

## Pensions Committee Minutes

**1.30pm, Tuesday 5 December 2023**

### **Present:**

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

### **Pension Board Members present:**

Jim Anderson, Tony Beecher, Sharon Dalli, Tom Howorth, Darren May, and Alan Williamson.

### **Other Attendees:**

Alison Murray (Independent Professional Observer).

**Apologies:** Brian Robertson, Pension Board Member and Thomas Carr-Pollock, Pension Board Member

## **1. Quorum**

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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**

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The Convener proposed that the order of business be adjusted to allow item 6.3 to be heard after the deputation at item 4.1.

### **Decision**

To agree to adjust the order of business to hear Item 6.3 following the deputation at item 4.1.

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

In response to a point of order raised by John Anzani in relation to Standing order 2.5 requesting clarification on the procedure for reports that had not been tabled at the previous meeting. The Convener clarified that as the report had not been submitted as an urgent item at the previous meeting in terms of standing order 2.5 the report would not automatically be submitted to the next meeting. The Convener further advised that the item had been concluded at the previous meeting. Thereafter the Convener agreed to discuss the issue with the Convener or of the Pensions Audit Sub Committee outside of the meeting and to look for ways of moving forward.

**Decision**

- 1) To note that the Convener of the Pensions Committee to discuss the issue with the Convener of the Pensions Audit Sub Committee outside of the meeting; and
- 2) To note the point of order raised by John Anzani.

**(b) Point of Order – Update on Legal advice being sought on behalf of the Pensions Committee**

In response to a point of order raised by John Anzani raised in relation to the legal advice being sought in relation to the Committees response to the legal review initiated by the Pension Board into the decision making process on Project Forth, The Convener confirmed that she would provide a verbal update at a later point in the meeting.

**Decision**

To note the point of order raised by John Anzani.

**(c) Point of Order – Clarification on advice provided regarding standing order 13.2 and the Local Government Pension Scheme Regulation 2015.**

In response to a point of order raised by Jim Anderson, the Convener agreed to invite the Head of Democracy Governance and Resilience to provide clarification regarding the advice provided regarding Standing order 13.2 and the Local Government Pension Scheme Regulations 2015 in relation to Item 6.7 at the meeting of the Pensions Committee on the 27<sup>th</sup> of September 2023.

**Decision**

- 1) To agree to invite the Head of Democracy Governance and Resilience to provide clarification regarding the advice provided regarding Standing order 13.2 and the Local Government Pension Scheme Regulations 2015; and
- 2) To note the point of order raised by Jim Anderson.

**3. Declaration of Interests**

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**(a) Declarations of Interest**

John Anzani made a transparency statement outlining that no part of his income was impacted by the City of Edinburgh Council being the administrative authority.

John Anzani made a transparency statement as his wife is a non-Executive Director on the Board of Enjoy Leisure East Lothian.

Item 6.5 Councillor Doggart made a transparency statement as a Fellow of the Institute and Faculty of Actuaries.

Item 9.1 Richard Lamont made a transparency statement as an employee of Visit Scotland

**(b) Enhanced conflict of interest register.**

Officers took the opportunity to confirm that an enhanced conflict of interest register would be submitted from 2024.

### **Decision**

To note that officers would be submitting an enhanced conflict of interest register in 2024.

## **4. Deputation**

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- (a) Time To Divest (in relation to item 6.3 Business Plan and Budget Update)
- The deputation shared details of the hostilities in Gaza and Israel, emphasising the deputation's opinion on the collective duty to stop atrocities being committed. The deputation referenced LPF's responsibility to respect human rights and expressed concern in regard to investments the deputation viewed as having links to the crises. The deputation urged members to consider divesting from any such investments.

## **5. Business Plan and Budget Update**

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An update on the progress against the 2023-2024 strategy and business plan and performance indicators was provided along with an overview of the actions required to enable the fund to meet its objectives.

Following questions regarding 'The Employee Engagement index KPI of 70% or above' contained within the 2023-2024 Strategy and Business Plan, officers agreed to provide a detailed breakdown of employee engagement.

In response comments made in relation to paragraph 4.26, which referred to higher interest rates divert cash to unproductive interest payments members noted that US Government figures had been used and asked that officers make this clearer in future reports.

Following discussion in relation to the deputation submitted by Time to Divest, members agreed that officers would circulate a briefing note to members to provide more information and context enabling members to consider the issues raised by the deputation.

### **Decision**

- 1) To note the progress of the Fund against the 2023-24 Business Plan, together with specific updates on:
  - Performance indicators
  - Membership and cashflow monitoring
- 2) To agree that officers provide a breakdown of employee engagement
- 3) To agree that officers circulate a briefing note to members to provide more information and context enabling members to consider the issues raised by the deputation. ; and
- 4) To note that United States Government figures had been used in relation to interest rates, and to request that this was made clear in future reports.

**Dissent**

Councillor Burgess requested that his dissent to the above decision be recorded.

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

**6. Minute**

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**Decision**

- 1) To request that the Committee Clerk seeks clarification for the Minute of the Pensions Committee 27 September 2023 in regard to the wording of Section 7 in relation to the decision taken by Falkirk Pension Fund regarding the termination of Project Forth; and
- 2) To note that the revised minute would be submitted to the next regular meeting.

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

**7. Referrals and Recommendations from the Pensions Audit Sub-Committee of 04 December 2023**

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By way of a verbal update, the Convener of the Pensions Audit Sub Committee acknowledged the attendance of Andy Marchant, Independent Non-Executive Director of LPFE and LPFI, and colleagues from the City of Edinburgh Council's Internal Audit Team at the Audit Sub Committee meeting.

Positive responses were noted regarding the Internal Audit Update. Strong views were expressed in relation to data quality and the failure of employers to provide information on time.

The Audit Sub-Committee took the opportunity to commend the work undertaken by LPF officers in relation to the IT Information Security Update. It was noted that further updates and recommendations will be made at the relevant agenda items.

**Decision**

- 1) To note the update provided by the Convener of the Pensions Audit Sub Committee;
- 2) To commend the work undertaken by officers in relation to the IT Information Security Update; and
- 3) To note the updates provided by the Convener of the Pensions Audit Sub-Committee at relevant agenda items.

**8. Agenda Planning Update**

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An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings in 2024 was presented. An update was also provided on key actions from the meeting of Pensions Committee in September 2023. It was acknowledged that specific matters and papers that were not set out in the agenda planning document would be brought to the committee in addition to the papers outlined.

In response to members comments regarding the visibility of the action tracker, it was agreed that the action tracker which is currently appended to the Agenda Planning Update would be included as a separate item for discussion on future agendas.

### **Decision**

- 1) To note the agenda planning document and the action tracker (appendix 2);
- 2) To note that the Pension Board members are invited to comment on agenda items during Committee meetings;
- 3) To note that the Audit Sub Committee will have an additional meeting on the 19 March 2024 to consider the actuarial valuation and the AVC review paper;
- 4) To agree that officers will submit a report in relation to training hours for members;
- 5) To agree that the action tracker appended to the Agenda Planning Update would be included as an item on future agendas; and
- 6) To note that a Governance review which will also include Committee and Board effectiveness reviews will be considered for 2024/25.

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

## **9. Stewardship**

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An overview of the of the approach to stewardship of the funds' assets was provided with reference being made to the Statement of Responsible Investments which is approved annually by committee. Minor changes to the latest version of the Statement of Responsible Investments were highlighted including clarification on the funds approach to climate change.

The report referenced minor changes to the Statement of Responsible Investments as recommended by officers with clarification being provided of the fund's approach to climate change. Members were also reminded that the LPF's approach of engagement is validated by the United Nations backed Principles for Responsible Investment and the Financial Reporting Council's Stewardship Conde.

### **Proposal 1**

The following proposal was moved by Councillor Watt (seconded by Councillor Burgess):

- 1) To note the paper;
- 2) To approve the updated Statement of Responsible Investment Principles (SRIP);
- 3) To note the following;
  - a. Regarding section 2.4 of the LPF officers report - 'This paper expands on the fund's approach to engagement rather than indiscriminate divestment, an approach that has been reviewed regularly by the Pensions Committee and officers, who have always agreed that engagement is more responsible and potentially impactful' – that this has not been and is not the unanimous view of the Pensions committee;

- b. Regarding section 2.5 of the LPF officers report - ‘Several times in the past, the Pensions Committee has considered the rationale for and against divestment/ inclusion and always concluded that exclusion of a whole sector would constrain the fund and potentially be a breach of the fiduciary duty owed to the members and employers, who fund the scheme. When it comes to investing or not investing in shares, they have supported analysis of financial returns on a case-by-case basis’ - that this has not been and is not the unanimous view of the Pensions committee;

- 4) To agree to amend the SRIP at page 7, “Deny debt, engage equity” as below;

While the trading of equities (shares) may not in itself affect the capital position of a company, subscribing to new bonds and new equity does provide companies with funding. Within our equity portfolio we engage with our holdings, and that engagement includes using the tools and strategies we have at our disposal to influence companies to commit to align with the goals of the Paris agreement. In our debt portfolios we aim to deny funding to those non-aligned companies. Where material risks remain following engagement activity, we retain the ability to divest.

## Proposal 2

The following proposal was moved by Cllr Doggart (seconded by Richard Lamont):

- 1) To note the paper; and
- 2) To approve the updated Statement of Responsible Investment Principles (SRIP);

## Voting

For Proposal 1 - 4 votes

For Proposal 2 - 3 votes

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

For Proposal 2 – John Anzani; Councillor Doggart and Richard Lamont)

## Decision

To approve Proposal 1 by Councillor Watt as follows:

- 1) To note the paper;
- 2) To agree to approve the updated Statement of Responsible Investment Principles (SRIP);
- 3) To note the following;
  - a. Regarding section 2.4 of the LPF officers report - ‘This paper expands on the fund's approach to engagement rather than indiscriminate divestment, an approach that has been reviewed regularly by the Pensions Committee and officers, who have always agreed that engagement is more responsible and potentially impactful’ – that this has not been and is not the unanimous view of the Pensions committee;
  - b. Regarding section 2.5 of the LPF officers report - ‘Several times in the past, the Pensions Committee has considered the rationale for and against divestment/

inclusion and always concluded that exclusion of a whole sector would constrain the fund and potentially be a breach of the fiduciary duty owed to the members and employers, who fund the scheme. When it comes to investing or not investing in shares, they have supported analysis of financial returns on a case-by-case basis' - that this has not been and is not the unanimous view of the Pensions committee;

- 4) To agree to amend the SRIP at page 7, "Deny debt, engage equity" as below;

While the trading of equities (shares) may not in itself affect the capital position of a company, subscribing to new bonds and new equity does provide companies with funding. Within our equity portfolio we engage with our holdings, and that engagement includes using the tools and strategies we have at our disposal to influence companies to commit to align with the goals of the Paris agreement. In our debt portfolios we aim to deny funding to those non-aligned companies. Where material risks remain following engagement activity, we retain the ability to divest.

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

## 10. Holdings Report

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The report provided a written in response to the request at the meeting of Pensions Committee on the 27 September 2023 for a detailed outline of all investment currently held by the Lothian Pension Fund in companies whose primary business is fossil fuels. It was outlined that officers have supported transparency by publishing all holdings on the Lothian Pension Funds website and have highlighted the broader context for the fund's investments.

### Decision

- 1) To note the report; and
- 2) To agree that LPF officers provide a report to the committee on the progress being made towards, and the feasibility of, reducing current investments in fossil fuel companies and increasing investment in the transition to low-carbon energy and industry, including;
  - a. the pros and cons for sustainability of fund income over the short to long-term
  - b. a potential outline plan and timeline for achieving this goal

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

(References – Pensions Committee 27 September 2023 (item 14); report by the Chief Investment Officer, Lothian Pension Fund, submitted)

## 11. Risk & Compliance Update

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An overview of the monitoring and assurance undertaken by Lothian Pension Fund since the last meeting along with material observations and exceptions was provided. The report also provided a summary of the ongoing work to enhance current risk management arrangements.

### **Decision**

To note the report.

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

## **12. Additional Item – Valedictory Remarks**

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Members of the Pensions Committee took the opportunity to register thanks to Bruce Miller for his work with Lothian Pension Fund and his work with both the Pensions Committee and the Pensions Board.

### **Decision**

To note the Committee's thanks to Bruce Miller for his work with Lothian Pension Fund and his work with both the Pensions Committee and the Pensions Board.

## **13.2023 Triennial Valuation Update**

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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.

### **Decision**

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

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

## **14. Additional Item – Update on Legal advice being sought on behalf of the Pensions Committee**

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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 6 of Schedule 7(A) of the Act.

### **Decision**

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