

## Pensions Committee Minutes

2pm, Wednesday 24 June 2020

### Present:

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

### Apology:

Brian Robertson, Pension Board Member Representative.

### Pension Board Members present:

Jim Anderson, Thomas Carr-Pollock, Sharon Dalli, Lesley Henderson, Tom Howorth, Darren May and Alan Williamson.

### Other Attendees:

Andy McKinnell, Independent Professional Observer and Nick Bennett, Scott Moncrieff (External Auditor)

## 1. Quorum

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The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the Convener declared the meeting open.

## 2. Order of Business

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The Clerk advised there was no change to the order of business.

## 3. Declaration of Interests

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Following the invitation from the Convener, Thomas Carr-Pollock declared a non-financial interest as a Board member of West Lothian Leisure.

## 4. Minutes

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### Decision

To approve the minute of the Pensions Committee of 11 December 2019 as a correct record.

## **5. Referrals/recommendations from the Pensions Audit Sub-committee**

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Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee meeting on 23 June 2020.

(Reference – Pensions Audit Sub-Committee 23 June 2020)

## **6. Pension Board oversight**

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The Chair of the Pension Board advised the Committee of the relevant discussion and decisions taken at the Pension Board meeting and confirmed that the Pension Board would provide comment on other relevant matters during the meeting.

## **7. Agenda planning**

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An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for September and December 2020 was presented.

### **Decision**

- 1) To note the agenda planning document.
- 2) To note that the Pension Board Members were invited to comment on agenda items during Committee meetings.
- 3) To agree that Lothian Pension Fund (LPF) officers would review the level of business reported to both the Audit Sub-Committee and the Pensions Committee with a view to reducing duplication where appropriate taking cognisance of due process and governance requirements.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

## **8. Summary of March Committee Reports**

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A number of papers which would, under normal circumstances, have been considered and noted in the March cycle of meetings, were presented formally to members.

A brief overview of each report was provided setting out the background in relation to the fuller update previously provided by LPF officers to Committee and Pension Board members for review and feedback.

### **Decision**

To note the outstanding March Committee reports re-circulated and formally tabled.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

## **9. Lothian Pension Fund – Internal Audit Opinion and Annual Report for the Year Ended 31 March 2020**

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Details were provided of Internal Audit's (IA) annual opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2020. This opinion was based on the outcomes of the three audits included in the LPF 2019/20 IA annual plan, and the status of open and overdue IA findings as at 31 March 2020.

The report detailed IA's opinion that LPF's control environment and governance and risk management frameworks had been recorded as generally adequate but with enhancements required which had resulted in an amber rated internal audit opinion with assessment towards the middle of this category. This assessment remained unchanged in comparison to the 2018/19 internal audit opinion.

The key themes emerging from IA's opinion and detailed in the report for the three completed 2019/20 audits, were around (i) the need for LPF to ensure the continued effectiveness of their third-party supplier relationship management framework, and (ii) to focus on the adequacy of cloud based system controls for systems provided and maintained by external suppliers used by LPF to support their ongoing investment and fund administration activities.

Councillor Rose advised members that the Pensions Audit Sub-Committee had had a robust discussion on the internal audit opinion at its meeting on 23 June 2020 and that LPF and Internal Audit would look to continue to engage on any outstanding items in a proportionate manner. The Chief Internal Auditor and relevant LPF officers were due to give a verbal update at the next Audit Sub-Committee.

### **Decision**

To note the Internal Audit opinion for LPF for the year ended 31 March 2020.

(Reference – report by the Chief Internal Auditor, City of Edinburgh Council, submitted.)

## **10. Lothian Pension Fund – Proposed Internal Audit Plan for 2020/21**

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LPF's proposed Internal Audit Plan for the period 1 April 2020 to 31 March 2021 was presented to the Committee for approval.

A total of three reviews and ongoing IA follow up on implementation of previously raised findings were included in the proposed plan. The plan raised the prospect of a combined review of LPF risk management and the assurance framework in the financial year 2021/22.

The Council's IA charter had been approved by the Council's Leadership Advisory Panel in March 2020 which fulfilled the requirements of the Public Sector Internal Audit Standards.

### **Decision**

- 1) To note the Lothian Pension Fund 2020/21 Internal Audit Plan.
- 2) To note that the Chief Internal Auditor would include in future reports comparative information with previous years' audits, number of audit days work undertaken, the information to also link to the risk register and the Fund's strategic priorities.

(Reference – report by the Chief Internal Auditor, City of Edinburgh Council, submitted.)

## **11. External Audit Annual Plan 2019/20 by Scott-Moncrieff**

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Scott-Moncrieff, the external auditor to Lothian Pension Fund and Scottish Homes Pension Fund presented the planned programme of work to support the statutory audit 2019/20.

The full programme was set out in Appendix 1 of the report by the Chief Finance Officer, LPF.

The external auditor advised that, due to the ongoing Covid-19 pandemic, the Accounts Commission had extended the appointment of Scott Moncrieff as external auditor for a further one year beyond the previously approved five year tenure to 2021/22.

### **Decision**

- 1) To note the planned programme of work to support the statutory audit 2019/20.
- 2) To note that suitable provision had been made in the approved budget 2019-20 for the audit fee.
- 3) To note that progress against the Group External Audit Annual Plan 2019-20 would be reported to future meetings of the Audit Sub-Committee and the Pensions Committee.

(References – Pensions Committee 20 March 2017 (item 5); report by the Chief Finance Officer, LPF, submitted.)

## **12. Lothian Pension Fund Unaudited Annual Report (and Financial Statements) 2020**

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Details were provided of the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund

In the context of sizeable falls in both the global and UK equity markets over the financial year, the Accounts showed that the Lothian Pension Fund (Group) net asset valuation had decreased from £7,817m to £7,497m, a reduction of 4.3%. Given its mature membership profile and gilts investment strategy, the Scottish Homes Pension Fund had remained static at £166m.

Councillor Rose advised that Audit Sub-Committee members had received a presentation from the Fund's Finance Manager on the detail of the Annual Report and Financial Statements.

### **Decision**

- 1) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2) To delegate authority to the Chief Executive Officer to make any necessary minor textual and presentational adjustments to the annual report.
- 3) To refer the report to the full Council on 30 June 2020 for noting.

- 4) To commend the LPF staff team for their work in preparing and presenting the annual report and accounts in the new refreshed format.

(Reference - report by the Chief Finance Officer, LPF, submitted.)

### **13. Funding Strategy Statement**

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LPFs' Funding Strategy Statement had been reviewed to set out a revised approach to setting employer contributions. It was proposed that a risk-based approach would now be used taking into consideration specific employer circumstances including employer covenants.

A further change was that experience would no longer be shared for smaller employers open to new entrants meaning that there would be no small employer pool and such employers would have contribution rates calculated on an individual basis for the first time.

Other changes had also been made to reflect the previously agreed revised Contribution Stability Mechanism and on a change in approach for employers which had exited the Fund.

As required under the Local Government Pension Scheme (Scotland) Regulations, a consultation exercise would be carried out with the Fund's employers following this Committee meeting.

#### **Decision**

- 1) To note that the Fund would consult with its employers on the revised draft Funding Strategy Statement.
- 2) To approve the draft revised Funding Strategy Statement, subject to any further amendment arising from the forthcoming employer consultation being reported to Committee at its next meeting.

(Reference - report by the Chief Finance Officer, LPF, submitted.)

### **14. Statement of Investment Principles**

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The Statement of Investment Principles (SIP) for Lothian Pension Fund and Scottish Homes Pension Fund was presented. Members had last reviewed the SIP in December 2019 and there were no material changes to draw to the Committee's attention.

#### **Motion to Vary Standing Orders**

In terms of Standing Order 8.1, a proposal was notified to vary standing orders to allow Committee to return to the previously agreed item on the funding strategy statement to allow for further contribution and comment.

- moved by John Anzani, seconded by Councillor Neil Ross

#### **Amendment**

Not to vary standing orders and to proceed with business as set out in the notice of meeting.

- moved by Councillor Rankin, seconded by Councillor Rose

## **Voting**

The voting was as follows:

For the motion: 3 votes

For the amendment: 4 votes

(For the motion – Councillors Burgess and Neil Ross and John Anzani.

For the amendment – Councillors Child, Rankin and Rose and Richard Lamont).

## **Decision**

Not to vary standing orders and to proceed with business as set out in the notice of meeting.

## **Resumption of Consideration of Business**

Members continued with their consideration of the SIP including investment strategies, the investment strategy implementation, statement of compliance with UK Stewardship Code and statement of compliance with the CIPFA Principles for Investment Decision Making in the Local Governance Pension Scheme.

## **Decision**

To adopt the revised Statement of Investment Principles

(References – Pensions Committee 11 December 2019 (item 6); report by the Chief Executive Officer, LPF, submitted.)

## **15. Policy Statement – Responsible Investment**

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The investment landscape had changed meaningfully since LPF became a signatory to the Principles for Responsible Investment (PRI) in 2008. It had become increasingly important for investors, including investment managers and asset owners, to articulate their approach to Responsible Investment (RI).

A policy statement to clarify the Fund's approach to RI expanding on the Statement of Investment Principles (SIP) was presented for approval by the Committee. Although the policy statement was not a statutory document, it was likely that a more detailed document such as this may become mandatory in future.

## **Decision**

To approve the Fund's new policy statement on Responsible Investment.

(Reference - report by the Chief Investment Officer, LPF, submitted.)

## **16. Joint Investment Strategy Panel Activity**

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An update was provided on the activity of the Joint Investment Strategy Panel (JISP) for the year to 31 March 2020, with a focus on the Lothian Pension Fund and the Scottish Homes Pension Fund.

For Lothian Pension Fund, Panel advised in several areas, including equity manager structure and strategies, allocations to private market investments, including infrastructure and corporate loans, and potential triggers for changes to asset allocation in the light of funding level. For the fully funded Scottish Homes Pension Fund, JISP advised on the appropriate approach to asset liability matching.

#### **Decision**

To note the activities of the Joint Investment Strategy Panel during the financial year 2019/20.  
(Reference - report by the Chief Executive Officer, LPF, submitted.)

### **17. Annual Investment Update – Lothian Pension Fund**

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An update was provided on the investments and funding position of the Lothian Pension Fund to 31 March 2020.

Over the 12-month period to 31 March 2020, investment returns had been mixed. Listed equities were notably weak as governments around the world took extreme measures to contain the developing Covid-19 pandemic. Other assets, however, were more resilient particularly sovereign bonds.

The Fund aimed to achieve a return in line with its strategic benchmark over the long term, with a lower than benchmark level of risk.

#### **Decision**

To note the asset allocation, investment performance and funding update of the Lothian Pension Fund.

(Reference - report by the Chief Investment Officer, LPF, submitted.)

### **18. Annual Investment Update – Scottish Homes Pension Fund**

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An update was provided on the strategic allocation and the invested assets of the Scottish Homes Pension Fund (the Fund) for the year to end March 2020.

At end March 2020, the funding level was estimated to be broadly similar to the position at the end March 2017 valuation (104.7%). The formal triennial valuation was due to be carried out in the coming year, which would provide an updated funding level incorporating realised experience since the previous valuation and any changes to the actuary's financial and demographic assumptions.

#### **Decision**

To note the report.

(Reference - report by the Chief Investment Officer, LPF, submitted.)

## **19. Risk Management Summary**

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In line with LPF's ongoing risk management procedures, an overview was provided of its risk analysis. An additional meeting of the Risk Management Group had been held on 23 April to assess the Group risk environment in the prevailing circumstances of the COVID-19 pandemic and material items included in the risk register.

More granular risks arising from the pandemic had also been identified and closely managed at an operational level by the Recovery Group established expressly for this purpose.

### **Decision**

To note the Quarterly Risk Overview and the LPF Group's approach to risk management.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

## **20. Resolution to Consider in Private**

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

## **21. Joint Investment Strategy Panel – Terms of Reference**

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The Joint Investment Strategy Panel (JISP) formed an important part of the governance structure of the pension funds, advising the representatives of the administering authorities on pension fund industry governance, investment strategy and actuarial trends relevant to the management of assets and liabilities.

The Terms of Reference of the JISP were subject to annual review and revised Terms of Reference were presented to members for approval.

### **Decision**

To approve the revised Terms of Reference for the JISP.

(Reference - report by the Chief Executive Officer, LPF, submitted.)

## **22. Covid-19 Impact and Response**

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An update was provided on the response by the LPF group to the challenges of Covid-19.

Key actions taken by the Fund's Senior Leadership Team to ensure delivery of core functions and to protect employees were highlighted.

### **Decision**

- 1) To note the response by the LPF group to the challenges of Covid-19.
- 2) To record the Committee's thanks to the LPF team for their efforts in maintaining service under extremely challenging circumstances and to ask the Chief Executive Officer to pass the Committee's comments on to the LPF staff.

(Reference - report by the Chief Executive Officer, LPF, submitted.)

## **23. Lothian Pension Fund Group Controls and Compliance**

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A summary was provided of the key developments in relation to the operational systems and controls of the LPF Group.

### **Decision**

- 1) To note the update on the LPF Group's systems controls and assurance mapping in relation to its current business activity and structures.
- 2) To request an update to the next meeting of the Committee clarifying the issue of professional indemnity insurance cover for committee members not employed with an LGPS organisation.

(Reference - report by the Chief Executive Officer, LPF, submitted.)