

**SCOTTISH BORDERS COUNCIL**  
**EXECUTIVE**  
**PENSION FUND SUB-COMMITTEE**

Item No. 4

MINUTE of MEETING of the PENSION FUND  
SUB-COMMITTEE held in the Council  
Chamber, Council Headquarters, Newtown St.  
Boswells on 13 September 2012 at 3.00 p.m.  
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Present:- Councillors B. White (Chairman) G. Edgar, G. Logan, J. Mitchell, S. Mountford.  
Apologies:- Councillors W. Archibald, M. Cook.  
In Attendance:- Chief Financial Officer, Treasury and Capital Manager, Mr Kenneth Ettles – AON  
Hewitt Consulting, Mr Alexander Barclay, Unite The Union, Committee and  
Elections Officer (V. MacMillan).  
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**MINUTE**

1. There had been circulated copies of the Minute of the Meeting of 13 June 2012.

**DECISION**

**NOTED for the signature of the Chairman, subject to the above amendment.**

**RISK REGISTER UPDATE**

2. With reference to paragraph 4 of the Minute of 6 March 2012, there had been circulated copies of a report by the Chief Financial Officer providing the Sub-Committee with the opportunity to review the Risk Register and update members on progress made. On 7 December 2011 the Sub-Committee reviewed and agreed the Risk Register for the Pension Fund. At the meeting of 6 March 2012 the Sub-Committee reviewed and agreed the proposed approach to the high risk items in the Risk Register. A copy of the full risk register was included in Appendix 1 to the report. As a result of the election of a new Sub-Committee a review of the Red risk progress was not brought to the June meeting. In order to bring the risk reporting back into line with the Council policy it was proposed that the Sub-Committee undertake both a review of the Red Risk progress and review the Amber risk to ensure that these were still appropriately assessed. In order to fit more appropriately into the Council's cycle it was then proposed to undertake a Red Risk progress review in December 2012 and a full risk register review in March 2013. Appendix 2 contained an update on progress in relation to the proposed actions for the Red Risks. Officers had reviewed the Amber risks and proposed that these were still appropriately assessed and did not need to change. Members asked if employees received annual statements that detailed the contributions that they had made to the Pension Fund, as Councillor Logan stated that he had not received any statements in the last five years. The Treasury and Capital Manager agreed to consult with Mr Ian Angus, the HR Shared Services Manager, and report back to the Committee. Officers answered Members questions.

**DECISION**

(a) **AGREED:-**

- (i) **to the Amber Risks being assessed as contained in Appendix 1; and**
- (ii) **to a further Red Risk review being undertaken in December 2012 and a full risk review being completed in March 2013.**

(b) **NOTED the progress on the Red Risk items as contained in Appendix 2.**

### **INVESTMENT STRATEGY REVIEW**

3. With reference to paragraph 3 of the Minute of 23 June 2010, there had been circulated copies of a report by the Chief Financial Officer proposing that the Council undertakes a high level investment review of the Pension Fund to inform an update of the Pension Fund's Statement of Investment Principles. Myners Principle 2: Clear Objectives stated that: 'An overall investment objective should be set out for the fund that takes account of the schemes liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to the risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers'. Myners Principle 3: Risk and Liabilities stated that: 'In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk'. An authority could demonstrate compliance with these Myners Principles through the review of its investment objective and the strategic asset allocation in light of updated actuarial valuations of the Fund's liabilities. The objective of the investment review was to assess the extent to which the current investment strategy and associated asset allocation still delivered the investment objectives of the Pension Fund as set out in the Statement of Investment Principles in Appendix 1. As part of the considerations of the review AON Hewitt would be required to take into account the updated pension liability profile of the Fund and the current and predicted economic environment. It was anticipated that the review could be completed by the year end and reported to the Sub-Committee by March 2013, and this review would be used to inform the updating of the Statement of Investment Principles. Officers answered Members questions.

### **DECISION**

**AGREED to undertake a high level investment review to inform the update of the Pension Fund's Statement of Investment Principles.**

### **TRAINING POLICY**

4. There had been circulated copies of a report by the Chief Financial Officer proposing the adoption of a Training Policy Statement and Training Policy for the members of the Pension Fund Sub-Committee. A Training Policy Statement had been developed for adoption by the Pension Fund Sub-Committee which was in line with the CIPFA skills and knowledge framework recommended for Local Government Pension Schemes (LGPS). In line with best practice guidance and external audit recommendations a Training Policy had been developed for the Pension Fund. A copy of the proposed Policy was attached at Appendix 1. This Policy included the requirement for members to participate in training events and demonstrate this through the maintenance of training logs. The Training Knowledge Assessment was summarised in Appendix 2 and would inform the training programme and provide the baseline for future performance reporting in the Pension Fund Annual Reports. An Initial Training Programme had been included at Appendix 3 for approval and members were strongly encouraged to actively participate in this to demonstrate their commitment to building the knowledge to support effective decision making. The proposals contained in this report respond fully to the recommendations by External Audit as part of the 2011/12 Audit. The Treasury and Capital Manager advised that she would circulate an e-mail to Members with the proposed dates for Pension Fund Training and would confirm the proposed dates according to the Members' availability to attend.

### **DECISION**

**(a) AGREED:-**

- (i) to undertake a further Training Knowledge Assessment in March 2013 to inform the 2012/13 Annual Report and to establish an annual cycle of assessment each March; and**
- (ii) that the Corporate Finance Manager would co-ordinate and prioritise attendees at the Scottish Local Authority Pension Induction event on**

the 24 October 2012, giving initial priority to elected members who have not previously sat on the Pension Fund Sub-Committee.

**(b) AGREED to APPROVE:-**

- (i) the adoption of the Training Policy Statement:-**  
The Council recognises the importance of ensuring that all staff and members charged with the financial administration and decision making with regard to the Scottish Borders Council Pension Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.  
It therefore seeks to utilise individuals who are both capable and experienced and it will provide and arrange training for staff and members of the Pension Fund Sub-Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills;
- (ii) the Training Policy as set out in Appendix 1; and**
- (iii) the Initial Training Programme set out in Appendix 3 and agrees that all members should prioritise attendance at these training dates wherever practicable.**

**URGENT BUSINESS**

- 5. Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to keep Members informed.

**MEETING ARRANGEMENTS**

- 6. The Treasury and Capital Manager circulated a report during the meeting by the Chief Financial Officer asking Members to consider the format of ongoing meetings following the appointment of additional investment managers. The Treasury and Capital Manager advised that in many Local Authority Pension Funds the investment agenda was separated into a different Committee from all other pension related matters and Members were asked to consider whether this would be an appropriate way to manage the volume of business following the appointment of additional investment managers. Other alternative approaches included changing the format of the Pension Fund Sub-Committee into a longer meeting on a single day to accommodate the additional business or to have more than one Sub-Committee meeting in a quarter. Members were also required to consider the appropriate frequency and approach to investment managers' attendance at meetings to best meet the requirements of proper review. Various options were attached in Appendix 1 and Appendix 2 summarised the advantages and disadvantages of these proposals. Members discussed the options and the pros and cons of each option and agreed that option 1 should be investigated further with the Clerk to Council.

**DECISION**

**AGREED that the Treasury and Capital Manager would investigate the meeting arrangements of Option 1 described in Appendix 1 to the report with the Clerk to the Council and would report back at the next Pension Fund Sub-Committee meeting.**

**PRIVATE BUSINESS**

**DECISION**

**AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 8 of part 1 of Schedule 7A to the Act.**

## **SUMMARY OF PRIVATE BUSINESS**

### **Minute**

1. The Sub-Committee noted the Private Minute of the meeting of 13 June 2012.

### **Quarter 2 2012 Quarterly Performance Update**

2. The Sub-Committee noted a report by AON Hewitt Consulting.

### **Update on Transition to New Fund Managers**

3. The Sub-Committee noted a report by the Chief Financial Officer on an update on Transition to New Fund Managers.

### **Urgent Business – UBS Bond Portfolio**

4. The Sub-Committee noted an update by the Treasury and Capital Manager of the management of the UBS Bond Portfolio.

*The meeting concluded at 4.30p.m.*

## Auto Enrolment

## Item No. 5

Workplace Pensions law changed in October 2012, with all employers having to take action to fulfil the new legal duties as set out in the Pensions Act 2008. Under the new pensions law employers will need to automatically enrol certain workers into a pension scheme and contribute on their behalf. This requirement applies to all employers in the United Kingdom to help more workers to save for their retirement.

The responsibility to comply with the new legal requirements fall on employers and not the Pension Fund. However, through adherence with this new legislation it is likely that there will be an increase in membership of the Pension Fund.

### Staging Date

Within the new legislation each employer is given a staging date, date of commencement, based on the size of the employer's largest tax reference number. The following table provides details of the staging date, where employers will have to enrol eligible job holders into a qualifying pension scheme, for all Scheduled Bodies and Active Admitted Bodies: -

<b>Scheduled Bodies</b>	<b>Staging Date</b>
Borders College	1 February 2014
Scottish Borders Council	1 July 2013
Visit Scotland	Not Applicable

<b>Active Admitted Bodies</b>	<b>Staging Date</b>
Amey Community Limited	Not Applicable
BC Consultants	Not Applicable
Borders Sport and Leisure Trust	1 April 2014
GYP	Not Applicable
Jedburgh Leisure Facilities Trust	1 November 2016
Lothian and Borders Community Justice Authority	1 July 2013 *
Scottish Borders Housing Association	1 April 2014

\* Paid on Scottish Borders Council payroll

The bodies shown as Not Applicable related to those who have active members, however, will be admitting no new members.

### Eligible Job Holders

Under the new legislation employers have a duty to automatically enrol eligible job holders into a qualifying pension scheme. Where an employee is not currently a member of a workplace pension scheme they will automatically enrol if they meet the following criteria: -

- are not in a qualifying workplace pension scheme
- are aged 22 or over
- are under State Pension age
- earn more than £8,105 (this figure may change), and
- if they work, or usually work in the UK.

Employees who are not in a workplace pension scheme should be automatically enrolled into a pension if they meet the eligibility criteria. Workers can choose to opt out of the pension scheme. If the employee remains in the scheme the employer must contribute to their pension and employees will receive tax relief on their contributions.

### **Existing Pension Arrangements**

The current practice, within Scottish Borders Council, is to enrol all new starters into a pension, regardless of their age or earnings, with the exception of Casual/Relief employees. This will not change, as the policy on automatic enrolment and eligibility criteria are the minimum standards that employers are required to meet. Employers will still have the flexibility to enrol any employees (who do not meet the eligibility criteria) into the scheme.

### **Communication and Record Keeping**

The duty to communicate changes to all workers, at the right time, falls on the employer, not the Pension Fund. Additionally, the requirement to retain records and monitor the eligibility criteria of employees falls with the employer and not the Pension Fund.

### **Opt Out**

In order to comply with the legislation an employer **must not** send opt-out notices, the opt-out process should be handled by the Pension Fund Administrator. In the event of an opt-out the responsibility to refund any contributions falls to the employer and not the Pension Fund.

### **Scottish Borders Council**

Responsibility as employer, processing of payroll payments, and administration of the Scottish Borders Council Pension Fund are handled by the HR Shared Services team. We are currently looking at the legislation and what it means for the Council as an Employer, once we have fully planned this we will be contacting all Admitted and Scheduled Bodies to share our thoughts on a best approach to ensure all requirements under Automatic Enrolment are considered.

Ian Angus  
HR Shared Services Manager  
16 November 2012

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## **PENSIONS ADMINISTRATION SYSTEM**

**Report by Chief Executive**

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### **PENSIONS FUND COMMITTEE**

**11 December 2012**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report seeks approval to commence the procurement project to replace the Pensions Administration System for the Scottish Borders Council Pension Fund.**
- 1.2 The licence agreement for the existing system is due to expire in November 2013, the current application will not be developed to meet with upcoming legislation changes due in 2014/15.
- 1.3 The system is an essential administrative tool that supports the provision of a high quality administration service for the Pension Fund.
- 1.4 This is an opportunity to implement a modernised application with the functionality to provide an improved and efficient experience for members of the Pension Fund, through the implementation of Self Service functionality.

#### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Committee:- approves the commencement of a procurement project to replace the Pensions Administration System, with a further report to be submitted for consideration once actual costs are known.**

### 3 BACKGROUND

- 3.1 The Pensions Administration Team, within HR Shared Services, currently use's the Heywood's AXISE system to assist with the administration of the Scottish Borders Council Pension Fund. The system has been in place since October 1999 and is an essential tool used by the team to provide a high quality of service during this period.
- 3.2 The licence for the system was originally signed in October 1999 for a period of three years. This was then extended for a further three year period in January 2001, again in October 2004 and March 2008 for three year periods. In November 2011 the Council exercised the right to extend the contract for a further year under the existing terms and conditions.
- 3.3 In light of the contract expiring on 17 November 2012 agreement was reached with the Council's procurement team to extend the licence of the system for a further year to 17 November 2013, this was permitted within the terms of the contract, with costs being retained at existing prices, as follows:-

	Annual Value (£)
Unix Management – Licence	6,377.00
Unix Management – Maintenance	4,217.00
CLASS – LGPS – Licence	12,436.00
CLASS – LGPS – Maintenance	19,611.00
CLASS – LGPS – Development Fee	1,000.00
Microfocus Licence	177.50
Total Value (exc VAT)	43,818.50

- CLASS – LGPS relates to the provision of software to meet the legislative requirements of the Local Government Pension Scheme.
  - CLASS – LGPS – Development Fee relates to a contribution to the development of software to fulfil the requirements of legislative changes. This is a collaborative approach where all users of the system share the costs of developing software to meet legislative changes.
  - Microfocus Licence is required by users of the system, due to the need to install operating software on individual computers.
- 3.4 In addition to the above, a payment of £1416.30 (exc VAT) is paid for the Hardware Maintenance of the server. This contract currently runs for one year from 1 March 2012.
- 3.5 The system is a Unix based system, which is located on a server in the Business and Information Services computer room. All upgrades and housekeeping of the system are carried out by members of the HR Shared Services Team.
- 3.6 The system provider has indicated that the current version of the application will not be enhanced to meet legislation changes likely to arise through LGPS changes and the Hutton Review. Therefore, removing any possibility of extending the licence on the current version.



## **4 PROPOSAL**

- 4.1 That officers commence a procurement project to replace the Pensions Administration System, obtaining costs of replacement and reporting back to the Committee for approval.
- 4.2 A main consideration for the replacement system must include assurances over costs of development when legislation changes, imperative given the likely changes in the coming years. Additionally, it must be clearly defined who will be responsible for interpreting the legislative changes and turning these into system changes/enhancements.
- 4.3 The project should consider ways in which the Pension Fund can improve the service provided to scheme members through the implementation of self service capabilities, allowing members to access their records online and remove the need to issue Annual Benefits statements for those scheme members who can access the online system.
- 4.4 That the hardware maintenance agreement be extended on 1 March 2013, to provide continued support for the existing system.

## **5 IMPLICATIONS**

### **5.1 Financial**

The costs and benefits attached to the proposal are unknown at this stage, although it is likely there will be an increase in licence costs on an ongoing basis. Additionally, it is anticipated that there will be costs associated with the implementation of the new system.

### **5.2 Risk and Mitigations**

The risk of not implementing the proposal will be a reduction in the standard of service provided by the Pensions Administration team through lack of a suitable tool. Furthermore, there will be a significant risk of error through manual record keeping and calculation of benefits, resulting in a breach of pension's legislation.

### **5.3 Equalities**

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

### **5.4 Acting Sustainably**

There are no significant effects on the economy, community or environment.

### **5.5 Carbon Management**

No effect on carbon emissions are anticipated from the recommendation of this report.

## 5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

## 5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to either the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

## 6 CONSULTATION

6.1 The Chief Financial Officer, the Head of Legal and Democratic Services, the Head of Business and Information Services, the Head of Audit and Risk and the Clerk to the Council are being consulted and their comments will be taken into account in the final report.

6.2 The Procurement Team have also been consulted and their comments will be taken into account in the final report.

### Approved by

Chief Executive

Signature Tracey Logan

### Author(s)

Name	Designation and Contact Number
Ian Angus	HR Shared Services Manager 01835 826696

**Background Papers: N/A**

**Previous Minute Reference: N/A**

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Ian Angus can also give information on other language translations as well as providing additional copies.

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