

Pensions Committee Minutes

2pm, Thursday 23 March 2023

Present:

Councillors Watt (Convener), Burgess, Doggart, Nicolson and Neil Ross; John Anzani and Richard Lamont.

Pension Board Members present:

Jim Anderson, Tony Beecher, Thomas Carr-Pollock, Nick Chapman, Sharon Dalli, Tom Howorth and Darren May.

Independent Professional Observer:

Andy McKinnell.

Other Attendees:

Laura Calder, Head of Internal Audit, City of Edinburgh Council.

Apologies: Brian Robertson and Alan Williamson.

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 confirmed that there was no change to the order of business.

3. Declaration of Interests

John Anzani declared a non-financial interest in item 16 – Employers Participating in Lothian Pension Fund as his wife was a non-Executive Director on the Board of Enjoy Leisure East Lothian.

4. Minutes

Decision

To approve the minute of the Pensions Committee of 7 December 2022 as a correct record subject to including the following two actions omitted in error from the minute of 28 September 2022:

- 1) To circulate the link to minutes of the Scottish Scheme Advisory Board to committee members for information.

- 2) To circulate the Local Authorities Pension Fund Forum minutes to committee members for information.

5. Agenda Planning

An overview of proposed reports for Pensions Committee and Pensions Audit Sub-Committee meetings for June, September and December 2023 was presented.

Decision

- 1) To note the agenda planning document and revisions for the June, September and December 2023 meetings.
- 2) To note that the Pension Board Members were invited to comment on agenda items during Committee meetings.
- 3) To note the introduction of the new governance portal.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

6. Referrals and recommendations from Pensions Audit Sub Committee

John Anzani advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee meeting on 21 March 2023.

(Reference – Pensions Audit Sub-Committee 21 March 2023)

7. Lothian Pension Fund – Internal Audit Update – February 2023

An update was provided on progress of Internal Audit (IA) assurance activity on behalf of Lothian Pension Fund (LPF) carried out by the City of Edinburgh Council's internal audit team.

Delivery of the four audits included in the 2022/23 internal audit annual plan was underway with the two audits completed and a further audit in progress.

A report detailing the outcome of the Third-Party Supplier Management audit was also included for review and scrutiny.

Due to unforeseen absence of key contacts, the Information Security Arrangements audit had been delayed and it was proposed, in the circumstances, that this audit should be deferred to Quarter 1 of the 2023/24 IA Plan.

Internal Audit's opinion was that the three audits due for completion in the 2022/23 IA Plan would be sufficient to provide an annual audit opinion for the year end 31 March 2023.

As at 9 February 2023, LPF had fourteen agreed management actions with one action past the original implementation date.

Decision

- 1) To note progress of delivery with the 2022/23 LPF annual internal audit plan including the outcomes of the recent Third-Party Supplier Management Audit.
- 2) To note progress with delivery of the Information Governance audit currently underway.

- 3) To approve a request to defer the Information Security Arrangements audit to the 2023/24 Internal Audit Plan.
- 4) To note that the draft 2023/24 LPF annual internal audit plan was presented to the Committee for approval in a separate paper at this meeting (item 8 below refers).
- 5) To progress with implementation of agreed management actions from previously completed internal audits.
- 6) To note that the City of Edinburgh Council procurement and contract management was scheduled to be audited in 2023/24 and that any outcomes from that audit would be reported back to the Pensions Committee for information.

(References – Pensions Audit Sub-Committee 21 March 2023 (item 7); report by the Head of Internal Audit, City of Edinburgh Council, submitted)

8. Lothian Pension Fund – Proposed Internal Audit Plan for 2023/24

The proposed Internal Audit (IA) Plan for the period 1 April 2023 to 31 March 2024 was submitted. The audit universe had been expanded for 2023/24 to include the LPF Group structure and to provide assurance for the LPFI and LPFE boards where appropriate. The plan would also include ongoing IA follow-up on implementation of management actions arising from previous internal audit reports.

In April 2020, the Chartered Institute of Public Finance and Accountancy (CIPFA) recommended introduction of standard definitions for audit report opinions to support consistency across public body organisation. It was proposed that the standard CIPFA definitions were adopted to apply for LPF internal audit reports from 2023/2024 onwards.

Decision

- 1) To approve the proposed Lothian Pension Fund 2023/24 Internal Audit Plan.
- 2) To note the expansion of the audit universe to included LPFE and LPFI enabling provision of a single integrated audit programme.
- 3) To approve proposals to adopt the CIPFA standard definitions for audit report overall opinions from 2023/24 onwards.
- 4) To note that any changes to the audit plan would be brought back to the Pensions Committee for approval.

(References – Pensions Audit Sub-Committee 21 March 2023 (item 8); report by the Head of Internal Audit, City of Edinburgh Council, submitted)

9. External Audit Plan 2022/23 by Azets

Audit Scotland had appointed Azets as the external auditor to Lothian Pension Fund and Scottish Homes Pension Fund for the period 2022/23 to 2026/27.

The planned programme of work to support the statutory audit for 2022/23 was presented. The core elements of the work included:

- Audits of the 2022/23 annual report accounts
- Consideration of the wider scope areas of public audit work
- Consideration of the Funds' arrangements to secure Best Value
- Assessment of the Funds' participation in the National Fraud Initiative
- Any other work requested by Audit Scotland

Decision

- 1) To note the planned programme of work to support the statutory audit 2022/23 set out in appendix 1 of the report.
- 2) To note that progress against the Lothian Pension Fund External Audit Annual Plan 2022-23 would be reported to future meetings of the Pensions Audit Sub-Committee and the Pensions Committee.

(References – Pensions Audit Sub-Committee 21 March 2023 (item 9); report by the Head of Internal Audit, City of Edinburgh Council, submitted)

10. Lothian Pension Fund Cost Benchmarking

Information was provided on the annual results from benchmarking of investment costs for the Lothian Pension Fund and pensions administration costs for Lothian Pension Fund and Scottish Homes Pension Fund.

LPF's annual report for 2021/22 had identified £38.0m of total management expenses with investments costs of £34.2m 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 2022 and the CEM Pension Administration benchmarking report 2022 had been provided on a confidential basis to the Conveners of the Committee and Audit Sub-Committee and the Independent Professional Observer.
- 3) To request that a briefing email be circulated to members setting out the information on the underlying calculation in relation to LPF's 8-year net return as set out in section 3.4 of the report together with information on how CIPFA calculated comparator funds.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

11. 2023-2024 Strategy and Business Plan (including Functional Plan and Budget)

The Strategy and Business Plan for 2023-24 was presented. The Strategy and Business Plan set out the proposed medium-term strategy for Lothian Pension Fund and the business priorities for the calendar years 2023-24 including the budget and performance targets.

The overall Strategy remained the same with the following four strategic goals:

- To develop and deliver a member and employer proposition for service excellence
- To earn an appropriate risk adjusted investment return as responsible investors
- To extend collaboration and services to existing partners and deepen where possible
- To achieve greatness in the Fund's people, teams and culture.

Decision

- 1) To approve the Strategy and Business Plan for 2023-24.
- 2) To approve the respective budgets as detailed in the Financial Projections section of appendix 1 for:
 - LPF Group business as usual 2023-24, net expenditure of £16,460k
 - Project Forth, next expenditure of £866k
 - Office relocation, capital outlay of £900k, revenue expenditure in 2023/24 of £327k with full year total future revenue expenditure of £675k as referenced in paragraph 3.5.7.
- 3) To note the indicative budget for 2024-25, net expenditure of £16,093k.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

12. 2022/23 Business Plan and Budget Update

An update was provided on progress against the 2022-23 Business Plan, performance indicators and the actions to enable Lothian Pension Fund to meet its key objectives. The Plan set out the work plans, budget and targets for 2022-23 and formed the baseline against which performance would be and had been judged.

Decision

- 1) To note progress of the Fund against the 2022-23 Strategy and Business Plan together with specific updates on:
 - Performance indicators
 - Membership and cashflow monitoring
 - Investment strategy update

- 2) To approve the extension of the global custody services contract with the Northern Trust Company by way of a waiver of the Council's Contract Standing orders for the period from 1 October 2023 to 30 September 2024.
- 3) To approve the extension of services to include performance measurement for the period 1 July 2023 to 30 September 2024 as the result of the exit of our current supplier from the market.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

13. Administering Authority Discretions Policy

Approval was sought for an addition to the administering authority discretions policy. The change related to early payment of deferred benefits on ill-health grounds, in particular cases where the member was terminally ill and the priority was to ensure that benefits could be paid to the member quickly.

Decision

- 1) To approve the draft revised Administering Authority Discretions Policy.
- 2) To agree to highlight the policy change in the next Employers' Bulletin for awareness.
- 3) To review the content of the Employer Manual around incorporating guidance on the impact of the policy when dealing with employees who were members of multiple pension funds.

(Reference – report by the Chief Operating Officer, Lothian Pension Fund, submitted)

14. Risk Management Summary

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of LPF's monitoring and assurance arrangements during 2022 noting any material observations or exceptions.

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.

Information was also provided on the background driving the intention to review the current Risk Management Framework.

Decision

- 1) To note the LPF Group's risk register and quarterly risk overview.
- 2) To note that exploratory work and analysis had commenced regarding the creation of a single integrated audit programme for LPF.
- 3) To note that, due to governance complexities and ambiguities with existing arrangements, no changes would be made in the 2023/24 cycle arrangements.

- 4) To note that the proposed scope of CEC's internal audit plan for the next year would be extended to provide coverage to LPFE and LPFI.

(References – Pensions Audit Sub-Committee 21 March 2023 (item 10); report by the Chief Risk Officer, Lothian Pension Fund, submitted)

15. 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 on the proposed collaboration within the Local Government Pension Scheme and the feasibility and evaluation work which had been undertaken to progress the project.

Decision

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

(References – Pensions Committee 29 September 2020 (item 18), 29 September 2021 (item 14), 29 June 2022 (item 18), 28 September 2022 (item 15), 7 December 2022 (item 12); report by the Chief Executive Officer, Lothian Pension Fund, submitted)

16. 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 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 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 Operating Officer, Lothian Pension Fund, submitted)