

## Pensions Committee Minutes

2pm, Wednesday 17 March 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 (Chair), Tom Howorth, Brian Robertson and Alan Williamson.

### Other Attendees:

Andy McKinnell, Independent Professional Observer

## 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

---

To note there were no declarations of interest.

## 4. Minutes

---

### Decision

- 1) To approve the minute of the Pensions Committee of 9 December 2020 as a correct record subject to agreeing to amend item 8 as per the following circulated written amendment by John Anzani:

“Members were advised that the contract for the voting and engagement provider had been tendered during 2019/20 and that the incumbent had been re-appointed after a competitive process overseen by the procurement team at West Midlands Pension Fund. The contract ran from Spring 2020 for a five-year period with a review after 12 months.

A separate competitive tender process for administrative support might ensue if the LAPFF were to change its status as the result of another work stream. However, this initiative had been paused as a result of the pandemic.”

- 2) To approve the minute of the additional meeting of the Pensions Committee of 26 January 2021 as a correct record.

## **5. 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.

## **6. Agenda planning**

---

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings and the annual cycle was presented. Information was provided on the timeline for the appointment of the non-elected committee member positions on the Committee.

It was recommended that contract awards should be reported annually rather than six monthly with effect from the next due report in September 2021.

It was also proposed that the Operating Plan should be considered every three years by Committee from the first Plan being considered by Committee in March 2020. The Operating Plan and Budget Updates would continue to be presented to Committee in September, December and March each year.

### **Decision**

- 1) To note the agenda planning document and that Pension Board members were invited to comment on agenda items during committee meetings.
- 2) To note the non-elected Pension Committee member appointment timeline.
- 3) To agree that the contract awards update be presented to Committee annually with effect from September 2021 but to note that any specific substantive contracts would continue to be brought to Committee as necessary.
- 4) To agree that the Operating Plan update be presented to Committee every three years.

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

## **7. Lothian Pension Fund – Internal Audit Update for the Period 2 November 2020 to 9 February 2021**

---

Details were provided of the progress of Internal Audit assurance activity on behalf of Lothian Pension Fund (LPF) carried out by the City of Edinburgh Council’s internal audit team.

Delivery of the three audits included in the 2020/21 Internal Audit Plan approved by Committee in June 2020 had been impacted by the Covid19 pandemic and had commenced in November 2020.

One audit had been finalised, one was in progress and the remaining audit was currently being planned.

As at 10 February 2021, LPF had one medium rated open internal audit finding raised in the Settlement and Custodian Services audit. Further evidence had been provided to support the closure of this finding and was currently being reviewed by Internal Audit.

Two Internal Audit findings, one high and one medium, had been closed on the basis that management had accepted the associated risks.

It had been agreed with LPF management that PwC would deliver two of the three audits included in the 2020/21 Internal Audit Annual Plan under the direction of the Chief Internal Auditor as part of the established Internal Audit co-source arrangements.

PwC would deliver the Bulk Transfers and the Employer Cessation Strategies, Valuations and Exit Calculations audit and the Council's Internal Audit team would progress the remaining agile LPF Technology Model Development audit.

### **Decision**

- 1) To note progress with delivery of the Lothian Pension Fund 2020/21 Internal Audit Plan.
- 2) To note progress with implementation of agreed management actions to support closure of LPF internal audit findings raised.
- 3) To agree that an update be brought to the next Committee on the status and progress of the one remaining outstanding overdue audit finding raised in the Settlement and Custodian Services audit completed in 2019/20.

(Reference – report by the Chief Internal Auditor, CEC, submitted.)

## **8. Lothian Pension Fund – Proposed Internal Audit Plan for 2021-22**

---

The proposed Lothian Pension Fund (LPF) Internal Audit Plan for the period 1 April 2021 to 31 March 2022 was presented to Committee for approval. The Plan had been developed with the LPF senior management team, the Convener of the Pensions Audit Sub-Committee and the Fund's Independent Professional Observer to ensure that internal audit assurance activity was focused on the most relevant risks for LPF.

Four reviews and ongoing internal audit follow up on implementation of previously raised findings were included in the proposed plan in line with internal audit coverage in previous years. Members noted that LPF might also be included within the scope of any relevant City of Edinburgh Council thematic reviews included in the Council's 2020/21 Internal Audit Plan.

### **Decision**

- 1) To approve the proposed Lothian Pension Fund 2021-22 internal audit plan.
- 2) To provide the Pensions Audit Sub-Committee with details of the audits proposed for subsequent years beyond the planned one-year audit plan.

(Reference – report by the Chief Internal Auditor, CEC, submitted.)

## **9. External Audit Annual Plan 2020/21 by Azets**

---

The Accounts Commission had appointed Scott Moncrieff (now Azets) as external auditor of the Lothian Pension Fund and Scottish Homes Pension Fund for the five-year period 2016/17 to 2020/21.

Nick Bennett, Azets summarised the work plan for the 2020/21 external audit of the Funds. The core elements of the work included:

- An audit of and provision of a specific audit opinion on the 2020/21 annual accounts and related matters
- Consideration and reporting on the Funds' arrangements on the four audit dimensions – governance and transparency, financial management, financial sustainability and value for money
- Any other work requested by Audit Scotland including the contribution to performance audits (including overview reports, performance audit reports and impact reports).

### **Decision**

- 1) To note the planned programme of work to support the statutory audit 2020/21 as set out in Appendix 1 of the report by Azets.
- 2) To note that progress against the LPF External Audit Annual Plan 2020/21 would be reported to future meetings of the Pensions Audit Sub-Committee and the Pensions Committee.
- 3) To note that the External Auditor had confirmed that the planned reporting on induction arrangements referenced in Appendix 1 of the report by Azets for Board members would also include Committee members.

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

## **10. Funding Strategy Statement Update**

---

As required under the Local Government Pension Scheme (Scotland) Regulations 2018, the Lothian Pension Fund's (LPF) funding Strategy Statement (FSS) had been reviewed as part of the actuarial valuation process to ensure that it remained appropriate. The FSS set out a summary of the Fund's approach to funding liabilities.

Due consideration had been given to:

- Actuarial valuation results
- Consultation feedback from Fund employers
- Guidance from Hymens Robertson, the Fund's Actuary

An initial consultation with employers had been carried out in July 2020 with a further consultation on the draft FSS in December 2020 and a summary of responses received was presented to Members.

## Decision

- 1) To note the summary of responses received as part of the consultation process set out in paragraphs 4.18, 4.19 to 4.20 of the report.
- 2) To approve the revised Funding Strategy Statement.

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

## **11. Actuarial Valuation for Lothian Pension Fund 2020**

---

Lothian Pension Fund (LPF) was legally required to undertake an actuarial valuation once every three years. The Actuary assesses the financial health of the Fund and sets the employer contribution rates required for the next three years.

The actuarial valuation of LPF had been undertaken based on data as at 31 March 2020 and was presented to Members.

The results as at 31 March 2020 took into account the following changes which had taken place since the previous valuation in 2017:

- The merger with the Lothian Buses Pension Fund which was approved by Committee in March 2018 and took place on 31 January 2019
- The transfer of the assets and liabilities of Homeless Action Scotland to the Scottish Homes Pension Fund following its exit from the Lothian Pension Fund on 12 July 2018.

## Decision

To note the results of the 2020 Actuarial Valuation report for the Lothian Pension Fund.

(References – Pensions Committee 11 December 2019 (item 5) and 24 June 2020 (item 13); report by the Chief Finance Officer, LPF, submitted.)

## **12. Actuarial Valuation for Scottish Homes Pension Fund 2020**

---

The Scottish Homes Pension Fund was legally required to undertake an actuarial valuation once every three years. The Actuary assesses the financial health of the Fund and sets the employer contribution rates required for the next three years.

The results of the actuarial valuation of the Scottish Homes Pension Fund as at 31 March 2020 was presented to Members.

The funding level at 31 March 2020 was 117.7% increased from 104.7% from the 2017 actuarial valuation. This Actual Funding Level (AFL) of 117.7% was greater than the Target Funding Level (TFL) of 94.5% as specified in the Scottish Government Guarantee. No deficit contributions were therefore required from the Scottish Government (as Guarantor) for the period from 1 April 2021 to 31 March 2024.

The Scottish Government would, however, be required to pay a total of £90,000 per annum towards the cost of administration expenses over the three years from 1 April 2021 to 31 March 2024.

## Decision

- 1) To note the results of the 2020 actuarial valuation for the Scottish Homes Pension Fund.
- 2) To note that the funding level of the Scottish Homes Pension Fund at 31 March 2020 was 117.7%.
- 3) To note that the Actual Funding Level (AFL) of 117.7% was greater than the Target Funding Level (TFL) of 94.5% as specified in the Scottish Government Guarantee.
- 4) To note, therefore, that no deficit contributions were required from the Scottish Government (as Guarantor) for the period from 1 April 2021 to 31 March 2024.
- 5) To note that the Scottish Government was required to pay a total of £90,000 per annum towards the cost of administration expenses over the three years from 1 April 2021 to 31 March 2024.

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

## 13. LPF Cost Benchmarking

---

The annual results from benchmarking of investment costs for the Lothian Pension Fund and pension administration costs for the LPF and Scottish Homes Pension Fund were presented.

LPF's annual report for 2019/20 had identified £34.9m of total management expenses with investment costs (£30.0m) representing by far the largest proportion of the total as expected.

## Decision

- 1) To note the report.
- 2) To note that the CEM Investment Cost Effectiveness Analysis to 31 March 2020 and the interim CEM Pension administration benchmarking report 2020 had been provided on a confidential basis to the Conveners of the Pensions Committee and the Pensions Audit Sub-Committee and the Independent Professional Observer.

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

## 14. 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

An underspend was projected for the financial year and overall progress was being made against the objectives for 2021/21.

#### **Decision**

- 1) To note progress of the Fund against the 2020-2021 Operating Plan.
- 2) To note the specific updates on performance indicators, Pension Regulator standards and compliance and membership and cashflow monitoring.

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

### **15. Operating Plan and Budget for 2021/22**

---

The Lothian Pension Fund (LPF) 2021/22 Operating Plan was presented together with the proposed budget for 2021/22 and an indicative budget for 2022/23. The Plan also set out the priorities over the forthcoming financial year and performance targets for the service.

#### **Decision**

- 1) To approve the updates to the Operating Plan for 2021/22.
- 2) To approve the future review of the generic Operating Plan on a triennial basis.
- 3) To approve the budget for 2021/22.
- 4) To note the indicative budget for 2022/23.

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

### **16. Risk Management Summary**

---

In line with Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of its risk analysis as at 8 February 2021.

The LPF Group's Risk Appetite Statement was also presented in order to provide important context on how the Risk Management Group assessed the Group's risks. It was proposed that this would be routinely considered and reviewed by the Pensions Audit Sub-Committee annually alongside the full Risk Register and Risk Assurance Overview as part of its indepth review of risk management.

An update was also provided on Brexit related impact and risks. The direct impact on the Fund was limited but there continued to be meaningful uncertainty at this time and potential for material indirect impact.

#### **Decision**

- 1) To note the quarterly risk overview as at 8 February 2021.
- 2) To approve the LPF Group's Risk Appetite Statement.
- 3) To note the update on Brexit related impact and risk.

(References – Pensions Committee 9 December 2020 (item 13); report by the Chief Risk Officer, LPF, submitted.)

## **17. 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 1.3 and 6 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.)

## **18. Lothian Pension Fund Group – Contract Awards (Period 1 July to 31 December 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 1.3 and 6 of Schedule 7(A) of the Act.

Information was provided on the scope of contracts awarded by the Lothian Pension Fund Group in the period 1 July to 31 December 2020.

### **Decision**

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

(Reference – report by the Chief Procurement Officer, City of Edinburgh Council, submitted.)