

Pensions Committee Minutes

2pm, Wednesday 29 June 2022

Present:

Councillors Biagi, Burgess, Doggart, Neil Ross and Watt; John Anzani and Richard Lamont.

Pension Board Members present:

Jim Anderson, Tony Beecher, Thomas Carr-Pollock, Nick Chapman, Tom Howorth, Darren May, Brian Robertson and Alan Williamson.

Other Attendees:

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

Apology:

Sharon Dalli (Pension Board)

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. Appointment of Convener

In the absence of a Convener being appointed by the City of Edinburgh Council, Councillor Neil Ross was appointed to chair this meeting of the Committee.

3. Order of Business

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

4. Declaration of Interests

To note there were no declarations of interest.

5. Minute

Decision

To approve the minute of the Pensions Committee of 22 March 2022 as a correct record.

Matter Arising

Item 10 – Pensions Administration Strategy Update

To note that the consultation with employers had not yet commenced but that this was planned to be taken forward as soon as possible.

6. Pension Board Oversight

To note that the Pension Board had met prior to this meeting and that Pension Board members would provide comment on relevant matters during the meeting.

7. Appointments to the Pensions Audit Sub-Committee 2022-23

The Committee was required to appoint the membership of its Pensions Audit Sub-Committee for 2022-2023.

The Committee was also required to appoint the Convener of the Pensions Audit Sub-Committee for 2022-2023, to be appointed from the membership of the Pensions Committee, excluding the Convener of that Committee.

Decision

- 1) To appoint Councillors Doggart and Neil Ross as members of the Pensions Audit Sub-Committee for 2022-2023.
- 2) To appoint John Anzani as the external member to the Pensions Audit Sub-Committee for 2022-2023.
- 2) To appoint John Anzani as the Convener of the Pensions Audit Sub-Committee for 2022-2023.

(Reference – report by the Interim Executive Director of Corporate Services, City of Edinburgh Council, submitted)

8. Agenda planning

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for September and December 2022 was presented.

Decision

- 1) To agree that an additional meeting of the Pensions Committee be held at the end of August 2022 to consider Project Forth updates in advance of full Council consideration.
- 2) To note that the contributions stability health check report would be submitted to the December meeting of the Committee.
- 3) To note that a meeting of the Joint Oversight Group had been arranged to be held in July 2022.
- 4) To note that, going forward, audit updates would be presented to the Pensions Audit Sub-Committee prior to being submitted to the Pensions Committee.

5) To otherwise note the agenda planning document.

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

9. LPF Unaudited Annual Report (and Financial Statements) 2022

Details were provided of the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2022 for Lothian Pension Fund and Scottish Homes Pension Fund.

Lothian Pension Fund (Group) net asset valuation as at 31 March 2022 highlighted a significant recovery from the previous year's fall in global and UK equity markets with a total of £9,605.2m reflecting an increase of £911.6m (10.5%).

Given its mature membership profile, net assets of the Scottish Homes Pension Fund fell from £157.5m to £154.2m at 31 March 2022, a decrease of £3.3m (2.1%).

Decision

- 1) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2022 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2022 would be submitted to the auditor, Azets Audit Services Ltd, by the due date of 30 June 2022.
- 3) To note that final proof reading of the report was still ongoing and that any potential corrections and minor amendments would be completed prior to release to the auditor and publication on the website.
- 4) To note that, as a result of the outcomes of the local government elections on 5 May 2022 and the resulting changes in membership of the Pensions Committee and Pensions Audit Sub-Committee, there hadn't been a prior Audit Sub-Committee meeting to review these accounts.

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

10. Lothian Pension Fund Internal Audit Opinion and Annual Report for the Year Ended 31 March 2022

Details were provided of internal audit's (IA) annual opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2022. The opinion was based on the outcomes of four audits included in the LPF 2021/22 IA Annual Plan and the status of LPF's open and overdue IA findings at 31 March 2022.

IA considered that the LPF control environment and governance and risk management frameworks required some improvement and was therefore reporting a limited "amber" (some improvement required) rated opinion with assessment towards the lower end of this category moving towards the green (effective) category which was aligned with the 2020/21 IA opinion.

The key themes emerging from the outcomes of the four completed 2021/22 audits confirmed that whilst LPF continued to effectively manage the risks associated with ongoing operational fund management activities, further improvement to both the established risk and project management frameworks would be beneficial. These areas of improvement were particularly important as LPF might now be moving into a period of significant strategic and operational change.

LPF management had advised that activities were in progress to further improve the established risk and project management frameworks. IA's opinion was that if these frameworks were appropriately designed and effectively implemented, this would support more effective delivery of projects and identification, assessment and ongoing management of both strategic and operational risks.

Decision

- 1) To note the internal audit opinion for Lothian Pension Fund for the year ended 31 March 2022.
- 2) To note that LPF and IA were currently agreeing LPF's management responses to IA's recommendations and that the final risk management report would be presented to the Pensions Audit Sub-Committee in September 2022 for review and scrutiny.

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

11. Statement of Investment Principles

The Statement of Investment Principles for Lothian Pension Fund and Scottish Homes Pension Fund was submitted. There were no material changes to the SIP. Members were asked to note that the Funds had become a signatory to the Financial Reporting Council's Stewardship Code 2022 demonstrating achievement of the high stewardship standards that it set.

Changes to investment strategy implementation over the year to end March 2022 were also set out in the report at appendix B.

The Joint Investment Strategy Panel had reviewed the SIP in June 2022 and had confirmed that the SIP satisfied the Pensions Committee's statutory duty and was an accurate reflection of current advice which included reconsideration of long-term investment strategy following the triennial actuarial valuation.

Decision

- 1) To adopt the revised Statement of Investment Principles.
- 2) To note that benchmarks would be the subject of a future training session for members.

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

12. Joint Investment Strategy Panel Activity

An update was provided on the activity of the Joint Investment Strategy Panel (JISP) for the year to 31 March 2022 with a focus on the Lothian Pension Fund (LPF) and the Scottish Homes Pension Fund (SHPF).

During 2021/22 JISP had continued to advise and assist in the oversight of the Lothian, Falkirk and Fife Pension funds' investment strategies, focussing on asset allocation, risk and performance.

The JISP monitored and advised on the implementation of investment strategy by officers and the internal investment management team focusing on achieving target allocations within the constraints defined by the Pensions Committee.

For LPF, the JISP advised in several areas including policy group allocation, manager structure and strategies, benchmarks and performance, portfolio diversification and allocations to private market investments including infrastructure and corporate loans.

For the fully funded SHPF, the JISP continued to monitor the asset-liability matching.

Decision

To note the activities of the Joint Investment Strategy Panel during the financial year 2021/22.

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

13. Annual Investment Update – Lothian Pension Fund

An update was provided on the investments and funding position of the Lothian Pension Fund to 31 March 2022.

Over the twelve months to 31 March 2022, the total Fund return was +10.8% which compared with the benchmark return of +8.8%. Investment market returns were mixed over the period. UK equities and UK property delivered double digit gains as did global listed equities as measure by MSCI ACWI (in GBP) which rose by 12.4% boosted by sterling weakness. Debt markets including sovereign bonds and corporate bonds registered small gains or single digit losses.

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.

Lothian Pension Fund's funding level (ratio of assets to liabilities) was formally assessed on a triennial basis with the most recent figure of 106% at the March 2020 valuation. Over ten years the Fund had gained 9.7% per annum lagging the benchmark gain of 10.0% per annum but with lower risk.

The next triennial valuation would be undertaken during 2023 and concluded by 31 March 2024 at the latest.

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)

14. Annual Investment Update – Scottish Homes Pension Fund

An update was provided on the strategic allocation and the invested assets of the Scottish Homes Pension Fund (SHPF) for the year to 31 March 2022.

The funding level was 117% at the March 2020 valuation, an improvement from the 104% at the 31 March 2017 valuation.

In line with the Scottish Government's guidance, the Fund's objective was to minimise the investment shortfall risk of assets relative to liabilities. The Fund's assets comprised UK gilts and cash as closely matched to the estimated liability payments as possible.

Decision

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

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

15. Risk Management Summary

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of LPF's risk analysis.

The Risk Management Group continued to meet regularly to assess all elements of the LPF Group's risk framework including the risk appetite, register, overall assurance position and any more granular risks escalation from other sub-groups.

The LPF Group was currently subject to an internal audit of its risk management framework as part of this year's annual audit plan. This was being carried out by PwC under direction of the City of Edinburgh Council's internal audit team. Fieldwork had been completed and a draft report was expected. LPF would report to the Pensions Committee on any relevant findings but initial feedback from PwC suggested there were no material findings and a few advisory considerations.

Decision

To note the quarterly risk overview as at 23 May 2022.

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

16. ICT and Cyber Security 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 1.3 and 6 of Schedule 7(A) of the Act.

Information was provided on progress with implementation of Lothian Pension Fund's ICT pathway and digital strategy.

Decision

To note the update on the implementation of the Lothian Pension Fund Digital Strategy.

(References – Pensions Committee 29 September 2020 (item 17); report by the Chief Executive Officer, LPF, submitted)

17. 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 item of business on the grounds that it involved 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 the operation of the LPF Group's legal, regulatory and governance structures together with the activities of its corporate subsidiaries LPFE Limited and LPFI Limited.

Decision

- 1) To note the annual LPF Group governance update.
- 2) To approve the amendments to the Joint Investment Strategy Panel terms of reference.

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

18. Project Forth

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 1.3 and 6 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

To note the update.

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

19. Overpayment of Pensions

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 1.3 and 6 of Schedule 7(A) of the Act.

Information was provided on overpayment of pensions, together with an explanation of how this had occurred.

Decision

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

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