

## The Highland Council

### Pensions Committee and Pension Board

Minutes of Meeting of the **Pensions Committee and Pension Board** held Remotely on **Thursday 18 March 2021 at 10.30am.**

#### Present:

##### Pensions Committee

Mr R Gale  
Mr R Bremner  
Mrs H Carmichael  
Mr C Fraser  
Mr A Jarvie  
Mr B Lobban  
Mr D Louden  
Mr P Saggars  
Mr B Thompson

##### Pension Board

Mrs C Caddick, The Highland Council  
Mrs M Paterson, The Highland Council  
Mr C Nicolson, Comhairle nan Eilean Siar  
Mr R Fea, Representative for other Employers  
Mr D MacDonald, Unison (substitute)  
Mr E Macniven, GMB

#### Non-Members in Attendance

Mr A Henderson  
Mr C Munro  
Mr R MacWilliam  
Mrs T Robertson

#### Officials in attendance:

Mr E Foster, Head of Corporate Finance and Commercialism, Resources & Finance Service  
Mr S Fraser, Joint Secretary (Scheme Manager's Joint Secretary)  
Mr J Gibson, Joint Secretary (Trade Unions' Side)  
Mr C MacCallum, Payroll & Pensions Manager, Resources & Finance Service  
Mrs M Grigor, Finance Manager (Corporate Budgeting, Treasury and Taxation), Resources & Finance Service  
Ms C Stachan, Accountant, Resources & Finance Service  
Mr J Campbell, Senior Auditor, Resources & Finance Service  
Mrs L Dunn, Principal Administrator, Performance & Governance Service  
Mr A MacInnes, Administrative Assistant, Performance & Governance Service

#### Also in attendance:-

Mr R Bilton, Hymans Robertson  
Mr J Boyd, Audit Director, Grant Thornton  
Mr K Ettles, AON Hewitt, Investment Principal and Actuary

**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 A MacKinnon of the Pensions Committee and Mr D MacSween, Unison of the Pension Board.

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

The undernoted non-financial interests were received in relation to the business at the meeting. Having applied the test outlined in Paragraphs 5.2 and 5.3 of the Councillors' Code of Conduct, the Members concluded that their interest did not preclude their involvement in the discussion.

Mrs C Caddick, Trustee Board Member of Johnston & Johnston UK Pension Plan; Mr A Jarvie, Director of High Life Highland and a Client of one of the company's referred to in the business of the meeting; and Mr B Thompson, Director of High Life Highland.

### 3. **2020 Actuarial Valuation Report** **Taisbeanadh Luachaidh Actuaraidh 2020**

There was circulated Report No. PC/1/21, the draft 2020 Actuarial Valuation Report by the Fund's actuary. Mr Robert Bilton of Hymans Robertson was in attendance and gave a presentation on the report.

Arising from the presentation, it was noted that even during a period of significant market volatility the Pension Fund was still covering its liabilities as at the end of March 2020 and the fund remained 100% funded which was a great achievement. The Fund's investments had recovered remarkably well since the Covid health crises and the work undertaken by Members/Officers of the Investment Sub Committee and the Fund's Investment Managers was commended.

Pay growth assumptions used in the triennial valuation were highlighted and it was noted that the average salary increases over the last 20 years were used in the assumptions. While there might be short term fluctuations in pay growth, assumptions used were historic long term assumptions.

Reference was made to the modelling used to inform what Employer contribution rates should be, with a 0.5% reduction in the Fund's weighted average contribution rate seen as a fair balance between affordability for employers and sufficient funding for the Fund.

The Committee **NOTED** the draft 2020 Actuarial Valuation Report by the Fund's actuary Hymans Robertson.

**4. Funding Strategy Statement**  
**Aithris Ro-innleachd Mhaoineachaidh**

There was circulated Report No. PC/2/21 by the Head of Corporate Finance and Commercialism which sought approval from Members on the proposed Funding Strategy Statement for the Highland Council Pension Fund.

Following a summary of the report during which the approach taken to dealing with uncertainty from Court cases that had a potential impact on the Pension Scheme was highlighted, the Committee **APPROVED** implementation of the Funding Strategy Statement with effect from 1 April 2021.

**5. Statement of Investment Principles**  
**Aithris air Prionnsapalan Tasgaidh**

There was circulated Report No. PC/3/21 by the Head of Corporate Finance and Commercialism which sought approval on the proposed Statement of Investment Principles for the Highland Council Pension Fund (HCPF).

The aim of the Statement of Investment Principles was to provide long term stability of the Pension Fund in the return that the Fund's assets were generating. This involved striking a balance between risk and return and taking account of the Fund's liability profile and level of funding. The Strategic benchmark set out how assets in the Fund were split into various categories of investment and there was a recommended change with a shift away from UK equities to Global equities.

During discussion, it was highlighted that the Fund remained 100% funded despite the triennial valuation date falling on a period of significant market turmoil and this was commended.

There was also a full discussion on investments and the policy around those investments and different views were expressed regarding what the ethical approach should be for investing. It was suggested that considerations such as the United Nations Sustainable Development goals and wider environmental, social and corporate governance should be taken into consideration and a number of Members made reference to lobbying received from local community pressure groups. It was also queried if the views of the Fund members had been sought. In particular, a view was expressed that consideration should be given as to whether the Fund should still invest in certain sectors that was not deemed ethical to invest in, such as armaments, and further information was sought and provided on the procedure to disinvest in specific companies. In addition, reference was made to the United Nations Convention on the Rights of the Child being incorporated into Scottish law and it was queried whether this complied with the investment principles. It was also suggested that the Investment Management Agreements for Investment Managers be reviewed to look at what was covered in them. In particular, the recent appointment of a Manager that was considerate of United Nations strategic development goals might be worth considering for all the Fund's investments.

However, it was highlighted that personal and community views had to be overridden by the legal responsibilities of Trustees, i.e. the Members, who had a fiduciary duty to the Pension Scheme beneficiaries to achieve the best financial position. In addition, it was also highlighted that increased employer contribution rates would have a financial impact on the Council's revenue budget. It was indicated that deciding ethical

balances on what types of investment should or should not be made was highly subjective and Trustees should not be prescriptive in terms of what companies/sectors should or should not be invested in. It was indicated that engagement was key to ESG not disinvestment. It was explained that shareholders had a responsibility to ensure that companies invested and acted in an ethical manner and this could only be achieved through engagement. Attention was drawn to the Engagement statistics which demonstrated the number of times Fund Managers voted against company proposals and advocated implementation of a vast range of positive changes. Caution was expressed in respect of disinvestment which resulted in transparency being lost as companies went into private ownership. It was advised that the Fund's Investment Managers had to be mindful of the Fund's environmental, social and corporate governance principles in their choice of investments and the opportunity to challenge Fund Managers on their ethical investments was welcomed. In addition, it was highlighted that the minutes of the Investment Sub-Committee demonstrated that ESG was strengthening within the Fund.

With a view to developing and publishing a Responsible Investing Policy Statement that was consistent with the Fund's fiduciary duty, a workshop was to be held for the Pensions Committee members during 2021.

A view was expressed that more emphasis should be placed on equity investments as historically it was known that the Fund could achieve greater returns rather than from fixed interest investments.

Thereafter, the Committee **APPROVED** the : -

- i. Statement of Investment Principles; and
- ii. Strategic benchmark, noting that there were no changes to the benchmark approved at Committee in February 2018 other than an increase to the active global equity allocation and decrease to the UK allocation.

## **6. Service Plan 2021/22 Plana Seirbheis 2021/22**

There was circulated Report No. PC/4/21 by the Head of Corporate Finance and Commercialism.

Key elements of the report were highlighted in relation to Pension Fund staffing structure and budget and the planned tasks for the Pensions Administration and the Investment and Governance teams. The outcome of Performance Indicator targets would be reported at the next Committee meeting.

Having heard the Chairman on behalf of the Committee, commend the work of the Pensions team, the Committee **APPROVED** the:-

- i. Pension Fund Service Plan 2021/22; and
- ii. Pension Fund staffing structure and budget for 2021/22.

**7. Draft Annual Audit Plan 2020/21 (External Audit Report)  
Plana Sgrùdaidh Bliadhnail 2020/21 (Aithisg Sgrùdaidh bhon Taobh A-muigh)**

There was circulated Report No. PC/5/21 by Grant Thornton which presented their draft annual audit plan setting out the work they planned to undertake as part of the audit of the pension fund.

In particular, it was highlighted that due to the global pandemic on price information and other market data, the Fund reported a material uncertainty in relation to the valuation of property investments totalling £180m. This was in line with RICS guidance and was common across local government pension schemes. The current guidance was that there would not be a material uncertainty in the current year.

As the audit plan arrangements were still being finalised, the external audit fee had yet to be determined. The audit fee would be included in the final audit plan.

The Committee **NOTED** the Draft Annual Audit Plan 2020/21 and that following completion of the audit planning arrangements, the Plan would be finalised and the final version distributed to the Committee/Board and Audit Scotland.

**8. Internal Audit  
In-Sgrùdadh**

**8a Highland Council Pension Fund Internal Report – Pension Fund Contributions  
Aithisg In-Sgrùdaidh**

There was circulated Report No. PC/6/21 by the Corporate Audit Manager.

The Chairman highlighted that the audit opinion of full assurance was very reassuring and commended the Pension teams for their work, professionalism and commitment.

The Committee **NOTED** the content of the report and that the audit opinion was of full assurance on the Pension Contributions review.

**8b Highland Council Pension Fund Internal Audit Annual Plan 2021/22  
Plana In-Sgrùdaidh Bliadhnail Maoin Peinnsein Chomhairle na Gàidhealtachd  
2021/22**

There was circulated Report No. PC/7/21 by the Corporate Audit Manager.

It was noted that the Council's Internal Audit team undertook the audit of the Pension Fund. This was a particularly busy team with limited staff resources and it was queried if consideration should be given to the Pension Fund engaging its own Internal Auditors. It was advised that there was a recharge from the Council to the Pension Fund. Therefore, if the Internal Audit team did not undertake this work they would lose this income. Further, assurance was provided that the audit work was not a significant commitment in terms of the time taken to undertake the audit of the Fund.

The Committee **APPROVED** the 2021/22 Audit Plan.

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

There was circulated Report No. PC/8/21 by the Head of Corporate Finance and Commercialism.

In particular, it was confirmed that the Employer contribution rates had been agreed by all the Employers in the Fund.

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

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

There was circulated Report No. PC/9/21 by the Head of Corporate Finance and Commercialism.

In terms of frequency of meetings, it was felt that two meetings a year of the Pension Committee was sufficient for the volume of business that was required to be considered particularly as the Highland Council had an Investment Sub Committee which met on quarterly basis. It was advised that other local authority Pension Committees which met quarterly did not have a separate Investment Sub Committee.

It was confirmed that there was ongoing training for Members of the Committee/Board and Officers on Pension Fund matters.

The Committee **NOTED** the updated risk register extract and compliance with the Pension Fund Regulator requirements.

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

The Minutes of meeting of the Investment Sub-Committee held on 25 September, 4 December 2020 and 5 February 2021 were circulated and **NOTED**.

The meeting ended at 12.50 p.m.