

The Highland Council

Pensions Committee and Pension Board

Minutes of Meeting of the Pensions Committee and Pension Board held Remotely on Wednesday, 23 September 2020 at 10.30am.

Present:

Pensions Committee

Mr R Gale
Mr R Bremner
Mrs H Carmichael
Mr J Gray
Mr B Lobban
Mr D Louden
Mr A MacInnes (substitute)
Mr P Saggars
Mr B Thompson

Pension Board

Mrs C Caddick, The Highland Council
Mr R Fea, Representative for other Employers
Mr D MacSween, Unison
Mr E Macniven, GMB

Non-Members in Attendance

Mr A Henderson
Mr D MacPherson

Officials in attendance:

Mr E Foster, Head of Corporate Finance and Commercialism
Mr J Gibson, Joint Secretary (Trade Unions' Side)
Mr C MacCallum, Payroll & Pensions Manager
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation)
Ms C Stachan, Accountant
Ms D Sutherland, Corporate Audit Manager
Mrs L Dunn, Principal Administrator
Mr A MacInnes, Administrative Assistant

Also in attendance:-

Ms J Brown, Engagement Leader, Grant Thornton
Mr J Boyd, Audit Director, Grant Thornton
Mr R Bilton, Hymans Robertson

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

Mr R Gale in the Chair

BUSINESS

1. **Apologies for Absence** **Leisgeulan**

Apologies for absence were intimated on behalf of Mr C Fraser, Mr A Mackinnon and Mr A Jarvie of the Pensions Committee, Mrs M Paterson, Mr C Nicolson, Ms L Mackay and Mr D Main of the Pension Board.

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

There were no declarations of interest.

3. **Legal Implication on using Highland Council Pension Fund for Highland Council Capital Projects** **Buaidh Laghail a thaobh a bhith a' cleachdadh Maoin Peinnsein Chomhairle na Gàidhealtachd airson Phròiseactan Calpa Chomhairle na Gàidhealtachd**

The Head of Corporate Finance and Commercialism gave a briefing on the possibility of the Highland Council Pension Fund investing in capital projects.

It was advised that there were no legal reasons to stop the Fund investing in Council capital projects. Members were reminded of their fiduciary duty to the Pension Scheme beneficiaries and that there were a number of considerations that Members would need to take before pursuing this option. These considerations were highlighted as:- whether the investment would fit within the Fund's investment strategy to get the required level of returns to meet the Fund's liabilities and whether such an investment would have a tolerable level of risk whilst noting that the Fund already carried risk in terms of Employers being able to meet their Employer contributions.

Continuing, if it was decided to make investments in the public sector, it would be appropriate to consider any Local Authority that might require investment rather than just The Highland Council or any other of the Employers' in the Fund, as the Fund was looking to maximise its return and minimise its risk. Also, the arrangements for setting up and operating such an investment, which would involve additional costs, would need to be considered.

In discussion, it was highlighted that the primary function of the Pension Committee was to ensure the Pension Fund met its commitments to the pension fund members. Also, the doubling up of risk meant that there was a need to be wary of making Highland Council investments. It was suggested that there might be less risk in investing in housing which could be self-funding and therefore more certainty in the return. It was highlighted that all aspects of each investment proposal would require to be carefully considered to ensure appropriate net benefits to the members of the pension fund.

Thereafter, the Committee **NOTED** the briefing on using the Highland Council Pension Fund for Highland Council capital projects.

**4. Internal Audit
In-Sgrùdadh**

**4a Highland Council Pension Fund Internal Audit Annual Report 2019/20
Aithisg In-Sgrùdaidh Maoin Peinnsein Chomhairle na Gàidhealtachd 2019/20**

There was circulated Report No. PC/1/20 by the Corporate Audit Manager.

Following consideration, the Committee **NOTED** the contents of the report and the audit opinion provided.

**4b Highland Council Pension Fund Internal Audit Annual Plan 2020/21
Plana In-Sgrùdaidh Bliadhnail Maoin Peinnsein Chomhairle na Gàidhealtachd
2020/21**

There was circulated Report No. PC/2/20 by the Corporate Audit Manager.

Following consideration, the Committee **APPROVED** the 2020/21 Audit Plan.

**5. Governance Policy Statement 2020/21
Poileasaidh Riaghlaidh 2020/21**

There was circulated Report No. PC/3/20 by the Head of Corporate Finance & Commercialism.

In discussion, reference was made to the date on which the Triennial Actuarial Valuation of the Fund occurred, shortly after a significant downturn in stock markets and before a good recovery. It was explained that the Fund's Actuary would cover any implications of this for the Fund in his presentation at item 12 of these minutes.

Further, it was highlighted that a correction required to be made to Paragraph 9.2b of the Pension Board Constitution by removing the word 'of' and replacing it with 'or', to read: – " that person ceases to be an elected councillor or an employee Member".

Thereafter, the Committee **APPROVED** the Highland Council Pension Fund Governance Policy Statement, subject to the following correction:-

Appendix 4 – Pension Board Constitution:- Paragraph 9.2b to read:-

"that person ceases to be an elected councillor or an employee Member"

**6. Service Plan 2020/21
Plana Seirbheis 2020/21**

There was circulated Report No. PC/4/20 by the Head of Corporate Finance and Commercialism.

In discussion, the following main points were considered:-

- Reference was made to an increase in pension administration costs of around 20%, oversight and governance costs an increase of 22%; and Management and Fund Manager fees, an increase of 15% with an overall increase in costs of 16.1% in one year. The reasons for this increase were queried. It was

explained that there had been no budget for these costs last year, but that these costs had always been charged to the Fund. In order to provide clarity on these costs a budget had now been set for them. It was explained that the Fund Manager fees made up the greatest proportion of the total Fund costs. These fees were linked to the investment performance and value of investments;

- In terms of Fund Manager fees for managing equities and private equity, it was queried what proportion the Fund was invested in each as the fees perhaps were larger than expected. It was explained that while detailed figures were not available, the proportion of equities in the portfolio was significantly greater than private equity;
- In relation to Performance Indicator targets, it was highlighted that if these were set at 100%, then these targets would be difficult to achieve. An undertaking was given to review these targets in order to set targets that were challenging but realistic;
- As at the last full triennial valuation in 2017, the Fund was 101% funded and this was to be commended. It was also highlighted that the 2019/20 pension fund costs had come in under budget;
- It was queried how much of the Fund's administration, oversight and governance costs related to local spend or to national and international suppliers. It was explained that pension administration and central support staff costs related to local staff within Highland. Computer and IT costs related to the purchase of systems from national companies. Pension investment support was also local based staff, but the Investment Consultant was not based in Highland; and
- In terms of the total pension fund costs, it was queried if there was any benchmarking of this as a percentage of pension fund assets and how the Fund compared against other Local Government Pension Funds on management costs. An undertaking was given to provide this information in a future report.

Thereafter, the Committee **APPROVED**:-

- i. the Pension Fund Service Plan 2020/21;
- ii the Pension Fund Budget for 2020/21; and **NOTED**
- iii that Pensions Administration Performance Indicator targets would be reviewed; and
- iv that information would be provided in a future report on how the Fund's management costs compared against other Local Government Pension Funds.

7. Pension Fund Contributions and Administration Tabhartasan agus Rianachd Maoin Peinnsein

There was circulated Report No. PC/5/20 by the Head of Corporate Finance and Commercialism.

In discussion, information would be provided to Councillor D Louden in relation to clarification on a point in the Annual Accounts relating to reversal of items relating to post-employment benefits.

The Committee **NOTED** the terms of the report.

8. **Training Policy and Training Plan 2020/21** **Poileasaidh Trèanaidh agus Plana Trèanaidh 2019/20**

There was circulated Report No. PC/6/20 by the Head of Corporate Finance & Commercialism.

In particular, it was confirmed that Pension Board Members received the same invites to training as Pension Committee Members.

Thereafter, the Committee:-

- i. **NOTED** the assessment and training resources provided by The Pensions Regulator and the requirement for newly appointed Board and Committee members to complete induction training (section 6 and section 8 of the report);
- ii. **NOTED** the adoption of the CIPFA Local Pensions Boards Technical Knowledge and Skills framework (section 7 of the report), including the self-assessment matrix and the guide for local pension boards issued by CIPFA (section 9 and Appendix 2 of the report);
- iii. **NOTED** the training delivered to date on pension fund matters (Appendix 3 to the report);
- iv. **AGREED** the training policy and programme for 2020/21 set out within the report (section 11 of the report);
- v. **NOTED** that details of individual attendance at Pensions Committee, Investment Committee and training would be reported in the Pension Fund Annual Report and Annual Accounts 2020/21 (section 12 of the report); and
- vi. **NOTED** that Pension Fund training Webinars would be sent to Members of the Committee/Board.

9. **Highland Council Pension Fund: Monitoring of Retirements** **Maoin Peinnsein Chomhairle na Gàidhealtachd: Sgrùdadh Cluaineis**

There was circulated Report No. PC/7/20 by the Head of Corporate Finance & Commercialism.

In particular, it was highlighted that redundancies were approved or otherwise by the Employment Release Sub Committee and unless there were exceptional circumstances there should always be a saving to the Council. There would be costs to the Employer from the early release of pension, but these should be offset by the saving in salary. There would be no additional costs to the Pension Fund as a result of a redundancy, as the Employer would meet the costs of redundancy. An undertaking was given to review the Summary of Retirements table in the report to provide better clarity of the data.

The Committee **NOTED** the details of the retirements as outlined in the appendices to the report.

10. **Risk Management Update** **Fios às Ùr mu Rianachd Chunnairt**

There was circulated Report No. PC/8/20 by the Head of Corporate Finance and Commercialism.

In discussion, the efforts of staff in dealing with the challenging circumstances with the Covid-19 crises was recognised and a review would be undertaken of the staffing arrangements in place to ensure that the Pension Fund was managed appropriately.

It was felt that the main risks to Pension Fund investments were the implications of Covid-19 and Brexit. Also, given that staff were being advised to work from home if possible, the Council needed to ensure that its staff were able to do this effectively and safely.

The Committee **NOTED**:-

- i. the updated risk register extract and compliance with the Pension Fund Regulator requirements; and
- ii the Chair would raise the matter of workstation assessments for those employees working from home with the Central Safety Committee.

**11. External Annual Audit
Sgrùdadh Bliadhnail on Taobh A-muigh**

**11a External Annual Audit Report to Members of the Pensions Committee and the Controller of Audit
Aithisg In-sgrùdaidh Bhliadhnail on Taobh A-muigh do Bhuill de Chomataidh nam Peinnsean agus Rianadair an Sgrùdaidh**

There was circulated Report No. PC/9/20 by the External Auditor, Grant Thornton. The report concluded the 2019/20 audit of the Pension Fund. Officers help and support in enabling External Auditors to undertake the audit during the Covid-19 crises was acknowledged.

During a summary of the report, the findings from the external audit work for the financial year ended 31 March 2020 were highlighted and it was confirmed that it was planned to issue an unqualified audit opinion on the annual report and accounts. As such, the report was being presented as a draft to the Committee following which it would be signed by the Chief Finance Officer on behalf of the Highland Council Pension Fund.

Detail was also provided on the identified audit risks and associated conclusions as follows – risk of fraud in revenue, management override of controls and Covid-19.

During discussion, a point was made that life expectancy seemed to have changed in recent years and the assumption that people would live longer seemed to have started to reverse. Therefore, the liability of the Pension Fund had shown a small decline. It was advised that the Fund's Actuary made various assumptions when estimating the pension fund liabilities and one of these related to mortality rates.

The Committee **NOTED** the terms of the report.

**11b Letter of Representation 2019/20
Litir Riochdachaidh 2019/20**

There was circulated (Report No. PC/10/20) a copy of the annual audit letter of representation 2019/20.

The Committee **AGREED** that the letter be signed on behalf of the Highland Council.

**11c Audited Accounts 2019/20
Cunntasan Sgrùdaichte 2019/20**

It was noted that the Audited Statement of Accounts (Report No. PC/11/20) for the financial year 2019/20 were available for viewing at the following weblink:-

https://www.highland.gov.uk/downloads/file/22881/audited_accounts_april_2019_to_march_2020

In this regard, the value of the Pension Fund at the end of March 2020 had decreased, but since then the value of the Fund had rebounded strongly. The Fund was a long-term investor, but it was emphasised that there would always be short term fluctuations in the value of the Fund's investments.

There had been a steady increase in all categories of members in the Fund and in particular, members claiming their pension benefits had increased substantially over the last six years to around 10,500 which reflected the age profile of employees within the scheme.

Continuing, the contributions received from employees and employers in 2019/20 was for the first time outweighed by the value of pensions paid. However, there was sufficient cashflow from employees/employers' contributions and pension fund investments to pay for members benefits. However, it did highlight the need to have good investment returns to help pay for benefits.

During discussion, the ageing workforce within the Council was highlighted and it was queried if this would have a significant effect on the Fund in future. It was explained that this should not be a concern, as part of the triennial valuation process and setting of contribution rates, the age profile of scheme members would be taken into account. Also, the Fund's investments were well diversified and this had turned out to be a good strategy as the investments had performed well.

Thereafter, the Committee **APPROVED** the Annual Accounts for 2019/20 as detailed.

12. Actuarial Update

There was circulated Report No. PC/12/20 by the Fund's Actuary, Hymans Robertson.

Mr Rob Bilton from Hymans provided an update on the current challenges for the Pension Fund which included:-

- a brief on the McCloud consultation including an estimate of the potential immediate and future costs for the Fund and employers based on the remedy outlined in the consultation;
- an update on the Scottish Cost Management valuation for 2017 and how it might impact employer and member contributions for the Fund; and
- a brief on the Goodwin ruling regarding equality of survivor benefits in same sex marriages, again including the funding implications for the Fund.

In particular, reference was made to the reduction in value of investments in the Fund around the triennial valuation date as a consequence of Covid-19 affecting markets, but since then there had been a rebound in the value of investments. It was advised that when contribution rates were set for Employers, rates were not directly set at the fund value on a particular date, as there would be short-term fluctuations in markets. Therefore, the valuation took a long-term view of the future of the economy and demographics such as life expectancy.

The Committee **NOTED** the report.

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

The Minutes of meeting of the Investment Sub-Committee held on 6 September, 29 November 2019 were circulated for information and **NOTED** and the Minutes of 13 March 2020 were circulated for confirmation and **APPROVED**.

The meeting ended at 12.15 p.m.