

PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 29 September 2020. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Bell, Cooke, Delaney, Henrickson, MacGregor and Wheeler (Pensions Committee); and Councillor McKelvie, Chairperson; Mr N Stirling, Vice Chairperson; Councillors Allan and Cowe; Mr L Knox, Mrs M Lawrence and Mr A Walker (Pension Board).

Also in attendance:- Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; Colin Harvey, Senior Auditor, Internal Audit; and Gillian Woolman, Assistant Director, Audit Scotland.

The agenda and reports associated with this minute can be found [here](#).

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

BOARD MEMBERSHIP

1. The Convener advised that Mr Ian Black, Pension Board member, had unfortunately had to step down from the Board due to work commitments, however Mr Ian Hodgson, FirstGroup, would be replacing him. Mr Hodgson had hoped to participate in the meeting, but due to a pre-existing appointment had not been able to join. The Convener added that he looked forward to working with Mr Hodgson at future meetings.

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following items of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – items 11.1 (Procurement of Investment Management Consultancy Services) and 11.2 (Asset and Investment Manager Performance Report).

The Committee resolved:-

in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of the above-mentioned item so as to avoid disclosure of exempt information of the class described in paragraph 8 (Item 11.1) and 6 (Item 11.2).

The Board resolved:-

to note the decision of the Committee.

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DECLARATIONS OF INTEREST

3. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING OF 20 MARCH 2020

4. The Committee had before it the minute of its previous meeting of 20 March 2020.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

BUSINESS PLANNER

5. The Committee had before it the committee business planner as prepared by the Chief Officer – Governance.

The Committee resolved:-

- (i) to note the update from the Chief Officer – Finance in respect of item 5 (Strategic Infrastructure Priorities and the Scottish Local Government Pension Scheme) that discussions were underway with colleagues from City Growth in respect of the matter but had been delayed due to prioritisation of other work as a result of COVID-19, and that it was hoped to present a report to the December meeting; and
- (ii) to otherwise note the planner.

The Board resolved:-

to note the decision of the Committee.

INTERNAL AUDIT ANNUAL REPORT 2019/20 - IA/20/010

6. The Committee had before it a report by Internal Audit which provided the Committee with the Internal Audit Annual Report for the North East Scotland Pension Fund for 2019/20.

The report recommended:-

that Committee note –

- (a) the Annual Report for 2019/20;

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- (b) that the Chief Internal Auditor had confirmed the organisational independence of Internal Audit;
- (c) that there had been no limitation to the scope of Internal Audit work during 2019/20; and
- (d) the progress that management had made with implementing recommendations agreed in Internal Audit reports.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

PENSIONS INVESTMENT STRATEGY & PERFORMANCE - IA/AC2015

7. The Committee had before it a report by Internal Audit which presented the planned Internal Audit report on Pensions Investment Strategy & Investment Performance Management. The report advised that the objective of the audit was to provide assurance over compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers. This had involved review of procedures and documented practice in respect of management by the Service of a sample of investments.

The audit had made a number of recommendations all of which had been agreed with the Service with the exception of a recommendation that the Service should set out performance monitoring procedures. The Service considered that resource constraints were such that assurance on performance monitoring came from the task being assigned to the Investment Manager and team and that being a requirement of the job profiles. Reporting requirements were informed by the discussions and information provided by Fund Managers and an understanding that each Fund Manager mandate was different such that it might require a different set of performance data.

The report recommended:-

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

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EXTERNAL AUDIT ANNUAL REPORT 2019/20

8. The Committee had before it a report by the External Auditor on the 2019/20 Annual Audit of the North East Scotland Pension Fund. The report noted that auditors were required to report on specific matters arising from the audit of the financial statements to those charged with governance of a body, prior to the financial statements being approved and certified.

The key messages from the audit were that in the opinion of External Audit, the North East Scotland Pension Fund's financial statements gave a true and fair view and were properly prepared. The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and had been properly prepared. The report noted that the North East Scotland Pension Fund had valued its Level 2 property assets on an appropriate basis using information provided by professional valuers, and drew attention to the impact of COVID-19 on the level of uncertainty over property valuations. The audit opinion had not been modified in respect of that matter.

The annual performance of the Fund was significantly impacted by Covid-19 19. At 31 December 2019 the value of the main fund's net assets exceeded £4.8 billion but by the end of March the value fell to £4.383 billion, as a result of COVID-19. However the report noted that the Fund had appropriate and effective arrangements in place for financial management and systems of internal control had operated appropriately and effectively in 2019/20. Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate.

There had been negative cash flows from member activity in 2019/20 and the ratio of active fund members to pensioners had fallen. While this trend was expected to continue, the Fund had appropriate and effective financial planning arrangements in place. The report further noted that the Fund's three year funding and investment strategy would be reviewed following the next full triennial valuation, due to be completed by 31 March 2021, and this would determine the level of employer and employee contribution rates from 2021/22 onwards.

It was considered that the Fund had effective governance arrangements that supported scrutiny of decisions made by the Pensions Committee. Governance arrangements had changed in March 2020 as a result of the COVID-19 pandemic. Committees were suspended and virtual meetings of the Urgent Business Committee had been held instead to consider items of an urgent nature. External Audit had concluded that these changes were appropriate and properly disclosed in the Annual Governance Statement.

The impact of COVID-19 on global markets reduced annual returns significantly but investment performance continued to outperform medium and longer term benchmarks. The Fund had adequate arrangements for monitoring investment performance and

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scrutinising investment management. The Fund's investment performance was also subject to regular review and scrutiny by the Pensions Committee.

The Committee heard in detail from Ms Woolman in respect of the report.

The Committee resolved:-

- (i) to thank Ms Woolman and her team for both the clear and informative presentation and report and the work undertaken to ensure the annual report was presented to Committee as expected; and
- (ii) to note the audit report.

The Board resolved:-

to note the decision of the Committee.

CONSIDERATION AND SIGNING OF AUDITED ANNUAL REPORT AND ACCOUNTS - PC/SEPT20/ARA

9. With reference to article 6 of the minute of the meeting of the Urgent Business Committee of 30 June 2020, the Committee had before it a report by the Chief Officer – Finance which attached the Audited Annual Report and Accounts for the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) for consideration and signing.

The report recommended:-

that Committee –

- (a) consider and approve the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund; and
- (b) instruct the Chief Officer – Finance, as the Local Government (Scotland) Act 1973 – Section 95 Officer, to sign the accounts on behalf of the Funds.

The Committee resolved:-

- (i) to thank the Chief Officer – Finance and his team, and the External Auditors for the work undertaken to ensure that the Audited Annual Report and Accounts were presented to Committee as expected, given the ongoing pressures as a result of COVID-19; and
- (ii) to approve the recommendations.

PENSIONS COMMITTEE ANNUAL EFFECTIVENESS REPORT - COM/20/117

10. The Committee had before it a report by the Chief Officer – Governance which presented the annual effectiveness report of the Pensions Committee to enable Members to provide comment on the data contained within. It was noted that the data contained

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in the annual report related solely to the Pensions Committee, as the Pension Board received its own annual report.

The report recommended:-

that Committee –

- (a) provide comments and observations on the data contained within the annual report; and
- (b) note the annual effectiveness report of the Pensions Committee.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

BUDGET/FORECAST 2020/21 - PC/SEPT20/BUD

11. The Committee had before it a report by the Chief Officer – Finance which provided details of the Management Expenses Budget/Forecast 2020/21 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that the Committee approve the NESPF Management Expenses Budget/Forecast 2020/21, shown in Appendix I.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

STRATEGY - PC/SEPT20/STRAT

12. The Committee had before it a report by the Director of Resources which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The report provided an update on the Scottish Public Pensions Agency (SPPA) Consultation which sought views on changes to the Local Government Pension Scheme (LGPS) in Scotland in respect of the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection' arrangements; the request from Visit Scotland to consolidate its

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liabilities with the application for a SPPA direction to transfer assets and liabilities to Lothian Pension Fund; the position in relation to Pension Fund Annual Benefit Statements; information on 27 new breaches of law recorded in the NESPF Breaches Register during 19/20, the majority of which had been scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions; the latest position in respect of staff training; that the Pension Board had approved its annual report and agreed that Councillor McKelvie would act as Chair for the year with Mr Neil Stirling as Vice Chair; the latest information on Pensions Committee and Board training; the employer relationship year end process; the data quality improvement plan; and information on the triennial valuation due in March 2021.

The report also noted that the following policy documents had been updated:-

- Statement of Investment Principles
- Breaches of Law Policy
- Conflicts of Interest Policy
- Communications Policy
- Corporate Governance & SRI Policy
- Data Protection Policy
- Employer Engagement Policy
- Nomination and Appointment Process
- Record Keeping Policy

The report recommended:-

that Committee note the work undertaken to review and update the scheme policy documents to ensure continuing compliance with LGPS regulations (as per item 3.9.7 in the report)

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

TRAINING - PC/SEPT20/TRA

13. The Committee had before it a report by the Chief Officer – Finance which provided details of the training plan (2020/21) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

The report recommended:-

that Committee –

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- (a) agree the proposed training schedule (as set out in items 3.3-8 in the report), subject to latest Scottish Government travel advice and
 - approve the travel of members to the training session in London;
 - approve the travel of members to attend external training opportunities; and
 - approve the travel of members to attend LAPFF meetings;
- (b) note the updated Training Policy for Pensions Committee and Board members (as set out in Appendix I to the report); and
- (c) note the requirement to have completed the Pensions Regulator online training in line with the Training Policy (as set out in item 3.9 in the report).

The Convener, seconded by the Vice Convener, moved:-

That Committee agree the recommendations contained in the report.

Councillor Cooke, seconded by Councillor Delaney, moved as an amendment:-

That Committee:-

- (i) agree the proposed training schedule (as set out in items 3.3-8), subject to latest Scottish Government travel advice, and instruct the Pensions Manager to make preliminary arrangements for participation in training opportunities; and
- (ii) approve recommendations (b) and (c) as set out in the report.

On a division, there voted:- for the motion (5) – the Convener; the Vice Convener; and Councillors Bell, Crockett and Wheeler; for the amendment (4) – Councillors Cooke, Delaney, Henrickson and MacGregor.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

In accordance with the decision taken under article 2 of this minute, the following reports were considered with the press and public excluded.

PROCUREMENT OF INVESTMENT MANAGEMENT CONSULTANCY SERVICES - PC/SEPT20/CONS

14. The Committee had before it a report by the Chief Officer – Finance which sought approval to use the National LGPS Framework to let investment management consultancy services for the North East Scotland Pension Fund.

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The report recommended:-

that Committee –

- (a) approve the award of a call-off contract under the National LGPS Framework agreement set up by Norfolk County Council to appoint investment consultants to provide investment management consultancy services to the Fund from 1 April 2021 for a term of 5 years, with the option to extend for a further 2 years; and
- (b) approve the potential expenditure for the above as set out in items 4.1 and 4.2 of the report.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT - PC/SEPT/AIMPR

15. The Committee had before it a report by the Chief Officer - Finance which provided an overview of the investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 30 June 2020.

Appended to the report was information in respect of the NESPF and environmental, social and governance matters and responsible investment.

The Committee and Board heard from Mr Buntain, Investment Manager, in respect of the detail contained within the report. Mr Buntain also provided a verbal update on recent performance following the impact of COVID-19.

The report recommended:-

that the Committee note the contents of the report.

The Committee resolved:

to note the report.

The Board resolved:-

to note the decision of the Committee.

- **COUNCILLOR M. TAUQEER MALIK, Convener**