

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in via MS Teams on Thursday, 17 March
2022 at 2.00 pm

Present:- Councillors D Parker, J Brown, G Edgar, D Moffat, S Mountford Mr D Bell, Mr A. Daye, Mr M Drysdale, Mr M Everett, Ms L Ross.
Apologies:- Councillors S Aitchison, C Hamilton, S Scott, Ms H. Robertson
In Attendance: Director Finance & Corporate Governance, Pensions and Investment Manager, HR Shared Services Manager, Chief Officer Audit & Risk. Democratic Services Team Leader.
Also in Attendance: Ms A. Fitzpatrick (Audit Scotland), Ms A. Ross and Mr A Singh, Isio.

1. URGENT BUSINESS

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to keep Members informed.

2. INVESTMENTS IN RUSSIA

2.1 The Director of Finance and Corporate Governance gave an update on the impact of the Russian invasion of Ukraine. Mr Robertson advised that the Russian invasion of Ukraine was clearly a humanitarian tragedy and would have widespread economic consequences. Officers had been working with the Councils advisers to try to make an early assessment of the likely impacts on the Fund and initial conclusions were:

- Global equity markets had already fallen, and while they had partially recovered, they remained volatile.
- From a macro-economic perspective, higher medium term European, oil, gas and food prices alongside financial market disruption and sanctions on Russia were likely to lead to an increase in already elevated inflationary pressures, which would in turn weaken the outlook for economic growth.
- A period of prolonged instability, with impacts for Europe in particular, was now clearly a potential outcome.
- The situation was uncertain, and changing rapidly, but this could negatively affect asset prices right across the Councils Pension Fund portfolios.

2.2 Stock specific exposure

The Fund owned shares in 2 Russian companies within one of its global equity portfolios. These holdings had reduced over recent months as a result of sales activity and market movements and as at close on 14th March had been fully written down to zero. The Fund also held investments within a pooled alternatives fund. The funds held were within emerging market bonds and private equity. The value of these investment represented 0.24% invested within the pooled fund. The total investment currently invested in Russia represented less than 0.01% of the overall Fund. With the closure of the Russian Stock market and the illiquid nature of some of the investments managers were unable to disinvest these funds.

2.3 Underlying exposure

The Fund invested globally across a range of asset classes and investment markets. This diversification spread risk, but it also created a complex network of commercial and

economic exposures which would all be affected by these events to a greater or lesser extent. Officers were liaising with the Fund investment managers as they assessed the impact of macroeconomic pressures as well as potential wider ramifications and outcomes on companies and assets within the Fund's portfolios.

- 2.4 It was noted that none of this would have any impact on the ability to pay pensions. It might reduce investment returns for a period, but the Fund was a long-term investor and remained well funded. Members welcomed the reassurance. However, concerns regarding the impact that China invading Taiwan were also raised. Mr Robertson was unable to comment on the likely impact and suggested that a wider discussion on investments be held at a future meeting.

DECISION

NOTED the current position with regard to Russian Investment.

3. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 14 December 2021.

DECISION

NOTED for signature by the Chairman.

4. **FUND STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES 2022**

There had been circulated copies of a report by the Director Finance and Corporate Governance proposing the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2022. Both these documents required to be kept under review and be updated and approved annually in line with the Pension Fund's business plan. The report explained that the Pension Fund was required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles and Funding Strategy Statement. Appendix A to the report contained the Funding Strategy Statement and Appendix B contained the revised Statement of Investment Principles (SIP) for approval.

DECISION

AGREED to:-

- (a) **note the Funding Strategy Statement set out in Appendix A to the report and;**
- (b) **approve the Statement of Investment Principles set out in Appendix B to the report.**

5. **RISK REGISTER UPDATE**

With reference to paragraph 3 of the Minute of 14 December 2021, there had been circulated copies of a report by the Director Finance and Corporate Governance which formed part of the risk review requirements of the Pension Fund. It provided the Members of the Pension Fund Committee and Pension Board with an update of the progress of the actions taken by Management to mitigate the risks previously identified, a review of any new risks and highlighting changes to any of the risks contained in the Risk Register. 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 had been held on 23 April 2021 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 10 June 2021 and updates on the actions were presented on 16 September 2021 and 14 December 2021. 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. It was noted that international tensions caused by the conflict between Russia and Ukraine might have an effect on both UK inflation and the performance of global investment markets. The Fund held very small investments in Russia and none in Ukraine but due to the interconnected global nature of companies, the Fund might still be affected. Increasing inflation would have a direct effect on the Fund's liabilities. As explained earlier in the meeting Officers were working with the Fund's managers to assess and monitor the effect on the Fund of the conflict in Ukraine, and should any material effects impacts on the Pension Fund be identified these would be captured in future iterations of the risk register along with any mitigating actions. There were no new risks identified during the review.

DECISION

(a) NOTED:-

(i) the management actions progress as contained in Appendix 1 to the report; and

(ii) no new quantifiable risks had been identified since the last review.

(b) AGREED that a full risk review be undertaken and presented to the Committee in June 2022.

6. PENSION FUND BUDGET MONITORING TO 31 DECEMBER 2021

With reference to paragraph 6 of the Minute of 14 December 2021, there had been circulated copies of a report by the Director Finance and Corporate Governance Regulatory providing an update on the Pension Fund budget to 31 December 2021 including projections to 31 March 2022. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and sets out the standards that 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. This report was the third quarterly monitoring report of the approved budgets. The total expenditure to 31 December 2021 was £0.785m with a projected total expenditure of £7.160m against a budget of £7.147m. The projected budget variance of £13k was accounted for by the workshop and questionnaire to allow the Fund to agree ESG objectives and thus further enhance its ESG governance. The estimated budget for 2022/23 was estimated at £7.288m which included allowances for the work required by McCloud and new costs for ESG objective measurement and TCFD reporting requirements.

DECISION

AGREED:-

(a) to note the actual expenditure to 31 December 2021;

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

(c) to note the cashflow position; and

(d) the proposed budget for 2022/23

7. EXTERNAL AUDIT PLAN 2021/22

There had been circulated copies of the External Audit Plan 2021/22 for the Scottish Borders Council Pension Fund prepared by Audit Scotland. Ms Amanda Fitzpatrick from Audit Scotland was present at the meeting and presented the report. The report summarised the work plan for the 2021/22 external audit of Scottish Borders Council Pension Fund (the Fund). Ms Fitzpatrick highlighted the main elements of their work which included:

- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- an audit of the annual accounts and the provision of an Independent Auditor's Report which included an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit

The report explained that the coronavirus (Covid-19) pandemic had had a significant impact on public services and public finances, and the effects would be felt well into the future. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continued to assess the risks to public services and finances from Covid-19 across the full range of their audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remained paramount. Changes in their approach might be necessary and where this impacted on annual audits, revisions to this Annual Audit Plan might be required. In response to a question from Councillor Edgar, both Ms Fitzpatrick and Mr Robertson commented on the assessment of materiality which allowed for the accounts to still give a full and fair view despite any errors under the set figure of £9.5m being found.

DECISION

AGREED to approve the Scottish Borders Council Pension Fund External Audit Annual Plan 2021/22.

8. RESPONSIBLE INVESTMENT - OBJECTIVE AND METRICS SETTING

There had been circulated copies of a report by the Director Finance and Corporate Governance seeking approval for the responsible investment objective and metrics for the Pension Fund in line with the Fund's Responsible Investment Policy. The report explained that the Pension Fund as part of its fiduciary duties was required to ensure appropriate consideration is given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interest of the scheme beneficiaries. The Committee and Board, to ensure these fiduciary duties were met, and in line with good practice, approved a revised Responsible Investment Policy on 16 September 2021. The revised policy stated the Committee would seek to monitor key ESG metrics and look to set targets based on their views and how key metrics evolve over time. To take forward this action a survey was undertaken with all Committee and Board members to identify the key priorities areas with the UN Sustainable Development Goals (SDG's). The results from the survey were used as the basis of a workshop on 28 February 2022. The results of the survey were detailed in the Appendix to the report. The workshop highlighted challenges around the availability of data to allow some of the SDG's to be measure in a reliable and robust way. Due to existing reporting requirements the Task Force for Climate Related Financial Disclosure (TCFD) and Paris Aligned SDG's relating to climate were the most developed. The workshop agreed 6 key SDG's as priorities. These were SDG 13 – Climate Change, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities. Due to development and current availability of data it was proposed SDG13 Climate change and SDG 7 Affordable & clean energy were taken forward with fund managers as an initial priority. This would allow a baseline position to be established prior to targets being set. The social SDGs SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities were currently not able to be measured due to poor data availability. It was proposed the Fund monitor on an annual basis the improvements to data to enable future objective setting and monitoring.

DECISION

AGREED:-

- (a) to approve SDG 13 – Climate Change, SDG 7 – Affordable & Clean Energy, SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities, as the key responsible investment objectives of the Fund;**
- (b) to note the output of the survey and workshop on 28 February;**
- (c) that work now commence with fund managers on the assessment and collection of data for SDG13 Climate change and SDG 7 Affordable & clean energy;**
- (d) to note further reports would be presented to Committee on the results of this exercise to allow targets to agreed; and,**
- (e) to note that an annual review would be undertaken on the progress of development of further information to allow SDG's SDG 1 – No Poverty, SDG 2 – Zero Hunger, SDG 3 – Good Health & Well-being and SDG 10 – Reduce Inequalities to be progressed as quickly as practicable.**

9. INFORMATION UPDATE

There had been circulated copies of a briefing paper by Director Finance and Corporate Governance providing an update on a number of areas which were being monitored and where work was progressing. These included Cyber security, overseas life checks, the Scheme Advisory Board, training opportunities and future meetings. Full reports on individual actions would be tabled as decisions and actions were required. Councillor Mountford provided an update on the Scheme Advisory Board. The way forward had not been agreed in February and following discussions it had been agreed to refer the matter back to Ministers to get guidance. The Chairman advised that he understood the work required to provide a business case for each option could take 2 years and be very costly. There was also disagreement with Unison wanting the merger but other unions not with the GMB suggesting no further action. The Project Manager had also resigned so there would be a pause before more information was available on the way forward.

DECISION

NOTED the briefing paper.

10. SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL PLAN 2022/23

There had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval of the Internal Audit Annual Plan 2022/23 for the Scottish Borders Council Pension Fund to enable the Chief Officer Audit & Risk to provide the required audit 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 the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to set out the areas of Internal Audit activity, consistent with the objectives of the Pension Fund. A fundamental role of the Internal Audit function was to provide senior management and members with independent and objective assurance, which was designed to add value and improve the organisation's operations. In addition, the CAE was also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment. The proposed Internal Audit Annual Plan 2022/23 for the Pension Fund contained in the report set out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework. There were resources currently in place to achieve the Internal Audit Annual Plan 2022/23 for the Pension Fund and to meet its objectives.

DECISION

AGREED to approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2022/23.

11. **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.
12. **MINUTE**
The Committee noted the Private Minute of the meetings of 14 December 2021.
13. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**
The Private Minute of the meeting held on 27 September 2021 was approved.
14. **Q4 2021 INVESTMENT PERFORMANCE**
The Committee noted a report by Isio on investment performance.
15. **RESIDENTIAL PROPERTY MANDATE PROCUREMENT**
The Committee approved a report by the Director Finance and Corporate Governance.

The meeting concluded at 3.35 pm