

Pensions Committee Minutes

2pm, Wednesday 27 September 2023

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, Sharon Dalli, Tom Howorth, Darren May, and Alan Williamson.

Other Attendees:

Andy McKinnell (Independent Professional Observer).

Apologies: Brian Robertson, Pension Board Member.

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 advised there was no change to the order of business.

(a) Point of Order – Item 6.1 – Audit Sub-Committee Convener’s Annual Update Report

The Convener of the Pensions Audit Sub-Committee raised a point of order in relation to Item 6.1 Audit Sub-Committee Convener’s Annual Update report, noting that despite submission to officers, the report was not tabled on the agenda.

Decision

To note that officers would review the procedure for submitting papers to the Committee going forward.

(b) Point of Order – Item 6.3 - Project Forth Update

John Anzani raised a point of order in relation to Item 6.3 Project Forth Update highlighting that, in accordance with Standing Order 13.1 “a decision of the Committee cannot be changed by the

Committee within six months unless notice has been given of the proposed item in the summons for the meeting and the Convener rules there has been a material change of circumstances or the Committee agrees that the decision was based on erroneous, incorrect or incomplete information”.

The Head of Democracy, Governance and Resilience, City of Edinburgh Council, advised that due notice of the item had been given in the meeting papers in terms of the Local Government (Access to Information) Act 1985 and explained the Convener’s role around ruling a material change of circumstances

Decision

To note the advice provided.

(c) LAPF Investments Awards 2023

The Convener took the opportunity to congratulate the LPF Team on winning the LGPS Fund of the Year at the LAPF Investments Awards 2023.

3. Declaration of Interests

Item 9.3 – Councillor Doggart made a transparency statement as a Fellow of the Institute and Faculty of Actuaries.

John Anzani made a transparency statement in relation to his wife’s role as a non-Executive Director on the Board of Enjoy Leisure East Lothian.

4. Minute

Decision

- 1) To approve the minute of the Pensions Committee of 21 June 2023 as a correct record.
- 2) To note that the training session on Hermes EOS referred to in item 9 of the minute had been rescheduled to be held in November 2023.

5. Referrals and Recommendations from the Pensions Audit Sub-Committee of 26 September 2023

By way of a verbal update, the Convener of the Pensions Audit Sub Committee praised the unqualified annual accounts and highlighted that there had been no material subsequent alterations. The Sub-Committee had then taken the opportunity to thank Hugh Dunn for his contribution as Service Director, Finance and Procurement, Andy McKinnell for his contribution as Independent Professional Observer and Lesley Birrell for her contribution as clerk to the Pensions Committee and the Pensions Audit Sub Committee. Further updates and recommendations would be made at the relevant agenda items.

Decision

To note the updates.

6. Agenda Planning and Governance Update

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for December 2023 and March 2024 was presented. Committee members took the opportunity to thank Hugh Dunn for his contributions and then welcomed Richard Lloyd Bithell and Alison Murray to their respective positions.

Decision

- 1) To note the agenda planning document and the action tracker set out in appendix 2.
- 2) To note the recruitment of the new Independent Professional Observer subject to agreement regarding mutually acceptable terms and conditions for the provision of independent professional service for Lothian Pension Fund.
- 3) To note the LPF governance update regarding the changes in membership of the LPFE and LPFI Boards.
- 4) To note that the Pension Board members were invited to comment on agenda items during committee meetings.
- 5) To note there would be an actuarial valuation update paper presented to Committee in December.
- 6) To thank Hugh Dunn, Chair of LPFE and LPFI for his commitment and contribution to the work of the Fund and extended their best wishes for his retirement and to welcome Richard Lloyd-Bithell as the newly appointed Service Director, Finance and Procurement, City of Edinburgh Council.
- 7) To thank to Andy McKinnell, Independent Professional Observer for his commitment and contribution to the Fund and to welcome Alison Murray newly appointed into the IPO role.
- 8) To welcome Dr Deborah Smart, Executive Director of Corporate Services, City of Edinburgh Council as the newly appointed Chair of LPFE.

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

7. Project Forth Update

The Convener ruled, in terms of Standing Order 13, that the following item was competent as a result of a material change of circumstances making reference to the information contained in the supplementary report submitted by the Chief Executive, City of Edinburgh Council and the verbal update from the Chief Executive, Lothian Pension Fund confirming that Falkirk Council Pension Fund no longer had the appetite to pursue Project Forth at this time and was working on the assumption that the Project would not go ahead.

An update in relation to the Project Forth Update report was provided, together with, a brief overview of the supplementary paper.

Proposal 1

The following proposal was moved by Councillor Watt:

- 1) To note, as requested at the June 2023 committee meeting, the provision of the paper originally prepared for the March Committee which set out the results of the updated and final evaluation of the proposed merger structures and the recommendations that had been anticipated at that time;
- 2) To support the recommendation as originally made in June 2023 to cease the project for the reasons given at that meeting noting that it had been communicated to the CEO of LPF that Falkirk were operating under the presumption that Project Forth would not be proceeding and did not anticipate revisiting a merger within the next couple of years; and
- 3) To note that officers may revisit the proposals when either circumstances or priorities change and, in any event, to review options in 2 years' time and subject to Falkirk Council Pension Fund being minded to re-engage at that time.

Proposal 2

The following proposal was moved by John Anzani:

To reject the recommendations set out in the report by the Chief Executive Officer, Lothian Pension Fund.

Voting

For Proposal 1 - 4 votes

For Proposal 2 - 1 vote

Abstentions - 2

(For Proposal 1 – Councillors Burgess, Nicolson, Ross and Watt.

For Proposal 2 – John Anzani.

Abstentions – Councillor Doggart and Richard Lamont.)

Decision

To approve Proposal 1 by Councillor Watt as follows:

- 1) To note, as requested at the June 2023 committee meeting, the provision of the paper originally prepared for the March Committee which set out the results of the updated and final evaluation of the proposed merger structures and the recommendations that had been anticipated at that time.
- 2) To support the recommendation as originally made in June 2023 to cease the project for the reasons given at that meeting noting that it had been communicated to the CEO of LPF that Falkirk were operating under the presumption that Project Forth would not be proceeding and did not anticipate revisiting a merger within the next couple of years; and
- 3) To note that officers may revisit the proposals when either circumstances or priorities change and in any event to review options in 2 years' time and subject to Falkirk Council Pension Fund being minded to re-engage at that time.

(References – Pensions Committee 21 June 2023 (item 15); report by the Chief Executive Officer, Lothian Pension Fund and supplementary report by the Chief Executive, City of Edinburgh Council, submitted)

8. Updates to Investment Governance arrangements

Officers provided an update on changes being made to the terms of reference of the Joint Investment Strategy Panel as a result of the expansion of services provided by LPFI to Fife and Falkirk and the recent regulatory compliance review of LPFI.

As a result of these changes, references in the Statement of Investment Principles required to be updated in addition to other minor amendments to simplify and remove duplication.

The revised Statement of Investment Principles for Lothian Pension Fund and Scottish Homes Pension Fund was presented for approval.

Decision

- 1) To note the contents of the report as they related to documentation of roles and management of conflicts in relation to investment decision making.
- 2) To agree to adopt the revised Statement of Investment Principles.

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

9. Lothian Pension Fund - Contract Awards and Supplier Overview (Period 1 July 2022 to 30 June 2023)

Officers provided a brief overview of the report making reference to the contracts awarded by the Fund in the period between 1 July 2022 and 30 June 2023 and sought approval to waive the Council's Contract Standing Orders in connection with a further extension of certain high value contracts.

Decision

- 1) To note the report.
- 2) To approve the continuation of the appointment of the Fund's external investment managers for global equities, by way of waiver of the Contract Standing Orders for the period from 1 October 2023 as referred to in paragraph 4.5 of the report.

(References – Pensions Committee 22 March 2022 (item 18); report by the Chief Executive Officer, Lothian Pension Fund, submitted)

10. Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund

An overview and details of the Audited Annual Report and Accounts for the year ended 31 March 2023 for Lothian Pension Fund and Scottish Homes Pension Fund was presented to members by the Chief Finance Officer, Lothian Pension Fund and the Fund's external auditor, Nick Bennett from Azets Audit Services.

The external auditor presented the audit findings to members including the audit opinion, key findings on audit risks, audit adjustments and accounting systems and internal controls.

Members were pleased to note that an unqualified opinion had been provided on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund.

Key points within the Audit Report included confirmation that work had been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Some minor disclosure and presentational adjustments had been identified during the audit and these had been reflected in the final set of financial statements as set out in appendix 2 of the report.

The Convener of the Pensions Audit Sub-Committee welcomed the unqualified accounts and commended the work of Azets as the Fund's external auditor.

Decision

- 1) To note the report by Azets Audit Services "Lothian Pension Funds 2022/23 Annual Audit Report to Members of the Pensions Committee and the Controller of Audit" set out in Appendix 1.
- 2) To approve the audited annual report for the year ended 31 March 2023 for the Lothian Pension Fund and the Scottish Homes Pension Fund set out in appendix 2.
- 3) To note that the audited financial statements for the year ended 31 March 2023 of both the wholly owned companies, LPFE Ltd and LPFI Ltd, had been approved by the respective Board of Directors in June 2023, set out in appendices 3 and 4.
- 4) To note the "Letter of Representation (ISA 580)" by the Chief Finance Officer, Lothian Pension Fund set out in appendix 5.
- 5) To record the Committee's thanks and appreciation to the LPF staff team and the external auditor for their work in preparing and finalising the annual accounts.

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

11. Stewardship Report

The Fund's Stewardship Report covering the period from 1 January 2022 to 31 March 2023 was presented in compliance with the UK Stewardship Code 2020. The report had been updated with new examples of the Fund's application of the principles by way of case studies and new voting and engagement data over the period.

Members took the opportunity to thank officers for the readability of the section of the report which referenced Environmental, Social and Governance.

Decision

To note the Stewardship Report.

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

12. Business Plan and Budget Update

An update in relation to the progress of the 2023-2024 Strategy and Business Plan, performance indicators and actions was provided.

In response to questions regarding the impact of the McCloud judgement, officers confirmed that following data gathering exercises they did not foresee a material difference to individual members' benefits. a.

Following questions in relation to the Convene committee management software program, officers confirmed that further training on the functionality of the system could be provided to members if required.

Decision

To note progress of the Fund against the 2023-24 Business Plan together with specific updates on:

- Performance indicators.
- Membership and cashflow monitoring.
- Capital injection into LPFI.

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

13. Risk & Compliance Update

An overview was provided of monitoring and assurance undertaken by Lothian Pension Fund noting any material observations or exceptions together with a summary of the ongoing work to enhance current risk management arrangements.

Introduction of the revised risk assessment methodology as well as a full review and validation of the risks and controls themselves had led to some changes in risk ratings as set out in appendices 1 and 2 of the report. There were currently 2 high rated risks – Regulatory Breach and Supplier Performance and Oversight, however the LPF management team were satisfied that the action plans established to address the noted weaknesses in both reviews would mitigate these risks.

In response to questions regarding Councillor Watt's role on the Scottish Local Government Pension Scheme Advisory Board, it was clarified that Councillor Watt sits as the COSLA representative on the Board and that the Chief Investment Officer, Lothian Pension Fund acts as the Fund's adviser to the Board.

Decision

- 1) To note LPF Group's risk register and quarterly update.
- 2) To note a review of the existing Group risk register had been undertaken and a revised risk register created.

- 3) To note the ongoing strategy and development around the Group's risk management framework.
- 4) To note the increase in capital request to LPFI Board to meet FCA regulatory capital requirements.

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

14. Motion by Councillor Burgess – Lothian Pension Fund Investments in Oil and Gas Companies

The following motion by Councillor Burgess was submitted in terms of Standing Order 11 and verbally adjusted:

“Committee:

- 1) Notes given the Climate Emergency and the fiduciary duty of pension funds that it is important for the Lothian Pension Fund to be clear about its investments in companies whose principal business is oil and gas.
- 2) Requests a report to the next committee meeting detailing all investments currently held by Lothian Pension Fund in companies whose principal business is in fossil fuels, for example BP, Shell, TotalEnergies, Exxon and Chevron.”
- 3) Requests the report include information on changes to these investments in the last 3 years.

Decision

To approve the adjusted motion by Councillor Burgess.

15. Employer Covenant Review 2023

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 and 6 of Schedule 7(A) of the Act.

A brief overview was provided of the recent employer covenant analysis undertaken by the Fund in preparation for the 2023 Actuarial Valuation.

Decision

- 1) To note the results of the employer covenant analysis for the Fund.
- 2) To note that such analysis would be reported to Committee on an annual basis.

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

16. Employers Participating in Lothian Pension Fund

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, was requested to exclude 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 and 6 of Schedule 7(A) of the Act.

An overview of the Employers Participating in the Lothian Pension Fund was provided.

Decision

- 1) To note the changes to the employers participating in the Lothian Pension Fund.
- 2) To note the progress made by Lothian Pension Fund in engaging with employers to recover cessation debts.

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

17. 2023 Triennial Valuation – High Level Indicative Results

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, was requested to exclude 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 and 6 of Schedule 7(A) of the Act.

The initial high level results of the 2023 Triennial Valuation were presented. The valuation report explained the process, derivation of assumptions and analysis of change from the previous valuation.

Decision

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

- 1)

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