

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
Friday, 22 September 2023 at 1.00pm.

Present:- Councillors D. Parker (Chairman), C. Hamilton, D. Moffat, S. Mountford, J. Pirone, S. Scott, Mr D. Bell (from para 3), Mr A. Daye, Mr M. Drysdale, Mr M. Everett and Ms K M Hughes

Apologies:- Councillors P. Brown, W. McAteer, and Ms K Robb,

In Attendance: Director – Finance and Procurement, Chief Officer – Audit and Risk, HR Shared Services Manager, Democratic Services Officer (D. Hall).

Also in Attendance: Mr A Ross, Mr A Singh, and Mr J Solanki (Isio), Mr J Boyd and Ms S Harold (Audit Scotland)

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 22 June 2023.

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 Meetings of the Pension Fund Investment and Performance Sub-Committee held on 26 June 2023.

DECISION

NOTED for signature by the Chairman.

MEMBER

Mr David Bell joined the meeting.

3. **RISK REGISTER UPDATE**

There had been circulated copies of a report by the Chief Officer – Audit and Risk which provided an update on the refresh of the Pension Fund Risk Register. Effective Risk Management was one of the foundations of effective governance of the Pension Fund. It required a coherent approach to the management of risks that it faced every day through the identification, analysis, evaluation, control and monitoring of risks linked to the business plans and activities of the Pension Fund. The “Managing Risk in the Local Government Pension Scheme” published by CIPFA provided helpful guidance on the process. At the Joint meeting of the Pension Fund Committee and Pension Fund Board on 21 March 2023, the proposal to refresh the Pension Fund Risk Register and the associated timetable were agreed, specifically to: (a) Ensure the risks are appropriate, easily measurable and within their control, (b) Incorporate the relevant risk management recommendations made by the Independent Consultant in December 2022, and by Internal Audit and External Audit during the year 2022/23, (c) Reduce the number of risks on the Risk Register to a manageable amount, and (d) Amend the categorisation of risks to within the Categories: Funding; Investment; Administration; Governance; and Operational. The report set out proposals on the refreshed Pension Fund Risk Register the report. The Chief Officer – Audit and Risk, Ms Jill Stacey, presented the report. Members welcomed the proposed amalgamation of risks as a sensible and prudent course of action.

DECISION

AGREED to:-

- (a) approve the refreshed Pension Fund Risk Register, as contained in Appendix 2 to the report, arising from the proposals to amalgamate and re-categorise the risks on a more manageable scale; and**
- (b) note that the formal full review of the risks in the refreshed Pension Fund Risk Register would continue, and quarterly updates would be presented to the Committee and Board.**

4. FINAL ANNUAL REPORTS AND ACCOUNTS 2022/23

4.1 With reference to paragraph 3 of the Minute of the meeting held on 22 June 2023, there had been circulated copies of a report by the Director – Finance and Procurement which provided an opportunity to scrutinise the final Annual Report and Accounts for the Pension Fund for 2022/23 prior to their submission to the Audit Committee and then Scottish Borders Council for signature. Also circulated with the report included the annual Audit Report from Audit Scotland, the annual report, and accounts for the year to 31 March 2023, a letter from Mr John Boyd, Audit Scotland, and a Letter of Representation (ISA 58) from the Director – Finance and Procurement. The report outlined that 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 those were contained in the report. The final Annual Report and Accounts contained in Appendix 1 to the report fully met those requirements. Audit Scotland had completed their audit and had provided an unqualified independent audit opinion. The Scottish Borders Council's Pension Fund Annual Audit Report highlighted four new recommendations and followed up one recommendation from previous audits. Actions plans had been agreed for each of the recommendations. The report was presented to members of both the Pension Fund Committee and the Pension Fund Board for them to recommend the final Annual Report and Accounts for 2022/23 (the Annual Report) for approval prior to submission to Scottish Borders Council for signature.

4.2 The Chairman welcomed Mr Boyd and Ms Stephanie Harold of Audit Scotland to the meeting to present their report. Mr Boyd expressed his thanks to the Director – Finance and Procurement for her support during the audit process. It was highlighted that whilst the report was listed as a draft, it would be finalised when the accounts were signed following full approval. The final version would be then published on the Audit Scotland website. The audit which had been completed had focused on financial management; financial sustainability; vision, leadership, and governance; the effective use of resources to improve outcomes. Audit Scotland intended to issue an unmodified audit opinion, which indicated that auditors were content that the accounts were free from material misstatements. The audit which had been carried out was risk-based, which meant that the scope of the audit was based on where there was an identified risk of material misstatement. Audit Scotland undertook its audit based on materiality, based on a percentage of gross assets. There were a number of adjustments which were below the reporting threshold and Audit Scotland was comfortable that they remained unadjusted. Direct testing was undertaken regarding the administration of the Fund regarding new starters and general administrative aspects. Mr Boyd explained that the Fund was not unique in the context of its declining investment performance and highlighted that wider economic conditions had impacted upon other Local Government Pension Schemes (LGPS) as well. Regarding the wider financial sustainability of the Fund, it was acknowledged that the Fund was subject to a triennial valuation as at 31 March 2023. The Fund was reporting a net asset position, which indicated that the value of assets held was higher than actuarial valuation of its liabilities. That position was consistent with the approach taken by other LGPS across Scotland. Mr Boyd highlighted the importance of vision, leadership, and governance to the Fund. Ensuring that a robust training programme was in place and followed was essential to the proper management of the Fund. Mr Boyd stressed that the Committee was unique in its demands, and that Members were required be kept up to date on key developments. An agreed Action

Plan, which included several key aspects of work to be undertaken, was contained within the report. Good progress had been made following up on the prior year recommendations, and Mr Boyd highlighted the importance of implementing the Stewardship Code and other recommendations. Management had agreed to implement the use of an action tracker to ensure that no actions were not lost. Members welcomed the report and expressed their thanks to Audit Scotland for undertaking their work. In response to a question regarding whether there was an issue with Members not completing their required training, Mrs Douglas explained that there were some potential timing issues regarding the completion of training. Training matters were being addressed and a log would be kept, which would ensure that all Members had undertaken the mandated training.

DECISION

AGREED to approve to approve the Annual Report and Accounts for 2022/23 for Officer signature and Council approval.

5. BUDGET MONITORING TO 30 JUNE 2023

With reference to paragraph 9 of the Minute of the Meeting held on 22 June 2023, there had been circulated copies of a report by the Director – Finance and Procurement which provided an updated position of the Pension Fund budget to 30 June 2023 including projections to 31 March 2024. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they are to be measured against. To ensure the Fund met the standards a budget was approved on 22 June 2023 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 2023 was £1.596m with a projected total expenditure of £6.967m against a budget of £6.953m. That projected a budget variance of £14k which represented the additional actuary costs for contribution rate modelling. The Director presented the report and highlighted that investment management fees were charged on a quarterly basis in arrears.

DECISION

AGREED:-

(a) to note the actual expenditure to 30 June 2023; and

(b) the projected out-turn as the revised budget.

6. COMMUNICATION STRATEGY REVIEW

With reference to paragraph 4 of the Minute of the meeting held on 15 September 2022 there had been circulated copies of a report by the Director – People, Performance and Change provided an update on the review of forms and communication, including annual benefit statements. 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 Communication Policy, there had been no changes made to the policy following review. When the review was carried out last year there was an addition made for the Fund to produce an update newsletter in June and December, that had not been achieved to date and was something that officers would look to address this year. The Pension Fund website continued to prove 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. Officers continued to encourage scheme members to sign up to the Members Self Service portal, with wording provided to all Fund Employers to use when advising that the Annual Benefit Statements were published ahead of the deadline date. Work continued to review processes and associated Forms

making use of emerging digital technologies wherever possible. The HR Shared Services Manager, Mr Ian Angus presented the report and highlighted that it had not been possible to issue the update newsletter in line with the required timescales. The newsletter had been published in December, but there had been no follow up publication. Councillor Mountford, seconded by Councillor Moffat, proposed that the requirement to publish an update newsletter be changed from biannual to annual. Members unanimously agreed the proposal. Mrs Douglas highlighted that all of the required paperwork associated with the internal Pension Investment Manager post had been completed, and that it was expected to be advertised in the coming weeks. In response to a question regarding the distribution of the newsletter, Mr Angus explained that it would be sent out via email and published on the website. In response to a question regarding capacity, Mrs Douglas confirmed that issues related to capacity stemmed from staffing issues.

**DECISION
AGREED to:**

- (a) note the Communication Strategy as set out in Appendix 1 to the report;**
- (b) note the website performance:**
- (c) note that work had continued on the review of Forms and the Annual Benefit statement documentation has been reviewed; and**
- (d) amend the requirement to publish the update newsletter from biannually to annually.**

7. RESPONSIBLE INVESTMENT METRICS

There had been circulated copies of a Responsible Investment Project Plan from Isio. The Chairman welcomed Mr Andrew Singh of Isio to present the plan. Mr Singh explained that the Plan was similar to one that had been circulated 12 months prior. The different blocks in the Plan represented key work that the Committee had to consider as part of its responsible investment considerations. Mr Singh highlighted that work on the UK Stewardship Code submission was ongoing and noted that a report was to be presented later in the meeting. The implementation statement, required as part of the UK Stewardship Code, was being finalised and would form part of the submission. Quarter 3 2023 would involve the assessment of the RI metrics and targets and would assess whether there had been improvements compared to the previous year. Quarter 1 2024 would involve an annual review of investment manager's sustainability efforts. Mr Singh highlighted that the consideration at Quarter 2 2024 would be on TCFD and the associated reporting requirements. TCFD remained under consultation in England and Wales, and it was unclear when reporting requirements would come into force.

**DECISION
NOTED.**

8. REVIEW OF UK STEWARDSHIP CODE (2022/23 SUBMISSION)

With reference to paragraph 7 of the Minute of the meeting held on 15 September 2022 there had been circulated copies of a report by the Director – Finance and procurement which reviewed and sought approval of the Stewardship Code application for 2022/23, for submission to the Financial Reporting Council, by 31 October 2023. The report explained that the Stewardship Code is not a statutory requirement however both the UK Ministry of Housing, Communities & Local Government and the TPR recommended that administering authorities of LGPS funds should become signatories to the code. The Committee agreed on 15th Sept 2021 that the Fund should apply to become signatories. The Fund was successfully confirmed as a signatory, by the Financial Reporting Council (FRC) in February 2023, following a successful submission the previous October. To maintain ongoing status as a signatory, annual submissions, detailing progress, and further improvement, were required. A draft for the year 2022/23 had been produced for

submission by 31st October 2023, subject to the Committee's approval. The draft application was contained in Appendix 1 to the report. The submission responded to: (a) feedback received from the FRC regarding its last (successful) submission, outlining areas for further improvement, and (b) the FRC's guidance for 2022/23 applications, stipulating an increased emphasis on strong examples of stewardship activity and outcomes. Work by Isio, preparing an Implementation Statement to support the Fund's preparation for TCFD reporting, would also provide valuable evidence to support this submission. It was intended that, once completed, the data from this exercise would be included, ahead of the submission date to the FRC, of 31st October.

**DECISION
AGREED:-**

- (a) to approve the proposed application for the Fund to maintain its signatory status to the Stewardship Code as contained in Appendix 1 to the report;**
- (b) the submission of the application to Financial Reporting Council;**
- (c) that the Director of Finance and Procurement be given delegated authority to make amendment to the submission, after the Committee's approval of the documents, to accommodate additional evidence being collected and prepared by Isio; and**
- (d) to note that blue highlighting within the draft submission denoted references to the Implementation Statement evidence that would be integrated into the report when it was completed. That was for illustrative evidence and would not materially change the information in the main body of the submission.**

9. INFORMATION UPDATE

There had been circulated copies of a briefing paper by the Director – Finance and Procurement which provided an update on a number of areas which were being monitored and areas where work was progressing. Full reports on individual areas would be tables as decisions and actions as required. The Director – Finance and Procurement and Mr Ian Angus presented the update and responded to Members questions. In response to a question regarding the PSLA annual conference in Manchester, Mr Solanki of Isio explained that the annual conference covered a much wider subject matter than other, more investment focused, conferences. Regarding training, Mr Solanki explained that the feedback from a training day held at SBC Headquarters in May had been positive and suggested that an annual session could prove useful.

**DECISION
NOTED**

10. 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

11. MINUTE

The Committee considered the Private Minute of the Meeting held on 22 June 2023.

12. PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE

The Committee considered the Private Minute of the Meeting of the Pension Fund Investment and Performance Sub-Committee held on 26 June 2023.

13. **Q2 2023 INVESTMENT PERFORMANCE REPORT**
The Committee noted the Quarter 2 Investment Performance report by Isio.
14. **MACQUARIE INFRASTRUCTURE DEBT (SUB-INVESTMENT GRADE) FUND UPDATE**
The Committee considered noted an update provided.

The meeting concluded at 2.30 pm.