

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
11 December 2014 at 10.00 am

Present:- Councillors B. White (Chairman), J. Campbell, G. Edgar, G. Logan, J. Mitchell,
(from para 4 of private business), S. Mountford. Mr J. Terras.

Apologies:- Councillor M. Cook. Mr A. Barclay, Mr J. Moody, Mr P. Smith, Ms N. Wood.

In Attendance:- Corporate Finance Manager, Mr K. Ettles – AON Hewitt Consulting, Treasury and
Capital Manager, HR Shared Services Manager, Democratic Services Officer (F.
Walling).

MINUTE

1. There had been circulated copies of the Minute of Meeting of 4 September 2014.

DECISION:

NOTED for signature by the Chairman.

PROFILE OF PENSION FUND MEMBERSHIP

2. With reference to paragraph 2 of the Minute of 4 September 2014, there had been circulated copies of a report by the Chief Officer Human Resources detailing the composition and profile of the membership of the Pension Fund. The report, presented by the HR Shared Services Manager, explained that the Fund membership at the 31 March 2014 had increased by 245 to 9,556. This showed an increase of 68 contributing members which was mainly attributable to those individuals who had opted to join the scheme following promotion of the scheme as employers complied with Auto Enrolment legislation. A full statistical analysis of the active scheme membership as at 6 November 2014 was contained in Appendix 1 to the report and this highlighted that the employer breakdown showed that Scottish Borders Council provided the highest number of scheme members, with over 4,000 scheme members, 91.75% of the active scheme membership. The removal of the normal retirement age had seen an increase in the number of employees continuing to work, and be members of the pension scheme, past their 65th birthday. The breakdown of employees by salary banding indicated that the majority of employees fell into the lowest banding in terms of employee contribution rate of 5.5%. The remaining spread of scheme members was indicative of structures in the employing organisations with significantly lower numbers in the higher salary bands. It was proposed that reports be presented to Committee on an annual basis to provide a breakdown of the profile and composition of the Fund membership, which would assist in the management of associated Fund risks. Members discussed the report and particularly the issue of a tipping point where the change in membership profile would lead to the number of pensioners and deferred members outweighing the number of contributing members. Mr Ettles advised that this point had not yet been reached and that he would provide a model to

plan the management of assets for that time. In response to a Member's request the HR Shared Services Manager agreed to provide the breakdown of the member profile graphically or in percentage terms in future reports.

**DECISION
NOTED:-**

- (a) the composition and profile of the scheme membership as outlined in the report; and**
- (b) that reports would be brought to Committee on an annual basis to monitor year on year changes in the composition and profile of scheme membership.**

TRIENNIAL VALUATION

3. The Chairman welcomed to the meeting Alison Hamilton, a partner at Barnett Waddingham, to present the initial results of the Actuarial Valuation of the Scottish Borders Council Pension Fund, with the valuation date of 31 March 2014. Copies of an explanatory document were provided for Members which summarised the purpose of the valuation and the process by which this was carried out, in addition to the initial valuation results for the Council's Pension Fund. Ms Hamilton explained the purpose of the ongoing triennial funding which was to identify how much employers needed to pay in future to have enough assets to pay benefits. The actuary had regard to the desirability of maintaining as stable a contribution rate as possible which was governed by the funding model/investment strategy. She summarised how the valuation was carried out and the assumptions made in respect of inflation, salary increases, discount rates and other financial and statistical assumptions using past experience and national data. Ms Hamilton went on to highlight the main results of the 2014 valuation. The Fund's assets at the end of the year totalled £486,064,000. The actual investment return was 8.5% against an expected return of 6.4%. Actual pay increases had been 1.4% per annum against an expected 5.0% per annum. The valuation showed that the funding level of the Fund at 31 March 2014 had been revised to 100% which compared to 96% at the time of the last valuation in 2011. Going forward Ms Hamilton referred to possible effects of the introduction of the new Local Government Pension Scheme (LGPS) 2015 which contained new scheme benefits and encouraged longer term savings. It was assumed that some members would opt for the 50/50 option within the scheme. She also stressed the sensitivity of the dividend growth assumption which was +/- 0.5%. Members received answers to their questions from Ms Hamilton who was thanked by the Chairman for her attendance. It was noted that after the report's assumptions had been agreed with the Chief Financial Officer the final report would be signed off at the end of March 2015 and presented to the June meeting of the Pension Fund Committee.

**DECISION
NOTED the 2014 Actuarial Valuation initial results.**

GOVERNANCE UPDATE

4. With reference to paragraph 4 of the Minute of 4 September 2014, the Corporate Finance Manager, Lynn Mirley, updated Members on proposed Governance arrangements in connection with the Scottish Local Government Pension Scheme Reform. Mrs Mirley advised that she had taken a presentation to a Trade Union event in November where there had been broad acceptance of the proposals. The suggestion was that the Pension Fund Committee would be made up only of current elected Members. The Pension Fund Committee would meet jointly with the Pension Board on a quarterly basis with the Pension Board including non-voting employer and trade union representatives. It was further proposed to create a new Investment and Performance Sub-Committee for detailed monitoring of Pension Investments. The Sub-Committee would make recommendations in respect of strategic asset allocation, fund manager changes and investment adviser strategy considerations for approval by the Pension Fund Committee/Pension Board. It was suggested that the Sub Committee would include one or two non-voting members to be nominated from the Pension Board and to attend as observers. Mrs Mirley was in the process of drafting a new Scheme of Administration for the two bodies. She circulated the proposed remit. Members were in general agreement with the proposals and were in favour of holding just two all-day meetings per year of the Sub Committee at which all the Fund Managers could present their reports.

DECISION

- (a) **AGREED the principle governance arrangements to be included in the Scheme of Administration as follows:-**
- (i) **the Pension Fund Committee be made up only of current elected Members;**
 - (ii) **the Pension Fund Committee meet jointly with the Pension Board on a quarterly basis;**
 - (iii) **a new Investment and Performance Sub Committee be created for detailed monitoring of pension investments and to make recommendations to the Pension Board; and**
 - (iv) **one or two non-voting members be nominated from the Pension Board to attend the Investment and Performance Sub Committee as observers.**
- (b) **NOTED that the draft Scheme of Administration, in respect of the Scottish Local Government Pension Scheme Reform, would be presented for consideration at a special meeting of the Pension Fund Committee to be held on 29 January 2015.**

LOCAL GOVERNMENT PENSION SCHEME 2015

5. With reference to paragraph 4 of the Minute of 4 September 2014, there had been circulated copies of a report by the Chief Officer Human Resources providing a further 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. The report explained that the Local Government Pension Scheme (Scotland) Regulations 2014 were laid before the Scottish Parliament on 9 June 2014 and would come into force from 1 April 2015. These regulations covered Membership, Contributions, Benefits and Administration. Appendix 1 to the report detailed the most significant changes within these regulations and this bulletin had been issued to all scheme members along with their Annual Benefit Statement and separately to all new scheme members who had joined the scheme since 1 April 2014. It had also been provided to representatives of all the current active Admitted and Scheduled Bodies. The scheme legislation changes would have an impact on the Pension Fund with regard to the level of contributions being collected. The impact of the above changes in the scheme legislation had been considered with regard to the Scottish Borders Council scheme membership resulting in an estimated increase in annual contribution of

£106,324.94. Appendix 2 to the report detailed the Implementation Plan with regard to the administration of the new scheme. This highlighted the main tasks that needed to be carried out to ensure a smooth implementation and transition from the current to the new scheme. Details of the communications plan were also included within the implementation plan.

DECISION

(a) NOTED:-

- (i) the progress that had been made at a National level, particularly with the laying of the Scheme Regulations before the Scottish Parliament;**
- (ii) the impact of the scheme design in relation to the contributions payable; and**
- (iii) the main changes to the scheme and that these had been conveyed to all current scheme members.**

(b) AGREED to approve the implementation plan, including the planned communication and training strategy that would be applied, to ensure a smooth transition between the current and new schemes.

RISK REVIEW

6. There had been circulated copies of a report by the Chief Financial Officer providing the Pension Fund Committee with an opportunity to review the Risks previously categorised as “Red” under the Council’s approach to managing risk, and updating members on progress made in mitigating the effect of these risks on the pension fund. Appendix 1 to the report detailed the progress of the additional control measures on the risks identified as “Red” and “Amber” and Appendix 2 detailed the new risks identified around possible changes to national jurisdictions and their initial scores. The current approved risk register contained 2 Red risks and 13 Amber risks. The Treasury and Capital Manager answered Members’ questions on the scoring of specific risks as detailed in Appendix 1. With regard to the risk ‘frequency of early retirements increases to levels in excess of the actuarial assumptions’ she advised that she would draft wording to incorporate with this the new risk around the early release of pension facilitated by new legislation. At the meeting in March a number of new risks had been identified in connection with changes in national jurisdictions which could have arisen from the Referendum and possible changes to the position of the United Kingdom within the European Union. These risks were not scored at the meeting and it was agreed they would be brought back to the December meeting. Due to the result of the Referendum only one risk remained a valid risk for inclusion in the risk register. There was also discussion about the need to consider recent developments around pensions liberation which had the potential of enabling members to withdraw transfer values from the Fund. It was identified that this would need to be considered more fully at the next risk review.

DECISION

(a) NOTED the progress on the Red and Amber risk items as contained in Appendix 1 to the report

(b) AGREED:-

- (i) to a quarterly Red risk review being undertaken with the next due in March 2015;**
- (ii) to the inclusion of the new risk contained in Appendix 2; and**
- (iii) to consider the implications of pension liberation initiatives as part of the next risk review.**

URGENT BUSINESS

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

SPECIAL MEETING

8. The Chairman asked Members to note that there would be a special meeting of the Pension Fund Committee immediately following a special meeting of Council on Thursday 29 January 2015 to discuss arrangements for the staff being transferred from employment with the Council to the Arms Length Organisation 'the Care Company' to be included in the Scottish Borders Council Pension Scheme. With reference to paragraph 4 above, it was agreed that a further governance update should also be considered at this special meeting.

DECISION NOTED

PRIVATE BUSINESS

9. 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 4 September 2014.

Transition to New Investment Managers

2. The Committee noted a presentation by State Street.

Quarter Performance Update

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

Presentation – Morgan Stanley

4. The Committee noted the presentation by Morgan Stanley

Presentation – Baillie Gifford

5. The Committee noted the presentation by Baillie Gifford.

The meeting concluded at 3.10 p.m.