

SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE

MINUTE of MEETING of the PENSION FUND
COMMITTEE held in the Council Chamber,
Council Headquarters, Newtown St. Boswells
on 18 June 2013 at 2.00 p.m.

Present:- Councillors B. White (Chairman), J. Campbell, G. Edgar, G. Logan, J. Mitchell,
S. Mountford.
Apology:- Councillor M. Cook
In Attendance:- Chief Financial Officer, Treasury and Capital Manager, Corporate Finance
Manager, HR Shared Services Manager, Mr Kenneth Ettles – AON Hewitt
Consulting, Mr J. Terras (Unison), Democratic Services Officer (P. Bolson).

MINUTE

1. There had been circulated copies of the Minute of the Meeting of 5 March 2013.

**DECISION
NOTED.**

AMENDMENT TO THE SCHEME OF ADMINISTRATION

2. With reference to paragraph 3 of the Pension Fund Sub-Committee Minute of 13 June 2012, there had been circulated copies of a report by the Chief Financial Officer proposing an amendment to the Council's Scheme of Administration to change the status of the observers to the Committee to that of non-voting members. The report explained that the proposed amendment would address previously highlighted improvements in governance compliance for the Pension Fund and would allow the non-voting members similar access to the Committee papers and debate, in line with recommended best practice.

DECISION

- * **AGREED TO RECOMMEND that Council approve the amendment to the Scheme of Administration to replace the current Section XIII with the text contained in Appendix 1 to the Minute.**

TRAINING POLICY - ANNUAL UPDATE

3. With reference to paragraph 4 of the Pension Fund Sub-Committee Minute of 13 June 2012, there had been circulated copies of a report by the Chief Financial Officer on the progress in implementing the Training Policy and on the proposed minor amendments to the Policy to reflect recent and proposed changes. With reference to paragraph 1.2 of the report, it was noted that the sentence should have read "In September 2012 the Committee agreed a new Training Policy." The report went on to explain that, in line with the Pension Fund Committee Training Policy approved in September 2012, the Pension Fund was required to report on training activity annually and on performance against targets set out in the Policy. The report detailed that there had been four training sessions delivered for Members during 2012/13 and 3 members had attended all 4 training events, 2 had attended 3 events and 2 had attended 2 of the sessions. 100% of the membership had met the target of attendance at a minimum of two meetings during the same period. Members were informed that future reports would also include similar data relating to non-voting members

DECISION

- (a) **NOTED the strong performance against the targets set and that this performance would be included in the Pension Fund Annual Report for 2012/13.**

- (b) **AGREED the proposed amendments to the Training Policy, subject to Council approval on 26 June 2013, in relation to the change of observer status to non-voting member status.**

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

4. With reference to paragraph 2 of the Pension Fund Sub-Committee Minute of 13 June 2012, there had been circulated copies of a report by the Chief Financial Officer on the proposed amendments to the Scottish Borders Council Pension Fund's Governance Policy and Compliance Statement. The report explained that the updated Governance Compliance Statement reflected recent and proposed changes to the Council's Scheme of Administration and demonstrated that the Fund was in full compliance with best practice guidance. With reference to paragraph 3.7 of the Governance Policy and Compliance Statement, it was noted that the sentence should read "The Independent Investment Consultant, the Chief Executive, Chief Financial Officer, Corporate Finance Manager, Treasury and Capital Manager and HR Shared Services Manager also attend the Committee meetings as advisers." It was also noted that the Compliance Statement had been included as an appendix to the Governance Policy.

DECISION

AGREED the revised Governance Policy and Compliance Statement, subject to the above amendment, and subject to Council approval of the amendment to the Scheme of Administration on 26 June 2013, for inclusion in the Pension Fund Annual Report and Accounts 2012/13.

RISK REGISTER

5. With reference to paragraph 3 of the Pension Fund Committee Minute of 5 March 2013, there had been circulated copies of a report by the Chief Financial Officer providing an updated Risk Register for consideration by the Committee. This report was the result of a Members' Risk Register Workshop that had taken place on the morning of 18 June 2013, prior to the Committee meeting. With reference to the Risk Register as detailed at Appendix 1 to the report, it was noted that the scorings under Assessment of Residual Risk at paragraph 1.5 (Currency Management Risk) should read "Likelihood 4; Impact 3; Risk Score 12."

DECISION

AGREED:-

- (a) **the updated Risk Register as contained in Appendix 1 of the report, subject to the above amendments;**
- (b) **that reviews be undertaken of Red Risk areas on a quarterly basis, with the next review being due in September 2013;**
- (c) **that a six monthly review be undertaken of Amber Risk areas in December 2013; and**
- (d) **that an annual review of the full Risk Register be undertaken in June 2014.**

PENSIONS ADMINISTRATION PERFORMANCE 2012/13

6. With reference to paragraph 3 of the Pension Fund Sub-Committee Minute of 13 June 2012, there had been circulated copies of a report by the Head of Shared Services on the Pensions Administration Performance for 2012/13, requesting approval for its inclusion in the Fund's Annual Report. Appendix 1 to the report detailed the Pensions Administration Performance for 2012/13 and it was noted that recent work undertaken by the HR Shared Services team in relation to Scheduled and Admitted Bodies had resulted in improved performance in the timing of the remittances of employers' contributions. Members were informed that where a remittance was not paid timeously, all employees of that body would receive written notification that their employer had failed to comply with the remittance schedules. It was also noted that, as a result of the review of performance of the first year of the Pensions

Administration Strategy, actions had been identified in relation to the improvement of query data recording methodology and in the development of a schedule of Employer Liaison meetings.

DECISION

(a) **NOTED the Pensions Administration Performance for 2012/13 and its inclusion in the Pension Fund Annual Report and Accounts 2012/13.**

(b) **AGREED:-**

(i) **the proposed action in relation to improving the query data recording methodology; and**

(ii) **to the development of a schedule of Employer Liaison meetings.**

DRAFT ANNUAL REPORT AND ACCOUNTS 2012/13

7. There had been circulated copies of a report by the Chief Financial Officer, presenting the Draft Annual Report and Accounts for the Pension Fund for 2012/13 to the Committee as part of the consultation process prior to submission of the Annual Report to the Audit Committee and the External Auditors. It is specified in the Local Government Pension Scheme Amendment (Scotland) Regulations 2012 that the Annual Report must include or report on the management and financial performance during the year, a statement on the investment policy for the Fund, pensions administration arrangements during the year, an actuarial valuation statement, the governance compliance statement, the fund account and net asset statement, the annual report on pension administration strategy, and details of where to access the current Funding Strategy Statement and Statement of Investment Principles. Key facts and figures were highlighted by the Chief Financial Officer. It was noted that the value of the Fund at 31 March 2013 was £446m compared to £393m at 31 March 2012, this being achieved predominantly through a significant rise in the unrealised value of Scheme assets and the realised gains resulting from the sale of investments. The operational and investment income surplus was £5.1m compared to £8m for the previous year and the performance of the Fund on a three year rolling average basis was 9.2% per annum, a relative return above benchmark of 0.7%. It was further detailed that there had been an increase in Fund membership during 2012/13 by 306 to 9,311 and that employer contributions to the Fund totalled £13.4m while employees contributed £4.3m. Officers answered Members' questions and were thanked for providing such a comprehensive report. It was noted that there were some references to the Pension Fund Sub-Committee in the report and throughout the Draft Annual Report and Accounts and it was agreed that these would be amended to read "Pension Fund Committee" prior to its publication.

DECISION

NOTED the Pension Fund Annual Report and Accounts, subject to the above amendments, and that the Pension Fund Committee would receive a copy of the final audited Annual Report and Accounts at the end of the audit in order to approve prior to publication.

URGENT BUSINESS

8. 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 / make an early decision.

PENSIONS ADMINISTRATION SYSTEM AND AUTO ENROLMENT

9. There was tabled at the meeting a briefing note on the replacement Pensions Administration System and Auto Enrolment. The HR Shared Services Manager, Mr Ian Angus, explained that an exercise had been undertaken to gauge interest in the provision of a Pensions Administration system and that a meeting had now been scheduled with Procurement to discuss the next steps in the process.

10. With reference to paragraph 9 of the Scottish Borders Council Minute of 25 April 2013, Mr Angus updated Members on the progress made to date on the implementation of transitional arrangements for pensions Auto Enrolment for existing employees and on the implementation of a three month postponement period for new employees where the contract of employment was for a period of less than three months. Mr Angus also explained that meetings would be arranged with other Scheduled and Active Admitted Bodies to determine the approach that would be taken by them during their staging dates which currently ranged from 1 February through to 1 November 2014.

DECISION

NOTED the briefing note.

11. **TRAINING EVENT FOR MEMBERS OF THE PENSION FUND COMMITTEE**

The Corporate Finance Manager informed Members that a two day training event on 2 and 3 October 2013 had been arranged by Baillie Gifford for Members of the Pension Fund Committee. The Committee agreed that in addition to the Chair attending, two places be offered to Members of the Committee, two places be reserved for the observer/non-voting members and a further two places offered to officers. The decision by drawing from a hat resulted in places being offered to Councillors Mountford and Campbell and Mr Barclay and Mr Moody. The Chairman would also attend with the two officers still to be decided.

DECISION

NOTED.

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 paragraphs 6 and 8 of part 1 of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

Minute

1. The Committee noted the Private Minute of the meeting of 5 March 2013.

Quarter 1 2013 Investment Monitoring Report

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

Scottish Borders Housing Association – Notification of Change of Status Within Fund

3. The Committee noted a report by the Chief Financial Officer.

The meeting concluded at 3.25 p.m.

SECTION XIII

PENSION FUND COMMITTEE

Constitution

Twelve members, being seven Members of the Council and five non-voting members constituted as follows.

Seven Elected Members of the Council comprising –

- (a) the Depute Leader (Finance)
- (b) the Executive Member for HR and Corporate Improvement
- (c) three other Members of the Administration
- (d) two Members from the Opposition

Five non-voting members appointed from –

- (a) a Scheduled Body
- (b) an Active Admitted Body
- (c) each of the three recognised Trade Unions

Chairman

The Chairman shall be one of the Scottish Borders Council Members.

Quorum

Four Elected Members of the Council shall constitute a Quorum.

Functions Referred

The following functions of the Council shall stand referred to the Committee –

1. All matters relating to the Management of the Council's Pension Fund.
2. Employer discretions under Local Government Pension Scheme (Scotland) Regulations 1998.

Functions Delegated

All of the functions delegated to the Committee.

TRAINING PLAN 2013/14

Report by Chief Financial Officer

PENSION FUND SUB-COMMITTEE

12 September 2013

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Training Plan for 2013/14 in line with the agreed Policy Statement and Training Policy for the members of the Pension Fund Committee approved in September 2012.**
- 1.2 In June 2013 the Committee agreed an updated Training Policy and reviewed the training activities under taken during 2012/13.
- 1.3 In line with this Policy the Pension Fund agreed to undertake an annual knowledge and skills self assessment which will identify the key areas for the future years training plan.
- 1.4 The Training Knowledge and Skills Assessment was undertaken in July and is summarised in **Appendix 2**.
- 1.5 The proposed Training Plan for 2013/14 has been included at **Appendix 3** for approval and members are strongly encouraged to actively participate in this to demonstrate their commitment to building the knowledge to support effective decision making.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee:-**
 - (a) **Notes the out-come of the Knowledge and Skill Self Assessment for 2012/13;**
 - (b) **Approves the Training Programme for 2013/14 set out in Appendix 3 and agrees that all members should prioritise attendance at these training dates wherever practicable.**

3 BACKGROUND

- 3.1 At the June 2013 Pension Fund Committee a Training Policy (the policy) was updated and agreed. The Policy was prepared and reviewed in line with the best practice guidance. Appendix 1 contains a copy of the agreed Training Policy.
- 3.2 The best practice guidance indicates that the annual report should include an assessment of the Committee in terms of:
- Attainment of the standards set down in CIPFA's knowledge and skills framework; and
 - Achievement of required training outcomes.
- 3.3 One of the key elements of the Policy is that all Members of the Committee, including observer members commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision making role. Officers maintain a log on behalf of members to demonstrate the training activities.

4 TRAINING NEEDS ANALYSIS

- 4.1 The members of the Pension Fund Committee were asked to complete a Knowledge and skills assessment questionnaire. The analyses of these responses is contained in **Appendix 2**.
- 4.2 The responses highlight that members have a reasonable level of confidence in their ability to discharge their responsibilities as a member of the Pension Fund Committee and in their knowledge of the financial markets. However there was a lower level of confidence in the understanding of the regulatory environment for Pension Funds, the LGPS in particular, and also about specific documents, benefits structure of the LGPS and the role of the global custodian. This information has been used to inform the future training programme, and will provide the baseline for Pension Fund Committee to demonstrate progress in relation to the acquisition of skills and knowledge.

5 TRAINING PROGRAMME

- 5.1 An initial training programme has been developed and is included in **Appendix 3**.
- 5.2 The formal training programme will be supplemented by the continuation of the informal meetings prior to the Pension Fund Committee meetings to allow members to be properly briefed by officers and the independent investment adviser on relevant matters prior to the meeting with the Fund Manager.
- 5.3 Additional external training opportunities that occur during the year will augment the proposed training programme. The Corporate Finance Manager will highlight these to the Pension Fund Committee for agreement on relevance and nominations of attendees.

6 IMPLICATIONS

6.1 Financial

- (a) The cost of the delivery of the training programme will be borne by the Pension Fund, and a budget will be developed to provide an annual amount to support ongoing training needs.

6.2 Risk and Mitigations

- (a) The development of a Training Policy and associated training plan and reporting mechanism is part of the framework to ensure effective decision making for the Pension Fund.

6.3 Equalities

- (a) It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report as this policy applies to all elected members and observers of the Committee equally.

6.4 Acting Sustainably

- (a) There are no direct economic, social or environmental issues with this reports which would affect the Council's sustainability.

6.5 Carbon Management

- (a) There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

- 7.1 The Head of Corporate Governance, the Head of Audit and Risk, the Head of Strategic Policy, the HR Manager and the Clerk to the Council have been consulted on the report and their comments have been incorporated.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Treasury & Capital Manager, 01835 825249

Background Papers:**Previous Minute Reference:**

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

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 PSA Tel: 01835 825249 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk



SCOTTISH BORDERS COUNCIL PENSION FUND

TRAINING POLICY

**Finance
Chief Executives Department
Version: DRAFT 2013 1.0
Approved: Pension Fund Committee 18 June 2013**

1. Introduction

- 1.1 This training policy documents the Scottish Borders Council Pension Fund (the Fund) responsibilities in relation to members and observer members of the Pension Fund Committee.
- 1.2 The policy has been drawn up:
 - i To identify the level of knowledge and skills required by members, and
 - ii To outline the training arrangements for the Committee and its members
- 1.3 This version of the Training Policy was approved by the Pension Fund Committee of Scottish Borders Council on 18 June 2013.
- 1.4 For the avoidance of any doubt, the term members in relation to this Policy will refer to all members of the Pension Fund Committee irrespective of voting rights, as set out in the amendment to the Scheme of Administration agreed by Council on 26 June 2013.

2. Myners Principles

- 2.1 The desirability of pension fund decision making being overseen by persons with the right skills and expertise was recognised in 2001 in the UK Government's *Institutional Investment in the United Kingdom: A Review*, undertaken by Paul Myners and reaffirmed in the *Updating the Myne's Principles: A Response to Consultation* in October 2008.
- 2.2 The revised Myners principles following the 2008 review are the accepted code of practice applying to local government pension funds throughout the United Kingdom and these principles apply to all pension committee members (elected and other appointments) and officers.
- 2.3 The first Myners principle explicitly states that:
 - i Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
 - ii Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
- 2.4 The best practice guidance from CIPFA in relation to demonstrating this first principle indicates that *"the committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals in relation to the scope of its work and the pensions issues that are most relevant. ... The adoption of a training plan and an annual update of training and development needs (including monitoring progress made) would represent good practice in demonstrating that the committee is actively managing the development of its members. A statement should appear in the annual report describing*

actions taken and progress made.”¹

- 2.5 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 requires administering authorities to report the extent of compliance with this first Myners principle and the Fund does so as part of the Statement of Investment Principles.

3. Governance Compliance

- 3.1 Guidance on governance matters and training has been issued between 2009 and 2011 by the Pensions Regulator, CIPFA and the Scottish Public Pensions Agency. This training policy has been drafted in line with the collective guidance.
- 3.2 To underline the Fund’s commitment to the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, the Committee has adopted the following 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 Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills”

- 3.3 In addition, the Scottish Public Pensions Agency (SPPA) issued guidance in relation to the Governance Compliance Statement in April 2011, establishing the best practice standard that administering authorities are required to measure themselves against. The standards established for training are as follows:
- i That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
 - ii That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
 - iii That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

4. Training

- 4.1 On joining the Committee, members must attend a training session to understand the details of roles and responsibilities to allow them to participate in decision making or scrutiny of complex pension issues.
- 4.2 An Induction File will also be provided to members when they start with the Committee, and it will contain key documents relevant to the Fund and other information that is deemed useful. The members will be expected to use this information and have read the key

¹ CIPFA: Investment decision making and disclosure in the Local Government Pension Scheme. A Guide to the Application of the Myners Principles.

documents.

- 4.3 A training needs analysis will be undertaken for each member of the Committee and this will be used to inform annual training plans. This analysis will be repeated annually to monitor progress and inform the updating of the training plans.
- 4.4 Annual training plans will be prepared for the Committee and members that will be commensurate with their respective roles and responsibilities and will be aligned to the CIPFA Skills and Knowledge Framework contained in **Appendix A**.
- 4.5 A training log will be retained for each member of the Committee in line with the best practice standard.
- 4.6 An informal meeting of the Committee with the Fund's external Investment Adviser immediately prior to the formal meeting will be held to enable all members of the Committee to be appropriately briefed and better prepared to question the Fund Managers in depth following their presentation.
- 4.7 As part of their commitment to good scheme governance, Committee Members, both voting and non-voting, will be expected to attend at least two Committee meetings each year and two training sessions each year. The two training sessions are over and above any training given at the pre-meeting to the Committee.
- 4.8 Training Opportunities for the Committee members will include the following events:
 - i Internal training events;
 - ii Seminars and conferences offered by industry wide bodies, e.g. the LAPF annual conference;
 - iii Seminars and training events offered by the Fund's investment managers and advisors;
 - iv Online training; and
 - v Professional reading.
- 4.9 A record of attendance at meetings and training events will be maintained and published in the Pension Fund Annual Report and Accounts. Officers will identify appropriate training opportunities and bring these to the attention of the Committee.
- 4.10 Due to the training requirements placed on the Committee members, substitute members are not allowed.

5. Reporting and Review Arrangements

- 5.1 CIPFA has recommended as good practice that the Pension Fund Annual Report includes a disclosure as to how the CIPFA Knowledge and Skills Framework has been applied for the Fund, what assessment of training needs has been undertaken and what training has been delivered against the identified training needs.
- 5.2 The Annual Training Plans will be presented to the Committee for review and agreement.

6. Reimbursement of Expenses

- 6.1 Councillors are remunerated for their expenses through the local government members' responsibility allowances scheme. Other members can apply for reimbursement of reasonable expenses such as travel costs which have been incurred in relation to agreed training.

CIPFA Knowledge and Skills Framework

1. The training framework is based on the CIPFA Knowledge and Skills Framework guidance which identifies six areas of knowledge and skills required as core technical requirements of those working in public sector pensions finance.
2. The six areas are:
 - i Pension legislative and governance context
 - ii Pensions accounting and auditing standards
 - iii Financial services procurement and relationship management
 - iv Investment performance and risk management
 - v Financial markets and products knowledge
 - vi Actuarial methods, standards and practices.
3. The framework will be used to assess knowledge and identify future training needs to ensure effective decision-making.
4. The levels of knowledge required is categorised as follows:
 - 1 In Depth
 - 2 Understanding
 - 3 Awareness
5. The Framework and Knowledge requirements are summarised as follows:

Training Framework	Sub-Committee Members Knowledge Requirement
Pension legislative and governance context <ul style="list-style-type: none"> • General and scheme pension legislation • Scheme Governance • Pension regulators and advisors • Legislative framework 	3
Pensions accounting and auditing <ul style="list-style-type: none"> • Audit and accounting regulations and requirement 	3
Financial Services procurement and relationship management <ul style="list-style-type: none"> • Understanding public procurement • Supplier risk management 	2
Investment performance and risk management <ul style="list-style-type: none"> • Fund performance • Performance of Advisers • Performance of Committees • Performance of Support Services 	2
Financial markets and product knowledge <ul style="list-style-type: none"> • Investment strategy • Financial markets 	2
Actuarial methods, standards and practices <ul style="list-style-type: none"> • Valuations • Bulk Transfers 	2

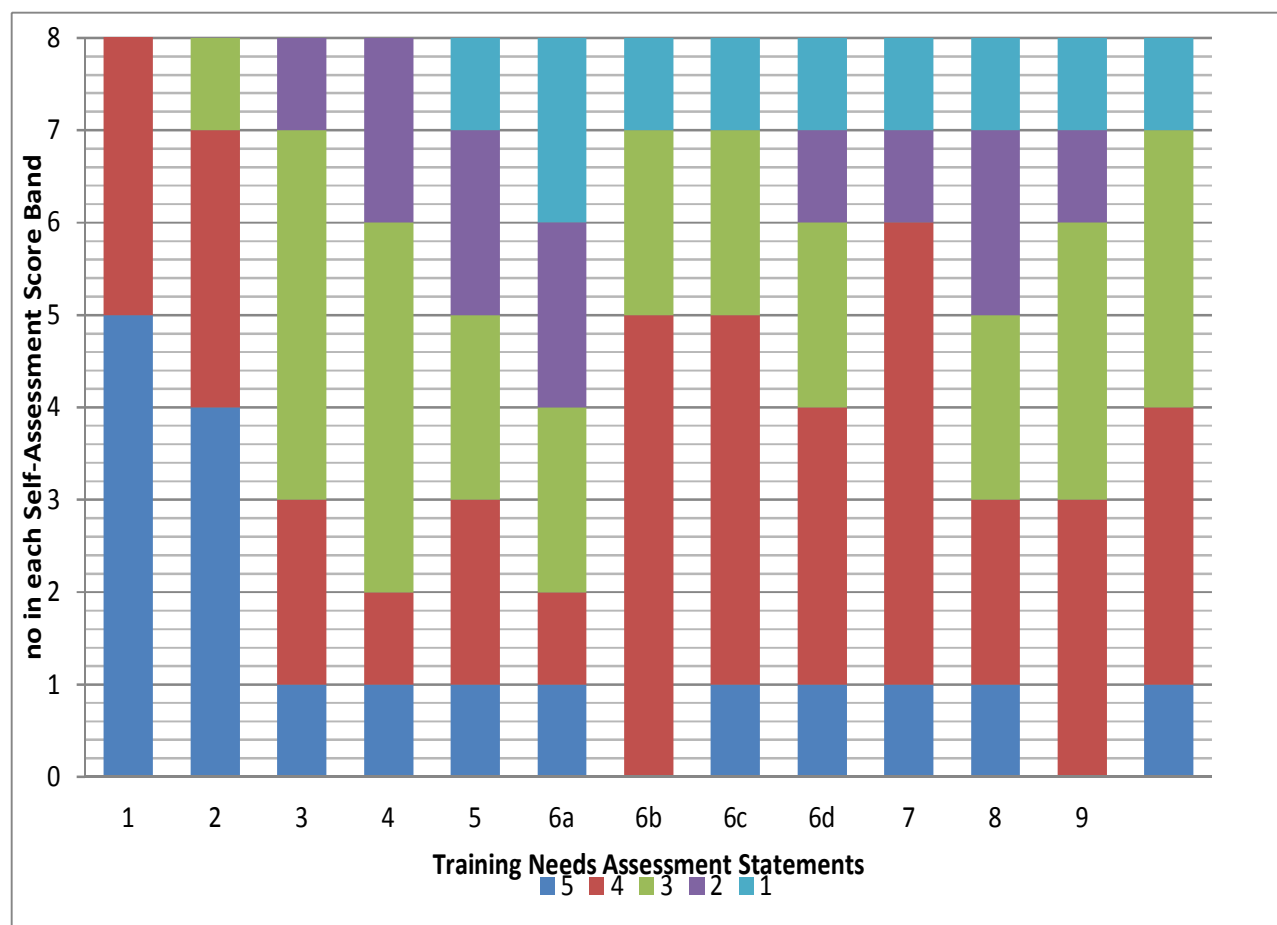
VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2012 1.0	Creation of Training Policy	30 August 2012	Lynn Mirley
2012 2.0	Approved by Pension Fund Committee	13 September 2012	Lynn Mirley
2013 1.0	Updated for changes to Scheme of Administration	11 June 2013	Lynn Mirley
2013.2	Approved by Pension Fund Committee	18 June 2013	Kirsty Robb

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

Contact us at Treasury & Capital Team, Council HQ, Newtown St Boswells, TD6 0SA
01835 825016, treasuryteam@scotborders.gov.uk

Knowledge & Skills Assessment – 2013



Training Needs Assessment Statements

Statement	Average Score
1 Understanding of responsibilities as a member of the Pension Fund Committee	4.38
2 Knowledge of the financial markets and investment products	3.38
3 Confidence with Pension Fund investment concepts and terminology	3.13
4 Understanding of the regulatory environment for Pension Funds in general	3.00
5 Understanding of the regulatory environment for Local Government Pension Scheme (LGPS) Pension Funds	2.63
6 Awareness of the following key documents:	
a) Governance Statement	3.38
b) Statement of Investment Principles (SIP)	3.50
c) Funding Strategy Statement (FSS)	3.25
d) Annual Report and Accounts for the Pension Fund	3.50
7 Understanding of the LGPS Benefits structure	3.00
8 Understanding of the role of the Global Custodian	3.00
9 Understanding of the role of the Actuary	3.38

Date	Topic(s)	Location
18 Sept 13 Full Day	CIPFA Pensions Network – Scottish Workshop Limited Places – 1 Member, 2 Officers	Baillie Gifford's Edinburgh
2 & 3 Oct 13 1 & ½ Days	Baillie Gifford's Local Authority Training & Investment Seminar Note: Limited Places (3 – Members, 2 Observers/Non- voting members & 2 Officers)	Surgeons' Hall, Edinburgh
8 Oct 13 ½ Day	Day 3 – SBC Pension Fund Induction (Re-scheduled) <ul style="list-style-type: none"> • Key Controls • Accounting & Audit Requirements • Pensions Administration – Including Benefits Training Objective: To continue the introduction to the elements of the CIPFA Knowledge and Skills Framework	Newtown St Boswells
14 Jan 14 ½ Day	Pension Training <ul style="list-style-type: none"> • General regulatory Pension Environment • LGPS regulatory Environment Training Objective: To increase understanding of regulatory environment highlighted in Knowledge/Skills assessment.	Newtown St'Boswells
19 Mar 14 ½ Day	Pension Training <ul style="list-style-type: none"> • Role of Custodian • Emerging Markets Training Objective: to increase understanding of role of Custodian highlighted in Knowledge/Skills assessment. Increase knowledge and understanding of possible new areas of investments.	Newtown St'Boswells

RISK REGISTER UPDATE

Report by Chief Financial Officer

PENSION FUND COMMITTEE

12 September 2013

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Pension Fund Committee with an opportunity to review the Risks previously categorised as “red” under the Council’s approach to managing risk, and updates members on progress made in mitigating the effect of these risks on the pension fund.**

2 BACKGROUND

- 2.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance “Delivering Governance in Local Government Framework 2007”. It is further reflected and enhanced in the “Local Government Pension Scheme” published by CIPFA.
- 2.2 A revised risk register was approved by the Pension Fund Committee in June 13 and is contained in Appendix 1.
- 2.3 Appendix 1 details the progress of the additional control measures on the risk identified as “red”.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Committee:-**
- (a) Notes the progress on the Red Risk items contained in Appendix 2;**
 - (b) Agrees to a quarterly Red Risk review being undertaken with the next due in December 2013; and**
 - (c) Agrees to a six monthly Amber Risk review being undertaken in December 2013**

4 BACKGROUND

- 4.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 4.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in "Managing Risk: A Practical Guide to Risk Management in the Borders" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 4.4 A full risk review was undertaken in June 2013, and agreed the Council's policy of review cycle, as shown below was followed:

RED - 3 monthly reviews of action progress throughout the year

AMBER - 6 monthly reviews throughout the year coinciding with red reviews

YELLOW/
GREEN - Annual reviews, coinciding with red and amber reviews

This report forms the first of the 3 monthly reviews of the Red risk items. A copy of the full risk register is included in Appendix 1

5 RED RISK PROGRESS

- 5.1 The current approved risk register contains 4 Red Risks. These are shown in **Appendix 2** with an update on progress in relation to the proposed actions.

6 IMPLICATIONS

6.1 Financial

There are no direct financial implications of this report.

6.2 Risk and Mitigations

The purpose of providing the update to the Committee is as part of improving the risk management framework for the Pension Fund to demonstrate that it understands the risks faced and how it is proposing to manage, mitigate or tolerate these risks.

6.3 Equalities

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

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

- 7.1 The Head of Corporate Governance, the Head of Strategic Policy, the Head of Audit, HR Manager and Risk, the Clerk to the Council been consulted and any comments have been incorporated into the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016
Kirsty Robb	Treasury & Capital Manager, 01835 825249

Background Papers:

Previous Minute Reference: Pension Fund Sub-Committee, 6 March 2012
Pension Fund Sub-Committee 13 Sept 2012
Pension Fund Committee 5 March 2013
Pension Fund Committee 18 June 2013

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

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

Risk Register: SCOTTISH BORDERS COUNCIL PENSION FUND

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operational ?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
1. Asset & Investment Risks														
1.1	Poor/negative Investment Returns	Poor/negative investment returns leading to increased employer contribution rates. Significant rises in the employer contributions due to poor/negative investment returns. Cost involved in implementing changes to investment strategy	4	4	16	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation. Scrutiny of Investment Manager performance by PFC.	Y	4	4	16	Tolerate Risk. Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	4	4	16
1.2	Failure of global custodian	Financial loss to the Fund; loss of information	2	4	8	Monitor custodian performance and credit rating. Covered by legal contract. Regulated by FCA, assets not on custodian balance sheet. Careful procurement selection processes.	Y	2	2	4		2	2	4
1.3	Failure of investment manager	Financial loss to the Fund	3	3	9	Robust procurement processes around the managers placed on short lists. Diversification of investment managers. Continual monitoring of investment performance, engagement with Investment Adviser in relation to monitoring external environment in respect of the individual investment managers. Scrutiny of Investment Manager performance by PFC. Monitoring of financial media.	Y	2	3	6		2	3	6
1.4	Poor investment Advice	Wrong decisions - poor return as a result of Investment Consultant advice	4	5	20	Robust procurement processes around the recruitment and appointment process. Continual review of Investment Adviser performance. Benchmark performance against other LAs. Use other information sources to validate advice and performance of Fund. Use independent Performance monitoring company.	Y	3	4	12	Treat Risk. Regular benchmarking and cross verification of advice with other local authorities through the CIPFA Scottish Pensions Network. Ongoing training for elected members of the PFC. Utilise independent performance monitoring service to provide an independent annual review/health check to the PFC.	3	4	12
1.5	Currency Management risk	Impacts on value and inability to meet future liability - negative impact on cash flow	5	3	15	Passive Currency hedge in place for Equity investments on major currencies. Monthly review of hedge levels.	Y	4	3	12	Treat Risk. Consider an element of more active management of currency hedging by procuring an external manager.	3	3	9

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operationa I?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			1.6	Equity risk	Financial loss to the Fund due to market sector falling substantially.			5	4	20		Y	4	4
1.7	Active manager risk	Financial loss to the Fund due to investment manager underperformance.	4	3	12	Y	3	3	9		3	3	9	
1.8	Insufficient scrutiny of manager mandates and terms of business.	May lead to inappropriate fee levels and other costs	3	2	6	Y	3	1	3		3	1	3	
1.9	Investment strategy is inconsistent with funding plan	Employers paying incorrect contribution rates	3	3	9	Y	2	2	4		2	2	4	
1.10	Failure to react to major change in market/economics conditions	Impacts on value and inability to meet future liability - negative impact on cash flow	3	4	12	Y	3	4	12		3	4	12	

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) <i>Assume No Controls in Place</i>			Risk Control Measures in Place	Are all Controls Operational? I?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			2. Employer Risks											
2.1	Changes in composition of Pension Fund membership i.e. active/deferred/pensioners	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.	5	4	20	Auto enrolment due to commence July 2013	N	5	4	20	Treat Risk. New pensions administration strategy will incorporate an action plan to address aspects such as communication. Close monitoring of early retiral decisions and quantification of impact on pension fund to be included as part of the Council report.	4	4	16
2.2	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers.	Individual employers contribution levels inappropriate and possible shortfall in fund.	4	3	12	Full actuarial valuation undertaken on Triennial basis. Pooling assumed the norm unless, as agreed at 12 Dec Committee, Depooling requested by Employer.	Y	2	3	6		2	3	6
2.3	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers	Individual employers contribution levels inappropriate and possible shortfall in fund.	4	3	12	Full actuarial valuation undertaken on Triennial basis. Pooling assumed the norm unless, as agreed at 12 Dec Committee, Depooling requested by Employer.	Y	2	3	6		2	3	6
2.4	Employer ceasing to exist with insufficient funding, adequacy of bond or guarantee	Shortfall in fund as a whole with increases required in all other employers contributions	3	4	12	Full actuarial valuation undertaken on Triennial basis. Bonds in place for Amey and Council agreement in place for BSLT	Y	3	4	12		3	4	12
2.5	Significant structural changes in employers membership, or not being advised of an employer closing scheme to new entrants due to affordability to employer.	Individual employers contribution levels becomes inappropriate, requiring review and increase. Adverse impact on cash flow and funding levels. Fund reaches maturity more quickly.	4	3	12	Employers (SBLT and SBHA) discussions taken place. 2 Officers, from largest employer, observers at Pension Committee. Full actuarial valuation undertaken on Triennial basis. Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission.	Y	4	3	12	Implement Employer Liaison Group per Pension Administration Strategy	4	3	12

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operational? I?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			3. Resource & Skill Risks											
3.1	Over reliance on key officers	If an officer leaves or falls ill knowledge gap may be difficult to fill	4	3	12	Finance re-structure introduced additional resources into officer support. Use of external Investment Adviser provides additional resilience and resources.	Y	3	2	6		3	2	6
3.2	Lack of Member training in Pension Fund Management	Poor decision making	4	2	8	Training opportunities are made available to members as these are identified. Members have access to Investment Managers, Investment Adviser and Council Officers to help advise and inform them in relation to decisions taken by the PFC.	Y	4	2	8		4	2	8
3.3	Over reliance on key Members - decision making	The objectivity of decision making	3	3	9	All Members are actively involved in the discussions with Investment Managers and Advisers and therefore have access to the same information and training opportunities.	Y	2	2	4		2	2	4
3.4	Lack of expertise on Pension Fund Committee or amongst officers	Detrimental decisions made in relation to the Fund	4	3	12	Members have access to Investment Managers, Investment Adviser and Council Officers to help advise and inform them in relation to decisions taken by the PFC.	Y	2	2	4		2	2	4
3.5	Low knowledge amongst key Members due to high turnover of Members	Poor decision making in relation to the fund	3	3	9	Members Training Policy for Pensions fund established and monitored. Annual training process in place. Skills and training assessment undertaken annually	Y	2	2	4		2	2	4
3.6	Failure to succession planning for key roles of Members	Poor decision making in relation to the fund	3	3	9	Members Training Programme for Pensions fund established and monitored	Y	2	2	4		2	2	4
3.7	Failure of Officers to maintain sufficient level of competence to discharge their duties	Officers unable to provide advice and support to Members	3	3	9	Use of external Investment Adviser provides additional resilience and resources. PRD process implemented to identified training and development requirements. Active participation in Scottish Pension Network. External Investment Managers providing training	Y	3	2	6		3	2	6

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operational I?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			4. Liquidity Risks											
4.1	Insufficient funds to meet liabilities as they fall due to changes to active employment levels	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.	4	5	20	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met. Use of an Investment Consultant and Actuarial services as and when required.	Y	3	4	12	Treat risk. Review to be undertaken of scenarios to identify timelines.	3	4	12
4.2	Employees can no longer afford to participate in the scheme	Reduced income into Fund	4	4	16	Limited measures in place. National negotiations on minimising employee contribution increases.	N	3	4	12	Treat Risk. Ensure regular information is issued to employees setting out the continued benefits of scheme membership e.g. tax relief on contributions/employers contribution. Build into the Pension Administration Strategy the requirement to enhance the Communication Strategy in relation to this.	3	4	12
4.3	Inflation increases - Funds assets do not keep pace	Funding levels fall, SBC pay more contributions into Fund	5	4	20	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation.	Y	4	3	12	Treat Risk. Regular dialogue with Fund Actuary. Attendance at Pension Fund Sub-Committee on an annual basis between triennial valuations.	3	3	9
4.4	Mortality rates continue to improve, in excess of allowance built into evidence based actuarial assumptions.	Increased liabilities, reduced solvency levels and increase employer contributions.	3	3	9	Full actuarial valuation undertaken on Triennial basis. Any strain on fund incurred paid by employer at point of retirement.	Y	3	2	6		3	2	6
4.5	Frequency of early retirements increases to levels in excess of the actuarial assumptions	Increase required in employer contributions.	4	3	12	Full actuarial valuation undertaken on Triennial Valuation. Regular information provided by Actuary on differences as they occur from assumptions.	Y	4	3	12		4	3	12
4.6	CPI inflation significantly different from actuarial assumptions.	Increase required in employer contributions to fund gap.	3	3	9	Full actuarial valuation undertaken on Triennial basis.	Y	2	2	4		2	2	4
4.7	Over or under cautious determination of employer funding requirements due to inconsistent approach or failure to recognise impact of the investment strategy on funding	Insufficient funds available and inappropriate contribution rates set.	3	3	9	Regular monitoring of investment performance and full actuarial valuation undertaken on triennial basis	Y	2	2	4		2	2	4

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operationa l?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			5. Administrative Risks											
5.1	Failure to process pension payments and lump sums on time	Retiring staff will be paid late which may have implications for their own finances. Reputation risk for the Fund and a financial cost to the employers if interest has to be paid to members.	4	4	16	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	Y	2	2	4	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	2	2	4
5.2	Failure to collect and account for contributions from employers and employees on time.	Adverse audit opinion for failure to collect contributions on time, cash flow implications for Fund; potential delays to employer's FRS17 year-end accounting reports	4	4	16	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	Y	2	2	4	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff.	2	2	4
5.3	Inability to keep service going to loss of main office, computer system or staff - major operational disruption	Temporary loss of ability to provide service.	3	4	12	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site.	Y	3	2	6	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site.	3	2	6
5.4	Loss of funds through fraud or misappropriation by employee or employer within the Fund.	Financial loss to the Fund	4	5	20	Robust segregation of duties and other internal controls to mitigate against this risk. Internal & External Audit programme also picks up the monitoring of this risk.	Y	3	2	6	Robust segregation of duties and other internal controls to mitigate against this risk. Internal & External Audit programme also picks up the monitoring of this risk.	3	2	6
5.6	Loss of funds through fraud or misappropriation by an investment manager, custodian or other agent of the Fund.	Financial loss to the Fund	4	5	20	Fund Managers provide copies of annual Internal Controls report from their External Auditors. They are also required to operate to stringent FCA standards of operation. Legal recourse within contracts to Fund Managers	Y	3	4	12	Tolerate Risk. Enhance oversight role of pension by council officers.	3	4	12
5.7	Failure to hold personal data securely	Data lost or compromised; reputational risk	3	2	6	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff. Updated Corporate Data Protection Plan in place and adhered to.	Y	2	2	4		2	2	4
5.8	Failure to keep pension records up to date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	4	3	12	Robust maintenance and update of Pensions Administration System and ResourceLink. Revised staffing structure post implementation of HR Shared Services increases coverage of staff. Controls subject to Internal Audit review	Y	3	2	6	Treat Risk. Ensure communication plan put in place to ensure employees notify employers of any changes.	3	2	6

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operationa l?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			5.9	Failure to communicate properly with stakeholders	Scheme members not aware of their rights resulting in bad decisions. Employers not aware of regulations, procedures, etc			3	3	9		Engagement in Scottish pension networks. Union and Admitted body representation on the PFSC. Publication of annual report via website and printed copies to all Scheduled and Admitted bodies.	Y	3
5.10	Failure to ensure appropriate transfer is paid to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations	Insufficient funds transferred to meet future obligations	3	2	6	Calculation undertaken using nationally approved scheme based on number of standard assumptions at point of transfer.	Y	1	2	2		1	2	2
5.11	Incorrect calculation of members benefits	Incorrect payments made to members	3	1	3	Calculations undertaken on national system used by 31 Scottish Authorities and fully tested by each for updates	Y	2	2	4		2	2	4

6. Regulatory & Compliance Risks

6.1	Failure to comply with LGPS and other regulations	Wrong pension payments made or estimates given, breach of regulations leading to prosecution	3	2	6	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting. Participation in the active Scottish Pensions networks and CIPFA updates	Y	2	2	4		2	2	4
6.2	Legislation changes	Loss of independence; impact on Fund value and benefits	5	5	25	Active participation in Scottish pension investment and administration networks. Involvement with COSLA discussions on Pensions.	Y	4	4	16	Tolerate Risk. Seek to input into any of the legislative change through active membership of COSLA.	4	4	16
6.3	Production of incorrect accounts, notices and publications	Accounts qualified	3	3	9	Compliance subject to robust internal and external audit review and reporting. Participation in the active Scottish Pensions networks. Staff training requirements identified via PRD and attendance at appropriate training events.	Y	2	2	4		2	2	4
6.4	Adverse changes to other legislation, tax rules etc	Increases required in employers contributions, possible loss of members	3	3	9	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly. Engagement in SLOGPAG in relation to new pension regulations	Y	2	2	4		2	2	4

No.	RISK Threat to achievement of business objective	Scope/potential consequences of risk	Assessment of Risk (likelihood x impact) Assume No Controls in Place			Risk Control Measures in Place	Are all Controls Operationa l?	Assessment of Residual Risk (likelihood x impact) With Control Measures			Proposed Additional Control Measures	Assessment of Residual Risk (likelihood x impact) With Control Measures		
			Likelihood	Impact	Risk Score			Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score
			7. Reputation Risks											
7.1	Conflict of interest between Council priorities and Pension Fund Management for members of Committee	Failure to achieve Pension Fund objectives. Legal challenge	4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund. Officers and Investment Adviser provide additional clarity and support to avoid these situations.	Y	3	3	9		3	3	9
7.2	Failure of Governance arrangements to match up to recommend best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice	Failure to achieve Pension Fund objectives. Legal challenge	3	3	9	Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement	Y	1	2	2		1	2	2
7.3	Failure to appoint relevant advisors and review their performance	Failure to achieve Pension Fund objectives. Legal challenge	3	2	6	Identify requirements of for external advisors and appointed appropriately. Engagement of WM as independent performance monitoring for fund.	Y	2	2	4	Implement annual review of Advisor.	2	2	4
7.4	Delays in implementation of decisions reduces the effectiveness of the decision	Loss incurred or reduce income received.	3	3	9	Decisions minuted and appropriate staff assigned to implement. Implementation timescales priorities according to risk levels and available resources levels.	Y	3	3	9		3	3	9
7.5	Ultra vires pension fund actions	Financial loss and reputation damage.	2	4	8	Training provided to Members and Officers to ensure legal framework understood. Use of investment advisors and contact with SPPA.	Y	1	2	2		1	2	2

SCOTTISH BORDERS COUNCIL PENSION FUND
RED RISKS: as at 12 September 2013

No.	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Risk Control Measures in Place	Proposed Additional Control Measures	Assessment of Residual	Progress on Control Measures
					Risk Score	
1. Asset & Investment Risks						
1.1	Poor/negative Investment Returns	Poor/negative investment returns leading to increased employer contribution rates. Significant rises in the employer contributions due to poor/negative investment returns. Cost involved in implementing changes to investment strategy	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation. Scrutiny of Investment Manager performance by PFC.	Tolerate Risk. Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	16	SIP currently being updated for presentation to December Committee meeting. Procurement process underway for Global and Fixed equities.
1.6	Equity risk	Financial loss to the Fund due to market sector falling substantially.	Continual monitoring of investment performance, engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation. Diversification of asset classes and investment managers. Scrutiny of Strategic Asset Allocation and Investment performance by PFC.	Tolerate Risk. Long term view of investment growth is required and will continue to use existing controls for the Pension Fund.	16	FSS and SIP being updated. Diversification of investment into Alternative Asset Class to form part of SIP. Reduced exposure to Equities continue to be reviewed. Investigations and training for Emerging Markets being undertaken.

No.	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Risk Control Measures in Place	Proposed Additional Control Measures	Assessment of Residual	Progress on Control Measures
					Risk Score	
No.	RISK <i>Threat to achievement of business objective</i>	Scope/potential consequences of risk	Risk Control Measures in Place	Proposed Additional Control Measures	Assessment of Residual	Progress on Control Measures
					Risk Score	

2. Employer Risks

2.1	Changes in composition of Pension Fund membership i.e. active/deferred/pensioners	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.	Auto enrolment due to commence July 2013	Treat Risk. New pensions administration strategy will incorporate an action plan to address aspects such as communication. Close monitoring of early retiral decisions and quantification of impact on pension fund to be included as part of the Council report.	16	Administration Strategy currently being reviewed. Auto-enrolment communication has commenced and other communication channels options being assessed. Initial discussions have taken place on quantification and inclusion of impact form early retiral in future reports.
-----	---	---	--	--	----	--

6. Regulatory & Compliance

6.2	Legislation changes	Loss of independence; impact on Fund value and benefits	Active participation in Scottish pension investment and administration networks. Involvement with COSLA discussions on Pensions.	Tolerate Risk. Seek to input into any of the legislative change through active membership of COSLA.	16	Continue to monitor via networks.
-----	---------------------	---	--	--	----	-----------------------------------

PENSIONS ADMINISTRATION SYSTEM

Report by Chief Executive

PENSIONS FUND COMMITTEE

12 September 2013

1 PURPOSE AND SUMMARY

- 1.1 This report seeks approval to delegate the responsibility for the procurement of the Pensions Administration System for the Scottish Borders Council Pension Fund to the Chief Financial Officer.**
- 1.2 Costs for procurement and implementation of the Heywood Altair, Pensions Administration System, will be capped at a maximum of £560,711 over the following five years.
- 1.3 The system is an essential administrative tool that supports the provision of a high quality administration service for the Pension Fund, allowing the Fund to address the further complexity of legislative changes without the need to review staffing levels.
- 1.4 This provides 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 STATUS OF REPORT

- 2.1 Due to the timeline involved with meetings with the supplier, in order to achieve a cost reduction, and agreeing the procurement approach, it has not been possible to incorporate all of the consultation comments in the report, as a result these will be made available at the meeting.

3 RECOMMENDATIONS

- 3.1 I recommend that the Committee:- approves the delegation of responsibility for the procurement of the Heywood Altair, Pensions Administration System, to the Chief Financial Officer, with costs restricted to a maximum of £560,711 over the five year term of the contract.**

4 BACKGROUND

- 4.1 The Pensions Administration Team, within HR Shared Services, currently uses the Heywood's AXISE system to assist with the administration of the Scottish Borders Council Pension Fund. The Pension Fund Committee approved the commencement of a procurement project to replace the current system at the meeting of 11 December 2012.
- 4.2 The licence of the current system expires on 17 November 2013, with costs as follows:-

	Annual Value
Unix Management – Licence	£6,377
Unix Management – Maintenance	£4,217
CLASS – LGPS – Licence	£12,436
CLASS – LGPS – Maintenance	£19,611
CLASS – LGPS – Development Fee	£1,000
Microfocus Licence	£177
Total Value (exc VAT)	£43,818

- 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.
- 4.3 In addition to the above, a payment of £1,416.30 (exc VAT) is paid for the Hardware Maintenance of the server. This contract currently runs for one year from 1 March 2013.
- 4.4 The Corporate Procurement Team has been involved in all discussions and decisions regarding the procurement approach to be taken for the replacement of the Pensions Administration System.
- 4.5 In order to gauge the market a Prior Information Notice was issued, to which there was three responses. A further set of questions were asked, of the three suppliers, to determine their capability to deliver a solution that fully met the regulations of the LGPS for Scotland and the requirements of the Pension Fund, to which the only response was from the incumbent provider, Heywood. The other two suppliers did not submit a response.
- 4.6 We have taken soundings from the other ten Pension Funds in Scotland and have been advised that nine of the Funds are using the Heywood system and have already or have plans to migrate to the Altair version of the system. The final Pension Fund uses an in-house database.
- 4.7 Additionally, contact was made with Lothian Pension Fund who confirmed that Heywood are the monopoly supplier of Pension Administrations

Systems for the LGPS in Scotland and, whilst there are two other providers for the LGPS in England and Wales, they do not offer systems tailored to the requirements of the Scottish LGPS Regulations.

- 4.8 Based on the information stated above at points 4.6 to 4.8, the Corporate Procurement Team, including advice from Legal Services, have agreed that a Non Competitive Action is appropriate, with justification based on The Public Contracts (Scotland) Regulations 2012, Regulation 14 – Use of the negotiated procedure without prior publication of a contract notice.
- 4.9 Contact has been made with Heywood and initial costs for the provision of the Altair system, on a hosted basis, along with Member Self Service functionality, have been provided based on a five year contract, with the option to extend for a further two years. The cost breakdown is shown at 6.1 below.
- 4.10 Heywood have also provided copies of their Terms and Conditions, which will be reviewed to ensure they cover the requirements of both the Pension Fund and the Council, with particular attention being paid to the Data Protection aspects given the proposed move to a hosted solution.
- 4.11 Heywood will be responsible for interpreting all regulatory changes for the administration of the LGPS in Scotland and ensuring that the system is configured to deal with such changes.
- 4.12 The Pension Fund will continue to be members of the CLASS group, which operates for the benefit of all Heywood customers and allows for the sharing of any costs arising from developments such as those mentioned at 4.11 above.

5 PROPOSAL

- 5.1 That responsibility for the procurement of the Pensions Administration System be delegated to the Chief Financial Officer, with costs restricted to those stated at 6.1 below.
- 5.2 That officers continue to negotiate directly with the supplier in order to achieve a reduction in the costs quoted and commit to terms and conditions of service that meet all Pension Fund and Council objectives and priorities.

6 IMPLICATIONS

6.1 Financial

- (a) The costs and benefits attached to the proposal are to be formally confirmed as negotiations with the supplier continue. However, there will be an increase in licence costs on an ongoing basis. Additionally, there will

be costs associated with the implementation of the new system. The total cost for the proposed five year contract are £560,711.

(b) The following costs are based on the quotation formally submitted by Heywood and do not take account of recent discussions with them over costs, as these have to be formally confirmed.

Annual Fee	
Altair – Support and Maintenance	£46,960
Hosting	£35,800
Member Self Service	£2,450
Member Self Service Hosting	£7,649
CLASS – LGPS – Development Fee	£1,000
Microfocus Licence	£177
Total (exc VAT)	£94,036

This represents an increase of £48,802 per annum, or £244,010 over the five year period of the contract. This is mainly attributable to the hosting costs. However, this is offset by not having to procure server's up front and consider the additional requirements for the provision of a disaster recovery solution, along with ongoing support and maintenance of the new servers through Shared Services Information Technology, all of which are to be provided by the supplier.

(c) The implementation of a Member Self Service function will, amongst other functions, allow the Fund to provide online Benefit Statements, thus reducing the administration cost of preparing, printing and posting these on an annual basis. The average cost of printing and distributing the benefit statements on an annual basis is £4,819. The Member Self Service module will also allow the Fund to improve communication with all members on matters affecting their membership of the Scottish Borders Council Pension Fund.

(d) In addition to the Annual Fee, there will be up front costs in respect of the Licence and Implementation Consultancy. The costs are as follows: -

Licence	
Altair	£30,000
Member Self Service	£6,125
Total (exc VAT)	£36,125

Implementation Consultancy	
Altair (Hosted)	£54,406
Member Self Service	£0
Total (exc VAT)	£54,406

This represents a one off cost of £90,531.

(e) With the impending change to the Local Government Pension Scheme in Scotland from April 2015, the CLASS Group, have indicated that they have reached agreement with Heywood's on a charging structure. This will see a one off licence payment of £12,800 and a further increase in the annual support and maintenance of £1,920 for those using the Altair product. These costs are over and above those stated above.

6.2 Risk and Mitigations

By agreeing to the proposal the Pension Fund will demonstrate steps taken to address the following risks, as highlighted in the Pension Fund Risk Register:

- Failure to process pension payments and lump sums on time
- Inability to keep service going to loss of main office, computer system or staff - major operational disruption
- Failure to hold personal data securely
- Failure to comply with LGPS and other regulations

The implementation of a new Pensions Administration Systems will ensure the Fund has a fit for purpose system and infrastructure to meet the challenges of the up coming legislative changes without the need to consider increasing staffing levels.

6.3 **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.

6.4 **Acting Sustainably**

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

6.5 **Carbon Management**

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

6.6 **Rural Proofing**

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

6.7 **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.

7 CONSULTATION

7.1 The Chief Financial Officer, the Head of Corporate Governance, the Head of Shared Services, the Head of Audit and Risk, HR Manager and the Clerk to the Council are being consulted and their comments will be taken into account in the final report.

7.2 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: The Public Contracts (Scotland) Regulations 2012
Pension Fund Risk Register

Previous Minute Reference: Pension Fund Committee, 11 December 2012

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.

Contact us at Ian Angus, HR Shared Services Manager, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA; Tel: 01835 826696; Fax: 01835 825011; E-mail iangus@scotborders.gov.uk.

FUNDING STRATEGY STATEMENT

Report by Chief Financial Officer

PENSION FUND COMMITTEE

12 September 2013

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Pension Fund Committee with revised Funding Strategy Statement for the Scottish Borders Council Pension Fund.**

2 BACKGROUND

- 2.1 The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 requires administering authorities to prepare, maintain and publish a Funding Strategy Statement. The current Funding Strategy Statement was last updated and approved in June 2010.
- 2.2 Appendix 1 provides an updated Funding Strategy Statement prepared by Barnett Waddingham the Fund's Actuary.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Committee:-**
- (a) Approves the Funding Strategy contained in Appendix 1;**
 - (b) Notes that the outcome of the review of the Statement of Investment Principles will be presented at the December meeting.**

4 FUNDING STRATEGY STATEMENT

- 4.1 The draft Funding Strategy Statement is prepared independently by Barnett Waddingham the Fund's Actuary using information provided by Payroll and reflects the position at 31 March 2013.
- 4.2 The Funding Strategy Statement, contained in Appendix 1, covers the following sections:
- a) Introduction & Purpose of Funding Strategy Statement
 - b) Funding Objectives
 - c) Key Parties
 - d) Funding Strategy
 - e) Funding Method
 - f) Valuation Assumptions & Funding Model
 - g) Links with the Statement of Investment Principles
 - h) Risk & Counter Measures
 - i) Monitoring & Review
- 4.3 The outcome of the updated Funding Strategy Statement will be considered and incorporated into the current ongoing update of the Statement of Investment Principles and which is due to be completed for the December Pension Fund meeting.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report. Any substantive changes arising from future funding strategies would have an impact on employers contribution rates. This would have a direct impact on the revenue budget.

5.2 Risk and Mitigations

The purpose of providing this update to Committee is as part of improving the risk management framework for the Pension Fund to demonstrate that members understand the risks faced and how they propose to manage, mitigate or tolerate these risks.

5.3 Equalities

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

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result 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 the Scheme of Administration or Scheme of Delegation are required.

6 CONSULTATION

- 6.1 The Head of Corporate Governance, the Head of Strategic Policy, the Head of Audit and Risk, HR Manager and the Clerk to the Council been consulted and any comments have been incorporated into the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016
Kirsty Robb	Treasury & Capital Manager, 01835 825249

Background Papers:

Previous Minute Reference: Pension Fund Sub-Committee 23 June 2010

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

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

Scottish Borders Council Pension Fund

Funding Strategy Statement

1 Introduction

- 1.1 This is the Funding Strategy Statement (“FSS”) for the Scottish Borders Council Pension Fund (“the Fund”) which is administered by Scottish Borders Council (“the Administering Authority”). It has been prepared in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (“the Regulations”).
- 1.2 It should be read in conjunction with the Fund’s Statement of Investment Principles (“SIP”).

Purpose of the Funding Strategy Statement

- 1.3 The purpose of the FSS is to explain the Fund’s approach to meeting the pension scheme’s liabilities and in particular:
- to establish a clear and transparent Fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;
 - to take a prudent longer-term view of funding those liabilities; and
 - to support the regulatory framework to maintain as nearly constant employer contribution rates as possible.
- 1.4 The purpose of the Fund is to:
- collect monies in respect of employee and employer contributions, transfer values and investment income;
 - facilitate payment of Local Government Pension Scheme (LGPS) benefits, transfer values, costs, charges and expenses; and
 - accumulate and invest money received, and facilitate the management of this.

Funding Objectives

- 1.5 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.
- 1.6 The funding objectives are to:
- set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
 - build up the required assets in such a way that produces levels of employer contribution that are as stable as possible;
 - ensure effective and efficient management of employer’s liabilities; and
 - allow the return from investments to be maximised within reasonable risk parameters.

2 Key Parties

2.1 The parties directly concerned with the funding aspect of the Pension Fund are noted below. A number of other parties, including investment managers and external auditors, also have responsibilities to the Fund, but are not key parties in determining funding strategy.

The Administering Authority

2.2 The Administering Authority for the Scottish Borders Council Pension Fund is Scottish Borders Council. The main responsibilities of the Administering Authority are as follows:

- collect and account for employee and employer contributions;
- pay the benefits to Scheme members as they fall due;
- invest the Fund's assets ensuring sufficient cash is available to meet liabilities as and when they become due;
- manage the Actuarial Valuation process in conjunction with the Fund Actuary;
- prepare and maintain this FSS and also the SIP after consultation with other interested parties; and
- monitor all aspects of the Fund's performance and funding and ensure that the FSS and SIP are updated as necessary.

Individual Employers

2.3 The responsibilities of each individual employer which participates in the Fund, including the Administering Authority are as follows:

- collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales;
- promptly notify the Administering Authority of any new Scheme members and any other membership changes;
- exercise any discretions permitted under the Regulations;
- meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- provide any information as requested to facilitate the Valuation process.

Fund Actuary

2.4 The Fund Actuary for the Scottish Borders Council Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- prepare the Actuarial Valuation having regard to the FSS;
- advise interested parties on funding strategy and completion of Actuarial Valuations in accordance with the FSS and the Regulations; and
- advise on other actuarial matters affecting the financial position of the Fund.

3 Funding Strategy

- 3.1 The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:
- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
 - As stable an employer contribution rate as is practical.
- 3.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements and investment income, and the employer contribution has to be adjusted to a level sufficient to maintain the pension scheme's solvency and to achieve a funding level of 100% over the longer term
- 3.3 The Actuarial Valuation process is essentially a projection of future cashflows to and from the Fund. The main purpose of the Valuation is to determine the level of employers' contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.
- 3.4 The last Actuarial Valuation was carried out as at 31 March 2011 with the assets of the Fund found to represent 96% of the accrued liabilities for the Fund; this compares with 96.5% at the 2008 Actuarial Valuation.

Funding Method

- 3.5 The funding target is to have sufficient assets to meet the accrued liabilities for each employer in the Fund. The funding target may, however, also depend on certain employer circumstances and will, in particular, have regard to whether an employer is an "open" employer (which allows new recruits access to the Fund), or a "closed" employer (which no longer permits new staff access to the Fund). The expected period of participation by an employer in the Fund may also affect the chosen funding target.
- 3.6 For open employers, the actuarial funding method that was adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the Valuation date ("past service") and benefits in respect of service expected to be completed after the Valuation date ("future service"). This approach focuses on:-
- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.
 - The future service funding rate i.e. the level of contributions required from the individual employers which together with employee contributions are expected to support the cost of benefits accruing in future.
- 3.7 The key feature of this method is that in assessing the future service cost the contribution rate represents the cost of one year's benefit accrual.
- 3.8 For closed employers the funding method adopted is known as the Attained Age Method. The key difference with this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

Valuation Assumptions and Funding Model

- 3.9 In completing the Actuarial Valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

3.10 The assumptions adopted at the Valuation can therefore be considered as:-

- the statistical assumptions which generally speaking are estimates of the likelihood of benefits and contributions being paid; and,
- the financial assumptions which generally speaking will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

3.11 The base assumption in any Valuation is the future level of price inflation. This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the Valuation date using the Bank of England Inflation Curves. The resultant figure used in the 2011 valuation is 3.5% per annum.

Future Pay Inflation

3.12 As benefits are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. The assumption adopted in the 2011 Valuation is that pay increases will, on average over the longer term, exceed price inflation by 1.5% per annum. In addition, in anticipation of Government policy, it was also assumed that pay increases would only be half the long term average assumption for a period of 2 years.

Future Pension Increases

3.13 The 2010 Emergency Budget announced that in future, the pension increase orders will be linked to the CPI rather than RPI. It was therefore assumed that pension increases will be 0.5% less than the price inflation assumption.

Future Investment Returns/Discount Rate

3.14 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

3.15 The discount rate adopted depends on the funding target adopted for each employer.

3.16 For open employers, the discount rate applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the 6 months straddling the Valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. At the 2011 Valuation the ongoing discount rate was 6.4%.

3.17 For closed employers an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission requires it.

3.18 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

3.19 The adjustment to the discount rate is essentially to set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination date.

Asset Valuation

3.20 The asset valuation is market value of the accumulated Fund at the Valuation date adjusted to reflect average market conditions during the 6 months straddling the Valuation date.

Statistical Assumptions

3.21 The statistical assumptions incorporated into the Valuation such as future rates of mortality etc are based on national statistics but then adjusted where deemed appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Deficit Recovery/Surplus Amortisation Periods

- 3.22 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.
- 3.23 Where the Actuarial Valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.
- 3.24 The period that is adopted for any particular employer will depend upon
- the significance of the surplus or deficit relative to that employer's liabilities;
 - the covenant of the individual employer and any limited period of participation in the Fund; and
 - the implications in terms of stability of future levels of employers' contribution.
- 3.25 At the 2011 Valuation the period adopted to recover the deficit was no more than 12 years for any employer.

Pooling of Individual Employers

- 3.26 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly contribution rates are set for individual employers to reflect their own particular circumstances.
- 3.27 However, certain group of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small. Employers with weak financial covenants would be liable for enhanced contributions. Currently there are two pools in place within the Fund, the Scottish Borders Council funding pool and the Leisure Trust funding pool.
- 3.28 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled employers.

Cessation Valuations

- 3.29 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.
- 3.30 In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous Valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

2014 Valuation

- 3.31 The next Actuarial Valuation is due as at 31 March 2014.

4 Links with the Statement of Investment Principles

- 4.1 The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.
- 4.2 As explained above the ongoing discount rate adopted in the Actuarial Valuation is derived by considering the expected return from the underlying investment strategy, and so there is consistency between the funding strategy and investment strategy.

5 Risks and Counter Measures

- 5.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are a number of risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.
- 5.2 The major risks for the funding strategy are financial risks although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial Risks

- 5.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or the chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The Valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10% and decrease/increase the required employer contribution by around 2.5% of payroll.
- 5.4 The Pension Fund Committee regularly monitor the investment returns achieved by the fund managers and seek advice from the Fund Actuary and independent advisers on investment strategy. In the inter-valuation period 2008 to 2011 such monitoring activity saw investment returns perform slightly less than assumed in the 2008 valuation.
- 5.5 In addition the Fund Actuary provides funding updates between Valuations to check whether that the funding strategy continues to meet the funding objectives.

Demographic Risks

- 5.6 Allowance is made in the funding strategy via the actuarial assumptions of a continuing improvement in life expectancy. However the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 0.5% to 1%.
- 5.7 The actual mortality of pensioners in the Fund is however monitored by the Fund Actuary at each Actuarial Valuation and assumptions kept under review.
- 5.8 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 5.9 However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory Risks

- 5.10 The benefits provided by the Scheme and employee contribution levels are set out in the Regulations as determined by central Government. The tax status of the invested assets is also determined by central Government.
- 5.11 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which increase the cost to individual employers of participating in the Scheme.
- 5.12 The Administering Authority, however, actively participates in any consultation process of any change in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance

- 5.13 Several different employers participate in the Fund. Accordingly it is recognised a number of employer specific events could impact on the funding strategy including:
- structural changes in an individual employer's membership;

- an individual employer deciding to close the Scheme to new employees; and
- an employer ceasing to exist without having fully funded their pension liabilities.

5.14 However, the Administering Authority monitors the position of employers participating in the Fund, particularly who may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.

5.15 In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund and regularly holds meetings with employers to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues. Employers and Trade Union representatives are invited to attend all meetings of the Administering Authority and to participate in discussions on all agenda items.

6 Monitoring and Review

6.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial Actuarial Valuation process.

6.2 However, the Administering Authority also monitors the financial position of the Fund between Actuarial Valuations and may review the FSS more frequently if deemed necessary.

PROCUREMENT UPDATE

Report by Chief Financial Officer

PENSION FUND COMMITTEE

12 September 2013

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Pension Fund Committee with an update on the procurement for new managers for Global Equity and Fixed Income (bond) mandates and details a proposed project timetable for these.**

2 BACKGROUND

- 2.1 Due to concerns raised on the performance of UBS Fixed Income (Bond) Mandate and Global Equity Mandate the decision was taken by the Pension Fund Committee in December 12 to commence a procurement process for new managers for these mandates.
- 2.2 Based on previous procurement exercise and the resources available the procurement process has been broken down into two individual projects with a two month time gap between them.
- 2.3 Table 1 in para 5.3 proposes project timetables for each of the procurements.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Committee:-**
- (a) Approve the project timetables detailed in table 1 para 5.3.**
 - (b) Notes further updates will be provided to Committee throughout the procurement process.**

4 BACKGROUND

- 4.1 Due to concerns raised on the performance of UBS Fixed Income (Bond) Mandate and Global Equity Mandate the decision was taken by the Pension Fund Committee in December 12 to commence the procurement process for new managers. UBS have been notified of this decision.
- 4.2 An Appointments Sub-Group was agreed to oversee the procurement with the support on the technical analysis of submissions to be provided by AON Hewitt.
- 4.4 The two mandates will be procured via individual projects and the PQQ's for these are currently being drafted.

5 PROCUREMENT PLAN

- 5.1 Due to the value of the contract the procurement route will be OJEU which has strict timescales which must be adhered to.
- 5.2 The out-come of a "lessons learned review" from a similar procurement process undertaken during 2011/12 was taken into account in compiling the timetable. The previous procurements saw 50-60 PQQ returns being submitted and additional time being required at contract award for discussions on Terms & Conditions. It is proposed to phase these two procurements sequentially with a two month gap, to ensure resources are available at each of the key stages for robust evaluations to undertaken.
- 5.3 The table below details the proposed time table for each of the procurements with a two month time gap between them.

Table 1

	Global Equity	Fixed Income Bonds
Finalise PQQ	29 Sept 13	22 Nov 13
Publish OJEU advert	30 Sept 13	25 Nov 13
Evaluate PQQ Submissions	25 Nov 13	31 Jan 14
Issue ITT to 5 bidders	27 Nov 13	3 Feb 14
Evaluate ITT Submissions	27 Jan 14	14 Mar 14
Fund Manager Clarification meetings	3 Feb 14	23 Mar 14
Finalise tender clarifications & Scorings	10 Feb 14	28 Apr 14
Recommendation to Pension Fund Committee	4 Mar 14	17 Jun 14
Award Contract	5 Mar 14	19 Jun 14
Commence Contract	31 Mar 14	31 July 14

6 IMPLICATIONS

6.1 Financial

(a) There are costs involved with changing managers and as reported at the last meeting the last two transitions cost 0.79% of the asset value transferred for Global Equities and 0.1% of the asset value transferred to the Alternatives Mandate. In addition there will be costs associated with engaging AON Hewitt to provide the expert analysis required to assess the PQQs and ITTs this is likely to be in the range of £20k - £30k per mandate.

(b) It should however be understood that if AON Hewitt's concerns about the ability of UBS to deliver long term, sustainable performance continue unabated the impact on the Pension Fund from not acting will be significantly higher than this over time.

6.2 Risk and Mitigations

The risk management framework for the Pension Fund and the procurement process for new mandates is designed to mitigate or tolerate these risks.

6.3 Equalities

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

6.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

6.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

7.1 The Head of Corporate Governance, the Head of Strategic Policy, the Head of Audit and Risk, HR Manager and the Clerk to the Council have been consulted and any comments have been incorporated into the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016
Kirsty Robb	Treasury & Capital Manager, 01835 825249

Background Papers:

Previous Minute Reference: Pension Fund Sub Committee 13 June 2012
Pension Fund Committee 11 December 2012

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

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk