

**The Highland Council
Pensions Committee and Pension Board**

Minutes of Meeting of the Pensions Committee and Pension Board held in the Council Chamber, Council Headquarters, Glenurquhart Road, Inverness on Wednesday 1 February 2017 at 2.00 pm.

Present:

Pensions Committee

Mrs H Carmichael
Mr R Laird
Mr B Lobban
Mr K MacLeod
Mr N Donald

Pension Board

Mrs C Caddick, Highland Council
Mr T MacLennan, Highland Council
Ms L Leonard, representative for the other Employers
Ms L MacKay, Unison
Mr E Macniven, GMB

Officials in attendance:

Mr E Foster, Head of Corporate Finance, Finance Service
Mr S Fraser, Joint Secretary (Employers Side)
Mr C MacCallum, Payroll & Pensions Manager, Finance Service
Mr S Lorimer, Assistant Payroll and Pension Manager, Finance Service
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Mrs L Dunn, Principal Administrator, Corporate Development Service
Mr A MacInnes, Administrative Assistant, Corporate Development Service

Also in attendance:-

Ms J Brown, Engagement Leader, Grant Thornton (External Auditor)
Mr R Anderson, Audit Manager, Grant Thornton

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. Interim Chair
Cathraiche Eadar-amail**

In the absence of the Chair, the Clerk invited Members of the Pensions Committee to appoint a Chair for this meeting.

Thereafter, Mrs H Carmichael, seconded by Mr K MacLeod, moved that Mr B Lobban be appointed as Chair.

The Committee **AGREED** accordingly and Mr B Lobban took the Chair.

**2. Apologies for Absence
Leisgeulan**

Apologies for absence were intimated on behalf of Mr A Christie, Mr D Fallows, Mr M Green, Mr A MacKinnon, Mr B Thompson of the Pensions Committee and Mr D Macdonald, Mr A Wemyss and Mr J Gibson, Joint Secretary (Trade Unions Side) of the Pension Board.

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

There were no declarations of interest.

**4. Annual Audit Plan 2016/17 (External Audit Report)
Plana Sgrùdaidh Bliadhna 2016/17 (Aithisg Sgrùdaidh bhon Taobh A-muigh)**

There was circulated Report No. PC/01/17 by Grant Thornton which presented their annual audit plan setting out the work they planned to undertake as part of the audit of the pension fund.

In discussion, the following points were raised:-

- it was queried if there were any audit risks arising from the Council's Voluntary Redundancy and Employee Early Release Scheme. It was advised that details of the scheme had been shared with the Fund actuaries to allow them to assess any potential impact of the Fund. The actuaries had confirmed that the proposed course of action had been implemented in such a way that the financial health of the Fund would not be adversely affected by this exercise; and
- the spread of investments gave a good return for the Pension Fund, but concern was expressed regarding the level of investment that the Fund had in the tobacco industry. There was a risk that if there was a class action in the United States of America, the shares of every tobacco company would be affected, which would affect the tobacco investments in the Fund. It was advised that questions relating to investment performance should be remitted to the Investment Sub-Committee.

The Committee/Board **NOTED** the Annual Audit Plan 2016/17.

**5. Pension Fund Contributions and Administration
Tabhartasan agus Rianachd Maoin Peinnsein**

There had been circulated Report No. PC/02/17 by the Director of Finance which updated Members on matters relating to the administration of the Highland Council Pension Fund.

In discussion, the following points were raised:-

- it was advised that the Pension Regulations determined who could/could not apply to join the Pension Fund. The organisations or companies given this approval would be responsible for their employer/employee contributions as assessed by the Fund Actuary;

- when the current ICT contract with Fujitsu ended and a new contract with WIPRO commenced, some employees would transfer over from Fujitsu to WIPRO. There would also be employees who would not be transferred over who potentially could be members of the Pension Scheme and it was queried what the procedure would be in those cases. It was explained that for employees who would transfer from Fujitsu to WIPRO under the Transfer of Undertakings Protection of Employment regulations they would remain in the Highland Council Pension Scheme. For employees not in that situation, they would no longer be an active member of the Pension Scheme. They would have the option of leaving their pension benefits that had been accrued in the Fund until their retirement date, or they could choose to transfer their benefits out to their new Employer's Pension Scheme; and
- in terms of the Employee Early Release Scheme, it was explained that the Scheme did not offer an enhanced pension benefit. It offered employees under the age of 55 a lump sum payment and for those aged 55 and over, they would have the option of access to their pension benefits calculated at the date of leaving. Their benefits would be reduced at that date or the Employer would meet the costs when the pension was not reduced.

The Committee/Board **NOTED** the report.

6. Statement of Investment Principles Aithris air Prionnsapalan Tasgaidh

There was circulated Report No. PC/03/17 by the Director of Finance which sought approval on the proposed Statement of Investment Principles for the Highland Council Pension Fund (HCPF).

The Statement of Investment Principles was prepared as required by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (No. 233).

In particular it was explained that discretion was given to the Pension Fund Managers on investments they selected taking into account social, environmental and ethical considerations.

In discussion, a view was expressed that there was considerable interest from members of the public and beneficiaries of the Pension Fund as to the types of investments made. Some of the investments in tobacco, aerospace and defence industries for example were uncomfortable for some people and it was felt their feelings could not be ignored. There was a fiduciary duty to the Fund to achieve the best financial position, but other Funds seemed to have more robust ethical policies. It was queried if there was anything preventing the Highland Council from having a similar robust policy for the types of investments it made for the Fund.

Another view was expressed that deciding on what types of investment should or should not be made was very complicated and that all the Pension Scheme Members and as well as the Trustees of the Fund should be involved in any debate of this nature.

It was advised that the Council had in the past taken legal advice on how prescriptive it could be in terms of what types of investment it could/could not make. This had to be balanced against the fiduciary duty to ensure the right balance of investments to achieve the best financial position for the Fund. An undertaking was given to submit a report to a future meeting exploring the types of investment the Pension Fund could make, particularly in regard to developing an ethical investment policy, and clarifying the legal advice on what types of investment the Fund could/ could not make.

Thereafter, the Committee:-

- i. **APPROVED** the Statement of Investment Principles; and
- ii. **AGREED** that a report be submitted to a future meeting exploring the types of investment the Pension Fund could make, particularly in regard to developing an ethical investment policy, and clarifying the legal advice on what types of investment the Fund could/ could not make.

7. Risk Management Review and Update Report Poileasaidh agus Ro-innleachd Rianachd Cunnairt Maoin Peinnsein

There had been circulated Report No. PC/10/16 by the Director of Finance which provided an update on the Fund's risk register and compliance with the Pension Fund Regulator requirements on internal controls.

Following consideration, the Committee/Board **NOTED** the updated risk register extract and compliance with the Pension Fund Regulator requirements.

8. Pension Board Formal Meetings Coinneamhan Foirmeil Bòrd nam Peinnsean

It was reported that in terms of the Local Government Pension Scheme Governance (Scotland) Regulations 2015 the Pension Board might meet separately from the Pension Committee with the agreement of the Pension Committee.

The Pension Board had requested that their meetings held prior to joint meetings of the Pensions Committee and Pension Board be formal meetings and accordingly the Pensions Committee were invited to approve this request.

The Committee **AGREED** that meetings of the Pension Board held prior to joint meetings of the Pensions Committee and Pension Board be formal meetings.

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

The Minutes of meeting of the Investment Sub-Committee held on 2 December 2016 were **APPROVED**.

The meeting closed at 2.40 p.m.