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PENSION FUND COMMITTEE THURSDAY, 18TH JUNE, 2015

A MEETING of the PENSION FUND COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on THURSDAY, 18 JUNE 2015 at 10.00 am

J. J. WILKINSON,
Clerk to the Council,

Date Not Specified

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
4.	Minute. (Pages 1 - 4) Minute of Meeting held on 5 March 2015 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Triennial Valuation as at 31 March 2015 (Pages 5 - 36) Consider report by Chief Financial Officer. (Copy attached).	10 mins
6.	Funding Strategy Statement 2015 (Pages 37 - 50) Consider report by Chief Financial Officer. (Copy attached).	10 mins
7.	Statement of Investment Principles (Pages 51 - 84) Consider report by Chief Financial Officer. (Copy attached).	10 mins
8.	Training Plan 2015/16 (Pages 85 - 98) Consider report by Chief Financial Officer. (Copy attached).	15 mins
9.	Pension Administration Performance 2014/15 (Pages 99 - 108) Consider report by Chief Officer Human Resources. (Copy attached).	20 mins
10.	Governance Policy and Compliance Statement 2015 (Pages 109 - 132)	10 mins
11.	Risk Register Update. (Pages 133 - 166) Consider report by Chief Financial Officer. (Copy attached).	15 mins

12.	Administering Authority Discretions This report will follow in due course.	
13.	Business Plan 2015/16 - 2017/18 (Pages 167 - 190) Consider report by Chief Financial Officer. (Copy attached).	15 mins
14.	Draft Annual Report & Accounts This report will follow in due course.	20 mins
15.	Any Other Items Previously Circulated.	
16.	Any Other Items which the Chairman Decides are Urgent.	
17.	Items Likely To Be Taken In Private. Before proceeding with the private business, the following motion should be approved:- “That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”	
18.	Minute. (Pages 191 - 194) Private Section of Minute of Meeting held on 5 March to be noted and signed by the Chairman. (Copy attached).	2 mins
19.	Quarter Performance Update (Pages 195 - 230) Consider report by Mr Kenneth Ettles. AON Hewitt. (Copy attached).	30 mins

NOTES

- Timings given above are only indicative and not intended to inhibit Members' discussions.**
- Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors B White (Chairman), J Campbell, M J Cook, G Edgar, G Logan, J G Mitchell and S Mountford

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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 5 March 2015 at 10.00 am.

Present:- Councillors B White (Chairman), J Campbell, G Edgar, G Logan, Mr A Barclay, Mr J Moody, Mr P Smith.
Apologies:- Councillors M Cook, J Mitchell, S Mountford, Mr J Terras, Ms N Wood
In Attendance:- Chief Financial Officer, Corporate Finance Manager, HR Shared Services Manager, Treasury & Capital Manager, Mr K Ettles – AON Hewitt Consulting, Democratic Services Officer (J Turnbull).

MINUTE

1. There had been circulated copies of the Minute of the Meeting of 11 December 2014. With reference to the sedurunt of the Minute of 11 December, to delete Chief Financial Officer and to amend Mr N Wood to Ms N Wood.

DECISION:

NOTED for signature by the Chairman, subject to the above amendments.

MINUTE

2. There had been circulated copies of the Minute of the Meeting of 29 January 2015. With reference to the sedurunt of the Minute of 29 January, to delete N Wood, to add HR Services Manager and Mr P Smith.

DECISION:

NOTED for signature by the Chairman, subject to the above amendments.

RISK REGISTER UPDATE

3. There had been circulated copies of a report by 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. Identifying and managing risk was a corner stone of effective management and was required under CIPFA 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 progress of the additional control measures on the risk identified as “Red”. Appendix 2 to the report, detailed a new risk identified around the impact of wider legislative pension changes and the introduction of pension liberation initiatives which could lead to members drawing large elements from their pension fund early. The Committee discussed the new risk and Mrs Mirley clarified that members electing to transfer funds were required to receive professional advice; they were also obliged to sign a declaration confirming that they had sought advice. There was no stipulation as to whether the advice had to be from an independent or restricted advisor, but had to be a Financial Conduct (FCA) regulated advisor. The risk had been provisionally scored but it was agreed to amend the Risk scoring to “Likelihood 4; Impact 2; Risk Score 6”. The Committee also considered that regular communication to members should be circulated, highlighting the benefits of the Local Government Pension Scheme (LGPS). This would be included in the Business Plan to be considered at the June or September meeting of the Pension Fund Committee.

4. DECISION

AGREED:-

- (a) To A full risk review being undertaken in June 2015;
- (b) To the inclusion of the new risk contained in Appendix 2 of the report;
- (c) To amend the scoring of the risk in Appendix 2 of the report, to “Likelihood 4; Impact 2; Risk Score 6”; and
- (d) To consider the communication strategy, which will form part of the Pension Fund Business Plan, at the June or September meeting of the Pension Fund Committee.

PENSION FUND CHARGES

5. There had been circulated copies of a report by Chief Officer Human Resources reviewing the scale of charges levied by the Pension Fund in relation to Pension Sharing orders and the implementation of an annual review mechanism in line with the Pension Increase percentage. The scale of charges had not been reviewed since 2007 and had seen these charges be applied at a reduced rate when compared to other Scottish Pension Funds. Members discussed the report, Mr Angus, HR Shared Services Manager, explained the basis for Pension Sharing Orders and the additional amount of work required within the Pensions Administration Team. The increase in fees would bring the Scottish Borders Pension Fund in line with other Scottish Pension Funds. The scale of charges would be reviewed on an annual basis, in the event that there was no Pension Increase the scale of charges would remain as per the previous financial year. The Committee agreed that the scale of charges should be increased; however, the increase should not be applied retrospectively to the 2007 rates and take effect from 5 March 2015.

DECISION

AGREED:-

- (a) That the scale of charges should be increased in line with Pension Increase from 5 March 2015; and
- (b) That the scale of charges be reviewed on an annual basis with the increase based on the Pension Increase percentage, as per the Annual Revaluation Order.

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

6. The HR Shared Services Manager, Mr Angus, was in attendance and updated the Committee on LGPS since December. Practitioner training had taken place and the software had been delivered and tested in January 2015. Overview sessions had been delivered to SBC Payroll and HR staff; sessions would be held in March and April for scheduled bodies, Trade Unions and Employee Council. Details of the new scheme had been issued to all members and once the scheme booklet had been finalised this would be distributed to all Pension Fund scheme members. Further staff training would be provided and discussion was currently underway with other Scottish Funds, regarding sharing of forms.

DECISION

NOTED.

PRIVATE BUSINESS

DECISION

7. **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

Minute

1. The Committee noted the Private Minute of the meeting of 11 December 2014.

Quarter Performance Update

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

Presentation – M&G Investments

3. The Committee noted the presentation by M&G Investments.

Presentation – LGT

4. The Committee noted the presentation by LGT

Presentation – UBS

5. The Committee noted the presentation by UBS

Property and Cash Investment Update

6. The Committee noted the report.

The meeting concluded at 2.10 pm

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TRIENNIAL VALUATION AS AT 31 MARCH 2015

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report details the outcome of the triennial valuation of the Scottish Borders Council Pension Fund as at the 31 March 2014 and proposes the employer contribution rates for the next three years**
- 1.2 The full Valuation Report is contained in **Appendix A** and concludes that the Scottish Borders Council Pension Fund has a funding level of 101% compared to the previous valuation of 96%.
- 1.3 In general the Valuation Report concludes that the overall employer contribution rates can remain at their current levels. This means that the Leisure Trust rate will be 15.5% of employee payroll, and the other open membership employers in the Pension Fund will be at a common contribution rate of 18% of employee payroll.
- 1.4 However, the Scottish Borders Housing Association, following its decision to close membership will have a contribution rate of 19%.

2 STATUS OF REPORT

- 2.1 This report has been circulated to consultees within the recommended timeframe and as a result any comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing all the final year end reports and securing the membership of the new Board.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Fund Valuation Report as at 31 March 2014 as set out in Appendix A and the resulting employer contributions rates proposed are approved, and that these rates will apply from 1 April 2015.**

4 BACKGROUND

- 4.1 It is a requirement of the LGPS Regulations that the Pension Fund undertakes an actuarial valuation of the assets and liabilities of the Fund every 3 years.
- 4.2 The previous actuarial valuation was undertaken as at 31 March 2011 and resulted in the approval of the continuation of the common contribution rate of 18% of payroll, of which 2.1% is for the past service rate deficit recovery and the balance for the future service rate. The deficit recovery period was intended to restore the funding position to 100% over the next 12 years.
- 4.3 The pension benefits under the LGPS, as of the 1 April 2015, changed moving from a final salary scheme to a career average scheme. In addition the new scheme provides for the opportunity for members to elect for a 50:50 option where they pay in 50% of the contributions and get 50% of the pension benefits. Further details of these changes are explained in Appendix 5 of the Valuation Report (**Appendix A**).
- 4.4 In addition the normal pension age is now linked to an individuals' State Pension Age, as defined by the UK Government legislation, as opposed to being set at age 65.
- 4.5 The revised LGPS benefits assumed that 10% of active members would opt for the 50:50 option. However there is no track record of this and anecdotal evidence from some English authorities, who introduced the scheme on 1 April 2014, is that the up-take of the 50:50 option has been very low. As a result, the assumption used for the Valuation Report is that there is no uptake of the 50:50 option, this results in a more prudent approach to estimating future liabilities.

5 TRIENNIAL VALUATION AS AT 31 MARCH 2014

Valuation Purpose

- 5.1 The valuation reviews, on a 3 yearly basis, the financial position of the Fund. The Fund's investment assets are compared with the Fund's present and estimated liabilities, e.g. future inflation and pay rates, investment yields, life expectancy and mortality statistics.
- 5.2 This enables the Fund's actuary, Barnett Waddingham, to determine the rates at which the employing bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet the future benefit payments from the Fund.
- 5.3 The actuary makes certain key assumptions in deriving the valuation and this includes taking into account the changes identified in relation to change in the LGPS benefits structure as highlighted in 4.3 and 4.4 above.

Valuation Result

- 5.4 The valuation shows that the **funding level of the Fund as at 31 March 2014 is 101%** which compares with 96% at the previous March 2011 valuation and 97% at the March 2008 valuation. The detailed Valuation

Report is contained in **Appendix A**.

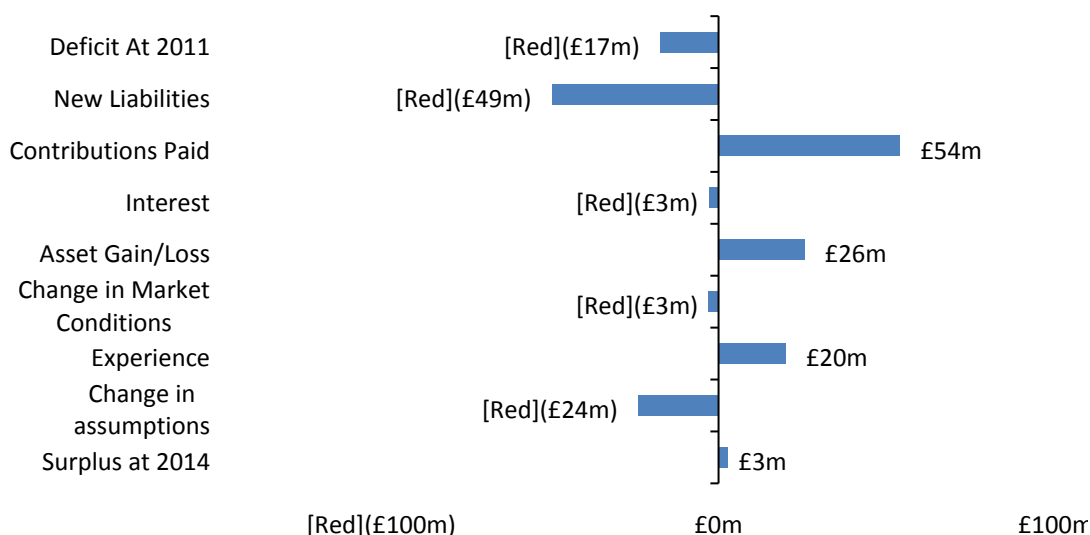
5.5 The following table summarised the position in relation to the overall valuation result for the Fund:

Past Service Funding Position – Scottish Borders Council Pension Fund		
Valuation Date as at 31 March	2011 £m	2014 £m
Value of the Scheme Liabilities	402.2	487.6
Smoothed Asset Value	384.8	490.5
Surplus/ (Deficit)	(17.4)	2.8
Funding Level	96%	101%

5.6 The improvement of the funding position since the previous valuation is mainly due to a combination of good investment returns (8.5% pa versus the estimate of 6.4%) over the inter-valuation period and the deficit contributions paid by the employers.

5.7 The funding position also takes account of the increase in the cost of the new benefits accruing as a result of an increasing age profile of scheme members compared with the previous valuation.

5.8 Within the March 2014 Valuation Report, page 13, there is reconciliation which highlights the movements in the Funding position between the March 2011 and March 2014 Valuations. These are summarised graphically below.



5.9 Key assumption changes have been:

- reductions in the discount rate which is influenced by a lower expected future returns on investments than in the previous valuation;
- Consumer Price Index (CPI) estimated at 0.8% below Retail Price Index (RPI) (compared with 0.5% previously) which underpins salary and pension increases
- Improvements in mortality assumptions

- 5.10 The actuary recommends the continuation of a common contribution rate of 18% of payroll which relates to future service liabilities of the membership as at 31 March 2014. The following table identifies how this is made up and how it has changed since the previous valuation.

Employer Contributions Rates – Fund as a Whole		
Valuation Date as at 31 March	2011	2014
Future Service Costs	15.9%	18.0%
Deficit Recovery	2.1%	0.0%
Fund Employer Contribution Rate	18.0%	18.0%

- 5.11 The contribution rates for all the employing organisations are included in the Rates and Adjustments Certificate, page 22 of the Valuation Report and are summarised below:

Minimum employer contributions due as a % of salary for the year beginning				
Code	Employer	1 Apr 2015	1 Apr 2016	1 Apr 2017
<u>Scottish Borders Council Funding Pool</u>				
11	Visit Scotland	18.0%	18.0%	18.0%
13	Borders College	18.0%	18.0%	18.0%
16	Scottish Borders Council	18.0%	18.0%	18.0%
23	Lothian and Borders Community Justice Authority	18.0%	18.0%	18.0%
24	AMEY	18.0%	18.0%	18.0%
<u>Leisure Trust Funding Pool</u>				
21	Jedburgh Leisure Facilities Trust	15.5%	15.5%	15.5%
22	Borders Sport and Leisure Trust	15.5%	15.5%	15.5%
<u>Individual</u>				
19	Scottish Borders Housing Association	19.0%	19.0%	19.0%

6 IMPLICATIONS

6.1 Financial

This report contains the recommendations on the future employer contribution rates for the Council for the next 3 years. The recommendation is that these do not change from the current level and therefore there will be no additional financial consequences relating to these contributions for all employers with the exception of Scottish Borders Housing Association (SBHA). Following a decision taken by SBHA in the inter-valuation period they have closed the scheme to new membership and this has resulted in an individual contribution rate being identified for the organisation that is 1% above the previous rate.

6.2 Risk and Mitigations

- (a) The triennial valuation process is part of the risk management framework for the Pension Fund and ensures that the assets and liabilities are assessed to determine the ability of the Pension Fund to meet its future pension liabilities.

- (b) The March 2014 Valuation is based on a series of actuarial assumptions including the level of investment returns, mortality and ill health rates and retirement date assumptions. At sections 4.5 and 5 in the Valuation Report there are comparisons between the assumptions used in the March 2011 Valuation and what has actually happened. These comparisons demonstrate that as with all estimates these can change over time and may have positive and negative effects on the funding levels of the Pension Fund.
- (c) The continuing uncertainty in the global economic climate means that investment returns, in particular, are subject to short and medium term volatility. As a result the impact of this on employers' contribution rates will continue to be monitored during the inter-valuation period.

6.3 Equalities

- (a) It is anticipated that there are no adverse equality implications.

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 are required as a result of the proposals contained in this report.

7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments will be communicated at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016

Background Papers:

Previous Minute Reference: Pension Fund Committee, 11 December 2014

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

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Scottish Borders Council Pension Fund

Actuarial valuation as at 31 March 2014

Valuation report

Barnett Waddingham LLP

31 March 2015

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1. Introduction and summary

Purpose of the valuation

- 1.1. We have carried out an actuarial valuation of Scottish Borders Council Pension Fund (the Fund) as at 31 March 2014, as requested by Scottish Borders Council. The Fund is part of the Local Government Pension Scheme (LGPS).
- 1.2. The valuation was carried out in accordance with Regulation 32 of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (the Regulations) as amended. The main purpose of the valuation is to review the financial position of the Fund and to set the level of future contributions for the employers in the Fund.
- 1.3. This report summarises the results of the valuation and is addressed to Scottish Borders Council as the Administering Authority to the Fund. It is not intended to assist any user other than the Administering Authority in making decisions. Neither we nor Barnett Waddingham LLP accepts any liability to third parties in respect of this report.
- 1.4. This advice is subject to and complies with Technical Actuarial Standards issued by the Financial Reporting Council (in particular, the Pensions TAS and the generic TASs relating to reporting, data and modelling).

Results of the valuation

- 1.5. The results of the valuation are that the past service funding level of the Fund as a whole has increased from 96% to 101% between 31 March 2011 and 31 March 2014. The improvement of the funding position since the previous valuation is mainly due to a combination of good investment returns over the intervaluation period and the deficit contributions paid by the employers.
- 1.6. The common rate of contribution, including payments to target full funding, is 18.0% of pensionable salaries. The individual employer contribution rates, as set out in Appendix 4, are adjusted to take account of this common rate of contribution and each employer's own circumstances. This position reflects an increase in cost of new benefits accruing as a result of an increasing average age profile compared to that at the previous valuation as at 31 March 2011, however this is offset by a decrease in deficit recovery contributions following an improvement in the funding position
- 1.7. We would be pleased to discuss any aspect of this report in more detail.



Graeme D Muir FFA



Alison Hamilton FFA

2. Valuation data

Data sources

- 2.1. We have used the following items of data as provided by Scottish Borders Council.
- Membership extract as at 31 March 2014;
 - Fund accounts split by employer for the three years to 31 March 2014; and
 - The results of the previous actuarial valuation as at 31 March 2011.
- 2.2. The data has been checked for reasonableness and any missing or inconsistent data has been estimated where necessary. While this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.
- 2.3. A summary of the data is set out in Appendix 1.

Assets

- 2.4. The asset allocation of the Fund as at 31 March 2014 was as follows:

Asset allocation of the Fund	31 March 2014	
	£000s	%
UK equities	110,801	23%
Overseas equities	203,308	42%
UK gilts	15,372	3%
Corporate bonds	37,270	8%
Property	21,348	4%
Multi asset fund	83,987	17%
Cash	13,978	3%
Total	486,064	100%

- 2.5. We estimate that the return on the assets in market value terms for the three years to 31 March 2014 was approximately 8.5% p.a.
- 2.6. The current investment strategy is set out in a Statement of Investment Principles dated 4 December 2013.

Benefits

- 2.7. From 1 April 2015, The Local Government Pension Scheme (Scotland) Regulations 2014 and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 will come into effect and replace the current regulations.
- 2.8. The benefits for service from 1 April 2015 will be based on the new regulations and these are summarised in Appendix 5. The main changes are to move from a final salary pension scheme based on 60ths accrual and a retirement age of 65 to a career average revalued earnings pension scheme based on 49ths accrual and a retirement age equal to State Pension Age.
- 2.9. The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 serve the dual purpose of retaining the previous benefit structure for service up to 31 March 2015 and introducing new protections for members close to retirement to ensure that they are not disadvantaged by the benefit changes.
- 2.10. In this valuation, the funding position for past service is based on the previous regulations in force up to 31 March 2014 and the future service cost is based on the Local Government Pension Scheme (Scotland) Regulations 2014.
- 2.11. We have made no allowance for discretionary benefits awarded throughout the LGPS either by the Government or by employers. Where employers grant discretionary benefits we would expect them to fund the capital value of those benefits at that point.

3. Actuarial methods and assumptions

General valuation approach

- 3.1. We first estimate the future cashflows which will be paid from the Fund for the benefits relating to service up to 31 March 2014 and we do this for all current members and their possible dependants.
- 3.2. We then discount these projected cashflows using the discount rate to get a single figure for the value of the past service liabilities. This figure is the amount of money which, if invested now, would be sufficient to make these payments in future provided that the future investment return was equal to at least the discount rate used.
- 3.3. Various assumptions are needed for the above calculations and these are summarised in Section 4. The financial assumptions such as future inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six month period from 1 January 2014 to 30 June 2014.
- 3.4. The market value of the assets at 31 March 2014 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the value of the liabilities. If the value of the smoothed assets is greater than the value of the past service liabilities, there is a surplus; if not, there is a deficit.
- 3.5. Using the same assumptions and a similar methodology we can also calculate the value of the liabilities expected to build up in the future after 31 March 2014 and we do this for each active member. This is then divided by the projected payroll to get a cost of future benefits expressed as a percentage of payroll. After deducting expected employee contributions, this is known as the future service cost and represents the employers' share of the cost of future benefits.

Multiple calculations

- 3.6. As part of the valuation, we are required to calculate results on an overall Fund level but also for the individual employers.
- 3.7. For the Fund's future service cost, we consider the benefits accruing in the single year following the valuation date.
- 3.8. This is known as the Projected Unit Method and results in a stable, long-term contribution rate over time if the assumptions adopted are borne out in practice and there is a steady flow of new entrants to the Fund. If the admission of new entrants is such that the average age of the membership profile increases then the contribution rate calculated at future valuations would be expected to increase.

- 3.9. At individual employer level we use the Projected Unit Method for active employers in the Fund who are open to new employees. For employers who do not, or do not appear to, allow new employees to join the Fund, we use a method known as the Attained Age Method which assesses the cost of future benefit accrual over all future years rather than just over the next year. This method generally produces a higher level of employer contribution than the Projected Unit Method but, for these closed employers, it should result in less revision in the future.
- 3.10. For closed limited-term employers such as some Transferee Admission Bodies, a modified version of the Projected Unit Method with a control period equal to the remaining term of the contract may be used and this usually gives results between the pure Projected Unit Method and the Attained Age Method.
- 3.11. The amounts that the employer then pays are a combination of the future service cost described above and any adjustments for the past service surplus or deficit.

Funding strategy

- 3.12. Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 states that the actuary must have regard to:
- the existing and prospective liabilities of the Fund arising from circumstances common to all those bodies;
 - the desirability of maintaining as nearly constant a common rate as possible; and
 - the current version of the Administering Authority's Funding Strategy Statement.
- 3.13. The Funding Strategy Statement states that the key funding objectives are:
- to set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund; and
 - to build up the required assets in a way that produces employer contributions, which are as stable as possible.
- 3.14. We can confirm that, in our view, the methods and assumptions adopted meet this requirement.

4. Valuation assumptions

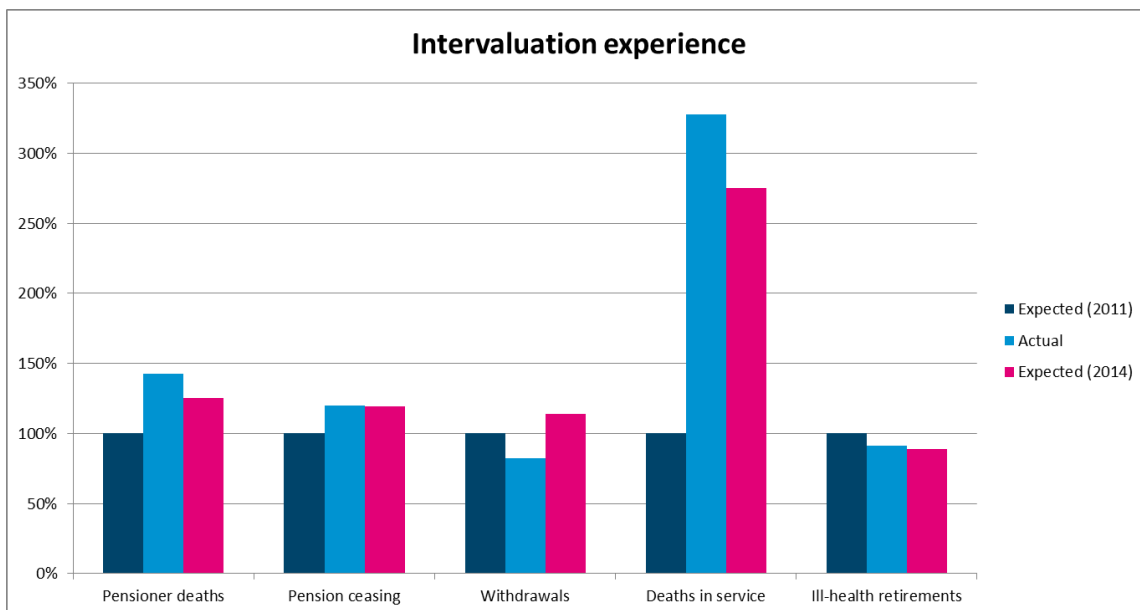
- 4.1. As mentioned in the previous section, various assumptions are needed for this valuation.
- 4.2. The principal assumptions are:
- the discount rate - this is based on the expected investment return from the Fund's assets;
 - pension increases and deferred revaluation - these are set by the Pension Increase Order which is laid by the Government each year and expected to be linked to the Consumer Prices Index. Benefits earned by active members after 1 April 2015 will also be linked to the Pension Increase Order;
 - salary increases - active members' benefits for service before 31 March 2015 will continue to be linked to their final salary; and
 - current and future rates of mortality - over the last decade life expectancies have increased more quickly than most predictions so it is important that any assumptions made are as accurate as possible.
- 4.3. The assumptions used for this valuation are based on the expected long-term cost of providing the benefits and we believe that these are suitable for setting the contribution amounts from employers. If an employer leaves the Fund, a different set of assumptions may apply to allow for the crystallisation of their funding obligations. Note that the funding assumptions are also not the same as those that would be used for statutory accounting purposes in employers' accounts.
- 4.4. The assumptions and the rationale for them were discussed in our paper to the Administering Authority of 24 November 2014. The final assumptions have been adopted following discussion with the Administering Authority and are as set out in Appendix 2. We confirm that we believe that these are appropriate for the purposes of this valuation.

4.5. A comparison of the actual experience with the assumptions adopted at the previous valuation is summarised below:

Intervaluation experience	Actual	Expected
Investment return	8.5% p.a.	6.4% p.a.
Pay increases*	1.4% p.a.	5.0% p.a.
Pension increases	3.4% p.a.	3.0% p.a.

*includes short term overlay

4.6. A comparison of the actual demographic experience of members of the Fund over the intervaluation period, with that assumed by the assumptions adopted at the last valuation in 2011 in relative terms is shown in the graph below. The graph also shows how the assumptions adopted for this valuation compare in relative terms with those adopted at 2011.



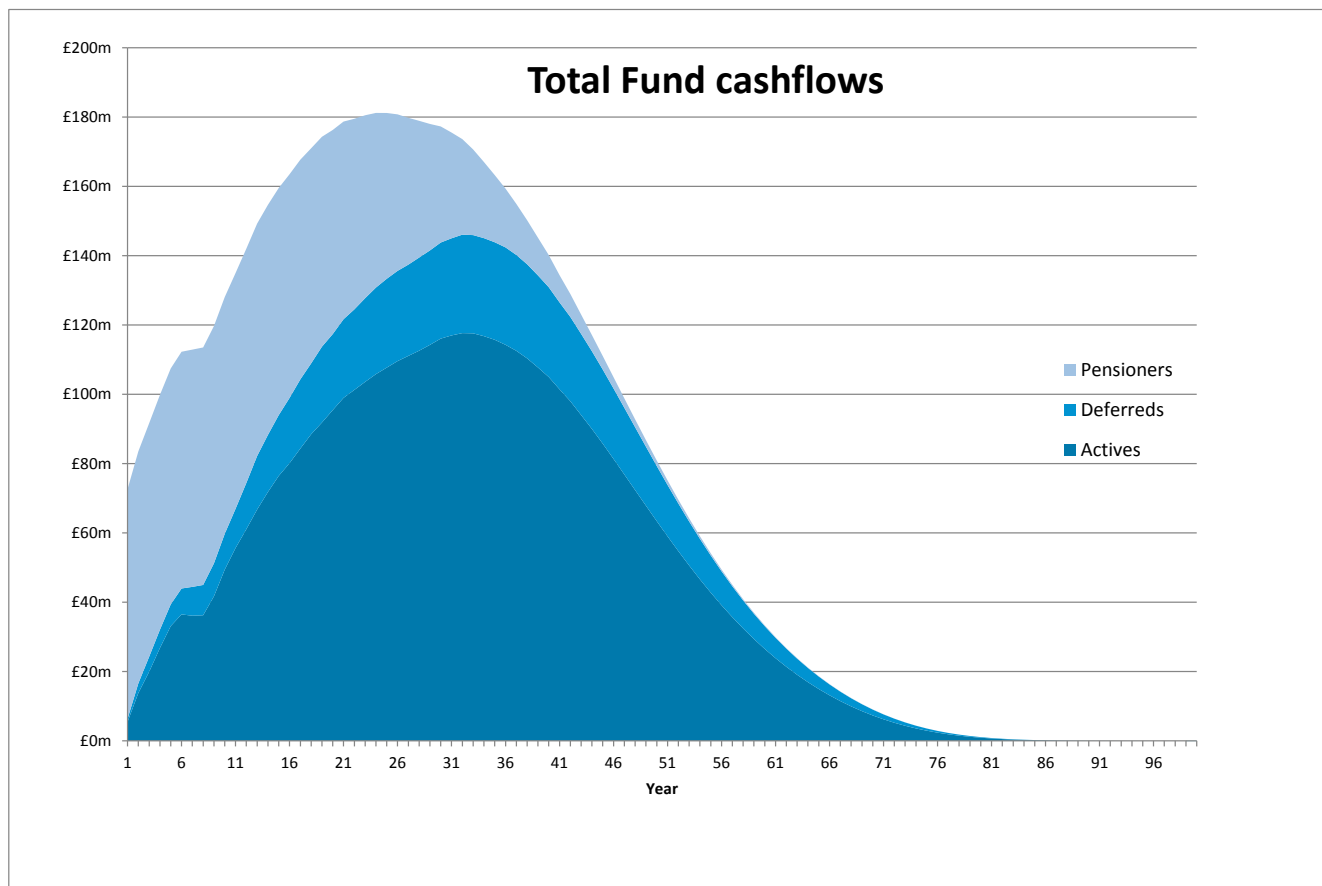
5. Valuation results

Previous valuation

- 5.1. The last formal actuarial valuation of the Fund was carried out as at 31 March 2011 by Barnett Waddingham LLP and the results of that valuation were set out in the formal valuation report dated March 2012.
- 5.2. The results of the previous valuation indicated that the assets of the Fund represented 96% of the value of the accrued liabilities of the Fund. The average employer contribution was calculated to be 17.8% of payroll which assumed that the past service funding level would be restored over a period of 12 years.

Projected cashflows

- 5.3. As mentioned above, the first stage is to project the expected cashflows in relation to past service, which can be charted as follows:



Past service funding position and contribution rates

5.4. The following table sets out the valuation results for the Fund as a whole. We show:

- the past service funding position;
- the required average ongoing employer contribution rate for future service benefits; and
- any deficit contributions required.

Past service funding position		31 March 2014
		£000s
Smoothed asset value		490,477
	Active members	221,291
	Deferred members	55,281
	Pensioner members	211,059
Value of Fund liabilities		487,631
Surplus/(Deficit)		2,846
Funding level		101%
Contribution rates		
Future service cost		18.0%
Deficit recovery		0.0%
Total		18.0%

5.5. The contributions payable by each employer are set out in Appendix 4. These are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

Sensitivity analysis

5.6. It is important to understand that these results indicate the expected cost of providing the benefits using the chosen method and assumptions. The actual cost of providing the benefits will depend on the future experience.

5.7. In order to illustrate this, a number of calculations have been carried out to highlight the sensitivity of the funding position to the assumptions adopted focusing on the assumptions to which the funding position is most sensitive, as shown below:

Change in financial assumption	Approximate effect on deficit
Increase in discount rate of 0.5%	decreases by £44m
Increase in CPI of 0.5%	increases by £27m
Increase in long-term rate of salary increase of 0.5%	increases by £6m
Change in demographic assumption	Approximate effect on deficit
1.25% long-term rate of improvement in mortality projection	decreases by £5m

Projected future results

- 5.8. The progression of the funding level over time is influenced by a large number of factors including any changes in membership, the investment return achieved and the contributions paid.
- 5.9. We estimate that three years after the valuation date (i.e. at the next valuation) the funding position on the same basis will be 101%. This allows for contributions to be paid as certified and assumes that investment returns and other experience over the next three years are in line with the assumptions described above.

Neutral estimate

- 5.10. We are also required to consider whether the assumptions used are neutral, that is “not deliberately either optimistic or pessimistic and does not incorporate adjustments to reflect the desired outcome”.
- 5.11. Other than the discount rate, we consider all the assumptions used to be neutral.
- 5.12. We would consider a neutral discount rate to be 6.3% p.a. rather than 5.5% p.a. The higher discount rate results from removing some prudence from the equity return assumption. As a consequence we expect that the future returns from the Fund’s investment strategy will be higher than the valuation discount rate and so we believe that the contributions set for this valuation are more likely to be sufficient to meet the cost of providing the benefits than not.

Valuation reconciliation

5.13. The following table sets out the principal reasons for the change in the funding position since the last valuation:

Change in past service position		£000s	£000s
Surplus(Deficit) at 31 March 2011			(17,377)
Benefits accrued		(46,338)	
Early retirements		(3,068)	
Contributions paid		53,913	
Deficit funded (use of surplus)		4,507	
Interest cost		(2,816)	
Asset gain/loss		25,599	
Change in market conditions		(3,189)	
Financial gain(loss)		19,594	
Salary increases		22,310	
Pension increases		(2,443)	
Membership movements		135	
Experience		20,002	
Change in assumptions		(23,880)	
Surplus(Deficit) at 31 March 2014			2,846

5.14. As we can see, the main reason for the decrease in deficit is the investment returns being higher than assumed at the previous valuation and the payment of contributions from employers, in particular, the deficit contributions paid by the employers to reduce the deficit.

6. Risk and uncertainty

- 6.1. There are many factors that affect the financial position of the Fund, in particular:
- 6.2. **Employer covenant risk** – there is a risk to the Fund that any of the employing bodies may be unable to pay contributions or meet any cessation deficits as they fall due.
- 6.3. The Fund should monitor the strength of each employer in the Fund over time, so that any sudden changes in an employer’s position can be mitigated.
- 6.4. **Investment risk** - allowance is made in the assumptions for the expected long-term performance of asset classes such as equities. There is a risk that these returns will not be achieved in practice which may result in further contributions being required. Further, the value of the Fund’s assets may not move in line with the value of the Fund’s liabilities – mainly because the Fund invests in volatile assets whose value might fall or rise less than expected.
- 6.5. The sensitivity of the valuation results to changes in the investment return assumptions is shown in 5.7 above. The Fund should regularly review their investment strategy to ensure they understand the risks being taken and that those risks are being appropriately managed.
- 6.6. **Inflation** - in projecting the expected future benefit payments, we make assumptions regarding future price inflation. There is a risk that the actual rate of inflation will be higher than assumed which will increase the cost of providing the benefits. This would result in additional contributions being required and a deterioration in the funding position unless investment returns are similarly higher than expected.
- 6.7. The sensitivity of the results to the choice of inflation assumptions is also shown above.
- 6.8. **Mortality** - it is not possible to predict with any certainty how long members of the Fund will live, and if members live longer than expected, additional contributions will be required and the Fund’s funding position will deteriorate.
- 6.9. The sensitivity of the results to the choice of mortality assumptions is also shown above. The Fund should review their mortality assumptions at each valuation, taking into account all available evidence, to ensure they remain appropriate for the Fund.
- 6.10. **Member options** - certain benefit options may be exercised by members without the consent of the Fund or the Employer. For example, exchanging pension for cash at retirement or taking a transfer value. The value of the cash benefit is generally expected to be less than the value of the pension exchanged so the funding position would only deteriorate if fewer members than expected took this option. Individual transfer values can be higher or lower than the value of the valuation liabilities, depending on the particular member and market conditions.

6.11. **Legislative changes** – there are a number of legislative risks to the Fund and the LGPS in general, including:

- All benefits relating to membership after 31 March 2015 will be linked to the individual's State Pension Age;
- Contracting-out of the State Second Pension is due to end in 2016 and it is not yet clear what the effect on the LGPS will be;
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known;
- As part of the changes to the LGPS from 1 April 2015, a cost control mechanism has been implemented so that if the future cost turns out to be higher or lower than expected when the reforms were made, a review of the benefits may be triggered;
- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits; and
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the Government.

Appendix 1 Valuation data

A1.1. A summary of the membership records submitted for the valuation is as follows.

Active members	Actual pensionable pay				Average		This valuation	
	Number		£000s		£		Average age	Average retirement age
	2014	2011	2014	2011	2014	2011		
Males	1,292	1,372	29,526	31,150	22,853	22,704	48.8	62.5
Females	3,051	2,999	41,764	41,705	13,688	13,906	47.3	63.3
Total	4,343	4,371	71,290	72,855	16,415	16,668	47.8	63.1

Pensioners	Annual Pensions				Average		This Valuation	
	Number		£000s		£		Average Age	
	2014	2011	2014	2011	2014	2011		
Males	1,107	974	8,868	7,206	8,010	7,398	70.5	
Females	1,339	1,046	4,156	3,242	3,104	3,099	68.3	
Dependants	454	410	1,223	1,031	2,695	2,515	72.0	
Total	2,900	2,430	14,247	11,479	4,913	4,724	69.7	

Deferred pensioners (including "undecideds")	Annual pensions				Average		This valuation	
	Number		£000s		£		Average age	Average retirement age
	2014	2011	2014	2011	2014	2011		
Males	595	573	1,345	1,229	2,261	2,145	47.6	61.9
Females	1,749	1,535	2,143	1,694	1,225	1,104	47.8	62.8
Total	2,344	2,108	3,488	2,923	1,488	1,387	47.8	62.4

Notes

A1.2. The numbers relate to the number of records and so will include members in receipt of, or potentially in receipt of, more than one benefit.

A1.3. Annual pensions are funded items only and include pension increases up to and including the 2014 Pension Increase Order.

A1.4. Pensionable pay is actual earnings.

A1.5. A summary of the revenue accounts for the three years preceding the valuation date is as shown below:

Revenue accounts	Year to	March 2014	March 2013	March 2012	TOTAL
		£000s	£000s	£000s	£000s
Expenditure	Retirement pensions	13,781	13,186	12,026	38,993
	Retirement lump sums	3,449	3,892	5,988	13,329
	Death benefits	-	-	-	-
	Leavers benefits	1,466	1,087	533	3,086
	Expenses	366	278	287	931
	Other expenditure	0	0	0	0
	Total	19,062	18,443	18,834	56,339
Non investment income	Employees ctbns	4,355	4,275	4,559	13,189
	Employers ctbns	12,829	13,398	14,497	40,724
	Transfer values	1,096	918	1,639	3,653
	Other income	0	0	0	0
	Total	18,280	18,591	20,695	57,566
New money for investment		(782)	148	1,861	1,227
Investment income		4,212	4,958	6,142	15,312
Fund value					
Assets at start of year		445,957	393,404	379,339	379,339
Cashflow		3,430	5,106	8,003	16,539
Change in value		36,677	47,447	6,062	90,186
Assets at end of year		486,064	445,957	393,404	486,064
Annual returns					
Approx rate of return (p.a.)		9.2%	13.3%	3.2%	8.5%

Appendix 2 Actuarial assumptions

A2.1. A summary of the assumptions adopted in the valuation is set out below:

Future assumed returns at 2014		weighting
Equities	5.9% p.a.	65%
Gilts	3.6% p.a.	3%
Cash	3.4% p.a.	3%
Bond	4.1% p.a.	8%
Property	5.5% p.a.	4%
Multi asset fund	5.9% p.a.	17%
Expense allowance	0.1% p.a.	

Financial assumptions	2014	2011
Discount rate	5.5% p.a.	6.4% p.a.
Retail price inflation (RPI)	3.6% p.a. (20 year point on the BoE Inflation Curve)	3.5% p.a.
Consumer price inflation (CPI)	2.8% p.a. (RPI less 0.8%)	3.0% p.a.
Pension and deferred pension increases	2.8% p.a. (RPI less 0.8%)	3.0% p.a.
Short term pay increases	In line with the CPI assumption for the 2 years to 31 March 2016	Half of the long term assumption for the 2 years to 31 March 2013
Long term pay increases	4.6% p.a. (RPI plus 1% p.a.)	5.0% p.a.

Statistical assumptions	2014	2011
Post retirement mortality		
Current mortality	S2PA tables (100% multiplier for males and 115% for females)	100% of the S1PA tables
Mortality projection	2013 CMIModel with a long term rate of improvement of 1.5%p.a.	2011CMIModel with a long term rate of improvement of 1%p.a.
Retirement ages	<p>Each member retires at their weighted average "tranche retirement age", i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits.</p> <p>If the member is over this retirement age, then it is assumed they will retire at their oldest tranche retirement age. If over the oldest tranche retirement age, the member is assumed to have a 1/3 chance of retiring in each of the next 3 years, and it is assumed all members will be retired by age 75.</p>	<p>For each tranche of benefit, active members retire 1year later than entitled to retire and receive unreduced benefits. Deferred members retire at the earliest age they can receive unreduced benefits.</p> <p>Active and deferred members over these respective ages are assumed to retire immediately.</p>
Proportion married	There is an 80%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits.	90% of members are assumed to be married or have an eligible dependant at retirement or earlier death.
Partner age difference	Males are three years older than their spouse and females are three years younger than their spouse.	Males are three years older than their spouse and females are three years younger than their spouse.
Ill-health tiers	50% of ill-health retirements will be eligible for benefits based on full prospective service and 50% will qualify for a service enhancement of 25% of prospective service.	15% of ill-health retirements will be eligible for benefits based on full prospective service and 85% will qualify for a service enhancement of 25% of prospective service.
Commutation	It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum of £1 of pension.	It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum of £1 of pension.
50/50 scheme allowance	It is assumed that no active members will take up this option.	n/a
Other statistical assumptions	Same as used by Government Actuary's Department when LGPS reforms were designed and based on analysis of incidence of death, retirement and withdrawal for Local Authority Funds.	Based on our analysis of the incidence of pre-retirement death, retirement and withdrawal of our Local Authority client funds.
	Sample rates shown below	

Incidence per 1000 active members per annum								
Age	Death		Ill Health Retirement		Withdrawal		Salary Scales	
	Males	Females	Males	Females	Males	Females	Males	Females
25	0.1	0.1	0.1	0.1	122.0	144.5	100	100
30	0.2	0.1	0.2	0.1	104.4	122.4	102	101
35	0.3	0.2	0.3	0.3	89.4	103.6	111	105
40	0.5	0.3	0.6	0.5	76.5	87.7	117	108
45	0.8	0.5	1.1	0.8	65.5	74.3	121	110
50	1.3	0.8	2.2	1.6	56.0	62.9	124	110
55	2.1	1.3	4.1	2.9	48.0	53.3	127	110
60	3.4	2.0	7.8	5.3	41.0	45.1	127	110
65	5.4	3.0	14.8	9.8	35.1	38.2	127	110

Appendix 3 Individual employer data as at 31 March 2014

Employer membership data		Active members			Deferred members		Pensioner members			
Code	Employer	Number	Actual pay £	Average age	Number	Deferred pensions £	Average age	Number	Pensions in payment £	Average age
1	Borders Regional Council	-	-	-	164	241,185	53.0	610	2,448,467	78.3
2	Berwickshire District Council	-	-	-	5	See Note 1	See Note 1	35	116,985	74.0
3	Ettrick and Lauderdale District Council	-	-	-	19	31,602	52.7	72	197,515	77.9
4	Roxburgh District Council	-	-	-	24	37,175	54.5	92	454,307	79.6
5	Tweeddale District Council	-	-	-	15	16,426	51.0	39	169,558	80.8
6	Tweed River Purification Board	-	-	-	4	See Note 1	See Note 1	3	See Note 1	See Note 1
7	Scottish College of Textiles	-	-	-	2	See Note 1	See Note 1	19	96,806	80.2
8	Red Cross Housing Association Ltd	-	-	-	-	-	-	1	See Note 1	See Note 1
10	Project'80 Council Burnfoot	-	-	-	-	-	-	1	See Note 1	See Note 1
11	Visit Scotland	1	See Note 1	See Note 1	9	23,743	48.9	7	40,821	63.4
12	Stable Life	-	-	-	1	See Note 1	See Note 1	1	See Note 1	See Note 1
13	Borders College	133	2,136,278	49.0	56	73,013	46.9	41	175,502	66.1
15	Scottish Borders Careers	-	-	-	3	See Note 1	See Note 1	1	See Note 1	See Note 1
16	Scottish Borders Council	3,965	63,832,482	47.8	1,932	2,684,691	47.2	1,887	9,922,978	66.0
17	Berwickshire Housing Association	-	-	-	-	-	-	1	See Note 1	See Note 1
18	B C Business Consultants	-	-	-	22	45,347	50.4	10	24,220	66.0
19	Scottish Borders Housing Association	137	3,289,477	45.8	60	248,774	45.0	63	412,630	65.1
20	Scottish Borders Building Services	-	-	-	-	-	-	-	-	-
21	Jedburgh Leisure Facilities Trust	2	See Note 1	See Note 1	2	See Note 1	See Note 1	-	-	-
22	Borders Sport and Leisure Trust	60	1,142,189	43.7	19	35,850	42.0	6	49,373	64.4
23	Lothian and Borders Community Justice Authority	5	See Note 1	See Note 1	2	See Note 1	See Note 1	1	See Note 1	See Note 1
24	AMEY	10	134,636	56.1	2	See Note 1	See Note 1	2	See Note 1	See Note 1
999	Councillors	30	568,887	61.1	3	See Note 1	See Note 1	8	25,362	69.1

Note 1: Membership details have been excluded for privacy reasons where there are fewer than five members.

Appendix 4 Rates and adjustment certificate

- A4.1. In accordance with Regulation 32 of the Local Government Pension Scheme (Administration) Scotland Regulations 2008 we have made an assessment of the contributions which should be paid to the Fund by the Fund employers as from 1 April 2015 in order to maintain the solvency of the Fund.
- A4.2. The common rate of contribution payable by each employing authority under Regulation 32 for the period 1 April 2015 to 31 March 2018 is 18.0% of pensionable payroll.
- A4.3. However, each employer pays contributions based on their particular circumstances and so individual adjustments are made. These give the following minimum total contributions as set out below.

		Minimum employer contributions due as a % of salary for the year beginning		
Code	Employer	1 Apr 2015	1 Apr 2016	1 Apr 2017
<u>Scottish Borders Council Funding Pool</u>				
11	Visit Scotland	18.0%	18.0%	18.0%
13	Borders College	18.0%	18.0%	18.0%
16	Scottish Borders Council	18.0%	18.0%	18.0%
23	Lothian and Borders Community Justice Authority	18.0%	18.0%	18.0%
24	AMEY	18.0%	18.0%	18.0%
<u>Leisure Trust Funding Pool</u>				
21	Jedburgh Leisure Facilities Trust	15.5%	15.5%	15.5%
22	Borders Sport and Leisure Trust	15.5%	15.5%	15.5%
<u>Individual</u>				
19	Scottish Borders Housing Association	19.0%	19.0%	19.0%

Notes

- A4.4. Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumptions discussed with us.
- A4.5. The certified contribution rates represent the minimum level of contributions to be paid. Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us.

Projected new benefits

A4.6. The following table shows the amount of new pension and lump sum benefits (excluding non ill health early retirement benefits) projected to come into payment in each year during the period 1 April 2015 to 31 March 2018.

Year to	Retirement benefits £000s
31/03/2016	3,391
31/03/2017	5,158
31/03/2018	5,369

Appendix 5 LGPS benefits

A5.1. The benefit changes from 1 April 2015 involve the formation of a new scheme, referred to below as SLGPS 2015. Transitional regulations are applied so that the benefits in the previous SLGPS 2008 scheme are maintained.

LGPS benefits	SLGPS 2014 REGS		SLGPS 2008 REGS	
Commencement date	1 April 2015		1 April 2009	
Type of scheme	Career Average Revalued Earnings (CARE)		Final Salary	
Pension benefit accrual	1/49 th		1/60 th	
Revaluation	Consumer Prices Index (CPI)		Based on Final Salary	
Lump sum	By commutation 12:1 up to a maximum of 25% of lifetime allowance			
Pensionable pay	Pay including contractual overtime and additional hours for part time staff			
Member contributions	Tiered contributions based on actual pensionable pay		Tiered contributions based on full time equivalent pensionable pay	
Contribution table (as at 2014)	Earnings range based on actual pensionable pay as at 31 March 2014	Gross contribution rate for 2014/15	Earnings range based on FTE pensionable pay as at 31 March 2014	Gross contribution rate for 2014/15
	Earnings up to and including £20,300	5.5%	Earnings up to and including £20,300	5.5%
	Above £20,300 and up to £24,800	7.25%	Above £20,300 and up to £24,800	7.25%
	Above £24,800 and up to £34,000	8.5%	Above £24,800 and up to £34,000	8.5%
	Above £34,000 and up to £45,300	9.5%	Above £34,000 and up to £45,300	9.5%
	On earnings above £45,300	12.0%	On earnings above £45,300	12.0%
Contribution flexibility	Member can pay 50% contributions for 50% of the pension benefit		Not available	
Normal pension age	Linked to individual member's State Pension Age (minimum age 65)		Age 65	
Death in service lump sum	3 x pensionable pay			
Death in service survivor benefits	1/160 th accrual based on Tier 1 ill health pension enhancement			
Ill health provision	Tier 1 - Immediate payment with service enhanced to normal pension age			
	Tier 2 - Immediate payment with 25% service enhancement to normal pension age			
Post retirement revaluation	CPI		CPI (Retail Price Index for pre-2011 increases)	

Vesting period	2 years
Members who joined the LGPS before 1 April 2015 and after 31 March 2009	
Benefits	Membership built up to 31 March 2015, benefits will be based on a pension of $1/60^{\text{th}}$ x membership x final pay at retirement and the normal pension age applying to the LGPS 2008.
Members who joined the LGPS before 1 April 2009	
Benefits	Membership built up to 31 March 2009, benefits will be based on a pension of $1/80^{\text{th}}$ x membership x final pay at retirement plus an automatic lump sum of 3 times their pension.
Early payment - reduction to benefits (Rule of 85)	For members of the LGPS on 30 November 2006, some or all of their benefits paid early could be protected from reduction under what is called the Rule of 85.
	The Rule of 85 is satisfied if their age at the date they draw their benefits plus their scheme membership (each in whole years) add up to 85 or more.
	If they could not satisfy the Rule of 85 by the time they are 65 , then all of their benefits are reduced, if they choose to retire before age 65.
	If they will be age 60 or over by 31 March 2020 and choose to retire before age 65, then provided they satisfy the Rule of 85 when they start to draw their pension , the benefits they build up to 31 March 2020 will not be reduced.
	If they will be under age 60 by 31 March 2020 and choose to retire before age 65, then provided they satisfy the Rule of 85 when they start to draw their pension , the benefits they have built up to 31 March 2008 will not be reduced.

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FUNDING STRATEGY STATEMENT 2015

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Funding Strategy Statement following the completion of the 2014 Triennial Valuation.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme Regulations to have an up-to-date Funding Strategy Statement. The 2014 Triennial Valuation of the Fund has triggered a review and revision of the existing document.
- 1.3 **Appendix 1** contains the revised Funding Strategy Statement which contains only minor amendments to the previously approved document.

2 STATUS OF REPORT

- 2.1 This report has been circulated to consultees within the recommended timeframe and as a result their comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing all the final year end reports and securing the membership of the new Board.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Funding Strategy Statement as set out in Appendix 1 is approved.**

4 BACKGROUND

- 4.1 It is a requirement of the Local Government Pension Scheme (LGPS) Regulations that the Pension Fund maintains a Funding Strategy Statement and keeps this under review.
- 4.2 Following the completion of the 2014 Valuation and the changes in the LGPS Regulations over the past 2 years, it is appropriate to review and update the previous Funding Strategy Statement which was approved by the Pension Fund Committee on 12 September 2013.

5 FUNDING STRATEGY STATEMENT

- 5.1 **Appendix 1** contains the revised Funding Strategy Statement (FSS).
- 5.2 As a result of the review, which involved the Fund's actuary, Barnett Waddingham, it has been established that no fundamental changes are required to the funding objectives or the funding strategy.
- 5.2 There have only been minor updates to the previously approved FSS as a result of the 2014 Valuation by the Barnett Waddingham which changes the funding status (Section 3.4 of Appendix 1) and the Valuation Assumptions and Funding Model sections 3.10 – 3.15 of the Appendix.
- 5.3 The sections on Cessation Valuations (3.26 – 3.28 of the Appendix) have also been amended slightly in particular:

"It also depends on what will happen to the current active members of the Fund and whether they will continue to be active members on cessation or not" has been added to 3.26; and

"It will also depend on the market conditions at the time and as mentioned above, what will happen to the current active members" has been added to 3.28.

6 IMPLICATIONS

6.1 Financial

There are no direct financial implications of this report. Any substantive changes arising from future actuarial valuations and revisions to funding objectives and/or strategies could potentially have an impact on employers contribution rates.

6.2 Risk and Mitigations

- (a) This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

6.3 Equalities

- (a) An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

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 are required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments will be communicated at the meeting.

7.2 Barnett Waddingham have reviewed and commented on the Funding Strategy Statement.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016

Background Papers:

Previous Minute Reference: Pension Fund Committee, 12 September 2013

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**SCOTTISH BORDERS COUNCIL PENSION
FUND
FUNDING STRATEGY STATEMENT
2015**

Finance

Chief Executive

Version: 2015 2.0 DRAFT

**Approved: Pension Fund Committee [18 June 2015]
Page 41**

Introduction

This is the Funding Strategy Statement (the FSS) for the Scottish Borders Council Pension Fund (the Fund) which is administered by Scottish Borders Council (the Administering Authority). It has been prepared in accordance with Regulation 56 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014 (the Regulations).

It should be read in conjunction with the Fund's Statement of Investment Principles (the SIP).

This version of the FSS was agreed by the Pension Fund Committee (the Committee) on [18 June 2015].

1. Purpose of the Funding Strategy Statement

1.1 The purpose of the FSS is to explain the Fund's approach to meeting the pension scheme's liabilities and in particular:

- to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to take a prudent longer-term view of funding those liabilities; and
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible.

1.2 The purpose of the Fund is to:

- collect monies in respect of employee and employer contributions, transfer values and investment income;
- facilitate payment of Local Government Pension Scheme (LGPS) benefits, transfer values, costs, charges and expenses; and
- accumulate and invest money received, and facilitate the management of this.

Funding Objectives

1.3 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

1.4 The funding objectives are to:

- set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
- build up the required assets in such a way that produces levels of employer contribution that are as stable as possible;
- ensure effective and efficient management of employer's liabilities; and
- allow the return from investments to be maximised within reasonable risk parameters.

2 Key Parties

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

The Administering Authority

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

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

Individual Employers

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

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

Fund Actuary

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

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

3 Funding Strategy

- 3.1 The funding strategy seeks to achieve (via employee and employer contributions and investment income) **two key objectives**:
- **A funding level of 100%, as assessed by the Fund’s appointed actuary, triennially, in accordance with the Regulations; and**
 - **As stable an employer contribution rate as is practical.**
- 3.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements and investment income, and the employer contribution has to be adjusted to a level sufficient to maintain the pension scheme’s solvency and to achieve a funding level of 100% over the longer term
- 3.3 The Actuarial Valuation process is essentially a projection of future cashflows to and from the Fund. The main purpose of the Valuation is to determine the level of employers’ contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.
- 3.4 The last Actuarial Valuation was carried out as at 31 March 2014 with the **assets of the Fund found to represent 101% of the accrued liabilities for the Fund**; this compares with 96% at the 2011 Actuarial Valuation.

Funding Method

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

3.9 For **closed limited-term employers** such as some Transferee Admission Bodies, a modified version of the Projected Unit Method with a control period equal to the remaining term of the contract may be used and this usually gives results between the pure Projected Unit Method and the Attained Age Method.

Valuation Assumptions and Funding Model

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

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

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

3.12 *Future Price Inflation*

The base assumption in any Valuation is the future level of Retail Price Inflation (RPI). This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the Valuation date using the Bank of England Inflation Curves. The resultant figure used in the 2014 valuation is 3.6% per annum.

3.13 *Future Pay Inflation*

As benefits are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. The assumption adopted in the 2014 Valuation is that pay increases will, on average over the longer term, exceed RPI by 1% per annum. In addition, in anticipation of Government policy, it was also assumed that pay increases would increase in line with Consumer Price Inflation (CPI) for a period of 2 years to 31 March 2016.

3.14 *Future Pension Increases*

Pension increase orders are linked to CPI rather than RPI. It was therefore assumed that pension increases will be 0.8% less than the RPI assumption.

3.15 *Future Investment Returns/Discount Rate*

- i. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.
- ii. The discount rate adopted depends on the funding target adopted for each employer.
- iii. For open employers, the discount rate applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the 6 months straddling the Valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. At the 2014 Valuation the ongoing discount rate was 5.5%.
- iv. For closed employers, with no individual active membership, an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission requires it.

- v. The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- vi. The adjustment to the discount rate is essentially to set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination date.

Asset Valuation

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

Statistical Assumptions

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

Deficit Recovery/Surplus Amortisation Periods

- 3.18 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.
- 3.19 Where the Actuarial Valuation discloses a significant surplus or deficit then the levels of required employers’ contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.
- 3.20 The period that is adopted for any particular employer will depend upon
- the significance of the surplus or deficit relative to that employer’s liabilities;
 - the covenant of the individual employer and any limited period of participation in the Fund; and
 - the implications in terms of stability of future levels of employers’ contribution.
- 3.21 At the 2014 Valuation there was no requirement for a deficit recovery period for any employer in the Fund.

Pooling of Individual Employers

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

- 3.25 One Employer has requested to be considered on an individual basis which was agreed by the Committee in 2013.

Cessation Valuations

- 3.26 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. It also depends on what will happen to the current active members of the Fund and whether they will continue to be active members on cessation or not.
- 3.27 In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous Valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.
- 3.28 The basis used by the actuary to determine the cessation amount will depend on where the future responsibility will lie for the accrued liabilities. It will also depend on the market conditions at the time and as mentioned above, what will happen to the current active members.

2017 Valuation

- 3.29 The next Actuarial Valuation is due as at 31 March 2017.

4 Links with the Statement of Investment Principles

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

5 Risks and Counter Measures

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

Financial Risks

- 5.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or the chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The Valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will

decrease/increase the liabilities by 9% and decrease/increase the required employer contribution by around 2.0% of payroll.

- 5.4 The Pension Fund Committee regularly monitor the investment returns achieved by the fund managers and seek advice from the Fund Actuary and independent advisers on investment strategy. In the inter-valuation period 2011 to 2014 such monitoring activity saw investment returns perform better than assumed in the 2011 valuation.
- 5.5 In addition the Fund Actuary provides funding updates between Valuations to check whether that the funding strategy continues to meet the funding objectives.

Demographic Risks

- 5.6 Allowance is made in the funding strategy via the actuarial assumptions of a continuing improvement in life expectancy. However the main risk to the funding strategy is that it might underestimate the continuing improvement in mortality. For example an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 0.75% to 1.25%.
- 5.7 The actual mortality of pensioners in the Fund is however monitored by the Fund Actuary at each Actuarial Valuation and assumptions kept under review.
- 5.8 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 5.9 However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory Risks

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

Governance

- 5.13 Several different employers participate in the Fund. Accordingly it is recognised a number of employer specific events could impact on the funding strategy including:
 - structural changes in an individual employer's membership;
 - an individual employer deciding to close the Scheme to new employees; and
 - an employer ceasing to exist without having fully funded their pension liabilities.
- 5.14 However, the Administering Authority monitors the position of employers participating in the Fund, particularly who may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.

5.15 In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund and holds an annual meetings with employer to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues. Employers and Trade Union representatives are on the new Pensions Board (the Board), and participate in the joint Board/Committee meetings held by the Administering Authority and participate in discussions on all agenda items.

6 Monitoring and Review

- 6.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial Actuarial Valuation process.
- 6.2 However, the Administering Authority also monitors the financial position of the Fund between Actuarial Valuations and may review the FSS more frequently if deemed necessary.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2015 1.0	Draft for Barnett Waddingham Review updating previous FSS for the 31 March 2014 Valuation.	1 June 2015	L Mirley
2015 2.0	Final Draft for Pension Fund Committee Approval	10 June 2015	L Mirley

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STATEMENT OF INVESTMENT PRINCIPLES 2015

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Statement of Investment Principles.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles. The 2014 Triennial Valuation of the Fund, transition to new fund managers during 2014/15 and the changes in the LGPS governance regulations has triggered a review and revision of the existing document.
- 1.3 **Appendix A** contains the revised Statement of Investment Principles for approval.
- 1.4 This report also proposes that, following on from the strong results reported in the 2014 Triennial Valuation, a full investment strategy review is undertaken by an external consultant.
- 1.5 In light of the recent external focus on topics related to socially responsible investment it is proposed that an approach to reviewing the Fund's socially responsible investment policy should be investigated.

2 STATUS OF REPORT

- 2.1 This report has been circulated to consultees within the recommended timeframe and as a result their comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing all the final year end reports and securing the membership of the new Board.

3 RECOMMENDATIONS

3.1 It is recommended that:

- (a) the Statement of Investment Principles as set out in Appendix A is approved;**
- (b) a procurement for investment consultancy support to the Fund is approved;**
- (c) following this appointment a full strategic review of the investment strategy of the Fund is undertaken and oversight of this review will be undertaken by the Pension Fund Investment & Performance Sub-Committee prior to recommendations being brought to Committee for approval by 31 March 2016; and**
- (d) a review of the Fund's approach to environmental, social and corporate governance for the investments it holds is undertaken and that a report outlining the approach to be taken is brought to Committee for approval.**

4 BACKGROUND

4.1 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, disclosure 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 SIP.

4.2 **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.

4.3 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.

4.4 It is a requirement of the Local Government Pension Scheme (LGPS) Regulations that the Pension Fund maintains a Statement of Investment Principles (SIP) and keeps this under review.

4.5 The 2014 Valuation of the Fund has reported a 101% funding position in relation to the estimated assets held against future liabilities. This is a strong position for the Fund and it is important to continue to ensure that this position is maintained in the long term in order to meet the Fund's primary aim:

"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."

4.6 During 2014/15 the Fund transitioned its Fixed Income/Bonds Mandate to M&G and the UBS Global Equity Mandate to Harris Associates. In addition, £4m of surplus cash was invested into the UBS Property Mandate. These decisions were all considered by the Committee prior to execution.

- 4.7 Following the completion of the 2014 Valuation, manager transitions and the changes in the LGPS Regulations over the past 2 years, it is appropriate to review and update the SIP. The previous SIP was approved by the Pension Fund Committee on 4 December 2013 following the 2011 Valuation and a high level review of the investment strategy/strategic asset allocation.

5 STATEMENT OF INVESTMENT PRINCIPLES

- 5.1 **Appendix A** contains the revised Statement of Investment Principles (SIP).
- 5.2 The Funding Objectives set out in the SIP are not proposed to change, nor the strategic asset allocation to asset classes.
- 5.3 The main areas of change in the SIP are detailed below:
- (a) Section 2 – Governance
This section has been comprehensively updated to reflect the changes through the introduction of the Pension Board and the Pension Funds Investment & Performance Sub-Committee.
 - (b) Sections 4.10 – 4.18 Investment Management Arrangements
This has been updated to reflect the changes in investment managers since the previously approved SIP and the change in the Fund’s target return following the completion of the 2014 Triennial Valuation.
 - (c) Section 4.20 has been updated to reflect the role of the new Pension Fund Investment & Performance Sub-Committee.
 - (d) Section 6.8 has been added to reflect the quarterly reporting on voting that is part of the AON Hewitt report.
 - (e) Section 7 has been amended to clarify the position of the Fund in relation to the role of the Council’s Audit and Risk Committee.
 - (f) Appendix 5 – Statement of Compliance with Myners Principles
This has been updated mainly to reflect:
 - the introduction of the Pension Board and Investment & Performance Sub-Committee.
 - reference to the training policy
 - reference to the business plan
 - update to the Performance Assessment principle compliance statements

6 INVESTMENT STRATEGY REVIEW

- 6.1 In light of the strong funding position and the fact that the last full investment strategy review involving asset and liability modelling was undertaken during 2008 and agreed in 2009, it is appropriate for the Fund to initiate a full strategy review using external investment consultants.

- 6.2 AON Hewitt, the current investment consultant, has been engaged by the Pension Fund since 2008. It is good practice to re-tender these contracts on a periodic basis to ensure best value, and it is therefore proposed to initiate a procurement process for the Fund's investment consultant and implement this prior to undertaking a full review of the Fund's strategy.
- 6.2 It is proposed that oversight of this review is delegated to the Pension Fund Investment and Performance Sub-Committee. The detailed recommendations will be presented to the Sub-Committee, and once they have scrutinised them they will be brought to the Joint Meeting of the Pension Fund Committee and Pension Board.

7 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ISSUES

- 7.1 There has been significant external interest in the Fund's approach to Socially Responsible investment, in particular the approach to tobacco and activities with significant environmental impacts.
- 7.2 The last consultation and review of the Fund's approach to these issues was undertaken in 2010. At that time there was a very low Fund membership interest in changing to a more proactive approach in this area.
- 7.3 It is proposed that Fund undertakes a review to identify the most appropriate policy towards these issues and consult on the position to be taken. Should the review identify that it is appropriate to change the current approach an impact assessment for the Fund would be required to be undertaken to ensure that the full implications of any changes are understood especially in relation to the delivery of the key aims and objectives of the Fund.
- 7.4 It is proposed that officers will review what best practice exists for undertaking such a review and bring back a recommended approach for approval.

8 IMPLICATIONS

8.1 Financial

- (a) The undertaking of a full investment review will be an additional cost to the Fund: however it should support the maintenance of long term stability of the Fund going forward for both members and employers.
- (b) Depending on the approach to be taken, there may be costs involved in undertaking a review of the Fund's approach to Socially Responsible Investment, if so estimates of these costs will be included in the report being brought to get approval for the approach to be taken.
- (c) The Statement of Investment Principles sets out the strategic framework to deliver the target returns required to meet the Fund's funding objectives. Successful delivery of these principles should ensure the stability of the funding position of the Fund and therefore of the employer contribution rates.

8.2 Risk and Mitigations

- (a) This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

8.3 Equalities

- (a) An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

8.4 Acting Sustainably

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

8.5 Carbon Management

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

8.6 Rural Proofing

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

8.7 Changes to Scheme of Administration or Scheme of Delegation

- (a) No changes are required as a result of this report.

9 CONSULTATION

- 9.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments will be communicated at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016

Background Papers:

Previous Minute Reference: Council, 2 April 2015

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**SCOTTISH BORDERS COUNCIL
PENSION FUND
STATEMENT OF
INVESTMENT PRINCIPLES
2015**

**Finance
Chief Executive
Version: 2015 2.0 DRAFT
Approved: Pension Fund Committee [DATE]**

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) on [18 June 2015].

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 managed¹
- 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 Lending¹

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 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to changes in fund manager, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 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.
- 2.6 The SIP forms part of a governance framework that includes:
 - The Statutory Regulations
 - The Pension Fund Committee
 - The Pension Fund Investment & Performance Sub-Committee
 - The Pension Board
 - The Fund's Advisers
 - The Funding Strategy Statement²²and
 - The Governance Policy and Compliance Statement².
- 2.7 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 Funding Strategy Statement and Governance Policy and Compliance Statement can be found 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 Funding Strategy Statement (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 currently has more actively contributing members compared to members receiving pensions. It however also has 2,381 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 consultants 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 undertook a full review exercise in 2009, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in March 2013 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.
- 4.9 **Appendix 3** 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), M&G Investments (M&G), Harris Associates (Harris) 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 2.7% above CPI inflation** assumed as the real discount rate at the actuarial valuation as at 31 March 2014.
- 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 temporary cash on short term deposit or in money market funds, 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 4** contains details of the investment arrangements that are in place at the 31 March 2015.

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 2015/16 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 or Subscription 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 outperforms 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 Pension Fund Investment and Performance Sub-Committee at least once 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 *Proper Advice*

- 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, currently State Street Global Markets (State Street), is employed to manage complex changes in investment strategy and/or manager(s).
- ii The use of these specialist services 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.

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. The managers of the pooled funds, are 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. Where Fund managers invests in pooled funds that

participate in stock lending programme the committee expect that a third party for example a aparent company will act as the principal counterparty so that irrespective of the end borrower, counterparty risk sits with the Parent Company and not with the Pension Fund . Security is therefore provided for the stock loaned by the borrower transferring ownership of other collateral assets to the lender 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
- 6.8 The key highlights in terms of voting actions taken by investment managers is included as part of the quarterly investment manager report to the Committee its investment consultant.

7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Risk Committee.
- 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 LGPS regulations require the SIP to contain a 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 5** contains this statement of compliance.

Appendix 1

Pension Fund Investment and Performance Sub-Committee

The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment and Performance Sub-Committee:

1. Reviewing the Pension Fund's Statement of Investment Principles.
2. Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
3. Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
4. Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
5. Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
6. Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

Appendix 2

Pension Board

The Council approved the Constitution for the Pension Board (the Board) on 2 April 2015.

1. The Objectives of the Board are as follows:

The Board is the body responsible for assisting the Scheme Manager in relation to:

- i Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- ii securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- iii such other matters as the regulations may specify .

2. The Board also has the remit to determine the areas they wish to consider including, amongst others:

- a) Reports produced for the Pension Fund Committee;
- b) Seek reports from the Scheme Manager on any aspect of the Fund;
- c) Monitor investments and the investment principles/strategy/guidance;
- d) The Annual Report and Accounts for the Fund;
- e) External voting and engagement provisions in relation to investments;
- f) Pension Fund Administrative Strategy and associated performance;
- g) Actuarial reports and valuations;
- h) Funding Strategy Statement and associated policy; and
- i) Any other matters that the Board deems appropriate within the responsibilities set out in 4.2 above.

Appendix 3

Strategic Asset Allocation

Asset Class	Manager	Strategic Benchmark %	Permitted Range / Tolerance %
UK Equity	UBS ¹	12.6%	
	Baillie Gifford	6.4%	
	Sub Total	19.0%	16% - 22%
Global Equity	Harries Associates	9.9%	
	Baillie Gifford	21.7%	
	Morgan Stanley	14.4%	
	Sub Total	46.0%	40% - 52%
Total Equity		65.0%	56% - 74%
Bonds			
Alpha Opportunities	M&G	10.5%	
Govt. Fixed Interests Bonds	M&G	2.25%	
Corporate Fixed Interest Bonds	M&G	2.25%	
	Total	15.0%	13% - 20%
Alternatives ²			
Multi-Asset Alternatives Fund	LGT Partners	15.0%	
Property	UBS	5.0%	
	Total	20.0%	15% - 25%
Cash		0.0%	
Total		100.0%	

Note:

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

² Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt and convertible bonds.

Appendix 4

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	Harries Associates	Benchmark Return	+2.5%	MSCI All Country World Index
	Baillie Gifford	Benchmark Return	+2.5%	MSCI AC World Index
	Morgan Stanley	Benchmark Return	Not Defined	MSCI World Net Index
Bonds				
Alpha Opportunities	M&G *	Benchmark Return	+3.5% - 5%	1 Month LIBOR
Govt Fixed Interest Bonds	M&G	Benchmark Return	+0.75%	FTSE Actuaries UK Conventional Gilts All Stock Index
Corporate Fixed Interest Bonds	M&G *	Benchmark Return	+0.8%	iBoxx Sterling Non-Gilts Index
Multi-Asset Alternatives Fund	LGT Partners	Benchmark Return	+4.0%	LIBOR
Property	UBS	Benchmark Return	+0.75%	IPD UK PPF All Balanced Funds Index

Appendix 5

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 .

Principle	Best Practice Guidance	Fund’s Current Status
<p>1. Effective Decision-Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. 	<p>Full Compliance</p> <ul style="list-style-type: none"> • 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

Principle	Best Practice Guidance	Fund's Current Status
<p>1. Effective Decision-Making (contd.)</p>	<ul style="list-style-type: none"> • It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making. • 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. 	<ul style="list-style-type: none"> • The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making. • The Committee carry out regular reviews of the Fund and compliance with regulations. • The Investment Consultant, Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee. • The Committee's legal advisers and any other relevant parties review any new investment contracts put in place. • There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members. • Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer • A business plan was agreed by the Committee on [18 June 2015] • Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007. • Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site.

Principle	Best Practice Guidance	Fund's Current Status
<p>2. Clear Objectives</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. The desirability of asset liability modelling should be considered. Proper advice should be taken where appropriate. Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. Peer group benchmarks should be avoided. 	<p>Full compliance</p> <ul style="list-style-type: none"> 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 to inform the Investment Strategy. The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the 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.

Principle	Best Practice Guidance	Fund's Current Status
<p>2. Clear Objectives (contd)</p>	<ul style="list-style-type: none"> • Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. • 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. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • Transaction and transition costs should be fully understood. 	<ul style="list-style-type: none"> • 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. • At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. • When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. • As part of any transition the costs are reported to Committee and compared with the target level set prior to transition.

Principle	Best Practice Guidance	Fund's Current Status
<p>3. Risk and Liabilities</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<p>Full compliance</p> <ul style="list-style-type: none"> 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 overall Fund investment objective is expressed in terms which relate to the liabilities. 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. It has agreed to undertake a similar review during 2015. The annual report includes a Risk Management Statement

Principle	Best Practice Guidance	Fund's Current Status
<p>3. Risk and Liabilities (contd)</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls. • The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay.

Principle	Best Practice Guidance	Fund's Current Status
<p>4. Performance Assessment</p> <ul style="list-style-type: none"> • 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. 	<p>Investments</p> <ul style="list-style-type: none"> • 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. <p>Advisers</p> <ul style="list-style-type: none"> • Assessment should take account of the extent of decisions delegated. 	<p>Full compliance</p> <ul style="list-style-type: none"> • The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. • Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. • The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods. • The performance of the investment managers is measured quarterly by an independent performance monitoring company. • A comprehensive quarterly performance report is presented to the Committee. • Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports. • The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations.

Principle	Best Practice Guidance	Fund's Current Status
<p>4. Performance Assessment (contd)</p>	<ul style="list-style-type: none"> • A framework should be established for assessing actuaries and consultants who should be assessed on a number of factors. <p>Decision making bodies</p> <ul style="list-style-type: none"> • The committee's self-assessment against expectations should cover manager selection, asset allocation, consultant employment and set out in annual report. 	<ul style="list-style-type: none"> • Factors such as past performance and price are taken into account when re-tendering for external advisers. • Members all participate in meetings, giving opinions and views where relevant. Each person's view is heard and asked for.

Principle	Best Practice Guidance	Fund's Current Status
<p>5. Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. 	<p>Full compliance</p> <ul style="list-style-type: none"> • 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).

	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants.
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Principle	Best Practice Guidance	Fund's Current Status
<p>6. Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> 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. 	<p>Reporting ensures that:</p> <ul style="list-style-type: none"> 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. 	<p>Full compliance</p> <ul style="list-style-type: none"> 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	K Robb
DRAFT 2015 1.0	Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers	June 2015	L Mirley
DRAFT 2015 2.0	Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review	June 2015	L Mirley

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.

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TRAINING PLAN 2015/16

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes an update to the current Training Policy previously approved in June 2013 and proposes a training plan for 2015/16 in-line with the policy and based on the Skills knowledge assessment recently undertaken.**
- 1.2 In June 2013 the Committee agreed a Training Policy, this has been updated to reflect the revised governance structure. A copy of the revised policy is contained in **Appendix 1**
- 1.3 In line with this Policy the Pension Fund agreed to undertake an annual knowledge and skills self assessment which will identify the key areas for the future years training plan.
- 1.4 The Training Knowledge and Skills Assessments were undertaken in April and summarised in **Appendix 2**.
- 1.5 The proposed Training Plan for 2015/16 has been included at **Appendix 3** for approval and members are strongly encouraged to actively participate in this to demonstrate their commitment to building the knowledge to support effective decision making.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Joint Committee and Board:-**
 - (a) **Approves the revised Training Policy contained in Appendix 1**
 - (b) **Notes the out-come of the Knowledge and Skills Self Assessment**
 - (c) **Approves the Training Programme for 2015/16 set out in Appendix 3 and agrees that all members should prioritise attendance at these training dates wherever practicable.**

BACKGROUND

3

- 3.1 At the June 2013 Pension Fund Committee a Training Policy (the policy) was updated and agreed. The Policy was prepared and reviewed in line

with the best practice guidance. A copy of the revised policy is contained in **Appendix 1**.

- 3.2 The best practice guidance indicates that the annual report should include an assessment of the Committee in terms of:
- Attainment of the standards set down in CIPFA's knowledge and skills framework; and
 - Achievement of required training outcomes.
- 3.3 One of the key elements of the Policy is that all Members of the Committee and the Board commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision making role. Officers maintain a log on behalf of members to demonstrate the training activities.

4 TRAINING POLICY ANNAUL UPDATE

- 4.1 The 2014/15 training programme approved at the June 2014 Pension Fund Committee consisted of the following
- key controls, Accounting & Audit requirements, Pension Administration (including benefits)
 - Role of the Custodian
 - Investments and new Investment Managers
 - Governance Workshop.

The training was also open to and attended by Union representatives and Admitted body representatives.

- 4.2 Of the four training areas approved above three were held. The key controls, Accounting & Audit requirements, Pension Administration (including benefits) was postponed due to delays in the issuing of final guidance on the LGPS 2015 over arching legislation.
- 4.3 The target is to have members of the Committee attend at least two training sessions each year. Six out of the seven members (85%) met the target attendance. The member who failed to reach the target, due to additional responsibilities at a national level, has been provided with additional training on an individual level to ensure the skills and knowledge required were maintained. The performance was as follows:
- | | |
|--|-----------|
| 43% Attendance (i.e. 3 events) | 3 Members |
| 43% Attendance (i.e. 2 events) | 3 Member |
| 14% or less Attendance (i.e. 1 or less events) | 1 Members |
- 4.4 A further target within the Training Policy was that every member attended at least 2 Committees per year. All seven members (100%) have met this

target level. The performance was as follows:

100% Attendance (i.e. 5 Committees)	2 Members
80% Attendance (i.e. 4 Committees)	2 Members
60% Attendance (i.e. 3 Committees)	3 Members

5 TRAINING NEEDS ANALYSIS

- 5.1 The recent changes to the Governance structure have resulted in a number of new members on the Pension Fund Board. To ensure training needs are met for all members of the Board and the Pension Fund Committee, a knowledge and skills assessment questionnaire has been completed by everyone. An analysis of this is contained in **Appendix 2**. This information has been used to inform the future training programme, and will provide the baseline to demonstrate progress in relation to the acquisition of skills and knowledge.
- 5.2 The training needs analysis for the Councillor's on the Pension Fund Committee have shown a slight increase in the level of skills and knowledge from 2014/15 analysis. There is no base line information available for the Members of the new Board but they have been included in the overall assessment for 2015 and this has affected the score in Appendix 2. This will form the new base for future improvements.

6 TRAINING PROGRAMME

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

7 IMPLICATIONS

- 7.1 **Financial**
 - (a) The cost of the delivery of the training programme will be borne by the Pension Fund, and a budget will be developed to provide an annual amount to support ongoing training needs.
- 7.2 **Risk and Mitigations**
 - (a) The development of a Training Policy and associated training plan and reporting mechanism is part of the framework to ensure effective decision making for the Pension Fund.

7.3 Equalities

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

7.4 Acting Sustainably

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

7.5 Carbon Management

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

7.6 Rural Proofing

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

7.7 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.

8 CONSULTATION

- 8.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, 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	Capital and Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: June 2013 – Pension Fund Committee

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SCOTTISH BORDERS COUNCIL PENSION FUND TRAINING POLICY

**Finance
Chief Executives Department
Version: DRAFT 2015 v1
Approved: Pension Fund Committee XX**

1. Introduction

- 1.1 This training policy documents the Scottish Borders Council Pension Fund (the Fund) responsibilities in relation to members and observer members of the Pension Fund Committee and Board..
- 1.2 The policy has been drawn up:
 - i To identify the level of knowledge and skills required by members, and
 - ii To outline the training arrangements for the Committee and its members
- 1.3 This version of the Training Policy was approved by the Pension Fund Committee of Scottish Borders Council on 18 June 2015.
- 1.4 For the avoidance of any doubt, the term members in relation to this Policy will refer to all members of the Pension Board and the Pension Fund Committee irrespective of voting rights, as set out in the amendment to the Scheme of Administration agreed by Council on 2 April 2015.

2. Myners Principles

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

progress made.”¹

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

3. Governance Compliance

- 3.1 Guidance on governance matters and training has been issued between 2009 and 2014 by the Pensions Regulator, CIPFA and the Scottish Public Pensions Agency. This training policy has been drafted in line with the collective guidance.
- 3.2 To underline the Fund’s commitment to the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, the following policy statement has been adopted:

“The Council recognises the importance of ensuring that all staff and members charged with the financial administration and decision making with regard to the Scottish Borders Council Pension Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide and arrange training for staff and members of the Pension Fund Committee and Board to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills”

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

4. Training

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

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

documents.

- 4.3 A training needs analysis will be undertaken for each member of the Committee and Board and this will be used to inform annual training plans. This analysis will be repeated annually to monitor progress and inform the updating of the training plans.
- 4.4 Annual training plans will be prepared for the Committee and members that will be commensurate with their respective roles and responsibilities and will be aligned to the CIPFA Skills and Knowledge Framework contained in **Appendix A**.
- 4.5 A training log will be retained for each member in line with the best practice standard.
- 4.6 For the Pension Fund Investment and Performance Sub Committee an informal meeting of the Sub Committee with the Fund's external Investment Adviser immediately prior to the formal meeting will be held to enable all members of the Sub Committee to be appropriately briefed and better prepared to question the Fund Managers in depth following their presentation.
- 4.7 As part of their commitment to good scheme governance, Members, will be expected to attend at least two Committee meetings each year and two training sessions each year. The two training sessions are over and above any training given at the pre-meeting to the Pension Fund Investment and Performance Sub-Committee.
- 4.8 Training Opportunities for the Committee and Board members will include the following events:
 - i Internal training events;
 - ii Seminars and conferences offered by industry wide bodies, e.g. the LAPF annual conference;
 - iii Seminars and training events offered by the Fund's investment managers and advisors;
 - iv Online training; and
 - v Professional reading.
- 4.9 The Pension Regulator online toolkit ([tpr.gov.uk/public-service schemes](http://tpr.gov.uk/public-service-schemes)) is recommended for all Committee and Board Members and completion of modules will be noted in the training register.
- 4.10 A record of attendance at meetings and training events will be maintained and published in the Pension Fund Annual Report and Accounts. Officers will identify appropriate training opportunities and bring these to the attention of the Committee and Board.
- 4.11

5. Reporting and Review Arrangements

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

6. Reimbursement of Expenses

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

APPENDIX A

CIPFA Knowledge and Skills Framework

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

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

VERSION CONTROL TABLE

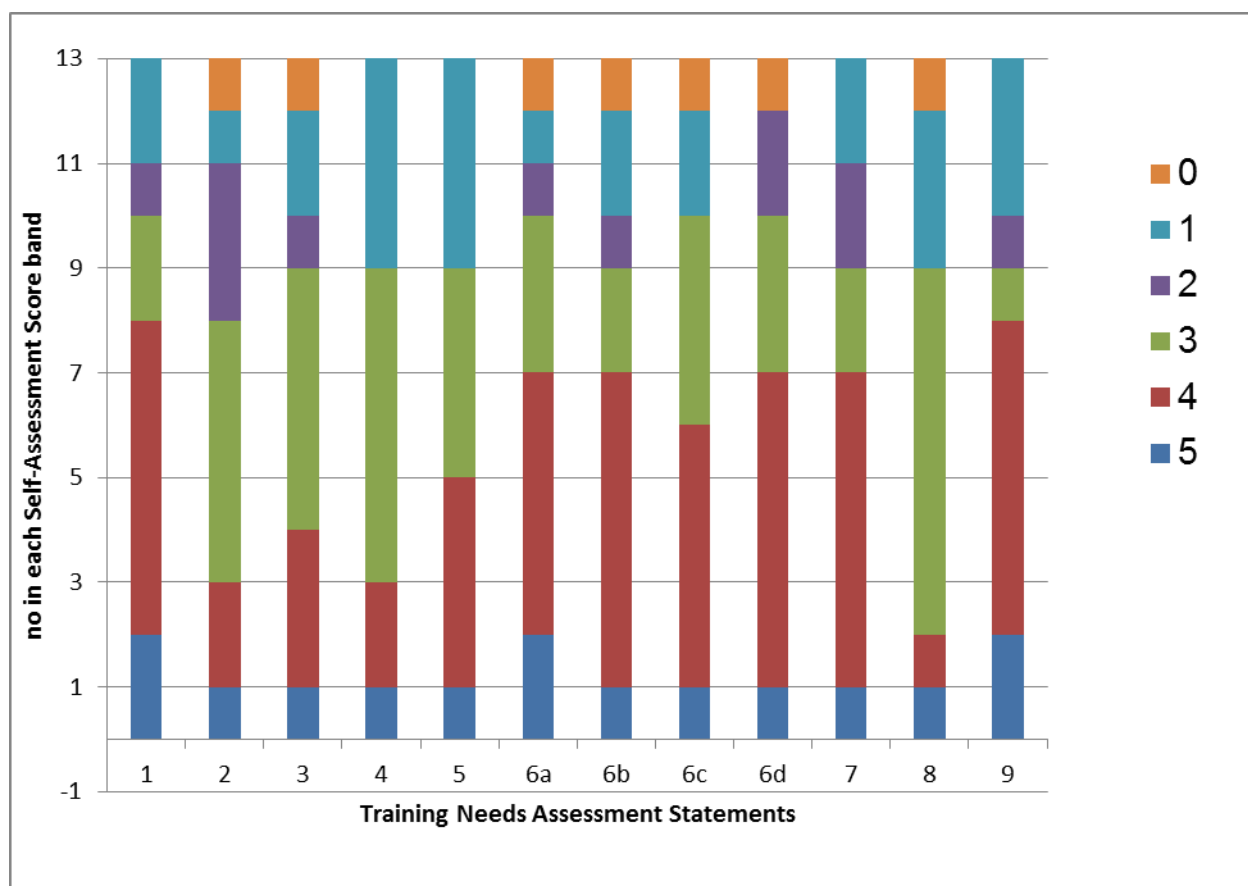
Version	Nature of Amendment	Date of Change	Author
2012 1.0	Creation of Training Policy	30 August 2012	Lynn Mirley
2012 2.0	Approved by Pension Fund Committee	13 September 2012	Lynn Mirley
2013 1.0	Updated for changes to Scheme of Administration	11 June 2013	Lynn Mirley
2013.2	Approved by Pension Fund Committee	18 June 2013	Kirsty Robb
2015.1	Update for revised Governance structure	18 June 2015	Kirsty Robb

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APPENDIX 2

Knowledge & Skills Assessment – 2015



Training Needs Assessment Statements

Statement	Members Average Score
1 Understanding of responsibilities as a member of the Pension Fund Committee	3.38
2 Knowledge of the financial markets and investment products	2.69
3 Confidence with Pension Fund investment concepts and terminology	2.77
4 Understanding of the regulatory environment for Pension Funds in general	2.69
5 Understanding of the regulatory environment for Local Government Pension Scheme (LGPS) Pension Funds	2.84
6 Awareness of the following key documents:	
a) Governance Statement	3.23
b) Statement of Investment Principles (SIP)	3.00
c) Funding Strategy Statement (FSS)	3.00
d) Annual Report and Accounts for the Pension Fund	3.23
7 Understanding of the LGPS Benefits structure	3.15
8 Understanding of the role of the Global Custodian	2.54
9 Understanding of the role of the Actuary	3.23

APPENDIX 3

Date	Topic(s)	Location
26 th May 2015	<p>Pension Training</p> <ul style="list-style-type: none"> • Roles and responsibilities of Boards and Committees • Current issues facing Local Government Pension Schemes <p>Training objective: to explore roles of responsibilities resulting from LGPS (Governance) (Scotland) Regulations 2015 and explore current issues</p>	Glasgow
½ Day	<p>Pension Training</p> <ul style="list-style-type: none"> • Regulator Environment • Key Controls • Accounting & Audit Requirements • Pensions Administration – Including Benefits <p>Training Objective: To continue the introduction to the elements of the CIPFA Knowledge and Skills Framework</p>	Newtown St'Boswells
½ Day	<p>Pension Training</p> <ul style="list-style-type: none"> • Role of Custodian • Investment Markets <p>Training Objective: to increase understanding of role of Custodian and investment markets highlighted in Knowledge/Skills assessment.</p>	Newtown St'Boswells
½ Day	<p>Pension Training</p> <ul style="list-style-type: none"> • Performance monitoring of Investments • Investment Markets <p>Training Objective: to increase understanding of performance monitoring and investment markets highlighted in Knowledge/Skills assessment.</p>	Newtown St'Boswells

PENSION ADMINISTRATION PERFORMANCE 2014/15

Report by Chief Officer Human Resources

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the Pensions Administration Performance for 2014/15 and requests the Committee's approval of its inclusion in the Annual Report for the Fund.**
- 1.2 **Appendix 1** contains the Pensions Administration Performance for 2014/15 as it will be included in the Fund's Annual Report and Accounts.
- 1.3 During 2014/15 there was an increase in the number of payments being received late, specifically by Scottish Borders Housing Association, action was taken by HR Shared Services to address this issue.
- 1.4 HR Shared Services implemented an improved method for collection of data regarding queries received in relation to the Local Government Pension Scheme, regrettably this was not updated at all times throughout the year resulting in gaps in the information recorded.
- 1.5 Performance in general has been detrimentally affected during this reporting year due to the implementation of the new Pensions Administration system, Triennial Valuation and preparation for implementation of the new Pension scheme, all achieved with no additional resource.
- 1.6 There was a successful Employer Liaison Meeting held during 2014/15 year and agreement reached that this would be a useful event to hold on an annual basis, which will be scheduled in due course.

2 RECOMMENDATIONS

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

- (a) **Notes the Pension Administration Performance for 2014/15 as set out in Appendix 1 and approves its inclusion in the Pension Fund Annual Report and Accounts 2014/15;**

3 BACKGROUND

- 3.1 It is a requirement of the current LGPS Regulations and best practice that the Pension Fund maintains a Pensions Administration Strategy. At the Committee on 13 June 2013 the Pension Administration Strategy for the Fund was approved.
- 3.2 In accordance with the Pension Administration Strategy a number of administration function performance measures were introduced to evaluate the performance of both the Fund and Employers.
- 3.3 A further requirement is that the performance against the Strategy is reported in the annual Report and Accounts for the Fund.

4 PENSIONS ADMINISTRATION PERFORMANCE 2014/15

- 4.1 **Appendix 1** contains the Pensions Administration Performance Report for 2014/15 as it will be included in the Fund's Annual Report and Accounts.
- 4.2 Performance in general has been detrimentally affected during this reporting year, when compared to the previous year, due to the implementation of the new Pensions Administration system, Triennial Valuation and preparation for implementation of the new Pension scheme, all of which were achieved with no additional resource in the Pensions Team.
- 4.3 During 2013/14 HR Shared Services implemented a new method of recording the queries received in relation to the Local Government Pension Scheme that were being received. Regrettably this information was not recorded in all instances creating gaps with the number of queries received. Steps have been taken to address this and staff have been reminded of the importance, from a performance and reporting perspective, of recording this information on an ongoing basis.

Employer Performance Measures

- 4.4 During 2013/14 there were 4 payments which did not meet the timescale this has increased to 6 payments during 2014/15. In accordance with section 8 of the Scottish Borders Council Pension Fund – Pension Administration Strategy, Scottish Borders Housing Association, who were late with 5 monthly payments, were written to and reminded of their responsibility to make payment by the 19th of the month. Since this letter was issued all payments were received on time. The controls continue to be monitored on a monthly basis.

Administering Authority Performance Measures

- 4.5 The key performance targets are set out in the **Appendix 1**. Due to significant pressures on the team during 2014/15 there has been a slippage in the achievement of performance targets, specifically around Transfers In and Out. Additionally, there has been a failure to record all queries that have been dealt with. It is expected that there will be an upturn in performance during 2015/16 as working knowledge and experience of the

new scheme and system improves.

- 4.6 During 2014/15 one Employer Liaison meeting was held, to discuss the changes to the scheme that were effective from 1 April 2015. This was a successful meeting and was beneficial to all parties. It was agreed that this will be an annual event and it would be helpful if this was timed around February, where the Fund could advise employers of changes for the coming year and remind them of their responsibility for the year end.
- 4.7 In addition to the Employer Liaison meeting, it is also worth noting that a number of briefings were held with employee representatives and employer groups during the year, specifically addressing the changes to the scheme implemented from 1 April 2015.
- 4.8 Annual Benefit statements were not issued to the 6,159 active and deferred scheme members until 1 November 2014, one day later than target. This was significantly later than the previous year, however, is attributable to the additional workload that was faced by the HR Shared Services Team in producing information for the triennial valuation.
- 4.9 During 2014/15, 34,754 payments were processed, an increase from 33,830 in 2013/14, to pensioners for a total of £14.10m. In addition to this, 94 payments were also processed, an increase from 81 payments in 2013/14, to pensioners who now reside overseas for a total of £35,173, these payments are processed via Western Union, providing pensioners with a cost effective means of transferring a sterling pension payment into the appropriate local currency.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this report.

5.2 Risk and Mitigations

This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.

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.

5.4 Acting Sustainably

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

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 Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk and the Clerk to the Council have been consulted in the preparation of this report and any comments received have been incorporated into the final report.

Approved by

Chief Officer Human Resources

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Sub Committee 13 June 2012
Pension Fund Committee 17 June 2014

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APPENDIX 1

PENSION ADMINISTRATION PERFORMANCE 2014/15

In accordance with the Pension Administration Strategy, approved 13 June 2012, the following performance measures have been compared against the targets set within the said strategy document.

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	547	100.00%
Changes notified – within 20 working days	466	100.00%
Retirement info – at least 20 working days before	167	100.00%
Early leaver notification – within 20 working days	407	100.00%
Death in service notification – within 10 working days	3	100.00%
Query responses – within 10 working days	500	
Year-end queries – within 20 working days	Included in above figures	

Contribution Payments

The following tables compare the date contribution payments are received against the target date for each of the Scheduled and Active Admitted Bodies.

Scottish Borders Council

	Target Date	Date received	Target Achieved
April	19/05/2014	01/05/2014	On Time
May	19/06/2014	30/05/2014	On Time
June	19/07/2014	30/06/2014	On Time
July	19/08/2014	31/07/2014	On Time
August	19/09/2014	29/08/2014	On Time
September	19/10/2014	30/09/2014	On Time
October	19/11/2014	31/10/2014	On Time
November	19/12/2014	28/11/2014	On Time
December	19/01/2015	22/12/2014	On Time
January	19/02/2015	30/01/2015	On Time
February	19/03/2015	27/02/2015	On Time
March	19/04/2015	31/03/2015	On Time

Visit Scotland

	Target Date	Date received	Target Achieved
April	19/05/2014	07/05/2014	On Time
May	19/06/2014	03/06/2014	On Time
June	19/07/2014	03/07/2014	On Time
July	19/08/2014	01/08/2014	On Time
August	19/09/2014	02/09/2014	On Time
September	19/10/2014	02/10/2014	On Time
October	19/11/2014	06/11/2014	On Time
November	19/12/2014	04/12/2014	On Time
December	19/01/2015	08/01/2015	On Time
January	19/02/2015	03/02/2015	On Time
February	19/03/2015	02/03/2015	On Time
March	19/04/2015	02/04/2015	On Time

Borders College

	Target Date	Date received	Target Achieved
April	19/05/2014	02/05/2014	On Time
May	19/06/2014	02/06/2014	On Time
June	19/07/2014	01/07/2014	On Time
July	19/08/2014	01/08/2014	On Time
August	19/09/2014	03/09/2014	On Time
September	19/10/2014	02/10/2014	On Time
October	19/11/2014	03/11/2014	On Time
November	19/12/2014	03/12/2014	On Time
December	19/01/2015	02/01/2015	On Time
January	19/02/2015	02/02/2015	On Time
February	19/03/2015	02/03/2015	On Time
March	19/04/2015	31/03/2015	On Time

Scottish Borders Housing Association

	Target Date	Date received	Target Achieved
April	19/05/2014	20/05/2014	Late Payment
May	19/06/2014	19/06/2014	On Time
June	19/07/2014	21/07/2014	Late Payment
July	19/08/2014	20/08/2014	Late Payment
August	19/09/2014	22/09/2014	Late Payment
September	19/10/2014	20/10/2014	Late Payment
October	19/11/2014	18/11/2014	On Time
November	19/12/2014	18/12/2014	On Time
December	19/01/2015	12/01/2015	On Time
January	19/02/2015	10/02/2015	On Time
February	19/03/2015	10/03/2015	On Time
March	19/04/2015	13/04/2015	On Time

Jedburgh Leisure Facilities Trust

	Target Date	Date received	Target Achieved
April	19/05/2014	14/05/2014	On Time
May	19/06/2014	16/06/2014	On Time
June	19/07/2014	15/07/2014	On Time
July	19/08/2014	15/08/2014	On Time
August	19/09/2014	15/09/2014	On Time
September	19/10/2014	15/10/2014	On Time
October	19/11/2014	14/11/2014	On Time
November	19/12/2014	16/12/2014	On Time
December	19/01/2015	15/01/2015	On Time
January	19/02/2015	16/02/2015	On Time
February	19/03/2015	16/03/2015	On Time
March	19/04/2015	16/04/2015	On Time

Borders Sport and Leisure Trust

	Target Date	Date received	Target Achieved
April	19/05/2014	16/05/2014	On Time
May	19/06/2014	18/06/2014	On Time
June	19/07/2014	18/07/2014	On Time
July	19/08/2014	19/08/2014	On Time
August	19/09/2014	18/09/2014	On Time
September	19/10/2014	17/10/2014	On Time
October	19/11/2014	14/11/2014	On Time
November	19/12/2014	19/12/2014	On Time
December	19/01/2015	16/01/2015	On Time
January	19/02/2015	18/02/2015	On Time
February	19/03/2015	18/03/2015	On Time
March	19/04/2015	17/04/2015	On Time

AMEY Community Limited

	Target Date	Date received	Target Achieved
April	19/05/2014	19/05/2014	On Time
May	19/06/2014	19/06/2014	On Time
June	19/07/2014	18/07/2014	On Time
July	19/08/2014	18/08/2014	On Time
August	19/09/2014	19/09/2014	On Time
September	19/10/2014	17/10/2014	On Time
October	19/11/2014	14/11/2014	On Time
November	19/12/2014	18/12/2014	On Time
December	19/01/2015	16/01/2015	On Time
January	19/02/2015	19/02/2015	On Time
February	19/03/2015	19/03/2015	On Time
March	19/04/2015	20/04/2015	Late Payment

There has been a small decline in the number of payments being received late when compared to 2013/14, where there were 6 late payments compared with 4 in the previous year. Following the fourth consecutive late payment in October 2014 Scottish Borders Housing Association were written to reminding them of the requirement to comply with the Pensions Admission Agreement and remit monies by the 19th day of the following month. As

a result of this letter being issued all remaining payments due in the year were processed on time. The payments dates continue to be monitored on a monthly basis.

Administering Authority Performance Measures

Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	47	10 days	8.51%
Estimates – Transfer Out	73	10 days	24.66%
Estimate – All Other	884	10 days	86.88%

The way in which information has been recorded for general queries and advice was enhanced during 2013/14 to allow for a more detailed collection and comparison against targets. However, when completing the analysis of the recorded information it became apparent that members of the Pensions Team had not recorded all enquiries received. The Pensions Team have been reminded of their responsibility to record all queries received and how this fits into the requirements of the Pensions Administration Strategy.

Type of Query	Volume	Target	%age Met
Admitted/Scheduled Bodies Employer Queries	19	10 days	100.00%
Advice on AVC applications	11	10 days	100.00%
Advice on Nominations and/or Death Grant	6	10 days	100.00%
Advice on Options at Retirement	49	10 days	100.00%
Annual Benefit Statement Queries	20	20 days	100.00%
Assistance with form completion e.g. retirement declaration	14	10 days	100.00%
Change of Address/Bank Details	89	10 days	100.00%
Divorce	3	10 days	100.00%
DWP requesting details of Pensioner Payments	6	10 days	100.00%
Enquiries in relation to Deceased Pensioners	18	10 days	100.00%
ER/VS general advice	46	10 days	100.00%
Flexible Retirement	20	10 days	100.00%
General advice	41	10 days	100.00%
Internal forms requesting details of Pensioner Payments	7	10 days	100.00%
Opting In to LGPS	24	10 days	100.00%
Opting Out of LGPS	19	10 days	100.00%
Pension Payment queries including tax issues	93	10 days	100.00%
Refunds Enquiry	6	10 days	100.00%
Retiral Enquiry	9	10 days	100.00%
Transfer In Enquiry	0	10 days	100.00%
Transfer Out Enquiry	0	10 days	100.00%
Total	500	10 days	100.00%

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	2 per annum	1 meeting
Benefit Statements	by end of October	01/11/2014

A liaison meeting with all Admitted and Scheduled Bodies was held during 2014/15 and was agreed by all parties who attended that this was a beneficial exercise and should be repeated on an annual basis. Going forward there will be a liaison meeting held towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

It is also worth noting that a number of briefings were held with employer groups during the year, bringing to their attention the changes that were implemented from 1 April 2015 and what that would mean for them as employers and/or scheme members.

All 6,159 Benefit Statements were issued by 1 November 2014, one day later than the target. This was significantly later than the previous year, however, this was due to the additional workload in the team with regard to the provision of data for the triennial valuation.

Key Administration Tasks

Task	Total received
New entrants	547
Changes	466
Early leavers	407
Retirements	167
Deaths in service	3
Deaths in deferment	2
Deaths in retirement	101
New Widows(ers), Child Pensions	35
Estimates	1,004
Pension credit members	0

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GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2015

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following the 2015 regulatory changes. It also requests approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2014/15.**
- 1.2 There have been significant regulatory changes to the Local Government Pension Scheme (LGPS) and one of these has been the introduction of Pension Boards. This is a significant change and has required a revision of the Governance Policy and Compliance Statement.
- 1.3 **Appendix 1** contains the revised Governance Policy and Compliance Statement for the Pension Fund.

2 STATUS OF REPORT

- 2.1 This report has been circulated to consultees within the recommended timeframe and as a result their comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing all the final year end reports and securing the membership of the new Board.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the revised Governance Policy and Compliance Statement 2015 is approved and the Governance Compliance Statement is agreed for inclusion in the Pension Fund Annual Report and Accounts 2014/15.**

4 BACKGROUND

- 4.1 It is a requirement of the LGPS Regulations that the Pension Fund maintains a Governance Policy and Compliance Statement.
- 4.2 The Public Services Pensions Act 2013 introduced the requirement for Pensions Boards, and the Council approved the constitution for the Fund's Pension Board on 2 April 2015.
- 4.3 At the same meeting the Council approved changes to the Scheme of Administration which introduced the requirement for the Pension Board and Pension Fund Committee to have joint meetings, and for the introduction of a Pension Fund Investment & Performance Sub-Committee.
- 4.4 The introduction of the Pension Board and the new LGPS regulations approved during 2014 and 2015 have required the Governance Policy and Compliance Statement to be revised.

5 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

- 5.1 **Appendix 1** contains the revised Governance Policy and Compliance Statement.
- 5.2 The Regulatory Framework in Section 2 has been updated to reflect all of the recent changes.
- 5.3 The overview of the Pension Fund Committee in Section 3 includes the amended membership following the introduction of the Pension Board, and remit of the new Pension Fund Investment and Performance Sub-Committee.
- 5.4 Section 4 of the Appendix includes an overview of the Pension Board.
- 5.5 The Governance Compliance Statement is contained in Appendix C of the document and has been updated to reflect the changes in the governance arrangements. It is proposed that this Statement is incorporated into the Pension Fund Annual Report and Accounts 2015 in order to comply with the LGPS regulations.

6 IMPLICATIONS

- 6.1 **Financial**
There are no financial implications relating to this proposal.
- 6.2 **Risk and Mitigations**
 - (a) This report is part of the governance framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations.
- 6.3 **Equalities**
 - (a) An Equalities Impact Assessment has been carried out on this proposal and it is anticipated that there are no adverse equality implications.

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) The changes relating to the governance of the Pension Fund were agreed by Council on 2 April 2015.

7 CONSULTATION

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments will be communicated at the meeting if required.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016

Background Papers:

Previous Minute Reference: Council, 2 April 2015

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

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

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**SCOTTISH BORDERS COUNCIL
PENSION FUND**

**GOVERNANCE POLICY AND
COMPLIANCE STATEMENT**

2015

Finance
Chief Executive
Version: 2015 1.0 DRAFT
Approved: Pension Fund Committee [DATE]

Introduction

This Statement documents the governance arrangements for the pension scheme administered by Scottish Borders Council. This version of the Governance Policy and Compliance Statement was approved by the Pension Fund Committee on [18 June 2015] and reflects the changes resulting from the introduction of the Pension Board.

1. Administering Authority

- 1.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 1.2 The Council has delegated its pension's functions to the **Pension Fund Committee**.

2. Regulatory Framework

- 2.1 The Public Services Pensions Act 2013 set out the UK framework for the governance of Public Service Pensions and states that the responsible authority for LGPS (Scotland) scheme regulations is Scottish Ministers, and they have set out these within the Local Government Pensions Scheme (Scotland) Regulations 2014.
- 2.2 The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 provides the framework for the governance arrangements for the Scottish LGPS Funds.
- 2.3 The legislation referred to above identifies that the Pensions Regulator (TPR) has oversight of the Fund and requires compliance with the TPR's requirements.
- 2.4 The Scottish Public Pensions Agency (SPPA) is responsible for supporting the Scottish Ministers in their role as responsible authority.
- 2.5 The Fund is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is attached in **Appendix A**.
- 2.6 The Pension Fund Committee (the Committee) is a formal committee of Scottish Borders Council through which it exercises its role as Administering Authority.
- 2.7 The Pension Board (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework.
- 2.8 Financial affairs are conducted in compliance with the Council's Financial Regulations which have been formally adopted by the Pension Fund in 2011.
- 2.9 Funds are invested in compliance with the Council's Statement of Investment Principles.

3. Pension Fund Committee

- 3.1 The Scheme of Administration for the Council specifies that the following functions shall be referred to the Committee:

All matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.

- 3.2 The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund (the Fund).
- 3.3 Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members.
- 3.4 The members' knowledge is supplemented by professional advice from Officers of the Council, professional advisers and external experts.
- 3.5 The Committee is comprised of seven Members of the Council:

Depute Leader (Finance)

Executive Member for HR and Corporate Improvement

Three members of the Administration

Two members from the Opposition

- 3.6 The Chairman of the Committee is elected by the Committee from within its membership and the presence of four Members of the Council constitutes a quorum.
- 3.7 The Independent Investment Consultant, the Chief Executive, Chief Financial Officer, Corporate Finance Manager, Treasury and Capital Manager and HR Shared Services Manager also attend the Committee meetings as advisers.
- 3.8 The Committee meets at least quarterly. Additional meetings are called as appropriate.
- 3.9 The Committee papers and minutes are publicly available on the Council's website, unless they have been considered as private business in terms of Schedule 7A to the Local Government (Scotland) Act 1973. Minutes of the Committee are presented to the Executive of the Council.
- 3.10 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established under the Council's Scheme of Administration.
- 3.11 The Investment Sub-Committee is comprised of nine members, being the seven members of the Pension Fund Committee and two non-voting members nominated by the Pension Board.
- 3.12 The Scheme of Administration for the Council specifies that the following functions shall be referred to the Investment Sub-Committee:

- a) Reviewing the Pension Fund's Statement of Investment Principles.
- b) Where appropriate, recommending changes to the Pension Fund Committee in relation to the Statement of Investment Principles.
- c) Ensuring appropriate investment management arrangements are in place for monies of the Pension Fund and to review investment manager performance.
- d) Overseeing the contractual review of the fund managers and investment adviser(s) and custodian.
- e) Where appropriate, making recommendations to the Pension Fund Committee in relation to the appointment or removal of a fund manager, investment adviser or custodian.
- f) Overseeing the overall approach to investment risk management and where appropriate recommending changes to the Pension Fund's Risk Register.

3.13 It is anticipated that the Investment Sub-Committee will meet at least every six months and that the Chairman will be the Chairman of the Committee.

3.14 From time to time, the Committee may establish a further additional Sub-Group to address a specific issue or need. Any such Sub-Group will be chaired by a member of the Committee and the remaining membership of the Sub-Group will be appropriate to the purpose and may therefore include other members of the Committee. The minutes and decisions of these sub-groups will be presented to the Committee for noting and agreement.

4. Pension Board

4.1 The Council approved the Constitution for the Pension Board on 2 April 2015.

4.2 The Objectives of the Board are as follows:

The **Pension Board** is the body responsible for assisting the Scheme Manager in relation to:

- a) Securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
- c) such other matters as the regulations may specify .

4.3 The Board also has the remit to determine the areas they wish to consider including, amongst others:

- a) Reports produced for the Pension Fund Committee;
- b) Seek reports from the Scheme Manager on any aspect of the Fund;
- c) Monitor investments and the investment principles/strategy/guidance;
- d) The Annual Report and Accounts for the Fund;
- e) External voting and engagement provisions in relation to investments;
- f) Pension Fund Administrative Strategy and associated performance;
- g) Actuarial reports and valuations;
- h) Funding Strategy Statement and associated policy; and
- i) Any other matters that the Board deems appropriate within the responsibilities set out in 4.2 above.

4.4 The Board will consist of eight members and will consist of equal numbers of trade union representatives and employer representatives. The Board’s current membership is as follows:

Employer Representatives	Borders College Scottish Borders Council Scottish Borders Housing Association (SBHA) Borders Sport & Leisure Trust (BSLT) Substitute Member – SBCares
Trade Union Representatives	Unison – 2 members Unite – 1 member GMB – 1 member

4.5 There will be a Chairman and Vice-Chairman for the Board and will be rotated on an annual basis between the Trade Union and Scheme Employer Representatives on the Board.

4.6 A copy of the full constitution is included at Appendix C.

5. Meetings

5.1 While the statutory roles and function of the Committee and Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pension Fund Committee chairing the concurrent meeting.

5.2 The process for resolving any differences between the two bodies is set out in the Council’s Scheme of Administration and the Board’s Constitution.

6. Administration and Management of the Fund

6.1 Chief Financial Officer

- i The Council’s Chief Financial Officer is the Officer with responsibility to ensure proper administration of the Council’s financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.
- ii He is responsible for:
 - a) the financial accounting of the Fund,
 - b) the preparation of the Pension Fund Annual Report, and
 - c) being the principal advisor on investment management to the Council in its capacity as Trustee to the Fund and as the Fund’s Administering Authority.

6.2 The day-to-day management of the investment activities of the Fund is managed by the Corporate Finance Team within the Finance Service.

6.3 Chief Officer Human Resources

- i The pension benefits policy oversight and day-to-day administration for the Fund is managed by the Human Resources Shared Services Team.

7. Professional Advisers and External Service Providers

7.1 Barnett Waddingham has been appointed to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations.

7.2 AON Hewitt is the Independent Investment Consultant employed by the Council to advise the Committee on investment strategy.

7.3 The Fund has appointed investment managers who have responsibility for the selection, retention and realisation of individual investments. Where appropriate, they also implement the Committee's policy in relation to corporate socially responsible investment and corporate governance.

7.4 J.P. Morgan is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

7.5 The WM Company has been appointed as the independent performance services company for the Fund. They have responsibility for measuring and reporting on the performance of individual portfolios and the overall Fund.

7.6 State Street undertakes the passive currency hedging programme for the Fund.

8. Internal and External Review

8.1 The annual financial statement of the Council, including the Fund, is subject to external audit. The auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.

8.2 The Council's Audit Committee oversees the output of the Annual Audit process in relation to the Pension Fund.

8.3 The Council provides internal audit arrangements to the Fund both as a tool of management and with direct reporting to the Council's Audit Committee.

9. Risk Management

9.1 The Council has a corporate risk management policy which includes the maintenance and regular review of a risk register.

9.2 Risk awareness is embedded into the investment performance management process.

10. Access to Information

- 10.1 Committee papers and minutes are available via the Council Papers website <http://councilpapers.scotborders.gov.uk/>
- 10.2 The Fund's Annual Report and Accounts is available via the Fund website www.scotborders.gov.uk/pensions. A hard copy of the full version of this report is provided to the scheduled and active admitted bodies of the scheme and a summary of the review is provided to all Fund members.
- 10.3 This Governance Policy and Compliance Statement and all supporting statements and policies are available on the Fund website www.scotborders.gov.uk/pensions.

11. Review and Compliance with Best Practice

- 11.1 This Statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Fund.
- 11.2 The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The Governance Compliance Statement (**Appendix C**) that demonstrates the Fund's status against these standards is set out in the Annual Report and Accounts for the Fund.

Appendix A

Scottish Borders Council Pension Fund

Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council
- Visit Scotland

Admitted Bodies

Active Admitted Bodies

- Amey Community Limited
- BC Consultants
- Borders Sport and Leisure Trust
- Gala Youth Project
- Jedburgh Leisure Facilities Trust
- Lothian and Borders Community Justice Authority
- Scottish Borders Housing Association (closed to new members)
- SB Cares LLP
- SB Supports LLP

Admitted bodies with Deferred or Retired Members only

- Berwickshire Housing Association
- Heriot Watt (former Scottish College of Textiles)
- Project '80 Council Burnfoot
- Red Cross Housing Association
- Scottish Borders Careers

Appendix B

SCOTTISH BORDERS COUNCIL PENSION FUND

PENSION BOARD

CONSTITUTION

1. Introduction

- 1.1 Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, known as the Scottish Borders Council Pension Fund (the Fund).
- 1.2 The Council has delegated its responsibilities of Scheme Manager to the **Pension Fund Committee**.
- 1.3 The Council is required to establish a Pension Board separate from the Pension Fund Committee which acts as the Scheme Manager for the Fund.
- 1.4 The **Scottish Borders Council Pension Board** (the Pension Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.
- 1.5 This constitution was approved by Scottish Borders Council on 2 April 2015.

2. Objectives

- 2.1 The Pension Board is the body responsible for assisting the Scheme Manager in relation to:
 - a) securing compliance with the regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
 - b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator; and
 - c) such other matters as the regulations may specify .
- 2.2 The Pension Board will have the remit to determine the areas they wish to consider including, amongst others:
 - a) Reports produced for the Pension Fund Committee;
 - b) Seek reports from the Scheme Manager on any aspect of the Fund;
 - c) Monitor investments and the investment principles/strategy/guidance;
 - d) The Annual Report and Accounts for the Fund;
 - e) External voting and engagement provisions in relation to investments;
 - f) Pension Fund Administrative Strategy and associated performance;
 - g) Actuarial reports and valuations;
 - h) Funding Strategy Statement and associated policy; and
 - i) Any other matters that the Pension Board deems appropriate within the responsibilities set out in 2.1 above.

3. Membership

- 3.1 The Pension Board will consist of eight members.
- 3.2 Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, the latter being drawn from the Council and scheduled or admitted bodies in membership of the Fund.
- 3.3 Pension Board representatives cannot be members of the Pension Fund Committee.
- 3.4 Pension Board representatives are required to adhere to the Model Code of Conduct as specified by Scottish Government (details can be found at the link <http://www.scotland.gov.uk/Topics/Government/local-government/governance/ethical-standards/codes>)

Scheme Employer Representatives

- 3.5 There will be four Scheme Employer Representatives appointed by the respective employer organisations as follows:

Scottish Borders Council	1 member
Scheduled bodies – Borders College	1 member
Admitted bodies –	2 members

- 3.6 Scottish Borders Council employer representative will be an Elected Member who is not a member of the Pension Fund Committee.
- 3.7 Borders College will appoint their representative and communicate this as per the procedure set out in 3.10 below.
- 3.8 Each Admitted Body within the Pension Fund will be contacted and offered the opportunity to put forward a representative for the Pension Board. In the event that more than two representatives are put forward, then the representatives from the Admitted Bodies with the largest membership in the Pension Fund will be nominated.

Trade Union Representatives

- 3.9 There will be four Trade Union Representatives appointed by the Trade Unions as follows:

GMB	1 member
UNISON	1 member
Unite	1 member

The fourth trade union representative will be agreed by the Council's Trade Union Consultative Group.

Term of Appointment

- 3.10 Representatives of the Board will serve for a period of four years, or to the next local government election, whichever is earlier and may be reappointed to serve further terms.

Withdrawal and Replacement of Representatives

- 3.11 Scheme Employers and Trade Union bodies retain the right to withdraw their representatives and identify replacements as they deem appropriate, and they will be responsible for advising the Council's Democratic Services Team, normally at least two months prior to a Pension Board meeting.

Substitutes

- 3.12 Scheme Employers and Trade Union bodies can appoint a named substitute for their representative and will serve for the same period of appointment as the other Board representatives as set out in 3.9 above. Such substitutes must undertake and complete the same training as set out in 6 below. An individual substituting for the Chair or Vice-Chair will not assume that role on the Board, only the role of representing the specified Scheme Employer or Trade Union.

Advisors and Officers

- 3.13 Advisors to the Board and/or Officers of the Scottish Borders Council may attend meetings of the Pension Board in a non-voting capacity at the request of the Chair of the Pension Board. There is no requirement to remunerate the advisors.

4. Conflict of Interest

- 4.1 No person may be appointed to the Pension Board that has a significant conflict of interest.
- 4.2 A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the Board is established.
- 4.3 The Pension Board shall adopt appropriate policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

5. Joint Secretaries

- 5.1 The role of Joint Secretary for the Pension Board should be undertaken by two officers who are appointed by the Scheme Employers and the relevant Trade Unions. These officers should be identified from within existing resources.
- 5.2 There is no expectation that the Joint Secretary to the Pension Board will undertake secretariat tasks or functions in relation to the Pension Board, as these will be undertaken by the Council's Democratic Services Team.
- 5.3 The Joint Secretaries' role is to liaise with Pension Board members and other colleagues to support the smooth operation of Pension Board meetings and to assist in the resolution of any issues arising within normal Pension Board meetings or processes.

6. Meetings

- 6.1 The Chair of the Pension Board will be rotated on an annual basis between the Trade Union and Scheme Employer Representatives on the Pension Board. The duties of the Chair will be the same as those set out in the Scottish Borders Council Procedural Standing Orders.

- 6.2 The Vice-Chair of the Pension Board will also be rotated on an annual basis on the opposite rotation to the Chair so that at all times there is a Trade Union Representative and Scheme Employer Representative in these two positions. The duties of the Vice-Chair will be to deputise for the Chair in the event of their absence.
- 6.3 It will be up to the Scheme Employer Representatives and the Trade Union Representatives to nominate one of their number for appointment to the Chair/Vice-Chair role. This nomination should be communicated to the Council's Democratic Services Team and will stand for a period of four years, or to the next local government election, whichever is earlier.
- 6.4 Pension Board meetings will be administered by the Council's Democratic Services Team as agreed with Joint Secretaries. All reasonable administration costs shall be met by the Pension Fund.
- 6.5 While the statutory roles and function of the Pension Fund Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pension Fund Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one. As a result the Pension Board will meet on average quarterly.
- 6.6 In order to meet the responsibilities of the objectives of the Pension Board, it will be normal practice for the Pension Board to meet immediately after the joint meeting with the Pension Fund Committee. One of the purposes of this meeting will be to identify any matters that the Pension Board wishes to raise under the Dispute Resolution process set out in 8 below.
- 6.7 It will require at least 3 members (each from different representative body) of the Pension Board to requisition an additional special meeting of the Pension Board separate from the Pension Fund Committee in exceptional circumstances. The Joint Secretaries of the Board should notify the members of the Pension Fund Committee of the meeting and its purpose.
- 6.8 The Pension Board may establish sub-committees to take forward aspects of work relating to its Objectives as set out in Section 2 above.
- 6.9 For meetings of the Pension Board that are not held concurrently with the Pension Fund Committee, the Chair of the Pension Board will have the casting vote in the event of a tied vote situation. In the absence of the Chair, the Vice-Chair will Chair the meeting and have the casting vote in the event of a tied vote situation.

7. Quorum

- 7.1 For the purposes of the Pension Board when meeting independently of the Pension Fund Committee, no business can be transacted at a meeting unless there are four members of the Pension Board present. Of these four members there must be at least one Trade Union Representative and one Employer Representative present and either the Chair or Vice Chair.

8. Dispute Resolution between Pension Fund Committee and Pension Board

- 8.1 At the joint meeting referred to in 6.7 above, if the Pension Fund Committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies is set out in 8.3 below.

- 8.2 Whilst this process is undertaken the decision of the Pension Fund Committee is still competent.
- 8.3 In the first instance, if at least half of the members of the Pension Board agree, then the Pension Board can refer back a decision of the Pension Fund Committee for further consideration if any of the following grounds are met:
- That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the Pension Fund Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
 - That the decision of the Pension Fund Committee could be considered illegal or contrary to regulations;
 - That the decision of the Pension Fund Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
 - That the decision is not in the interest of the continued financial viability of the Scottish Borders Council Pension Fund or is against the principles of proper and responsible administration of the Scottish Borders Council Pension Fund.
- 8.4 This referral must be communicated to the Clerk to the Council within 10 working days of the joint meeting with the Pension Fund Committee which made the decision being required to be reconsidered.
- 8.5 If there is no agreement after the matter has been referred back to the Pensions Fund Committee, then the difference in view between the Pension Board and the Pension Fund Committee will be published in the form of a joint secretarial report from the Pension Board on the Pension Fund website and included in the Pension Fund's Annual Report.
- 8.6 The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to Scottish Borders Council as the Scheme Manager or the Pension Board in relation to the matter.

9. Training

- 9.1 All members (and named substitutes) of the Pension Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and the Pension Fund Training Policy and complying with best practice training requirements of the Pension Fund Committee.
- 9.2 The Pension Fund Committee will include the members of the Pension Board within the Annual Training Programme for the Pension Fund, and members of the Pension Board will be required to participate in the Programme.
- 9.3 The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.
- 9.4 Scottish Borders Council as the Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

10. Access to Information

- 10.1 Scottish Borders Council as the Scheme Manager and Pension Board will together ensure that information is published about the activities of the board including:
- the full terms of reference for the Pension Board, including details of how they will operate
 - the Pension Board appointment process
 - who each individual Pension Board member represents and
 - any specific roles and responsibilities of individual Pension Board members.
- 10.2 The minutes of the Pension Board will be published on the Pension Fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

Appendix C

GOVERNANCE COMPLIANCE STATEMENT

The Pension Fund sets out its governance arrangements within the Governance Policy and Compliance Statement (as amended 18 June 2015).

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via number of best practice principles. The following table contains an assessment of the Fund’s compliance with these principles and reflects the changes following the introduction of the Pension Board.

Principle		Full Compliance	Comments
Structure			
A	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes	<p>Scottish Borders Council acts as administering authority for the Pension Fund and delegates its responsibilities as Scheme Manager to the Pension Fund Committee (the Committee).</p> <p>The Committee comprises of 7 elected members.</p> <p>The Council’s Scheme of Administration sets out the Committee’s remit.</p>
B	Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Yes	<p>Introduction of the Pensions Board (the Board) has formalised the involvement of the employers and trade unions representing the membership.</p> <p>The Fund’s Board has 8 members, 4 employer representatives and 4 trade union representatives.</p> <p>The Board has a constitution developed in line with the regulations, a copy of which is included in the Fund’s Governance Policy and Compliance Statement.</p> <p>The Board will meet jointly with the Committee and the Board Constitution and the Scheme of Administration set out how disputes between the two bodies should be resolved.</p> <p>The Investment and Performance Sub-Committee (the Sub-Committee) has been established under the Committee and its remit is set out in the Scheme of Administration. This Sub-Committee</p> <p>Membership of the Sub-Committee is comprised of the 7 elected members from the Committee and 2 (non-voting) members from the Board.</p>

Principle		Full Compliance	Comments
C	Where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Yes	Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval. 2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance.
D	Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Yes	The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership.
Committee Membership and Representation			
A	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis)	Yes	The Board and Committee will meet jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity.
B	Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Yes	All members of the Committee and Board are covered equally by the Training Policy (as amended 18 June 2015). The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way.

Principle	Full Compliance	Comments
Selection and role of lay members		
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes For elected members this is part of Council's Code of Governance along with Member induction programme. In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
Voting		
A	The policy of individual administrating authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes This is set out in the Council's Scheme of Administration and the Board's Constitution
Training/Facility time/Expenses		
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes

Principle		Full Compliance	Comments
C	The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Yes	Annual Training Plan produced and logs of training are being maintained.
Meetings (frequency/quorum)			
A	An administering authority's main committee or committees meet at least quarterly	Yes	The joint meeting of the Committee and Board will be at least quarterly.
B	An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits	Yes	New Investment Sub-Committee established will meet at least every six months in between main joint Committee/Board meetings.
C	An administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	Pension Board formally provides for the stakeholders engagement.
Access			
A	Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Yes	Papers sent to all Committee/Board members detailed in Scheme of Administration.
Scope			
A	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Yes	The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.

Principle	Full Compliance	Comments
Publicity		
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes
Minutes and Public papers available via Council website, as are various governance and scheme policy documents.		

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Creation of Governance Statement	24 February 2010	L Mirley
2010 1.1	Final Draft for Pension Fund Sub-Committee	2 March 2010	L Mirley
2010 2.0	Sub-Committee Approved Version	11 March 2010	L Mirley
2011 1.0	Final Draft for Pension Fund Sub-Committee and Annual Report	30 August 2011	L Mirley
2012 1.0	Updated for amendment to Scheme of Administration and update of Pension Fund Annual Report and Accounts 2011/12	12 June 2012	L Mirley
2013 1.0	Final Draft to reflect proposed changes to Scheme of Administration	18 June 2013	L Mirley
2013 2.0	PFC approved version	19 June 2013	K Robb
2014 1.0	Final Draft for Pension Fund Committee and Annual report.	17 June 2014	K Robb
2015 1.0	Final Draft for Pension Fund Committee updated to reflect the introduction of Pension Boards	1 June 2015	L Mirley

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RISK REGISTER UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Pension Fund Committee with an updated Risk Register for approval.**
- 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 1 details the Risk Register updated and scored at the workshop earlier.

2 STATUS OF REPORT

- 2.1 Due to the timescales involved in producing the report it has not been possible to incorporate all the consultation comments and as a result these will be made available at the meeting.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Joint Committee and Board:-**
 - (a) **Notes the current Risk Register as contained in Appendix 1**
 - (b) **Agrees to full risk workshop on 9th September prior to the Pension Fund Committee.**
 - (c) **Agrees to a Red Risk review being undertaken in December 2015 and**
 - (d) **Agrees to a Red and Amber Risk review being undertaken in March 2016: and**

4 BACKGROUND

- 4.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 4.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in "Managing Risk: A Practical Guide to Risk Management in the Borders" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 4.4 A full risk review was undertaken in June 2014 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

The Red risks were reviewed at each quarterly Pension Fund meeting and the Amber risks were reviewed at the December 2014 Pension Fund meeting.

5 RISK PROGRESS

- 5.1 Due to the recent governance changes it is proposed the full risk review scheduled for June 2015 is postponed until September 2015 to allow new members to become more familiarised with the current risk register and the their roles. A copy of the current risk register is contained in **Appendix 1.**
- 5.2 To comply with the Council's policy of risk review a Red Risk progress review is should be undertaken on a quarterly basis at each of the Committee meetings and an Amber risk review every six months. Due to the delay in completing the full review to the September meeting it is proposed a Red risk review is undertaken in December 2015 and a Red/Amber review in March 2016. A full review will then be undertaken in June 2016 to bring the timetable in line with the with the other governance requirements.

6 IMPLICATIONS

6.1 Financial

There are no direct financial implications of this report.

6.2 Risk and Mitigations

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

6.3 Equalities

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

6.4 Acting Sustainably

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

6.5 **Carbon Management**

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

6.6 **Rural Proofing**

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

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

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

7 **CONSULTATION**

- 7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are currently being consulted and their comments will be made available at the meeting.

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 March 2015

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Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
Page 137	Asset & Investment	Poor/negative investment returns may lead to significant increased employer contribution rates. Cost involved in implementing changes to investment strategy	Increased employer contribution rates; Significant rises in the employer contributions; Costs involved in implementing changes to investment strategy.			4	4	16	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee. TOLERATE Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.		4	3	12
	1.2	Asset & Investment	Failure of global custodian may lead to financial loss to the Fund; loss of information	Financial loss; Loss of information		4	2	8	Monitor custodian performance and credit rating; Covered by legal contract; Regulated by FCA, assets not on custodian balance sheet; Careful procurement selection processes.		2	2	4
	1.3	Asset & Investment	If there is a failure of an investment manager then there may be financial loss to the Fund.	Financial loss.		3	3	9	Robust procurement processes around the managers placed on short lists; Diversification of investment managers; Continual monitoring of investment performance; Engagement with Investment Adviser in relation to monitoring external environment in respect of the individual investment managers; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Monitoring of financial media		3	2	6

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
1.4	Asset & Investment	Poor investment advice may lead to wrong decisions and poor return	Wrong decisions - poor return as a result of Investment Consultant advice			5	4	20	Robust procurement processes around the recruitment and appointment process; Continual review of Investment Adviser performance; Benchmark performance against other LAs; Use other information sources to validate advice and performance of Fund; Use independent Performance monitoring company. TREAT Regular benchmarking and cross verification of advice with other local authorities through the Local Government Pension Scheme(Scotland) Investment & Governance Group. Ongoing training for elected members of the Pension Board and Pension Committee's. Utilise independent performance monitoring service to provide an independent annual review/health check to the Investment & Performance Sub-Committee.		4	3	12
Page 138	Asset & Investment	Currency Management risk. Impacts on value and inability to meet future liability - negative impact on cash flow	Impacts on value and inability to meet future liability - negative impact on cash flow			3	5	15	Passive Currency hedge in place for Equity investments on major currencies; Monthly review of hedge levels. TREAT Procurement commenced to move currency hedge to 50% passive and 50% active management		3	4	12

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
Page 139	Asset & Investment	Equity risk - Financial loss to the Fund due to market sector falling substantially.	Financial loss to the Fund			4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Diversification of asset classes and investment managers; Scrutiny of Strategic Asset Allocation and Investment performance by Investment & Performance Sub-Committee. TOLERATE Long term view of investment growth is required and will continue to use existing controls for the Pension Fund.		3	3	9
1.7	Asset & Investment	Active Manager risk- Financial loss to the Fund due to investment manager underperformance.	Financial loss			3	4	12	Robust procurement processes around the managers placed on short lists; Diversification of investment managers; Continual monitoring of investment performance against benchmark, targets and tolerance; Engagement with Investment Adviser in relation to monitoring external environment in respect of the individual investment managers; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Monitoring of financial media. TOLERATE		3	3	9

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
1.8	Asset & Investment	Insufficient scrutiny of manager mandates and terms of business may lead to inappropriate fee levels and other costs.	Inappropriate fee levels and other costs.			2	3	6	Information monitored for 3 out of 4 of the investment managers. Information not clear for 4th. TREAT Investigating additional benchmarking opportunities to allow more informed monitoring.		1	3	3
1.9	Asset & Investment	If Investment strategy is inconsistent with funding plan, this may lead to employers paying incorrect contribution rates	Employers paying incorrect contribution rates			3	3	9	Full actuarial valuation undertaken on Triennial basis. Investment strategy then reviewed and updated accordingly.		2	2	4
1.10	Asset & Investment	Failure to react to major change in market/economic conditions may impact on value and inability to meet future liability - negative impact on cash flow	Impact on value and inability to meet future liability - negative impact on cash flow			4	3	12	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee. TREAT To undertake review of asset allocation on regular basis.		4	3	12

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
Page 141	Employer	Changes in composition of Pension Fund membership i.e. active/deferred/pensioners	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.			4	5	20	Implementation of Auto enrolment for the Council met in July 2013; Adopted transitional arrangements until Sept 2017; Borders College staging date February 2014 and SBHA staging date April 2014; Pension Administration Strategy in place and monitored. TREAT Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Communication strategy being developed linking to new self service systems currently being implemented.		4	5	20
2.2	Employer	Failure to apply and demonstrate fairness in the differentiated treatment of different fund employers.	Individual employers contribution levels inappropriate and possible shortfall in fund.			3	4	12	Full actuarial valuation undertaken on Triennial basis, 2014 valuation just completed; Pooling assumed the norm accept for BSLT following request to depool and SBHA due decision to close of scheme.		3	2	6
2.3	Employer	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers	Individual employers contribution levels inappropriate and possible shortfall in fund.			3	4	12	Full actuarial valuation undertaken on Triennial basis, currently being undertaken; Pooling assumed the norm accept for BSLT and SBHA due to request for depooling and closing of scheme		3	2	6

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
2.4	Employer	Employer ceasing to exist with insufficient funding, adequacy of bond or guarantee may lead to a shortfall in fund as a whole with increases required in all other employers contributions	Shortfall in fund as a whole with increases required in all other employers contributions			4	3	12	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey and Council agreement in place for BSLT and SB Cares; SBHA contribution rate from 1/4/15 based on actuarial valuation for closed fund.		3	2	6
2.5	Employer	Significant structural changes in employers membership, or not being advised of an employer closing scheme to new entrants due to affordability to employee	Individual employers contribution levels becomes inappropriate, requiring review and increase; Adverse impact on cash flow and funding levels; Fund reaches maturity more quickly.			3	4	12	Employers Liaison group established; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Full communications strategy being developed during 2015/16		3	4	12
Page 142 3.1	Resources & skills	Over reliance on key officers could mean if an officer leaves or falls ill the knowledge gap may be difficult to fill	If an officer leaves or falls ill knowledge gap may be difficult to fill			3	4	12	Use of external Investment Adviser provides additional resilience and resources. New system currently being implemented which includes help modules in built which can be enhanced to include details specific to SBC Pension Fund; Following Finance review, developing/ reviewing procedure notes.		2	3	6

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
3.2	Resources & skills	Lack of Member training in Pension Fund Management could lead to poor decision making	Poor decision making			2	4	8	Training opportunities are made available to members as these are identified; Members have access to Investment Managers, Investment Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committee's; Training assessment and plan reviewed annually.		2	3	6
3.3	Resources & skills	Over reliance on key Members decision making	The objectivity of decision making			3	3	9	All Members of the Pension Fund Committee are actively involved in the discussions with Investment Managers and Advisers and therefore have access to the same information and training opportunities.		2	2	4
3.4	Resources & skills	Lack of expertise on Pension Fund Committee or amongst officers could lead to detrimental decisions made in relation to the Fund	Detrimental decisions made in relation to the Fund			3	4	12	Members have access to Investment Managers, Investment Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Investment & Performance Sub-Committee		2	2	4
3.5	Resources & skills	Low knowledge amongst key Members due to high turnover of Members may lead to poor decision making	Poor decision making in relation to the fund			3	3	9	Members Training Policy for Pensions fund established and monitored; Annual training process in place; Skills and training assessment undertaken annually.		2	2	4
3.6	Resources & skills	Failure to succession planning for key roles of Members	Poor decision making in relation to the fund			3	3	9	Members Training Programme for Pensions fund established and monitored		2	2	4

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
3.7	Resources & skills	Failure of Officers to maintain sufficient level of competence to discharge their duties	Officers unable to provide advice and support to Members			3	3	9	Use of external Investment Adviser provides additional resilience and resources; PRD process implemented to identified training and development requirements; Active participation in Scottish Pension Network and Scottish Pensions Liaison Group; External Investment Managers providing training. TREAT Review and development of procedure and process notes currently in progress.		2	3	6
Page 144	Liquidity	Insufficient funds to meet liabilities as they fall due to changes to active employment levels	Fund Matures more quickly than currently anticipated and this will require a complete review and potential change to the investment strategy and employers contribution levels.			5	4	20	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met; Use of an Investment Consultant and Actuarial services as and when required. TREAT Review to be undertaken of scenarios to identify timelines and impact of changing legislation. Scenarios to be undertaken once full changes to regulations known.		4	3	12

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
Page 145	Liquidity	If employees can no longer afford to participate in the scheme then there may be reduced income into Fund	Reduced income into Fund			4	4	16	Limited measures in place. National negotiations on minimising employee contribution increases; Pay awards now being given; LGPS changes implementation of 50/50; Communication issued with annual benefits statements TREAT Ensure regular information is issued to employees setting out the continued benefits of scheme membership e.g. tax relief on contributions/employers contribution; Communication strategy being developed.		4	3	12
4.3	Liquidity	Inflation increases - Funds assets do not keep pace	Funding levels fall, SBC pay more contributions into Fund			4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation. TREAT Regular dialogue with Fund Actuary; Attendance at Pension Fund Committee on an annual basis between triennial valuations.		3	4	12
4.4	Liquidity	Mortality rates continue to improve, in excess of allowance built into evidence based actuarial assumptions.	Increased liabilities, reduced solvency levels and increase employer contributions.			3	3	9	Full actuarial valuation undertaken on Triennial basis; Any strain on fund incurred paid by employer at point of retirement.		2	3	6

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
4.5	Liquidity	Frequency of early retirements increases to levels in excess of the actuarial assumptions	Increase required in employer contributions.			3	4	12	Full actuarial valuation undertaken on Triennial Valuation; Regular information provided by Actuary on differences as they occur from assumptions. Reduction in applications being supported seen in recent tranches of ER/VS. Will continue to monitor ER/VS applications and impacts.		3	4	12
4.6	Liquidity	CPI inflation significantly different from actuarial assumptions.	Increase required in employer contributions to fund gap.			3	3	9	Full actuarial valuation undertaken on Triennial basis.		2	2	4
Page 146	Liquidity	Over or under cautious determination of employer funding requirements due to inconsistent approach or failure to recognise impact of the investment strategy on funding	Insufficient funds available and inappropriate contribution rates set.			3	3	9	Regular monitoring of investment performance and full actuarial valuation undertaken on triennial basis		2	2	4

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk			
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score	
Page 147	Liquidity	With introduction of new access pension reforms members may elect to transfer funds to gain early release of cash	requirement to release large amounts of cash resulting in requirement to disinvest current assets Scheme sanction charges for any transfer to unapproved scheme				2	3	6	Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC. Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated advisor. Continue to monitor ongoing legislation around this area.		2	4	8
	5.1	Administrative	Failure to process pension payments and lump sums on time	Retiring staff will be paid late which may have implications for their own finances; Reputation risk for the Fund and a financial cost to the employers if interest has to be paid to members.			4	4	16	New pension administration system being implemented; Resourcelink continues to be used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained.		2	2	4
	5.2	Administrative	Failure to collect and account for contributions from employers and employees on time.	Adverse audit opinion for failure to collect contributions on time, cash flow implications for Fund; Potential delays to employer's FRS17 year-end accounting reports			4	4	16	New pension administration system being implemented; Resourcelink continues to be used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained.		2	2	4

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
5.3	Administrative	Inability to keep service going due to loss of main office, computer system or staff - major operational disruption	Temporary loss of ability to provide service.			4	3	12	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. This will be enhanced following the implementation of the new Hosted system and the anticipated improvement for homeworking following the upgrade to the Windows 7.		2	3	6
5.4	Administrative	Loss of funds through fraud or misappropriation by employee or employer within the Fund	Financial loss to the Fund			5	4	20	Robust segregation of duties and other internal controls to mitigate against this risk; Internal & External Audit programme also picks up the monitoring of this risk.		2	3	6
Page 148	Administrative	Loss of funds through fraud or misappropriation by an investment manager, custodian or other agent of the Fund.	Financial loss to the Fund			5	4	20	Fund Managers provide copies of annual Internal Controls report from their External Auditors; They are also required to operate to stringent FCA standards of operation; Legal recourse within contracts to Fund Managers. Tolerate Risk. Enhance oversight role of pension by council officers.		4	3	12

Risk Register

Pension Fund

Pension Fund						Inherent risk			Controls		Residual risk		
No	Category	Risk	Consequences	Proximity	Risk owner	Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
Page 149	Administrative	Failure to hold personal data securely	Data lost or compromised; reputational risk			2	3	6	New pension administration system being implemented; Resourcelink continued to be used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in A to Z of Data Protection and fully compliant with SBC Data control requirements.		2	2	4
5.7	Administrative	Failure to keep pension records up to date and accurate	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid.			3	4	12	New pension administration system being implemented; Resourcelink continued to be used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in A to Z of Data Protection and fully compliant with SBC Data control requirements. Treat Risk. Ensure communication plan put in place to ensure employees notify employers of any changes.		2	3	6

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
5.8	Administrative	Failure to communicate properly with stakeholders	Scheme members not aware of their rights resulting in bad decisions; Employers not aware of regulations, procedures, etc.			3	3	9	Engagement in Scottish pension networks; Union and Admitted body representation on the PFSC; Publication of annual report via website and printed copies to all Scheduled and Admitted bodies.		2	3	6
5.9	Administrative	Failure to ensure appropriate transfer is paid to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations	Insufficient funds transferred to meet future obligations			2	3	6	New system implementation continues to provide automated support in calculation, using nationally approved scheme based on number of standard assumptions at point of transfer.		2	1	2
5.10	Administrative	Incorrect calculation of members benefits	Incorrect payments made to members			1	3	3	News system currently being implemented provides calculations required and is used by all Scottish Administering Authorities (bar one) and fully tested by each for updates		2	2	4
6.1	Regulatory & Compliance	Failure to comply with LGPS and other regulations	Wrong pension payments made or estimates given, breach of regulations leading to prosecution			2	3	6	Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates.		2	2	4
6.2	Regulatory & Compliance	Legislation changes	Loss of independence; Impact on Fund value and benefits			5	5	25	Active participation in Scottish pension investment and administration networks; Involvement with COSLA discussions on Pensions. Tolerate Risk. Seek to input into any of the legislative change through active membership of COSLA.		4	4	16

Risk Register

Pension Fund

No	Category	Risk	Consequences	Proximity	Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
6.3	Regulatory & Compliance	Production of incorrect accounts, notices and publications	Accounts qualified			3	3	9	Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via PRD and attendance at appropriate training events.		2	2	4
6.4	Regulatory & Compliance	Adverse changes to other legislation, tax rules etc.	Increases required in employers contributions, possible loss of members			3	3	9	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly;		2	2	4
6.5	Regulatory & Compliance	Impact of changes in national jurisdictions	Reduction in income due to inability to reclaim with-holding tax			2	2	4	Monitoring of political position via news releases and group networks		2	2	4
7.1	Reputation	Conflict of interest between Council priorities and Pension Fund Management for members of Committee	Failure to achieve Pension Fund objectives. Legal challenge			4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund; Officers and Investment Adviser provide additional clarity and support to avoid these situations; Skills and knowledge assessment undertaken annually		3	2	6
7.2	Reputation	Failure of Governance arrangements to match up to recommend best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice	Failure to achieve Pension Fund objectives. Legal challenge			3	3	9	Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement; Active participation and monitoring of changes required from LGPS 2015.		2	1	2
7.3	Reputation	Failure to appoint relevant advisers and review their performance	Failure to achieve Pension Fund objectives. Legal challenge			2	3	6	Identify requirements of external advisers and appoint appropriately; Engagement of WM as independent performance monitoring for fund. Implement annual review of Adviser.		2	2	4

Risk Register

Pension Fund

Pension Fund						Inherent risk			Controls		Residual risk		
No	Category	Risk	Consequences	Proximity	Risk owner	Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
7.4	Reputation	Delays in implementation of decisions reduces the effectiveness of the decision	Loss incurred or reduce income received.			3	3	9	Decisions minuted and appropriate staff assigned to implement; Implementation timescales priorities according to risk levels and available resources levels. Treat Risk Development of Business Plan to allow early identification and allocation of staff resources to actions.		3	3	9
7.5	Reputation	Ultra vires pension fund actions	Financial loss and reputation damage.			4	2	8	Training provided to Members and Officers to ensure legal framework understood; Use of investment advisors and contact with SPPA.		2	1	2

Escalated Risks [SERVICE]

No	Risk	Causes/ triggers	Consequences	Proximity	Proposed Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
1								0					0
2								0					0
3								0					0
4								0					0

Escalated Risks [SERVICE]

No	Risk	Causes/ triggers	Consequences	Proximity	Proposed Risk owner	Inherent risk			Controls		Residual risk		
						Impact	Likelihood	Score	Current controls	Control assessment	Impact	Likelihood	Score
5								0					0
6								0					0
7								0					0
8								0					0
9								0					0
10								0					0
11								0					0

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Mitigating Actions [SERVICE]

Risk No.	<input type="text"/>	Risk	<input type="text"/>	<input type="text"/>	<input type="text"/>
Consequences	<input type="text"/>				

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
------------------	--------------------	------------	--------------	-------------------------	----------------

Mitigating Actions [Your Department]

Risk No.	<input type="text"/>	Risk	<input type="text"/>	Residual risk level (Red, Amber, Green)	<input type="text"/>
Consequences	<input type="text"/>				

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

Mitigating Actions [SERVICE]

Risk No. Risk

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
------------------	--------------------	------------	--------------	-------------------------	----------------

Mitigating Actions [Your Department]

Risk No. Risk Residual risk level (Red, Amber,)

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

Mitigating Actions [SERVICE]

Risk No. Risk

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
------------------	--------------------	------------	--------------	-------------------------	----------------

Mitigating Actions [Your Department]

Risk No. Risk Residual risk level (Red, Amber,)

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

Mitigating Actions [SERVICE]

Risk No. Risk

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
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Mitigating Actions [Your Department]

Risk No. Risk Residual risk level (Red, Amber,)

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

Mitigating Actions [SERVICE]

Risk No. Risk

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
------------------	--------------------	------------	--------------	-------------------------	----------------

Mitigating Actions [Your Department]

Risk No. Risk Residual risk level (Red, Amber,)

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

Mitigating Actions [SERVICE]

Risk No.	<input type="text"/>	Risk	<input type="text"/>	<input type="text"/>	<input type="text"/>
Consequences	<input type="text"/>				

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
------------------	--------------------	------------	--------------	-------------------------	----------------

Mitigating Actions [Your Department]

Risk No.	<input type="text"/>	Risk	<input type="text"/>	Residual risk level (Red, Amber, Green)	<input type="text"/>
Consequences	<input type="text"/>				

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

Mitigating Actions [SERVICE]

Risk No. Risk

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
------------------	--------------------	------------	--------------	-------------------------	----------------

Mitigating Actions [Your Department]

Risk No. Risk Residual risk level (Red, Amber,)

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

Mitigating Actions [SERVICE]

Risk No. Risk

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed
------------------	--------------------	------------	--------------	-------------------------	----------------

Mitigating Actions [Your Department]

Risk No. Risk Residual risk level (Red, Amber,)

Consequences

Current controls	Control assessment	New Action	Action owner	Date to be completed by	Date completed

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BUSINESS PLAN 2015/16 – 2017/18

Report by Chief Financial Officer

**JOINT MEETING OF PENSION FUND COMMITTEE AND
PENSION BOARD**

18 June 2015

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Pension Fund Business Plan 2015/16 – 2017/18.**
- 1.2 Best practice suggests that having a business plan for the pension fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. **Appendix 1** contains the first Pension Fund Business Plan, covering the period 2015/16 -2017/18.
- 1.3 The Business Plan 2015/16 – 2017/18 identifies an Action Plan that will be delivered during the next three years to support the aims and objectives of the Pension Fund.

2 STATUS OF REPORT

- 2.1 This report has been circulated to consultees within the recommended timeframe and as a result their comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing all the final year end reports and securing the membership of the new Board.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Business Plan 2015/16 – 2017/18 as set out in Appendix 1 is approved.**

4 BACKGROUND

- 4.1 Local Government Pension Scheme (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, disclosure 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.
- 4.2 Best practice suggests that having a business plan for the Pension Fund is a good way of demonstrating compliance with the "Myners Principle" that underpins effective decision making.

5 PENSION FUND BUSINESS PLAN 2015/16 – 2017/18

- 5.1 **Appendix 1** contains the Pension Fund Business Plan 2015/16 – 2017/18 (the Business Plan).
- 5.2 The Business Plan has been developed by officers in Human Resources and Finance and uses the template developed for the Council, with some adjustments to meet the needs of the Fund.
- 5.2 The sections of the Business Plan are:
- Overview of the Pension Fund
 - A summary of what must be done
 - A summary of successes and areas for improvement
 - The Fund's aims and objectives
 - Management of Risk Summary
 - Key stakeholders
 - An overview of the Fund's resources
 - How Performance is managed
 - The Fund's Action Plan, including performance indicators for 2015/16 – 2017/18.
- 5.3 The Action Plan (page 13 of Appendix) is split into three objectives which support the Strategic Aims and Objectives of the Fund. These are:
- (a) 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, and invest in assets that grows the Fund's assets in such a way that produces levels of employer contribution that are as stable as possible.
- (b) Deliver a High Quality Pension Service to Members.
- (c) Ensure that Scottish Borders Pension Fund is managed effectively, transparently and compliantly.

6 IMPLICATIONS

6.1 Financial

There are no direct financial implications of this report, although some of the actions in the Business Plan may have some and these will be reported

as they arise.

6.2 Risk and Mitigations

(a) This report is part of the governance framework to manage the operation of the Pension Fund and ensure effective decision making.

6.3 Equalities

(a) The Business Plan identifies where there is a potential for the requirement for an Equalities Impact Assessment, and this will be undertaken at the time of undertaking the work proposed in the Plan.

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 are required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments will be communicated at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Lynn Mirley	Corporate Finance Manager, 01835 825016

Background Papers:
Previous Minute Reference:

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

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pension fund

BUSINESS PLAN 2015/16 – 2017/18

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Any areas of our business plan that require an **Equality Impact Assessment** are indicated within the Service Area Action Plans.

About the Pension Fund

This section gives an overview of our services.

Local Government Pension Scheme

- Scottish Borders Council an Administering Authority for the Local Government Pension Scheme (LGPS)
- Defined Benefit Pension Scheme

Pension Fund Funding & Investments

- **£545m Net Assets** under management
- **101%** of estimated liabilities as 31 March 2014 funded – per Triennial Actuarial Valuation
- 6 Investment Managers managing funds under 8 different mandates
- Investments in Equities, Gilts & Bonds, Alternative Assets and Property
- Accounting and Administration of Investments undertaken by the Council's Capital and Investments Team

Pension Fund Governance

- Functions of Administering Authority overseen by **Pension Fund Committee**
- Regulatory compliance support provided by **Pension Fund Board**
- Financial Scrutiny undertaken by Audit and Risk Committee
- Supported by external Custodian, Actuary, Currency Hedge Manager and Investment Adviser
- Governance arrangements set out in Governance Policy and Compliance Statement

Pensions Administration

- **9,797 members** – 4,410 actively contributing to the Fund
- **3,006 pensioners** in receipt of LGPS pension from the scheme amounting to **£16.1m p.a. in pension benefit payments**
- 16 Employer Bodies – Scottish Borders Council with 95% of the membership
- Administration of Pension Benefits undertaken by the Council's HR Shared Services Team

What we *must* do

This section gives an overview of the most significant legislative requirements affecting our services. This list is not exhaustive.

Where changes to services have been proposed within the Service Directorate Business Plan the individual Service Area concerned will have reviewed the proposed change(s) with due regard to the relevant legislative powers and duties.

	Legislative power	Duty to ...	Other Directive(s) ...	Mandatory	Discretionary	Partnership / Service Level Agreement (SLA)
Page 174	Public Service Pensions Act 2013	Sets out the parameters of the Public Service Pension Schemes, the design of the benefits and the governance arrangements including the identification of The Pensions Regulator as the regulator for Public Service Pension Schemes.	Guidance Published by The Pensions Regulator	✓		
	Local Government Pension Scheme (Scotland) Regulations 2014 and subsequent Amendments	Sets out the benefits payable and the duties of the Council as administering authority of for a pension scheme for persons working in local government service		✓		
	Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014	Sets out the transitional arrangements for the Council in relation to the transition to the new scheme set out in the 2014 regulations		✓		
	Local Government Pension Scheme (Governance) (Scotland) Regulations 2015	Sets out the requirements for Scheme Advisory Boards and Pension Boards		✓		
	Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010	Sets out the parameters around the management and investment of the pension assets and the creation of a separate bank account.		✓		

Key: **Legislative power**, i.e. by statute, **Duty to**, i.e. list of main legal duties, **Other Directive(s)**, i.e. not covered by statute, **Mandatory**, i.e. we have to, **Discretionary**, i.e. we have the power to but not required to, **Partnership / Service Level Agreement (SLA)**, i.e. done in partnership / on behalf of

Our Successes, Areas for Improvement and Self-Assessment

This section gives an overview of our recent successes and areas of service delivery that could be improved, as well as feedback we have received.

	Successes	Areas for Improvement/Development
Pensions Administration	<ul style="list-style-type: none"> Implementation of new pensions administration system Held first Employer Liaison Meeting Delivered all preparatory work to enable 1st April 2015 launch of new LGPS Scheme 	<ul style="list-style-type: none"> Implementation of the new LGPS Scheme Continue to improve engagement with Employers Improved web presence and online access/ information for members via self service Changes to the models of service delivery will require increased focus on the admitted bodies and their agreements Review Pensions Administration Strategy which was approved in 2012
Pension Funding and Investments	<ul style="list-style-type: none"> 101% funding position Triennial Actuarial Valuation at 31 March 2014 Strong 3 year performance to March 2015 with investment returns of 11.8% on a rolling 3 year annualised basis compared to a benchmark of 11.4% and UK Local Authority Weighted Average of 11.0%. Continued strong long term performance of the Fund, which WM Performance Services concluded (at the Committee in June 2014) that the Fund returns over the 10 and 20 year periods to 31 March 2014 were well ahead of inflation (RPI) and above benchmark and peer group performance. Successful procurement and transition to two new Investment Managers for Global Equities and Fixed Bonds Stability of Employer Contribution Rates over successive Triennial Valuations 	<ul style="list-style-type: none"> Understand the implications of the membership profile projections on the Funds cashflow Understand implications of changes in the Pensions landscape in relation to the “freedom of choice” agenda Undertake a full Investment Strategy Review following the Triennial Valuation Need to review approach to Social, Responsible Investment Ensure the effectiveness of the new Pension Fund Investment and Performance Sub-Committee Review arrangements for Currency Hedging, Custodian and Investment Adviser.
Pension Fund Governance	<ul style="list-style-type: none"> Pension Board membership and constitution agreed Completion of 2014/15 Training program Regular reviews of Risk Register No actions arising from External Audit of the Annual Report & Accounts 2013/14 	<ul style="list-style-type: none"> Develop the knowledge and skills for the new members of Pensions Updating of all Policy and Strategy documents in line with the legislative changes

Our Aims and Objectives

Primary Aim of the Pension Fund

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.

Achieved through the following Objectives:

Funding Objectives of the Pension Fund

- 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; and
- Build up the required assets in such a way that produces levels of **employer contribution that are as stable** as possible through:
 - Ensuring effective and efficient management of employer's liabilities; and
 - Allowing the return from investments to be maximised within reasonable risk parameters.

Pensions Administration Objectives of the Pension Fund

- Deliver a **High Quality Pension Service to Members** through:
 - Continually developing and improving efficient working arrangements; and
 - Striving to exceed the Fund's service standards

Governance Objectives of the Pension Fund

- Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and compliantly**

Managing Our Risk

This section gives an overview of the key strategic risks and includes the respective mitigating actions.

The Pension Fund Committee reviews the Risk Register in accordance with the Council’s Risk Management Framework.

A full copy of the Risk Register is presented to the joint Pension Fund Committee and Board meeting on governance held on [18 June 2015], and the table below summarises the risk register by the Chartered Institute of Public Finance Accountants (CIPFA) Pension risk categories:

Risk Category	Risk Assessment					
	Before Controls/Mitigating Actions			After Controls/Mitigating Actions		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	4	5	1	-	7	3
Employer	1	4	-	1	4	-
Resource & Skill	-	7	-	-	3	4
Liquidity	3	5	-	-	5	3
Administrative	4	5	1	-	5	5
Regulatory & Compliance	1	3	1	1	-	4
Reputation	1	4	-	-	2	3
Total Number of Risks	14	33	3	2	26	22

Scottish Borders Council Pension Fund

Draft Business Plan 2014/15 – 2016/17

Key Identified Risks which remain “Red” after existing controls and additional mitigating actions are as follows:

Risk	Inherent Risk Score	Controls/Mitigating Action(s)	Residual Risk Score
2.1 Changes in composition of Pension Fund membership i.e. active/deferred/pensioners	20	<p>Existing Controls: Implementation of Auto enrolment for the Council met in July 2013; Pension Administration Strategy in place and monitored.</p> <p>Mitigating Actions: Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Communication strategy being developed linking to new self-service systems currently being implemented.</p>	20
6.2 Legislation Changes impacting on the Fund	25	<p>Existing Controls: Active participation in Scottish pension investment and administration networks; Involvement with COSLA discussions on Pensions..</p> <p>Mitigating Actions: Seek to input into any of the legislative change through active membership of COSLA.</p>	16

Our Key Stakeholders

This section gives an overview of our key internal and external stakeholders, including community planning and cross-border partnerships.

Internal	External	Community Planning Partners	Cross-Border Partnerships / Other
Employees	Regional Trades Union reps		Scottish Pensions Liaison Group
Councillors	Investment Managers		Scottish Pensions Investments and Governance Group
Legal Services	Custodian – J P Morgan		
Finance & Procurement	Investment Advisor – AON Hewitt		
Local Trades Union Reps	Admitted & Scheduled Employers		
Human Resources	Scheme Advisory Board		
Democratic Services	Deferred and Pensioner Members		
	The Pensions Regulator		
	Scottish Public Pensions Authority (SPPA)		
	Scottish Government		
	Actuary – Barnett Waddingham		
	Legal Advisors		
	Software Suppliers		
	Tax Advisers		

Our Resources

This section gives an overview of our resources.

As at the 31 March 2015 the Fund's Net Assets were valued at **£545.3 m**, of which £544.3m were held in investment assets :

Investment Manager	Asset Description	31-Mar-15	
		£'000	%
UBS	UK Equities - Passive	64,904	11.92
Baillie Gifford	UK Equities	40,783	7.49
Baillie Gifford	Global Equities	123,788	22.74
Harris	Global Equities	57,214	10.51
UBS	Property	29,562	5.43
Morgan Stanley	Managed Fund - Global Equities	76,217	14.00
LGT	Managed Fund - Alternatives	93,815	17.23
M&G	Managed Fund - Diversified Income	40,070	7.36
M&G	Managed Fund - Bonds	18,415	3.38
State Street	Derivatives - Passive Currency Hedge	(2,515)	(0.46)
Internal	Internal	2,081	0.38
		544,334	100.00

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During the financial year 2014/15 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

	2014/15	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	18,255	16,511
Scheduled Bodies	245	585
Admitted Bodies	606	1,121
Total	19,106	18,217

Managing Our Performance

This section gives an outline of how performance will be measured, monitored and managed.

Pension Administration

- The **Pension Administration Strategy** (approved in June 2012) sets out the service standards that Employers can expect from the Fund and those expected from each Employer within the Fund.
- The annual performance against these service standards and performance measures set out in the Pensions Administration Strategy will be reported to the joint Pension Fund Committee/Pension Board meeting and then incorporated into the Fund's Annual Report and Accounts.

Investment Performance

- The **Statement of Investment Principles** (updated version to be approved in June 2015) sets out the target long term annual investment return for the Fund's assets of at least 2.7 % above the Consumer Price Index (CPI). It also details the performance targets for each of the investment fund managers used by the Fund benchmark returns service standards that Employers can expect from the Fund and those expected from each Employer within the Fund.
- The quarterly performance report by the Investment Adviser (AON Hewitt) is reviewed at the joint Pension Fund Committee/Board meetings. In addition all of the investment managers attend the six monthly meeting of the Pension Fund Investment and Performance Sub-Committee to present a more comprehensive update on their performance.
- The Fund's Annual Report and Accounts will report the annual position and the annualised three year rolling average performance of the Fund and compare this against the Fund's benchmark and other Local Authority Pension Fund performance.

Funding Levels

- The **Funding Strategy Statement** sets a target of 100% funding level and stable employer contributions, this is assessed every three years by the Fund's Actuary.
- The last triennial valuation was undertaken as at 31 March 2014 and reported a certified 101% funding level and stability of employer contributions for open and active employer bodies. The next valuation will be undertaken as at 31 March 2017.

Governance

- The Fund is required to report on its Governance in the Fund's Annual Report and Accounts. This includes an Annual Governance Statement and a Governance Compliance Statement.

Statutory returns

The Fund makes a number of statutory and other returns to Scottish Government, the new Scheme Advisory Board and third party agencies / organisations, including the Office of National Statistics.

Benchmarking

Finally, the Fund is committed to assessing how it is performing and uses WM Performance Services to provide additional analysis to assess investment performance relative to the market and other local authority pension funds at a Fund, asset class and investment manager level.

Officers participate in the Scottish Pensions Liaison and Investments & Governance Groups which share good practice and also gather comparative data on administration and investments across the 11 Scottish LGPS Funds.

The following Table provides an analysis of how the Fund's investments performed against the UK Local Authority Weighted Average (UK LA Average) and the Fund's own benchmark:

Return on Investment to 31 March 2015	1 Year Rolling Return			3 year Annualised Rolling Return		
	SBC Pension Fund	Fund Benchmark	UK LA Average	SBC Pension Fund	Fund Benchmark	UK LA Average
	%	%	%	%	%	%
Total Fund including Currency Hedging	12.3	11.8	13.2	11.8	11.4	11.0
Total Fund excluding Currency Hedging	13.2	13.4		11.9	11.5	
Global Equities including UK listed	17.5	19.1	18.3	14.6	15.3	14.3
UK Equities	6.9	6.6	6.3	11.5	10.6	11.7
Total Bonds	16.7	17.1	11.4	9.5	8.9	6.9
UK Government Bonds	26.2	22.7	14.5	10.0	8.7	6.0
UK Corporate Bonds	12.4	13.1	13.0	8.8	8.7	9.1
Property	17.6	10.4	15.8	16.6	9.4	9.7
Alternatives	10.8	4.6	12.5			
Cash	2.4	0.3	1.8	1.3	0.4	2.0

Our Action Plan

This section gives an overview of the **ACTIONS** that will be undertaken to achieve our objectives, the **PERFORMANCE INDICATORS** that will show whether we have achieved our objectives and the **RISKS** that will detail what may stop us from achieving our objectives.

What we want to achieve ... (Objective)

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, and invest in assets that grows the Fund's assets in a such a way that produces levels of employer contribution that are as stable as possible

How?			By whom?	By when?			EIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	15/16	16/17	17/18	
P 1	Review Pension Strategies informed by 2014 Triennial Valuation Results							
		Approval and implementation of 2014 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P-1-B1 P-1-B2 P-1-B3	C F Manager	•			•
		Undertake and implement a full review Pension Fund's Investment Strategy based on asset and liability modelling and future membership profiles analysis	P-1-B4	C & I Manager		•		•
		Review and identify the appropriate approach to Socially Responsible Investment for the Fund	P-1-B5	C F Manager		•		

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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P-1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis		•	
P-1-B1	Pension Fund Committee approval of employer contribution rates	By 30/6/15			•
P-1-B2	Correct employer contribution rates in Pensions System for each employer	By 30/6/15			•
P-1-B3	Pension Fund Committee approval of Funding Strategy Statement	By 30/6/15			•
P-1-B4	Report to Pension Fund Committee on outcome of investment strategy review and updated Statement of Investment Principles	By 31/3/16			•
P-1-B5	Report to Pension Fund Committee recommending appropriate approach to Socially Responsible Investment for the Fund to be reflected in updated Statement of Investment Principles	By 31/3/16			•
P-1-C1	Triennial Actuarial Valuation Funding Level of assets against liabilities	100%			As at 31/3/17 reported by 31/3/18

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What we want to achieve ... (Objective)

Deliver a High Quality Pension Service to Members

How?			By whom?	By when?			EIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	15/16	16/17	17/18	
P 2	Develop and Implement an effective Communication Strategy for the Pension Fund				•			
		Develop and gain approval Communication Strategy and Action Plan	P-2-A1	HRSS Manager	•			•
		Proactively manage and engage Pension Fund Employers	P-2-A2	HRSS Manager	•			
		Review all forms and communication material, including annual benefit statements		HRSS Manager	•			•
		Develop content of Pensions presence on the Council's website	P-2-A3	HRSS Manager/ C & I Manager	•			•
P 3	Implement the new LGPS Scheme				•			
		Implementation of pension administration system changes required for new scheme		HRSS Manager	•			
		Development of brief scheme booklet for all current and prospective members		HRSS Manager	•			•
		Review In-Year and Year-End reporting requirements for Employer		HRSS Manager	•			
P 4	Review Additional Voluntary Contribution Scheme Provision				•			
		Conduct a strategic review of the AVC provision for the Fund		HRSS Manager/C&I Manager		•		

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Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	15/16	16/17	17/18	
	<i>Review Additional Voluntary Contribution Scheme (continued)</i>	Procurement of AVC providers		HRSS Manager/C&I Manager		•		
		Implementation and Promotion of AVC scheme		HRSS Manager		•		
P 5	Ensure accuracy of Pension Records							
		Implement the Self-Service for Members to access their pension information online		HRSS Manager		•		•
		Undertake full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC		HRSS Manager		•		

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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P-2-A1	Pension Fund Committee approved Communication Strategy and Action Plan	31/12/15			•
P-2-A2	Hold Annual Employer Liaison Meeting	1 meetings by 31/3/16			•
P-2-A3	Updated content on Pensions website	31/3/16			•

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What we want to achieve ... (Objective)

Ensure that Scottish Borders Pension Fund is managed effectively, transparently and compliantly

How?			By whom?	By when?			EIA
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	15/16	16/17	17/18
P 6	Continue to develop robust governance and risk management						
		Effective implementation of Pension Board and Pension Fund Investments and Performance Sub-Committee		C F Manager	•		
		Review and update Governance Policy and Compliance Statement	P-6-A1	C F Manager	•		•
		Review and update Training Policy to incorporate Pension Boards		C & I Manager	•		•
		Develop and deliver 2015/16 - 2017/18 Training Programme	P-6-A2	C & I Manager	•		
		Develop and Implement separate Financial Regulations for the Pension Fund	P-6-A4	C & I Manager	•		
		Review and update Pensions Administration Strategy	P-6-A3	HRSS Manager	•		•
P 7	Review services provided externally to ensure that these represent best value to the Fund						
		Develop and implement an annual assessment cycle of Investment Adviser and Officer support to the Pension Fund Committee and Pension Fund Board	P-7-A1	C & I Manager	•		

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Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	15/16	16/17	17/18	
	<i>Review services provided externally to ensure that these represent best value to the Fund (continued)</i>	Identify requirements for investment and performance advisory services and procure new contract(s)		C & I Manager	•			
		Identify requirements for custody services and procure new contract		C & I Manager	•			
		Identify requirements for Currency Hedging and procure new contract		C & I Manager	•			
		Identify requirements for Actuarial Services and procure new contract		HRSS Manager/ C&I Manager				

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P-6-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2015	30/6/15			•
P-6-A2	Pension Fund Committee approval of Training Policy 2015 and Training Programme 2015/16	30/6/15			•
P-6-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/9/15			•
P-6-A4	Audit & Risk Committee and Pension Fund Committee approval of Pension Fund Financial Regulations	31/3/16			•
P-6-A5	Training Needs Self-Assessment Levels from 2014/15 to 2017/18	Improve knowledge assessment			•
P-7-A1	Undertake first annual assessment of Investment Adviser and Officer Support to Committee and Board	31/3/16			•

Additional Information

The public papers and minutes of the Pension Fund Committee are available on the Council's website for Council papers via the following link:

<http://scottishborders.moderngov.co.uk/>

The Pension Fund's key policy and strategy documents can be found on the Council's website via the following link:

<http://www.scotborders.gov.uk/pensions>

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, Capital & Investments Manager, Council HQ, Newtown St Boswells

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