

Pensions Committee (“Committee”) Minutes

2pm, Wednesday 26 June 2024

Present:

Councillors Watt (Convener), Burgess, Nols-McVey, Ross and Whyte; John Anzani and Richard Lamont.

Pension Board Members present:

Tony Beecher, Jill Brownell, Thomas Carr Pollock, Sharon Dalli, Tom Howarth, Brian Robertson, and Alan Williamson.

Independent Professional Observer:

Alison Murray.

Apologies:

Kevin McGuire (Pension Board Member).

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present. The Convener declared the meeting open, welcoming Councillors Nols-McVey and Whyte as new members of the Committee.

2. Order of Business

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

3. Declaration of Interests

John Anzani made two transparency statements. Firstly, that no part of his income was impacted by the City of Edinburgh Council being the administrative authority. Secondly, that his wife is the Vice-Chair of the Board of Enjoy Leisure, East Lothian.

4. Deputation

There were no deputations.

5. Amended Minute of the Pensions Committee 27 September 2024

Decision

To approve the minute as a correct record.

6. Minutes of the Pensions Committee 20 March 2024

Decision

- 1) To approve the minute as a correct record subject to some minor typographical corrections, which included the addition of the word “branch” after the word “Union” in the third sentence of Item 3 of the minute (Declaration of Interest”); and
- 2) To note that evidence in support of the claims by the Deputation at the Committee meeting in March 2024 had not, subsequently, been received.

7. Action Tracker

The Committee’s Actions Tracker for June 2024 was presented, providing a status update on the actions arising from prior Committee meetings.

Decision

- 1) To note the clarification given verbally at the Committee from the City of Edinburgh Council’s Head of Governance, Democracy and Resilience about previous advice in respect of Standing Order 13 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015;
- 2) To agree all the actions noted on the Action Tracker as recommended for closure would be closed;
- 3) To agree the action of 5 December related to the Point of Order (Pension Board Review Request) would also be closed, recognising Item 10 below; and
- 4) To otherwise note the remaining actions on the Action Tracker.

(Reference – Action Tracker, submitted.)

8. Referrals and Recommendations from the Pensions Audit Sub-Committee of 24 June 2024

By way of a verbal update, the Convener of the Pensions Audit Sub Committee (“Sub Committee”) highlighted the salient matters considered by the Sub Committee on 24 June, which had included the Internal Audit Annual Report and Opinion for the year ended 31 March 2024. This had been the first unqualified opinion, which provided assurance across the Lothian Pension Fund group with the inclusion of LPFE Limited and LPFI Limited. An update on the status of Internal Audit activity and management actions had also been provided, which had included the outcomes of the recently completed Business Continuity Management audit. The Sub Committee had also considered the unaudited Annual Report and Financial Statements for Lothian Pension Fund and Scottish Homes Pension Fund for the year ended 31 March 2024. No material matters had arisen. Lastly, the Sub Committee had received updates on Lothian Pension Fund’s supplier management of its global custodian, and on progress against Lothian Pension Fund’s Information Security objectives. Further updates and recommendations would be made at the relevant agenda items.

Decision

- 1) To note the update provided by the Convener of the Sub Committee; and
- 2) To note the updates provided by the Convener of the Sub-Committee at relevant agenda items.

9. Quarterly Governance Update

An update from officers regarding governance matters, in addition to the usual agenda planning, was provided. In the context of appointments to the Sub Committee, a change in the Committee's membership outside a Council election period was discussed. In this regard, while it was acknowledged that Council was invited annually to consider the membership of its committees (and change is, therefore, not entirely unusual or unexpected), the potential impact of change on (for example) continuity and knowledge and experience was acknowledged. The expectations of the Pensions Regulator related to knowledge and experience were emphasised. During the discussion, it was highlighted that the political parties were encouraged to take matters such as continuity into consideration when deciding upon elected representation.

Separately, officers clarified some change in the membership of Senior Leadership governance forums, which had been established by Lothian Pension Fund's Chief Executive Officer, designed to improve clarity and efficiency having also verified the completeness of the scope for each forum.

An initial gap analysis in respect of the 'governance' modules of the Pension Regulators General Code of Practice 2024 was provided, with a full analysis expected in September, alongside (if necessary and to the extent possible) an associated action plan to address any gaps.

Decision

- 1) To appoint Councillor Iain Whyte and Richard Lamont as new members of the Sub Committee with effect from 28 June 2024, recognising that Richard Lamont's appointment would be conditional on his reappointment to the Committee by the City of Edinburgh Council ("Council") on 27 June 2024;
- 2) To appoint Councillor Neil Ross as Convener of the Pensions Audit Sub Committee, with effect from 28 June 2024;
- 3) To note, as matters related to Decision 1 and 2 of this Item:
 - 3.1 that, on 9 May 2024, Council approved two changes to the Committee's elected membership, being that Councillor Iain Whyte and Councillor Adam Nols-McVey were appointed. These appointments seeing Councillor Phil Doggart and Councillor Vicky Nicolson step down from the Committee. Consequently, Councillor Doggart also stepped down from the Sub Committee;
 - 3.2 that the Member Representative of the Committee and the Convener of the Sub Committee, John Anzani, would step down from the Committee on 27 June 2024;
 - 3.3 that the tenure of the Committee's current Employer Representative, Richard Lamont, would also come to an end on 27 June 2024; and
 - 3.4 that, following a nomination and appointments process, Council would consider a recommendation at its meeting on 27 June 2024 that Nicola Brennan be appointed, and

Richard Lamont be reappointed to the Committee as the Member and Employer Representatives, respectively;

- 4) To agree that further information about the Local Authority Pension Fund Forum (“LAPFF”) would be circulated to Committee members, by email, inviting nominations from Committee members for consideration by the LAPFF for appointment to its Executive Committee (“Nomination”);
- 5) To agree to approve the Nomination by email, subject to that decision being ratified at the next Committee meeting in September;
- 6) To agree that a written report from the Convener of the Sub Committee would be brought to the Committee, on behalf of the Sub Committee, each June;
- 7) To note that Kevin McGuire had been appointed as a Pension Board member (Member Representative, Unison);
- 8) To note the initial compliance analysis in respect of the ‘governance’ modules of the Pension Regulators General Code of Practice 2024;
- 9) To note the annual governance overview; and
- 10) To note that the Pension Board member are invited to comment on agenda items during Committee meetings.

(Reference – report by the Company Secretary, Lothian Pension Fund, submitted.)

10. Cessation of Project Forth – Pension Board Decision Review Request

Further to a request by the Pension Board in accordance with the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015, the Committee undertook a review of the decision taken by the Committee on 27 September 2023 to cease Project Forth and to revisit the proposals when circumstances changed and, in any event, to review the options in two years (i.e., September 2025) and subject to Falkirk Council Pension Fund being minded to re-engage at that time (the “Decision”). Details on the background and other factual supporting information had been provided in a report to support the Committee. During the discussion, each member of the Committee expressed a view on the Decision and matters which had been considered pertinent to the Decision. Furthermore, during the discussion, it was acknowledged that the Committee’s membership had changed since September 2023, and that two of the Committee’s members had been Group Leaders in 2023. The Chair of the Pension Board also outlined the views of the Pension Board, referring to governance improvements. In this regard, it was acknowledged that consideration of potential governance improvements had been set out as a stated objective for the 2024/25 financial year in Lothian Pension Fund’s Strategy and Business Plan and, as such, a governance review would be undertaken. It was confirmed that the Pension Board would be engaged as part of any governance review.

Motion

The Committee recognises that as in 4.8 [b] the ground for cessation was the *fait accompli* presented by CEC indicating that it had no “appetite” to proceed.

The Committee now has evidence that that decision was not taken by any delegated body within CEC AND that the decision was taken on a basis that is incompatible with fiduciary duty “lots of work and risk for very little financial gain”. That is a judgment that only the Pensions Committee or full council

in the event of a proposal being tabled before them can take as the former is the only body delegated by the latter to consider such matters.

The Committee recognises that it must exercise fiduciary duty and that cannot be discharged by one or more individuals especially where they have not received the appropriate training.

The Committee resolves:

- 1) To gain sight of and properly consider the issues raised by the former Section 95 officer and to form a judgment as to whether they invalidate the whole Project Forth proposal;
- 2) The Committee understands that the Chief Executive of the City of Edinburgh Council may meet group leaders from time to time to discuss matters relating to the business of the Council in order to gauge political views on such business. However, that meeting is not a decision-making body and, whilst it may have been helpful to seek such views informally, as a result the perception of a decision being made outside formal structures potentially confused the decision-making process and was not fully in accordance with good governance;
- 3) To take advice as to the steps that CEC might need to take to be able to consider a proposal to move to a new model of fund management, what the resource implications may be and how those might be met, by the Fund if necessary;
- 4) To request that in the light of 1 & 2 above a properly costed options paper is brought to a future Pension Committee at a time to allow developments to proceed in 2025 if that is the decision of the Committee.”

- moved by John Anzani, seconded by Richard Lamont

Amendment

- 1) To uphold the decision of the Committee on 27 September 2023 to cease further work on Project Forth at this time and agree that options would be reviewed in two years. In taking this decision the Committee is satisfied they have received and considered all necessary information and that the decision is not contrary to The Pension Regulator’s Code of Practice, and that the decisions does not put at risk the financial viability of the Fund.
- 2) To note that ultimately the Committee took the decision in accordance with the correct governance processes, and this was reinforced by the Committee not supporting the recommendation to cease Project Forth in June 2023 but asking for further information, but agrees that improvements could have been made in the processes leading up to the Committee decision. These include:
 - 2.1)The City of Edinburgh Council’s view on whether it would have been supportive of the principle of a merger with another authority, the key principles to be considered in any such proposal and the changing arrangements in regard to it being the Administering Authority, both reserved matters for that body, should have been sought at the outset of the Project.
 - 2.2)The Committee understands that the Chief Executive of the City of Edinburgh Council may meet group leaders from time to time to discuss matters relating to the business of the Council in order to gauge political views on such business. However, that meeting is not a decision-making body and, whilst it may have been helpful to seek such views informally, as a

result the perception of a decision being made outside formal structures potentially confused the decision-making process and was not fully in accordance with good governance.

- 2.3) The clarity of decision making and roles and responsibilities of all those involved in projects should be clear at the outset so there is clear and communal understanding of the respective roles and duties of all parties involved, in particular when working with partners as required.
3. To agree to gain sight of and properly consider the issues raised by the former Section 95 officer and to form a judgment as to whether they invalidate the whole Project Forth proposal.
 4. To note that a governance review is in place.”

- moved by Councillor Watt, seconded by Councillor Ross

The amendment was adjusted and accepted as an amendment to the Motion.

Voting

The voting was as follows:

For the Motion (as adjusted) - 3 votes

For the Amendment - 4 votes

(For the Motion (as adjusted): John Anzani, Councillors Whyte and Nols-McVey.

For the Amendment: Richard Lamont, Councillors Watt, Burgess, and Ross.)

Decision

To approve the amendment by Councillor Watt.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, and Head of Governance, Democracy and Resilience, City of Edinburgh Council, submitted.)

11. Annual Report and Accounts (Unaudited)

The unaudited Annual Report and Financial Statements for Lothian Pension Fund and Scottish Homes Pension Fund for the year ended 31 March 2024 (“Annual Report”) was presented.

Decision

- 1) To note the Annual Report;
- 2) To note that the Annual Report would be submitted to the auditor, Azets Audit Services Limited, by the due date of 30 June 2024;
- 3) To note that, at the time of writing, final proof reading of the Annual Report was still underway and, therefore, potential corrections and any minor amendments would be completed prior to release to the auditor and publication on the website; and
- 4) To note the Business Plan and budget update appended to the report for information.

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

12. Internal Audit Annual Report and Opinion

The Internal Auditor's Annual Report and Opinion for Lothian Pension Fund was presented, which outlined the Internal Auditor's opinion on the adequacy and effectiveness of Lothian Pension Fund's governance, risk and control frameworks for the year ended 31 March 2024 ("Annual Report and Opinion"). An opinion of Reasonable Assurance had been provided. It was highlighted that the assessment ratings were set at a high threshold and, as such, the Annual Report and Opinion was a fair and good outcome. The outcome of the Business Continuity Management audit was also highlighted, as well as the phased implementation approach which would be taken to management actions (a model which may also be applied to future audits). In this regard, the Convener of the Sub Committee spoke positively about an improved approach to internal audit activity (on both the part of the Internal Auditor and the officers of Lothian Pension Fund) which had been observed by the Sub Committee in recent years. For example, the Sub Committee had considered the adoption of a phased implementation approach to be a more efficient and meaningful approach. Officers highlighted that a dedicated Business Continuity resource had been appointed to Lothian Pension Fund.

Decision

To note the Annual Report and Opinion.

(Reference – report by the Head of Internal Audit, City of Edinburgh Council, submitted.)

13. Statement of Investment Principles Review

The Statement of Investment Principles for Lothian Pension Fund and the Scottish Homes Pension Fund ("SIP") was presented. Officers explained that minor wording changes had been made to reflect changes to the policy groups and the Joint Investment Forum ("JIF"). The revised SIP had been reviewed and recommended for approval at the JIF in June 2024. Some final, minor, typographical corrections would be made prior to publication.

Decision

To agree to approve the revised SIP.

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

14. Approach to Responsible Investment – Climate Change

Further to a request by the Committee at its meeting in December 2023, a report on the progress being made towards, and the feasibility of, reducing Lothian Pension Fund's current investments in fossil fuel companies and increasing investment in the transition to low-carbon energy and industry was provided. That report also responded to the Committee's request to set out the pros and cons for sustainability of Fund income over the short to long term and a potential outline plan and timeline for achieving that goal. In this regard, the responsible investment framework in place at the date of the report was highlighted, which integrated Lothian Pension Fund's ambition to support the reduction in real-world carbon emissions over time with its commitment to its members and

employers. While the feasibility to both further reduce investment in fossil fuel companies and increase investment in the transition to low-carbon energy and industry was also highlighted, the Committee noted that Lothian Pension Fund's in-house investment team advised against the introduction of exclusions to fossil fuel stocks. The fiduciary duty was discussed. In this regard, during the discussion, officers highlighted that climate change and energy transition were part of the investment opportunities and risks considered by Lothian Pension Fund's investment team, and that Lothian Pension Fund had, for example, already committed to using data from the Transition Pathways Initiative.

Motion

"Committee;

- 1) Notes that this report confirms that *'it is feasible to both further reduce investments in fossil fuel companies and increase investment in the transition to low carbon energy and industry'*;
- 2) Notes that reducing LPF investments in the Oil & Gas section, and increasing investments in low-carbon energy may be in-line with fiduciary duty and the LPF Statement of Responsible Investment Principles as this would:
 - prevent LPF having Oil & Gas 'stranded assets' in future
 - contribute towards reducing climate change impacts on the global economy and on returns from LPF holdings
 - support a gradual 'just transition' to low-carbon energy and industry
 - not impact the ability of the LPF to pay members' pensions
 - contribute to protecting the well-being of fund members;
- 3) Notes that the policy of engagement has not succeeded in bringing major Oil & Gas companies into line with the UN Paris Agreement to limit global average temperatures 1.5 °C- for example as evidenced by the defeated shareholder resolution on limiting carbon emissions at Shell AGM 2024;
- 4) Notes that only a small proportion (2%) of LPF holdings are in Oil & Gas companies and also that most of these are in equities that are managed in-house, rather than being externally managed or being in other asset classes such as bonds. Further noted that the Oil & Gas sector makes up only around 5% of global equity markets;
- 5) Notes that the Church of England pension fund, for example, has adopted the independent Transition Pathway Initiative (TPI) assessment of alignment of carbon emissions with the UN Paris Agreement over short, medium and long-term as the criteria to assess Oil & Gas company investability;
- 6) Requests a report to the next Committee on 'next steps' including;
 - a) Commentary on the potential impact of climate change on the global economy and the long-term sustainability of LPF as highlighted at the recent Pensions Committee and board training session;
 - b) Using Transition Pathway Initiative's short, medium and long-term carbon performance assessments for Oil & Gas companies as a criteria to assess the investability of Oil & Gas companies;

- c) A proposal as to how LPF could do more to support real world transition including consideration of reduction in carbon metrics of fund portfolios and supporting the energy transition *analysed separately by in house and externally managed investments and by asset class.*

- moved by Councillor Burgess, seconded by Councillor Ross

Decision

To approve the motion by Councillor Burgess.

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

15. Approach to Responsible Investment – Conflict Affected Areas

Analysis was provided about three of Lothian Pension Fund’s holdings referred to by a Deputation in March 2024 as having some connection to Israel and Gaza, namely Caterpillar, Lockheed Martin and Siemens, which included details of engagement with those holdings. While the report noted that all three stocks were held across multiple in-house portfolios, and the three companies were large and diversified, with global areas of activities and a small share of activities in Israel and Gaza, the scope for further engagement with the three holdings was discussed. During the discussion, officers also explained that Lothian Pension Fund was also a member of the LAPFF who actively consider and engage on this matter.

Decision

To note the report.

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

16. Joint Investment Forum Activity Report

An update on the activity of the Joint Investment Forum for the year ended 31 March 2024, with a focus on Lothian Pension Fund and the Scottish Homes Pension Fund, was provided. It was highlighted that a new Terms of Reference for the Joint Investment Forum had been put in place during the year.

Decision

To note the activities of the Joint Investment Forum during the financial year 2023/24.

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

17. Annual Investment Update, Lothian Pension Fund

The Committee received the annual investment update for Lothian Pension Fund. Officers highlighted the total Fund return of +5.5% (compared to the benchmark return of +8.8%) over the twelve months to 31 March 2024. In addition, the returns from the Fund’s broad policy group benchmarks over one, five, and ten years as set out in the report were referred to, which demonstrated strong absolute returns had been achieved with Equities and Real Assets and that

over the five- and ten-year time periods the overall Fund had produced better than benchmark performance. The funding level was expected to have improved over the year to end March 2024 as Lothian Pension Fund's assets had modestly increased in value from the valuation at the end of March 2023, while liabilities were estimated to have declined in value due to higher interest rates. Views regarding Gilt exposure in the portfolio were discussed.

Decision

To note the asset allocation, investment performance and funding update of Lothian Pension Fund.

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

18. Annual Investment Update, Scottish Homes Pension Fund

An overview of the strategic allocation and invested assets of the Scottish Homes Pension Fund for the year ended 31 March 2024 was provided, with the Scottish Homes Pension Fund having returned -0.04% over the twelve months to 31st March as higher yields had been offset by income received.

Decision

To note the asset allocation, investment performance and funding update of the Scottish Homes Pension Fund.

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

19. Approval of Extension to Global Custody Services Contract

An extension of the global custody services contract with the Northern Trust Company for the period from 1 October 2024 to 28 February 2025 was sought, by way of a waiver of the Council's Contract Standing Orders. Officers highlighted that the extension would support a procurement exercise to be undertaken in the coming months by Lothian Pension Fund and its collaborative partners, Falkirk Pension Fund and Fife Pension Fund.

Decision

To approve the extension of the global custody services contract with the Northern Trust Company, by way of a waiver of the Council's Contract Standing Orders, for the period from 1 October 2024 to 28 February 2025.

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

20. Risk and Compliance Update

The report provided an overview of the monitoring and assurance undertaken in Lothian Pension Fund since previously reported to Committee in March 2024 noting any material observations and exceptions. The Sub Committee had also considered a quarterly risk report. The risk in relation to resourcing, recruitment and retention had stabilised since the date of the report. It was also clarified that the conflict-of-interest session (referred to in the report) had been for Lothian Pension Fund employees. Proposals by the Financial Conduct Authority about the options available to UK asset managers in how they pay for research was discussed, with officers highlighting that any change

would be for the Board of Directors of LPFI Limited to consider, in consultation with LPFI's partners, at an appropriate time, and if necessary. It was lastly clarified that the risk register summary ratings reflected the residual risk. Officers intended to undertake a refresh of the risk appetite statements, with the Committee being consulted at the appropriate time.

Decision

To note the LPF group's Risk Register and Quarterly Update.

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

21. Overpayment of Pension

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, 3 and 6 of Part 1 of Schedule 7(A) of the Act.

Decision

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

22. Additional Item - B Agenda Minute and Action Tracker

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, 3 and 6 of Part 1 Schedule 7(A) of the Act.

Decision

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