

**The Highland Council
Pensions Committee**

Minutes of Meeting of the Pensions Committee held in the Council Chamber, Council Headquarters, Glenurquhart Road, Inverness on Friday 21 February 2014 at 10.00 am.

Present:

Mr D Fallows	Mr C Macaulay
Dr D Alston	Mr A Mackinnon
Mr K MacLeod	Mr T MacLennan
Mrs H Carmichael	Mrs C Wilson
Mr N Donald	Mr E Macniven
Mr J Ford	Ms L MacKay

Officials in attendance:

Mr D Robertson, Head of Accounting & Budgeting, Finance Service
Mr C MacCallum, Payroll & Pensions Manager, Finance Service
Mr B Porter, Finance Manager (Corporate Budgeting, Taxation and Treasury), Finance Service
Ms I McCreath, Trainee Accountant, Finance Service
Mrs L Dunn, Principal Administrator, Chief Executive's Service
Ms A Macrae, Committee Administrator, Chief Executive's Service

Also in attendance:

Mr R Warden, Hymans Robertson (Items 3 and 4)
Mr C Burns, Hymans Robertson (Items 3 and 4)

An asterisk in the margin denotes a recommendation to the Council. All decisions with no marking in the margin are delegated to the Committee.

**1. Apologies for Absence
Leisgeulan**

Apologies for absence were intimated on behalf of Mr R Laird, Mr A Campbell, and Ms E Ward.

**2. Declarations of Interest
Foillseachaidhean Com-pàirt**

There were no declarations of interest.

**3. 2014 Actuarial Valuation Presentation
Taisbeanadh Luachaidh Actuaraidh 2014**

Mr Richard Warden and Mr Craig Burns of Hymans Robertson, the Fund's Actuary, gave a presentation during which he provided an overview of the process, timetable and key issues relating to the 2014 actuarial valuation of the Highland Council Pension Fund.

Mr Burns outlined the main reasons for the valuation of the Fund which were to ensure compliance with the relevant legislation; recommend employer contribution rates; determine the funding required to meet accrued liabilities; calculate funding levels to ensure there were sufficient assets to meet the benefits to be paid out on the Fund; review past experience and adjust assumptions accordingly; and to manage the risks to the Fund and employers.

Thereafter, Mr Warden focused on the assumptions that required to be made around the valuation of liabilities in order to place a value on the benefits to be paid. These were split into two areas i.e. assumptions about the amounts of benefit to be paid (financial), and the probability that payment was made at a certain point (demographic). The financial assumptions took into account the current economic outlook, actual scheme assets held, and historical pay growth. Demographic assumptions took into account population trends, members' lifestyle factors and past Fund experience. This included issues around increasing life expectancy and the risk this represented to the Fund, noting that this issue had been a main driver behind the Government's pension reforms.

Mr Warden also reported on the risk based approach to be adopted in regard to the measurement of the funding levels and management of contribution rates as part of the valuation of the Fund. He reported on the likely impacts of the key drivers on both these issues since 2011 which had been long term interest rates, investment returns, life expectancy, and pension reforms.

In summary Mr Warden reported that the main objective of the valuation was to keep the Fund safe but also to consider the issues for employers in terms of their contribution levels. In this regard he reported that the regulations applying to the Local Government Pension Scheme required that employer contributions were stabilised, which was not currently a requirement of private schemes.

Mr Warden also set out the timetable for the valuation process, which had been agreed in consultation with the Council, and advised that it was anticipated that the final valuation report would be issued in March 2015.

Thereafter, and in response to questions Mr Warden explained that over the next few months a modelling exercise would be undertaken on different scenarios in terms of the Fund's investment allocations and strategy. He explained that in terms of past actuarial predictions around pensions, issues of low interest rates and life expectancy and their impact on pension funds in general had not been widely predicted. He further reported that the Pensions Regulator had issued a code of practice on funding private pension schemes which recommended that employer contributions be managed using a similar risk based approach as the public sector in terms of stabilising contributions.

Thereafter, the Committee **NOTED** the presentation.

4. **Local Government Pension Scheme Reform Update Presentation** **Taisbeanadh le Fios às Ùr mu Ath-leasachadh Sgeama Peinnsein** **Ùghdarrais Ionadail**

Mr Richard Warden, Hymans Robertson, provided an update on Local Government Pension Scheme reform.

During his presentation Mr Warden outlined the main reasons for the reform of the Local Government Pension Scheme which included issues around increased life expectancy and ensuring the long term sustainability and affordability of the Scheme. The reforms were also designed to address issues of fairness in regard to the current final salary arrangement, to improve the portability of pensions across public sector organisations, and to address the differences between public and private pension schemes. The reforms also responded to the level of payments the Government would require to make over the next few years in regard to unfunded schemes.

Mr Warden outlined the main differences between the existing and new scheme in regard to the benefit type, accrual rates, retirement age, member contribution rates and the vesting period. He explained that there would be no change for those employees who were 55 or over as at 1 April 2012.

He also outlined the differences in the employee contribution rates between the existing scheme as at 2013/14 and new scheme over different salary bands, and also provided specific examples in regard to employees who would or would not benefit from the new arrangements, depending on their salary grade and age.

Following the presentation, Mr Warden responded to a number of questions from Members during which he confirmed that arrangements would be made to circulate copies of both presentations to Members of the Committee. He also advised that life expectancy and longevity was a key issue going forward and that advances in medical research and in developing cures for some life threatening diseases might ultimately impact in future on how the local government scheme was structured, and on the state pension age. He also confirmed that an evidence based review was being undertaken in England on the potential merger of pension schemes. However he expressed the view that he was not convinced that a large Local Government pension fund would achieve the necessary economies of scale and that the focus should be on good management and governance of pension funds rather than their size.

Thereafter, the Chair thanked Mr Warden and Mr Burns for attending the meeting.

The Committee **NOTED** the presentation.

5. Local Government Pension Scheme Governance Consultation – Fund Response
Freagairt Co-chomhairle Riaghlaidh mu Sgeama Peinnsein Ùghdarras Ionadail

There was circulated Report No. PC/1/14 by the Director of Finance setting out the consultation response submitted to Scottish Government in relation to new governance arrangements for Local Government Pension Schemes, including new structures for governance at both national and local level. Responses would be used to inform the drafting of new regulations on governance arrangements.

It was reported that the deadline for responses was 3 February 2014 and therefore the response had been agreed and submitted to the Scottish Government in consultation with the Chair and the Chair of the Investment Sub-Committee. Further reports would be submitted back to the Committee once the new regulations were available and new structures could be put in place in respect of the Highland Council Pension Fund.

The Committee **NOTED** the governance consultation response submitted.

6. Pension Fund Administration Update Report
Tabhartasan agus Rianachd Maoin Peinnsein

There was circulated Report No. PC/2/14 by the Director of Finance which was a periodic report on matters relating to the administration of the Highland Council Pension Fund.

It was noted that contributions from scheme employers were all being received on time and all contributions were up to date. The annual staffing budget for Pensions Administration was £478,515 and was within budget for the year to 31 January 2014.

It was reported that Torvean Golf Club was an Admitted Body of the Highland Council Pension Fund. The last active scheme member retired at the end of 2013, resulting in the termination of the “closed agreement”. The Council, in its role as Administering Authority, had the discretion to pursue any termination payment as a result of the end of an Admission Agreement. An Actuarial assessment of any termination value due to the fund was undertaken by the Fund actuaries, and the termination value was calculated at £8,000. The initial Admission Agreement was a result of a TUPE transfer of service provision from the Council and on the basis that the liability was a result of the requirement placed on Torvean Golf Club to become an admitted body, it was not proposed to pursue the termination costs.

The Committee **NOTED** the details of the report, and **AGREED** that the termination costs for Torvean Golf Club not be pursued.

7. Discretionary Policies – Administering Authority
Ath-sgrùdadh air a Bhith a’ Cur an Gnìomh Phoileasaidhean fo Ùghdarras Ùghdarrasan

There was circulated Report No. PC/3/14 by the Director of Finance in relation to a review of the Council’s discretionary policies under the Local Government (Scotland) Pension Scheme 2008.

It was reported that the Local Government (Scotland) Pension Scheme Regulations 1998 provided the Council and employers participating in the Highland Council Pension Fund with powers to determine certain policies in respect of the Local Government Pension Scheme to reflect local circumstances. These discretionary policies were first agreed in 1998 and should be reviewed every five years. The last full review took place in 2008, however changes such as flexible retirement and a change to the Voluntary Severance Scheme had been introduced since that date. The report related to Administering Authority discretionary policies which applied to all employing authorities participating in the Highland Council Pension Fund.

It was further reported that Employing Authority discretionary policies had been reviewed since 2008 and any further changes would be reported separately to the appropriate Committee, following consultation with the Trade Unions.

The Committee **AGREED**:-

- i. the recommendations contained in Appendix 1 of the report;
- ii. that all policies be reviewed in 2018; and
- iii. that, in line with the main scheme policy, there be an “opt out” provision allowing reconsideration of any specific discretion if the special circumstances of an individual case merit it.

8. Investment Sub Committee: Minutes of Meeting
Fo-chomataidh Tasgaidh: Geàrr-chunntas na Coinneimh

There was circulated Minutes of meeting of the Investment Sub-Committee held on 14 November 2013, the terms of which were **APPROVED**.

The meeting closed at 11.00 am.