

Pensions Committee (“Committee”) Minutes

2pm, Wednesday 25 September 2024

Present:

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

Pension Board Members present:

Tony Beecher, Jill Brownell, Thomas Carr Pollock, Tom Howorth, and Alan Williamson.

Independent Professional Observer:

Alison Murray.

Apologies:

Nicola Brennan (Committee Member)

Sharon Dalli and Brian Robertson (Pension Board Members)

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.

2. Order of Business

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

3. Declaration of Interests

There were no declarations of interest or transparency statements.

4. Deputation

An application for a deputation had been delivered to the Clerk after the period set out in Standing Order 10.2 of Lothian Pension Fund’s Procedural Standing Orders. While the applicant had been notified that a deputation would be accepted in writing, nothing further had been received.

5. Amended Minute of the Pensions Committee 26 June 2024

Decision

To approve the minute as a correct record.

6. Action Tracker

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

Decision

- 1) To note the update given verbally at the Committee from the City of Edinburgh Council's Executive Director of Corporate Services in relation to matters raised by the former Section 95 officer, that Internal Audit had been asked to do a review and provide a report to the Committee in due course; and
- 2) To agree all the actions noted on the Action Tracker as recommended for closure would be closed.

(Reference – Action Tracker, submitted.)

7. Referrals and Recommendations from the Pensions Audit Sub-Committee of 24 September 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 September. The Sub Committee had considered five reports; four of which formed part of the Committee's agenda. In particular, the Sub Committee had been joined by the External Auditor and considered the audited Annual Report and Financial Statements for Lothian Pension Fund and Scottish Homes Pension Fund for the year ended 31 March 2024. The unqualified opinion had been applauded. The Sub Committee had discussed the request to inspect the Annual Report, as well as the objection to the Accounts (which had been received under Local Government legislation), recognising the likelihood for objections of a similar nature in future years in respect of matters related to climate change in financial modelling. The Sub Committee had also received an annual update on fraud prevention measures. While that report had provided assurance that there had been no cases of fraud (member, employer, supplier or colleague) identified in the period, the report principally focused on controls in pensions administration and operations. As such, the Sub Committee had requested that a broader update on fraud prevention controls, as well as a potential Recovery Policy, is brought to the Sub Committee in due course. 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;
- 2) To note the updates provided by the Convener of the Sub Committee at relevant agenda items; and
- 3) To request that a broader report on fraud prevention controls, as well as a potential Recovery Policy, is brought to the Sub Committee in due course.

8. Audited Annual Report and Accounts

The Chief Finance Officer, Lothian Pension Fund, introduced the audited Annual Report and Financial Statements for Lothian Pension Fund and Scottish Homes Pension Fund for the year ended 31 March 2024 (“Annual Report”). Some minor disclosure and presentational adjustments identified during the audit had been reflected in the Annual Report. In addition, the External Auditor, Chris Brown of Azets Audit Services, referred to the External Auditor’s Report to Members of the Pensions Committee and the Controller of the Audit, noting that the audit had been completed since that report had been issued to the Committee. The External Auditor gave a brief explanation of the key findings of the audit, noting that no material adjustments to the financial statements had been identified during the audit. There were no significant matters to report. The External Auditor had met with the objector to the Annual Report. The objection had centred around the Fund’s having not adequately disclosed the awareness of the Committee and officers to the significant risk that climate change is being significantly underestimated in the financial modelling for the Funds undertaken by its advisors. Additional narrative had been included in the Annual Report and the External Auditor content with the financial statements. Lastly, the Convener of the Sub Committee informed the Committee of the Sub Committee’s request for some clarification, in due course, related to management expenses in comparative terms to other funds. After consideration and having heard from the External Auditor, the Committee welcomed the unqualified opinion and expressed thanks to the External Auditor and all those involved in the preparation of the Annual Report.

Decision

- 1) To note the report by Azets Audit Services ‘Lothian Pension Funds 2023/24 Annual Audit Report to Members of the Pensions Committee and the Controller of the Audit;
- 2) To approve the Annual Report;
- 3) To note the objection to the accounts and the Fund and External Auditor’s response;
- 4) To note the audited financial statements, for the year ended 31 March 2024 of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in June 2024; and
- 5) To note the Letter of Representation (ISA 580) by the Chief Finance Officer, Lothian Pension Fund.

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

9. Internal Audit Report: Pensions Committee Governance and Operational Effectiveness

The Internal Auditor presented the outcomes of the Pensions Committee Governance and Operational Effectiveness audit. The overall assurance rating for the audit had been reasonable assurance, with one High, three Medium, and one Low rated finding raised. The audit had concluded a generally sound system of control was in place to support the Committee’s governance and operational effectiveness, with areas for improvement related to, for example, ensuring training is sufficiently structured and comprehensive, establishing effective working relationships and encouraging full interaction to ensure a focus on collective priorities. The Convener, and the

Committee more broadly, welcomed the audit and its recommendations. The Convener encouraged that the workshop referred to in the report be scheduled as soon as possible.

Decision

To agree the outcomes of the recently completed Pensions Committee Governance and Operational Effectiveness Internal Audit review.

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

10. Administering Authority Discretions Policy

Amendments to the Administering Authority’s Discretions Policy, related to the reinstatement of survivor pensions, were presented to the Committee for consideration and approval. It was explained that an additional provision had been added, in the interests of equality between the Local Government Pension (Scotland) Regulations 2018 and 1987 and 1974 Regulations, to decide whether to reinstate a pre-1998 survivor’s pension following earlier cessation due to remarriage or cohabitation.

Decision

To approve the draft revised Administering Authority discretions policy.

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

11. Stewardship Code and Engagement

The Fund’s Stewardship Report covering the period 1 April 2023 to 31 March 2024 was presented, in readiness for submission to the Financial Reporting Council (“FRC”) by 31 October 2024 (“Stewardship Report”). The Stewardship Report had been updated in several respects, for example new or updated case studies. There had been varying degrees of feedback from the FRC in respect of past reports. Further to some questions from members related to engagement and voting, Officers provided further clarification regarding some real effects of engagement (for example, being held to account on methane management plans) and the approach to voting in respect of some holdings as opposed to others.

Decision

- 1) To approve the Stewardship Report; and
- 2) To note that at the time of writing, final proof-reading of the Stewardship Report was still underway and, therefore, potential corrections, and any minor amendments would be completed prior to submission to the FRC.

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

12. Quarterly Governance Update

An update from Officers regarding governance matters, in addition to the usual agenda planning, was provided. Most notably an update was provided regarding specific governance developments in the

period related to (i) knowledge and expertise; (ii) gap analysis against the Pension Regulator’s new (single) Code of Practice; (iii) the development of a Scope and Methodology for the Governance Review; and a (iv) process framework for the practical implementation of a Pension Board review request under Regulation 9 of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 in the event of differences between the Committee and the Pension Board. In respect of the latter, the Committee were informed of a few minor points of feedback from the Pension Board. Separately, the Committee welcomed the Scope and Methodology for the Governance Review. On behalf of the Pension Board, its Chair also welcomed the review and the opportunity for the Pension Board to be involvement in that process. In this regard, the Chair outlined some points of feedback on the Scope which the Pension Board had considered useful, which included the addition of another representative of the City of Edinburgh Council as a member of the Governance Working Group, recognising their role as Administering Authority. A reference to ensuring that governance is designed and operates in such a way as to build and enhance the trust of Employers and Members, as part of the purpose of the review, was also considered beneficial.

Decision

- 1) To note Lothian Pension Funds Quarterly Governance Update;
- 2) To note the Future Agenda set out in the Update report;
- 3) To note the update on members’ training hours set out in the Update report;
- 4) To note the proposed Scope and Methodology for the Governance Review set out in the Update report and provide any comments; and
- 5) To note and endorse the draft process framework for Regulation 9 Review Requests set out in the Update report and provide any comments.

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

13. Business Plan and Budget Update

An update in relation to the progress of the 2023 – 2024 Strategy and Business Plan, performance indicators, and actions to enable Lothian Pension Fund to meet its key objectives was provided. The Addendum proposed by Councillor Burgess was introduced. During the discussion, views in respect of the role and remit of the Committee, insofar as related to individual holdings, and the fiduciary duty, in the context of the subject of climate change, were expressed by some members of the Committee. Recognising a request from the Pension Board to understand more fully from Officers the practical challenges, or impact, of Lothian Pension Fund not purchasing more shares in those fossil fuel companies listed in the ‘Holdings’ report for the December 2023 Committee (at least until the proposed LPF ‘Climate Transition Action Plan’ is presented to Committee) the provision of a briefing note from Officers was considered helpful.

Proposal 1

The following Addendum was proposed by Councillor Burgess:

- 1) To note the decision by this Committee at its last meeting to request *“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”*;

- 2) However, further notes the 67% increase in shares in TotalEnergies held by LPF between October 2023 and March 2024 (*The Scotsman, 9/8/24*) which significantly increased the carbon metric of fund portfolios rather than supporting the energy transition;
- 3) To note that LPF voted against TotalEnergies on ‘Climate/strategy progress, Director re-appointment and Governance/remuneration’ at its recent AGM, as reported in LPF ‘Engage’ ezine Summer 2024;
- 4) To note that LPF has an existing policy not to invest in new shares issues from companies not aligned with the 1.5°C target of the Paris climate change agreement; and
- 5) To, therefore, request that, for internally managed funds, LPF will not purchase any more shares in those fossil fuel companies listed in the ‘Holdings’ report for the December 2023 Pensions Committee, at least until the proposed LPF ‘Climate Transition Action Plan’ is presented to Committee.

Proposal 2

The following proposal was proposed by Councillor Whyte:

- 1) To note the report.

Voting

The voting was as follows:

For Proposal 1 - 3 votes

For Proposal 2 - 3 votes

(For Proposal 1: Councillors Burgess, Nols-McVey and Watt.

For Proposal 2: Councillors Ross and Whyte, and Richard Lamont.)

Decision

Pursuant to Standing Order 12.1 of Lothian Pension Fund’s Procedural Standing Orders, by the Convener’s casting vote:

- 1) To note progress of Lothian Pension Fund against the 2024-25 Business Plan, together with specific updates on:
 - Performance indicators,
 - Membership and cashflow monitoring;
- 2) To note the decision by this Committee at its last meeting to request “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”;
- 3) However, further notes the 67% increase in shares in TotalEnergies held by LPF between October 2023 and March 2024 (*The Scotsman, 9/8/24*) which significantly increased the carbon metric of fund portfolios rather than supporting the energy transition;

- 4) To note that LPF voted against TotalEnergies on 'Climate/strategy progress, Director re-appointment and Governance/remuneration' at its recent AGM, as reported in LPF 'Engage' ezine Summer 2024;
- 5) To note that LPF has an existing policy not to invest in new shares issues from companies not aligned with the 1.5°C target of the Paris climate change agreement;
- 6) To, therefore, request that, for internally managed funds, LPF will not purchase any more shares in those fossil fuel companies listed in the 'Holdings' report for the December 2023 Pensions Committee, at least until the proposed LPF 'Climate Transition Action Plan' is presented to Committee; and
- 7) To provide a briefing note on the practical challenges and implications of 6 above.

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

14. Contracts Award and Supplier Overview

An overview report referring to the contracts awarded by the Fund in the period between 1 July 2023 and 30 June 2024, was provided. During the period, Lothian Pension Fund had demonstrated a commitment to improving the supplier management process, with the implementation of all recommendations in the 2023 Internal Audit report, and additional enhancements such as the appointment of a Business Continuity and Supplier Manager in July 2024 and the initialisation of a strengthened relationship phase with the City of Edinburgh Council's procurement services team.

Decision

To note the contents of the report.

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

15. 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 June 2024 noting any material observations and exceptions. The Sub Committee had also considered a quarterly risk report. The two key risks regarding People and Governance had been deemed stable with mitigation measures in place. It was noted that the Sub Committee had considered the reframing of the communications risk and, in this connection, considered it important that Lothian Pension Fund is represented, for example in media, accurately and in a balanced manner.

Decision

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

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

16. Responsible Investment – Climate Change

Further to a request by the Committee at its meeting in June 2024, there was submitted a report by the Chief Investment Officer, Lothian Pension Fund, providing (a) commentary on the potential

impact of climate change on the global economy and the long-term sustainability of Lothian Pension Fund, (b) using Transition Pathway Initiative's ("TPI") short, medium and long-term carbon performance assessments for Oil and Gas companies as criteria to assess the invertibility of Oil and Gas companies, and (c) a proposal as to how Lothian Pension Fund could do more to support real world transition including consideration of reduction in carbon metrics of fund portfolios and supporting the energy transition analysed by in hour and externally managed investments and by asset class. Further to questions regarding the management quality scores, Officers confirmed that such scores are one of the data sources considered as part of a holistic approach to investment decision-making and explained that a rebalancing of some of the internal equity portfolios had taken place in Quarter 1 of 2024, and relevant (as a point of clarification) to Decision three at Agenda Item 13. Concerns were expressed on behalf of the Pension Board regarding the timeous circulation of motions and amendments and the continued ongoing requests related to divestment and climate risk over the past meeting cycles (and a potential risk that those may detract from other meaningful Committee and Lothian Pension Fund business). In response, it was recognised that the papers had been voluminous.

Proposal 1

The following Addendum was proposed by Councillor Burgess:

- 1) To broadly welcome the officers' proposals in this report at 4.14 'Doing More': (i) Enhancement of reporting to improve the narrative and transparency, (ii) Consideration of further commitments, (iii) Investigation of potential investment opportunities;
- 2) To endorse the Officer proposal 'to replace the ambition with a commitment to use TPI assessments to identify and mitigate the risk of exposure to sector 'laggards', particularly those high impact companies (including Oil & Gas) on the Climate Action 100+ focus list;
- 3) To request that this reframing of how TPI assessments are used, identifies laggards within the population of high-emitters covered by Climate Action 100+, as those not reaching a level 5 Management Quality score and is clear how Carbon Performance and Transition Plan assessments will be used for such laggards;
- 4) To request that reporting to Committee on engagement with sector laggards includes full information on what changes in company policy and operations this engagement has achieved in practice;
- 5) To endorse the proposal to develop a 'Climate Transition Action Plan' in order to achieve net zero portfolio emissions and requests that this is brought forward within the suggested timeframe of 12 months;
- 6) To welcome 'continued consideration of a broad range of climate transition investment opportunities' as LPF 'recognise that the world is currently not on track to limit global warming to 1.5°C above pre-industrial levels'; and
- 7) To requests an update on all above matters at the next Committee in December.

Proposal 2

The following proposal was proposed by Councillor Whyte:

- 1) To note the report.

Voting

The voting was as follows:

For Proposal 1 - 4 votes

For Proposal 2 - 2 votes

(For Proposal 1 – Councillor Burgess, Councillor Ross, Councillor Nols-McVey and Councillor Watt.

For Proposal 2 – Councillor Whyte and Richard Lamont.)

Decision

- 1) To note the report;
- 2) To broadly welcome the officers' proposals in this report at 4.14 'Doing More': (i) Enhancement of reporting to improve the narrative and transparency, (ii) Consideration of further commitments, (iii) Investigation of potential investment opportunities;
- 3) To endorse the Officer proposal 'to replace the ambition with a commitment to use TPI assessments to identify and mitigate the risk of exposure to sector 'laggards', particularly those high impact companies (including Oil & Gas) on the Climate Action 100+ focus list;
- 4) To request that this reframing of how TPI assessments are used, identifies laggards within the population of high-emitters covered by Climate Action 100+, as those not reaching a level 5 Management Quality score and is clear how Carbon Performance and Transition Plan assessments will be used for such laggards;
- 5) To request that reporting to Committee on engagement with sector laggards includes full information on what changes in company policy and operations this engagement has achieved in practice;
- 6) To endorse the proposal to develop a 'Climate Transition Action Plan' in order to achieve net zero portfolio emissions and requests that this is brought forward within the suggested timeframe of 12 months;
- 7) To welcome 'continued consideration of a broad range of climate transition investment opportunities' as LPF 'recognise that the world is currently not on track to limit global warming to 1.5°C above pre-industrial levels'; and
- 8) Requests an update on all above matters at the next Committee in December.

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

17. UK Government Pensions Investment Review – Call for Evidence

The Chief Executive Officer, Lothian Pension Fund, introduced a draft submission response on the UK Government's Pensions Investment Review: Call for Evidence which would consider, in the first phase, LGPS consolidation in England and Wales to drive efficiencies. Further phases to the review were also expected in due course. Following some brief discussion, the Committee considered it appropriate for Lothian Pension Fund to contribute to questions asked at a local or national level on this subject, provide a response, and follow the review with interest.

Decision

To note the report and provide comment on the draft Lothian Pension Fund submission.
(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted.)

18. Employer Covenant Review

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.

19. 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, 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.

20. Overpayment of Pensions

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.

21. Additional Item - B Agenda Minute

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.