



Pensions
Committee

17 January 2022

10.00 am

Item

4

Public

**MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 17
SEPTEMBER 2021
10.00AM – 1.45PM**

Responsible Officer: Sarah Townsend
Email: sarah.townsend@shropshire.gov.uk Tel: 01743 257721

Present

Shropshire Councillors

Councillor Thomas Biggins (Chairman)

Councillors Roger Evans, Simon Harris and Brian Williams

Co-Opted Members (Voting)

Carolyn Healy

Co-Opted Members (Non-Voting)

Jean Smith (Pensioner Representative), Laura Hoskison (Employee Representative Shropshire Council) and Byron Cooke (Employee representative Telford and Wrekin Council)

19 Apologies and Substitutions

Apologies were received from Councillor Rae Evans.

20 Appointment of Vice-Chairman

RESOLVED:

That Councillor Rae Evans be appointed Vice-Chairman of the Pensions Committee for the forthcoming municipal year.

21 Disclosable Pecuniary Interests

None were declared.

22 Minutes of the Previous Meeting

RESOLVED:

That the minutes of the meeting held on 25 June 2021 be approved and signed by the Chairman as a true record.

23 Public Questions

Six questions had been received from members of the public. The questions and responses were read out. A full copy of the questions and responses provided are attached to the web page for the meeting and attached to the signed minutes.

It was agreed to take Agenda Items 6 (Third Line of Assurance: Internal Audit Outturn Report for Shropshire County Pension Fund 2020/21), 7 (External Audit - The Audit Findings for Shropshire County Pension Fund 2020/21) and 8 (Pension Fund Annual Accounts 2020/21) together.

24 Third Line of Assurance: Internal Audit Outturn Report for Shropshire County Pension Fund 2020/21

The Committee received the report of the Head of Internal Audit, (copy attached to the signed Minutes) which provided members with details of the work undertaken by Internal Audit for the year ended 31 March 2021. It reported on progress against the annual audit plan agreed with the Head of Treasury and Pensions. It also provided the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

The Head of Internal Audit confirmed that good assurances were achieved across all audit areas that were looked at and that a full review of all the planned audit work had been completed. In addition, a piece of work had been undertaken on governance for the Local Government Pension Scheme which had no impact on the control environment of the Shropshire County Pension Fund. Based on the work undertaken the Head of Internal Audit confirmed that the fund had good internal processes, governance and risk management which were working effectively.

The Head of Internal Audit drew attention to paragraph 6.9 of the report which set out the assurances against the different audit areas and paragraph 6.13 which showed that there had been no fundamental or significant recommendations. The only recommendations made were low risk which required attention.

The Head of Internal Audit explained that the other area for which Members required assurance was around how good the internal auditors were and she referred to a self-assessment that had been presented to the Shropshire Council Audit Committee in July 2021.

A query was raised around section 5 Climate change appraisal as it was understood that this audit did not look at individual investments which was why it stated 'no effect' in the report. An explanation was requested as to why climate change risk and any other risks were not looked at as

part of the audit risk on the overall risk of the fund. In response the Head of Internal Audit explained that no specific climate change audit work had been undertaken as this was about the internal audit process and the climate change appraisal did not impact on that as the team worked remotely looking at the internal audit process so it had had less impact on carbon emissions. In terms of audit work, Internal Audit looked at the impact of all risks, whether it be climate change, fraud and corruption, efficiencies, waste etc and if they were relevant to that audit, they would be looked at in the scoping of that audit.

RESOLVED:

- 1) To note Performance against the Audit Plan for the year ended 31 March 2021.
- 2) To note the Head of Audit's substantial year end opinion on the Fund's internal control environment for 2020/21 based on the work undertaken, assurance from the Employer in respect of compensating controls within their financial reconciliation systems whilst a long-term solution was delivered and Pension Fund management responses received.

External Audit - The Audit Findings for Shropshire County Pension Fund 2020/21

The Committee received the report of the External Auditor, (copy attached to the signed Minutes) which presented the observations arising from the audit that were significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standards on Auditing (UK) 260 and the Code of Audit Practice.

The Engagement Lead for the audit of the Pension fund introduced and amplified this item. He explained that the Pension Fund accounts formed part of the Shropshire Council accounts and that the Audit Committee had delegated authority to approve the financial statements, and although this report would normally come to Pensions Committee first due to the timing of meetings this year, it had been presented to Audit Committee the previous day. It was hoped to sign off the accounts at the Audit Committee meeting on 22 October 2021, so there was an opportunity for any comments to be fed through.

The Engagement Lead took Members through the work that had been undertaken. In terms of the pension fund annual report, he explained that the valuation statements were coming from the investment managers at differing times so the accounts were having to be closed down on an estimated basis however, there was one estimate that the fund had made in respect of one investment in relation to Harbourvest for the year end that when the year end statement came in, there was a £45m difference to the figure in the annual report and as materiality for the overall fund

was set at 1% of net assets (approx £20m) this amounted to a material difference and therefore had to be adjusted in the annual report and the Council's accounts before they were published at the end of July.

The Engagement Lead confirmed that work on the audit had been substantially completed and that there were no significant issues to report. It was hoped to finalise the work in the next week or so and sign it off. He drew attention to a £6.8m valuation difference in respect of primary level 2 investments although it was not material. They had also reported a difference in benefits of £1.6m but upon further analysis undertaken were happy the figure was as expected. These items were considered to be unadjusted misstatements which were not believed to be material and management were not proposing to adjust them. Confirmation from Pensions Committee was required to confirm acceptance that the misstatements would not be adjusted.

RESOLVED:

That the contents of the report be noted.

Pension Fund Annual Accounts 2020/21

The Committee received the report of the Executive Director of Resources (Section 151 Officer) (copy attached to the signed Minutes) which provided Members with the Shropshire County Pension Fund Annual Report 2020/21 and an update on the annual audit. Grant Thornton had completed its annual audit and an unqualified opinion has been given.

The Executive Director of Resources advised the meeting that in the year to the end of March 2021 the total value of the fund had increased by £363 million to £2.194 billion. Members congratulated the Pensions Team on the performance.

A Member commented that Shropshire Council has a policy on climate change and asked whether it was a strategic risk for the Pension Fund, and should this risk be included in reports going forward. The Executive Director of Resources reminded Members that the Shropshire County Pension Fund was independent of Shropshire Council and the work of the Committee was directed by the fund not the Council. He added that climate change was probably one of the most significant risks that the fund was facing but that it was one of a number of risks that was being managed and that he felt the Committee and the Fund was taking the risks seriously.

In response to a question regarding the increase in transfers out the Pensions Administration manager advised that this was due to a number of factors, including outsourcing of work by the Council and transfer outs to other schemes/jobs and that it was hoped that this would be balanced by transfers in.

In response to a question regarding the move to LGPS being slower than anticipated the Head of Treasury and Pensions advised that the next 12 months would see a shift from 12% of assets invested with LGPS currently to over 70%

In response to a question regarding the risk to service of home working the Executive Director of Resources advised that Shropshire Council was working to ensure that officers could work from home successfully and that individual circumstances were looked at on a case-by-case basis and help given where appropriate. He added that the situation was reviewed on a regular basis.

The Chair asked that it be recorded that the Committee congratulate the Pensions Team on their performance in what had been a very trying year.

RESOLVED:

- 1) To approve the Pension Fund Annual Report 2020/21.
- 2) To approve that the Chair and Executive Director of Resources sign the letter of representation for Grant Thornton.

25 Focus Session: ESG, Responsible Investment and Engagement and Climate Strategy

Members received a presentation from Mr Patrick O'Hara, LGPS Central, which updated them on ESG, Responsible Investment and Engagement and Climate Strategy.

26 Introduction to Setting a Climate Related Target

Members received a presentation from Ms Emily McGuire, Aon which updated them on Setting a Climate Related Target.

A Member expressed concern that the training session connected with this topic was being held in the private part of the meeting and commented that there was need to satisfy certain rules. The Chairman advised that it was the practice of the Committee to hold training in private session and that he did not propose to move it out of the private session on this occasion.

27 Climate Change Strategy and Stewardship Plan

The Committee received the report of the Head of Treasury and Pensions, (copy attached to the signed Minutes) which sought approval of the Fund's initial Climate Change Strategy and Stewardship Plan and approval for its publication.

The Head of Treasury and Pensions reminded the meeting that the Fund had carried out a climate risk assessment in August 2020 and the Committee had received a presentation at its September meeting. He

added that the Committee had received further reports and training at subsequent meetings.

The Head of Treasury and Pensions informed the meeting that as part of the development of the Statement a consultation exercise was carried out in August with all participating employers.

A Member commented that there had not been a good response to the consultation, and that it had not been clear what was being expected, added that a large number of employers were schools who would be unable to respond in August.

A Member welcomed the development of the Strategy and commented that it could be fine tuned as time went on.

A Member commented that some of the wording of the Strategy was not strong enough and that we should be pushing fund managers to prioritise green investments. The Chair commented that the SCPF was one of the first funds in the country to adopt such a strategy and that the strategy was very much a working document and would evolve over time.

A Member commented that they felt further consultation was needed possibly as part of a refresh of the strategy and that consideration should be given to the timing of any consultation to allow all employers the opportunity to respond.

A Member commented that the funds approach was one of engagement over disinvestment and proposed an amendment to the strategy to allow disinvestment where such engagement failed to achieve results. Upon being put to the vote, the amended was not carried.

RESOLVED:

To approve the Climate Change Strategy & Stewardship Plan set out at Appendix A.

28 Corporate Governance Monitoring

The Committee received the report of the Investment Officer (copy attached to the signed Minutes) which informed them of Corporate Governance and socially responsible investment issues arising in the period 1st April 2021 to 30th June 2021.

A Member commented that there were a number of companies with a poor engagement record and asked at what point do we demand results or walk away. The Head of Treasury and Pensions commented that a lot of the Managers listed in the appendices of the Corporate Governance report had attended the Committee over the last 12 months to answer questions and update members on the progress being made from their engagement and voting activities.

RESOLVED:

Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A (A1, A2 & A3) and BMO Global Asset Management Responsible Engagement Overlay Activity Report at Appendix B (B1 & B2).

29 Investment Strategy Statement

The Committee received the report of the Head of Treasury and Pensions, (copy attached to the signed Minutes) which presented an updated Investment Strategy Statement.

The Head of Treasury and Pensions reminded the Committee that the Investment Strategy Statement had been approved in 2019 and following several workshops a revised strategy had been agreed and the statement had been updated to reflect this.

RESOLVED:

That the updated Investment Strategy Statement at Appendix A be approved.

30 Pensions Administration Monitoring

Members received the report of the Pensions Administration Manager which provided them with monitoring information on the performance of and issues affecting the pensions administration team.

The Pensions Administration Manager thanked employers for ensuring all data was sent on time which had meant that the Annual Benefit Statement was published on time.

The Pensions Administration Manager advised the meeting that the Government had introduced Pensions Dashboards where pension holders could see all their pensions in one place and that this was expected to go live between April 2023 and April 2025, and that currently the full impact of providing the information for this was not fully understood.

A Member commented that the Pensions Dashboard was a huge piece of work.

RESOLVED:

- 1) That Members accept the position as set out in the report.
- 2) That Members approve the revised Communications Policy set out at Appendix B of the report.

31 Exclusion of Press and Public

RESOLVED:

That under paragraph 10.2 of the Council's Access to Information Procedure Rules the proceedings of the Committee in relation to the following agenda items shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them.

Two votes against Item 17 being exempt information.

32 Exempt Minutes of the Previous Meeting (Exempted by Category 3)

RESOLVED:

That the exempt minutes of the meeting held on 25 June 2021 be approved as a correct record and signed by the Chairman.

33 Setting a Climate Related Target (Exempted by Category 3)

Members received a presentation from Ms Emily McGuire, Aon which updated them on Setting a Climate Related Target.

34 Equity Protection Update (Exempted by Category 3)

Members received a presentation from Ms Emily McGuire, Aon which updated them on Equity Protection.

35 Investment Monitoring - Quarter to 30 June 2021 (Exempted by Category 3)

The Committee received the exempt report of the Head of Treasury and Pensions which provided Members with monitoring information on investment performance and managers for the quarter period to 30 June 2021 and reported on the technical meetings held with managers since the quarter end.

RESOLVED:

That the recommendations as set out in the report be approved.

36 Governance (Exempted by Category 3)

Members received the exempt report of the Pensions Administration Manager which informed them of all governance issues affecting the Administration Team, including regulatory breaches arising in the quarter 1 April 2021 to 30 June 2021, that have been recorded in the breaches log.

RESOLVED:

That the recommendations as set out in the report be approved.

37 New Employers (Exempted by Category 3)

Members received the exempt report of the Pensions Administration Manager which provided Members with details of one new employer admission to the fund under Schedule 2 Part 3 Regulation 1(d) (i) of the Local Government Pension Scheme Regulations 2013.

RESOLVED:

That the recommendations as set out in the report be approved.

Signed (Chairman)

Date: