security risks.

**21.** New regulatory arrangements for financial markets arising from Markets in Financial Instruments Directive (MIFID 2) will also impact on pension funds from 1 January 2018. MIFID 2 requires all local authorities to be treated as 'retail clients' by their asset managers which would severely limit the ability of pension funds to invest. However, the Financial Conduct Authority rules allow local authorities to opt up to 'professional investor' status allowing fund managers to continue to offer the full range of investments. MIFID 2 was designed to protect the interests of local authorities and care will be needed to ensure that opting up for pension investments does not expose the wider council to increased risks.

**22.** Delivering investment returns will no doubt remain a challenge for pension funds and pension fund managers. It is unclear to what extent further collaboration between funds will reduce costs and improve performance. It is also unclear whether the Scottish Minister will require pension funds to formally collaborate or propose any structural change following the recent report on the structure of the LGPS in Scotland.



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

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