

Minutes

Pensions Committee

2.00pm, Wednesday 11 December 2019

Present

Councillors Rankin (Convener), Burgess, Child, Rose and Neil Ross; John Anzani and Richard Lamont.

Pension Board Members

Jim Anderson, Thomas Carr-Pollock, Sharon Dali, Tom Howarth, Darren May, Neil Reid, Brian Robertson and Alan Williamson.

Independent Professional Observer

Andy McKinnell

1. Minutes

Decision

To approve the minute of the Pensions Committee of 25 September 2019 as a correct record.

2. Referrals/Recommendations from Pensions Audit Sub-Committee

Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee on 10 December 2019.

Decision

(Reference – Pensions Audit Sub-Committee 10 December 2019)

3. Agenda Planning

Details were provided of proposed potential reports for future meetings of the Pensions Committee and Pensions Audit Sub-Committee including meetings in March and June 2020.

Decision

- 1) To note that a report on LPFE and LPFI Loan Financing Requirement had been added to the plan for the meeting of the Committee in March 2020.
- 2) To note that Investment Controls and Compliance would be retitled LPF Group Controls and Compliance and would be presented annually to Committee in June instead of December.
- 3) To note that the Governance Update would be retitled Annual LPF Group Governance Update and would be presented to Committee in June.

- 4) To note there may be a requirement to schedule an additional meeting of the Pensions Audit Sub-Committee in March 2020 subject to Internal Audits being delivered.
- 5) To note the view from the Pensions Audit Sub-Committee that an evaluation of the effectiveness of performance related pay should be reported to the Pensions Committee in 2020.
- 6) To agree that the Committee meeting in the diary for 24 June 2020 be re-scheduled to avoid a clash with the Local Authority Pension Fund Forum meeting.
- 7) To otherwise note the agenda planning schedule.

(Reference – report by the Executive Director of Resources, submitted)

4. Pension Fund Cost Benchmarking

Information was provided on the benchmarking of investment costs for the Lothian Pension Fund (LPF) and of pension administration costs for LPF and Scottish Homes Pension Fund.

Decision

- 1) To note the report.
- 2) To note that the interim CEM Investment Cost Effectiveness Analysis (to 31 March 2019), the CIPFA Pensions Administration Benchmarking Report 2019 and the interim CEM Pension Administration Benchmarking Report 2019 had been provided, on a confidential basis, to the Conveners of the Pensions Committee and Pensions Audit Sub-Committee and the Independent Professional Observer.

(Reference – report by the Executive Director of Resources, submitted)

5. Contribution Stability Mechanism Review 2019

Detailed financial modelling of asset and liability cashflows had been undertaken and advice from the Fund's actuary sought in order to inform recommendations for the proposed extension of the Contribution Stability Mechanism (CSM).

Decision

- 1) To approve the Contribution Stability Mechanism (CSM) to the effect that from 1 April 2021 for all employers currently offered stabilised rates, contributions would be frozen for four years then increase or decrease (towards the underlying "market base" rate) by no more than 0.5% of payroll each year thereafter.
- 2) To note that, in the application of this funding strategy, the Fund would aim to keep the total contribution rate for all stabilised employers between 18.0% and 25.0% of payroll.

There may be specific employer circumstances, however, which would merit the actuary certifying a contribution rate that was outside this range, which would be applied at the discretion of the Fund. This strategy would apply to all employers currently offered stabilised rates with the following exceptions:

- i) For two employers, West Lothian Leisure and Enjoy Leisure, whose current contribution rates were below the floor of 18%, from 1 April 2021 contributions would be increased (towards the underlying “market base” rate) by 0.5% of payroll each year then increase or decrease by no more than 0.5% of payroll each year.
 - ii) Children’s Hearing Scotland, given its low funding level, should be excluded from CSM unless its guarantor, the Scottish Government, was content that it should remain.
 - iii) Newbattle College, as an “admitted body” without any guarantor should be excluded from CSM.
- 3) To agree to retain the right to review or withdraw the CSM from any or all employers as protection against extreme adverse financial circumstances.
 - 4) To note that the CSM stipulating minimum contribution rates payable, would require to be certified by the Fund’s actuary at each statutory actuarial valuation.

(References – Pensions Committee 28 September 2016 (item 11); report by the Executive Director of Resources, submitted)

6. Statement of Investment Principles

A revised Statement of Investment Principles (SIP) for Lothian Pension Fund and Scottish Homes Pension Fund was presented.

The SIP was an important part of the Fund’s governance arrangements and provided the framework within which the Committee delegated the implementation of the investment strategy as defined by the policy (asset class) groups to officers with advice from the Joint Investment Strategy Panel.

Decision

- 1) To agree the revised target weights and permitted ranges for the cash and gifts allocations for the Mature Employers Group (MEG) Strategy.
- 2) To adopt the revised Statement of Investment Principles.
- 3) To note that information specifically around stewardship would be included within the next annual report.

(References – Pensions Committee 12 December 2018 (item 6); report by the Executive Director of Resources, submitted)

7. Stewardship and Engagement

The annual update on the activity of the Lothian Pension Fund and Scottish Homes Pension Fund (LPF) relating to stewardship of the assets of LPF including the approach to environmental, social and governance issues was submitted.

A summary was also provided of the annual assessment and feedback of LPF's responsible investment activities for 2019 as part of the Principles for Responsible Investment (PRI) reporting framework.

LPF continued to be represented on the Lothian Authority Pension Fund Forum Executive Committee and an update was provided on the Fund's collaborative shareholder engagements through this and other organisations.

Decision

To note the report.

(Reference – report by the Executive Director of Resources, submitted)

8. Service Plan Update

An update was provided on progress against Lothian Pension Fund's 2018-2020 Service Plan, performance indicators and the actions to enable the Fund to meet its key objectives.

Overall progress was being made against the Service Plan objectives for 2019-2020 and an underspend was projected for the financial year.

Decision

- 1) To note the progress made by the Lothian Pension Fund (LPF) on its 2018-2020 Service Plan.
- 2) To note the regulatory update.

(References – Pensions Committee 25 September 2019 (item 7); report by the Executive Director of Resources, submitted.)

9. Risk Management Summary

A detailed overview was provided of Lothian Pension Fund's risk analysis as at 30 October 2019.

The Pensions Audit Sub-Committee, on 10 December 2019, had undertaken an in-depth review of the full detailed risk register. Councillor Rose updated members on the discussions.

Decision

- 1) To delete the word "elected" from Risk 9 and amend to read "Members take decisions against sound advice".

2) To otherwise note the quarterly risk review.

(References – Pensions Committee 26 June 2019 (item 10); report by the Executive Director of Resources, submitted.)

10. Governance Update

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

An update was provided on implementing the recommendations of the Fund's Governance Review 2019.

Decision

As detailed in the Confidential Schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Executive Director of Resources, submitted.)

11. Investment Collaboration Update – Shared Service Cost Apportionment

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

An update was provided on the operation of the cost sharing model including a projection of the financial impact for the year ended 31 March 2020.

Decision

To note the update on the operation of the shared service cost apportionment model including the projected figures for the year ended 31 March 2020.

(References – Pensions Committee 12 December 2018 (item 11); report by the Executive Director of Resources, submitted.)

12. Lothian Pension Fund ICT Update

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

Following approval by the Committee on 26 June 2019, an update was provided on the implementation of the Fund's ICT pathway.

Decision

- 1) To note the update on the implementation of the LPF ICT pathway.
- 2) To record thanks to the procurement team for their assistance and support in taking forward the project.

(Reference – Pensions Committee 26 June 2019 (item 12); report by the Executive Director of Resources, submitted)