

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
Tuesday, 13 December 2022 at 10.00am.

Present:- Councillors D. Parker (Chairman), P. Brown, C. Hamilton, W. McAteer, D. Moffat, S. Mountford, W. McAteer, J. Pirone (from paragraph 7), S. Scott, Mr D. Bell, Mr A. Daye (from paragraph 8), Mr M. Drysdale, Ms K. Robb (from paragraph 7), and Ms L. Stephen.

Apologies:- Ms K M Hughes

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

Also in Attendance: Mr A Ross and Mr A Singh (Isio)

1. MINUTE

There had been circulated copies of the Minute of the Meeting held on 19 October 2022. Mr Drysdale advised that he had erroneously been listed as an apology in the Minute of the meeting. It was agreed to amend the Minute accordingly.

DECISION

NOTED for signature by the Chairman as amended.

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 the report by the Acting Chief Financial Officer which formed part of the risk review requirements and provided the Members of the Pension Fund Committee and Pension Board with a schedule that detailed the updated risks and proposed management actions to mitigate the risks. 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 and then reviewed on the 15th September 2022. Appendix 1 to the report detailed the risks within the approved risk register which had been updated at the end of quarter 2, identified management actions and the progress of these actions to date. Four actions had been updated following the introduction of the Overpayments Policy (3.1, 5.4, 5.6 and 6.1) with the only red risk also being reviewed and updated (6.2). There were no new risks identified during the review. The Acting Chief Financial Officer, Ms Suzy Douglas, presented the report and highlighted that the report produced by Ms Clare Scott, an independent advisor, had expressed views on matters related to risk management. The Chief Officer – Audit and Risk, Ms Jill Stacey advised that the terms of risk reviews followed the risk management policy which had been introduced in December 2021. It had been agreed then that the approach to risk and risk review would be proportionate to the risk which each entity faced. Risks, as classified on the Red, Amber, Green matrix, were reviewed at different frequencies. Red risks were reviewed on a quarterly basis, amber every 6-months, and green annually. Ms Stacey and the Corporate Risk Officer were working closely with Ms

Douglas and the HR Shared Services Manager to ensure risks were adequately reviewed. In response to a question regarding details on specific action taken as part of risk review and management, Ms Stacey explained that the report was a high level summary which outlined that risk management practises were being applied and the report provided a summary for oversight purposes. The Acting Chief Executive confirmed that a full review of the risk register was carried out on an annual basis and was presented to the Committee, and that a session could be organised which could assess the most strategic and significant risks faced by the Pension Fund. The full Risk Register could be made available to Members.

DECISION

AGREED:-

- (a) to note the management actions progress as contained in Appendix 1 to the report;**
- (b) to note no new quantifiable risks had been identified since the last review; and**
- (c) to an update on progress of management actions to be presented, based on the Quarter 3 position, in March 2023.**

3. BUSINESS PLAN PERFORMANCE UPDATE

With reference to paragraph 7 of the Minute of the Meeting held on 29 June 2022 there had been circulated a report which provided an update on delivery of the actions within the approved Business Plan. The 2022/23 – 2024/25 Business Plan for the Pension Fund was approved by the Committee/Board on 29 June 2022. Included within the plan were key objectives and actions with target dates. A summary of the progress on the actions were included in Appendix 1 to the report. As part of the risk register update approved at Committee/Board on 15 September 2022 it was agreed that a mid-year progress report on the business plan actions would be presented to Members at the December 2022 meeting and a further progress report and update at the June 2023 meeting. There were 25 key tasks due for completion during 2022/23. As detailed in Appendix 1 to the report, all actions were progressing or were complete with exceptions and delays in delivery outlined in the report. Ms Douglas presented the report and highlighted that the amendments to the plan largely related to changed completion dates which had arisen as a result of resources challenges. In response to a question regarding whether the resource challenges were temporary or systemic, Ms Douglas confirmed that the position of the Pensions and Investment Manager had not been filled following the departure of Ms Kirsty Robb whilst the report from Ms Clare Scott was being prepared. It was hoped that progress would be made recruiting to that post. The HR Shared Services Manager confirmed that the challenges which had been present from an administration perspective related to staff changes, and the delayed pay award had made a considerable impact on workload. Ms Douglas confirmed that technical support was being provided by Isio to the finance team, and had proven to be helpful. The Chief Officer, Audit and Risk confirmed that work was ongoing related to evaluate risk implications related to the business plan, and would form part of the annual assurance report.

DECISION

AGREED:-

- (a) to note the progress of the 2022/23 actions within the Business Plan; and**
- (b) the revised target dates for the actions set out in the report.**

4. **PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2022**

With reference to paragraph 3 of the Minute of the Meeting held on 15 September 2022, there had been circulated copies of a report by the Acting Chief Financial Officer which provided an update position of the Pension Fund budget to 30 September 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 guide lines headings. The report was the second quarterly monitoring report of the approved budget. The total expenditure to 30 September 2022 was £1.186m, with a projected total expenditure of £7.4m. Following the amendment to the revised budget last quarter, there was no current requirement for any further amendments. Ms Douglas explained that whilst expenditure appeared to low for the mid-year point, investment management charges were made in arrears on a quarterly basis, and the charges for the second quarter had not been included in the figure of £1.186m. In response to a question regarding how the Fund's management fees compared to other Local Government Pension Schemes, the Acting Chief Executive explained that the Fund did not have in house investment management, and had allocated investments to a stable of fund managers. Investment costs would likely be above average, however the decision to appoint fund managers lowered the risk profile of the Fund and provided good returns. Mr Andrew Singh of Isio confirmed that when a new investment manager was appointed by the Fund overall management fees would be considered throughout the process.

DECISION

AGREED to:

(a) **note the actual expenditure to 30 September 2022; and**

(b) **note the projected out turn position to 31 March 2023.**

5. **OVERPAYMENT POLICY**

With reference to paragraph 3 of the Minute of the Meeting held on 19 October 2022 there had been circulated copies of a report by the Director – People, Performance and Change which sought approval for the adoption of the Overpayment Policy for the Fund. The policy formalised practices which had been in place within the Fund and addressed the recommendation within the 2021/22 Annual Audit Report from Audit Scotland. Overpayment of Pension was not something that any party wished, however, it had to be recognised that this could occur and it was appropriate that the Fund had adopted a Policy that outlined the steps and actions that should be taken. It was also important to recognise that there were different potential causes for overpayment which had different recovery options. These were all outlined within the Overpayment Policy which could be found at Appendix 1 to the report. The recovery of any overpayment would be done in a fair and equitable manner and where recovery was to be made this would be sought without any undue delay. If it was appropriate, determined on a case by case basis, legal advice would be sought. The Fund would ensure that there were clear processes in place to prevent and investigate any potential fraudulent activity. There may be circumstances where it is appropriate to write off an overpayment rather than seeking to make recovery, this would generally be where the overpayment was less than £20.00 and it did not make economic sense to recover on the grounds of the cost of Officers time and associated costs, such as postage, against the amount outstanding. The write off values and authority to write off had been set in line with the Council's Financial Regulations. The Pensions Team had established controls in place for monitoring overpayment balances and repayments, those controls were subject to audit

examination as part of the Annual Audit carried out. The Team also took a pro-active approach to the prevention of overpayments through internal controls and the use of Tell Us Once to allow for early reporting of the death of scheme members. In response to a question regarding the frequency of reclaimed overpayments exceeding £50k, the HR Shared Services Manager explained that the majority of overpayments tended to be between £20 and £5000, and that he was not aware of many overpayments above £5000 since he had worked in the Pensions Team.

DECISION

AGREED to approve the Overpayment Policy as set out in Appendix 1 to the report.

6. RESPONSIBLE INVESTMENT MONITORING

With reference to paragraph 9 of the Minute of the Meeting held on 29 June 2022, there had been circulated copies of a previously agreed Responsible Investment Monitoring Project Plan by Isio. Mr Singh explained that following the Committee was holding Meeting number 4 on the Plan, which concerned ESG/Climate impact assessment. A number of actions outlined in the project plan had been completed, including agreeing a formal investment policy, key responsible investment beliefs, and deciding on which metrics were to be used. A further meeting on Strategy and Risk Management would be held in June 2023 which would assess what ESG issues meant for risk, and would cover climate scenario modelling, look at different climate outcomes, and what was required as a result of TCFD regulations.

DECISION

NOTED

MEMBER

Councillor Pirone, and Ms Kirsty Robb joined the meeting during the discussion of the item below.

7. TASKFORCE FOR CLIMATE RELATED DISCLOSURES GOVERNANCE POLICY

There had been circulated copies of a Climate Governance Policy by Isio with the agenda. The Policy proposed to supplement and expand upon the Statement of Investment Principles, Responsible Investment Policy, Fund Strategy Statement, and the wider Corporate Governance and Corporate Social Responsibility position with a detailed proposal for the roles and responsibilities for managing climate-related risks and opportunities. The Chief Officer – Audit and Risk highlighted that following changes to the Scheme of Administration agreed at a meeting by Scottish Borders Council at its meeting held on 25 August 2022, the Audit and Scrutiny Committee had been separated into the Audit Committee, and the Scrutiny and Petitions Committee. Mr Singh undertook to amend the diagram to reflect the changes.

DECISION

AGREED to approve the Policy.

MEMBER

Mr A Daye joined the meeting during the discussion of the item below.

8. THE PENSIONS REGULATOR SINGLE CODE REVIEW AND RECOMMENDATIONS

- 8.1 There had been circulated copies of a report by Clare Scott, an Independent advisor who had undertaken a review of the Governance of the Scottish Borders Council Pension Fund during October and November 2023. The Acting Chief Executive explained that Ms Scott had been unable to attend the meeting due to another client meeting, and presented the key findings of the review. A briefing session had been held

to allow members to scrutinise the review and recommendations. The analysis of the Fund was based on a desk-top review of pension fund documentation, observations of meetings and conversations with individuals involved in the Fund's governance. It was prompted by the increased scrutiny of Local Government Pension Scheme funds and increasing standards of governance introduced by legislation and the Pensions Regulator. The key findings of the report included that the Fund had a number of good practices in place including that the duties of the Pension Fund Committee were solely for the Pension Fund, and membership of the Committee had been relatively stable. The report highlighted that the Pension Board met separately, directly after the Committee to consider whether the Board wished to raise any concerns with the Committee. A significant amount of time was spent by the Committee and Sub-Committee on pension matters in comparison with other LGPS funds. For a relatively small fund, the investment arrangements were very complex. The Fund had a rigorous approach to training for members of the Committee and Board. Officers were proactive in forecasting agendas for Committee meetings and the meeting agendas included a wide range of pension matters. The Fund's annual report was comprehensive and the risk register was reviewed quarterly by the Committee and Board. Comprehensive policies and strategies were in place for most functions of the pension fund, including a business plan and budget.

- 8.2 The report outlined a number of recommendations which Ms Scott had made which concerned matters related to Governance Structure and Decision Making; Objectives and Planning; Outcomes and Oversight; and Risk Management and Audit. The Acting Chief Executive highlighted the Governance Structure and Decision Making recommendations, which included that the Fund should ensure that the roles of the Committee and Board members were distinct to avoid potential conflicts of interest; that the Pension Board's constitution should be reviewed and updated; the remit of the Committee should include the assessment of the effectiveness of the Fund's systems of control, including agreeing internal audit plans and reviewing the outcome of internal audits; that the Fund should review the make-up and business of the Investment Sub-Committee; the approach to training could be more specific to the needs of members; resource requirements should be assessed to ensure functions were efficient and effective; and the Fund should consider the appointment of a single officer who had line management responsibility for all pension functions and spent the majority of their time on pension matters. The Acting Chief Executive highlighted that the appointment of a single officer could present a challenge due to the structure of the Council and its level of integration. Regarding Objectives and Planning, the Fund should put in place new policies for the management of conflicts of interests and reporting of breaches; the Pensions Administration Strategy should be expanded to include standards for internal services provided to pension fund members to ensure performance was monitored; a data improvement plan was suggested; and the Fund should regularly review the risks and resources of maintaining two systems for pensioner payroll. In the context of Outcomes and Oversight, Ms Scott had recommended that benchmarking of administration and investment should be undertaken on a regular basis, including cost and performance, with results reported to the Committee; and a large number of investment managers/mandates should be consolidated to a smaller number of asset classes. Risk Management and Audit recommendations included the Fund documenting how it complied with the Pensions Regulator Codes, and included the risk of non-compliance on the risk register; and the Fund's internal audit should be expanded to cover the Fund's specific risks. The Acting Chief Executive suggested that Officers undertake work to produce an action plan to address the recommendations suggested by Ms Scott and report back with formal recommendations to the Committee at a future meeting. Members agreed to that approach. The Chief Officer, Audit and Risk explained that some actions would require officers to assess the recommendations and outcomes in the short term, and proposed that actions were linked to risks to ensure that

the added value of implementing mitigations actions were realised. Ms Stacey was happy to consider additional assurance related to the Pension Fund as part of the work related to the Action Plan. The annual internal audit plan would be brought to the March meeting of the Committee as planned. Internal discussions would take place on resourcing internal audit services. The Acting Chief Executive highlighted that no major, unexpected concerns had been brought to light by the report, highlighted that the picture in the report as it related to the number of mandates did not necessarily reflect the operation of the Fund, and undertook to include timescales within the Action Plan. Members highlighted that the positives in the report should be emphasised

DECISION

AGREED to note the report and the course of action proposed by Officers.

9. INFORMATION UPDATE

There had been circulated copies of a Scheme Advisory Board (SAB) Bulletin by the Scottish Local Government Pension Scheme with the agenda. The Chairman explained that a workshop for SAB members had recently been held. The structural review remained paused. Ongoing developments which had the potential to impact upon LGPS had been considered, such as the proposed National Care Service, and regulatory changes. The Chairman expected that the review would remain paused for at least one year whilst work related to the National Care Service progressed. A letter would be sent to the Scottish Government Minister to seek guidance on the review.

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. QUARTER 3 INVESTMENT PERFORMANCE REPORT

The Committee noted the Quarter 3 Investment Performance report by Isio.

12. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE IMPACT ASSESSMENT 2022 REPORT

The Committee noted the Environmental, Social, and Governance Impact Assessment 2022 report.

The meeting concluded at 11.40 am.