

Pensions Committee Minutes

2pm, Wednesday 7 December 2022

Present:

Councillors Watt (Convener), Burgess, Doggart, Nicolson and Neil Ross; John Anzani and Richard Lamont.

Pension Board Members present:

Jim Anderson, Tony Beecher, Thomas Carr-Pollock, Nick Chapman, Tom Howorth, Brian Robertson and Alan Williamson.

Independent Professional Observer:

Andy McKinnell

Apologies:

Sharon Dalli and Darren May (Pension Board members)

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the Convener declared the meeting open.

2. Order of Business

The Clerk confirmed that there was no change to the order of business.

3. Declaration of Interests

Decision

To note there were no declarations of interest.

4. Minutes

Decision

To approve the minute of the Pensions Committee of 28 September 2022 as a correct record.

5. Referrals and recommendations from Pensions Audit Sub Committee

John Anzani advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee meeting on 6 December 2022.

(Reference – Pensions Audit Sub-Committee 6 December 2022)

6. Agenda Planning

An overview of proposed reports for Pensions Committee and Pensions Audit Sub-Committee meetings for March and June 2023 was presented.

Decision

- 1) To note the agenda planning document for the March and June 2023 meetings.
- 2) To note that Pension Board Members were invited to comment on agenda items during Committee meetings.
- 3) To note that the Pensions Audit Sub-Committee had agreed to hold an additional meeting in March 2023.
- 4) To note that information security updates would be scheduled bi-annually in the agenda planning document.
- 5) To note that a review of the committee agenda planning process would take place in early 2023 and that a proposed way forward would be presented to Committee in March 2023.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

7. Stewardship and Engagement

An update was provided on the activity of the Lothian Pension Fund and Scottish Homes Pension Fund in relation to the stewardship of their invested assets including the approach to environmental, social and governance (ESG) issues.

Lothian Pension Fund incorporated ESG issues into investment analysis and decision making, voted all of its shares and pursued a policy of constructive engagement on such issues. This was consistent with industry best practice and its fiduciary duty to the members and employers in those funds. LPF's strategy of resourcing internal investment, operational and specialist legal expertise provided further substance and resilience to that process.

Lothian Pension Fund had been a signatory to the Principles for Responsible Investment (PRI) since 2008 and participated in the PRI's Reporting Framework which was an annual assessment of LPF's Responsible Investment activities. Due to an issue with the PRI's reporting system in 2021, this year's assessment was only made available in September 2022 and the next survey had been delayed to 2023.

The stewardship report for the period covering the year to 31 December 2021 was presented in compliance with the UK Stewardship Code 2020 and had been submitted to the Financial Reporting Council for assessment.

LPF continued to participate in collaborative shareholder engagements through organisations including the Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes and Climate Action 100+ and was represented on the LAPFF Executive Committee. An update on LAPFF's activities was presented to members for information.

Approval was also sought for the updated Statement of Responsible Investment Principles (SRIP). The SRIP set out Lothian Pension fund's approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment and Stewardship perspective.

Decision

- 1) To note the stewardship and engagement update.
- 2) To approve the updated Statement of Responsible Investment Principles.

(Reference – report by the Chief Investment Officer, Lothian Pension Fund, submitted)

8. Lothian Pension Fund Contract Awards (Period 1 July 2021 to 30 June 2022)

The Council's Commercial and Procurement Services team provided support in relation to procurement and payment operations.

An update was provided on the scope of contracts awarded by the Lothian Pension Fund Group for the period from 1 July 2021 to 30 June 2022 inclusive of direct contract awards and not openly tendered due to specific circumstances permitted in regulation and those awarded following a waiver of the City of Edinburgh Council's Contract Standing Orders.

Information was also provided on those contracts awarded directly by LPFI Ltd and LPFE Ltd in respect of which the City of Edinburgh Council was not acting as administering authority.

Decision

To note the report and the authorisations made under the Scheme of Delegation to Officers.

(Reference - report by the Interim Executive Director of Corporate Services, City of Edinburgh Council, submitted)

9. Business Plan Half Year Review and Budget Update

An update was provided on progress against the 2022-2023 Business Plan, performance indicators and the actions to enable the Fund to meet its key objectives.

The report focussed on performance indicators, administration and member services, investments, IT and change, governance, legal, risk and compliance, finance, people and communications, membership and cashflow monitoring and investment strategy update.

Decision

- 1) To note progress of the Fund against the 2022-23 Strategy and Business Plan.
- 2) To note the specific updates on functional plans as well as performance indicators and projects, membership and cashflow monitoring and investment strategy update.

- 3) To note that the outcome of the colleague engagement survey reflected well on the Fund and management at all levels within Lothian Pension Fund and to pass on Committee's congratulations to the staff team.

(Reference - report by the Chief Executive Officer, Lothian Pension Fund, submitted)

10. Contribution Stability Mechanism Review 2022

A review of the Contribution Stability Mechanism (CSM) had been carried out in advance of the 2023 Actuarial Valuation. The review considered the investment performance over the period 31 March 2019 to 30 June 2022 as well as the changes in market conditions over this period.

Since the review had been completed, there had been a period of volatility in investment markets but remained within the ranges tested. Although the review indicated that the current CSM remained fit for purpose, the Actuary had recommended that a full review be carried out in advance of the 2026 Valuation.

The Fund was currently exploring the possibility of a merger with Falkirk Council Pension Fund which also operated a CSM and, should a merger take place, a new funding strategy statement for the new entity would be put in place which would detail operation of the CSM for the merged fund which would also require approval by the relevant governing body.

Decision

- 1) To note the review carried out by the Fund Actuary to assess the continued suitability of the existing Contribution Stability Mechanism.
- 2) To note that the review had indicated that the Contribution Stability Mechanism remained appropriate for setting contributions for long-term secure employers.
- 3) To retain the right to review or withdraw the Contribution Stability Mechanism from any or all employers as protection against extreme adverse financial circumstances.
- 4) To note that the Contribution Stability Mechanism, stipulating minimum contribution rates payable, would require to be certified by the Fund's Actuary at each statutory actuarial valuation.
- 5) To note that should the proposed merger with Falkirk Council Pension Fund proceed, a new Funding Strategy Statement and operation of the Contribution Stability Mechanism would be decisions for the new entity's governing body to take.

(References – Pensions Committee 11 December 2019 (item 5); report by the Chief Finance Officer, Lothian Pension Fund, submitted)

11. Risk Management Summary

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of LPF's monitoring and assurance arrangements during 2022 noting any material observations or exceptions.

The Risk Management Group continued to meet regularly to assess all elements of the LPF Group's risk framework including the risk appetite, register, overall assurance position and any more granular risks escalation from other sub-groups.

Information was also provided on the background driving the intention to review the current Risk Management Framework.

Decision

- 1) To note the LPF Group's risk register and quarterly risk overview.
- 2) To note the intention of the Chief Risk Officer to lead a review of Lothian Pension Fund's Risk Management Framework during 2023 making enhancements to existing arrangements and embedding any improvements as appropriate.
- 3) To commend the work of the risk and compliance, investment and IT teams who had worked diligently to ensure the threshold was not breached during the transition period relating to the FCA Regulatory Compliance – Variation of Permission.

(Reference – report by the Chief Risk Officer, Lothian Pension Fund, submitted)

12. Project Forth

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

An update was presented on the proposed collaboration within the Local Government Pension Scheme and the feasibility and evaluation work which had been undertaken to progress the project.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(References – Pensions Committee 29 September 2020 (item 18), 29 September 2021 (item 14), 29 June 2022 (item 18), 28 September 2022 (item 15); report by the Chief Executive Officer, Lothian Pension Fund, submitted)