Public Document Pack

PENSION FUND COMMITTEE AND PENSION BOARD
THURSDAY, 15 SEPTEMBER, 2016

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS` on THURSDAY, 15 SEPTEMBER 2016 at 10.30 am.

Please note Pension Fund Committee and Pension Board training will commence at 9.30 am.

J. J. WILKINSON,
Clerk to the Council,

8 September 2016

BUSINESS		
1.	**Apologies for Absence**	
2.	**Order of Business**	
3.	**Declarations of Interest**	
4.	**Minute** (Pages 5 - 10) Minute of Meeting held on 16 June 2016 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	**Strategic Investment Review** (Pages 11 - 38) Consider report by Chief Financial Officer. (Copy attached).	40 mins
6.	**Admission Agreement** Consider report by Chief Officer Human Resources. (To Follow).	15 mins
7.	**Risk Register Update** (Pages 39 - 54) Consider report by Chief Financial Officer. (Copy attached).	10 mins
8.	**Annual Accounts Update** Consider verbal update by Chief Financial Officer.	10 mins
9.	**Training Update** Consider verbal update by Chief Financial Officer.	5 mins
10.	**Scheme Advisory Update**	10 mins

	(a) **Annual Report** (Pages 55 - 68) Copy attached.	
	(b) **June Bulletin** (Pages 69 - 70) Copy attached.	
11.	**Public Service Pension Act 2013 - Governance Review Consultation** (Pages 71 - 76) To consider draft Terms of Reference (Copy attached).	10 mins
12.	**Any Other Items Previously Circulated**	
13.	**Any Other Items which the Chairman Decides are Urgent**	
14.	**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."	
15.	**Minute** (Pages 77 - 80) Private Section of Minute of Meeting held on 16 June to be noted and signed by the Chairman. (Copy attached).	2 mins
16.	**Pension Fund Appointment Sub-Group** (Pages 81 - 82) Private Minute from Pension Fund Appointment Sub-Group on 16 June 2016 to be noted, (Copy attached).	2 mins
17.	**Pension Fund Investment Performance Sub-Committee**	2 mins
	(a) **Private Minute of 24 August 2015** (Pages 83 - 86) To note the minute. (Copy attached).	
	(b) **Private Minute of 22 February 2016** (Pages 87 - 92) To note the minute. (Copy attached).	
	(c) **Private Minute of 22 August 2016** (Pages 93 - 98) To consider minute. (Copy attached).	
18.	**Quarter Performance Update** (Pages 99 - 138) Consider report by KPMG. (Copy attached).	30 mins
19.	**Custodian Procurement** (Pages 139 - 142) Consider report by Chief Financial Officer. (Copy attached).	15 mins

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**

2. **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, S. Mountford, S. Aitchison, Mr E Barclay, Mr M Drysdale, Mr C Hogarth, Ms L Ross, Mr P Smith and Ms C Stewart

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SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE & PENSION BOARD

MINUTE of Meeting of the PENSION FUND COMMITTEE AND PENSION BOARD held in the Waverley Room, Transport Interchange, Galashiels on Thursday, 16 June, 2016 at 10.00 am

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Present:-	Councillors B White (Chairman), S Aitchison, M J Cook, G Edgar, G Logan, J Mitchell, S Mountford, Mr M Drysdale, Ms L Ross.
Apologies:-	Councillor J Campbell, Ms C Stewart, Mr C Hogarth and Mr P Smith
In Attendance:-	Chief Financial Officer, HR Shared Services Manager, Treasury & Capital Manager, Mr C Brunton-Smith, Mr D O'Hara (KPMG), Democratic Services Officer (J Turnbull).

1. **ORDER OF BUSINESS**
The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

2. **MINUTE**
There had been circulated copies of the Minute of the Meeting of 23 March 2016.

DECISION
NOTED for signature by the Chairman.

3. **KPMG**

3.1 The Chairman welcomed Mr David O'Hara and Mr Calum Brunton-Smith from KPMG, who had been appointed Investment Advisors to Scottish Borders Council's Pension Fund. Mr O'Hara and Mr Brunton-Smith thanked Members for their appointment. They advised that they both had many years of experience in the investment market managing risks. Their clients including Strathclyde and Lothian Local Government Pension Funds (LGPS), as well as private clients. They considered that the structure of the Scottish Borders Council's Pension Fund had performed well and they would provide guidance to ensure that the Fund continued to evolve to reflect current market conditions.

3.2 In response to a question regarding the pooling of pension fund assets, Mr O'Hara advised that reform of LGPS was taking place in England and Wales to stimulate investment in infrastructure projects. KPMG would support and advise on this issue going forward. Mr Robertson added one of the reasons for the pooling of pension fund resources was that in England and Wales the funding levels tended to be much lower, in some cases 60 – 70%; the Scottish Borders Fund was 101%. Scottish Funds recognised the political drive to pool assets and invest in infrastructure projects and representatives had met to discuss joint investment opportunities. However, this should only be considered if there were lower fees and the ability to maximise returns for the Fund. Officers were presently exploring opportunities with other Scottish LGPS funds, for joint investments in infrastructure, but this would, it was thought, be on a voluntary, not a pooled basis. Mr Robertson emphasised that it would ultimately be for the Committee and Board to decide whether to pursue any collaboration projects and he would continue to update Members at meetings.

DECISION
NOTED the report.

MEMBER
Councillor Aitchison joined the meeting during consideration of the above report.

4. **TRAINING PLAN 2016/17**

4.1 There had been circulated a report by Chief Financial Officer comparing the actual 2015/16 attendance for Pension Fund Committee and Board Members to the requirements detailed in the current Training Policy approved in June 2015 and proposing key areas of training for 2016/17, in-line with the policy and based on the Skills Knowledge assessment recently undertaken. In June 2015 the Pension Fund Committee and Board agreed an updated Training Policy which reflected the revised governance structure. A copy of the revised policy was contained in Appendix 1 to the report. In line with this Policy, the Pension Fund agreed to undertake an annual knowledge and skills self-assessment which would identify the key areas for the future years' training plan. The Training Knowledge and Skills Assessment had been undertaken in April and was summarised in Appendix 2 of the report. The proposed Training areas for 2016/17 were detailed for approval and Members were strongly encouraged to actively participate in all training events to demonstrate their commitment to building the knowledge to support effective decision making.

4.2 Mrs Robb advised that the target was for Members of the Pension Fund Committee and Pension Board to attend at least two training sessions each year. All Members of the Pension Fund Committee had fully met the training requirement. However, the training requirement had not been met by Members of the Pension Board, in part due to changes of membership to the Board. Mrs Robb further advised that Members would be invited to attend an event in September covering various areas including the Role of Custodian, information would be circulated when received. Baillie Gifford were also hosting a Seminar on 5 and 6 October. There would also be a further event – 'Generating Growth for Your Fund' on 27 and 28 October (two half days) in Edinburgh, details would be circulated to Members. Mrs Robb would also investigate holding a drop-in session on use of the online toolkit.

DECISION

(a) AGREED to approve the Training areas for 2016/17 set out in para 6.1 of the report and that all Members should prioritise attendance at training events whenever practicable.

(b) NOTED the outcome of the Knowledge and Skills Self-Assessment.

5. **PENSION ADMINISTRATION PERFORMANCE 2015/16**

5.1 There had been circulated a report by Chief Officer Human Resources presenting the Pensions Administration Performance for 2015/16 and requesting the Committee's approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report, contained the Pensions Administration Performance for 2015/16 as it would be included in the Fund's Annual Report and Accounts. During 2015/16 there was a decrease in the number of payments being received late when compared to 2014/15 with only one late payment being made by Scottish Borders Housing Association. Performance in general had improved when compared to last year, particularly with the issuing of benefit statements in August rather than late October and estimates provided being on a par with the previous reporting year. There had been another successful Employer Liaison Meeting held during 2015/16 and agreement reached that this would be a useful event to hold on an annual basis, which would be scheduled in due course.

5.2 Mr Angus, HR Shared Services Manager, was in attendance and in answer to questions advised that with regard to auto-enrolment the majority of members had elected to remain in the Fund. There had also been an increase in active members due to the Unions promoting the benefits of LGPS. He further advised that primarily transfers out of the Fund had been to other local authority pension schemes.

DECISION

(a) AGREED the inclusion of the Pension Administration Performance for 2015/16 in the Pension Fund Annual Report and Accounts 2015/16.

(b) NOTED the Pension Administration Performance for 2015/16 as set out in Appendix 1 to the report.

6. **GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2016**

There had been circulated a report by Chief Financial Officer proposing the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. The report also requested approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2015/16. Appendix 1 to the report contained the revised Governance Policy and Compliance Statement for the Pension Fund. The Governance Compliance Statement was included in Appendix 1 to the policy and demonstrated that the Pension Fund was in full compliance with the best practice guidance. Mrs Robb highlighted that the main change to the Statement was the appointment of KPMG as Investment Advisor to the Pension Fund and the removal of the performance services provided by WM Company.

DECISION
AGREED the revised Governance Policy and Compliance Statement 2016 and the Governance Compliance Statement for inclusion in the Pension Fund Annual Report and Accounts 2015/16.

7. **BUSINESS PLAN 2016/17 - 2018/19**

7.1 There had been circulated a report by Chief Financial Officer proposing the Pension Fund Business Plan 2016/17 – 2018/19. Best practice suggested that having a business plan for the Pension Fund was a good way of demonstrating compliance with the "Myners Principle" relating to effective decision making. Appendix 1, to the report, contained the first Pension Fund Business Plan, covering the period 2016/17 – 2018/19. The Business Plan identified an Action Plan that would be delivered during the next three years to support the aims and objectives of the Pension Fund.

7.2 Mrs Robb highlighted the appointment of KPMG as Investment Advisor to the Fund and that the procurement of Custodian was progressing. These appointments ensured that external services provided to the Fund represented best value. In answer to a question regarding social responsible investment, Mrs Robb advised that officers were developing a policy which would be presented to the Committee and Board for discussion. Mr Angus added that online Self-Service would be available later this year or early next year. This would enable Fund members to access their pension information, obtain projections and ensure the accuracy of Pension Records.

DECISION
AGREED the Pension Fund Business Plan 2016/17 – 2018/19 as set out in Appendix 1 to the report.

8. **RISK REGISTER UPDATE**

8.1 There had been circulated a report by Chief Financial Officer which formed part of the risk review requirements and provided Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate risks. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide under CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the 'Local Government Pension Scheme' published by CIPFA. A full risk workshop had been held on 30 May 2016 with officers from relevant departments reviewing and updating the full risk register. The output of this was shown in Appendix 1 to the report. In line with the Council's Risk Management Policy (2015) a paper, to be presented at the September 2016 meeting, would report progress on management actions and present any new risks for consideration.

8.2 Following discussion on the residual red risks, Mrs Robb advised that Risk was being managed by participation in CIPFA and the Scottish Pension Network, this allowed changes and impacts to be identified quickly. Additional actions proposed included the input of legislative changes through active membership of COSLA and investigating joint investment opportunities with other LGPS funds. With regard to Risk 4.1, Mr Robertson stated that prior to a request for ERVS being considered by Council it had been through a rigorous process to ensure that the needs of the Council continued to be met. An additional action proposed in the Risk Register to monitor early retiral decisions, was that the impact on the Pension Fund be included as part of the Council report and this was welcomed by Members.

DECISION
AGREED:-

(a) The updated Full Risk register as contained in Appendix 1 to the report; and

(b) To update on progress of management actions to be presented in September 2016.

9. DRAFT ANNUAL REPORT (INCLUDING ANNUAL ACCOUNTS)

9.1 There had been circulated a report by Chief Financial Officer presenting the Draft Annual Report and Accounts for the Pension Fund 2015/16 as part of the consultation process prior to submission of the Report to the Audit Committee and the External Auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations specified elements which must be contained in para 4.1. The draft Report and Accounts contained in Appendix 1 to the report, fully met those requirements. The draft Report and Accounts were still subject to Audit, which would commence early July. Following Audit sign-off, the final Report and Accounts would be circulated to the joint Committee and Board.

9.2 Mrs Robb referred to the overview of the Fund membership which showed that in 2016 the current membership was 10,259 of which 4,594 were actively contributing and 3,157 were in receipt of pension benefits. There had also been an increase in the Admitted Bodies with the addition of SBCares. The closing net asset as at 31 March 2016 was £542,260,000. Mrs Robb advised that officers were working with KPMG and the Custodian on taxation and actively pursuing outstanding tax refunds.

DECISION
AGREED the Pension Fund Annual Reporting and Accounts 2015/16 contained in Appendix 1, with minor amendments, prior to the submission to Audit and Risk Committee on 28 June 2016 and the subsequent statutory audit process.

10. CUSTODIAN PROCUREMENT

10.1 There had been circulated a report by Chief Financial Officer providing the Committee and Board with an update on the procurement for the Pension Funds Custodian. Identified within the Business Plan approved at Committee on 16 June 2016 was the requirement to undertake a tender process for Custodian services. It was also previously approved on 10 December 2015 that the procurement would be undertaken using the Norfolk Framework. A review of the current services provided by the current custodian JP Morgan against the requirements from both an asset security and accounting perspective was undertaken which highlighted the requirement to expand the services to be procured. This would include Performance monitoring information previously provided by WM Performance Services. Officers would work with Members of the Pension Fund

Appointment Sub Group to evaluate the tenders and agree a recommendation to the September 2016 Joint Pension Fund Committee and Pension Board.

10.2 In response to a question, Mrs Robb confirmed that there would be an increased cost for the additional Investment Accounting service. The Capital and Investment Team currently undertook the work required and this was proving more challenging each year and the risk of error was increasing. Consequently, there was considered a requirement to source accounting and performance services as part of the procurement of a new Custodian. The final costs would be reported to the Committee and Board at the September meeting.

DECISION:-

(a) AGREED the revised services to be procured.

(b) NOTED:-

(i) the timetable for the procurement as detailed in para 4.3 of the report; and

(ii) A further report and update would be provided at the September meeting.

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

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business contained in the following items on the ground that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of the part 1 of Schedule 7A to the Act.

12. **MINUTE**

The Committee noted the Private Minute of the meeting of 23 March 2016.

The meeting was adjourned at 11.35 am and reconvened at 11.45 am.

13. **TIMETABLE FOR INVESTMENT STRATEGY REVIEW (ASSET ALLOCATION)**

The Committee noted a report by KPMG.

14. **INVESTMENT REPORT - QUARTER TO 31 MARCH 2016**

The Committee noted a report by KPMG.

15. **INFRASTRUCTURE INVESTMENTS**

The Committee noted a report by Chief Financial Officer.

16. **URGENT BUSINESS**

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

17. **CURRENCY HEDGE**

The Committee noted a report by Chief Financial Officer.

The meeting concluded at 1.15 pm

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STRATEGIC INVESTMENT REVIEW

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

15 September 2016

1 PURPOSE AND SUMMARY

1.1 **The report provides the Committee and Board with an update on the outcome of the Strategic Investment Review and presents the resulting recommendations for the revised asset allocation**.

1.2 The Investment strategy is a key to ensuring assets continue to grow to meet the long term liabilities of the fund and that as far as possible the contribution rates from employers remain stable.

1.3 A review of the current strategy has been undertaken by KMPG and the findings are detailed in Appendix 1. Para 5.2 details the recommended revised asset allocation.

1.4 As part of the review the currency hedge arrangement was also reviewed and the findings are detailed in Appendix 2. The removal of the currency hedge is now recommended.

2 STATUS OF REPORT

2.1 Due to the timing of the finalisation of this report consultation comments will be reported verbally at the meeting.

3 RECOMMENDATIONS

3.1 **It is recommend that the Joint Pension Fund Committee and Pension Fund Board:-**

(a) Agree the investment strategy as detailed in para 5.2;

(b) Agree the removal of the Currency Hedge;

(c) Delegate authority to the Chief Financial Officer, in agreement with the Chair of the Pension Fund Committee, and based on advice of the Investment Advisor to implement the revised investment strategy; and,

(d) Delegate authority to the Chief Financial Officer, in agreement with the Chair of the Pension Fund Committee, and based on advice of the Investment Advisor the removal of the currency hedge at the most appropriate time.

4 BACKGROUND

4.1 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles (SIP). A key part of the SIP is the strategic asset allocation which sets the allocation of investments across the different asset classes.

4.2 The Funds primary aim 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". To meet this aim the Fund must ensure it sets levels of contributions that will build up a fund of assets sufficient to meet all future benefit payments.

4.3 The Fund while setting the contributions rates aims to ensure the rates payable by employers are as stable as possible. To reduce the volatility of rates the Fund must ensure there is stability and the required level of returns from the investments.

4.4 The last review of the strategic asset allocation was undertaken in December 2013 following the 2011 tri-annual revaluation. The outcome of this was incorporated into the current SIP and was fully implemented.

4.5 On 18 June 2015 following the appointment of a new Investment Advisor KPMG the Committee approved that a full strategic review should be undertaken to determine the future strategic asset allocation.

5 STRATEGIC REVIEW

5.1 KPMG has undertaken a full review of the current investments within the fund and found the Fund has performed well over the last 5 years with returns above the required levels. The fund however is heavily exposed to both Global and UK equities, which although they have performed well in the past and could do in the future, have no direct link to the increasing liabilities arising through inflation, interest rates and changing member demographics.

5.2 **Appendix 1** details the full findings of the review and the table below details the resulting recommended changes to the asset allocation:

Asset Group	Current Position	Recommend Position	Move-ment
Equities	65%	50%	(15%)
Diversified Alternatives	15%	10%	(5%)
Balance Property	5%	5%	-
Long Lease Property	-	10%	10%
Private Credit	10.5%	10%	(0.5%)
Corporate Bonds	2.25%	-	(2.25%)
Fixed Income Gilts	2.25%	-	(2.25%)
Index Linked Gilts		5%	5.0%

5.3 The transition to the recommended revised strategy will take time and require disinvestment of some funds and the establishment of some new funds. It is proposed this is done on a phased based as detailed in Appendix 1, using existing Managers where possible to minimise the cost of transition. The timescales for moving to the new strategy is estimated at this point to be around 12-18 months and any revision to this timescale will be reported to committee.

5.4 The currency hedge was also reviewed as in conjunction with the strategy. **Appendix 2** details the work undertaken and the recommendation to cease the current hedge. The timing of withdrawal from the hedge will need to be managed to ensure any potential loss is minimised.

6 IMPLICATIONS

6.1 Financial

(a) The revised asset allocation will require the establishment of new portfolios within the Fund. To minimise the costs of procurement Officers in conjunction with the Investment Advisor will investigate the use of existing Managers where possible.

(b) The timing of the disinvestment and unwinding of the currency hedge could result in losses for the Fund. To ensure any loss is minimized Officers in conjunction with the Investment Advisor will plan the timing of movements and will utilise the services of the existing Transition Manager, State Street.

6.2 Risk and Mitigations

(a) The Fund is becoming more mature as the number of deferred and retired members now exceeds higher than those currently contributing. This will result in the negative cashflow as the monthly payments to Pensioners will be greater than the contributions collected. The Fund will in future need to generate more liquid cash in order to pay pensioners and the current arrangements, whereby dividends are directly reinvested back into the portfolios. may require to be reviewed with some element of this income returned the Fund to allow payment of pensioners.

(b) The terms of the scheme allow for annual CPI inflation increases in pension payments. There is a risk that this may result in increased liabilities which outstrip any growth in investments. To mitigate this risk the investments require to be diversified into areas which match the liability growth rate.

(c) The recent "Bretix" vote has had significant impact on the markets and as the details of the break from EU continue to emerge there will be further uncertainty. This uncertainty is likely to have an impact on the valuation of the liabilities during the 2017 tri-annual valuation.

(d) Discussions are currently underway with the actuary Barnett Waddingham, in advance of the 2017 valuation to assess the impact of Brexit and the proposed impact of the revised asset allocation strategy on the net liability position of the Fund and the overall funding level.

6.3 **Equalities**

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**

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

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 are required as a result of this report.

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted and any comments will be given at the meeting.

Approved by

Name
Title **Signature ....**

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital and Investment Manager, 01835 825249

Background Papers
Previous Minute Reference: Pension Fund Committee and Pension Fund Board, 16 June 2016

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

Contact us at Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

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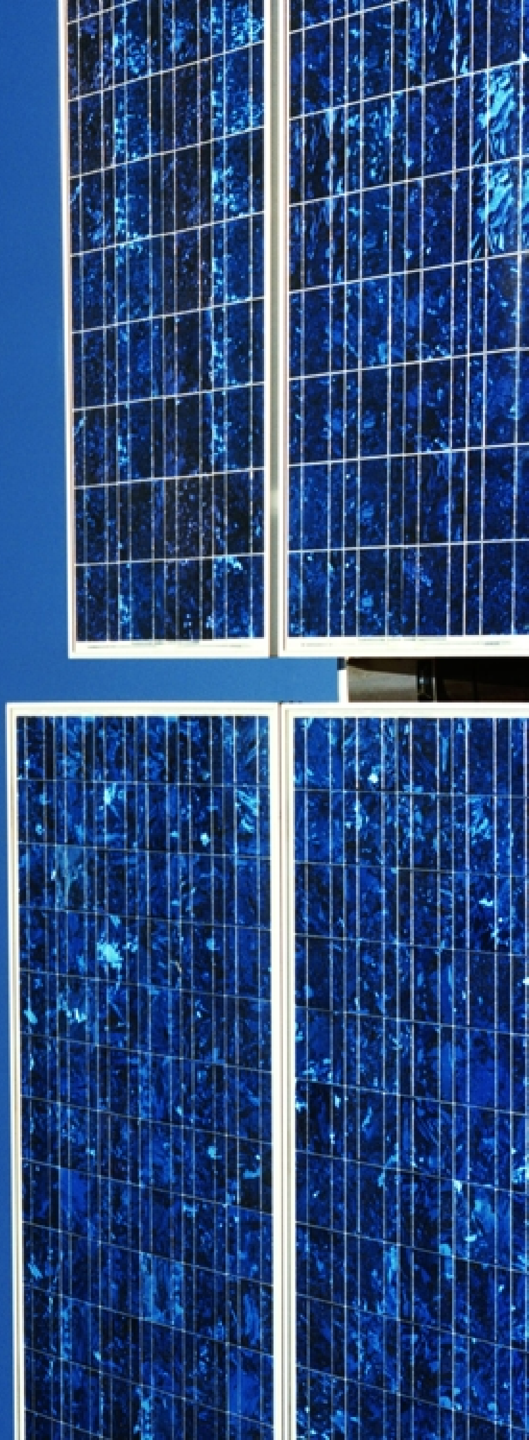

Scottish Borders Council Pension Fund

Investment Strategy Review – Discussion Summary

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August, 2016

Introduction

The contacts at KPMG in connection with this report are:

David O'Hara
Director
Investment Advisory
Tel: 0141 300 5533
david.ohara@kpmg.co.uk

Calum Brunton Smith
Principal consultant
Investment Advisory
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calum.bruntonsmith@KPMG.co.uk

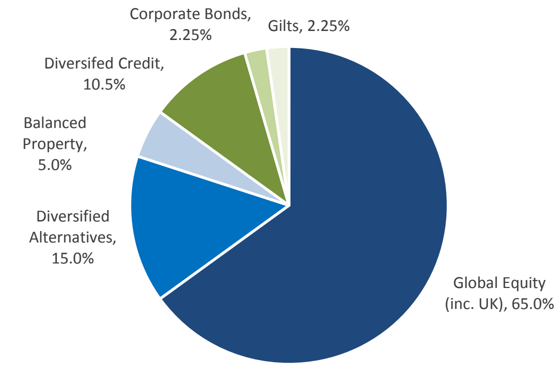
Addressee

- This report is addressed to Scottish Borders Council as administering authority of the Scottish Borders Council Pension Fund ("the Fund"). This paper summarises the Pension Fund Investment & Performance Sub-Committee's (the "ISC") discussions on the existing investment arrangements at the Committee meeting on 22 August 2016 and sets out the proposed strategy moving forward.

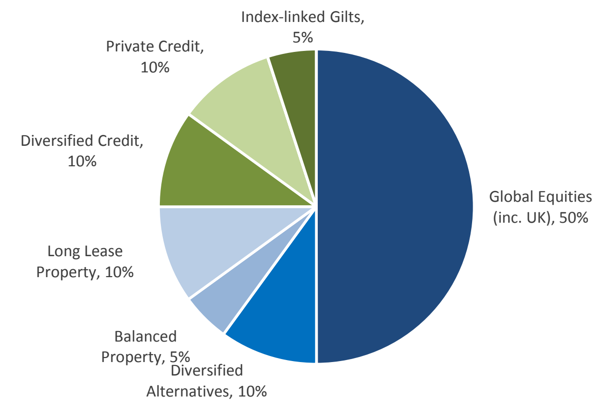
Background

- The Council has an explicit objective to maintain a strong funding position and ensure that sponsoring employer contributions are as stable as possible.
- Having considered the risks inherent within the Fund's existing investment strategy and market conditions post-Brexit, the ISC propose to refine the existing investment strategy to reduce downside risk, whilst broadly maintaining the level of expected return. Some upside risk is sacrificed to achieve this.
- The ISC agreed that the existing equity exposure (c. 65% of the Fund assets) remained a significant risk position. Given the significant rally in equity markets over recent years and, in particular, over the period since Brexit, the ISC agreed that 'banking' some of this gain would be sensible at this point in favour of more secure 'contractual' income and assets with direct inflation linkage, reflecting the risk/nature of the Fund's liabilities.
- Having considered a range of alternative investment structures, the ISC proposed to review the existing strategic asset allocation to take 15% out of equities and 5% out of diversified alternatives in favour of long lease property and private credit and to reshape the bond portfolio. The charts opposite illustrate the proposed changes to the strategy. The ISC wishes to implement this in a phased manner.
- The ISC also recommends that an element of delegation is provided to the Officers (within appropriate control ranges) to make changes to the asset allocation. The ISC also proposes to wind down the currency hedge in a phased manner based on KPMG's advice (see separate report).
- This short paper summarises the proposed changes to the Fund's investment strategy and sets out the next steps to implement the revised strategy.

Current Asset Allocation (Benchmark Weights)

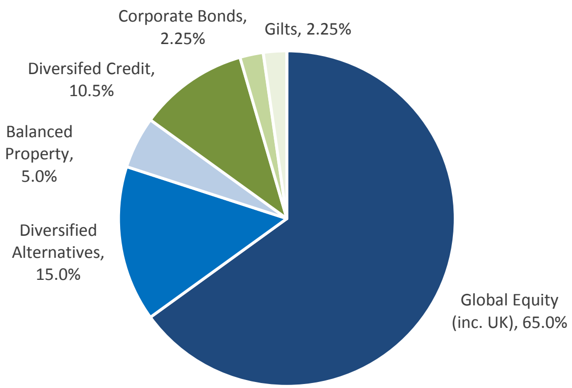


Proposed (Revised) Asset Allocation



Current strategy- recap

Asset allocation – Current benchmark



Expected return

- Based on KPMG's model assumptions, the current investment strategy has an expected return of Gilts + 4.0% p.a. (5.8% p.a. as at 30 June 2016) – this is a best estimate of the future return. We note that there is very significant uncertainty around the outcome given the return profile of the equity exposure.
- The valuation basis (which is required to make a prudent assessment of future investment return) requires a return of 5.5% per annum based on the 2014 actuarial valuation. At that point, this translated to a return of Gilts + 2%.
  - The expected return from the portfolio is only just meeting the discount rate set in 2014 (=5.5%). If the Actuary were to maintain this rate then there is no room to let the best estimate return fall without pushing cash contributions higher.
  - In practice, we expect that the Actuary will set a discount rate somewhere between Gilts+2% (the margin used in 2014) and Gilts+4%. Confirming the Actuary's view on the approach is critical to the long-term development of the strategy.

Initial thoughts

- Whilst not atypical for a Local Government Pension Scheme investment strategy, the strategy can evolve to target a similar return with a significantly lower level of downside risk, better reflecting the nature of the pension promises and increasing the contractual income delivered.
- The key changes required to achieve this would include.
  - *Reduce reliance on equities*: The Fund retains a reliance on equities for returns (c. 65% of Fund assets) and within this there is a significant bias to the UK equity market. We believe the Council should consider trimming the UK equity allocation.
  - *Exploit credit opportunities*: A well-diversified portfolio of credit instruments exploiting current opportunities can be constructed to deliver an "average expected" return similar to that of equities. This portfolio provides seniority in capital structure together with more certain income that is increasingly important for the Council.
  - *Earn an Illiquidity premium*: There is a premium available to long term investors (like pension funds) who are able to tie up capital in opportunities that are unattractive to banks due to liquidity stress test requirements. Local authorities are one of the few market participants able to exploit this. We strongly believe the Fund should consider a committing capital to long-term investments that provide relative secure future income flows.
  - *Increase inflation exposure*: A higher allocation to inflation linked assets would provide directional protection against inflation (a key risk for the Fund). The Fund could consider a range of long-term inflation-linked assets providing a premium over Gilts (e.g. long lease property, infrastructure debt etc).
- We believe that an evolution of the existing strategy rather than a revolution is preferable. These changes outlined above are in line with strategy refinements being made by our other LGPS clients.

Alternative strategies

Investment strategy

- The investment strategy will determine the risk and return profile for the Fund's investment. Different strategic splits between asset classes (equity, property, alternatives, diversified credit, public and private credit, direct lending, gilts, etc) will give rise to different levels of:
  - Expected investment growth (return); and
  - Expected levels of volatility - funding level variation and potential deficit that might arise (measured here by the Value at Risk[1] over 3 years). This funding level volatility will ultimately drive contributions.
- The ISC considered different asset allocations to vary the risk profile of the Fund.
- In terms of refinements to the current investment strategy, the ISC considered:
  - Reducing reliance on equity markets and increasing exposure to other sources of investment returns to increase the overall diversification;
  - Exploit wider credit opportunities with a focus on contractual income;
  - Increasing exposure to illiquid assets to better reflect the Fund's liquidity profile and exploit an illiquidity premium; and
  - Increasing long dated inflation-linked asset exposure to better match the sensitivity of the Fund's liabilities.
- The ISC also discussed the Fund's investment managers and agreed that some of the mandates should be reviewed – in particular refinements to the equity manager line-up and the selection of any new managers required to manage any new asset classes being introduced. It may be feasible to streamline the selection process.
- The ISC also considered the Fund's currency hedge and agreed that, based on current market conditions, the currency hedge should be gradually unwound.

[1] **Value at Risk ("VaR")** represents the increase in expected deficit in at a specified future time (i.e. 3 years) under a specific percentile (i.e. 95% or 1 in 20) worst investment outcome. Within ALM analysis a common risk measure used is a 3 year 95% VaR to quantify the level of risk being run.

Alternative strategies

Asset Classes	1. Current	2. 55% Equity	3(a). 50% Equity	3(b). 50% Equity	4. 45% Equity
UK and Overseas Equities	65.0%	55.0%	50.0%	50.0%	45.0%
Diversified Alternatives	15.0%	15.0%	15.0%	10.0%	10.0%
Balanced Property	5.0%	5.0%	5.0%	5.0%	5.0%
Long Lease Property	-	5.0%	5.0%	10.0%	10.0%
Diversified Credit Opportunities	10.5%	10.0%	10.0%	10.0%	10.0%
Private Credit Opportunities	-	10.0%	10.0%	10.0%	10.0%
Corporate Bonds	2.25%	-	-	-	-
Fixed Interest Gilts	2.25%	-	-	-	-
Index-linked Gilts	-	-	5.0%	5.0%	10.0%
Exp. Return (gilts + p.a.)	**4.0%**	**4.2%**	**4.0%**	**3.8%**	**3.7%**
Value at Risk (1 in 20 chance)	**£253m**	**£232m** (-8%)	**£217m** (-14%)	**£210m** (-17%)	**£192m** (-24%)
5% worse deficit in 3 years	**(£198m)**	**(£180m)**	**(£168m)**	**(£163m)**	**(£150m)**

Notes: All analysis based on the 31 March 2014 actuarial valuation. Value at Risk ("VaR") measure represents the increase in expected deficit in 3 years time under the 1 in 20 (5%) worst investment outcome. Private credit opportunities includes: Direct Lending, Semi-liquid credit, etc).

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Investment strategy

- The table above illustrates the Funds current strategy and the four alternative investment strategies the ISC considered as part of the investment review.
- Each strategy targets a similar expected return to the current strategy with a lower risk profile, but has a different composition in terms of asset classes utilised.
- Following a detailed discussion on the alternative strategies, and the position of current markets, the ISC agreed that strategy 3b was their preferred alternative on the basis that: expected return could be broadly maintained; the risk profile could be reduced significantly; and the Fund could 'bank' some of the equity market gains made over recent periods in favour of more secure contractual income that better matched the Fund's liability profile.
- The ISC agreed that the alternative strategy should be implemented in a phased manner.

Transition summary

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Asset Classes	1. Current
UK and Overseas Equities	65.0%
Diversified Alternatives	15.0%
Balanced Property	5.0%
Long Lease Property	-
Diversified Credit Opportunities	10.5%
Private Credit Opportunities	-
Corporate Bonds	2.25%
Fixed Interest Gilts	2.25%
Index-linked Gilts	-
Exp. Return (gilts + p.a.)	**4.0%**
Value at Risk (1 in 20 chance)	**£253m**
5% worse deficit in 3 years	**(£198m)**

Asset Classes	3. 50% Equity
UK and Overseas Equities	50.0%
Diversified Alternatives	10.0%
Balanced Property	5.0%
Long Lease Property	10.0%
Diversified Credit Opportunities	10.0%
Private Credit Opportunities	10.0%
Corporate Bonds	-
Fixed Interest Gilts	-
Index-linked Gilts	5.0%
Exp. Return (gilts + p.a.)	**3.8%**
Value at Risk (1 in 20 chance)	**£210m** (-17%)
5% worse deficit in 3 years	**(£163m)**

Asset movements

- To implement the revised strategy the following transition of assets will have to occur:
  - Reduce equity exposure by 15% in favour of Long Lease Property (10%) and Private Credit Opportunities (Direct Lending) (5%);
  - Reduce diversified alternatives by 5% in favour of Private Credit Opportunities (allocation to be agreed in due course);
  - Switch the Fund's existing Corporate Bonds (2.25%) and Fixed Interest Gilts (2.25%) allocations into a passive Index-linked Gilt allocation – the balance of this 5% allocation is scheduled to come from the Diversified Credit mandate (0.5%) – in practice, this won't require a physical change in the asset allocation.
- To implement this change, the Council should review; the Fund's existing equity portfolio to agree how this exposure should be reduced. We believe this should funded from a combination of UBS' UK Portfolio and Harris' Global Portfolio; carry out long lease property and private credit manager selection exercises (it should be possible to streamline these selection processes). The Council will also have to agree how the index-linked gilts holding would be implemented (there is scope for this to be invested with the Fund's existing managers.)

Next steps

Next steps

- The Committee should consider the ISC's proposal to refine the Fund's existing investment strategy.
- Should the Committee agree the ISC's proposal, we suggest that the implementation is delegated to the Officers. The next steps to implement the revised investment strategy would be:
  - Review of the Fund's existing equity portfolio. KPMG will provide a short equity portfolio briefing paper reviewing the current portfolio, managers and providing clear proposal from KPMG on how to implement the reduction in equity exposure.
  - Carry out a long lease property selection exercise to appoint an investment manager to manage the Fund's 10% long lease property allocation.
  - Review the Fund's options for implementing the 10% private credit mandate and select an appropriate manager to manage the preferred strategy. KPMG will provide a briefing paper setting out our views on the most attractive private credit opportunities for the council to consider (we believe an allocation to direct lending should be considered). KPMG will provide advice on the manager selection.
  - A short report proposing how the currency hedge should be wound down including the changes required to accommodate the strategic changes (i.e. reduction in equity exposure) and a clear proposal on how the currency hedge should be gradually unwound.
- Once the strategy has been agreed, the asset transition should be implemented on a phased basis to 'average in' the changing market exposure. The private credit and long lease property allocation may take time to fund given the nature of these asset classes.
- As part of the strategy, we recommend that the Committee investigates options to increase cashflow generation by drawing income from investment mandates.

Decisions to be taken

1. Is the Committee happy to refine the existing strategy to implement the alternative investment strategy proposed by the ISC?

If so, the following steps are required:

2. Agree how the Fund's existing equity portfolio should be refined to facilitate the 15% equity reduction.
3. Select a long lease property manager for the Fund
4. Agree the preferred private credit strategies and select the required private credit manager(s)
5. Agree how and when the Fund's currency hedge should be unwound
6. Agree target timescales for phased implementation

Appendix

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A1. Portfolio analysis	9
A2. Investment cases	11
A3. Risk warnings	13

1. Current strategy

This page summarises the ALM output on the Fund's current strategy

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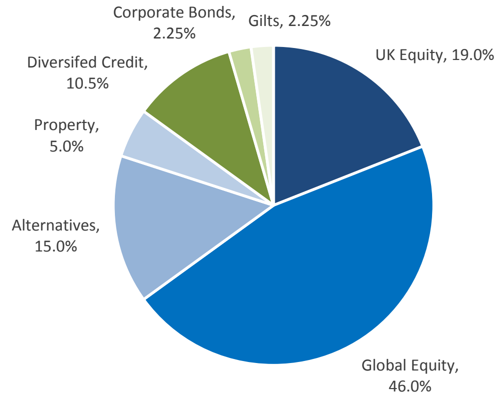
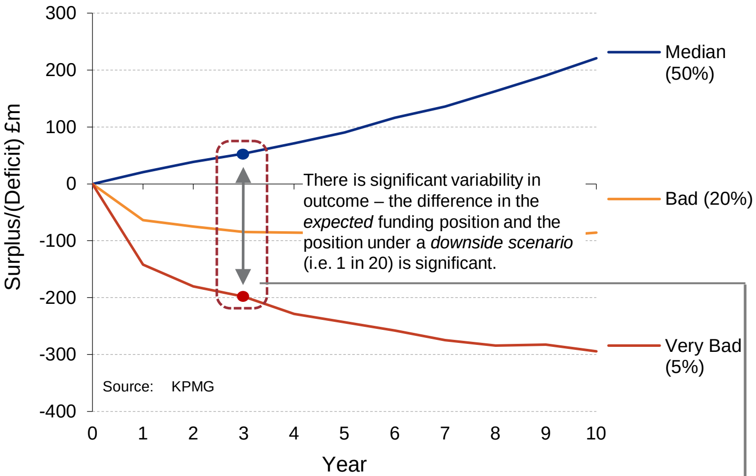
Current Asset Allocation
(Benchmark Weights)



Expected funding level progression
(Funding basis)

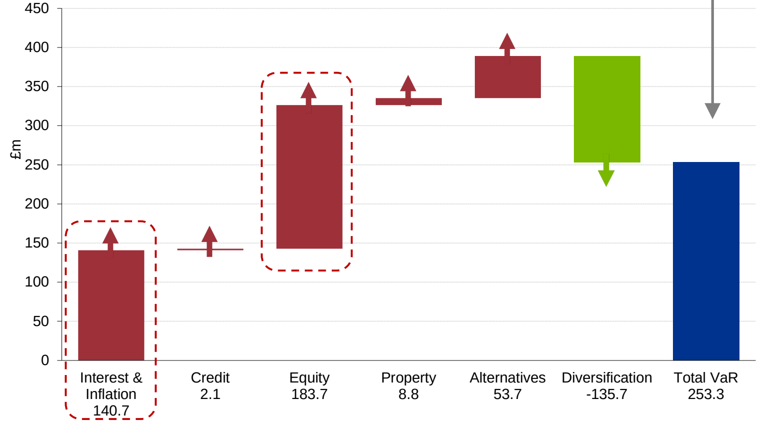


Summary

Key Characteristics	Funding Basis
Expected return (gilts plus)	4.0%
3 year 95% VaR	£253m
Deficit level in 3 years (95% worst outcome)	£198m

Notes: Calculations based on the 31 March 2014 actuarial valuation, rolled forward to 30 June 2016, asset valuations as at 30 June 2016 and KPMGs long term modelling assumptions.
VaR: 3 year 95% Value at Risk represents a the increase in expected deficit in 3 years time under the 1 in 20 worst investment outcome

3 year 95% Value at Risk (VaR) decomposition
(Funding basis)



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3b. 50% Equity strategy

This page summarises the ALM output on the alternative strategy with a reduced equity portfolio of 50% and a reduced diversified alternatives allocation.

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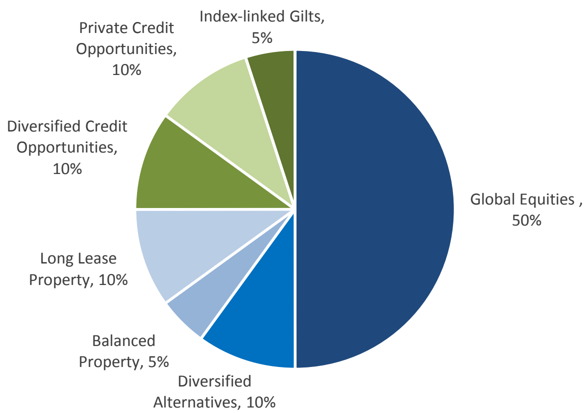
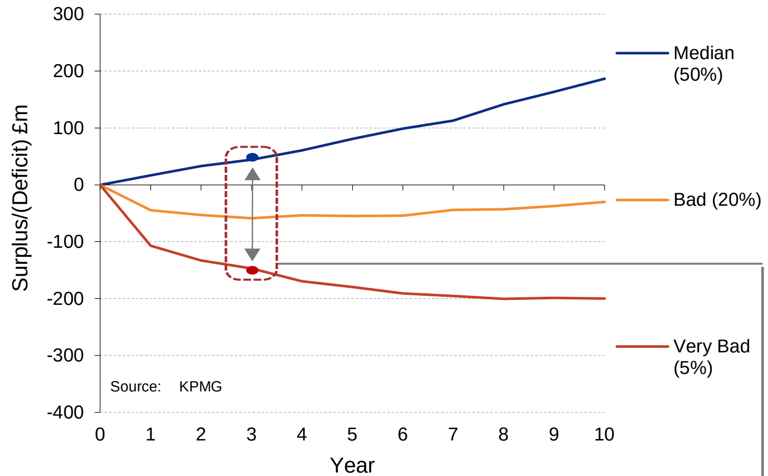
Alternative Asset Allocation



Expected funding level progression
(Funding basis)

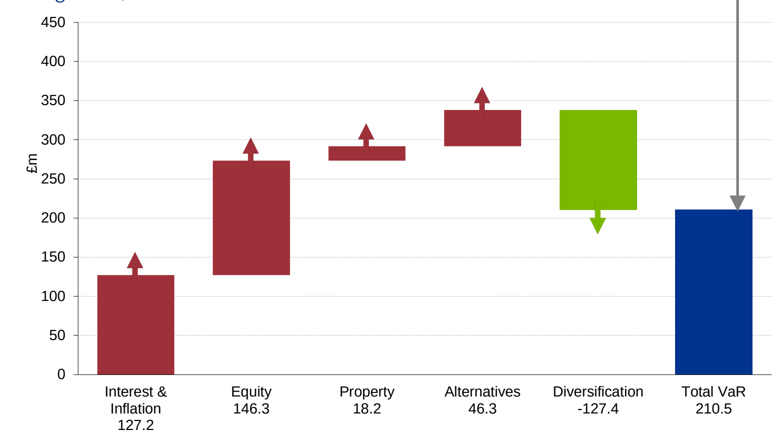


Summary

Key Characteristics	Funding Basis
Expected return (gilts plus)	3.8%
3 year 95% VaR	£210m
Deficit level in 3 years (95% worst outcome)	£163m

Notes: Calculations based on the 31 March 2014 actuarial valuation, rolled forward to 30 June 2016, asset valuations as at 30 June 2016 and KPMGs long term modelling assumptions.
VaR: 3 year 95% Value at Risk represents a the increase in expected deficit in 3 years time under the 1 in 20 worst investment outcome

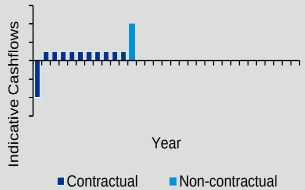
3 year 95% Value at Risk (VaR) decomposition
(Funding basis)



Long Lease Property

At a glance:

Expected returns	
Return	Gilts + 2.0% pa
Volatility	8% pa



Dispersion		
	✓	

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0% Contractual — 100% Contractual

Liquidity	
Immediate	Medium
Short	✓ Long

Diversification	
	Highly Diversified
✓	Diversified
	Concentrated

Long lease property ("LLP") funds are designed to produce secure, long term, inflation proofed income streams, which are generally attractive to defined benefit pension schemes.

These funds act as a diversifier in a portfolio as well as providing contractual income to pension schemes.

A LLP portfolio would focus on a subset of properties expected to display the following characteristics:

- Long lease lengths, providing some interest rate sensitivity.
- Inflation-linked, rather than fixed income;
- Income streams agreed with new acquisitions are increasingly LPI rather than RPI linked i.e. with 0% floors and 5% caps. These better match LPI liabilities and also provide a floor in the case of deflation (which index-linked gilts do not);
- Potential for additional gain from increases in the value of the underlying properties;
- Underpin of property value and resumption of rental income should the tenant default

Investors should note that LLP funds are likely to be outperformed by most other property funds in normal/prosperous property market conditions as the bulk of the return will be driven by income and not capital gains.

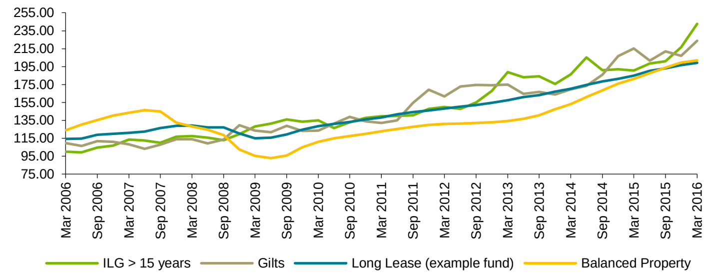
KPMG Summary

— We believe that LLP funds offer pension schemes an asset with similar characteristics to an index-linked corporate bond. This means they are able to offer some liability matching characteristics but also with some growth potential.

— We view LLP positively in the current market, where income is expected be the main component of property fund returns over the medium term.

— We believe LLP would be suitable for a wide range of pension schemes and would recommend an allocation of anywhere between 5-15%, depending on the individual requirements of the scheme.

Return comparison 10years to March 2016



Key features

Asset Class	Property > UK Property
Governance	High due to active management
Typical fees	0.4% - 0.6% p.a.
Trading costs	approx. 5.0%
Turnover	Low turnover of underlying investments
Lock-ins	Typically none but newer funds may have initial lock-in periods
Availability	We currently recommend five investment managers
Active/Passive	Active
Geography	UK focused

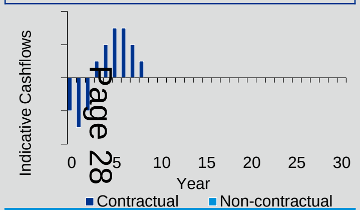
Past performance

Performance Indicator	Quarter	12 Months	3 years	5 Years
Example Fund	1.4%	7.8%	8.9%	8.8%

Direct lending

At a glance:

Expected returns	
Return	Senior / Unitranche: Libor + 4-7% Mezzanine: Libor + 7% to 10%
Volatility	8% - 14%



Dispersion

			✓

0% Contractual — 100% Contractual

Liquidity

	Immediate		Medium
	Short	✓	Long

Diversification

	Highly Diversified
✓	Diversified
	Concentrated

Direct lending refers to loan investments made directly by a fund manager on behalf of a fund to a portfolio of borrowers, typically medium sized businesses. Returns from direct lending originate from coupon payments, origination fees and penalties in case of amendment to terms or prepayment of principal.

Traditionally middle market borrowers (with outstanding debt below £250m) rely on banks to raise capital for refinancing, acquisitions and restructuring. As banks have reduced lending, institutional investors like pension schemes have the opportunity to step into the role traditionally played by banks and capture the attractive returns for providing finance in private markets.

Key features of direct lending include:

- Senior position in capital structure leads to relative security in event of default;
- Access to illiquidity premium rewarding the investor for investing in an asset that cannot readily be sold;
- Customisation and regular monitoring (quarterly) of covenants (terms & conditions) means greater control to prevent defaults;
- Limitations on issuer activities which are not beneficial to the senior lenders (e.g. restriction on payment to junior debt holders prior to senior lenders being paid);

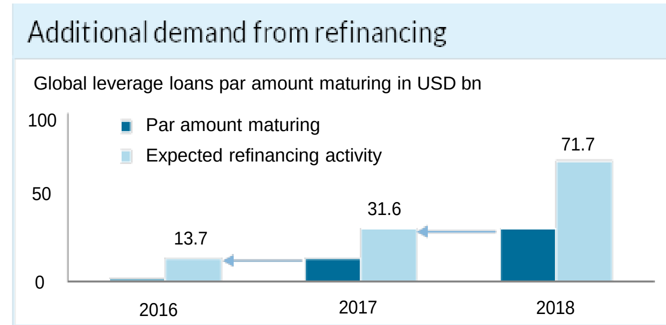
Key risks include:

- Default risk, although direct lending benefits from much better recovery rates than bond investors.
- Prepayment risk (capital being returned to investor sooner than expected), however this is partially mitigated by penalties.

KPMG Summary

The financing gap for Small and Medium Enterprises offers pension schemes an attractive opportunity to provide financing via pooled funds. Direct lending across the capital structure provides more attractive risk adjusted returns compared to the bank loan markets.

Global leveraged loans par amount maturing



Source: Partners Group S&P LCD Global Leveraged Loan Review

Key features

Asset Class	Bonds>Direct Lending
Governance	Medium, standard quarterly monitoring
Typical fees	0.8% to 1.25% p.a.
Performance fees	8% to 15% subject to return hurdle
Turnover	Low
Liquidity	None
Fund Life	6 to 10 years
Active/Passive	Active
Geography	Mixture of regional and global

Past performance

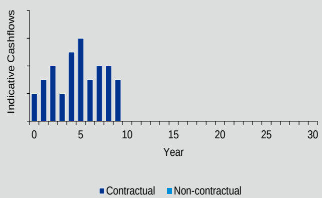
Performance Indicator	2015**	2014	2013	2012
Sample manager	4.2%	4.5%	5.0%	6.0%

*Sample Manager is Partners Group. Performance shown is net IRR as at 29 February 2016.
**The 2015 vintage is still in its investment period.

Semi-liquid credit

At a glance:

Expected returns	
Return	Gilts + 3-5% p.a.
Volatility	6% - 10% p.a.



Dispersion		
	✓	

0% Contractual — 100% Contractual

Liquidity			
	Immediate	✓	Medium
	Short		Long

Diversification	
	Highly Diversified
✓	Diversified
	Concentrated

A Semi-Liquid Credit strategy aims to fill the gap in terms of risk, return and liquidity between the illiquid and liquid credit ideas that pension schemes typically invest in. Managers will combine relatively liquid asset classes, such as High Yield, with illiquid asset classes such as Real Estate Debt. Managers have a high degree of flexibility in terms of strategies and allocations.

A Semi-Liquid Credit strategy aims to deliver returns normally associated with High Yield strategies, without taking the same level of credit and interest rate risk. A Semi-Liquid Credit manager instead aims to achieve these returns by allocating to less liquid strategies (benefitting from an illiquidity premium) and to strategies that are less understood by wider capital markets (benefitting from a complexity premium).

Characteristics that we look for in a Semi-Liquid Credit strategy include:

- Core holdings of credit and loans plus allocations in asset backed securities, distressed debt, private credit and hedging strategies
- Little or no fund leverage
- Lower credit risk than pure High Yield / Loans allocation
- Low correlation with other major asset classes

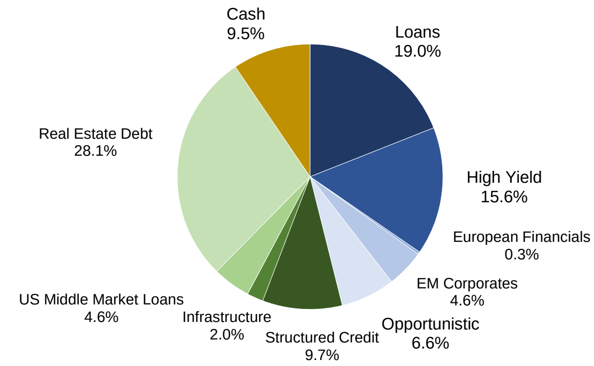
KPMG Summary

— We believe that Semi-Liquid Credit offers a diversified portfolio with holdings across the traditional and non-traditional areas of credit and looks to generate relatively high risk adjusted returns without relying solely on credit risk.

— We see Semi-Liquid Credit as an equity alternative for clients unwilling to bear the illiquidity of our more illiquid ideas, such as Direct Lending and Real Estate Debt. This may also be suitable for clients who are looking to extend exposure to illiquid assets.

— This strategy can also be seen as a higher risk-return, lower liquidity option in the diversified credit space.

Example manager asset allocation



Key features

Asset Class	Bonds
Governance	Low, standard quarterly monitoring
Typical fees	0.6% - 0.9% p.a.
Trading costs	Fund specific
Turnover	High turnover of underlying investments
Lock-ins	Quarterly liquidity, some initial annual lock ups
Availability	Limited number of pooled funds currently available
Active/Passive	Active
Geography	Global

Past performance

Performance Indicator	2015	2014	2013
Example manager performance	2.6%	5.3%*	13.4%*

Risk warnings

Limitations of modeling

- When considering the modeling output for each structure, and in particular the risk measures, the following limitations of modeling should be noted
- This report has been prepared for the sole benefit of Scottish Borders Council and is based on their specific facts and circumstances and pursuant to the terms of KPMG LLP's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, KPMG LLP accepts no responsibility or liability to that party in connection with the Services.
- The outcomes illustrated in this report are not intended to be the best possible, or worst possible outcomes. The actual outcome could be better than the 5th percentile, or worse than the 95th percentile.
- The output from our modelling is based on a large number of underlying assumptions. Changes to these assumptions can have a material impact on the results of the modelling.
- The only risk factors we have considered in our modelling are those that affect the values of pension schemes' assets and the financial assumptions used to value schemes' liabilities. Some of the risks we have not considered include demographic risks such as the life expectancy of pension schemes' members and future changes to members' benefits.
- The work carried out for this exercise is compliant with the applicable Technical Actuarial Standards in force published by the Financial Reporting Council. In particular the standards for Reporting Actuarial Information, Data, Modelling, and Pensions have been followed so far as their requirements are material for this work.

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Scottish Borders Council Pension Fund

Currency Hedge

—

August, 2016

DRAFT

How much should we hedge?

Empirical evidence indicates that a hedge level of 50% to 70% is optimal

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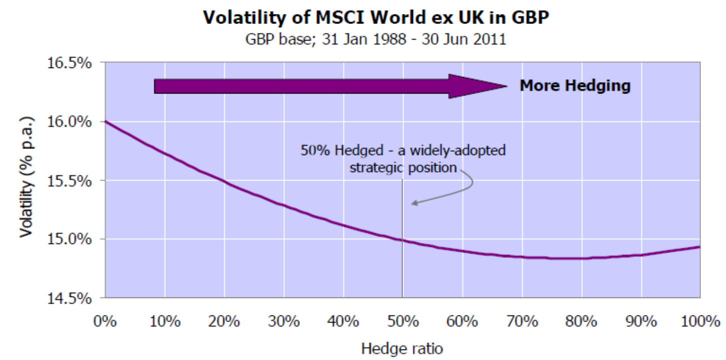
How much to hedge?

- Empirical studies suggest that a currency hedge of 50% to 70% is the optimal position in reducing the volatility of overseas equity asset returns over time.
- A hedge of 100% would not be expected to deliver the optimal level of risk reduction given that underlying businesses are often exposed to overseas currencies – determining the precise underlying currency exposure of an equity market or individual stock is not straightforward.
- While the optimal hedge ratio ultimately varies according to prevailing correlations, a 50% hedge is broadly aligned with the empirical analysis, whilst also offering both a lower cost and cashflow management burden than higher levels. It is the position of least regret often adopted by pension funds seeking to hedge overseas currency risk to reduce volatility of returns.
- The chart opposite illustrates the reduction in volatility in the MSCI World equity index by hedging back to Sterling - the majority of the volatility reduction can be achieved by moving to a 50% hedge.
- The empirical evidence indicates that hedging an element of overseas currency risk will achieve a not insignificant reduction in short term asset volatility.
- However, for a Sterling investor it is also important to look at the interaction of hedging and whether this offers risk reduction when it is needed most. It is also worth noting that any currency hedging programme has a cost and associated governance burden (which could increase significantly as new regulations come into force).



Source: Record asset management

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Risk management and correlations

The current hedging programme seeks to hedge the Fund's overseas exposure to the US dollar, Euro and Yen.

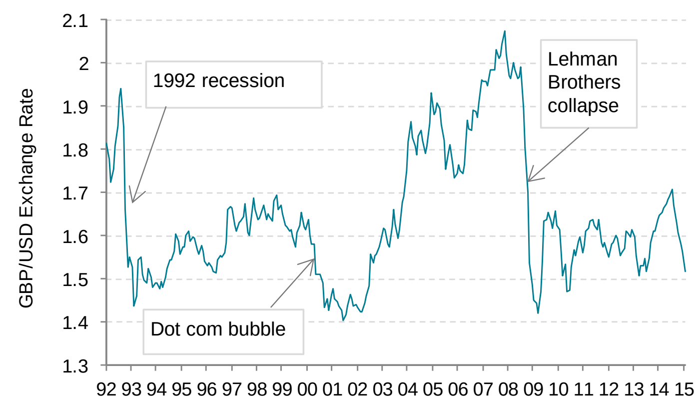
Historically Sterling has tended to behave as a 'risk on' currency relative to the US dollar and Japanese Yen in times of stress.

The currency hedge will have compounded losses when equity markets experienced a sharp sell off.

Hedging can increase tail risks

- The largest component of the overseas currency exposure is the US$/ £ hedge. Historically the US$ has been seen as a safe haven and has offered an offset to equity market risk (performing strongly in times of crises). Sterling exposure has (relative to the US Dollar and Yen) compounded equity gains/ losses in times of crisis.
- The chart opposite illustrates that Sterling has fallen sharply relative to the US dollar during a number of past market crises – the dollar exposure offers unhedged investors some protection at the overall portfolio level. We can observe a similar pattern with the Japanese Yen.
- It is of course overly simplistic to say that these relationships will hold true in the future, but the historical behaviour indicates that the risk reduction offered by hedging back to Sterling has tended to 'fail' when it is needed most.
- The Fund is currently exposed to not insignificant inflation risk (the liabilities are linked to inflation without a cap). In a scenario where UK inflation increases relative to elsewhere, we might expect Sterling to depreciate. The very long term inflation protection that might be expected from holding global equities would be lost through the hedge. In this scenario, again the hedge would somewhat compound other risks within the Fund.
- The Fund also carries some risk linked to interest rates remaining lower for longer (which will drive up the value placed on the liabilities). If the UK keeps rates lower for longer than others (e.g. US) then we would expect Sterling to fall in the short term realising a loss on the currency hedge. This would compound the risk of the liability value increasing.
- Whilst the leverage involved in currency hedging is generally viewed as relatively benign, it does increase overall market exposure and can act to amplify losses in certain scenarios when historical correlations fail – it is important to understand the underlying market dynamics and whether these have changed rather than simply relying on historical empirical evidence.

GBP/USD exchange rate – times of wider market stress



KPMG view

- Whilst short term volatility is reduced by currency hedging, a number of tail risks could be amplified by this approach.
- At an overall portfolio level, there is an argument to remove the currency hedge (living with additional day to day volatility in asset values), in the belief that the overseas currency exposure (US dollar and Yen) will act as an offset against losses in severely stressed market environments.

DRAFT

What are the costs?

The risk reduction offered by hedging overseas currency exposure is not cost free.

A combination of direct and indirect costs are incurred and the process can often consume internal management time.

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It is not cost free

- Whilst currency hedging is expected to reduce overall volatility, it is not cost free and there are a variety of direct and indirect costs involved in running a programme.
- As highlighted by the Fund’s recent experience, the currency forward contracts create cashflows as profits or losses are realised. In the case of losses, there is a requirement to fund this by posting collateral to the counterparty bank from time to time.
- The disinvestment required has an associated cost. These can be significant if currency markets are volatile – this has certainly been the case for the Fund in recent quarters. Whilst some of the calls might be managed through ongoing cashflow, there will ultimately be some element of cost incurred.
- Going forward the EMIR regulation may require daily collateralisation and 5% to 10% of the notional exposure to be held as collateral – this will increase the administrative burden further if it proceeds.
- There is also the “cost” of entering into the forward contracts from the spread on the buying and selling of these contracts. Currency transactions are one of the most frequent and largest investment activities in the financial world. The currency markets are liquid, and costs have declined significantly over the last 20 years. Recent Vanguard research has estimated that the transaction cost to hedge an international bond portfolio is less than 0.20% a year for investors hedging back to a liquid, developed-market currency, such as Sterling.
- There is the also time and governance required by the Scottish Borders Council Officers to manage the administration and detailed reporting of the underlying programme. The cash calls are typically required at short notice which can create difficulties.
- State Street also charge a fee for managing the programme on the Council’s behalf.

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DRAFT

Current conditions

Sterling has fallen dramatically against the US dollar, Euro and Yes and very sharply so following Brexit.

Sterling has recently touched 30 year lows against the dollar.

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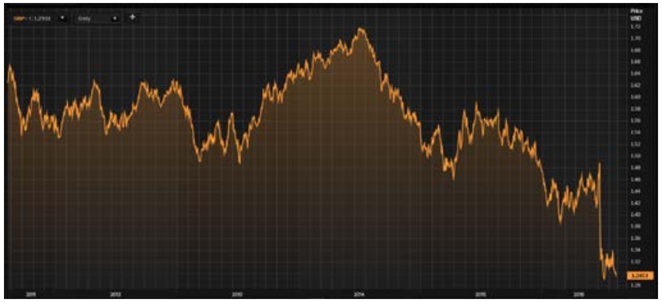
Recent performance

- Sterling has fallen sharply against all major developed market currencies following Brexit. This has led to sharp losses on the existing hedging programme.
- All else being equal, the recent fall in Sterling would represent an opportunity to crystallise some gains on overseas holdings by increasing the level of hedging.

KPMG view

- From a strategic perspective, we would recommend unwinding the currency hedge recognising the small reduction in volatility is balanced by the costs involved, the potential compounding of loss in certain stressed market scenarios and an (increasing) governance burden.
- However, Sterling has recently fallen very sharply and there could be significant regret risk associated with unwinding the programme at the current time. Sterling has recently hit 30 year lows against the US dollar.
- Recognising this, the challenge of trying to call currency markets and the practical difficulties involved in making changes, we therefore propose that the currency hedge should be gradually unwound in a phased manner. We propose that this should be implemented over the next 12 months with the hedge reduced to nil across all currencies in a straight line manner over that period. This should be achievable through a written instruction to State Street. Delegated responsibility to change the hedge following any significant changes should be retained in line with the current approach.
- Alongside this, we believe that options to make the collateral management more cost efficient during that period should be reviewed in order to minimise transaction costs over the period.

USD VS £



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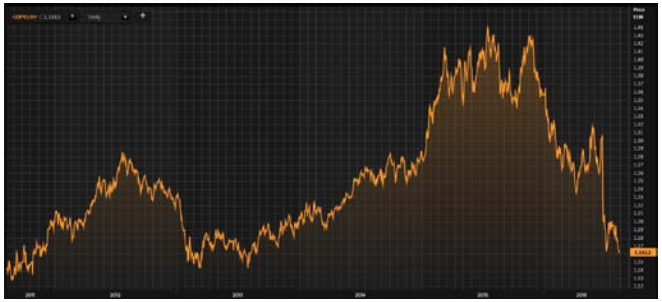

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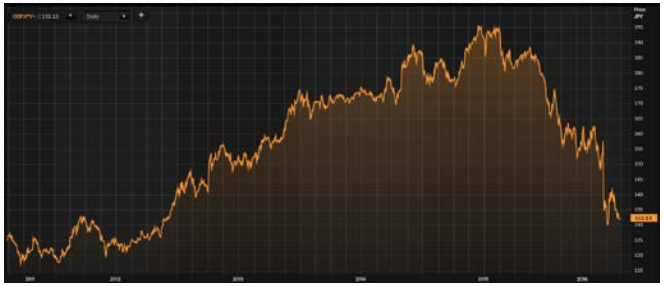

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Scottish Borders COUNCIL

RISK REGISTER UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

15 September 2016

1 PURPOSE AND SUMMARY

1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an update of the progress of the management actions to mitigate the risks, a review of any new risks and highlights changes to any of the risks contained in the risk register.**

1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's 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 risks within the approved Risk Register which have identified management actions and the progress of these actions to date.

1.4 The recent vote to leave the European Union is highly likely to have an impact on the Pension Fund. While the actual timing and consequences of the change are, however, currently unknown, it is evident that the pension fund investment strategy will have to adapt over time as the implications are quantified. Further reports and updates will therefore be provided as these implications act become known.

2 RECOMMENDATIONS

2.1 **It is recommended that the Committee and Board:**

(a) note the management actions progress as contained in Appendix 1;

(b) note the emerging position with regard to "Brexit" continue to create uncertainty; no new quantifiable risks have been identified since the last review; and

(c) agree to a key risk review being undertaken in December 2016 and reporting of progress on risk management actions.

3 BACKGROUND

3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.

3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.

3.3 The Pension Fund's Business Plan 2016/17 – 2018/19 was approved on 16 June 2016 and set out the aims and objectives of the Fund. These aims and objectives were fully considered and recognised in the formation and approval of the Pension Funds risk register.

3.4 The Council's revised Risk Management process guide uses the following risk scoring:

Level of risk	Risk score
RED	High –Risk Score Range 15-25
AMBER	Medium – Risk Score Range 6 – 12
GREEN	Low – Risk Score Range 1 - 5

3.5 To comply with the Council's revised policy of risk management and best practice a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:

Quarterly
- Quarterly Investment Performance Report.
- Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee.
- Update on progress of risk management action delivery.

Bi-Annually
- Mid-Year Progress report on Business Plan Actions.
- Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee.
- Update on progress of risk management action delivery.

Annually
- Annual Governance Meeting with Annual Report and Policy/ Strategy Performance Reports.
- Annual reporting on progress with Business Plan and approval of updated Business Plan.
- Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks.

4 RISK REGISTER UPDATE

4.1 A full risk workshop was undertaken on 30 May 2016 by Officers in order to ensure that the risk register’s contents were still relevant and up-to-date. The outcome of the workshop was then considered and approved at the Committee/Board meeting on 16 June 2016**.** This report provides the quarterly review of risks and the progress of the actions.

4.2 The progress of the individual management actions identified in the current risk register are detailed in Appendix 1.

4.3 There has been discussion at Scottish national level on the potential for pension funds working together to drive increased investment in infrastructure. Officers are currently undertaking further work to assess the possible implications and opportunities for the Pension Fund.

4.4 In June the UK voted to leave the European Union. The timing and consequences of this decision are yet not fully known. Officers, in conjunction with the Investment Advisor, are monitoring the situation and will report risks and opportunities to the Joint Board and Committee as they become clearer.

4.5 No new quantifiable risks have been identified since the approval of the risk register on 16 June 2016. The risks previously identified and scored remain unchanged.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

(a) The purpose of providing the update to the Committee and Board to ensure that the Members of the Pension Fund Committee and the Pension Board understand the risks faced and how it is proposed to manage, mitigate or tolerate these risks. The additional proposed actions as contained in Appendix 1 and recommended for approval by the Committee and Board in this report, are designed to directly enhance the management of risks.

(b) The Chief Officer Audit and Risk has commented that there is a substantial framework for effective management of risks relating to the Pension Fund (i.e. the business plan objectives, clear governance arrangements, regular monitoring, risk register, etc.).

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 **Rural Proofing**

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

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

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

6 CONSULTATION

6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted and their comments included in the report.

Approved by

David Robertson
Chief Financial Officer **Signature ....**

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Treasury & Capital Manager, 01835 825249

Background Papers:
Previous Minute Reference: Pension Fund Committee and Pension Board 16 June 2016

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

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

Pension Fund - Risk Register

							Inherent Risk			Controls		Residual Risk		
No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.1	Asset & Investment	Failure to achieve the target investment returns set out in the Statement of Investment Principles over the longer term may lead to significant increased employer contribution rates and costs of implementing changes to the investment strategy.	Inappropriate strategic asset allocation for Fund's requirements; Inappropriate investment approaches within asset class; Underperformance/ negative investment returns from investments under management; Significant and sustained market and economic events creating adverse movements in valuations; Investment Strategy inconsistent with Funding Strategy.	Significant rises in the employer contributions; Costs involved in implementing changes to investment strategy; Funding Deficit for Fund.	Ongoing	Pension Fund Committee/ Chief Financial Officer	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; Actuary reports included element of prudence. TREAT Additional Actions Proposed: 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. Extension of time to UBS to December 2016 for repositioning of property mandate.	Effective	4	3	12
1.2	Asset & Investment	Failure of Fund's Custodian may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Inaccurate recording of asset transactions; Financial or internal controls fail to prevent fraud or misappropriation; Organisational failure resulting in closure of business/cessation of trading.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/ Chief Financial Officer	4	3	12	Robust procurement processes around the custodian; Reconciliation of Custodian to Investment Manager Records; Monitor custodian performance and credit rating; Monitoring of financial media; Covered by legal contract; Regulated by FCA, assets not on custodian balance sheet; Receipt of annual controls reports from Custodian's External Auditors; Annual External Audit Process; Legal recourse within contracts. TREAT Additional Actions Proposed: Procurement of revised custodian services	Effective	3	2	6
1.3	Asset & Investment	Failure of one of the Fund's Investment Manager may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Investment Manager's framework of controls does not prevent fraud, misappropriation or erroneous investment activity; Investment Manager's business model fails.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/ Chief Financial Officer	5	3	15	Robust procurement processes around the managers; Engagement with Investment Adviser in relation to monitoring external environment in respect of the individual managers; Reconciliation of Custodian to Investment Manager Records; Diversification of investment managers; Continual monitoring of investment performance; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Regulated by FCA; Receipt of annual controls reports from Investment Managers' External Auditors; Legal recourse within contracts TOLERATE	Effective	3	3	9

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Inherent Risk: Impact	Inherent Risk: Likelihood	Inherent Risk: Score	Controls: Current Controls	Controls: Control Assessment	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Score
1.4	Asset & Investment	Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels	Committee ignores advice provided by expert adviser; External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers.	Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates.	Ongoing	Pension Fund Committee/ Chief Financial Officer	5	4	20	Robust procurement processes around the recruitment and appointment process; New Investment Adviser appointed; Review of Actuary planned; Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role TREAT Ongoing training for elected members of the Pension Board and Committee Procurement of revised Cusodian services to include Performance reporting.	Effective	4	2	8
1.5	Asset & Investment	Failure to manage Currency risk may lead to an inability to maximise the returns from investments with the agreed risk parameters resulting in an adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions impacting on currency rates	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Chief Financial Officer	3	4	12	Passive Currency hedge in place for directly held equity investments on major currencies; Monthly review of hedge levels. TREAT Additional Actions Proposed: Review currency hedge requirements and use.	Partially Effective	3	3	9
1.6	Asset & Investment	Failure to react to major changes in market/economic conditions may lead to an inability to manage the fund properly resulting in significant adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Adverse movements in market/economic conditions	Adverse impact on valuation of investment assets and assessment of Fund's future liabilities	Ongoing	Chief Financial Officer	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; TREAT Additional Actions Proposed: Long term view of investment growth is required and will continue to use existing controls for the Pension Fund. Undertaking full asset allocation review as detailed in business plan.	Effective	3	3	9

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Inherent Risk Impact	Inherent Risk Likelihood	Inherent Risk Score	Controls: Current Controls	Controls: Control Assessment	Residual Risk Impact	Residual Risk Likelihood	Residual Risk Score
1.7	Asset & Investment	Underperformance of Investment Manager(s) may lead to financial losses for the Fund resulting in the inability to achieve the target investment returns set out in the Statement of Investment Principles which over the longer term may lead to significant increased employer contribution rates and costs of implementing changes in investment managers.	Underperformance/ negative returns from investments under management as a result of individual management approach/actions.	Financial loss which may lead to significant increased employer contribution rates and costs of changing investment managers	Ongoing	Corporate Finance Manager/ Pension Fund Committee/ Chief Financial Officer	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 and setting benchmarks in respect of the individual investment managers; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Monitoring of financial media; Immediate action would be considered and removal of funds to Transition Manager. TOLERATE	Effective	2	3	6
1.8	Asset & Investment	Insufficient scrutiny of manager mandates and terms of business may lead to a failure to manage the Fund properly resulting in inappropriate fee levels and other costs.	Lack of information from fund managers; Lack of capacity within pension fund team and advisers;	Inappropriate fee levels and other costs.	Ongoing	Capital & Investments Manager	2	3	6	Detailed monitoring in place for the investment managers where direct investments held, higher level monitoring for unitised funds; TOLERATE	Partially Effective	1	3	3
1.9	Asset & Investment	Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap.	Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy	future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	3	9	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. As part of this assess requirement for Investment strategy to be reviewed and updated accordingly. TREAT <u>Additional Actions Proposed:</u> Undertake a full investment strategy review following 2014 valuation.	Effective	2	2	4
1.10	Asset & Investment	Failure of Funds investment returns to keep pace with pay and CPI Inflation increases may lead to Funding Levels falling and potentially requiring increases in employer contribution rates.	General economic climate results in higher CPI inflation and investment returns do not keep pace due global investment markets and economies	Funding levels fall, SBC pay more contributions into Fund	ongoing		4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. TREAT <u>Additional Actions Proposed:</u> Continued monitoring and evaluation of inflation and pay awards	Effective	3	4	12

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Inherent Risk: Impact	Inherent Risk: Likelihood	Inherent Risk: Score	Controls: Current Controls	Controls: Control Assessment	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Score
2.1	Employer	Failure to apply and demonstrate fairness in the treatment of different fund employers may lead to improper management of the Fund and result in inappropriate employer contribution rates or cross-subsidisation of employers outwith the agreed pooling arrangements.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates or cross-subsidisation of employers outwith the agreed pooling arrangements leading to a shortfall of funding or over charging of an employer.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2014 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. Live Borders/SBHA to reflect employer situations. Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TREAT Additional Actions Proposed: Annual Declaration to include changes of scheme membership for current and future year.	Effective	3	1	3
2.2	Employer	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers may result in improper management of the Fund and result in inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2014 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. Live Borders/SBHA to reflect employer situations; Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TOLERATE	Effective	3	2	6
2.3	Employer	Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions	Scheme employer ceasing to operate	Shortfall in fund as a whole with increases required in all other employers contributions	Ongoing	Pension Fund Committee/ Chief Financial Officer	4	3	12	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey, and Council agreement in place for Live Borders and SB Cares; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. TOLERATE	Effective	3	2	6

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Pension Fund - Risk Register

							Inherent Risk			Controls		Residual Risk		
No.	**Category**	**Risk**	**Causes/Triggers**	**Consequences**	**Proximity**	**Risk Owner**	**Impact**	**Likelihood**	**Score**	**Current Controls**	**Control Assessment**	**Impact**	**Likelihood**	**Score**
2.4	Employer	Failure to understand and be involved in proposed structural changes in employers' engagement in the Scheme may lead to failure to manage the transition to a different level/type of participation by the employer in the Fund resulting in inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer.	Failure by employer to notify the fund of significant changes of membership; Changes to composition of employees; Fund participation no longer affordable to an employer.	Failure to manage the transition to a different level/type of participation by the employer in the Fund; Inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer. Fund reaches maturity more quickly; Adverse impact on cash flow and funding levels (per risk 4.1)	Ongoing	Pension Fund Committee/ HR Shared Services Manager	3	4	12	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. TREAT <u>Additional Actions Proposed</u>: Full communications strategy being developed during 2016/17 to further improve Employer Engagement; Annual Declaration to include changes of scheme membership for current and future year.	Effective	2	3	6
3.1	Resources & skills	Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively.	Available resource; Requirement to maintain admin costs; Absence of succession management in relation to supporting crucial aspects of the operation of the Fund.	May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively.	Ongoing	Chief Financial Officer/ Chief Officer Human Resources	3	4	12	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Restructure of teams to reduce single points of failure and manage succession planning. TREAT <u>Additional Action Proposed</u>: Improvement in quality of procedure notes for officers.	Effective	2	3	6
3.2	Resources & skills	Failure to provide appropriate training and support and/or secure Board/Committee Member engagement in Training Programme may lead to ineffective management of the Fund as a result of poorly informed decision making.	Availability of members to attend training; Inappropriate training programme.	Ineffective management of the Fund as a result of poorly informed decision making.	Ongoing	Pension Fund Committee/ Chief Financial Officer	2	4	8	Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. TOLERATE	Effective	2	3	6

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Inherent Risk: Impact	Inherent Risk: Likelihood	Inherent Risk: Score	Controls: Current Controls	Controls: Control Assessment	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Score
3.3	Resources & skills	Over reliance on key Members of the Board or Committee may lead to lack of challenge and objectivity in decision making resulting in failure to manage the Fund effectively.	Knowledge and experience gap of new members.	Failure to manage the Fund effectively.	Ongoing	Pension Fund Committee/ Pension Fund Board Chairs	3	3	9	All Members of the Pension Fund Committee and Pension Board are actively involved in the discussions with External Advisers and therefore have access to the same information and training opportunities; Clear scheme of administration and constitutions established for the Committee and Board providing clarity of roles and responsibilities; Training Policy sets out skills and knowledge responsibilities for members. Pension Fund Committee and nominated reps of Board are actively involved in discussions with investment managers. TOLERATE	Effective	2	2	4
3.4	Resources & skills	Lack of sufficient knowledge and expertise on Pension Fund Committee and Board members to discharge their duties could lead to failure to manage the Fund effectively as a result of poorly considered decision making.	Knowledge and experience gap of new members.	Poorly considered decision making.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Pension Fund committee and Board have access to External Advisers and Council Officers to help advise and inform them; Pension Fund committe and nominate repersentives of Board have acces to Investment Managers via the Investment and Performance sub committee Members Training Policy for Pensions Fund established, monitored and reported on annually; Annual training programme in place; Skills and training assessment undertaken annually. TOLERATE	Effective	2	2	4
3.7	Resources & skills	Failure of Officers to maintain sufficient level of competence to discharge their duties could lead to failure to manage the Fund effectively as a result of their inability to provide appropriate decision making support and advice.	Changes in legislation; New investment types and vehicles; Lack of documented procedures.	Failure to manage the Fund effectively.	Ongoing	Chief Financial Officer/ Chief Officer Human Resources	3	3	9	Use of External Advisers provides additional resilience and resources; PRD process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Regular engagement with external Investment Managers to supplement knowledge. TREAT Additional Action Proposed: Improvement in quality of procedure notes for officers.	Partially Effective	2	3	6

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Inherent Risk: Impact	Inherent Risk: Likelihood	Inherent Risk: Score	Controls: Current Controls	Controls: Control Assessment	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Score
4.1	Liquidity	Changes in composition of Pension Fund membership, i.e.active/deferred/pensioners may lead to insufficient assets in the Fund to meet the future liabilities as they fall due potentially increasing employers contribution levels and changes to the investment strategy.	Variance between CPI rates and pay increases; Fewer people joining; Other employers close funds; Economic drivers to reduce workforce.	Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due potentially increasing employers contribution levels and changes to the investment strategy.	Ongoing	Chief Financial Officer	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 Adviser and Actuarial services as and when required: Implementation of Auto-enrolment with final transition being completed by July 2017; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. TREAT Additional Actions Proposed: Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Continue review of cashflow scenarios to identify timelines and impact of changing legislation.	Partially Effective	4	4	16
4.2	Liquidity	Employees can no longer afford to participate in the scheme then there may be reduced income into Fund resulting in a change being required to the Funding and Investments Strategy due to changes in participation levels.	Economic circumstances; Potential increases to employee contributions due to central Govt. decisions; Changes to tax relief on pensions.	Reduced income into Fund resulting in a change being required to the Funding and Investments Strategy	Ongoing	Chief Financial Officer	4	4	16	Limited measures in place. Nationally negotiated rates/benefits with employee representatives (i.e. Trade Unions) on minimising employee contribution increases; Pay awards now being given, economy now improving; LGPS changes implementation of 50/50 option; Trade Union involvement in the Pension Board and Scheme Advisory Board; Communication issued with annual benefits statements. TREAT Additional Actions Proposed: 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.	Partially Effective	4	3	12
4.3	Liquidity	Significant differences between Actuarial Assumptions in the Triennial Valuation Reports and reality may lead to setting Funding and Investment Strategies which may result in insufficient cashflow to fund current obligations or insufficient funding to cover future liabilities	CPI inflation; Mortality levels; Investment Returns.	Setting Funding and Investment Strategies; Insufficient cashflow to fund current obligations or insufficient funding to cover future liabilities; Increased employer contributions.	Ongoing	Chief Financial Officer	3	3	9	Full actuarial valuation undertaken on Triennial basis; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions. Any strain on fund incurred paid by employer at point of retirement; Regular monitoring of investment performance and where medium to long term trend in returns is identified then this will be reviewed. TOLERATE	Effective	2	3	6

Pension Fund - Risk Register

							Inherent Risk			Controls		Residual Risk		
No.	**Category**	**Risk**	**Causes/Triggers**	**Consequences**	**Proximity**	**Risk Owner**	**Impact**	**Likelihood**	**Score**	**Current Controls**	**Control Assessment**	**Impact**	**Likelihood**	**Score**
4.4	Liquidity	Number and value of early retirements increases to levels in excess of the actuarial assumptions, which may lead to incorrect employer contributions being set, resulting in insufficient funding for future liabilities.	Reducing workforce.	Insufficient funding for future liabilities.	Ongoing	Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial Valuation; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions; Ensure Employers contribution to strain on the fund is correctly calculated and received into the Fund; Reduction in applications being supported seen in recent tranches of ER/VS; Continue to monitor ER/VS applications and impacts. TOLERATE	Effective	2	2	4
4.5	Liquidity	New pension access reforms ("freedom of choice") may lead to pension fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential for a significant change in the liability profile for the Fund.	Changes in legislation and increase in awareness.	Requirement to release large amounts of cash to members; Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position; Scheme sanction charges for any transfer to unapproved scheme.	Ongoing	Chief Financial Officer/ Chief Officer Human Resources	3	3	9	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 adviser; Continue to monitor ongoing legislation around this area. TREAT Additional Actions Proposed: Development of comms strategy.	Effective	2	3	6
4.6	Liquidity	Failure to manage the liquidity required for the Fund's cashflows may lead to assets being sold at unattractive times or investment opportunities missed due to unavailability of cash, resulting in an adverse impact on the valuation of the Fund's assets.	Currency hedge; Higher than anticipated levels of retirement; Higher levels of lump sums commutation taken on retirement.	Requirement to divest investment assets at an unattractive time or missing investment opportunities which result in an adverse impact on the value of the Fund's assets	Ongoing	Capital & Investments Manager	4	3	12	Daily and weekly monitoring of Pension Fund's Cashflows; Currency Hedge requirements monitored ahead of cash requirements. TREAT Additional Actions Proposed: Improve quality of medium term cashflow forecasting for the Fund; Reviewing currency hedge requirements; Asset allocation review to review cash flow projections requirements; New Treasury Management system to improve cash flow projections.	Partially Effective	3	3	9
5.1	Administrative	Failure to process pension payments and lump sums on time may lead to financial distress for retiring staff and potential referral to the Pensions Regulator and/or external auditor resulting in the possibility of additional penalty costs and reputational damage.	Insufficient information from member or employer; Lack of access to pension fund system information; Absence of specialist pension admin.	Financial distress for retired staff; Potential referral to the Pensions Regulator and/or external auditor; Additional penalty costs; Reputational damage.	Ongoing	HR Shared Services Manager	3	3	9	Pension administration system implemented; Resourcelink continues to be used for pension payments; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained. TOLERATE	Effective	2	2	4

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Inherent Risk: Impact	Inherent Risk: Likelihood	Inherent Risk: Score	Controls: Current Controls	Controls: Control Assessment	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Score
5.2	Administrative	Failure to collect and account for contributions from employers and employees on time may lead to adverse cashflow implications for the Fund potentially resulting in adverse external audit opinion, referral to the Pensions Regulator, reputational damage and requirement to divest investments to fund the cashflow deficit.	External employers not remitting contributions on time.	Adverse cashflow implications for the Fund; Adverse external audit opinion; Referral to the Pensions Regulator; Reputational damage; Requirement to divest investments to fund the cashflow deficit.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system implemented; Resourcelink continues to be used for pension payments; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; TOLERATE	Effective	2	2	4
5.3	Administrative	Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members	Loss of main office; Computer system; Staff absence.	Ability to process payments on time; Financial distress to members; Reputational risk.	Ongoing	HR Shared Services Manager	4	3	12	Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system, along with Windows 7 provides improved ability for homeworking; Involvement in design and implementation of ERP system. TOLERATE	Effective	2	3	6
5.4	Administrative	Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds.	Lack of monitoring; Lack of segregation of duties.	Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members.	Ongoing	HR Shared Services Manager	3	3	9	Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. TOLERATE	Effective	2	2	4
5.6	Administrative	Failure to hold personal data securely resulting in personal data loss, reputational damage and potential financial penalty	Lack of controls; Lack of monitoring; Lack of procedures; Lack of training and awareness.	Data lost or compromised; Reputational risk; Potential financial Penalty from Information Commissioner.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system implemented; Resourcelink continued to be used for pension payments; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in mandatory Data Protection and fully compliant with SBC Info. Governance requirements. TOLERATE	Effective	2	2	4

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Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Inherent Risk: Impact	Inherent Risk: Likelihood	Inherent Risk: Score	Controls: Current Controls	Controls: Control Assessment	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Score
5.7	Administrative	Failure to keep pension records up to date and accurate may lead to incorrect pensions information being issued or incorrect benefits calculations or payments	Lack of info from members and employers; Human error; IT systems failure.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid.	Ongoing	HR Shared Services Manager	3	4	12	Pension administration system implemented; Resourcelink continued to be used for pension payments; Staffing structure of HR Shared Services continues to monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained mandatory Data Protection and fully compliant with SBC Info. Governance requirements; Annual Statements issued to active and deferred members, including list of beneficiaries. TREAT Additional Action Proposed: Communication plan to be put in place to ensure employees notify employers of any changes.	Partially Effective	2	3	6
5.8	Administrative	Failure to communicate effectively with stakeholders in Pension Fund resulting in inability to provide high quality pensions service	Failure to issue information in a timely manner and in an easily understandable format.	Scheme members not aware of their rights resulting in bad decisions; Employers not aware of regulations, procedures, etc.	Ongoing	HR Shared Services Manager/ Capital & Investments Manager	3	3	9	Engagement in Scottish pension networks; Union and Admitted body representation on the Pension Fund Board; Publication of annual report via website and printed copies to all Scheduled and Admitted bodies; Annual reporting or performance of issuing Benefits Statements to Pension Fund Committee and Board. TREAT Additional Action Proposed: Implementation of Communications Strategy.	Effective	2	3	6
5.9	Administrative	Failure to ensure pension transfer payments due to/payable by the fund are calculated accurately and received/paid resulting in incorrect funds being held within the Fund to pay future benefits to individuals	Failure to ensure pension transfer payments due to the fund are calculated accurately and received	Insufficient funds transferred/received to meet future obligations; Failure to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations; Referral to the Pension Regulator; Reputational damage; Financial penalty.	Ongoing	HR Shared Services Manager	2	3	6	Pension administration system continues to provide automated support in calculation, using nationally approved scheme based on number of standard assumptions at point of transfer. TOLERATE	Effective	2	1	2
6.1	Regulatory & Compliance	Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation	Changes to legislation; Lack of staff training; Lack of knowledge and skills	Wrong pension payments made or estimates given; Breach of regulations; Prosecution.	Ongoing	HR Shared Services Manager/ Capital & Investments Manager	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; External Audit review extends beyond financial controls; Pension Board review of decisions; PRD process implemented to identify training and development requirements. TOLERATE	Effective	2	2	4

Pension Fund - Risk Register

							Inherent Risk			Controls		Residual Risk		
No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
6.2	Regulatory & Compliance	Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	Central Govt. legislation changes.	Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members.	Ongoing	Chief Financial Officer/ Chief Officer Human Resources	5	5	25	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; TREAT Additional Actions Proposed: Seek to input into any of the legislative change through active membership of COSLA; Investigate joint investment opportunities with other LGPS funds for infrastructure.	Partially Effective	4	4	16
6.3	Regulatory & Compliance	Failure to produce accounts, notices and publications correctly or on time resulting in inability to manage the fund effectively and compliantly.	Lack of capacity; Conflicting operational demands, including Transformational activity.	Accounts qualified by External Auditors; Referral to Pensions Regulator or Scheme Advisory Board	Ongoing	Corporate Finance Manager	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. TOLERATE	Effective	2	2	4
6.4	Regulatory & Compliance	Changes in national jurisdictions may lead to changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes	Changes in national jurisdictions	Changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes e.g. Withholding Tax	Ongoing	Corporate Finance Manager	2	3	6	Monitoring of political position via news releases and group networks. TOLERATE	Effective	2	3	6
7.1	Reputation	Conflict of interest for Elected Members on Pension Fund Committee and Board between Council priorities and Pension Fund Management priorities may result in failure to make the best decision for the Pension Fund	Conflicts of interest.	Failure to achieve Pension Fund objectives; Failure to make the best decision for the Pension Fund; Referral to the Scheme Advisory Board and/or Pension Regulator; Legal challenge.	Ongoing	Chief Financial Officer	4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund (Constitution and Code of Conduct); Officers and Investment Adviser provide additional clarity and support to avoid these situations; Skills and knowledge assessment undertaken annually; Pension Board role to ensure compliance with regulatory environment. TOLERATE	Effective	3	2	6
7.2	Reputation	Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in reputational damage	Changes in legislation that are implemented incorrectly; Failure to follow Governance arrangements.	Ineffective management of the Fund; Reputational damage; Loss of employer confidence; Referral to Scheme Advisory Board and/or Pension Regulator; Legal Challenge.	Ongoing	Chief Financial Officer	3	3	9	Up to Date constitution for Pension Board and Scheme of Administration for Pension Fund Committee; 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. Pensions Board role to support this agenda. TOLERATE	Effective	2	2	4

Pension Fund - Risk Register

							Inherent Risk			Controls		Residual Risk		
No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
7.3	Reputation	Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers	Lack of capacity of Officers to monitor.	Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge	Ongoing	Chief Financial Officer/Chief Officer Human Resources	2	3	6	Identify requirements of external advisers and appoint appropriately. TREAT Additional Actions Required: Implement annual review of Adviser; Procurement of custodian for independent performance monitoring of Fund.	Effective	2	2	4
7.4	Reputation	Delays in implementation of decisions resulting in reducing the effectiveness of the decision and potentially adversely impacting on the ability to maximise investment returns	Competing priorities; Lack of resources.	Reducing the effectiveness of the decision; Potentially adversely impacting on the ability to maximise investment returns; Loss incurred or reduced income received.	Ongoing	Chief Financial Officer/Chief Officer Human Resources	3	3	9	Decisions minuted and appropriate staff assigned to implement; Agreed actions monitored by Democratic Services; Implementation timescales priorities according to risk levels and available resources levels; 3 year Business Plan developed and approved and monitored in year by Pension Fund Committee and Board. TREAT Delivery of Business Plan to allow early identification and allocation of staff resources to actions.	Partially Effective	3	3	9
7.5	Reputation	Ultra vires pension fund actions resulting in a failure to manage the pension fund properly	Fraudulent activity; Lack of skills and knowledge;	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Chief Financial Officer	4	2	8	Training provided to Members and Officers to ensure legal framework understood; Use of external advisers and contact with SPPA. TOLERATE	Effective	2	1	2

SCOTTISH LOCAL GOVERNMENT
PENSION SCHEME
ADVISORY BOARD

Annual Report 2015/16

Scottish Local Government Pension Scheme Advisory Board (SAB) Annual Report 2015/16

Opening Remarks from the Chair

On behalf of the Local Government Pension Scheme Advisory Board, I am delighted to be able to present the first SAB Annual Report. The aim of this Annual Report is to provide a primary source of information about the work of the Board over the last financial year, 2015 – 16 for LGPS members, employers, and other stakeholders. The Board welcomes feedback on the information provided and how this can be developed for future reports.

More information can be found about the Board's work at our website: http://lgpsab.scot/

William McGonigle
Chair of SAB

Introduction

The Scottish Local Government Pension Scheme Advisory Board (SAB) was established under the Public Service Pensions Act 2013 to provide advice to Scottish Government Ministers on the desirability of changes to the design of the scheme and the implication of other policy issues.

The SAB also provides advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the scheme.

The Scheme Advisory Board is responsible for:

- Providing advice on request about the desirability of changes to the design of the scheme; policy issues and changes to scheme regulations
- Discussing and commenting on the potential implications of future valuation outcomes
- Making recommendations on adjustments to the Scheme in the event that costs breach the employer cost cap
- Providing advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme.

Structure and People
The SAB is a bipartite Board comprising equal representation from employers and employee representatives. The partnership approach is also reflected in our administration arrangements with Joint Chairing on a rotational basis between the two sets of representatives and a Joint Secretariat sourced from existing resources within the Employers and Trade Union organisations.

SAB Members

Outgoing Chair (2015-16) – Cllr Stewart Cree, COSLA
Incoming Chair (2016-17) – William McGonigle, Unite the Union

Cllr Stewart Cree	Member (representing scheme employer interests)
Cllr Alastair Rankin	Member (representing scheme employer interests)
Cllr John Mitchell	Member (representing scheme employer interests)
Cllr Jim Goodfellow	Member (representing scheme employer interests)
Cllr Ian McAlpine	Member (representing scheme employer interests)
Brian Strathie	Member (representing scheme employer interests)
Rebecca Wilson	Member (representing scheme employer interests)
Dave Watson	Member (representing scheme member interests)
Stephen Smellie	Member (representing scheme member interests)
William McGonigle	Member (representing scheme member interests)
Brian Gallagher	Member (representing scheme member interests)
Alex McLuckie	Member (representing scheme member interests)
Andy McFarlane	Member (representing scheme member interests)
Harry Frew	Member (representing scheme member interests)

Joint Secretary – Employers'
Outgoing - Jane O'Donnell, COSLA
Incoming - Hayley Wotherspoon, COSLA & Jonathan Sharma, COSLA

Joint Secretary – Trade Unions
Dave Watson, UNISON

There are a number of observers and advisers who support the SAB in the deployment of Board business. These include representatives from, and on behalf of, the Scottish Government, formal COSLA officials, pension scheme managers and representatives from professional associations.

Communications
The SAB have developed a bespoke website to act as a unique source of information and advice to all stakeholders. The site includes the minutes of SAB meetings along with other governance documentation, guidance documents and details of the Board's membership. The content of the website will develop as the work of the Board continues.

Similar information is also published on the local government pages of the SPPA website - http://www.sppa.gov.uk/

A short bulletin is also published after each meeting covering the key decisions. This bulletin is circulated to key stakeholders and is available of the SAB website.

The SAB has also issued guidance to employers and funds on a number of issues as detailed on the workplan.

Financial report

The regulations underpinning the 2013 Act allow the SAB to collect a levy to support its work. In the first year of operation, the SAB adopted a straight proportion of the levy raised by our equivalent SAB in England and Wales equating to £40,000. The SAB secretariat and support function is used from existing resources within both employer and trade union organisations to minimise the financial impact of our work on the public purse. During the business year 2015-16, the SAB used these funds to support our work in data collection and transparency and in considering the issues associated with Fiduciary Duty. A regular financial report is considered by the SAB at each meeting and any monies not used are held over for the following financial year.

Valuation and Funding

The Government Actuary's Department presented their draft actuarial valuation of the scheme as at 31 March 2014 and the Deputy First Minister has subsequently approved this. This valuation sets the 'employer cost cap' that will be used to regulate the impact of future valuations on contributions and scheme benefits. The report also looked at changes in assumptions since 2013 that the current scheme was based on. There has been a small increase in cost due to improved life expectancy, but this is largely balanced out by a reduction in the cost of ill health retirement.

The Board has also received presentations from scheme actuaries on current and future funding issues and this is a standing item on the Board agenda.

Highlights of 2015/16

Workplan

The Workplan drives the agenda of the Board and reflects its role in advising both the responsible authority and Scheme Managers. During 2015/16 the responsible authority was the Deputy First Minister, the responsibility now sits with the Cabinet Secretary for Finance and the Constitution. The Deputy First Minister approved the Board's Workplan on 25 February 2016. The current Workplan is set out in Appendix I.

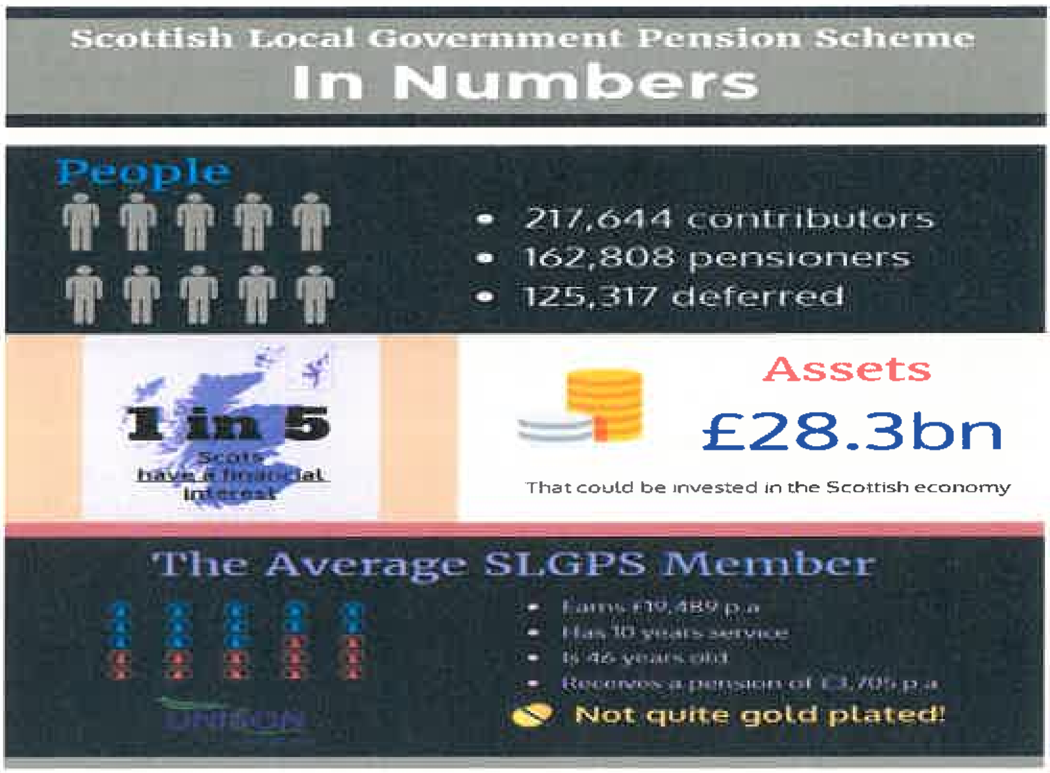
Data Collection Activity

The Board identified a need to improve the data available across the funds and to develop greater consistency in the way data is presented. A scoping exercise has been undertaken and the first report has been presented to the Board. The Board is grateful for the support of staff at Lothian Pension Fund for their assistance with this project.

As a result of this exercise the income and expenditure of each fund is outlined, showing employer and employee contributions as well as benefits payable and the value of transfers into and out of the funds. The administrative and governance costs of the funds are also included.

As noted above, the Board has considered the Government Actuary's Department (GAD) actuarial valuation as at 31 March 2014. This provides membership experience data for the period April 2011 to March 2014.

Table 1 – Experience Data



The Board have also carried out a data collection exercise in relation to membership. The Board collated from councils, who make up 75% of the scheme membership, employee data by spinal column point and gender. A summary table is detailed below.

Membership of the scheme is only one part of the overall picture. The Board also needs to consider who is not in the scheme, not least for the purposes of measuring progress against the 2015 scheme's equality impact assessment. The SLGPS has historically had the lowest take up of any public sector pension scheme in Scotland. This is primarily due to the prevalence of low paid, part-time and women employees in local government – all factors that generally point to a low take up of pension opportunities. While it is probably too soon to assess the full impact of auto-enrolment, initial results indicate that membership of the scheme is increasing, particularly amongst those groups that have been traditionally under-represented. Further work will be undertaken on this in the coming years.

Table 2 – 2016 Membership Levels

	Actual	%	Comparison to 2013
Total No of Employees	188656	100	
Female	135673	71.9	↑
Male	52983	28.1	↓
Female Employees	135673	100	
In Scheme	105143	77.5	↑
& Under SCP 21*	22204	27.0	↑
Male Employees	52983	100	
In Scheme	43612	82.3	↑
& Under SCP 21	6666	12.6	↑
Not in Scheme	9371	17.7	↓
& Under SCP 21	3572	6.7	↓

*SCP – Scale Point

Transparency of Investments

Closely linked to data collection is transparency of investments. With more than £34bn of assets, there is an understandable interest in how contributions are invested. There are a number of public campaigns on pension investment activity, significant media interest and the Scottish Parliament's Local Government and Regeneration Committee looked at the scheme last year as part of its inquiry into infrastructure investment.

The Board has published a breakdown by broad asset class of current investments in each fund and for the scheme in total. This shows how much is invested in bonds, equities, property and alternative investments. This information is available at Appendix II (additional spreadsheet). The Board recognises that there is a demand for a more detailed breakdown into types of investment, particularly those in controversial areas. There are significant challenges in collecting this data, not least because there are few agreed definitions. The Board will continue to examine this issue and identify what further measures can be taken to improve transparency.

In addition to transparency over where the assets are invested, the Board has also responded to growing interest in transparency of investment fees. The new CIPFA guidance has made some progress in gaining a better understanding of investment fees – resulting in the appearance of significantly increased investment fees in some funds. The Board also received a presentation from Dr Chris Siers on this issue, highlighting the need for common industry standards on reporting transaction costs. Our colleagues in England and Wales are also looking closely at this issue.

Fiduciary Duty
The Board recognises the desire for pension funds to invest in infrastructure and respond to public concern over certain types of investment, including, but not limited to, fossil fuels. These concerns were also reflected in the Scottish Parliament's Local Government and Regeneration Committee report.

One of the considerations pensions funds have to take into account is their fiduciary duty to beneficiaries and scheme employers. This is a complex area of law and therefore the Board has commissioned a detailed legal opinion on this issue. The Board will be giving further consideration to this advice and aims to issue guidance to funds.

The Board has also recommended changes to the investment regulations to give funds greater flexibility over where funds can be invested. Parliament has now approved increases to the investment limits as an interim measure. The Board will return to this issue in the coming year with the aim of recommending long-term changes to the current somewhat prescriptive regulations.

Please note: This guidance has now been issued (July 2016)

Cessation Valuations
The SAB has considered representations from some Community Admission Bodies who are concerned that recent cessation valuations may place their organisations in jeopardy. The Deputy First Minister also asked the Board to give consideration to this issue. The board is sympathetic to these concerns while recognising that it would be unreasonable to expect other employers to meet the cost of these payments.

Funds have not changed the way they have dealt with this issue and have been prepared to be as flexible as possible by spreading the costs over a period of time. The SPPA has collated data from funds on the potential risks and the initial data report does not indicate any major concerns. The board will therefore consider further guidance to funds on this issue.

Structure Review
Following the data collection exercise, the Board will begin a structural review of the funds in Scotland. In recent years COSLA and UNISON have commissioned separate studies into the benefits of merging the eleven funds or adopting shared services. The UK government has also announced the pooling of fund investments in England and Wales into what they describe as 'British Wealth Funds'. These pools would be of a similar size to a combined fund in Scotland.

The Board is to consider a scoping paper on the review that will set out a methodology and timescale for the review.

Please note: The Board considered a scoping paper on this at their May 2016 meeting. A sub group has now been establish and will meet for the first time in August 2016 to progress this work.

Regulations
The new SLGPS has only been in operation for a year and there have been a small number of issues identified that may require regulation changes or revised guidance. The Board has been giving regular consideration to these matters and will keep the benefit regulations under review. As identified above, changes have been made to the investment regulations.

Future Work
The Board has and will continue to progress the areas set out above. In addition the Board will be undertaking a review of the 50:50 option as agreed when the new scheme was adopted. The Board will also contribute to the review of governance arrangements across all the public sector pension schemes in Scotland later this year.

Appendix I - The SAB Workplan 2015/2016

No	Title	Description	Output Required	Completion Date
1	Funding Levy mechanism	To agree a mechanism to allow the Scheme Advisory Board to fund the development work required to carry out its role.	That an agreed levy approach is agreed to support the work of the Board.	31st December 2015.
2	Collection and Consistency of Fund Data	To scope out a body of work which will consider the collection of data across Scottish Local Government Pension funds.	A benchmarking exercise providing information on data collected by individual funds.	30th April 2016
3	Structure Review	Following from the data collection exercise, to complete a review of the structure of the Scottish LGPS.	A report from the Scheme Advisory Board outlining the results of the review exercise.	Dependant on the data exercise noted above (2). 30 September 2016
4	Transparency of Investments	To consider how to improve transparency across the Funds in relation to investment decisions.	Guidance on transparency around investment costs and to ensure that this reflects best practice.	To take place as part of exercise under Item 2 and therefore as above.
5	Fiduciary Duty	To review the main fiduciary duties as they apply at all levels of the Scottish LGPS and consider appropriate guidance.	To provide guidance if required across the Scheme on fiduciary duty, taking account of recent evidence and opinion, including the recent Law Commission report.	31st March 2015
6	Funding Issues for the Local Government Pension Scheme	To consider the issue of funding within the Scheme and how this impacts nationally and at fund level.	This item will cover all funding issues for the LGPS in Scotland.	Training session provided by Hymans Robertson in August 2015.

				Standard agenda item.
7	Cessation Valuation: Guidance and Regulation Review	To consider a range of matters raised as a result of recent activity on cessation valuations	That there are two areas for consideration by SAB and Scottish Government on 1) regulation review and 2) good practice guidance for Funds.	Exercise should take into account SPPA data collection exercise which is ongoing. Urgency around issue would suggest 30th June 2015 at the latest.

No	Title	Description	Output Required	Anticipated Timescale
8	50:50 option review	To scrutinise the impact of the 50:50 option within the Scheme.	To allow for a meaningful consideration of the impact of the 50:50 offer within the Scheme.	June 2016.
9	Valuation Outcomes and Impact on Cost Cap	A triennial agenda item whereby GAD report will inform the Scheme Advisory Board on the outputs of the most recent valuation exercise and provide advice on any impact on the cost cap.	To allow the Board to consider the information provided by Funds from the recent valuation exercise.	30 November 2015
10	Review of governance arrangements	To allow for the existing model constitution to be reviewed for effectiveness.	To allow for a meaningful review of all governance arrangements within the LGPS.	31 March 2017.

Original Workplan Items now Standing Items on Board Meeting Agendas.

No	Title	Description	Output Required	Anticipated Timescale
10	Communications Strategy	To consider an appropriate strategy on communications for members and on guidance for funds where required	This item will be a standing meeting item and will ensure that the Board are communicating effectively with all stakeholders.	
11	Review of	A standing item to ensure that	This item will be a standing	

	Regulations	regulations reflect legislation and are fit for purpose.	meeting item and will inform/reflect the Board's response to existing regulations or those in draft form.	

Appendix II: Net Assets Account as at 31st March 2015

	ABER-TRAN 31/03/2015 £000	DUM&G 31/03/2015 £000	FALKIRK 31/03/2015 £000	FIFE 31/03/2015 £000	HIGH 31/03/2015 £000	LOBUSES 31/03/2015 £000	LPF 31/03/2015 £000	NESPF 31/03/2015 £000	ORKN 31/03/2015 £000	BORD 31/03/2015 £000	SHPF 31/03/2015 £000	SHET 31/03/2015 £000	STRAT 31/03/2015 £000	STRTNO3 31/03/2015 £000	TAY 31/03/2015 £000	TAY TRANS 31/03/2015 £000	TOTAL £000
Investment Assets & Liabilities																	
Bonds/Gilts																	
Fixed Interest Securities	2,484	34,933	18,860	114,780			125,679	257,523		39,967					73,288	5,614	673,128
Index Linked securities	34,623	22,925		38,062		13,209	288,651			18,374	54,564		41		91,285	6,892	568,626
Fixed Interest Securities (PIV)		52,593	108,730	-	441,117	27,380		7,022	30,680	-	21,362		1,707,900		325,105	11,509	2,733,398
Index Linked securities (PIV)			46,631	-	132,525	28,449			7,678	-	25,655		213,354				454,292
	37,107	110,451	174,221	152,842	573,642	69,038	414,330	264,545	38,358	58,341	101,581	-	1,921,295	-	489,678	24,015	4,429,444
Equities																	
Equities	24	51,715	688,548	296,514		231,666	3,164,438	1,364,023	189,215	359,717		222,602	5,836,266		1,310,764	30,638	13,746,130
Equity (PIV)	52,129	409,730	390,384	-	656,160			1,089,981	2,367		42,611		4,496,250	19,598	707,332	688	7,867,230
	52,153	461,445	1,078,932	296,514	656,160	231,666	3,164,438	2,454,004	191,582	359,717	42,611	222,602	10,332,516	19,598	2,018,096	31,326	21,613,360
Property																	
Direct Property			2,300	-			316,169	211,960			7,875		1,379,200				1,917,504
Property (PIV)		68,471	124,536	168,703	140,550	34,201				28,652		38,282			304,428	4,510	912,333
Property (LP)			-				79,745			-			324,941				404,686
	-	68,471	126,836	168,703	140,550	34,201	395,914	211,960	-	28,652	7,875	38,282	1,704,141	-	304,428	4,510	3,234,523
Alternatives (Limited Partnerships)																	
Private Equity (LP)			68,040				186,535	138,424					1,174,233				1,567,232
Private Equity (PIV)					37,219	4,624	57,866										99,709
Infrastructure (LP)			46,906			7,915	251,099	4,010					38,992				348,922
Infrastructure (PIV)			17,050	27,920		6,556	29,682										81,208
Commodities (LP)							101,826										101,826
Commodities (PIV)							15,897										15,897
Private Debt (LP)			12,253										8,502				20,755
Private Debt (PIV)						17	13,927										13,944
Diversified Growth/Absolute Return (PIV)		67,787	206,045	406,570					28,861			70,564		31,203			811,030
Hedge Fund (LP)																	
Hedge Fund (PIV)																	
Others																	
Please provide details -				708,114		6,341		12,569		93,815		34,229		116,223	11,782		983,073
	-	67,787	350,294	1,142,604	37,219	25,453	656,832	155,003	28,861	93,815	-	104,793	1,221,727	147,426	11,782	-	4,043,596
Derivatives																	
Currency Forwards				-	- 792		29,800	- 1,032		- 2,515		-	10		209	9	25,668
Others													3,555				3,555
Please provide details -							-			-							
	-	-	- 1	-	- 792	-	29,800	- 1,032	-	- 2,515	-	-	3,545	-	209	9	29,223
Cash & Cash Equivalents																	
Cash	- 733	2,868	60,719	69,172	26,004	20,831	400,497	60,457	2,716	6,450		511	539,680	18,670	16,093	700	1,224,635
Others													- 887				
Please provide details -	544	542			318	974	10,773	27,560		-					3,868	270	43,962
	- 189	3,410	60,719	69,172	26,322	21,805	411,270	88,017	2,716	6,450	-	511	538,793	18,670	19,961	970	1,268,597
NET FUND INVESTMENT ASSETS	89,071	711,564	1,791,001	1,829,835	1,433,101	382,163	5,072,584	3,172,497	261,517	544,460	152,067	366,188	15,722,017	185,694	2,844,154	60,830	34,618,743
Non Current Assets																	
Others																	
Please provide details -	404		171		567		365	233		748							2,488
Non Current Liabilities																	
Others																	
Please provide details -																	
Current Assets																	
Contributions due	28	128	6,152	1,884		689	7,658	8,009	55	91		1,397	33,524	239	7,903	6	67,763
Strain on Fund			1,288				1,710						681				3,679
Sundry Debtors	396	13	129	3,036	5,572	37	160	11,663	1,696	56	27	5			1,471	1	24,262
Prepayments							241					2					243
Cash Balances	1		3,729	1,994	13,952	2,026	36,350	5	82	1,138	2,433	1,832	40,110		1,340	1,355	106,347
Others													8,374				
Please provide details -			3			1,113	6,352				219	67		938			17,066
	425	141	11,301	6,914	19,524	3,865	52,471	19,677	1,833	1,285	2,679	3,303	82,689	1,177	10,714	1,362	219,360
Current Lia Benefits Payable	- 153	- 234	- 1,246	- 2,501		- 73	- 3,793	- 6,888		- 858	- 5	- 1,039	- 23,752				- 40,542
HMRC		- 9	-				- 1,210			- 48							- 1,267
Contributions in Advance							- 11,899										- 11,899
Miscellaneous Creditors/Expenses	- 107		- 1,381		- 4,398	- 171	- 2,286	- 14,170	- 217	- 462	- 21	- 614	- 22,658		- 11,733	- 58	- 58,276
Others																	
Please provide details -				- 3,360						-				- 14			- 3,374
	- 260	- 243	- 2,627	- 5,861	- 4,398	- 244	- 19,188	- 21,058	- 217	- 1,368	- 26	- 1,653	- 46,410	- 14	- 11,733	- 58	- 115,358
Net assets of the Fund at 31 March 2015	89,640	711,462	1,799,846	1,830,888	1,448,794	385,784	5,106,232	3,171,349	263,133	545,125	154,720	367,838	15,758,296	186,857	2,843,135	62,134	34,725,233

Scottish Local Government Pension Scheme
www.lgpsab.scot

Scheme Advisory Board

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Employers Side Secretary
Hayley Wotherspoon &
Jonathan Sharma
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June 2016

BULLETIN

Structure Review
The SAB considered a scoping paper for the structural review of LGPS pension funds in Scotland. The paper set out the background to the review and the previous reports that have looked at the options for merging or sharing services between the eleven funds. The paper also updated the SAB on the pooling of investment funds in England and Wales.

It was agreed to establish a working group to take forward the review with the aim of producing an options report by December 2016.

Fiduciary Duty
The SAB considered covering guidance to the legal opinion commissioned on the issue of fiduciary duty on SLGPS funds. The trade union side believes the tone of the opinion is too negative and further work will be undertaken to reflect these concerns in the covering guidance.

Cessation Valuations
The SPPA has undertaken a data collection exercise to establish the scale of potential risks arising from admission bodies that have no guarantor. It was agreed to recommend that amendments to Regulation 62(2) and 62(5) of the LGPS (Scotland) Regulations should be considered by Scottish Government and agreed the key points to be included in a good practice guidance from the SAB.

Scheme Governance
When the new governance arrangements were introduced it was agreed that there would be a review after two years. The SPPA has started the process for a review of scheme governance arrangements across all public sector pension schemes in Scotland. This will include an independent reviewer and consultation with all the stakeholders. The review will report in February 2017.

People
Harry Frew from UCATT was the SAB Vice-Chair and he will be standing down following his retirement later this month. Jane O’Donnell is moving to a new role in COSLA and Hayley Wotherspoon and Jonathan Sharma will take over as Employers Side Secretary. The SAB thanked Harry and Jane for their contribution to the new board’s work.

Willie McGonigle from Unite was elected as the new Chair of the SAB. In the recent Cabinet appointments, Derek McKay MSP is the new pensions minister.

SAB Website
The new SAB website (http://lgpsab.scot) to improve communications with stakeholders is now operating.

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Our ref: SPPA Governance

25th August 2016

To:
The Scottish Local Government Pension Board

Dear Colleague

I am writing to make you aware of a forthcoming Review of the effectiveness of the operation of the governance arrangements introduced under the Public Service Pensions Act 2013.

At the time the new arrangements were established, the Scottish Government committed to review them within two years. Attached at Annex A are draft Terms of Reference for the Review, for your consideration and comment. As you will see the Terms are necessarily relatively high-level. For the avoidance of doubt, however, we will expect the Independent Reviewer to use a range of methods to ensure coverage of detailed issues. Please bear this in mind when considering the draft.

As the timetable for the Review is reasonably tight, I would be grateful if you could provide any comments you may have on the draft Terms to Lorraine Gallagher (Lorraine.Gallagher@gov.scot) copied to Lorimer Mackenzie (lorimer.mackenzie@gov.scot) by mid-September 2016.

Yours sincerely

Chad Dawtry
Deputy Chief Executive and Director of Policy, SPPA

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An agency of The Scottish Government Riaghaltas na h-Alba

Annex A

REVIEW OF THE OPERATION OF GOVERNANCE ARRANGEMENTS

INTRODUCED UNDER THE PUBLIC SERVICE PENSIONS ACT 2013

FOR SCOTLAND'S

LOCAL GOVERNMENT, NHS, TEACHERS', POLICE AND FIREFIGHTERS'

PENSION SCHEMES

TERMS OF REFERENCE

Introduction

1. New governance arrangements were introduced in Scotland from 1 April 2015 under the Public Service Pensions Act 2013 (the Act). These were built around a number of recommendations made by the Independent Public Services Commission. As well as new duties for the Pensions Regulator, they resulted in greater clarity around public service pension scheme accountabilities and required the creation of Scheme Advisory Boards and Pension Boards for Scotland's NHS, Teachers', Police Firefighters' and Local Government pension schemes.

2. The Act prescribed certain requirements, including:

2.1 Scheme Advisory Boards must exist to advise the responsible authority, at the authority's request, on the desirability of changes to the scheme.

(Note: The responsible authority for the governance arrangements in the scope of this review are the Scottish Ministers, with the Cabinet Secretary for Finance and the Constitution operating as Scotland's Minister for public service pensions.)

2.2 Pension Boards must exist to assist the scheme manager with securing compliance with: i) the scheme regulations and other legislation relating to the governance and administration of the scheme; ii) requirements imposed by the Pensions Regulator; iii) any other requirements specifically set out in scheme regulations.

(Note: the scheme manager for the Local Government Pension Scheme (LGPS) is the relevant local fund authority (of which there are eleven) and is the Scottish Ministers, delegated to the SPPA, for the NHS, Teachers' Police and Firefighters' pension schemes.)

2.3 Pension Boards must include "employer representatives and member representatives in equal numbers".

3. The Scottish Government had discretion as to who should serve on the boards, broadly what business boards should conduct, when and where they should meet and, in the case of the locally managed LGPS, how many Pension Boards there should be. Five Scheme Advisory Boards were established (one for each scheme above) and fifteen Pension Boards (eleven for the distributed Local Government Pension Scheme (LGPS) and one each for the other four pension schemes). As public service pension policy advisers to the Scottish Government, the Scottish Public Pensions Agency (SPPA) oversaw the development and delivery of these new arrangements though the terms of reference for and composition of the Scheme Advisory Boards and Pension Boards were agreed in partnership (SPPA/employer/trades unions).

4. Across Scotland, around two hundred and fifty people are directly involved as members of these various boards. Others will be actively involved in the preparation and presentation of papers to boards (in some cases these will already exist, but some will be specifically created for board consideration) and in providing secretariat services. With boards typically meeting around four times/year, this represents a significant human resource investment. In 2015, on Ministers' behalf, the SPPA committed to review the effectiveness of the operation of the new arrangements within two years of their introduction. It has been agreed that the review should be carried-out by suitably skilled and knowledgeable independent resource to ensure that improvements are reflective of: i) wider best practice; and ii) stakeholders' ability to fully reflect on what has and has not worked well.

Objectives

5. The objectives of this Review are:

5.1 to review the effectiveness of the operation of the Scheme Advisory Boards and Pension Boards set up in Scotland under the Act in light of:

5.1.1 the requirements of the Public Service Pensions Act 2013 (including, but not restricted to, s. 5(3) on the effective and efficient governance and administration of the scheme);

5.1.2 the recommendations of the Final Report of the Independent Public Service Pensions Commission;

5.1.3 other legislative requirements or formal guidance, for example, The Pensions Regulator' Code of Practice No. 14;

5.1.4 good practice in the operation of relevant comparator governance arrangements;

5.1.5 lessons learned in the first year of operation of these governance arrangements, in particular (but not exclusively):

i. the quality of board member induction and continuous development, specifically in relation to the requirement for Pension Board members to have sufficient knowledge and understanding to fulfil their role;

ii. clarity of Board purpose and collective (Board) and individual roles and responsibilities;

iii. the adequacy of scheme member representation (active, deferred, pensioner and prospective scheme members);

iv. the diversity of Board membership;

v. the effectiveness of board management & administration;

vi. the leadership, chairing and conduct of meetings;

iv. the frequency and location of meetings.

5.2 by 31 December 2016, to prepare a detailed report of related conclusions, options and recommendations on how to optimise the value of existing governance arrangements;

5.3 by 28 February 2017, to provide advice and recommendations to Ministers on how to optimise the value of existing governance arrangements and how to communicate any related changes;

5.4 by 30 April 2017, to initiate the necessary changes in governance arrangements desired by Ministers.

Scope

6. This Review covers:

6.1 The composition and operation of the Scheme Advisory Boards for Scotland's NHS, Teachers', Police, Firefighters' and Local Government pension schemes and related governance arrangements including, for example, interaction around approved Work Plans.

6.2 It is noted, in particular, that the Work Plan for the LGPS Scheme Advisory Board includes a structural review of the LGPS. Work is already underway to scope and initiate that review, subject to its detailed approval by the Cabinet Secretary for Finance and the Constitution. To the extent that that specific review bears on this review, it is within the scope of this review.

6.3 The composition and operation of the Pension Boards for Scotland's NHS, Teachers', Police and Firefighters' pension schemes and related governance arrangements.

6.4. The composition and operation of the eleven Pension Boards for the LGPS in Scotland and related governance arrangements.

6.5 Interaction and communication between:

6.5.1 the various boards on an intra-scheme basis;

6.5.2 the various boards and related governance arrangements (for example, the relationship between the Pension Boards for Scotland's NHS, Teachers', Police and Firefighters' pension schemes and the SPPA's Corporate Board and the relationship between the Police Scheme Advisory Board and the Police Negotiating Board for Scotland);

6.5.3 the various boards and respective scheme stakeholders;

6.5.4 Scheme Advisory Boards and SPPA policy officials, who are responsible for advising Ministers on public service pensions policy, including the views of the Scheme Advisory Boards;

6.5.5 Pension Boards and officials engaged in the day-to-day management of the pension scheme in question.

Exclusions

7. The following are excluded from the scope of the Review:

7.1 <u>Other than under 3.5.1.2</u>, the operation of the SPPA's Corporate Board and Audit & Risk Committee.

7.2 **[Add other relevant exclusions]**

Deliverables

8. Deliverables will include:

   8.1 procurement of an independent resource to lead the review and achieve objectives 3.1.1 and 3.1.2 (by end August 2016);

   8.2 a finalised terms of reference for the review (by end September 2016);

   8.3 a method statement and project plan, setting-out how the contractor will approach the review, including a formal plan for the engagement of key stakeholders in the review (by end September 2016), including:

      8.3.1 a formal plan for the participation of key stakeholders in the review, covering, for example, taking evidence and attribution/anonymity;

      8.3.2 a formal plan for the use of related research.

   8.4 a final report of review findings (by end December 2016);

   8.5 presentations of findings to Scheme Advisory Boards (by end January 2017);

   8.6 summary policy advice to Scottish Ministers (by end February 2017);

   8.7 communication on resultant decisions taken (by end April 2017).

Project approach

9. The Review will be managed in line with Scottish Government guidance on Managing Successful Projects.

10. The Senior Responsible Officer for the Review will be the SPPA's Deputy Chief Executive, who is also Director of Policy.

11. The Project Manager will be SPPA's Deputy Director of Policy, who will also be responsible for deliverables 8.6 and 8.7.

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