

Pensions Committee Minutes

2pm, Tuesday 29 September 2020

Present:

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

Pension Board Members present:

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

Other Attendees:

Andy McKinnell, Independent Professional Observer and Nick Bennett, Azets Audit Services (External Auditor)

1. Quorum

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

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

3. Declaration of Interests

Following the invitation from the Convener, Richard Lamont declared a non-financial interest in relation to minute item 16 as an employee of VisitScotland and John Anzani declared a non-financial interest as his wife was a non-Executive Director on the Board of Enjoy Leisure.

4. Minutes

Decision

To approve the minute of the Pensions Committee of 24 June 2020 as a correct record subject to a post-meeting note being added clarifying the procedural advice given in relation to varying standing orders.

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

Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee meeting on 28 September 2020 as they related to items of business at this meeting.

(Reference – Pensions Audit Sub-Committee 28 September 2020)

6. Pension Board oversight

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

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings and the annual cycle was presented.

Decision

- 1) To note the agenda planning document.
- 2) To note that pensions board members were invited to comment on agenda items during committee meetings.
- 3) To note that the unaudited and audited accounts would continue to be considered by both the Audit Sub-Committee and the Pensions Committee.
- 4) To agree that if there were any financial or significant textual changes between the unaudited and audited versions of the accounts, these would be highlighted and reported to the Pensions Committee.
- 5) To agree that, going forward, the annual LPF Group governance update would be reported to the Pensions Committee only.
- 6) To agree that the quarterly risk summary report would continue to be reported to the Pensions Committee in December and the in-depth risk management review would continue to be reported to the Audit Sub Committee in December.
- 7) To agree that the Internal Audit Plan would be developed in consultation with the Convener of the Audit Sub-Committee, Chief Executive Officer (LPF) with input from the Independent Professional Observer if appropriate.
- 8) To note that Audit Sub-Committee members would have the opportunity of making recommendations on items for inclusion in the Internal Audit Plan as part of their consideration of the in-depth review of risk management scheduled for the December 2020 meeting.

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

8. LPF Audited Annual Accounts (and Financial Statements) 2020

Details were provided of the audited 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.

Azets Audit Services (formerly Scott Moncrieff) intended to provide an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund and intended also to confirm that there were no matters on which it was required to report by exception.

Decision

- 1) To note the report by Azets Audit Services (formerly Scott Moncrieff) “Lothian Pension Funds 2019/20 Annual Audit Report to Members and the Controller of Audit” as set out in Appendix 1 of the report.
- 2) To note the audited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund as set out in Appendix 2 of the report.
- 3) To note that the audited financial statements, for the year ended 31 March 2020, of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in July 2020. These statements are shown in full at Appendices 3 and 4 of the report.
- 4) To record the Committee’s thanks to the external auditor and its team for their work on the accounts in challenging circumstances.
- 5) To refer the report to the Council on 15 October 2020 for noting.

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

9. LPF Contract Awards (Period 1 January to 30 June 2020)

The Council’s Commercial and Procurement Services (CPS) team provided support services to the LPF Group in relation to procurement activity and payment operations.

An update was presented to members on the scope of contracts awarded by the LPF Group during the period 1 January to 30 June 2020.

Decision

To note the Lothian Pension Fund Contract Award update.

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

10. McCloud and Goodwin Discrimination Judgements - Update

The Scottish Public Pensions Agency (SPPA) had issued a consultation to Local Government Pension Scheme (LGPS) members and employers on proposals to address the age discrimination in scheme reforms in 2015 together with an update on the cost control mechanism and changes to survivor benefits between same and opposite sex widowers.

The potential for a joint response to be submitted to SPPA by the Investment Governance Group comprising senior officers of the LGPS administering authorities was currently being explored.

Key points that the LPF Group wished to make in its response to the SPPA were set out in the report. The significant administrative burden and communications challenges of the McLeod rectification were also highlighted.

Members discussed the complexities around the Scottish Local Government Pension Schemes and the need to consolidate and simplify the Schemes' benefit entitlement regulations.

Decision

- 1) To note the report and that further regular progress updates would be provided.
- 2) To note that the detailed response to the SPPA consultation would be submitted by the Chief Executive Officer, following consultation with the Convener, by the due date of 23 October 2020.

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

11. Operating Plan Update

An update was provided on progress against the 2020-2021 Operating Plan, performance indicators and the actions carried out to enable the Fund to meet its key objectives. The Plan centred around the following six broadly-defined strategic goals and formed the basis of the work ahead of the Fund in 2020/21:

- Provide secure and affordable benefits for our members
- Reduce complexity
- Manage our risks
- Create a place where people do great work
- Influence the LGPS of the future
- Be responsible

Decision

- 1) To note progress of the Fund against the 2020-2021 Operating Plan and the specific updates on performance indicators, annual benefit statements and membership and cashflow monitoring.
- 2) To note that a report would be submitted to the Audit Sub-Committee in December 2020 on data quality and the outcomes of the analysis being undertaken on behalf of the Fund.

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

12. Risk Management Summary

In line with LPF's ongoing risk management procedures, an overview was provided of its risk analysis. Information was also provided on the enhancement of the LPF Group's operating model and the extension of its service delivery to other LGPS funds. In doing so, the Group had taken on additional operational risk in order to achieve fundamental benefits for its stakeholders.

The Chief Risk Officer advised members that a new risk had been added around Group culture and staff engagement and adapting to current level scenarios in line with the FCA emphasis on culture and control.

Members also discussed the inter-dependencies between failure of IT systems, cyber security and business continuity. Members also commented on the changing situation and legislation relating to reporting on climate change as part of investment portfolios and received assurance that the LPF Group were alert to this potential reporting requirement.

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.

The overall position remained stable and within appetite in the context of the longer-term risk reduction benefits of the ongoing transformation projects and the circumstances of the global pandemic.

Decision

- 1) To note the quarterly risk overview and the LPF Group's approach to risk management.
- 2) To note that the procedure for reporting incidents to the Information Commissioner would be included as an update in a future report.

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

13. Motion by John Anzani – Nomination to the Executive Committee of the Local Authority Pension Funds Forum for 2020/21

The following motion was submitted by John Anzani in terms of Standing Order 11.2:

"The Pensions Cttee agrees to nominate John Anzani for election to the Executive Committee of the Local Authority Pension Funds Forum [LAPFF] for the period 2020/21 (as defined by LAPFF Constitution)."

- moved by John Anzani, seconded by Councillor Rose

Decision

To approve the motion.

14. Motion by John Anzani – Principle to Guide Repayment of Surplus – Proposed Amendment to Funding Strategy Statement

Decision

To note that John Anzani had withdrawn his motion in light of further information provided by the Chief Executive Officer, LPF.

15. Employers Participating in Lothian Pension Fund

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

An update was provided on current matters affecting employers participating in the Lothian Pension Fund.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

16. Employer Covenant Review 2020

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

An overview was submitted of the recent employer covenant analysis undertaken by the Fund in preparation for the 2020 Actuarial Valuation. In terms of overall liability exposure, the Fund continued to have good covenant assurance.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

17. ICT Update

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

Information was provided on progress with the Fund's ICT pathway and digital strategy.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

18. Local Government Pension Scheme Collaborative Update

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

An update was presented setting out the parameters for a proposed collaboration within the Local Government Pension Scheme.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

19. Annual LPF Group Governance Update

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

The annual update on the operation of the LPF Group's legal, regulatory and governance structures including the activities of LPFI Ltd and LPFE Ltd was presented.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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