

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
via Microsoft Teams on Thursday, 15
September 2022 at 10.00 am

Present:- Councillors D. Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, J. Pirone, S. Scott, D. Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, S. Scott, J. Pirone, Mr D Bell, Mr A Daye, Mr M Everett and Ms K M Hughes.

Apologies:- Mr M. Drysdale

In Attendance: Acting Chief Executive, Acting Chief Financial Officer, Chief Officer Audit and Risk, Pensions and Investment Manager, HR Shared Services Manager, Democratic Services Officer (D. Hall).

Also in Attendance: Ms A Fitzpatrick (Audit Scotland), Mr A Ross, Mr A Singh (Isio).

CHAIRMAN

The Chairman welcomed Ms Claire Scott, who had been appointed as an external consultant to the Pension Fund. Ms Scott was undertaking work related to the Fund and its corporate governance.

1. MINUTE

There had been circulated copies of the Minute of the Meeting held on 29 June 2022. A typographical error was present in the Minute of the previous meeting related to the spelling of the Chief Officer, Audit and Risk's name, where "Ms Stacy" was present instead of "Ms Stacey" in paragraph 3.2.

DECISION

NOTED for signature as amended by the Chairman.

2. RISK REGISTER UPDATE

With reference to paragraph 8 of the Minute of the meeting held on 29 June 2022 there had been circulated copies of a report by the Acting Chief Finance Officer which formed part of the risk review requirements and provided an updated full register and proposed management actions to mitigate the risks. The report explained that identifying and managing risk was a corner stone 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 "Local Government Pension Scheme" published by CIPFA. A virtual risk workshop was held on 4 May 2022 with Officers from relevant Departments to review and update the full risk register. The revised Risk Register was approved by the Joint Pension Fund Committee and Pension Fund Board on 29 June 2022. Appendix 1 to the report detailed the risks within the approved risk register which had been identified management actions and the progress of these actions to date. There were no new risks identified during the review. The Pensions and Investment Manager, Ms Kirsty Robb, presented the report and explained that the main elements that had been updated concerned training – which had been circulated to Members of the Pension Fund Committee and the Pension Board, and taken up appropriately. Ms Robb highlighted that the review of the single code had been highlighted as a risk and that Ms Scott hoped to report in December 2022.

DECISION

AGREED to:-

- (a) **note the management actions progress as contained in Appendix 1 to the report;**
- (b) **note new quantifiable risks had been identified since the last review; and**
- (c) **to an update on progress of management actions to be presented in December 2022.**

3. PENSION FUND BUDGET MONITORING TO 30 JUNE 2022

With reference to paragraph 10 of the meeting held on 29 June 2022 there had been circulated copies of a report by the Acting Chief Finance officer which provided the an updated position of the Pension Fund budget to 30 June 2022 including projections to 31 March 2023. 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 17 March 2022 following the recommendations within the CIPFA accounting guidelines headings. The report was the first quarterly monitoring report of the approved budgets. The total expenditure to 30 June 2022 was £0.113m with a projected total expenditure of £7.400m against a budget of £7.296m. This projected a budget variance of £104k which represented the additional modules for the Pension Administration system and an allowance to allow the review work required for the single code as identified in the business plan. Ms Robb presented the report and highlighted that two additional elements required budget allocation, the additional systems administration as detailed in paragraph 5, and the work related to governance that Ms Scott was conducting. Those elements were included in the business plan. Regarding cash flow monitoring, Ms Robb explained that adequate data was present to allow the fund to monitor the flow on a quarterly basis. In response to a question regarding draw down notices from infrastructure managers, Ms Robb clarified that the notices were part of the Fund's commitment to invest in infrastructure, and that investment in this area differed from equity markets in that the investment was not paid in as one lump sum. When the project was in a suitable state of readiness a notice would be issued, after which the Fund would have 10 days to provide the balance. Ms Robb highlighted that the Fund was able to use its cash surplus to deal with draw down notices, and highlighted that it had not been required to disinvest from any equities at inopportune moments as a result.

DECISION

AGREED:-

- (a) **to note the actual expenditure to 30 June 2022; and**
- (b) **the projected out-turn as the revised budget.**

4. COMMUNICATION POLICY REVIEW

With reference to paragraph 6 of the Minute of the meeting held on 16 September 2021, there had been circulated copies of a report which provided a review on the Communication Policy and an update on the review of forms and communication, including annual benefit statements. The report outlined that in line with the Pension Fund business plan the Policy should be reviewed on an annual basis. The report discharged that requirement. Appendix 1 to the report contained the revised Communication Policy which had a number of amendments made to the previously approved version, those were within sections 5 and 6 to update on the improved communication methods that would be deployed by the Fund in response to feedback received in the Stewardship Code application, and recognised the implementation of the Member Self Service portal for the delivery of Annual Benefit Statements. The Pension

Fund website continued to be a useful resource and had been visited on a regular basis. The website continued to be updated to reflect the current Regulations and any relevant documents or news stories were published accordingly. Additionally, the link to the Member Self Service portal had been added. The Pensions Administration team had carried out a review of the supporting information published along with the Annual Benefit Statements and officers continued to encourage scheme members to sign up to the Members Self Service portal. Work continued to review processes and associated Forms, making use of emerging digital technologies where possible.

DECISION

AGREED to:-

- (a) approve the Communications Strategy as set out in Appendix 1 to the report;**
- (b) note the website performance; and**
- (c) note that work had continued on the review of Forms and the Annual Benefit statement documentation had been reviewed.**

5. PENSION ADMINISTRATION SYSTEM

With reference to paragraph 4 of the Minute of the meeting held on 12 September 2019, there had been circulated copies of a report by the Director – People, Performance and Change which sought approval to delegate responsibility for the procurement of the Altair Image and Altair Insights modules, as a supplement to the existing Pensions Administration, for the Scottish Borders Council Pension Fund to the Director – People, Performance and Change. The report explained that in 2019 the Fund had agreed to the procurement and continued use of the Aquila Heywood (now known as Heywood Technologies) Pensions Administration System for a period of five years with the option to extend for a further five year period on the approval of the Joint Committee and Board. Officers had been in discussion with Heywood Technologies over the pricing of those additional modules and had secured discounts for the Fund. The total additional cost for the licence fees, implementation and annual support and maintenance, less the savings for the Data Quality report were £228,100 over the seven years of the contract. With the move to homeworking as a result of the global pandemic, and the Council looking to rationalise the property estate, the Fund needed to consider how it could move away from traditional paper based files for scheme members to a modernised digital solution whilst addressing the deliverable as agreed in the Pension Fund Business Plan. The additional modules would also deliver a significantly improved experience for the Pensions Administration team who would be able to access all of the documents/images regarding a member in a single system. The implementation of the Altair Insights, whilst at an additional cost, did deliver savings on an annual basis in relation to the Pension Regulator Data Quality Report that Heywood Technologies had been providing the Fund. The module would also provide the Fund with access to key reports as it moved towards the outcome and implementation of McCloud regulation changes and the Pensions Dashboard through the provision of out of the box reporting, as well as reporting capabilities that would be used to produce the data required in the Pensions Administration Strategy annual report. Members welcomed the report and highlighted that the modernisation of the Fund's administration, coupled with financial savings, was a positive.

DECISION

AGREED to approve the delegation of responsibility for the additional modules provided by Heywood Technologies to the Director – People, Performance and Change, with additional costs restricted to a maximum of £228,110 over the seven year duration of the contract, subject to indexation on an annual basis for the support and maintenance, including implementation costs for the new modules.

6. RESPONSIBLE INVESTMENT METRICS AND TARGETS REPORT

- 6.1 There had been circulated copies of a report by Isio on Responsible Investment Metrics and Targets with the agenda. The Chairman welcomed Mr Andrew Singh and Mr Alex Ross of Isio to present the report. Mr Singh explained that since the publication of the agenda updated figures had been provided by some fund managers, and that he would highlight the impact of those changes where appropriate. The report followed training for Members on Responsible Investment which had taken place in August 2022. Mr Singh highlighted that the monitoring information in the report was also required for the 2020 UK Stewardship code and was expected to be required to comply with upcoming TCFD regulation. The training for Members had highlighted Responsible Investment considerations, climate science and TCFD Regulations; the importance of monitoring ESG metrics; and the various environmental and climate related metrics that could be monitored. The report detailed the results of the Fund's first annual Responsible Investment Metrics and Targets Assessment. It also documented each investment manager's ability to report on the required metrics and their current position. Those results should be used to guide decision making and action taken as a result could be documented. Mr Singh explained that the four responsible investment metrics that the managers had been asked to report on were carbon emissions, carbon footprint, implied temperature rise, and climate-related engagements. Carbon emissions and carbon footprint had the highest percentage of data, with 70% of managers able to report. 57% of managers could report on climate-related engagements, which was an acceptable rate. Mr Singh expected that the percentage of managers that could report on the implied temperature rise metric, which was the lowest at 31%, would rise at an appropriate rate.
- 6.2 A table outlining how each manager had performed against the metrics was provided in the report. The infrastructure investments made in conjunction with the Lothian Pension Fund was omitted from the table due to its overall small size, and its expected contribution was low. The reporting of data in this area was evolving, and had the potential to drive improvement in a major way. Mr Singh outlined the revised data, highlighting that Permira had gone from 22,726 to 504 with regard to their carbon emissions. M&G had also reduced significantly from 769,006 to 8,000 with regard to carbon emissions. Overall, using the adjusted numbers, the total greenhouse gas emissions for the portfolio was 162,269 metric tonnes. On a normalised basis, the adjusted emissions were 2,324 metric tonnes. The weighted average carbon footprint of the portfolio was 17 metric tonnes per \$1 million investment. The implied temperature rise ranged from 1.8 degrees Celsius to 3.2 degrees Celsius. Normalised implied temperature rise across the managers was 2.5 degrees Celsius. There were 290 individual climate engagements with companies that had been reported. Normalised across the managers there were 48 engagements, with an expectation that this would increase in the future. The biggest emitter in the portfolio was the M&G Alpha Opportunities Fund from an absolute perspective, whilst LGT reported a higher carbon footprint than Permira despite having a lower absolute emissions level. Mr Singh advised that Isio would engage with the largest emitters across the portfolio to assess the direction of travel and to seek a decrease in the emissions, and would push for better data consistency. In response to a question regarding how carbon emissions could be physically weighed, Mr Singh explained that a metric ton was a standard unit of measurement used scientifically across industry and the world. Regarding implied temperature rise projection and monitoring, Mr Singh explained that following the Paris agreement there was a globally agreed goal to restrict temperature rises below 2 degrees Celsius, and that a variety of scenario modelling would have been undertaken by companies which took into account business plans that would predict what pathway they were aligned to. A growing number of ESG data providers and climate modellers were active in the area, with many fund managers engaging specialists to assess the impact and predict a temperature rise based on their available data. Isio were actively engaged in the area to verify the accuracy of those models and to provide independent analysis. In response to a question regarding whether administration costs would increase as a result of regulatory changes, Mr Singh explained that managers would be required to comply with regulation changes for all of their clients, and that it was therefore expected that managers would spread any increased administrative costs across their clients on an equitable basis. Regarding the Bailie Gifford Paris Aligned

Equity Fund, and its categorisation as amber within the report despite being chosen as an investment fund due to its green credentials, Mr Singh advised that the Fund excluded fossil fuels and high emissions from investment, and that the Fund sought to improve the emissions levels of the companies that it invested in. In response to a request, Mr Singh undertook to present progress updates rather than solely provide a snapshot with future reports.

DECISION

NOTED the report.

7. REVIEW OF UK STEWARDSHIP CODE (2021)

With reference to paragraph 5 of the Minute of the meeting held on 15 September 2021 there had been circulated copies of a report by the Acting Chief Financial Officer which sought to review and approve the Stewardship Code application for submission by 31 October. The Stewardship Code was not a statutory requirement, however both the UK Ministry of Housing, Communities & Local Government and the TPR recommended that administering authorities of Local Government Pension Scheme (LGPS) funds should become signatories to the code. The Committee agreed on 15 September 2021 that the Fund should apply to become signatories. An application to become a signatory was submitted to the Financial Reporting Council (FRC) in October 2021 reflecting the Funds activities for 2020 but was unsuccessful. The feedback received was positive and provided guidance of the areas where future applications be improved on to improve the chances of a successful application. The feedback provided by FRC had been reviewed and incorporated into a draft application for 2021 was contained in Appendix 1 to the report. The Local Authority Pension Fund Forum (LAPFF) was an established organisation representing 85 LGPS and 6 LGPS pools across the UK. Membership of LAPFF would enhance the engagement activities of the Fund. A Summary of the benefits of joining LAPFF were contained in Appendix 2 to the report. In response to a question regarding the amount of pensions paid during 2021/22, the Acting Chief Executive clarified that a typographical error was present on page 3 of the Stewardship code submission – where reference to “£265.3m” should read “£26.53m”. The submitted document had been amended accordingly.

DECISION

AGREED:-

- (a) to approve the proposed application for the Fund to become a signatory to the Stewardship code contained in Appendix 1 to the report;**
- (b) the submission to the Financial Reporting Council; and**
- (c) membership of the Fund to the Local Authority Pension Fund Forum.**

8. INFORMATION UPDATE

- 8.1 There had been circulated copies of a briefing paper by the Acting Chief Financial Officer which provided 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. The HR Shared Services Manager explained that a full business continuity exercise for the Scottish Borders Council Pension Administration system had last been carried out in September 2021, and that the 2022 test was planned for September 2022. Officers had completed the questionnaire related to the LGPS Cyber Scorecard offered by AON in collaboration with PLSA. A further update would be provided at a future meeting. The Annual Benefit Statements for the year ended 31 March 2022 had been produced and were available for all active and deferred members. The final results for Cost Cap valuations had been released and suggested no changes to member benefits contribution rates.

- 8.2 With regards to the Scheme Advisory Board (SAB), the Chairman explained that he was appointed Chair of the Scheme in August. As part of a structural review four detailed business cases for different options had been prepared. The project manager whom had carried out that work had declined to continue in post. The estimated cost for the next steps was upwards of £100k, with no clear estimate produced. There remained disagreement between the union and employer sides on how to proceed, and a joint letter to Ministers had not been agreed upon. Extensive discussions had also taken place regarding the national care service proposals. The Chairman confirmed that he had written to the Scottish Government regarding the potential of the reforms to affect the viability of Local Government Pension Schemes as part of his role on the SAB. In response to a question regarding the potential impact of a mooted merger between the Lothian and Falkirk Pension Funds, the Chairman advised that the merger was voluntary in nature and that the SAB were in favour of mergers on a voluntary basis, but not those which were compulsory. Ms Robb highlighted the training opportunities that were available, and, in response to a question regarding diary clashes, explained that training providers scheduled their events in such a way as to avoid clashes but fund managers could unfortunately schedule their events in conflict with others.

DECISION

NOTED the briefing paper.

CHAIRMAN

The Chairman advised the meeting that Ms Kirsty Robb was leaving her post with Scottish Borders Council to take up a role with Borders College. The Chairman extended his gratitude to Ms Robb for her tireless work with the Fund and wished her well in her future endeavours. Those in attendance echoed the Chairman's farewell. Ms Robb advised that she would attend future meetings of the Joint Pension Fund and Pension Board as Borders College's representative on the Pension Board.

9. 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

10. MINUTE

The Committee noted the Private Minute of the meeting of 29 June 2022.

11. INVESTMENT PERFORMANCE QUARTER TO 30 JUNE 2022

The Committee noted a report by Isio on investment performance.

The meeting concluded at 11.35 am