

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, 12 December 2023 at 10.00am.

- Present:- Councillors D. Parker (Chairman), L. Douglas, D. Moffat, S. Mountford
(Pension Fund Committee Members)
- Councillor J. Pirone, Mr A. Daye, Ms K Robb (Pension Board – Scheme
Employer Representatives), Mr D. Bell, Mr M. Everett and Ms K M Hughes
(Pension Board – Scheme Member Representatives)
- Apologies:- Councillors C. Hamilton and S. Scott
- In Attendance: Director – Finance and Procurement, Chief Officer – Audit and Risk, HR
Shared Services Manager, Democratic Services Team Leader.
- Also in Attendance: Mr C Pringle (Isio), Mr A Ross (Isio), Mr A Singh, (Isio), Mr J Boyd and Ms S
Harold (Audit Scotland)

1. **ORDER OF BUSINESS**

The Chair varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

2. **MINUTE**

There had been circulated copies of the Minutes of the Meetings held on 8 August and 22 September 2023.

DECISION

NOTED for signature by the Chairman.

3. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

There had been circulated copies of the Minutes of the Meeting of the Pension Fund Investment and Performance Sub-Committee held on 25 August 2023

DECISION

NOTED for signature by the Chairman.

4. **PROGRESS ON DELIVERY OF INTERNAL AUDIT ANNUAL PLAN 2023/24 FOR THE SCOTTISH BORDERS COUNCIL PENSION FUND**

With reference to paragraph 5 of the Minute of the meeting held on 21 March 2023, there had been circulated copies of a report by the Chief Officer – Audit and Risk which provided an update on progress with the delivery of the Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund. Internal Audit was an independent appraisal function established for the review of the governance arrangements and internal control system of the SBC Pension Fund to provide the statutory Internal Audit annual assurance and opinion. The Internal Audit Annual Plan 2023/24 for the SBC Pension Fund, approved by the Pension Fund Committee and Pension Fund Board on 9 March 2023, allocated 20 days to support the delivery of the Plan, which included sufficient work to enable the Chief Audit Executive (CAE) to

prepare the statutory independent and objective audit opinion to the year ending 31 March 2024. Appendix 1 to the report provided details of the half yearly progress by Internal Audit with its work activity to deliver the approved Internal Audit Annual Plan 2023/24 for the SBC Pension Fund. The Internal Audit service to the SBC Pension Fund was provided by Scottish Borders Council's Internal Audit team. The continuous audit approach which was applied to Internal Audit work for the SBC Pension Fund enabled Internal Audit to provide added value advice on internal controls and governance and 'critical friend' consultancy services. The Chief Officer- Audit and Risk, Ms Jill Stacey, presented the report and outlined that the report had arisen from the recommendations of the Annual Plan for the Pension Fund. Members expressed their thanks for the report and highlighted that it was useful to see progress on individual items, in particular the frequency on which they were checked.

DECISION

AGREED to:-

- (a) note the progress made in the first six months of the year to deliver the approved Internal Audit Annual Plan 2023/24 for the Scottish Borders Council Pension Fund; and**
- (b) note that there were no proposed changes to the Plan that required approval, though 20 days allocation had been utilised and a further 5 days was proposed for completion of Internal Audit work for the SBC Pension Fund to March 2024.**

5. PENSION FUND RISK REGISTER UPDATE

With reference to paragraph 3 of the Minute of the meeting held on 22 September 2023, there had been circulated copies of a report by the Chief Officer – Audit and Risk which provided an update on the review of the refreshed Pension Fund Risk Register, and an outline of next steps. 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 meetings of the Pension Fund Committee and Pension Fund Board during 2023, the following risk management items were agreed: (a) 21 March 2023 - proposal to refresh the Pension Fund Risk Register and the associated approach and timetable; and (b) 22 September 2023 - the refreshed Pension Fund Risk Register arising from the proposals to amalgamate and re-categorise the risks on a more manageable scale. The report set out progress on the review of the refreshed Pension Fund Risk Register and outlined the next steps. The Chief Officer – Audit and Risk presented the report, confirming that significant work regarding the amalgamation of risks had been undertaken. Engagement with officers and risk specialists had been positive. Considerable lessons had been learned from the process of amalgamating and categorising of the risks which had previously been included on the register. Steps to develop a suitable Risk Management Policy for the Pension Fund were ongoing and would be progressed as part of the cycle of risk review activity. The Chief Officer confirmed that it was proposed that a smaller number or relevant range of risks would be presented at each quarterly meeting, with a standalone presentation of the full register planned for the March 2024 meeting. Members welcomed the proposed schedule of risk register presentations and commented that the schedule would be helpful in facilitating meaningful consideration and feedback on the risks. In response to a question regarding whether risks which had been categorised as high should be brought to all quarterly meetings, Ms Stacey indicated that she was happy to investigate whether it would be possible to incorporate regular discussions on such risks following discussions with the risk owners and to

adjust the policy accordingly. Ms Stacey undertook to investigate incorporating the request that movements to risks would merit quarterly presentation within the policy principles.

DECISION

AGREED to:-

- (a) acknowledge that the formal full review of the risks in the refreshed Pension Fund Risk Register was approximately 80% complete and would continue;**
- (b) note that quarterly risk register updates would be presented to the Committee and Board; and**
- (c) note that a separate Risk Management policy and strategy for the Pension Fund would be developed for approval by the Committee and Board in March 2024.**

6. GOVERNANCE REVIEW AND STEWARDSHIP CODE ACTION PLAN

With reference to paragraph 7 of the Minute of the meeting held on 13 December 2022, there had been circulated copies of a report by the Director – Finance and Procurement which reviewed and sought approve the Pension Fund's Governance Review & Stewardship Code Action Plan. The Action Plan encompassed recommendations from the independently produced Governance Review report and the Fund's Stewardship Code report. It provided a high-level plan for how those would be progressed and implemented. It was accompanied by an annotated schedule for all the Governance Review recommendations. That outlined proposals for the Committee's consideration on which were agreed/actioned and those that should not (and why). It was proposed the work be delivered through a project management approach and the work had been structured into four workstreams. That would help provide additional focus and momentum, as well as regular project monitoring and reporting. However, a number of actions and timescales were dependent on the successful appointment to the Pension, Investment & Accounting Manager role. The Director – Finance and Procurement presented the report and introduced Pat Tomlin, who had undertaken work on behalf of the Pension Fund to review the Governance of the Fund and the Stewardship Code Action Plan. In response to a question regarding the recommendation to consider appointment of a single officer responsible for managing all pension functions, the Director outlined that the proposed Pensions, Investment and Accounting Manager's work would be dedicated to working on the Fund. Administration of the Fund would continue to be the responsibility of the HR Shared Services Manager. Regarding the appointment of a independent advisor, the Director confirmed that there whilst there was a desire to appoint an advisor resource had not been put in place at the current time. Work to progress through the Action Plan would continue, and it was hoped that the relevant team would be fully staffed for the start of the new financial year. In response to a question regarding how the schedule and the Action Plan should be interpreted, Ms Tomlin explained that the key documents was the Action Plan. The purpose of the schedule was to provide an audit trail for all of the recommendations made following the review. The Action Plan contained the work which had been restructured into work packages, with the schedule in place to back those up. Regarding the monitoring of the 'infrastructure/other real assets' mandate through Lothian Pension Fund, which was currently considered by the Pension Fund Committee rather than the Pension Fund Investment and Performance Sub-Committee, Ms Tomlin explained that the recommendation in the report was to place the responsibility for the monitoring of that mandate, like the other mandates, with the Sub-Committee.

DECISION

AGREED to:-

- (a) approve the proposals in the ‘Governance Recommendations – Agreement to Proceed?’ schedule contained in Appendix 1 to the report;**
- (b) approve the Governance Review & Stewardship Code Action Plan contained in Appendix 2 to the report; and**
- (c) note and recognise the potential impact on plan timelines if the recruitment of the Pension, Investment and Accounting Manager was delayed further.**

7. BUSINESS PLAN PERFORMANCE UPDATE

With reference to paragraph 7 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 update on delivery of the actions within the approved Business Plan. The 2023/24 – 2025/26 Business Plan for the Pension Fund was approved by the Committee on 22 June 2023. 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 on 22 September 2023 it was agreed that a mid-year progress report on the business plan actions would be presented to Members at the December 2023 meeting and a further progress report and update at the June 2024 meeting. There were 16 non-recurring tasks due for completion during 2023/24. 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. The HR Shared Services Manager, Mr Ian Angus, presented the report and highlighted the five actions which had been categorised as delayed or exceptions. Mr Angus outlined that since the publication of the report that the software standard functionality item had been processed without additional costs. In response to a question regarding custodian recruitment, the Director confirmed that the contract with the current custodian was being extended, with all of the details in the process of being finalised.

**DECISION
AGREED:**

- (a) to note the progress of the 2023/24 actions within the business plan; and**
- (b) the revised target dates for the actions outlined in the report.**

8. PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2023

With reference to paragraph 3 of the Minute of the meeting held on 22 September 2023, there had been circulated copies of a report by the Director – Finance and Procurement which provided an update position of the Pension Fund budget to 30 September 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 were 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 second quarterly monitoring report of the approved budgets. The total expenditure to 30 September 2023 was £3.161m, with a projected total expenditure of £6.967m which was line with approved budget. In response to a question regarding fluctuations to investment income in quarter 1 2023/24, the Director undertook to investigate but advised that the fluctuations likely formed part of normal market variations.

**DECISION
AGREED:-**

- (a) to note the actual expenditure to 30 September 2023; and**
- (b) the projected out-turn as the revised budget.**
- (c) that the Director – Finance and Procurement investigate fluctuations to investment income in Quarter 1 2023/24.**

9. RESPONSIBLE INVESTMENT METRICS AND TARGETS REPORT

9.1 With reference to paragraph 7 of the Minute of the meeting held on 22 September 2023 there had been circulated copies of a responsible investment metrics and targets report by Isio. The Chairman welcomed Mr Andrew Singh, Mr Alex Ross and Mr Charles Pringle of Isio to the meeting. Mr Singh confirmed that the metrics in the report had been selected with Task Force on Climate-Related Financial Disclosures (TCFD) regulations in mind. Mr Singh confirmed that whilst TCFD regulations had not yet been imposed on the Fund, it was expected that they would be in the future. The report documented each investment manager's ability to report on the agreed metrics and the current portfolio position as at 30 June 2024 compared to the position as at 30 June 2022. Mr Pringle, Isio's in-house analysts for climate, provided a summary of the key terms related to responsible investment and confirmed that the Fund had agreed to adopt a target of relative improvement, as opposed to absolute or fixed targets. An overview of the data was outlined with the majority of managers showing a reduction in absolute emissions and on a carbon footprint basis. Mr Pringle highlighted that the UK-aligned managers tended to be biased towards higher emitting companies, and it was not beyond expectation that the numbers involved could continue to rise over time. It was pointed out that LGT Crown Multi Alternatives coverage level had decreased, and Mr Pringle explained that was as a result of a change in asset class allocation and the treatment of insurance linked securities within the methodology approach. There had been a shift in the approach to how those securities were considered, with the picture presented now more accurate as a result. Overall coverage within the portfolio had improved, as there had been significant progress in the numbers being reported and the quality of the estimated data which had been provided. The numbers of climate-related engagements had varied from the previous year, and Mr Pringle outlined that whilst some managers had increased the number of engagements, others had not sustained the same levels or had undertaken a lower number.

9.2 The total greenhouse gas emissions of the portfolio was 54,463 metric tons, an increase of 39,755 metric tons from the 2022 analysis. That was largely a result of the increased coverage and data reporting across the portfolio. Weighted average carbon footprint of the portfolio was 99.6 metric tonnes per £1m investment. That had increased from the 2022 analysis of 29.8 metric tonnes per £1m. Implied temperature rise figures provided by the managers ranged from alignment to a 1.5°C to 2.7°C temperature rise by the end of the century, compared to 1.8°C to 3.2°C in 2022. The portfolio level figure calculated for 2023 was 2.1°C. The Implied Temperature Rise at portfolio level as at June 2023 reduced by 0.5°C, from 2.6°C which was reported in 2022. There were 409 individual Climate-related Engagements with companies within the portfolio, where managers were able to report. That was an increase of 119 from the 2022 figure of 290 climate engagements. In response to a question regarding increasing coverage in the bonds market, Mr Pringle explained that coverage levels were improving as more fund managers were able to report on the metrics. It was not possible for some managers to report on sovereign elements, which had resulted in coverage being low. Mr Singh outlined that coverage varied considerably between different asset classes, however it was anticipated that coverage would increase over

time. Members discussed whether or not it would be prudent to publish a Task Force for Climate Related Financial Disclosures compliance report, given that it was not required under the regulations. The Director – Finance and Procurement, confirmed that whilst there would be a cost associated with the production of the report, based on Isio's advice it was not expected to be unreasonably high. Members agreed to instruct Isio to undertake the work to prepare and publish a TCFD compliance report.

DECISION

AGREED:-

- (a) to note the report; and**
- (b) to instruct Isio to use the information within the report to prepare and publish a Task Force on Climate-Related Financial Disclosures (TCFD) compliance report.**

10. SCOTTISH BORDERS PENSION FUND 2023 ACTUARIAL VALUATION

There had been circulated copies of a presentation by Hymans Robertson LLP with the agenda. The Chairman invited Ms Julie West and Mr Jamie Baxter of Hymans Robertson to provide a presentation. Mr Baxter explained that triennial valuation was a key risk management exercise for the Fund which was carried out to calculate employer contribution rates; comply with legislation; analyse actual experience compared to assumptions; review the Funding Strategy Statement; and to undertake a continual check on Fund solvency. Since the previous valuation in 2020 there had been significant asset returns due to bounce-back from the Covid-19 associated market fall in February-March 2020, and a material fall in liability values in the second half of the inter-valuation period due to rising interest rates. Future investment return assumptions had a considerable bearing when calculating liabilities. Those returns were used to project forward asset values in modelling, and the same approach for the 2020 valuation had been used for 2023. There were higher return expectations in 2023 when compared to 2020 as a result of increases in global interest rates. That had a positive impact on the 2023 valuation results. Mr Baxter explained that Local Government Pension Scheme benefits increase with CPI inflation, which was used to project forward benefits and contributions in modelling. Ongoing uncertainty around high inflation had formed part of the risk-based approach, which had negatively impacted upon the 2023 valuation results. Mr Baxter provided a summary of longevity in the Scottish Borders, and explained that the assumptions had been tailored specially to Scottish Borders Council Pension Fund members. The key valuation assumptions at 2023 were presented, with a discount rate of 5.2% pa, benefit increases/CARE revaluation at 2.3% pa and salary increases at 3% pa. Those assumptions were robust and evidenced based. Ms West provided a summary of the whole fund funding level at 31 March 2023 compared to 31 March 2020. Liabilities had decreased from £650m to 649m, whilst assets had increased from £713m to £866m. The Funding Level had increased from 110% in 2020 to 134% in 2023. Ms West highlighted that the reported funding level did not directly drive employers' contribution rates. The funding position of the fund was stronger at 2023 than 2020, in particular due to the increase in future investment returns as a factor. Ms West provided an overview of the 3 steps to setting the funding strategy, which included the funding target, the time horizon, and the likelihood of success. Those circumstances allowed the Fund to manage risk. The Fund operated a Contribution Rate Stability Mechanism (CSM) for the Scottish Borders Council pool group of employers. Annual changes to rates were restricted to +/- 0.5% of pay. Ms West outlined that stabilisation took a long-term approach to setting contribution rates which cut through short-term funding "noise". The mechanism was an explicit one, documented in the FSS. The CSM was designed to keep contribution rates stable through the peaks and troughs of market cycles. Surpluses could be managed by

reducing the employer contribution rate, changing the investment strategy, increasing prudent levels or retaining the surplus. The funding level excluded the cost of future service benefits. Ms West outlined the key factors which had been considered at the 2023 valuation, in particular the need to avoid a knee-jerk reaction to the significant increase in surplus. It was highlighted that almost all of the increase in surplus was due to changes in liability assumptions rather than actual investment performance. The cost of funding future service benefits must be met, with contribution rates reflecting fairness of costs between generations. Market conditions and economic variables, such as interest rates and inflation, were currently volatile. It was confirmed that the Fund prepares, maintains and consults on the Funding Strategy Statement in line with CIPFA guidance. The final decision on the Funding Strategy would be presented to the Committee for approval. In response to a question regarding an extra 0.5% provision in relation to the McCloud judgement, Ms West outlined that there was now less of a chance of benefit increases occurring as a result of the cost cap, and that the ramification of the McCloud case had been built into the overall liabilities. The Chief Officer – Audit and Risk confirmed that there the Audit team had engaged with Hymans Robertson regarding aspects of risk management and the range of assumptions.

DECISION

NOTED the presentation.

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.

SUMMARY OF PRIVATE BUSINESS

12. **SCOTTISH BORDERS PENSION FUND 2023 ACTUARIAL VALUATION**
The Committee noted a presentation by Hymans Robertson LLP regarding the 2023 actuarial valuation.
13. **MINUTE**
The Committee considered the Private Minutes of the Meetings held on 8 August and 22 September 2023.
14. **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 25 August 2023.
15. **INVESTMENT PERFORMANCE QUARTER TO 30 SEPTEMBER 2023**
The Committee noted the Quarter 2 Investment Performance report by Isio.

The meeting concluded at 12.30 pm.