

**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  
4 December 2013 at 10.00am  
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Present:- Councillors B. White (Chairman), G. Edgar, G. Logan, S Mountford,  
Apologies:- Councillor M. Cook, S. Everingham, J. Mitchell, Mr A. Barclay, Mr P. Smith, J. Terras.  
In Attendance:- Chief Financial Officer, HR Shared Services Manager, Mr Kenneth Ettles – AON Hewitt  
Consulting, Treasury and Capital Manager, (Mr E. Kinghorn), Democratic Services  
Officer (J. Turnbull, P. Bolson).  
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**MINUTE**

1. There had been circulated copies of the Minute of the Meeting of 12 September 2013.

**DECISION  
NOTED.**

**RISK REGISTER UPDATE**

2. With reference to paragraph 3 of the Pension Fund Committee Minute of 12 September 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 “amber” under the Council’s approach to managing risk, and updating members on progress made to mitigate the effect of those risks on the pension fund. The risks were highlighted and Members noted the action being taken.
3. Members were informed that the current review of Corporate Finance was underway which might ensure more dedicated resources to pensions allowing more robust and regular reviews of performance to be undertaken. There had been agreement to move to 25% active and 25% passive hedge approved and procurement was being planned to implement this. A report on the employer ceasing to exist with insufficient funding, adequacy of bond or guarantee risk (2.4) would be presented to Committee in March 2014. The Chairman informed the Committee that in the LAPF Investments publication (Issue 30 October) Scottish Borders Council had been rated fourth out of 107 funds nationally, which was to be congratulated.

**DECISION**

- (a) **NOTED the progress on the Red and Amber risk items as detailed in Appendix 1 to the report;**
- (b) **AGREED**
  - (i) **that a quarterly Red Risk review be undertaken with the next due in March 2014; and**

**(ii) to amend the following Risks as indicated:-**

- (a) Poor negative investment returns (1.1) – change likelihood scoring to 3 resulting in the risk becoming amber;**
  - (b) Equity Risk (1.6) - change the likelihood scoring to 3 and the impact scoring to 3 resulting in this risk becoming amber;**
  - (c) Employer ceasing to exist with insufficient funding, adequacy of bond guarantee (2.4) - change the likelihood scoring to 2 and the impact scoring to 3, resulting in this risk becoming amber.**
  - (d) Lack of Member training in Pension Fund Management (3.2) - change the likelihood scoring to 3 resulting in this risk becoming green, and**
  - (e) Conflict of interest between Council priorities and Pension Fund Management for members of Committee (7.1) – change likelihood to 2, resulting in this risk becoming green.**
- (c) AGREED that a report be presented to the Pension Fund Committee in March 2014 identifying the risks associated with the forthcoming Referendum.**

#### **INVESTMENT MANAGERS PROCUREMENT UPDATE**

4. With reference to paragraph 6 of the minute of the Pension Fund Committee of 12 September 2013, there had been circulated copies of a report by the Chief Financial Officer providing an update on the procurement of new managers for Global Equity and Fixed Income (bond) mandates. 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. The Global Equities procurement had received 39 pre qualification questionnaires (PQQ) and these were currently being shortlisted to 6 bidders who would be invited to tender. The Fixed Income Bonds procurement PQQ had been published with a closing date of 30 January 2013 and a member panel had been appointed to oversee the procurement process. Interviews were scheduled to take place at the end of March 2014. For cost effectiveness, the Chief Financial Officer reported that a Transition Manager would be appointed.

#### **DECISION NOTED**

- (a) The progress to date on the individual procurements; and**
- (b) That further updates would be provided to Committee throughout the procurement process.**

#### **AUTO ENROLEMENT UPDATE**

5. There had been circulated a report by the Chief Financial Officer which provided an update on the implementation of the Auto Enrolment legislation for all Scheduled and Active Admitted Bodies. Scottish Borders Council was the largest employer within the Fund and had opted for the transitional arrangements. It was noted that although there had been an

increase in membership with 58 employees opting into the scheme there was an estimated £56k income to the Fund. The 50/50 option would come into effect in 2015 and was expected to be attractive to lower paid employees. However, there would be a significant financial impact to the Council.

#### **DECISION**

#### **NOTED**

- (a) The positive impact that communication with employees of Scottish Borders Council had made on membership of the Fund; and**
- (b) That further updates would be provided to Committee as and when further information became available from the other Scheduled and Active Admitted Bodies.**

#### **LOCAL GOVERNMENT PENSION SCHEME (2015)**

6. There had been circulated a report and associated appendices by the Chief Financial Officer updating 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. The report outlined the high level objectives for the review of the LGPS in Scotland, the key changes to the scheme design and noted that there was a change to the governance related roles to be established from 1 April 2015.

Employees had been advised of the following key changes to the scheme:-

- Move from Final Salary to Career Average Pension Scheme.
- Increase in accrual rate from 1/60<sup>th</sup> to 1/49<sup>th</sup>.
- Retaining existing ill health and death in service benefits.
- Introducing at 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.

#### **DECISION**

#### **NOTED**

- (a) The progress that had been made at a National Level with the scheme design;**
- (b) That further updates on the scheme design would be provided to Committee as and when further information became available; and**
- (c) A further report on the changes to governance would be provided to Committee as and when further information became available.**

#### **STATEMENT OF INVESTMENT PRINCIPLES UPDATE**

7. There had been circulated a report by the Chief Financial Officer which sought approval of the updated Statement of Investment Principles for the Scottish Borders Council Pension Fund. The Local Government Pension Scheme (Administration) (Scotland) regulations required administering authorities to prepare, maintain and publish a Statement of Investment Principles. The current Statement was last updated in June 2010.

8. Members noted that the Currency Risk had been updated to reflect the new Manager and strategy change from 50% passive to 25% passive and 25% active currency hedging. The Strategic Asset Allocation reflected new fund managers since 2010 and revised strategic asset allocation. The Investment Management Arrangements had been updated and included new fund managers and Multi Asset Alternative asset class.
9. The Chief Financial Officer referred to the Appendix, which had been circulated with the report, and highlighted the investment responsibilities of the Pension Fund Committee and that the primary aim of the Fund was “To provide for members’ pension and lump sum benefits on their retirement or for their dependents’ benefits on death before or after retirement, on a defined benefits basis.” He also highlighted the six Myners principles incorporated within the Statement of Investment Principles which were: effective decision making, clear objectives, risk and liabilities, performance assessment, responsible ownership and transparency and reporting.

#### **DECISION:**

- (a) **APPROVED** the updated Statement of Investment Principles as set out in Appendix 1 to the report.
- (b) **NOTED** that a report would be presented to Members in March 2014 with proposals for keeping the current allocation to equity investments under review.

#### **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 12 September 2013

##### **Quarter Performance Update**

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

##### **Briefing – Currency Hedge Update**

The Committee noted an update by the Chief Financial Officer on the Currency Hedging Programme.

#### **ADJOURNEMENT**

The meeting was adjourned for lunch at 12.15 pm and was re-convened at 1.00 pm.

##### **Performance Update and Question Session - LGT**

4. The Committee noted a Performance Update from UBS.

**Performance Update and Question Session – UBS**

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

*The meeting concluded at 3.30pm*