

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

Minutes of Meeting of the **Pensions Committee and Pension Board** held in the Chamber, Council Headquarters, Glenurquhart Road, Inverness on **Friday 30 September 2022 at 10.30am.**

Present:

Pensions Committee

Mr C Ballance
Mr R Gale
Ms L Kraft
Mr D Louden
Mr T MacLennan
Mr P Oldham
Mrs M Paterson
Mr A Sinclair (remotely)

Pension Board

Mr C Munro, The Highland Council (remotely)
Mr K Macleod, Comhairle nan Eilean Siar (substitute)
Ms E Johnston, GMB

Officials in attendance:

Mr E Foster, Head of Corporate Finance, Resources & Finance Service
Mr S Fraser, Head of Corporate Governance, Performance & Governance Service
Mr J Campbell, Senior Auditor, Performance & Governance
Mrs L Dunn, Principal Administrator, Performance & Governance Service
Mr A MacInnes, Administrative Assistant, Performance & Governance Service

Also in attendance:-

Mr B Morris, Audit Director, 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.

Mr T MacLennan in the Chair

BUSINESS

**1. Apologies for Absence
Leisgeulan**

Apologies for absence were intimated on behalf of Mr B Lobban and Mr A MacDonald of the Pensions Committee, Mr G Mackenzie, Mr N MacDonald, Mr R Fea, Mr D MacSween and Mr D Main of the Pension Board.

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

There were no declarations of interest.

**3. Recess Powers
Cumhachdan Fosaidh**

The Committee **NOTED** that the Recess Powers granted by the Council at its meeting on 30 June 2022 had not been used in respect of this Committee.

**4. Governance Policy Statement 2022/23
Poileasaidh Riaghlaidh 2022/23**

There was circulated Report No. PC/9/22 by the Head of Corporate Finance.

In particular, the regulatory framework for the Pension Scheme and the role of the Trustee was highlighted.

The Committee **APPROVED** the Highland Council Pension Fund Governance Policy Statement.

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

There was circulated Report No. PC/10/22 by the Head of Corporate Finance.

It was highlighted that an Annual Benefits Statement 2022 Newsletter had been circulated to Members of the Committee/Board. This contained information on annual allowances, pension scams and other information about the Pension Scheme.

Also, investment management costs were the largest part of the Pension Fund expenditure. These costs varied according to the value of assets in the Fund and represented circa 85% of the management costs of the Fund.

It was noted that Highlands and Islands Enterprise were to merge membership across other Local Government Pension Schemes and bring them into the Highland Pension Fund. This consolidation transfer would mean the assets and liabilities relating to those employees would transfer to the Highland Council Pension Fund. Highlands and Islands Enterprise's employer contribution rate to the Fund would be set accordingly to ensure they met all liabilities for their employees in the Pension Scheme.

In relation to Additional Voluntary Contributions (AVCs), this was available to Scheme members should they wish to pay additional contributions towards their pension. The provider for AVCs was Prudential who administered AVCs on behalf of the Pension Fund. There had been some administration issues with the new scheme, with it taking some time for members contributions to be shown in employees records and these issues had now been resolved.

It was highlighted that a cost of £50k in relation to the guaranteed minimum pension comparison exercise was a one off cost.

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

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

There was circulated Report No. PC/11/22 by the Head of Corporate Finance.

In particular, in terms of ill health retirements there were two levels of award and this depended on the nature of the ill health. This would mean access to unreduced pension in certain circumstances and this cost would fall on the Pension Fund. This cost would be recovered through Employer contributions to the Fund.

In terms of redundancies, it was explained that when there was a redundancy there was a cost that was met by the Employer but this would be offset by the salary saving for the post. It was also highlighted that the number of voluntary redundancies for the Council and other Employers was at its highest level for 10 years and was reflective of the age of the workforce and other demographic changes.

It was requested that information on death in service benefits would be provided for Councillor T MacLennan.

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

7. **Training Policy and Training Plan 2022/23** **Poileasaidh Trèanaidh agus Plana Trèanaidh 2022/23**

There was circulated Report No. PC/12/22 by the Head of Corporate Finance.

The importance of training for Members on Pension Fund matters was stressed and there were a number of ways that this could be provided such as using online tools and this could be supplemented with specific training for Members. In particular, Members were encouraged to complete the self-assessment to identify particular areas Members felt they might need training and development. Thereafter, a number of training courses would be provided for Members covering different aspects of the Fund.

The Committee:-

- i. **APPROVED** and adopted the LGPS Skills and Knowledge Statement which had been updated in line with the CIPFA Knowledge and Skills framework (2021);
- ii. **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);
- iii. **NOTED** the adoption of the CIPFA Local Pensions Boards Technical Knowledge and Skills framework (section 7), including the self-assessment matrix and the guide for local pension boards issued by CIPFA (section 9 and Appendix 2);
- iv. **NOTED** the training delivered to date on pension fund matters (Appendix 3);
- v. **AGREED** the training policy and programme for 2022/23 set out within the report (section 11); and

- vi. **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 2022/23 (section 12).

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

There was circulated Report No. PC/13/22 by the Head of Corporate Finance.

The report identified the most significant risks to the Pension Fund and in particular the risks on staffing for the Pension Fund was highlighted. This was a specialised area and there were challenges in staffing recruitment and retention. The Council was addressing this by training existing staff, but given the specialist nature of the job this did take some time.

In terms of staff retention, it was queried how the Council compared with the private sector in relation to wages and terms and conditions in the pension fund sector. It was explained that when staff were leaving it was for personal reasons rather than to do with wages and terms and conditions. There was no market for pension jobs in Highland and it was important that staff were paid appropriately for the skills and knowledge required in this specialised area. Therefore, the staffing structure and remuneration would be reviewed in order that the remuneration was sufficient to attract staff.

In terms of the funding risk on investment returns, currently there was significant volatility in investment markets and inflation was becoming a significant factor. It was emphasised that pension fund investments were for the long term and the value of the fund would increase and decrease over time depending on what was happening in investment markets. The Pension Fund had a good range of different investments and over the long term had delivered very good investment returns.

In relation to climate change and responsible investment risks these had become increasing areas of focus for the Fund. The Fund had a Responsible Investment Policy and a training session on this would be arranged for Members. Further, work would be undertaken to develop reporting on climate risk as part of the work to implement the Responsible Investment Policy.

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

9. Internal Audit In-Sgrùdadh

9a Highland Council Pension Fund Internal Audit Annual Report 2021/22 Aithisg In-Sgrùdaidh Maoin Peinnsein Chomhairle na Gàidhealtachd 2021/22

There was circulated Report No. PC/14/22 by the Corporate Audit Manager.

It was highlighted that the report included an assessment of the Pension Fund's framework of governance, risk management and control and the associated opinion which provided information for the Fund's Annual Governance Statement.

The Committee **NOTED** the contents of the report and the audit opinion provided.

9b Pension Fund Internal Audit Annual Plan 2022/23

There was circulated Report No. PC/15/22 by the Corporate Audit Manager, which provided the audits contained in the 2022/23 Internal Audit Plan.

The Committee **APPROVED** the Internal Audit Annual Plan 2022/23.

**10. External Annual Audit
Sgrùdadh Bliadhnaidh on Taobh A-muigh**

10a External Annual Audit Report to Members of the Pensions Committee and the Controller of Audit

Aithisg In-sgrùdaidh Bhliadhnaidh on Taobh A-muigh do Bhuill de Chomataidh nam Peinnsean agus Rianadair an Sgrùdaidh

There was circulated Report No. PC/16/22 by the External Auditor, Grant Thornton.

It was highlighted that while the audit was largely complete some testing still required to be completed in relation to pooled investments in order to understand how these valuations had been obtained. Other than this there were no issues identified in relation to the Pension Fund accounts and no amendments made to the reported financial position. Once the testing referred to above had been completed the external audit opinion would be provided.

It was noted that one fund manager (BentallGreenOak) had a qualified opinion with their internal controls report to 31 December 2020. The report had been reviewed and the External Auditor was satisfied that the qualification did not have a direct impact on the controls around the investments held by the Pension Fund and would have no impact on the valuation of its investments. By way of clarification, it was explained that all of the Fund Managers reports were scrutinised to ensure the control environment was working effectively in the Fund. Where a qualified opinion had been issued, this meant that either the control environment had not been designed effectively or was not operating effectively. In terms of the qualified opinion given in the report, as this related to a matter out with the valuation of the Fund and the investment fund, assurance could be given that whilst management needs to address the deficiency in the control, it was not something to be concerned about in terms of the valuation of the Fund or the security of the underlying investments. The Fund Manager had provided an update on the action they were taking in relation to the qualification.

The Committee **NOTED** the report.

**10b Letter of Representation 2021/22
Litir Riochdachaidh 2021/22**

There was circulated Report No. PC/17/22 a copy of the annual audit letter of representation 2021/22.

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

**10c Audited Accounts 2021/22
Cunntasan Sgrùdaichte 2021/22**

The Audited Statement of Accounts (Report No. PC/18/22) for the financial year 2021/22 was circulated.

The Accounts provided an overview of all matters relating to the Pension Fund.

It was highlighted that the Pension Fund was now in a position where it needed its investment returns to pay for its annual outgoings, as the Fund was now paying out

more, than it was receiving in contributions. The Fund was in a good financial position and there was currently no need to sell any investments to meet its liabilities as the annual return on investments was sufficient to meet annual outgoings.

In 2020/21 the return on investments was circa £526m and in 2021/22 the return was circa. £100m. It was explained that the significant difference in returns was due to 2020/21 being an exceptional year for the Fund's investment returns mainly in terms of strong growth in equity stocks.

It was noted that the Fund's management expenses had increased significantly in the last year. These mainly related to Investment Manager costs, which in the most part related to the value of the investment, so as the value of investments increased, so did management costs and if they reduced management costs should reduce accordingly.

In response to a query, the Fund's Statement of Investment Principles would be provided to Councillor P Oldham.

It was highlighted that over the last six years, there was only one year in which there had been a negative return on the Fund's investments, so the Fund had performed very well.

Further, in terms of the transfers in and out of the Fund over the last three years, more had been paid out than received. It was queried how long it was envisaged this would continue. It was explained that if more people were retiring, then there would be more outgoings for the Fund. Also, life expectancy and whether this would continue to increase or not had a bearing on outgoings. In terms of money coming into the Fund from active members, this would depend on the number of employees of the Council and other Employers in the Fund. There were financial challenges facing the Council which might result in a reduction in staff and if this happened the contributions from active members would reduce. However, the positive annual investment return of the Fund should continue to fund liabilities for the foreseeable future.

The Committee **APPROVED** the accounts.

11. Membership of Investment Sub Committee Ballrachd na Fo-Chomataidh Tasgaidh

The Committee **APPROVED** the membership of the Investment Sub-Committee as circulated in Report No. PC/19/22, subject to noting that Councillor C Ballance had been nominated by the SNP Group to take one of their places on the Sub Committee. The Membership was as follows:-

- Investment Sub-Committee (7 Highland Council Members (voting):

Mr D Loudon, SNP; Mr P Oldham, SNP; Mr C Ballance, Green;
Mr B Lobban and Mrs M Paterson, Highland Independents
Mr R Gale and Mr A MacDonald, Liberal Democrats

- One representative Comhairle nan Eilean Siar, (non-voting):

Mr N MacDonald

- One representative for the trade unions (non-voting):

Mrs E Johnston, GMB

The meeting ended at 11.50 a.m.