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 12 September 2013 at 10.00 pm

----

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

MINUTE

1. There had been circulated copies of the Minute of the Meeting of 18 June 2013.

DECISION
NOTED.

TRAINING PLAN 2013/14

2. With reference to paragraph 3 of the Pension Fund Committee Minute of 18 June 2013, there had been circulated copies of a report by the Chief Financial Officer proposing the 2013/14 Training Plan for Members of the Pension Fund Committee, in line with the agreed Policy Statement and Training Policy approved in September 2012. The report explained that the Training Policy was subsequently updated in June 2013 and a review of the training activities was also undertaken at this time. The report went on to explain that it had been agreed, as part of that review, to carry out an annual knowledge and skills self-assessment by the members of the Pension Fund Committee to identify key areas for inclusion in the training plan in future years, and it was noted that the first of these self-assessments was completed in July 2013.

DECISION

(a) NOTED the outcome of the Knowledge and Skill Self Assessment for 2013/14.

(b) APPROVED the Training Programme for 2013/14 as detailed in Appendix 3 to the report.

(c) AGREED that Members prioritise attendance at the training wherever practicable.

RISK REGISTER UPDATE

3. With reference to paragraph 5 of the Pension Fund Committee Minute of 18 June 2013, there had been circulated copies of a report by the Chief Financial Officer, giving Members the opportunity to review the risks previously categorised as “red” and to receive an update on progress made to mitigate the effect of those risks on the pension fund. The Chief Financial Officer summarised the red risks highlighted within the report and Members noted the action being taken. Discussion took place regarding the potential conflict Members faced in relation to the decisions they made as (a) Members of the Pension Fund Committee and (b) Members of Scottish Borders Council. The Chief Financial Officer stated that there was a need for reconciliation of the two, and that meetings had been arranged with Human Resources to take this forward. An update report would be presented to the Pension Fund Committee at its meeting on 10 December 2013.

DECISION

(a) **NOTED the progress on the Red Risk items as detailed in Appendix 2 to the report.**

(b) **AGREED:-**

(i) **that a quarterly Red Risk review be undertaken with the next due in December 2013;**
(ii) **that a six monthly Amber Risk review be undertaken in December 2013; and**
(iii) **that an update report be presented to the Pension Fund Committee at its meeting on 10 December 2013.**

MEMBER

Councillor J Mitchell left the Meeting during consideration of the following item.

PENSIONS FUND ADMINISTRATION SYSTEM

4. With reference to paragraph 9 of the Pension Fund Committee Minute of 18 June 2013, there had been circulated copies of a report by the Chief Executive seeking approval for the procurement of the Pensions Administration System for the Scottish Borders Pension Fund to be delegated to the Chief Financial Officer. The report explained that the licence for the system currently used to assist with the administration of the Council's pension fund was due to expire on 17 November 2013 and went on to explain further that, following the issue of a Prior Information Notice, three responses had been received. A further set of questions was issued to these potential suppliers and only one response was received, namely from the incumbent provider, Heywood. Further information was sought from other local authorities in Scotland and other than one in-house provider, all other Scottish Councils used the Heywood system which was tailored to the requirements of the Scottish LGPS Regulations. Costs were detailed in the report on the basis of provision of the Altair system via a hosted service, member self-service functionality and a five year contract with the option to extend for a further two years. The HR Shared Services Manager informed Members that since the report had been published, a reduction in the maximum costs for the provision of the new system from £560,711 to £534,561 had been successfully negotiated. A number of questions were raised by Members and responses were given by the officers present. It was noted that the Heywood Altair system would provide an improved and efficient experience for members of the Pension Fund via the Self-Service functionality and that it would support the provision of a high quality administrative service for the Fund, allowing it to address the further complexity of legislative changes without the need to review staffing levels.

DECISION

AGREED that responsibility for the procurement of the Heywood Altair Pensions Administration System be delegated to the Chief Financial Officer, with costs restricted to a maximum of £534,561 over the five year term of the contract.

FUNDING STRATEGY STATEMENT

5. With reference to paragraph 4 of the Pension Fund Sub-Committee Minute of 23 June 2010, there had been circulated copies of a report by the Chief Financial Officer providing a revised Funding Strategy Statement for the Scottish Borders Council Pension Fund. The report explained that this Strategy was prepared by Barnett Waddingham, the Pension Fund's Actuary, using information provided by the Council's Payroll section and covered introduction and purpose of funding strategy statement, funding objectives, key parties, funding strategy, funding method, valuation assumptions and funding model, links with the statement of investment principles, risks and counter measures, and monitoring review. The report further explained that the Funding Strategy had two key objectives, namely to achieve a funding level of 100% as assessed by the Fund's Actuary, triennially, in accordance with the Regulations and to achieve as stable an employer contribution as was practical. It was noted that the updated Statement of Investment Principles would be presented to the Pension Fund Committee at its meeting on 10 December 2013.

DECISION

(a) APPROVED the Funding Strategy contained in Appendix 1 of the report.

(b) NOTED that the outcome of the review of the Statement of Investment Principles would be presented to the Pension Fund Committee at its meeting in December 2013.

PROCUREMENT UPDATE

6. With reference to paragraph 3 of the private section of the Pension Fund Sub-Committee Minute of 13 June 2012, there had been circulated copies of a report by the Chief Financial Officer updating the Committee on the procurement for new managers for Global Equity and Fixed Income (bond) mandates and proposing a project timetable for these. The report explained that the Pension Fund Committee had taken the decision in December 2012 to commence a procurement process following concerns being raised about the performance of the Fund Managers of those mandates. The report noted that due to the value of the contract, the procurement route would be OJEU and detailed the timetables for each. Members also noted the costs involved in changing Fund Managers and for the engagement of AON Hewitt to provide expert analysis on assessment of the PQQs and ITTs.

DECISION

(a) APPROVED the project timetables as detailed in paragraph 5.3 of the report.

(b) Noted that further updates would be presented to the Pension Fund Committee throughout the procurement process.

CHANGE OF DATE OF MEETING

7. Members were informed that a request had been received to change the date of the December meeting of the Pension Fund Committee from 10 December to 4 December 2013.

DECISION

AGREED that the date of the next meeting of the Pension Fund Committee would be 4 December 2013.

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 18 June 2013.

Quarter 2 2013 Investment Monitoring Report

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

MEMBER

Councillor Mountford declared an interest in the following item of business in terms of Section 5 of the Councillors' Code of Conduct and left the meeting during the discussion.

Letter from Scottish Borders Housing Association

3. The Committee noted the contents of a letter from Scottish Borders Housing Association to the Chief Financial Officer.

ADJOURNEMENT

The meeting was adjourned for lunch at 11.40am and was re-convened at 12.55pm.

<u>Performance Update and Question Session - UBS</u>

4. The Committee noted a Performance Update from UBS.

<u>Performance Update and Question Session – Morgan Stanley</u>

5. The Committee noted a Performance Update from Morgan Stanley.

<u>Performance Update and Question Session – Baillie Gifford</u>

6. The Committee noted a Performance Update from Baillie Gifford.

The meeting concluded at 3.50 pm.

ITEM NO. 5

RISK REGISTER UPDATE

Report by Chief Financial Officer

PENSION FUND COMMITTEE

4 December 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" and "Amber" 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.**

1.2 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.

1.3 Appendix 2 details the progress of the additional control measures on the risk identified as "Red" and "Amber".

2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee:-**

(a) Notes the progress on the Red and Amber risk items contained in Appendix 1; and

(b) Agrees to a quarterly Red risk review being undertaken with the next due in March 2014

3 BACKGROUND

3.1 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.

3.2 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.

3.4 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 second of the 3 monthly reviews of the Red risk items and first of the 6 monthly reviews of the Amber risk items.

4 RED RISK PROGRESS

4.1 The current approved risk register contains 4 Red risks and 14 Amber risks. These are shown in **Appendix 1** with an update on progress in relation to the proposed actions.

5 IMPLICATIONS

5.1 **Financial**

There are no direct financial implications of this report.

5.2 **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.

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 of Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Head of Corporate Governance, the Head of Strategic Policy, the Head of Audit and Risk, HR Manager, 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
Kirsty Robb	Treasury & Capital Manager, 01835 825249

Background Papers:
Previous Minute Reference: Pension Fund Committee 12 September 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

ITEM NO. 6

INVESTMENT MANAGERS PROCUREMENT UPDATE

Report by Chief Financial Officer

PENSION FUND COMMITTEE

04 December 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.**

1.2 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 2012 to commence a procurement process for new managers for these mandates. These were delayed due to resource constraints but now programmed.

1.3 Based on previous procurement exercise and the resources available the procurement process it was agreed in September to break the procurement into two individual projects with a two month time gap between them.

1.4 The Global Equity procurement has received 39 Pre Qualification Questionnaires (PQQ) and these are currently being short listed to 6 bidders who will be invited for tender. The Fixed Income Bonds procurement PQQ has been published with a closing date of 24 January 2014. A Member panel has been appointed to oversee the procurement process and interviews.

2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee:-**

(a) Notes the progress to date on the individual procurements.

(b Notes further updates will be provided to Committee throughout the procurement process.

3 BACKGROUND

3.1 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.

3.2 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.

3.4 It was agreed at the September Pension Fund Committee to break the procurements into two individual projects, with a 2 month time gap between them. The agreed timetable is shown below

	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 6 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

4 PROCUREMENT UPDATE

4.1 Global Procurement

(a) PQQ

The OJEU advert was published on the 10th October and PQQ's closed on 15 November. 52 expressions of interest have been logged and 39 PQQ received. These are currently being evaluated to produce a short list of 6 bidders.

(b) Tender Process

The Tender documents are currently being finalised and will be issued to the Short listed companies on 18th December, for completion and return on 30 January. Additional time has been given to accommodate the festive season.

(c) Clarification Interviews and Contract Award

Clarification interviews for all submitted Tenders will be held week commencing 17 February leading to contract award on 31 March. The December 2012 meeting appointed Councillor White and Councillor Mitchell to sub group which will under take the Clarification interviews.

4.2 **Fixed Income Bonds**

(a) **PQQ**

The PQQ documentation is complete and was published on the portal on 29 November 2013, with a closing date of 24 January 2014. These will then be evaluated to produce a short list of 6 bidders.

(b) **Tender Process**

The Tender documents will be finalised ready for issuing to the Short listed companies on 3rd February, for completion and return on 14 March. Additional time has been given to accommodate the festive season.

(c) **Clarification Interviews and Contract Award**

Clarification interviews for all submitted Tenders will be held week commencing 23 March leading to contract award on 19 June. The December 2012 meeting appointed Councillor White and Councillor Logan to the sub group which will under take the Clarification interviews.

5 IMPLICATIONS

5.1 **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 PQQ's and ITT's this is likely to be in the range of £20k - £30k per mandate.

(b) It should however be understood that if 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.

5.2 **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.

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 of Scheme of Delegation are required as a result of this report.

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 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
Kirsty Robb	Treasury & Capital Manager, 01835 825249

Background Papers:
Previous Minute Reference: Pension Fund Committee 12 September 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

ITEM NO. 7

AUTO ENROLMENT UPDATE

Report by Chief Financial Officer

PENSIONS FUND COMMITTEE

4 December 2013

1 PURPOSE AND SUMMARY

1.1 **This report provides the Pension Fund Committee with an update on the implementation of the Auto Enrolment legislation for all Scheduled and Active Admitted Bodies.**

1.2 Although Scottish Borders Council, the largest employer within the Fund, opted for the transitional arrangements, there has been an increase in membership of the Fund as a direct result of communicating with all employees of the Council.

1.3 Final decisions on the route to be taken by other Scheduled and Active Admitted Bodies are still to be conveyed to the Fund.

2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee:-**

(a) Notes the positive impact communication with employees of Scottish Borders Council has had on membership of the Fund.
(b) Notes further updates will be provided to Committee as and when further information becomes available from the other Scheduled and Active Admitted Bodies.

3 BACKGROUND

3.1 The Pensions Act 2011 introduced new Employer pension responsibilities effective from 1 October 2012. The legislation requires employers to automatically enrol certain employees into an eligible pension scheme and to contribute to that scheme.

3.2 The Local Government Pension Scheme (LGPS), administered by the Scottish Borders Council Pension Fund, is an eligible pension scheme.

3.3 Within the legislation, an employer can choose to apply the transitional period, thereby, allowing the employer to delay automatic enrolment, for existing employees at the staging date, until 30 September 2017. This option is only available where the employer provides a Defined Benefit pension scheme. The LGPS is a qualifying scheme for the transitional arrangements.

3.4 In addition to the transitional arrangements, an employer can use the postponement of automatic enrolment, sometimes referred to as a waiting period. Essentially, this postpones the requirement to assess the eligibility of the worker for a period of three months.

3.5 Communication with all employees is a key element to the auto enrolment legislation, in that "the duty is on the employer to provide the right information to the right individual, at the right time". The legislation requires that employees receive communications at various points, outlining how they are affected as individuals.

4 UPDATE

4.1 Communications issued to all employees of Scottish Borders Council, following the Council's decision to use the transitional arrangements delaying auto Enrolment for existing employees to September 2017, has lead to an increase in membership of the LGPS, through employees opting-in.

4.2 There have been 58 opting-in requests received from employees of Scottish Borders Council since the communications were issued. However, only 23 of those opting-in hold a post with contractual hours, the remaining 35 hold posts for Casual/Relief cover.

As a result of this there has been an increase in contributions being collected and remitted to the Fund. For the 23 with contractual hours the increased contributions for a full year are as follows: -

Employee Contribution	£15,299.49
Employer Contribution	£49,156.89
Total Contribution	£64,456.38

4.3 Representatives from the Pensions Administration Team met with Borders College colleagues, during August 2013, to discuss the implications of Auto Enrolment and provide them with initial advice. This has been followed up with the provision of additional advice, specifically on the transitional arrangements. We are waiting on confirmation from Borders College on the route that they are taking.

4.4 Contact will be made with the remaining employers over the coming months to offer advice and determine the options that they are taking with regard to Auto Enrolment. They have staging dates up to and including November 2014.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report. However, it should be noted that there is an increase in contributions being passed to the Fund as detailed at 4.2 above, with the increased costs being met by Scottish Borders Council as the employer body.

5.2 Risk and Mitigations

The impact of Auto Enrolment on scheme membership is a key consideration within the Pension Fund Risk Register, in terms of the make up of membership of the scheme. The impact of this legislation for all Scheduled and Active Admitted Bodies will be monitored over the coming months and included in progress reports to Committee on the Risk Register in accordance with the review timetable.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report. It should also be recognised that an independent Equality Impact Assessment of the scheme has been carried out.

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

6.1 The Head of Corporate Governance, the Head of Shared Services, 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

Chief Financial Officer **Signature**

Author(s)

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

Background Papers: Scottish Borders Pension Fund Risk Register

Previous Minute Reference: Scottish Borders Council 25 April 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. 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.

LOCAL GOVERNMENT PENSION SCHEME (2015)

Report by Chief Financial Officer

PENSIONS FUND COMMITTEE

4 December 2013

1 PURPOSE AND SUMMARY

1.1 **This report provides the Pension Fund Committee with an update on progress made at a National level with regard to the design of the new Local Government Pension Scheme (LGPS) in Scotland, scheduled for implementation from 1 April 2015.**

1.2 The report outlines the high level objectives for the review of the LGPS in Scotland, the key changes to the scheme design and notes that there is a change to the governance related roles to be established from 1 April 2015.

2 RECOMMENDATIONS

2.1 **It is recommended that the Pension Fund Committee:-**

(a) Notes the progress that has been made at a National level with the scheme design.

(b) Notes further updates on the scheme design will be provided to Committee as and when further information becomes available.

(c) Notes a further report on the changes to governance will be provided to Committee as and when further information becomes available.

3 BACKGROUND

3.1 The reform of the LGPS, as with all the main public sector pension schemes, follows Lord Hutton of Furness' report of March 2011 and the resulting Public Service Pensions Act 2013.

3.2 The Scottish Local Government Pensions Advisory Group (SLOGPAG), a partnership between COSLA, trade unions for Local Government in Scotland and the Scottish Government, have been meeting since October 2012 in order to agree the terms of the new scheme.

3.3 The high level objectives for the reform of the LGPS were set as follows: -

- To ensure the sustainability of the scheme, the design of the new scheme should be such that existing members remain in the scheme and non-members are encouraged to join
- Levels of contribution rates which ensure protection of the lowest paid within the workforce
- Provide quality benefits to scheme members

3.4 The new scheme is also subject to a robust and independent Equality Impact Assessment to ensure it meets all legislative equality requirements in both effect and intent; to include inter-gender and inter-generation equity.

3.5 The new LGPS (Scotland) will take effect from 1 April 2015 replacing the existing scheme from that date. As the new scheme commences all existing scheme members and new entrants will become members of the new LGPS (Scotland).

4 UPDATE

4.1 COSLA issued a statement on 11 November 2013, copy attached at Appendix 1, advising that broad agreement has been reached with trade unions on the design of the new LGPS in Scotland.

4.2 The new LGPS in Scotland will continue to be a Defined Benefit scheme, meaning that pension benefits will continue to be calculated to a set formula. This is a key point for Auto Enrolment in allowing those Scheduled and Active Admitted Bodies who decide to use the transitional arrangements to continue to do so.

4.3 Information on the broad agreement being reached between COSLA and the trade unions has been included within the latest issue of SB Update for all Scottish Borders Council employees. Additionally, this information has been passed to all Scheduled and Active Admitted Bodies with a request that this be brought to the attention of scheme members.

This advised employees of the following key changes to the scheme: -

- Move from Final Salary to Career Average Pension Scheme
- Increase in accrual rate from $1/60^{th}$ to $1/49^{th}$
- Retaining existing ill health and death in service benefits
- Introducing a 50/50 option allowing employees to pay 50% of contributions for 50% benefits
- Introduction of an Employers' cost cap mechanism to ensure the future affordability and sustainability of the scheme
- Equality in partner pensions for co-habiting and civil partners as with married couples

4.4 Attached at Appendix 2 is a copy of the Heads of Agreement for the new LGPS as agreed by the Scottish Local Government Pensions Advisory Group (SLOGPAG), this document provides detail of the proposed terms at a high level, with the main features outlined within the Executive Summary.

4.5 Within the Heads of Agreement there is a proposal to amend the method of calculating employee contribution rates, from whole time equivalent earnings to actual earnings. This will see a reduction in the employee contribution percentage, resulting in a lower level of income for the Fund.

4.6 Additionally, there is a change to the definition of Pensionable Pay included within the Heads of Agreement. This will see an increase in the level of income the Fund receives in both employee and employer contributions.

4.7 The points included at 4.4 and 4.5 above will be communicated to all Scheduled and Active Admitted Bodies. However, it will be stressed that this is a very high level view of the terms of the new scheme and that the full impact will not be clear until the formal legislation has been passed.

4.8 Within the Heads of Agreement document there are also details of 4 core governance related roles that must be established from 1 April 2015. The impact of this will need to be considered by this Committee as soon as further details become available.

4.9 Representatives from SLOGPAG and the Scottish Pensions Liaison Group (SPLG) are meeting during November to agree a communication strategy, which will ensure all Pension Funds and Employers deliver a consistent message to current and potential members of the LGPS. The representatives are considering the creation of a designated website which will be used to host all online communications with scheme members. This approach was adopted in England and Wales for the introduction of their new scheme in April 2014. The website for England and Wales included a number of short videos to explain the changes and what they meant for scheme members.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report. However, the implementation of the change to scheme design may have implications for employee and employer contributions it is to early to quantify this.

5.2 **Risk and Mitigations**

The implementation of the new LGPS legislation will add further complexity to the calculation of member benefits, with existing scheme members having up to 3 different benefits (pre 2009 service, 2009 to 2015 service and post 2015 service) accruing depending on membership. However, this is mitigated through the implementation of the new Pensions Administration System which will ensure compliance with the new legislation. Once the new scheme has been implemented it will be key to monitor the impact on scheme membership and the impact that the proposed changes have on the level of income the Fund will receive.

5.3 **Equalities**

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report. It should also be recognised that an independent Equality Impact Assessment of the scheme has been carried out.

5.4 **Acting Sustainably**

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

5.5 **Carbon Management**

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

5.6 **Rural Proofing**

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

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

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

6 CONSULTATION

6.1 The Head of Corporate Governance, the Head of Shared Services, 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

Chief Financial Officer **Signature**

Author(s)

Name	Designation and Contact Number

Ian Angus	HR Shared Services Manager 01835 826696

Background Papers: N/A

Previous Minute Reference: N/A

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

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.

Heads of Agreement New Local Government Pension Scheme (Scotland) - Summary

Agreed by: Scottish Local Government Pensions Advisory Group (SLOGPAG)

Version 1.0 - 25 September 2013

Foreword

This document sets out the terms of the agreement reached by the Scottish Local Government Pensions Advisory Group (SLOGPAG)[1] on the content and operation of a new Local Government Pension Scheme (LGPS) 2015 for Scotland. Re-convened in October 2012, SLOGPAG has taken a collaborative approach towards developing this new scheme - a scheme that meets Scottish needs which has been forged in partnership. All parties have participated equally in an open and transparent process, which has been underpinned throughout by an ethos of mutual respect.

The reform of the LGPS, as with all the main public sector pension schemes, follows Lord Hutton of Furness' report of March 2011 and the resulting Public Service Pensions Act 2013. The primary aim of SLOGPAG was to facilitate the delivery of a scheme that takes a balanced consideration of the unique Scottish position, continues to provide valued benefits for scheme members, and is affordable, sustainable and fair to employers, scheme members and tax payers. Consequently, the high level objectives for the reform of the LGPS were set as follows:

- To ensure the sustainability of the scheme, the design of the new scheme should be such that existing members remain in the scheme and non-members are encouraged to join
- Levels of contribution rates which ensure protection of the lowest paid within the workforce
- Provide quality benefits to scheme members.

The scheme design is also subject to a robust and independent Equality Impact Assessment to ensure it meets all legislative equality requirements in both effect and intent; to include inter-gender and inter-generation equity.

The new LGPS (Scotland) will take effect from 1 April 2015 replacing the existing scheme from that date. As the new scheme commences all existing scheme members and new entrants will become members of the new LGPS (Scotland).

This agreement provides for a reformed scheme, which meets the legislative requirements of the Public Service Pensions Act 2013 (the Act), and delivers a scheme which is fair and valued by all scheme members – full time and part time workers; managers, administrators and manual workers; and long and short serving employees alike. The new scheme represents a fair deal for Local Government workers, employers and for the taxpayer, ensuring that the scheme remains both affordable and sustainable.

[1] SLOGPAG is a partnership between COSLA, trade unions for Local Government in Scotland and the Scottish Government

Executive Summary

1. This agreement meets the requirements of the Act and the high level objectives set by SLOGPAG for a new, reformed LGPS in Scotland. It delivers a scheme that provides valued benefits for scheme members, is fair for all stakeholders and, crucially, is affordable and sustainable for the longer-term. Headline features of the new scheme include:

   a) Change to Career Average Revaluation - this change reflects a requirement within the PSP Act. This type of scheme is particularly beneficial for lower paid members, individuals for whom promotion opportunities are limited or those where their earnings may reduce towards the end of their career.

   b) Change in the accrual rate from 1/60th to 1/49th

   c) Retention of the 5 point tiered employee contribution rate, which is 'banded'. This provides for fairer contribution rates for scheme members at the lower end of the pay scale. As contributions benefit from tax relief, a tiered arrangement of contributions, where scheme members pay a proportion of earnings up to each limit and then higher contributions on earnings above each limit, also improves the perceived fairness of contributions at different salary levels.

   d) Lump sum death in service benefit remains at three times pay

   e) Pensions for partners who cohabit and civil partners equal to those benefits afforded to married couples.

   f) Retention of the ill-health pension provisions through a two-tier benefit scheme, with a third tier provided by a discretionary employer lump sum payment to operate alongside the scheme.

   g) The 50:50 Option – this is a new scheme design feature which allows employees eligible for LGPS membership or scheme members to elect to pay 50% of normal contributions, and in return accrue only 50% of their pension during that time. Benefits such as death in service lump sum would still be retained. This feature is not designed to replace long term membership of the full scheme.

   h) The scheme has been designed to help ensure it is both fair and affordable into the future. The Act also requires that costs are managed through a cost control mechanism which requires the scheme to set a cap, the 'employer cost cap'. This cap is used when measuring changes in the cost of the scheme as assessed at valuations and will ensure that action is taken if the cost of the scheme increases or decreases outside of the margins set around the 'employer cost cap'.

2. An 'at a glance' guide to the features of the proposed post 2015 LGPS can be found at **Annex A**.

3. SLOGPAG recognises the critical role governance has in supporting the delivery of excellent LGPS performance and therefore encourages and supports good practice through open and transparent governance arrangements. SLOGPAG is reviewing the governance arrangements within its agreed remit of developing a new Scottish LGPS. Current governance proposals can be found at **Annex B**.

Role of SLOGPAG

4. SLOGPAG comprises representatives of COSLA (on behalf of councils and administering authorities), Local Government Unions and the Scottish Government.

5. This group was tasked with developing a new Scottish LGPS in line with Scottish needs and within the framework of pensions legislation, which delivered a scheme which is fair to all, as well as being legal and affordable over the longer term. All parties agreed to work towards achievement of the high-level objectives. Specific responsibilities were agreed, as follows:

- The Scottish Government has responsibility for facilitating the work of the tripartite group, liaising with Ministers, and ensuring proposals aligned with strategic policy issues in relation to local government (including financial aspects).

- The Scottish Public Pension Agency will support the wider Scottish Government role, whilst also providing advice on regulatory issues and the broader public service pension context (including consistency with other schemes), and validation of the legal, financial and evidential elements of options. SPPA are also responsible for working in conjunction with the Scottish Government Legal Directorate (SGLD) to develop the new scheme regulations.

- Supported by employers' representatives, COSLA's key role will be to discuss with unions the options for, and terms of, the new scheme, preparation of the affordability case and provision of statistical and other evidence from local authorities. COSLA and employers' representatives will also play the key role in liaising and consulting with local authorities, disseminating outcomes to local authorities, and supporting co-ordination of local authorities' dissemination of outcomes to scheme members.

- Unions will have responsibility for discussing with COSLA the options for, and terms of, the new scheme. Unions also have a role to liaise and consult with trade union members.

- The Government Actuaries Department will provide actuarial advice throughout the reform process. All parties reserve the right to take separate advice if thought necessary. All parties will take responsibility for obtaining their own legal advice.

Scheme Feature	New LGPS(S)
Type of scheme	Defined Benefit, Career Average Revaluation of Earnings (CARE)
Revaluation (CARE)	Based on the Consumer Prices Index
Normal Pension Age	Set equal to an individual’s State Pension Age, with a minimum of age 65
Accrual rate	Annual pension benefits to accrue at a rate of 1/49th
Lump sum	The option to convert up to 25% of pension to lump sum (in line with the HMRC upper limit)
Commutation of Pension to Lump Sum	At a rate £1 of pension for each £12 of lump sum
Certificate of Protection	Certificate awarded where reduction in pensionable pay is outside of the member’s control. Certificate means that upon retiring within lifetime of certificate (10 years) their pension is calculated based on their previous (higher) salary, rather than on their reduced pay[2]. Implementation of certificate of protection to cover circumstance where member is required to take lower salary due to ill health.[3]

[2] Actual pensionable pay
[3] Agreed in principle, final decision awaiting HM Treasury clarification.

Scheme Feature	New LGPS(S)
Contribution rates for scheme members	Maintaining the five-tier employee contribution rate structure agreed for the LGPS in 2008 to deliver an average employee contribution rate of 6.3%. Employee contribution tiers operate on a banding system, as follows: **Pensionable pay** — **Rate (%)** On earnings up to and including £19,800 — 5.5% On earnings above £19,800 and up to £24,200 — 7.25% On earnings above £24,200 and up to £33,200 — 8.5% On earnings above £33,200 and up to £44,200 — 9.5% On earnings above £44,200 — 12% Employee contributions payable on actual earnings rather than Whole Time Equivalent earnings. Employee contribution rates apply to all active members of the LGPS in Scotland.
Contribution Flexibility - 50/50 option	Able to opt to earn half of the level of pension benefits in return for paying half the amount of contributions. Individuals opting for this will accrue pension at a rate of 1/98th of their pensionable pay received, rather than at the scheme's standard accrual rate of 1/49th. To be reviewed, to determine impact on low paid workers, once the outcome of the 2017 scheme valuation has taken place[4]
Contribution rates for employers	These will vary depending on LGPS fund and will be set as a result of triennial valuations (actuarial reviews) of the scheme. The scheme will also incorporate a cost sharing mechanism to ensure sustainability of the scheme over the long term, in line with the requirements of the Public Service Pensions Act 2013.

4 Based on an assumed take-up rate of 10% of members.

Scheme Feature	New LGPS(S)
Ill health benefits	Remains as before - two entry point ill health provision where scheme members who are permanently incapable of carrying out efficiently the duties of their job: (i) have no reasonable prospect of undertaking gainful employment before scheme normal retirement age of 65(Tier 1) ; or (ii) have a reasonable prospect of undertaking other gainful employment before age 65 (Tier 2). Transitional protection for existing scheme members whose service enhancement would be less than under current arrangements (to be reviewed after three years).
Ill-health gratuity	Third tier, outside the pension scheme, consisting of one-off lump sum payment by employer at their discretion. Calculated on one week's pay per year of service and limited to maximum of 30 weeks' pay. Covers those whose employment is terminated on capability grounds, who are not in receipt of ill-health benefits and who have a reasonable prospect of undertaking further gainful employment before age 65.
Death in service arrangements	A lump sum death grant of 3 times 'assumed pensionable pay' (see below for definition of assumed pensionable pay)
Early retirement	A member who has not attained normal pension age but who has attained the age of 55 or over, may elect to receive immediate payment of a retirement pension - adjusted on an actuarially neutral basis by the amount shown as appropriate in actuarial tables issued by the Scottish Ministers with guidance from the scheme actuary.
Flexible retirement	An active member who has attained the age of 55 or over who reduces working hours or grade of an employment may, with the Scheme employer's consent, elect to receive immediate payment of all or part of the retirement pension to which that member would be entitled to in respect of that employment.
Working beyond Normal Pension Age	The ability to accrue service in the LGPS beyond Normal Pension Age up to age 75. Cost-neutral uplift factors for benefits accrued beyond Normal Pension Age.

Scheme Feature	New LGPS(S)
Minimum Pension Age (MPA)	All new scheme members to have Minimum Pension Age of 55 years. Transitional arrangements permit all current scheme members to have Minimum Pension Age of 55 from 6/4/2010, except for any member who was in the scheme on or before 5 April 2006 whose employment is terminated on grounds of redundancy or efficiency and is aged 50 or over at that point. Such members will have a protected pension age of 50.
Partner + Survivor pensions	Dependants' benefits payable in respect of widows, widowers, civil partners, children's pensions plus unmarried partners who cohabit, at rate of 1/160th. No requirement to nominate cohabitee.
Pensionable Pay	Retain "non-contractual overtime" under exclusions. Amend Regulations to include a definition of non-contractual overtime; "overtime above the hours of a standard full-time working week (37 hours) that the employee is not contracted to work".
Assumed Pensionable Pay	Assumed Pensionable pay used where previous calculations were based on service e.g. relating to sickness / injury, child-related leave and reserve forces service leave. (1) **where the member is paid monthly;** (i) the pensionable pay the member received relating to that employment in the 3 months preceding the start of the pay period in which the sickness/ leave began; (ii) less any regular or irregular lump sum received; (iii) with the resulting sum being grossed up to an annual figure; (iv) to which any regular lump sum payment received should be added; (2) **where the member is paid otherwise than monthly;** (i) the pensionable pay the member received relating to that employment in the 13 weeks preceding the start of the pay period in which the sickness/ leave began; (ii) less any regular or irregular lump sum received; (iii) with the resulting sum being grossed up to an annual figure; (iv) to which any regular lump sum payment received should be added.[5]

[5] Subject to agreement of final detail

Scheme Feature	New LGPS(S)
Best of the last three years for calculating final pension	Not applicable to a CARE scheme. However, transitional provisions will apply for those with pre-2015 service in the scheme.
Vesting period	2 Years - If a person's qualifying service in the Scheme is for less than two years, that person is entitled, when that active membership ceases, to be repaid contributions by the administering authority.
Abatement	None
Separate employments	None[6]
Buy back (child-related/reserve forces/trades dispute/absence with permission)	Option to make retrospective contributions in respect of certain periods of leave, to enable such periods to count as pensionable.
Transitional Protection	Benefits for pre-1st April 2009 service calculated on 1/80 pension and 3/80 lump sum basis. Benefits for post-1st April 2009 service calculated on 1/60 pension only (with option to commute up to 25% of value to lump sum).[7]
Rule of 85	Rule of 85 - transitional protection to 2020 retained.

[6] Fees for returning officers at Local Government, Scottish Parliament & European elections was a final salary issue.
[7] Pension benefits based on final salary at date of retirement for pre-2015 service

Scheme Feature	New LGPS(S)
Award of Additional Pension	Employing authority may resolve to award an active member additional pension of not more than £5,000 per year.
Commutation of small pensions	Calculated in accordance with guidance issued by Scottish Minister with advice from the scheme actuary.

Scheme Governance proposals

- The Public Service Pensions Act 2013 identifies 4 core governance related roles which must be established from 1 April 2015:

  a. Responsible Authority – the Scottish Ministers who make the regulations for the LGPS (Scotland)
  b. Scheme Manager – the function of managing and administering the scheme
  c. Pension Board – the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator
  d. Scheme Advisory Board – the body responsible for providing advice to the Responsible Authority, at the authority's request, on the desirability of changes to the scheme. The Scheme Advisory Board also provides advice to the Scheme Manager and Pension Board in relation to the effective and efficient administration and management of the scheme.

- SLOGPAG recognises the critical role governance has in supporting the delivery of excellent LGPS performance and therefore encourages and supports good practice through open and transparent governance arrangements.

- SLOGPAG will review the governance arrangements within its agreed remit of developing a new Scottish LGPS. Topics for consideration will include, but are not limited to:

  a. The structure of the 4 governance related roles identified by the Public Service Pensions Act 2013
  b. The membership and constitution of the Scheme Advisory Board
  c. Operation of the cost control mechanism
  d. The requirements of the Pensions Regulator
  e. Publication of scheme information
  f. Relevant provisions in the Institutions of Occupational Retirement Provision (IORP)
  g. Data collection

- SLOGPAG will discharge its duties, as defined in the 'Role of SLOGPAG' document agreed by SLOGPAG members in December 2012, and will then cease to operate.

- The Scheme Advisory Board will be established from 1 April 2015 and the establishment of a Shadow Scheme Advisory Board will be kept under review, but such a Shadow Scheme Advisory Board is anticipated to be beneficial from Autumn 2014 onwards.

- It is anticipated that the Scheme Advisory Board will be bilateral with an equal number of employer and employee representatives. There will be an independent chair and the size of the Board will be around 15 people. In addition, advisors and observers will also attend the Board but will not have membership status.

- SLOGPAG or the Shadow Scheme Advisory Board, as appropriate, will establish a process, commencing April 2014, to consult on, and collate data relevant to, a review of the structure of the Scottish LGPS, in order for the Scheme Advisory Board to be in a position to complete such a review.

Appendix 1

Council staff vote overwhelmingly in favour of pension reforms.

Local authority employers and trade unions have reached emphatic agreement on the new design of the Local Government Pension Scheme (LGPS) in Scotland.

The movement to a Career Average Valuation will ensure that those at the lowest end of the pay scale and particularly female employees will benefit from a fairer and sustainable pension. Scotland's Councils are one of Scotland's largest employers, employing over 280,000 people.

The new scheme design will go a significant way to ensure that those employees can make a decent provision for their retirement. COSLA Leaders approved the new scheme design in September 2013 and now UNISON has confirmed that they had received an overwhelmingly positive response to the new design with a 94% positive response to the ballot.

Councillor Kevin Keenan COSLA's Finance Spokesman said: "Whilst we felt we already had a sustainable and fair Local Government Pension Scheme in Scotland, the reform process did over an opportunity for local authorities as Employers to ensure that the Scheme provided important support for employees at the lower end of the pay scale and reflects the unique demographics of our workforce whilst remaining affordable and sustainable. The positive ballot result from the Trade Union Side is a welcome confirmation that the new scheme design is a positive change and reflects a very constructive approach between all parties."

Dave Watson, Scottish Organiser (Bargaining and Campaigns) at Unison said: "Whilst the local government trade unions, UNISON, GMB, Unite and UCATT regard the reform of the Scottish LGPS as an unnecessary interference by the UK Government in the operation of a pension scheme that had been updated as recently as April 2009, our approach has been to minimise the impact of the changes imposed by the UK Government and maintain the main elements of the uniquely Scottish approach. The main aim was to protect and improve pension benefits for the majority of members without increasing contributions. Such an increase would simply drive members away from pension provision at a time of pay cuts and other economic pressure. We hope the new scheme will attract new members, particularly women and those at the lower end of the pay scale who are most likely to suffer by not having a secure pension in retirement. In doing so we believe we have a sustainable and affordable scheme for the longer term."

ITEM NO. 9

STATEMENT OF INVESTMENT PRINCIPLES UPDATE

Report by Chief Financial Officer

PENSION FUND COMMITTEE

04 December 2013

1 PURPOSE AND SUMMARY

1.1 **This report seeks approval of the updated Statement of Investment Principles for the Scottish Borders Council Pension Fund.**

2 BACKGROUND

2.1 The Local Government Pension Scheme (Administration) (Scotland) regulations requires administering authorities to prepare, maintain and publish a Statement of Investment Principles. The current Statement was last updated June 2010.

2.2 A review of the current Investment Principles was undertaken and reported to Committee in March 2013.

2.3 Appendix 1 provides an updated Statement of Investment Principles reflecting the recommendation agreed.

3 RECOMMENDATIONS

3.1 It is recommended that the Pension Fund Committee:

(a) approves the updated Statement of Investment Principles as set out in Appendix 1; and

(b) Notes a report will be presented to Members in March 2014 with proposals for keeping the current allocation to equity investments under review.

4 BACKGROUND

4.1 The current Statement of Investment Principles (SIP) was reviewed, updated and approved in June 2010. It is now considered appropriate to undertake a review of the funds investment principles to ensure they remain fit for purpose and allow the fund to respond appropriately to changing economic conditions, investment returns and future liabilities

4.2 LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, discloser and consultation. These are referred to as the "Myners Principles" and the reporting on compliance, as required by the LGPS Regulations, must be included in the Statement of Investment Principles.

4.3 **Myners Principle 2: Clear Objectives** states that:

- An overall investment objective(s) should be set out for the fund that takes account of the schemes liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

and **Myners Principle 3: Risk and Liabilities** states that:

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

4.4 An authority can demonstrate compliance with these Myners Principles through the review of its investment objectives and the strategic asset allocation in light of updated actuarial valuations of the Fund's liabilities.

4.5 In September 2012 the Committee instructed a high level review of the current SIP to be undertaken. A report detailing the findings of the review and recommendations was presented to the Committee in March 2013. The agreed recommendation was to implement the previously agreed strategy of reducing equities to 65% and to consider, in the future, a further reduction to 60%. The move to 65% has now been achieved. .

5 Updated SIP

5.1 The SIP has been updated to reflect the agreement at the March 2013 Committee and is contained in Appendix 1.

5.2 The main areas of change in the SIP are detailed below:

(a) Section 4.24 – **Currency Risk**- updated to reflect new Manager and strategy change from 50% passive to 25% passive and 25% active currency hedging.

(b) Appendix 2 – **Strategic Asset Allocation** – updated to reflect new fund managers since 2010 and revised strategic asset allocation.

(c) Appendix 3 – **Investment Management Arrangements** – updated to include new fund managers and Multi Asset Alternative asset class.

5.3 The Committee in March also agreed the following:

"that the Committee consider, in principle, a further reduction of the equity allocation to 60% during 2013/14"

The current market conditions however do not support this move. It is proposed work is undertaken to develop some triggers targets, based on market conditions, which will be monitored. If market conditions breach the triggers, a review of equity allocation will be initiated and a report produced to Committee. A further report on the paper on this will be presented to Members at the March 2014 meeting.

6 IMPLICATIONS

6.1 **Financial**

(a) Aon Hewitt will assist officers in the development of the triggers targets which would highlight further reviews of the equity allocation. This will result a charge to the pension fund.

6.2 **Risk and Mitigations**

(a) The investment review proposed is part of the ongoing risk management framework to ensure that the strategic asset allocation is still fit for purpose in light of current and predicted economic and pension liability trends.

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.

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 Strategic Policy, the Head of Audit and Risk, 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: Pension Committee, 13 September 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 PSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders .gov.uk

SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2013

Finance
Chief Executive Department
Version 1.0
Presented to: Pension Fund Committee 4 December 2013

Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) of Scottish Borders Council on 4 December 2013.

1. The statutory requirements concerning the SIP

1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed[1]
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending[1]

1.2 The Statement must also state the extent of compliance with guidance given by the Scottish Ministers. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.[1]

[1] *"Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)"*

2. Governance

2.1 The Scottish Borders Council is the "administering authority" for the Scottish Borders Council Pension Fund (the Fund).

2.2 The Committee of Scottish Borders Council has delegated responsibility for the supervision of the Fund. Members of this Committee are "Quasi-trustees" of the Fund. Full details of the governance arrangements can be found in the Fund's Governance Statement[2].

2.3 The key investment responsibilities of the Committee are contained in Appendix 1.

2.4 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.

2.5 The SIP forms part of a framework that includes:

- The Statutory Regulations
- The Pension Fund Committee
- The Fund's Advisers
- The Funding Strategy Statement[2]

and
- The Governance Compliance Statement.

2.6 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

[2] *Copies of the approved Funding Strategy Statement,, the Governance Compliance Statement and the Statement of Investment Principles can be accessed at www.scotborders.gov.uk/pensions .*

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

"To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis."

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

i 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.

ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

4. Investment Policy

Investment Strategy

4.1 The Committee sets an investment strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.

4.2 The investment strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.

4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.

4.4 The FSS states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.

4.5 The Fund presently enjoys a positive cash flow and currently has more actively contributing members compared to members receiving pensions. It however also has 2,242 deferred members which are currently neither contributing nor receiving – as a result it is not mature and therefore need not, at present, provide a high level of annual income to meet the cost of benefits. It will therefore continue to seek capital growth to meet future liabilities.

4.6 The investment strategy for the Fund has been developed with the support of external investment advisers who have supported the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.

4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.

4.8 The Committee will undertake a full review exercise, taking into account the funding status and liabilities and using asset liability modelling if appropriate, at least once per three year period. The Committee undertook the last review in 2009 and agreed a revised investment strategy in 2010. The required review was again undertaken in March 2013 resulting in the revised strategy contained in this SIP. The Committee will require the Investment Consultants to provide an annual letter of comfort in relation to the strategic asset allocation.

4.9 Appendix 2 contains a summary of the strategic asset allocation benchmark for the Fund.

Investment Management Arrangements

4.10 The investment strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley) and Baillie Gifford, as appropriate.

4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.

4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.

4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.

4.14 The Fund's current total target is to generate a return of at least 2.9% above RPI inflation assumed as the real discount rate at the actuarial valuation as at 31 March 2011.

4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.

4.16 The Fund holds some Council Bonds and temporary cash, which are managed by Finance staff.

4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.

4.18 Appendix 3 contains details of the investment arrangements that are in place at the 31 March 2013.

Risk Measurement and Management

4.19 ***Asset Allocation***

i The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration, matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.

ii In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities. Following this rationale, the Fund deliberately runs an unmatched strategy which is heavily biased towards "growth" assets such as equities, property and other alternative assets.

iii The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.

iv As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2009 by the Fund's investment consultant, it is envisaged that this will next be done during 2014-2015 following the actuarial valuation as at 31 March 2014.

v The retrospective impact of investment risk on the Fund's funding position is monitored on a quarterly basis via investment reports prepared by the Fund's investment managers, the Fund's performance monitoring company and the investment consultants.

4.20 ***Investment Managers***

i To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements with each of the appointed managers.

ii The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or out performs their individual targets.

iii The managers must also provide data to WM Performance Services, the company chosen by the Committee to provide it with independent performance comparisons.

iv The managers are also required to attend at the Committee at least twice a year to give an account of their activities and performance.

v The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.

vi All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 ***Advisers***

i The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

Investment Consultant	Aon Hewitt Limited
Actuaries	Barnett Waddingham

4.22 ***Concentration Risk and Diversification***

i Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.

ii Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.

iii This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

4.23 ***Transition Management Arrangements***

i A specialist transition manager will be employed to manage complex changes in investment strategy and/or manager(s).

ii The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

4.24 ***Currency Risk***

i During 2009 the Committee approved the commencement of a Passive Currency Hedging mandate to hedge 50% of the currency exposure within the overseas equity portfolios.

ii The mandate is operated by State Street Global Advisors within a 5% tolerance which is monitored monthly and generates a realised gain or loss quarterly.

iii The key purpose of the passive hedging is to reduce the short term volatility in the Fund's asset valuations which results from currency movements.

iv In March 2012 the Committee approved a refinement to hedge 25% of currency risk using a passive approach and 25% using an active approach to maintain an overall benchmark hedge ratio of 50% of the currency exposure within the overseas equity portfolios but allow some flexibility to the ratio to reflect the active currency hedging manager's views, and aim to reduce payments made from the Fund when sterling is weakening. A procurement will be undertaken during 2013-14 to allow implementation of this approach.

4.25 ***Safe Keeping of Assets***

i The services of a global custodian, currently J.P. Morgan, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.

ii The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.

iii The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.

iv Investment in pooled funds managed by UBS, Morgan Stanley and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. UBS, as manager of the pooled funds, is responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

4.26 ***Cashflow Risk and Realisation of Investments/Liquidity***

i The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.

ii The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.

iii A small proportion of the Fund's investments, in particular Property, and future investments in other alternative assets would take longer to be realised.

5. Types of Investment

5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- UK Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions

5.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian. For the Fund's investments in pooled funds managed by UBS, UBS participate in a stock lending programme where the revenue is reflected in the unit price. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS' counterparty risk is only to UBS AG. Security is provided for the stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

6. Environmental, Social and Corporate Governance Issues

6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.

6.2 The Committee believes that environmental, social and governance issues can affect the financial performance of companies and that it has a responsibility to take these issues seriously and where appropriate, to act upon them.

6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.

6.4 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.

6.5 The Fund's investment managers maintain close contact with the management of companies in which investments are held or contemplated and subject their affairs to considerable analysis and skilled scrutiny. In recognition of this activity, the Sub-Committee delegates to its managers all voting and other rights attaching to Fund investments.

6.6 The investment managers have delegated powers to exercise such rights in the best financial interests of the Fund and would in particular expect them to vote appropriately at company Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).

6.7 The Committee has, however, drawn the attention of managers to its general concern that the remuneration practices of companies should be patently fair and reasonable. It has asked that managers reflect such concern when voting shares in companies in which the Fund is directly invested. The Committee is content to allow its managers discretion on the voting of in-house pooled fund shares subject to referring any matters relating to the remuneration of Fund managers to it for direction

7. Audit responsibilities

7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team.

7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

8. Compliance with the Myners principles

8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.

8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles.*

8.3 The consultation draft of the LGPS amended regulations requires any future SIP to contain this statement of compliance with the six principles.

8.4 The six principles are:

i Effective Decision Making

ii Clear Objectives

iii Risk and Liabilities

iv Performance Assessment

v Responsible Ownership

vi Transparency and Reporting

8.5 Appendix 4 contains this statement of compliance.

Appendix 1

Investment responsibilities of the Pension Fund Committee

1. To approve, monitor compliance with, and review the content of the Statement of Investment Principles.
2. To consider the implications of the triennial valuation report of the Fund's Actuary.
3. To decide on the allocation of assets.
4. To approve the appointment and dismissal of Managers, Custodians and Advisors.
5. To assess the performance of each Investment Manager against the targets set.
6. To monitor the performance of the Fund as a whole and compliance with the terms of this Statement.
7. To set and review the investment parameters within which the Investment Managers may operate.

Appendix 2

Strategic Asset Allocation

Asset Class	Manager	Original Benchmark %	Strategic Benchmark %	Permitted Range / Tolerance %
UK Equity	UBS [1]	*14.0%*	*12.6%*	
	Baillie Gifford	*7.0%*	*6.4%*	
	Total	21.0 %	19.0%	16% - 22%
Global Equity	UBS	*14.0%*	*9.9%*	
	Baillie Gifford	*21.0%*	*21.7%*	
	Morgan Stanley	*14.0%*	*14.4%*	
	Total	49.0%	46.0%	58% - 72%%
Bonds				
Govt. Fixed Interests Bonds	UBS [2]	*7.5 %*	*7.5%*	3% - 12%
Corporate Fixed Interest Bonds	UBS [2]	*7.5 %*	*7.5%*	3% - 12%
	Total	15.0 %	15%	13% - 17%
Alternatives [3]				
Multi-Asset Alternatives Fund	LGT	10.0 %	15%	
Property	UBS	5.0 %	5%	
	Total	15.0%	20%	15% - 25%
Cash		0%	0%	
Total		**100.0%**	**100.0%**	

Note:

[1] This is a passive investment mandate which requires the FTSE All Share index to be tracked.

[2] At present the Committee have used the permitted ranges to reduce the Govt. Fixed Interests Bonds weighting to close to the bottom of the range.

[3] Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

Appendix 3

Investment Management Arrangements

Asset Class	Manager		Performance Objective (all net of fees)	Benchmark Indices Used
UK Equity	UBS	Benchmark Return	+0.0%	FTSE All-Share Index
	Baillie Gifford	Benchmark Return	+1.0%	FTSE All-Share Index
Global Equity	UBS	Benchmark Return	+2.0%	FTSE All World Developed World Index
	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Net Index
Bonds				
Govt. Fixed Interests Bonds	UBS *	Benchmark Return	+0.6%	FTSE Actuaries Government Securities Index
Corporate Fixed Interest Bonds	UBS *	Benchmark Return	+1.6%	iBoxx Sterling Non-Gilts Index
Multi-Asset Alternatives Fund	LGT	Benchmark Return	+4.0%	LIBOR
Property	UBS	Benchmark Return	+0.75%	IPD UK PPFI All Balanced Funds Index

Appendix 4

Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund's current status in relation to compliance .

<table>
<tr><th>Principle</th><th>Best Practice Guidance</th><th>Fund's Current Status</th></tr>
<tr>
<td>1. Effective Decision-Making
Administering authorities should ensure that:
• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</td>
<td>• The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity.
• The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified.
• The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making.
• There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions.
• It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.</td>
<td>Full Compliance
• The Fund has a designated committee – the Committee - with the experience and skills to take decisions.
• The Committee's terms of reference is contained within the Scheme of Administration for the Council.
• The Committee receives training either during meetings or at specific training sessions, including on investment issues.
• Induction training is provided for new Members and Officers.
• The Committee has an appointed investment consultant to provide specific investment advice.
• The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee
• The Committee does not have an investment sub committee and has decided that decisions should be made by all the Members to ensure continuity of knowledge and good levels of understanding by all Members.
• The Committee carry out regular reviews of the Fund and compliance with regulations.</td>
</tr>
</table>

Principle	Best Practice Guidance	Fund's Current Status
1. Effective Decision-Making (contd.)	• The committee should obtain proper advice at reasonable intervals from suitably qualified persons. • The Chief Financial Officer should be given responsibility for developing a training plan for committee members. • A business plan should be in place which should include milestones and should review level of resources needed. • Members allowances should be published and reviewed regularly. • Meeting papers should be clear and circulated sufficiently in advance of the meetings.	• The Committee's Members are reimbursed for all reasonable expenses incurred through their duties as Sub-Committee Members but the issue of payment is not relevant to a local government fund. • The Committee's legal advisers and any other relevant parties review any new investment contracts put in place. • Meeting papers are circulated 7 days in advance of meeting. • Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer • Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

Principle	Best Practice Guidance	Fund's Current Status
2. Clear Objectives • An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	• The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. • Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. • Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. • Peer group benchmarks should be avoided. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • The desirability of asset liability modelling should be considered. • Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. • Proper advice should be taken where appropriate. • Transaction and transition costs should be fully understood.	**Full compliance** • The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers. • The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed in segregated accounts where the Sub-Committee set the investment managers individual mandate objectives and risk parameters. • An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation. • Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices. • The Committee regularly reviews the investment structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the appointment of managers which includes a review of cost, objectives and mandates (including risk). • The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio.

Principle	Best Practice Guidance	Fund's Current Status
3. Risk and Liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	• The committee should have a clear policy on willingness to accept underperformance due to market conditions. • Acceptable tolerances from market index benchmarks returns should be stated. • Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices. • Overall fund objectives should be expressed in terms which relate to the liabilities. • The committee must receive an assessment of the risks associated with their liabilities, valuation and management. • The annual report should include an overall risk assessment. • The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer. • The committee should ensure the investment strategy is consistent with the scheme employers ability to pay.	**Full compliance** • The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay. • The Committee carried out an investment strategy review using asset liability modelling in 2008. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. • The overall Fund investment objective is expressed in terms which relate to the liabilities. • The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. • Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors. • The Committee regularly review and develop where necessary their internal controls.

Principle	Best Practice Guidance	Fund's Current Status
4. Performance Assessment • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	***Investments*** • The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. • The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. • Constraints on active managers should not be overly narrow or overly wide. • Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods. • Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency. ***Advisers*** • Assessment should take account of the extent of decisions delegated. • A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors. **Decision making bodies** • The committee's self assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report.	**Full compliance** • The performance of the investment managers is measured quarterly by an independent performance monitoring company and reviewed quarterly by the Committee. • Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency. • Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. • The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. • Members all participate in meetings, giving opinions and views where relevant. Each persons view is heard and asked for. • Annual self assessment of the committee's performance is carried out. • Periodic assessment of the investment adviser's performance is carried out. • Factors such as past performance and price are taken into account when re-tendering for external advisers.

Principle	Best Practice Guidance	Fund's Current Status
5. Responsible Ownership Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities.	• Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report. • The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers. • The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. • The committee should ensure its policies are not overridden by an investment manager's general policies. • The committee should ensure that investment consultants adopt the Institutional Share-holder Committee's (ISC) Statement of Practice relating to consultants. • The ISC's Statement of Principles on the responsibilities of Institutional shareholders should be noted.	**Full compliance** • The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents. • The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund. • The Statement of Investment Principles includes a statement of the Committee's policy on responsible ownership. • Voting on underlying shareholdings is delegated to the fund manager. • Details of the investment manager's house strategy are requested from the manager. • Feedback on interventions to be provided during meeting with manager (minimum of once per annum). • The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.

Principle	Best Practice Guidance	Fund's Current Status
6. Transparency and Reporting Administering authorities should: • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and • provide regular communication to scheme members in the form they consider most appropriate.	Reporting ensures that: • An integrated approach to governance should be built and governance compliance statements should be maintained regularly. • The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. • Examples of good communication from other funds should be sought. • Annual report content should be compared to the regulations. • Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. • The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. • The committee should know its stakeholders and the interests they have.	**Full compliance** • The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. • Examples of good communication from other funds are sought. • Communications are sent to members whenever important changes to the Fund take place, or to provide updates. • The Fund operates transparently and enhances accountability to scheme members. • The Fund's Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2000 1.0	SIP – created	March 2000	A Bowman
2006 1.0	SIP – update	March 2006	A Bowman
2010 1.0	Draft SIP – updated to reflect updated FSS and new Myners Principles	March 2010	L Mirley in collaboration with Aon Consulting
2010 2.0	Final Draft of SIP to present to Pension Fund Sub-Committee	June 2010	L Mirley
2013 1.0	Final Draft of SIP to present to Pension Fund Committee	Dec 2013	Kirsty Robb

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

Contact us at Kirsty Robb, Treasury & Capital Manager, Council HQ, Newtown St Boswells
01835 825016, krobb@scotborders.gov.uk