

Pensions Audit Sub Committee

2.00pm, Tuesday, 26 September 2023

Agenda Planning and Governance Update

Item number 6.1

1. Recommendations

The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 note the agenda planning document and the action tracker (appendix 2);
- 1.2 note the recruitment of the new Independent Professional Observer subject to agreement regarding mutually acceptable Terms and Conditions, for the provision of the Independent Professional Observer Service for Lothian Pension Fund;
- 1.3 note the LPF governance update regarding the changes in membership of the LPFE and LPFI Board;
- 1.4 note that the Pension Board members are invited to comment on agenda items during Committee meetings;
- 1.5 note Hugh Dunn, Chair of LPFE and LPFI Boards significant contribution to LPF; and
- 1.6 note the significant contribution of Andy McKinnell, Independent Professional Observer to LPF.

David Vallery

Chief Executive Officer, Lothian Pension Fund

Contact: Susan Handyside, Assistant Company Secretary, Lothian Pension Fund

E-mail: lpfgovernancecomms@lpf.org.uk | Tel: 0333 996 1900

Agenda Planning and Governance Update

2. Executive Summary

- 2.1 This report and the agenda planning document (appendix 1) provides the committee with an overview of the proposed agendas for future meetings of the Pensions Committee and Pensions Audit Sub Committee and the annual cycle.
- 2.2 There will, of course, be specific matters and papers which need to be brought to the attention of the committee in addition to those set out herein.
- 2.3 The report also provides an update on the appointment process for an 'independent professional observer (IPO) for LPF and asks the committee to note the appointment.
- 2.4 The recruitment process for the IPO took place in July and August. The post received a total of six applicants with four being considered by the review panel.
- 2.5 The contract has been awarded to Alison Murray and the term of the new contract awarded will be from September 2023 to September 2026, with options to extend for up to 2 further periods of 2 years, giving a total potential contract period of 7 years.
- 2.6 Furthermore, the report updates committee on the LPFE and LPFI succession planning considerations, with the current Chair of both LPFI and LPFE, Hugh Dunn's retirement on 30 September. It has been agreed that the Executive Director of Corporate Services, CEC Dr Deborah Smart will be appointed as LPFE Chair and that Leslie Robb iNED be appointed LPFI Chair. Nareen Owens, Service Director, HR, CEC will also become a director of LPFE with effect from 1 October 2023.

3. Background

- 3.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, and an awareness of the annual cycle of items, an agenda planning document is submitted each quarter.
- 3.2 Committee meetings are held on a quarterly basis and additionally as required; the Audit Sub Committee meetings are held at least three times a year.
- 3.3 The IPO role was introduced in March 2013, with the aim of enhancing scrutiny, experience, continuity, knowledge and impartiality within the Fund.
- 3.4 The service is in accordance with guidance issued by the Scottish Government on the participation of the IPO in assuring high standards of governance.

- 3.5 The current IPO contract for delivery of the service, commenced in September 2018 and is currently held by Andy McKinnell. Andy’s contract will end at the end of September 2023.
- 3.6 The Pension Committee approved the establishment of a corporate structure to facilitate the more efficient administration of the Fund, reinforce its separate governance and statutory obligations and enable it to effectively collaborate with other LGPS funds. As a result, LPFI (regulated investments) and LPFE (staffing and group operational services) were established in 2015/16.
- 3.7 Hugh Dunn, Chair of LPFI and LPFE (and Service Director: Finance and Procurement, CEC) has been a director on LPFI and LPFE since 2015.
- 3.8 On the 4 September 2023 both the LPFI and LPFE boards considered succession planning alongside preparation for the imminent retiral of Hugh Dunn the current chair of LPFE and LPFI

4. Main Report

Agenda Planning

- 4.1 The proposed agendas for the December 2023, March 2024 and June 2024 meetings are set out in the following tables, based on the usual Committee cycle plus any additional and intra-cycle requests.

December 2023

Pensions Committee	Audit Sub Committee
<ul style="list-style-type: none"> • Referrals/ recommendations from Pensions Audit Sub Committee • Annual Report by External Auditor (if not available in September) • Stewardship and Engagement • Business Plan and Budget Update • Risk and Compliance Update 	<ul style="list-style-type: none"> • Annual Report by External Auditor (if not available in September) • Investment Income review Cross border Withholding Tax • Global Custody Services Performance • Pensions Data Quality • Internal Audit Update • Additional Voluntary Contribution (AVC) Review (NEW) • Internal Audit Update • IT Information Security Update (NEW) • Risk and Compliance Update

March 2024

Pensions Committee

- LPF Strategy and Business Plan (operating plan) and Budget
- Actuarial Valuation for Lothian Pension Fund
- Actuarial Valuation for Scottish Homes Pension Fund
- Funding Strategy Statement
- Audit Plans (Internal and External)
- LPF Internal Audit Review
- Policies and Strategies Update
- Benchmarking
- Risk and Compliance update

The Audit Sub Committee meet three times a year but have an additional meeting scheduled on Tuesday 19 March 2024. The audit committee will agree whether there is sufficient reason to hold the meeting in due course.

June 2024

Pensions Committee

- Referrals/ recommendations from Pensions Audit Sub Committee
- Funding Strategy Statement
- LPF Annual Report and Accounts (Unaudited)
- Statement of Investment Principles
- Joint Investment Strategy Panel Activity
- Annual Investment Update – Lothian Pension fund.
- Annual Investment Updates - Scottish Homes Pension Fund
- Compliance and Risk Quarterly Update

Audit Sub Committee

- LPF Annual Report and Accounts (Unaudited)
- IA Annual Report and Opinion year end 31 March 2023
- Internal Audit Update

Future Pensions Committee and Audit Sub Committee dates

- 4.2 The Committee meeting dates for 2023/24 are set out below and calendar invites have been issued to you. These meetings will be held in person with the option, if required, to attend virtually.

Pensions Committee

- Tuesday 5 December 2023 at 1.30pm
- Wednesday 20 March 2024 at 2pm
- Wednesday 26 June 2024 at 2pm

Audit Sub Committee

- Monday 4 December 2023 at 2pm
- Tuesday 19 March 2024 at 2pm
- Tuesday 25 June 2024 at 2pm

Independent Professional Observer

- 4.3 At the end of 2022 Andy McKinnell confirmed his intention to leave the fund in 2023 and a recruitment process to appoint a new IPO was carried out in July and August of 2023.
- 4.4 The recruitment process was supported by FWB recruitment and mirrored the committee and board nominations and appointment policy consisting of a two-stage process.
- 4.5 The first stage consisted of an initial evaluation of the candidates CV and an informal chat with candidates via teams with a view to exclude any applicants that had a serious conflict of interest or did not meet the required standards in terms of knowledge, understanding or expertise.
- 4.6 The Second Stage was conducted by a review panel consisting of the Convenor of the Pensions Committee, Convenor of the Audit Sub Committee, Chair of the Pension board and CEO of LPF.
- 4.7 A total of six candidates applied for the role. One candidate withdrew from the process after the first interview and one was deselected. Four candidates were taken forward for interview by the review panel.
- 4.8 All candidates were required to complete a written evaluation exercise providing feedback and observations on a selection of the June Pension Committee papers and deliver a presentation in order to demonstrate their knowledge, understanding and ability to communicate effectively.
- 4.9 The preferred candidate was unanimous and the contract has been awarded to Alison Murray. The term of the new contract awarded will be from September 2023 to September 2026, with options to extend for up to 2 further periods of 2 years, giving a total potential contract period of 7 years.
- 4.10 Feedback has been provided to all the candidates that took part in the process. Additionally, a summary of the feedback and those candidates who withdrew or were deselected was provided to the review panel.
- 4.11 Andy McKinnell has held the position of IPO since 2018, attending both Pension Board and Pensions Committee meetings as well as all the committee and board training events. Andy has provided guidance and support to both board and committee members, his expertise has been valued and appreciated. Committee are asked to note Andy's significant contribution to LPF.

LPFE and LPFI Board changes

- 4.12 Hugh Dunn LPFE Chair will retire on 30 September and his role becomes vacant. In line with the shareholder agreement, the Executive Director of Corporate Services will be appointed as Chair of LPFE. Further to this CEC as shareholder of LPFE, CEC

have appointed Nareen Owens, Service Director: HR, CEC as director of LPFE with effect from 1 October 2023.

- 4.13 Since Hugh Dunn also chairs LPFI this position also becomes vacant. After the consideration of a succession planning report the LPFI board agreed to appoint Leslie Robb, as Independent Chair of LPFI. This will be subject to being formally approved by the FCA as a suitable Chair of the Board. Because Leslie has served on the LPFI Board as an iNED since February 2017 and has had a long career in the investment management sector it is anticipated that this appointment will be satisfactory for the FCA.
- 4.14 The incoming Service Director: Finance and Procurement, Richard Lloyd-Bithell will be appointed as Director of LPFI at its next meeting in December.
- 4.15 The table below illustrates the current and incoming directors:

LPFE Board			LPFI Board		
Name	Appointment Date	Contract end data	Name	Appointment Date	Contract end date
Dunn, H	February 2015	September 2023	Dunn, H	January 2016	September 2023
Marchant, A	February 2021	February 2025	Lloyd-Bithell, R	October 2023	None
Owens, N	October 2023	None	Marchant, A	January 2021	January 2025
Robb, L	December 2017	February 2025	Miller, B	February 2015	January 2024
Smart, D	October 2023	None	Robb, L	February 2017	February 2025
Vallery, D	July 2021	None	Thirkell, K	September 2022	None
Watt, M	August 2022	May 2027	Vallery, D	July 2021	None

- 4.16 Hugh Dunn has played a pivotal role in the LPFE Ltd and LPFI Ltd since 2015. The development of the two businesses under his direction have ensured that both businesses continue to evolve and flourish. The committee are asked to note Hugh’s contribution as Chair.

Governance team restructure

- 4.17 A review of the LPF governance team structure is now complete and the appointment for a permanent Company Secretary to lead the team is underway with an appointment being made by the end of September. The Company Secretary role applies specifically to the LPFE and LPFI boards however the Company Secretary is also functional head and co-ordinates the rest of the LPF governance teams activities. Job titles and descriptions have been updated and the team has been renamed the secretariate team. The Company Secretary position has been filled for the last 12 months on an interim basis by Rachel Kirwan.

5. Financial impact

5.1 None.

6. Stakeholder/Regulatory Impact

6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the fund and they are invited to comment on the relevant matters at Committee meetings.

6.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 [City of Edinburgh Council, Committee Terms of Reference \(sections 13 and 24\)](#)

8. Appendices

Appendix 1 – LPF’s Annual Agenda Planning Cycle

Appendix 2 – Action Tracker