

Minutes

Pensions Committee

2.00pm, Wednesday 26 June 2019

Present

Councillors Rankin (Convener), Child, Miller, Rose and Neil Ross; John Anzani.

Pension Board Members

Jim Anderson, Sharon Cowle, Darren May, Tom Howorth, Brian Robertson and Alan Williamson.

Independent Professional Observer

Andy McKinnell

1. Minutes

Decision

To approve the minute of the Pensions Committee of 27 March 2019 as a correct record.

2. Referrals/Recommendations from Pensions Audit Sub-Committee

Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee on 25 June 2019.

Decision

To note the updates and that Councillor Rose would raise any specific issues as each agenda item was considered.

(Reference – Pensions Audit Sub-Committee 25 June 2019)

3. Agenda Planning

Details were provided of proposed potential reports for future meetings of the Pensions Committee and Pensions Audit Sub-Committee including meetings in September and December 2019.

Decision

- 1) To note the agenda planning document.
- 2) To note that additional reports on Employer Covenant Review and Specific Contribution Strategy Review would be added to the September meeting schedule.

(Reference – report by the Executive Director of Resources, submitted)

4. Lothian Pension Fund Internal Audit Opinion and Annual Report for the Year Ended 31 March 2019

The Internal Audit annual opinion for Lothian Pension Fund (LPF) for the year ended 31 March 2019 was presented. The opinion was based on the outcomes of four audits included in the LPF 2018/19 Internal Audit annual plan and the status of open and overdue Internal Audit findings as at 31 March 2019.

Members noted that the opinion had changed from “red” to “amber” this year based on the outcomes of the audits undertaken. It was noted that the key driver for this change was the significant progress made since March 2019 on the overdue internal audit findings.

A follow up process on outstanding actions had been implemented and was now firmly established together with a quality assurance framework which would be applied from the financial year 2019/20.

Decision

To note the internal audit opinion for the year ended 31 March 2019.

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

5. Lothian Pension Fund Unaudited Annual Report (and Financial Statements) 2019

The unaudited Annual Report and Financial Statements for the year ended 31 March 2019 for the Lothian Pension Fund was submitted.

Councillor Rose advised that members of the Pensions Audit Sub-Committee had received a presentation on the detail of the Annual Report and Financial Statements. Key areas highlighted were:

- Merger of Lothian Buses into the Lothian Pension Fund
- Effect on Fund Account
- Effect on Net Asset Statement
- Membership figures
- Scottish Homes Pension Fund Financial Statements
- Contributions from Scottish Government

Guidance was awaited from CIPFA on the standardised reporting of investment cost transparency and members discussed the work being carried out in England around PSLA new templates relating to cost transparency initiative.

Lothian Pension Fund currently provided disclosures additional to those required in the CIPFA guidance and Audit Scotland had indicated they were supportive of this.

In summary, the Chief Finance Officer reported that LPFE and LPFI company accounts were consolidated for presentation to Scott Moncrieff as external auditors.

Decision

- 1) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2019 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2) To refer the report to the City of Edinburgh Council meeting on 27 June 2019 for noting.

(Reference – report by the Executive Director of Resources, submitted)

6. Joint Investment Strategy Panel Activity

An update was provided on the activity of the Joint Investment Strategy Panel for the year to 31 March 2019.

The primary focus for the Panel during 2018/19 has been implementation of the existing investment strategies for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, previously agreed by Committee as well as a new investment strategy review for Lothian Pension Fund in collaboration with the Falkirk and Fife Funds.

Decision

To note the activities of the Joint Investment Strategy Panel during the financial year 2018/19.

(References – Pensions Committee 26 March 2018 (item 7); report by the Executive Director of Resources, submitted)

7. Annual Investment Update – Lothian Pension Fund

Information was provided on the investments and funding position of the Lothian Pension Fund to 31 March 2019.

Over the twelve months to 31 March 2019, investment market returns were generally strong. Global equities returned 10.5% to sterling-based investors while index-linked gilts, a good proxy for Fund liabilities, rose by 5.7% over the year. The UK property market also provided a positive return of 5.6%, largely rental income rather than capital growth.

Decision

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

(Reference – report by the Executive Director of Resources, submitted)

8. Annual Investment Update – Scottish Homes Pension Fund

An update was provided for the year to 31 March 2019 on the strategic allocation and invested assets of the Scottish Homes Pension Fund.

At end March 2019, the funding level was estimated to be 105.4%. The Fund's assets had increased in value by 4.6% adjusted for cash flow movements to pay pensions while a proxy of the value of liabilities had increased by 4.4%.

Over 2018/19, £6.6m was sold to pay pensions which compared with the Fund value of £163m at the end of March 2019.

Decision

To note the report.

(Reference – report by the Executive Director of Resources, submitted.)

9. Pension Administration Strategy (Revised)

A revised version of the Lothian Pensions Funds' Pensions Administration Strategy had been presented to Committee in March 2019, prior to consultation with Fund employers.

A further amendment was proposed relating to the introduction of the i-Connect portal. As required under the Local Government Pension Scheme (Scotland) Regulations, a consultation exercise would be carried out with the Fund's employers.

Decision

- 1) To note that the Fund intended to consult with employers on the revised Pensions Administration Strategy.
- 2) To approve the draft revised Pensions Administration Strategy, subject to any further amendment arising from the forthcoming employer consultation being reported to the Committee at its next meeting.

(References – Pensions Committee 27 March 2019 (item 6); report by the Executive Director of Resources, submitted)

10. Risk Management Summary

The quarterly risk overview as at 15 May 2019 was presented. Members discussed risk changes and noted that most had improved or were progressing towards improvement.

Councillor Rose advised that there had been considerable discussion around the risk overview by members of the Pensions Audit Sub-Committee.

Decision

- 1) To note the update on the quarterly risk overview.
- 2) To request that a 3-year graphic to set context be included and that cyber security risk be listed separately in future reporting.

(References – Pensions Audit Sub-Committee 25 June 2019 (item 5); report by the Executive Director of Resources, submitted)

11. 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 items of business on the grounds that they involved the disclosure of exempt information as defined in paragraphs 6 and 9 of Schedule 7(A) of the Act.

An update was provided on progress being made towards implementing the recommendations of the Lothian Pension Fund Governance Review 2019.

Decision

- 1) To note the update on implementing the proposals set out in the LPF Governance Review 2019.
- 2) To note the reappointment of John Anzani, (member representative) and Richard Lamont (employer representative) as members of the Committee.

(Reference – report by the Executive Director of Resources, submitted)

12. Lothian Pension Fund 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 items of business on the grounds that they involved the disclosure of exempt information as defined in paragraphs 6 and 9 of Schedule 7(A) of the Act.

An update was provided on Lothian Pension Fund's digital strategy and ICT pathway.

Decision

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

(References – Pensions Audit Sub-Committee 25 June 2019 (item 6); report by the Executive Director of Resources, submitted)

13. Regulatory Update – The Pensions Regulator Audit

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

Information was provided on the findings of the Pension Regulator Audit which had been carried out during the preceding six months.

Decision

To note the Pension Regulator Cohort Review feedback on the Lothian Pension Fund.

(References – Pensions Audit Sub-Committee 25 June 2019 (item 7); report by the Executive Director of Resources, submitted)

14. Investment Controls and Compliance

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 involved the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

A summary was provided of key matters in relation to the Lothian Pension Fund Group's systems and controls around the development of the in-house investment operations of the Lothian Pension Fund.

Decision

To note the update.

(References – Pensions Audit Sub-Committee 25 June 2019 (item 8); report by the Executive Director of Resources, submitted)

15. Investment Strategy Implementation Update – Joint Investment Strategy Panel

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 involved the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

An update was provided on Lothian Pension Fund investment strategy implementation issues.

Decision

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

(Reference – report by the Executive Director of Resources, submitted)