

Pensions Committee

2.00pm, Monday 26 March 2018

Present:

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

Pension Board Members Present:

Jim Anderson, Thomas Carr-Pollock, Sharon Dali, Diane Hogarth, Darren May, Paul Ritchie, Brian Robertson and Alan Williamson.

1. Minutes

Decision

To approve the minutes of the Pensions Committee of 12 December 2017 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 26 March 2018.

Decision

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

(Reference - Pensions Audit Sub-Committee 26 March 2018)

3. Agenda Planning

Details were provided of potential reports for future meetings of the Pensions Committee and Pensions Audit Sub-Committee, including meetings in June and September 2018.

Decision.

- 1) To note the agenda planning document.

- 2) To note that the Pensions Audit Sub-Committee would continue to meet three times in the year in June, September and December but that additional meetings would be arranged if business required.

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

4. Lothian Pension Fund – Draft Internal Audit Plan for 2018/19

Approval was sought for the Lothian Pension Fund draft Internal Audit plan for the period 1 April 2018 to 31 March 2019. The plan had been developed using a risk based methodology to ensure that Internal Audit assurance activity was focused on the Fund's key risks.

The following three reviews were included in the plan:

- Unlisted investment valuations and application of fund administration fees and charges
- Unitisation
- Stock lending

Councillor Rose advised that the Plan had also been considered by the Pensions Audit Sub-Committee at its meeting held earlier today. The Sub-Committee had recommended approval of the Plan. In addition, the Sub-Committee had also requested the Executive Director of Resources to provide an update report to the next meeting of the Audit Sub-Committee on Lothian Pension Fund's progress towards meeting the requirements of the General Data Protection Regulations.

Decision

- 1) To note the decisions of the Pensions Audit Sub-Committee of 26 March 2018.
- 2) To approve the Lothian Pension Fund 2018/19 Internal Audit Plan.

(References – Pensions Audit Sub-Committee 26 March 2018 (item 4); report by the Chief Internal Auditor, submitted)

5. External Audit – Annual Audit Plan 2017-2018

The Pensions Committee, on 20 March 2017, had agreed:

- a) To note that there was sufficient separation between Scott-Moncrieff's payroll, taxation advisory and audit services and that it did not affect the firm's ability to provide an independent audit.
- b) To approve the continuation of non-audit services of taxation advice provided by the company's external auditor to the Lothian Pension Fund Group.

The work plan for the 2017/18 external audit of Lothian Pension Fund, Lothian Buses Pension Fund and the Scottish Homes Pension Fund was presented.

Core elements of the work plan included an audit of the 2017/18 financial statements and related matters and a review of arrangements for governance and transparency, financial management, financial sustainability and value for money.

Councillor Rose advised that the external audit annual report for 2017/2018 had been considered at the Pensions Audit Sub-Committee meeting held earlier today. Representatives from Scott Moncrieff were in attendance at the Sub-Committee. The Sub-Committee had approved the recommendations in the report.

Decision

- 1) To note the planned programme of work to support the statutory audit 2017/18 as set out in Appendix 1 of the report.
- 2) To note that suitable provision had been made in the approved budget 2017/18 for the audit fee.
- 3) To note that progress against the Annual Audit Plan 2017/18 would be reported to future meetings of the Pensions Audit Sub-Committee and the Pensions Committee.

(References – Pensions Committee 20 March 2017 (item 5); Pensions Audit Sub-Committee 26 March 2018 (item 5); report by the Executive Director of Resources, submitted)

6. Governance Update

Information was provided on various governance issues including the rotation of the Pension Board chair and training activities undertaken by Pensions Committee and Pension Board members over 2017/18.

An update was also given on the Scottish Government's review of structure and governance together with details of the Accounts Commission's financial overview of accounts and audit report on Pension Funds in Scotland.

Decision

- 1) To note the appointment of Jim Anderson as chair of the Pension Board effective from 1 April 2018 to 31 March 2019.
- 2) To note that the City of Edinburgh Council, on 15 March 2018, had appointed Councillor Neil Ross to replace Councillor Adam McVey on the Pensions Committee with immediate effect.
- 3) To thank Darren May for his significant contribution to the Fund during his tenure as the Chair of the Pension Board.
- 4) To thank Eric Adair for his significant contribution to the Fund as a Consultative Panel Member and Pension Board Member.
- 5) To note that Catrina Warren had resigned from the Pension Board on 20 March 2018 and to thank her for her significant contribution to the Fund as a Pension Board Member.

- 6) To note the update on the Scottish Government's review of structure and governance.
- 7) To note the Accounts Commission's Local Government Pensions supplement overview prepared by Audit Scotland.
- 8) To request that a training workshop be arranged for Members to include topics on the following issues:
 - Unitisation system and any impact on employees
 - Methodology for setting actuarial funding assumptions and comparison with other funds
 - Assessment methods used to calculate cessation liabilities
 - Guaranteed Minimum Pension (GMP) indexation
- 9) To agree that Pension Board Members' views be sought and included as part of the consideration of the report requested by the City of Edinburgh Council on 15 March 2018 on webcasting of future meetings.

(References – Pensions Committee 20 March 2017 (item 6); report by the Executive Director of Resources, submitted)

7. Funding Strategy Statement

The Funding Strategy Statement had been last reviewed and updated in November 2015 following the employer appeals process which had been introduced following the 2014 actuarial valuation.

An initial consultation on draft changes to the Funding Strategy Statement was carried out in July 2017 with an update provided to Committee in September 2017 and a revised draft being presented to employers for further consultation in November 2017.

The draft Funding Strategy Statement of Lothian Pension Fund as at March 2018 was submitted. The Statement presented a summary of the Fund's approach to funding liabilities and would be reviewed every three years in conjunction with actuarial valuations.

Decision

- 1) To note the responses received as part of the consultation process.
- 2) To approve the revised Funding Strategy Statement.
- 3) To note that new Local Government Pension Scheme Regulations were expected to be introduced shortly and that consideration would be given to a further review of the Funding Strategy Statement to incorporate any changes required as a result.

(References – Pensions Committee 27 September 2017 (item 12); report by the Executive Director of Resources, submitted)

8. 2017 Actuarial Valuation for Lothian Pension Fund

The 2017 Actuarial Valuation report for Lothian Pension Fund, as submitted by the Actuary, was submitted.

The financial position of the Fund at 31 March 2017 in respect of benefits earned by members to this date was also presented. The results showed that the Fun had not met its objective of holding sufficient assets to meet the full estimated current cost of past service benefits at 31 March 2017.

The funding level, however, had increased from 91% at the previous valuation at 31 March 2014 to 98% at this valuation. The deficit had decreased from £417m at 31 March 2014 to £145m at 31 March 2017.

Decision

To note the results of the 2017 Actuarial Valuation report for the Lothian Pension Fund.

(References – Pensions Committee 27 September 2017 (item 12); report by the Executive Director of Resources, submitted.)

9. 2017 Actuarial Valuation for Lothian Buses Pension Fund

The Pensions Committee had previously agreed a revised Investment Strategy for 2016-2021 for the Lothian Buses Pension Fund.

The 2017 Actuarial Valuation report for Lothian Buses Pension Fund was submitted. The report included full details of the financial and demographic assumptions and methodology which had been adopted by the Fund's Actuary.

The funding level had risen from 117% at the previous valuation at 31 March 2014 to 121% at this valuation. This had resulted in the surplus of £48m at 31 March 2014 increasing to a surplus of £84m at 31 March 2017. Investment returns for the three years to 31 March 2017 at 46.8% were significantly higher than anticipated.

Decision

- 1) To note the results of the 2017 Actuarial Valuation report for the Lothian Buses Pension Fund.
- 2) To note that the Actuary's certification of the results of the actuarial valuation was predicated upon a revised Admission Agreement and Shareholder Guarantee for Lothian Buses plc and that the Actuary had reserved the right to revise the certification of the minimum contribution rate(s) should there be any undue delay in the formal signing.

(References – Pensions Committee 15 March 2016 (item 5); report by the Executive Director of Resources, submitted)

10. Merger of Lothian Buses Pension Fund and Lothian Pension Fund

Approval was sought to transfer the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund subject to the satisfactory completion of a revised Admission Agreement and Shareholder Guarantee as set out in the 2017 Actuarial Valuation for Lothian Buses Pension Fund.

Consultation on the proposed transfer had taken place with the respective stakeholder interests of both the Lothian Buses Pension Fund and Lothian Pension Fund.

Decision

- 1) To note the consultation which had taken place with the respective stakeholder interests of both the Lothian Buses Pension Fund and Lothian Pension Fund.
- 2) To note the significant advantages to be derived from consolidation of the two Funds including investment diversification opportunity and economies of scale.
- 3) To note the assurance that the interests of members of the Lothian Buses Pension Fund (employees and former employees of Lothian Buses Limited and its predecessor, Lothian Transport plc) would be unaffected.
- 4) To note the terms of the 2017 Actuarial Valuation for Lothian Buses Pension Fund and specifically:
 - (a) Lothian Buses Limited, as employer, would continue to retain a bespoke investment strategy which would be reviewed over the coming months. This review would recognise the increasing maturity profile of the membership and ensure that the risks inherent in the investment strategy were deemed appropriate.
 - (b) An updated Admission Agreement for Lothian Buses Limited to the Local Government Pension Scheme (LGPS) was currently being progressed. This would reflect both regulatory requirements of and affirm the guarantor obligations of the company's shareholders in respect of pension liabilities. It was anticipated that this would be formally concluded very shortly. In the event of any employer default, which was emphasised was not anticipated, then pension liabilities would be met by the four Lothian Councils in proportion to their respective company shareholding.

- 5) To approve the merger of the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund at the earliest suitable date, to be determined by the Executive Director of Resources, subject to the satisfactory completion of a revised Admission Agreement and Shareholder Guarantee.
- 6) To request that a copy of the communication from Lothian Buses to their Fund members informing them about the merger be circulated to Committee Members and Pension Board members for information.

(References – Pensions Committee 15 March 2016 (item 5); report by the Executive Director of Resources, submitted)

11. 2017 Actuarial Valuation for Scottish Homes Pension Fund

The 2017 Actuarial Valuation report for Scottish Homes Pension Fund was submitted. The report included full details of the liability cash flows and projected benefit payments which had been estimated based on the financial and demographic assumptions.

Decision

- 1) To note the results of the 2017 actuarial valuation of the Scottish Homes Pension Fund.
- 2) To note that the funding level of the Scottish Homes Pension Fund at 31 March 2017 was 104.7% and that the Actual Funding Level (AFL) of 104.7% was greater than the Target Funding Level (TFL) of 93% as specified in the Scottish Government Guarantee; accordingly, no deficit contributions were required from the Scottish Government, as Guarantor, for the period from 1 April 2018 to 31 March 2021.
- 3) To note that the Scottish Government were required to pay a total of £70,000 per annum towards the cost of administration expenses over the three years from 1 April 2018 to 31 March 2021.
- 4) To note that the Scottish Government was consulted on the potential benefits offered by a revised Funding Agreement incorporating an amended investment strategy for the Fund.
- 5) To note that the Scottish Government had recently advised that it did not wish to revise the Funding Agreement and that the equity and property investments were being sold with proceeds being reinvested in index-linked gilts in accordance with the current Funding Agreement.

(Reference – Pensions Committee 27 September 2017 (item ...); report by the Executive Director of Resources, submitted)

12. Pension Fund Cost Benchmarking

The annual report 2016/17 had identified £31.9m of expenses for the Funds with investment costs representing the largest proportion of the total.

The conclusions of the benchmarking of investment costs for Lothian Pension Fund and pensions administration costs for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund were presented.

The benchmarking provided by CEM aimed to provide comparable data but was unable to capture all investment costs from all Funds. Private asset performance fees were now included although transaction costs remained excluded. Total actual costs reported by CEM therefore differed from those reported in Lothian Pension Fund's annual report.

Decision

- 1) To note the report.
- 2) To note that the CEM Investment Cost Effectiveness Analysis to 31 March 2017 and the CIPFA Pensions Administration Benchmarking 2017 reports (both the Final Report and the Comparator Report) had been provided on a confidential basis to the Convener of the Pensions Committee and Convener of the Pensions Audit Sub-Committee.

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

13. Employers Participating in Lothian Pension Fund

Details were provided of employers who were currently looking to join the Fund, those leaving the Fund, current matters affecting employers participating in the Fund and the Fund's review of employer covenant which would be used in the review of the Funding Strategy Statement.

Decision

To note the changes to the employers participating in Lothian Pension Fund.

(References – Pensions Committee 20 March 2017 (item 10); report by the Executive Director of Resources, submitted)

14. 2016-2018 Service Plan Update

An update was provided on progress against the 2016-18 Service Plan, including performance indicators and the key actions of the Fund.

Decision

- 1) To note the progress of the Fund against the 2016-2018 Service Plan.

- 2) To note the UK Government's announcement on Guaranteed Minimum Pension (GMP) Indexation.
- 3) To note the guidance from Scottish Public Pensions Agency in respect of GMP related overpayments.
- 4) To note the update on the Local Authority Pension Fund Forum constitution as set out in paragraphs 3.13 to 3.18 of the report.

(References – Pensions Committee 12 December 2017 (item 5); report by the Executive Director of Resources, submitted)

15. 2018-2020 Service Plan and Budget

The Lothian Pension Fund's Service Plan had been reviewed to ensure its key performance indicators and objectives were up to date, clear, challenging and achievable.

The draft Service Plan for 2018-2020 together with the proposed budget for 2018-2019 and an indicative budget for 2019-2020 were presented.

Decision

- 1) To approve the two year Service Plan for 2018-2020.
- 2) To approve the budget for 2018-2019.
- 3) To note the indicative budget for 2019-2020.

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

16. Procurement Governance and Contract in respect of Integrated Pensions Administration and Payroll Software System (Ref: CT0400)

In order to administer the Local Government Pension Scheme (LGPS) in Scotland, Lothian Pension Fund (LPF) required a stand-alone Information Technology (IT) software system for purposes of administering its pension and payroll business. The system would provide benefit entitlement calculations and payments in compliance with relevant LGPS.

Decision

- 1) To note that a proposal would be made to the City of Edinburgh Council that minor clarifications were carried out to governance documentation to ensure that all pension matters (including contracts) would be exclusively in the remit of the Pensions Committee.

- 2) To note the decision of the Executive Director of Resources, in consultation with the Convener of the Finance and Resources Committee and in accordance with Council's urgency provisions, to the award of contract to Aquila Group Holdings Limited ("Aquila Heywood") subject to agreement regarding mutually acceptable Terms and Conditions, for the provision of the Integrated Pensions Administration and Payroll Software System.
- 3) To note that the proposed contract was for an initial 10 year period commencing in March 2018 with an option to extend for up to 2 further periods of 2 years each.
- 4) To refer the report to the Finance and Resources Committee for information.

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

17. Employers Leaving 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 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 engagement which had taken place with those employers who had left the Lothian Pension Fund and the key management actions taken.

Decision

Detailed in the Confidential Schedule, signed by the Convener, with reference to this minute.

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

Declaration of Interest

Councillor Child declared a non-financial interest in the above item as a Trustee of the Edinburgh World Heritage Trust.

18. Risk Management Summary

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.

A summary was provided of the Lothian Pension Fund's risk management procedures, including details on the operational risk register and the Fund's action to mitigate these risks.

Councillor Rose reported that the Pensions Audit Sub-Committee had discussed a report providing an in depth review of risk management.

Decision

Detailed in the Confidential Schedule, signed by the Convener, with reference to this minute.

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