

**SCOTTISH BORDERS COUNCIL**  
**PENSION FUND COMMITTEE**  
**AND PENSION BOARD**

MINUTE of Meeting of the PENSION FUND  
COMMITTEE and PENSION BOARD held in  
Council Chamber, Council Headquarters,  
Newtown St Boswells on Wednesday, 23  
March, 2016 at 10.00 am

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Present:- Councillors B White (Chairman), S Aitchison, J Campbell, M Cook,  
G Edgar, G Logan, J Mitchell, S Mountford, Mr A Barclay, Mr M  
Drysdale, Ms L Ross, Ms C Stewart, C Hogarth.

Apologies:- Ms R Black, Mr P Smith.

In Attendance:- Corporate Finance Manager, Capital & Investment Manager, HR  
Shared Services Manager, Chief Officer Audit & Risk, Democratic  
Services Officer (J Turnbull).

**1. PRESENTATION - CASH FLOW MODELLING**

- 1.1 With reference to paragraph 4.2 (a)(ii) of the Minute of 10 December 2015, the Chairman welcomed the Pension Fund's Actuary, Alison Hamilton, Barnett Waddingham LLP, to the meeting, to give a presentation on Cashflow Modelling. A copy of the presentation was circulated at the meeting. Ms Hamilton began the presentation by advising that the Fund received contributions from the employer, employee and investment returns. The investment returns currently were not drawn down in cash but reinvested straight away by the investment managers. Outgoing payments from the Fund were pension promises and fund administration. With reference to Scottish Borders Council Pension Fund there was a funding level of 101% with a total contribution rate of 18%, which was an appropriate funding plan. Published accounting data for the retirement pension trend showed an increasing amount of pensions being paid out of the Fund. However, there was a decreasing amount of income being paid into the Fund. Ms Hamilton went on to discuss different scenarios which could affect the Pension Fund: including reduction in the 1% income yield, increased retirement age, currency hedging and a reduction in payroll. Ms Hamilton concluded by stating that the Pension Fund was in a strong position. However, there was a requirement for the Fund to consider management of cashflow prior to the next valuation in March 2017.
- 1.2 Mr Ettles added that the value of the Fund on 31 December 2015 was £554m. The key point for the Pension Fund Committee and Pension Board to note was that the Fund was maturing; the pensioner population had grown as overall proportion of liabilities and outgoing payments had increased relative to contributions. This meant that there would be a cashflow shortfall and the Committee had to consider mechanisms for managing this shortfall. Mr Ettles further advised that the three options for meeting the cashflow obligations were to: Disinvest assets in advance, this would be easy to implement and administer. Disadvantages were that the Fund might disinvest at an inopportune time and there would be dealing costs. The second option was to disinvest assets at the required time to meet the shortfall. This was the current approach and was again simple to implement and administer. Similarly to option one, assets might be sold at an inopportune time and there would again be dealing costs. The final option was to use investment income. The Fund would elect to receive income from assets in advance to meet projected shortfall. This option would be straightforward to implement and there would be

no dealing costs. The income could be taken from equities that were overweight. There was currently investment income of £12m which could meet predictable cashflow shortfall. There followed a discussion on which asset class would be the most appropriate for disinvestment. Mr Ettles highlighted LGT which had a wide variety of assets with a 2% yield, property was yielding 2.5% and the Alpha Opportunities Fund yield was 3%. Members agreed to the disinvestment of assets and discussed the different options. Ms Mirley advised that a further report would be presented to the June meeting on delegated powers, monitoring requirements and the framework to allow officers to proceed with the disinvestment if and when required.

**DECISION  
AGREED:-**

- (a) to disinvestment of assets from equities; and
- (b) to request the Chief Financial Officer submit a further report to the June meeting of the Pension Fund Committee and Board on delegated powers, monitoring requirements and a framework for disinvestment.

**2. MINUTE**

There had been circulated copies of the Minute of the Meeting of 10 December 2015.

**DECISION:  
NOTED for signature by the Chairman.**

**3. RISK REGISTER UPDATE**

3.1 With reference to paragraph 4 of the minute of 10 December 2015, there had been circulated a report by the Chief Financial Officer providing Members of the Committee and Board with an update on the progress of management actions to mitigate risks, a review of new risks and highlighting changes to any of the risks contained in the Risk Register. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. Appendix 1, to the report detailed the risks within the approved Risk Register. In line with the Council's Risk Management Policy (2015) a paper would be presented to the June 2016 meeting demonstrating progress with a fully reviewed Risk Register, including consideration of any new risks.

3.2 Members asked for clarification on a number of points and were advised that the risk scoring followed the Risk Strategy which had been ratified at Council. Mr Angus advised that the outsourcing of staff would not adversely affect the Fund.

**DECISION:-**

- (a) **AGREED to a full review of the risk register being undertaken in June 2016 to include progress on risk management actions, and consideration of any new risks.**
- (b) **NOTED:-**
  - (i) **The management actions progress as contained in Appendix 1, to the report; and**
  - (ii) **No new risks had been identified since the last review.**

#### 4. **CURRENCY HEDGE**

- 4.1 There had been circulated a report by Chief Financial Officer updating the Committee and Board on the current position of the Fund's currency hedging and reviewing the short term position of the hedge. Aon Hewitt had prepared a report for the Pension Fund Investment Sub-Committee on the 2 February 2016 which recommended changes to the current 50% passive currency hedge against the dollar and the Euro with no change in the value of the hedge against the Yen. The Sub-Committee accepted the recommendations in principle, but asked that a further report be brought back to Pension Fund Committee following a further review by Aon Hewitt and Council officers to determine the optimum hedging position following David Cameron's meeting in Brussels and the EU Referendum. Recent movements in the value of sterling against the dollar and a review of how sterling was likely to perform in the foreseeable future indicated a reduction in the Fund's passive equity hedge to 25% against the US Dollar. The hedge ratio against the other overseas currencies, including the Euro and Yen, would remain at 50%. The latest quarter resulted in a payment of £8.3m from the Fund. Due to the liquidity position of the Fund the full value of the required payment was disinvested from the global equity portfolios. Due to currency movements the Fund's equities would have increased in value by c£16.6 m over the quarter.
- 4.2 Mrs Robb advised that a conference call between officers and Aon Hewitt had highlighted a number of issues for consideration including future currency movements and Brexit. Aon Hewitt had also advised that the movement in sterling be monitored regularly, at least monthly, until the active currency hedge manager was appointed.

#### **DECISION**

**(a) AGREED:-**

- (i) to the reduction of hedging on the US Dollar from 50% to 25%;**
- (ii) to delegate to the Chief Financial Officer, in agreement with the Chair of Pension Fund Committee, and based on the advice of the Investment Advisory authority to amend currency hedge levels between 0% and 50%; and**
- (iii) to submit a report in June on the review of the appropriateness of the level of delegation levels as part of the general monitoring.**

**(b) NOTED the current position of the currency Hedge.**

#### 5. **REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTIONS**

- 5.1 There had been circulated a report by Chief Officer Human Resources seeking approval from the Joint Pension Fund Committee and Board to commence a review of the Additional Voluntary Contribution (AVC) provision of the Fund. The current provider, Standard Life, had been used since 2002 when the last review was carried out. Due to issues being experienced with the provider, including the lack of promotion of the AVC option, it was considered an opportune time to commence a review of the provision.
- 5.2 Mr Angus, HR Shared Services Manager, was in attendance and in answer to a question advised that promotion of the AVC scheme was not mandatory but would give scheme members additional advice in relation to their retirement. Ms Mirley reminded Members that Council officers were unable to provide independent financial advice.

#### **DECISION:-**

- (a) AGREED the commencement of a review of the AVC provision in consultation with procurement.**

- (b) **NOTED that a further update would be provided to the Pension Fund Committee and Pension Board before proceeding.**

#### **DECLARATION OF INTEREST**

Having declared an interest as a member of the Borders Sports and Leisure Trust, Ms Ross left the meeting prior to consideration of the following report. Councillor Cook indicated that he would make a declaration of interest if the discussion required.

#### **6. PROPOSED ADMISSION TO THE LOCAL GOVERNMENT PENSION SCHEME**

6.1 There had been circulated a report by Chief Officer Human Resources seeking approval for the amendment of the admission agreement for Borders Sports and Leisure Trust into the Local Government Pension Scheme (LGPS) to incorporate those members transferring from Cultural Services. The current provision of Cultural Services by the Council was scheduled to transfer to Borders Sports and Leisure Trust on 1 April 2016. The Council agreed as part of the business case approved on 7 October 2015 that staff who were currently members of the Council's Pension Scheme would remain members following the integration of the Cultural Services and Borders Sports and Leisure Trust. The admission agreement needed to be updated to reflect Borders Sport and Leisure Trust eligibility criteria for future members, where employees must have completed five years' service before they were offered membership to the LGPS. This eligibility criteria would also be applied to those employees transferring who were not currently members of the Scheme and any future new employees of the Integrated Trust. A report was being presented to Council on 31 March 2016 seeking approval for the Council to underwrite the risk of Borders Sport and Leisure Trust's membership of the Pension Fund should the company cease to trade. It was noted that Borders Sport and Leisure Trust, under the terms of the service provision agreement, was precluded from varying the terms of the admission agreement without the approval of Council and the Pension Fund.

6.2 Mr Angus advised that the Pension Fund's Actuary had determined an increased employer's contribution rate of 18% considering the age profile and service of staff involved. The contribution rate had been agreed from 1 April 2016 and would apply until the next triennial valuation of the Fund in 2017 when it would be reviewed as part of the actuarial valuation process. In response to a question Mr Angus advised there would not be an adverse effect for employees transferring into the Local Government Pension Scheme.

#### **DECISION:-**

- (a) **AGREED To enter into an appropriate agreement with Borders Sports and Leisure Trust to amend the admission agreement to admit the Integrated Trust to membership of the Pension Fund on terms and conditions to the satisfaction of the Chief Executive and Chief Financial Officer.**
- (b) **NOTED that a report would be presented to Council on 31 March 2016 seeking agreement that the Council would act as guarantor in the event that the Integrated Trust ceased to operate in the future.**

#### **MEMBER**

Ms C Stewart left the Meeting following the above report.

#### **7. LGPS POOLED INVESTMENT INFRASTRUCTURE**

There had been circulated a briefing paper by Chief Financial Officer the purpose of which was to provide the Committee and Board with an update on the LGPS Pooled Investment work currently underway in England and Wales. Following an announcement by George Osborne MP in October 2015 and a consultation by Department of Communities and Local Government, smaller LGPS funds across England and Wales had been encouraged to consider pooling their investments in a drive to increase efficiencies and increase investment in infrastructure. Initial proposals had been submitted from various pools and

more detailed proposals would follow in July 2016. Reported feedback was that the exercise was time consuming, with issues around governance still to be discussed. The costs involved in transferring assets had also to be taken into account. Implementation and transfer was not expected to start until April 2018. The current review did not affect the Scottish LGPS funds; however, the Scheme Advisory Board was being briefed on a regular basis. Officers would continue to monitor the position to establish if there would be any implications for Scottish LGPS funds. Ms Mirley advised that to pre-empt the threat officers would continue to be proactive in identifying infrastructure investment opportunities and collaboration with other Scottish LGPS Funds. Further briefings would be presented to the Committee and Board.

**DECISION  
NOTED.**

**MEMBER**

Cllr Edgar left the meeting during consideration of the above report,

**8. SCHEME ADVISORY BOARD BULLETIN**

There had been circulated a copy of the Scheme Advisory Board (SAB) bulletin for information. The Bulletin included information regarding the Pensions Regulator, the workplan, cessation valuations and review of regulations.

**DECISION  
NOTED**

**9. TRAINING OPPORTUNITIES**

9.1 Mrs Robb advised that Baillie Gifford had invited five Members of the Pension Board and Pension Fund Committee to attend a Seminar. The seminar would be held on 5 and 6 October 2016 in Edinburgh and be followed by dinner. Further information would be circulated. Any members interested in attending should contact Mrs Robb.

9.2 A joint training session for Pension Board and Pension Fund members in Scotland was planned for May 2016. It was proposed that the session would take place at COSLA, Edinburgh. Further information would be circulated to Members.

**DECISION  
NOTED.**

**MEMBER**

Councillor Mountford left the meeting following consideration of the above report.

**10. ITEMS LIKELY TO BE TAKEN IN PRIVATE**

**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 ground that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of the part 1 of Schedule 7A to the Act.**

**SUMMARY OF PRIVATE BUSINESS**

**11. MINUTE**

The Committee noted the Private Minute of the meeting of 10 December 2015.

12. **QUARTER PERFORMANCE UPDATE**  
The Committee noted a report by AON Hewitt Consulting.

*Note: Mr Ettles, Aon Hewitt, left the meeting.*

13. **PENSION FUND APPOINTMENT SUB-GROUP**  
The Committee noted the Private Minute of the meeting on 2 February 2016.

**MEMBER**

Councillor Edgar re-joined the Meeting prior to consideration of the following report.

14. **PROCUREMENT UPDATE**  
The Committee noted a report by Chief Financial Officer.

***The meeting concluded at 1.25 pm***