
REVIEW OF UK STEWARDSHIP CODE (2022/23 Submission)

Report by Director of Finance & Procurement

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 September 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to review and approve the Stewardship Code application for 2022/23, for submission to the Financial Reporting Council, by 31 October 2023.**
- 1.2 The Stewardship Code is not a statutory requirement however both the UK Ministry of Housing, Communities & Local Government and the TPR recommends 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.
- 1.3 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, are required. A draft for the year 2022/23 has been produced for submission by 31st October 2023, subject to the Committee's approval. This draft application is contained in Appendix 1.
- 1.4 This submission responds 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, will also provide valuable evidence to support this submission. It is intended that, once completed, the data from this exercise will be included, ahead of the submission date to the FRC, of 31st October.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee:**
 - (a) Approves the proposed application for the Fund to maintain its signatory status to the Stewardship Code, contained in Appendix 1**

- (b) Agrees the submission of this application to Financial Reporting Council**
- (c) Agrees that the Director of Finance & Procurement be given delegated authority to make amendments to this submission, after the Committee's approval of the document, to accommodate additional evidence, currently being collected and prepared by Isio.**
- (d) Notes that blue highlighting within the draft submission denotes references to the Implementation Statement evidence, that will be integrated into the report when it is completed. This is illustrative evidence and will not materially change the information in the main body of this submission**

3 BACKGROUND

- 3.1 The UK Stewardship Code sets high standards for those investing on behalf of UK savers and pensioners. The Code represents a best practice standard for asset owners and asset managers, with the aim of improving stewardship practices, and setting higher standards reflective of the changing expectations of investors. The requirements of the revised Code for asset owners and managers extend to establishing clear stewardship objectives, integrating stewardship in investment strategies, and adhering to clearer and more comprehensive reporting requirements.
- 3.2 The Stewardship Code is not a statutory requirement however both the UK Ministry of Housing, Communities & Local Government and the TPR recommends that administering authorities of LGPS funds should become signatories to the code.
- 3.3 The Committee agreed on 15th Sept 2021 that the Fund should apply to become signatories. Whilst the Fund's initial application to become a signatory was not successful, feedback from the FRC helped to revise the submission and the second application, in October 2022, was successful. The FRC confirmed that the Fund was a signatory to the Code in February 2023.

4 UK STEWARDSHIP CODE 2020: ONGOING COMMITMENTS FOR SIGNATORIES

- 4.1 To maintain signatory status, The Stewardship Code requires all signatories to submit annual reports to the FRC, illustrating ongoing improvements and activity in stewardship practice and reporting.
- 4.2 This re-application process is the same as for initial applications and requires explaining and evidencing stewardship activity and outcomes across the Code's 12 principles. This is shown in the table below. Following each application, the FRC provides feedback to signatories, to help guide subsequent activity, so that full and compliance with the stewardship standards the Code requires can be achieved and maintained.

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS			
Purpose and governance	Investment approach	Engagement	Responsibilities
1. Purpose, strategy and culture	6. Client and beneficiary needs	9. Engagement	12. Exercising rights and responsibilities
2. Governance, resources and incentives	7. Stewardship, investment and ESG integration	10. Collaboration	
3. Conflicts of interest	8. Monitoring managers and service providers	11. Escalation	
4. Promoting well-functioning markets			
5. Review and assurance			

- 4.3 Following the Fund’s successful application, the FRC provided feedback to the Fund. This highlighted stewardship strengths, where the Fund’s policies, processes and activity fully meet the Code standards, as well as areas for improvement, where evidence of compliance was partial/low. The areas highlighted for particular attention by the FRC for improvement focused on Principles 4, 6 and 10 (Promoting well-functioning markets, Client and beneficiary needs, and Collaboration).
- 4.5 In addition to this specific feedback, The FRC’s published its Review of Stewardship Reporting 2022, which assessed 2021 reporting standards. It also provides guidance on FRC expectations for 2022/23 reporting. This stipulates an increased emphasis on more detailed and varied examples and case studies; illustrations of stewardship activity, descriptions of specific outcomes and how the efficacy of these activities/outcomes are monitored and assessed. This guidance also makes clear that the emphasis for reporting will become increasingly outcome focused in the future.
- 4.6 In its draft submission for 2022/23, the Fund has responded to the FRC’s specific feedback, augmenting existing evidence with more detailed descriptions, providing additional and up-dated, examples and case studies, to illustrate the Fund’s stewardship activities and outcomes. It also seeks to provide a more outcome focused approach, where sufficient evidence is available, in line with the FRC guidance.
- 4.7 Ongoing work preparing an Implementation Statement, which supports the Fund’s preparation for TCFD reporting, will also provide additional evidence of strong stewardship/ESG activity and outcomes. This work is currently being undertaken by Isio, who are collecting data, particularly on engagement/collaboration, escalation and voting activity/outcomes from investment managers, for 2022/23. This work will be completed by late September, and it is intended that the outputs will be provided as an Appendix to the main report.
- 4.8 It should also be recognised that several significant personnel changes took place in 2022, which had direct implications for the Fund.

- The Director of Finance & Governance was seconded to Acting CEO for much of 2022 and was appointed as the permanent CEO in February 2023
- The Finance Services Manager was seconded to Acting Chief Financial Officer and has since been permanently appointed as Director of Finance & Procurement
- The Pensions & Investment Manager left the Council late in 2022
- Local Government elections also resulted in changes in membership for both the Pension Committee and Pension Board

These changes impacted on the experience and knowledge available to the Fund. The CEO has maintained an active involvement in pension fund matters and part-time interim cover is in place for the Pension & Investment Manager role. However, these changes have put pressure on available resources, and some stewardship related activities that were planned for 2022/23 have been impacted. Examples of this include increasing scheme member and employer communication and engagement, monitoring and assessing the effectiveness of beneficiary engagement, researching relevant collaborative opportunities, and improving the assessment of engagement activity impact. These activities have not been fully implemented and are to be rescheduled.

4.9 In addition, the draft submission contains some key actions the Fund has identified for future improvement. These include:

- Continues improvement of reporting metrics of the approved Responsible Investment Policy and implementation of TCFD reporting
- Implementation of TPR's Single Code (when published)
- Improve monitoring of managers voting and engagement activities, which is ongoing.
- Agree an escalation policy for managers.
- Develop and Action Plan to assess and take forward the recommendations within the Governance/Single Code Review report and outstanding FRC feedback actions for improved adherence to the Stewardship Code, for future reporting.

5. IMPLICATIONS

5.1 Financial

The additional reporting and monitoring requirements identified may require the Fund to engage additional external resources. The various personnel changes within 2022/23 have necessitated a requirement for more additional external support than would normally be anticipated. The level, and therefore cost, of a 'business as usual' state is currently, therefore, difficult to estimate but will be reported to Committee once the detail is available.

5.2 Risk and Mitigations

This report recommends the strengthening of the governance framework of the management and operation of the Pension Fund and reflects compliance with the best practice recommendations. There are no additional risks identified from the recommendations in the report.

5.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance required und the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Nevertheless, a light touch assessment has been conducted and this will be published on SBC’s Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity, and socio –economic factors have duly been considered when preparing this report.

5.4 Sustainable Development Goals

There are no direct impacts from this report on the sustainable development goals of the Council. The recommendation however within the report will ensure the monitoring and reporting of the Fund against the goals are enhanced.

5.5 Climate Change

There are no direct climate change impacts as a result of this report. The recommendation however within the report will ensure the appropriate focus, including the monitoring and reporting, of investments on the Fund’s activities is maintained in future.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

5.8 Changes to Scheme of Administration or Scheme of Delegation

You should identify any changes which are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in your report. If there are no changes to be made, then say so. If changes are required, then this will require Council approval.

6 CONSULTATION

6.1 The Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR & Communications, the Clerk to the Council and Corporate Communications have been consulted and any comments received have been incorporated into the final report.

Approved by

Suzy Douglas

Signature

Director of Finance & Procurement

Author(s)

Name	Designation and Contact Number
Jay Solanki	Pension & Investment Manager, 01835 825249

Background Papers: Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board – 15 Sept 2022

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pension & Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk