

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
via MS Teams on Wednesday, 29 June 2022
at 10.00 am

Present:- Councillors D. Parker (Chairman), W. McAteer, S. Mountford, J. Pirone S. Scott, Mr D. Bell, Mr M. Drysdale, Ms K. Hughes, Ms L. Ross.

Apologies:- Councillors P. Brown, C. Hamilton and D. Moffat

In Attendance: Chief Officer Audit and Risk, Director Finance & Corporate Governance, Pensions and Investment Manager, HR Shared Services Manager, Democratic Services Officer (D.Hall).

Also in Attendance: Ms A. Fitzpatrick and Mr A Singh, Isio.

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 17 March 2022.

DECISION

NOTED for signature by the Chairman.

2. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee meeting held on 28 February 2022.

DECISION

NOTED for signature by the Chairman.

3. **SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2021/22**

3.1 With reference to paragraph 7 of the Minute of the Meeting held on 4 March 2021 there had been circulated copies of a report by the Chief Officer Audit and Risk which presented for approval the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22. The Plan included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment. The report explained that the Public sector Internal Audit Standards (PSIAS) required that the Chief Officer Audit and Risk provided an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Governance Compliance Statement. In order to meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2021/22 included the required Internal Audit annual opinion, provided details of the Internal Audit Activity during the year that supported the opinion, and stated the conformance of the Council's Internal Audit service with the PSIAS. The Chief Officer Audit and Risk's opinion was that the systems of internal control spending within the Scottish Borders Council Pension Fund during 2021/22 were sound, and governance and risk management arrangements were effective.

3.2 The Chief Officer Audit and Risk, Ms Jill Stacy, presented the report and responded to Members questions. In response to a question regarding systemic issues in the Business World ERP system, the HR Shared Services Manager, Mr Ian Angus, explained that all of the issues had been addressed and payments were being made – including to third parties. With regard to the uptake rate of the Members Self Service facility, Ms Stacy

explained that uptake was low but that promotional activity was underway to increase the number of pension scheme members using the new facility. In response to a question regarding one discrepancy that had been highlighted in the report, Mr Angus explained that the discrepancy related to one individual and concerned a notification of date of death. The value of the benefit was not significant, and work was ongoing to resolve the issue. Ms Stacy highlighted that despite the value of the benefit being low in value, the discrepancy nonetheless allowed the efficacy of Scottish Borders Councils Pension Fund controls to be assessed and lessons to be learned.

DECISION

AGREED to acknowledge the independent assurance provided on internal controls and governance arrangements as set out in the Scottish Borders Council Pension fund Internal Audit Annual Assurance Report 2021/22.

4. GOVERNANCE POLICY & COMPLIANCE STATEMENT 2022

With reference to paragraph 4 of the meeting held on 10 June 2021 there had been circulated copies of a report by the Director Finance and Corporate Governance that proposed the Revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund following the implementation of the 2015 regulatory changes. The report requested approval of the Governance Compliance Statement for inclusion in the pension Fund's Annual Report and Accounts for 2021/22. Appendix 1 to the report contained the revised Governance Policy and Compliance Statement for the Pension Fund 2022. The Governance Compliance Statement for 2021/22 was included in Annex A to the policy and demonstrated that the Pension Fund was in full compliance with published best practice guidance.

DECISION

AGREED the revised Governance Policy and Compliance Statement 2022 for inclusion in the Pension Fund Annual Report and Accounts 2021/22.

5. PENSION ADMINISTRATION PERFORMANCE 2021/22

With reference to paragraph 4 of the Minute of the meeting held on 14 December 2021 there had been circulated copies of a report by the Director People, Performance and Change which presented the Pensions Administration Performance for 2021/22 and requested approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report contained the Pensions Administration Performance for 2021/22 as it would be included in the Fund's Annual Report and Accounts. The report explained that during 2021/22 all payments, lump sums and monthly pensions, were made on time. Performance had remained at the expected high standard, which was testament to the continued dedication of the staff within the Pensions Administration Team, having continued to work from home for the majority of the year and adapted to new and improved working practices as a result of the continued global pandemic. The Annual Benefit Statements for all deferred members were issued in advance of the 31 August deadline in all instances and were made available via Members Self Service for all active members. The annual Employer Liaison Meeting was held as a virtual meeting in March due to the continued Covid-19 restrictions in place at that time. The event was well attended with representatives from the majority of the Fund Employers. Updates were provided on Investments, Administration and the Fund Actuary gave a refresher presentation on the accounting report requests. Due to the continued Covid-19 situation, no payslips had been issued to pensioners. Online access had been promoted, and information on the application of the Pension Increase had been published on the Pension Fund Website. The annual P60's had been issued in accordance with the statutory timelines. The HR Shared Services Manager presented the report and responded to Members questions. In response to a question regarding new and improved working practises, Mr Angus explained that the practises involved a shift to further digitalisation, and the use of technology, such as print to post rather than traditional mail, online forms and a general desire to use digital solutions where possible to improve communication with all members.

DECISION

AGREED to note the Pension Administration Performance for 2021 as set out in Appendix 1 to the report and approved its inclusion in the Pension Fund Annual Report and Accounts 2021/22.

6. TRAINING PLAN 2022/23

With reference to paragraph 6 of the Minute of the Meeting held on 10 June 2021 there had been circulated copies of a report by the Director Finance & Corporate Governance which compared the actual 2021/22 attendance for Pension Fund Committee and Board members to the requirements detailed in the current Training Policy approved in June 2019. The report proposed key areas of training for 2022/23 in line with the policy and based on the Skills Knowledge assessment recently undertaken. The report explained that in line with the Training Policy at Appendix 1 to the report, the Pension Fund Committee and Pension Fund Board members were required to undertake an annual knowledge and skills self-assessment to identify the key areas for the future years training plan. The Training Knowledge and Skills Assessments were undertaken in May 2022 and scores received were summarised in the table in paragraph 5.1, and in more detail in Appendix 2 to the report. The proposed Training for 2022/23 would focus on Financial Markets and Products, Investment performance and risk management, Pension Administration and General Pension Fund Regulatory environment. Members were strongly encouraged to actively participate in all training events to demonstrate their commitment to enhancing the governance of the Pension Fund and to support effective decision making. In response to a question, the Pensions and Investment Manager, Ms Kirsty Robb, advised that those members who had undertaken the tool kit in 2017 did not need to do so again.

DECISION

AGREED to:-

- (a) note the Training Policy at Appendix 1 to the report;**
- (b) note the outcome of the 2021/22 training programme and the attendance levels for training and meetings;**
- (c) note the outcome of the Knowledge and Skills Self-Assessment for 2022/23; and**
- (d) approve the Training areas for 2022/23 set out in the report and that all members should prioritise attendance at training events wherever practicable.**

7. BUSINESS PLAN 2022/23 - 2024/25

With reference to paragraph 5 of the Minute of the Meeting held on 14 December 2021 there had been circulated copies of a report by the Director Finance & Corporate Governance which presented the draft Pension Fund Business Plan 2022/23 – 2024/25 for approval. The report explained that best practice suggested that having a business plan for the pension fund was a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 to the report contained the first Pension Fund Business Plan, covering the period 2022/23 – 2024.25. The Business Plan identified an Action Plan that would be delivered during the next three years to support the aims and objectives of the Fund.

DECISION

AGREED that the Pension Fund Business Plan 2022/23 – 2024/25 as set out in Appendix 1 to the report was approved.

8. RISK REGISTER UPDATE

With reference to paragraph 5 of the Minute of the meeting held on 17 March 2022 there had been circulated a report by the Director, Finance and Corporate Governance which formed part of the risk review requirements. The report provided the Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate the identified risks. The report explained that identifying and managing risk was a cornerstone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Managing Risk in the Local Government Pension Scheme" published by CIPFA. A virtual workshop was held on 4 May 2022 with Officers from relevant Department to review and update the full risk register. The output of that workshop was shown in Appendix 1 to the report. The report summarised the changes made during the review and explained that no new risks had been identified. In line with the Council's Risk Management Policy (2018) a paper would be presented at the September 2022 meeting to report progress on the management actions and present any new risks for consideration. Members welcomed the report and highlighted that the majority of risks had been successfully mitigated.

DECISION AGREED

- (a) the updated Full Risk register as contained in Appendix 1 to the report; and**
- (b) to an update on progress of management actions to be presented in September 2022.**

9. RESPONSIBLE INVESTMENT - MONITORING IMPLEMENTATION PLAN

9.1 With reference to paragraph 8 of the Minute of the meeting held on 17 March 2022 there had been circulated copies of a report by the Director, Finance and Corporate Governance which sought approval for the responsible investment objective and metrics for the Pension fund in line with the Fund's Responsible Investment Policy. As part of the Pension Fund's Fiduciary duties it was required to ensure appropriate consideration was given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interests of the scheme beneficiaries. The Committee and Board, to ensure those fiduciary duties are met, and in line with good practice approved a revised Responsible Investment Policy on 16 September 2021. The revised policy stated that the Committee would seek to monitor key ESG metrics and set targets based on their views and how key metrics evolved over time. The Fund undertook an initial survey which was followed by a workshop which highlighted the challenges around the availability of data to allow some of the SDG's to be measured in a reliable and robust way. Due to existing reporting requirements, the Task Force for Climate Related Financial Disclosure and Paris Aligned SDG's relating to climate were the most developed. The Committee had approved the 6 key SDG's as priorities. Those were SDG 13 – Climate Change, SDG 7 – Affordable and Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health and Well-being and SDG 1- Reduce Inequalities. Appendix 1 to the report detailed the action plan for the commencement of data gathering and reporting for priorities SDG 13 Climate Change and SDG 7 Affordable and Clean Energy. This would allow a baseline position to be established and to ensure the Fund met its agreed responsible investment monitoring requirements and TCFD reporting when required.

9.2 Mr Andrew Singh of Isio summarised the report and responded to Members questions. Mr Singh explained that ESG issues were widely seen as material risks for pension funds, and that climate change, and social risks were increasingly considered in the same way as financial risks. In response to a question regarding added bureaucracy related to climate impact issues, Mr Singh explained that the impact from setting or not setting climate goals could be extremely significant, that climate change was the focus of attention for good and obvious reasons and that other ESG aspects were likely to be subject to considerable focus in the future. Ms Robb added that the monitoring of ESG

matters would be reliant on good communication with fund managers and was something that needed to be managed into the future. In response to a question regarding whether the war in Ukraine had led to increased focus on the Social and Governance aspects of ESG, Mr Singh agreed that the war had brought more attention to Social and Governance issues and explained that the war had resulted in equity markets moving out of Russian holdings.

DECISION

NOTED the action plan detailed in Appendix 1 to the report.

10. **PENSION FUND BUDGET OUT-TURN TO 31 MARCH 2022**

With reference to paragraph 6 of the Minute of the meeting held on 17 March 2022 there had been circulated copies of a report by the Director, Finance and Corporate Governance which provided the Pension Fund Committee and Pension Fund Board with a final out-turn position of the Pension Fund for 2021/22. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards a budget was approved on 4 March 2021 following the recommendations within the CIPFA accounting guidelines headings. The report was the final quarterly monitoring report of the approved budgets. Budgets for 2022/23 were also approved on 17 March 2022. The total expenditure to 31 March 2021 was £6.395m against a budget of £7.160m. This resulted in a budget underspend of £765k. The main element of underspend was within Investment Management fees due to the lower than estimated market valuations which formed the basis of the fee charges. A key objective of the Fund was to pay pension benefits when they became due. Due to the maturing nature of the fund and this requirement the Fund had included within its investment strategy the requirement for income generating assets. The graph in paragraph 5.3 of the report showed the Fund had been able to fully meet its cashflow requirements. Ms Robb presented the report and responded to Members questions. In response to a question regarding future projections, Ms Robb explained that whilst no detailed scenario planning had been carried out, the Fund was a "mature fund" which was diversifying its holdings to ensure adequate income generation and was managing its cash flow management adequately. The Director, Finance and Corporate Governance explained that asset allocation was subject to regular monitoring, with assets switched to more income generating assets classes as required to ensure that pensions were paid when they fell due.

DECISION

AGREED:-

(a) to note the actual expenditure to 31 March 2022; and

(b) to note the cashflow position.

11. **DRAFT ANNUAL REPORT AND ACCOUNTS 2021/22**

With reference to paragraph 10 of the Minute of the meeting held on 10 June 2021 there had been circulated copies of a report by the Director, Finance and Corporate Governance which provided the Joint Committee and Board with an opportunity to scrutinize and approve the Draft Annual Report and Accounts for the Pension Fund for 2021/22 prior to their submission to the External Auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, the list of these are contained in the report. The draft Report and Accounts contained in Appendix 1 fully met these requirements. The report was presented to enable members of both the Pension Fund Committee and the Pension Fund Board to consider the draft Annual Report and Accounts for 2021/22 (the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2022. The draft Report and Accounts were still subject to statutory Audit, which would commence August 2022. Following the statutory Audit process the final Report and

Accounts would be submitted to the joint Committee and Board to review and approve any recommendations. Ms Robb presented the report and responded to Members questions. Regarding whether the Fund should be concerned at the levels of pensions paid out, Ms Robb explained that management of the Fund was aware of the position, and that the focus on income generating assets meant that the issue was managed appropriately. The Director, Finance and Corporate Governance provided further explanation, highlighting the switch to dividend paying assets to ensure that pensions were paid and that the Fund had been classed as a “mature fund” since 2013/14. In response to a question regarding the long-term outlook of the Fund, Ms Robb explained that unless the composition of the Council was changed dramatically, then managing asset allocation and funding levels would have to be managed over time. The Director explained that a key consideration when managing the Fund was to ensure that the Fund had enough assets to pay pensions as they fell due, and that he was confident that sufficient funding levels could be maintained.

DECISION

AGREED to:-

(a) note the Draft Annual Report and Accounts 2021/22; and

(b) approve their submission for review by the External Auditors, Audit Scotland.

12. INFORMATION UPDATE

12.1 There had been circulated copies of a Briefing Paper by the Director, Finance and Corporate Governance which provided Members of the Committee and the Board with an update on a number of areas which were being monitored and areas where work was progressing. Full reports on the individual areas would be tabled as decisions and actions were required.

12.2 Scheme Advisory Board

Ms Robb advised that the last meeting of the Scheme Advisory Board (SAB) had been 20 April, but no papers or bulletins were available from that meeting. The Chairman explained that he had been present at the previous meeting of the SAB. The SAB had not been able to appoint a project manager. The SAB had a full picture of the costs associated with the restructure and were exploring writing a joint letter, if consensus could be reached between the employer and employee representatives, to Ministers. The Chairman did not expect clear guidance until later in the year.

12.3 Stewardship Code

Ms Robb explained that the Fund had submitted an application to become a signatory of the UK Stewardship Code on 29 October 2021. The Fund had received feedback from the FRC, who were responsible for assessing applicants. Despite the FRC declining the submission, the feedback received had been positive. Work on the areas that required improvement was underway, with a view to submitting an application in October 2022. In response to a question regarding the benefits of becoming a signatory, Ms Robb explained that acceptance indicated good stewardship and management of the Fund. It was also anticipated that it may become a statutory requirement in the future.

12.4 Training Opportunities

A number of training opportunities were available in the near future. The full agenda for the DP publishing event was not available, but Ms Robb would circulate once it was.

12.5 Cyber Security Update

Mr Angus explained that on cyber security, Heywood Pension Technologies, the provider of the Pension Fund’s Pension Administration system, had provided a Cyber Review Summary for 2022. A third party security expert had conducted a review, with no critical or high issues identified within the Heywood Cloud infrastructure. In response to a question regarding continuity in the event of a total loss of service, Mr Angus explained

that a mirrored site was in place, and undertook to report back on whether a full systems test was planned.

12.6 **Overseas Life Checks**

Mr Angus explained that at the meeting in March it had been reported that there one member who had not yet returned the life certificate and that payment of pension had been suspended, the certificate had been received this life certificate and payment of pension has been reinstated and the missing periods had been paid to the member.

DECISION

NOTED the briefing paper.

13. **PRIVATE BUSINESS**

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to excluded the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 6 and 8 of Part 1 of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

14. **MINUTE**

The Committee noted the Private Minute of the meeting of 17 March 2022.

15. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITEE**

The private Minute of the meeting held on 28 February 2022 was approved.

16. **INVESTMENT PERFORMANCE QUARTER TO 31 MARCH 2022**

The Committee noted a report by Isio on investment performance

17. **INFRASTRUCTURE PERFORMANCE**

The Committee noted a report by the Director, Finance and Corporate Governance on infrastructure performance.

18. **RESIDENTIAL PROPERTY MANDATE PROCUREMENT**

The Committee approved a report by the Director, Finance and Corporate Governance on the procurement process for a residential property manager.

The meeting concluded at 11.50 am