

Public Document Pack



PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 8 DECEMBER 2016

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS. on THURSDAY, 8 DECEMBER 2016 at 10.00 AM

J. J. WILKINSON,
Clerk to the Council,

1 December 2016

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 3 - 8) Minute of Meeting held on 15 September 2016 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Business Plan Performance Update (Pages 9 - 16) Consider report by Chief Financial Officer. (Copy attached).	20 mins
6.	Risk Register Update (Pages 17 - 26) Consider report by Chief Financial Officer. (Copy attached).	20 mins
7.	Scheme Advisory Update (Pages 27 - 28) To note October Bulletin. (Copy attached).	10 mins
8.	Information Update (Pages 29 - 32) Consider Briefing Note by Chief Financial Officer. (Copy attached).	20 mins
9.	Any Other Items Previously Circulated	
10.	Any Other Items which the Chairman Decides are Urgent	
11.	Items Likely To Be Taken In Private	

	<p>Before proceeding with the private business, the following motion should be approved:-</p> <p>“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.”</p>	
12.	<p>Minute (Pages 33 - 34)</p> <p>Private Section of Minute of Meeting held on 15 September 2016 to be noted and signed by the Chairman. (Copy attached).</p>	2 mins
13.	<p>Action Sheet Update (Pages 35 - 46)</p> <p>To consider master Action Sheet. (Copy attached).</p>	10 mins
14.	<p>Pension Fund Appointment Sub-Group (Pages 47 - 48)</p> <p>Private Minute from Pension Fund Appointment Sub-Group held on 3 November 2016 to be noted. (Copy attached).</p>	2 mins
15.	<p>Quarter Performance Update - Q3 (Pages 49 - 86)</p> <p>Consider report by KPMG. (Copy attached).</p>	30 mins
16.	<p>Property Investment Update (Pages 87 - 92)</p> <p>Consider report by Chief Financial Officer. (Copy attached).</p>	10 mins
17.	<p>Procurement Update and Implementation (Pages 93 - 100)</p> <p>Consider report by Chief Financial Officer. (Copy attached),</p>	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 M Drysdale, Mr E Barclay, Ms L Ross, Ms C Stewart, Mr C Hogarth, Ms K M Hughes and Mr P Smith

Please direct any enquiries to Judith Turnbull Tel No. 01835 826556
Email: judith.turnbull@scotborders.gov.uk

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

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in Council Chamber, Council Headquarters
on Thursday, 15 September, 2016 at 11.00
am

Present:- Councillors B White (Chairman), J Campbell, 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.

Apologies:- Councillors M Cook, G Edgar and G Logan.

In Attendance:- Chief Financial Officer, Capital & Investments Manager, HR Shared Services
Manager, Senior Finance Officer, Mr D O'Hara (KPMG), Mr F Ashraf
(KPMG) Democratic Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 16 June 2016.

DECISION

NOTED for signature by the Chairman.

2. **STRATEGIC INVESTMENT REVIEW**

2.1 There had been circulated a report by Chief Financial Officer providing the Committee and Board with an update on the outcome of the Strategic Investment Review and presenting the resulting recommendations for the revised asset allocation. The investment strategy was key to ensuring assets continued to grow to meet the long term liabilities of the Fund and, as far as possible, that contribution rates from employers remained stable. A review of the current strategy had been undertaken by KPMG and the findings were detailed in Appendix 1 to the report. As part of the review, the currency hedge arrangement had also been assessed and the findings were detailed in Appendix 2 to the report.

2.2 Mr Robertson advised that the Fund had performed well over the last five years. However, it remained significantly exposed to equity markets which could be volatile and did not offset the Fund's exposure to inflation and interest rate rises. To align the Fund's asset performance, in line with increasing liabilities, a number of adjustments to the pattern of investment was proposed. KPMG's report set out the suggested changes which would evolve the strategy.

2.3 Mr O'Hara, Director – Investment Advisor and Mr Ashraf, KPMG, were present at the meeting. Mr O'Hara advised that the Pension Fund Investment & Performance Sub-Committee had discussed, at their meeting on 22 August, alternative strategies. Strategy 3(b) detailed in the report, was agreed as their preferred strategy. This strategy reduced UK and Overseas equities to 50%; Diversified Alternatives to 10% and Diversified Credit Opportunities to 10% (from 65%, 15% and 10.5% respectively), combined Corporate Bonds (2.25%) and Fixed Interest Gilts (2.25%) and replaced with Index Linked Gilts 5%. This strategy also introduced investment in Long Lease Property (10%) and Private Credit Opportunities (10%). Balanced Property remained at 5%. Mr O'Hara explained that this strategy would be stable and robust in a difficult market environment and gave a similar level of return to the existing portfolio. If the Committee and Board agreed to the alternative investment strategy, there would be a detailed discussion with the Fund's Actuary. Mr Robertson added that if the Actuary did not approve the alternative strategy

then it would not be implemented and there would be further discussion with the Committee and Board.

- 2.4 Mr O'Hara went on to discuss the currency hedge and the underlying concern that the hedge did not serve the Fund's best interest and also had a significant cost. Mr O'Hara explained that investments in overseas markets came with a currency risk as exchange rates fluctuated. The rationale for hedging the currency exposure was to reduce volatility in the Fund's asset returns. In the short term, currency hedging worked well, particularly against the US Dollar and Japanese Yen. However, KPMG's perspective was that the Fund could manage volatility and that the hedge should be removed. Moreover, new legislation was being introduced which would make the management of the hedge more expensive and difficult. Mr O'Hara further advised that one caveat for reduction of the hedge was that it be gradually reduced over the next 12 months.
- 2.5 In answer to questions, Mr Robertson advised that a number of alternative strategies had been considered by the Sub-Committee. Following discussion, the Sub-Committee had concluded that strategy 3(b) was the preferred strategy. It has also been agreed that the strategy would be introduced in a phased manner which could be changed to reflect market conditions. The Fund's liquidity in respect of transfers out of the Pension Fund had been factored into the scale of the investment recommended. The Actuary would be consulted on the proposals and should be able to give a decision quickly. There would then be the need to procure a manager to implement the new strategy. It was agreed that the Actuary's views and timeline for implementation of the new strategy would be presented to the next meeting of the Pension Fund Committee and Pension Board.

DECISION

AGREED:-

- (a) **The investment strategy as detailed in paragraph 5.2 of the report;**
- (b) **The removal of the Currency Hedge on a phased basis;**
- (c) **To delegate authority to the Chief Financial Officer, in agreement with the Chair of the Pension Fund Committee and the Fund's Actuary, based on the advice of the Investment Advisor to implement the revised strategy;**
- (d) **To 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; and**
- (e) **That a further report be presented at the next meeting of the Pension Fund Committee and Pension Board.**

3. ADMISSION AGREEMENT

- 3.1 There had been circulated a report by Chief Officer Human Resources seeking approval for the admission of CGI into the Local Government Pension Scheme (LGPS) to provide access to the scheme for those members transferring from Scottish Borders Council to CGI. The current provision of Information Technology Services by the Council was scheduled to transfer to CGI on 1 October 2016. The Council had agreed, as part of the contract signed on 25 March 2016, that staff who were currently members of the Council's Pension Scheme would remain members following the TUPE transfer to CGI and they would apply for membership of the Local Government Pension Scheme (LGPS), entering into the appropriate admission agreement. The admission agreement reflected that those employees who were transferring and were not currently pension scheme members would retain the right to opt in to the LGPS at any point in the future. Included within the Admission Agreement was the requirement for CGI to provide a Bond to underwrite the risk of CGI membership of the Pension Fund should the company cease to trade. It was

noted that CGI, under the terms of the service provision agreement, was precluded from varying the terms of the admission agreement without the approval of Council and the Pension Fund.

- 3.2 Mr Angus, HR Shared Services Manager, advised that the bond would be £813k and the employee contribution 19.8%. In answer to a question Mr Angus advised that the Fund was a closed Fund, only open to employees who were eligible for the scheme. New CGI employees would not be permitted to join the scheme.

DECISION

AGREED to enter into an appropriate agreement with CGI to admit the body to membership of the Pension Fund on terms and conditions to the satisfaction of the Chief Executive and Chief Financial Officer.

4. RISK REGISTER UPDATE

With reference to paragraph 8 of the Minute of 16 June, there had been circulated a report by Chief Financial Officer which formed part of the risk review requirements. The report provided members with an update on the progress of management actions to mitigate risks, a review of new risks and highlighted changes to risks contained in the Risk Register. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. Appendix 1, to the report, detailed the risks within the approved Risk Register identifying management actions and the progress of these actions to date. The recent vote to leave the European Union was highly likely to have an impact on the Pension Fund. While the actual timing and consequence of the change was unknown, it was evident that the Pension Fund investment strategy would have to adapt over time as the implications were quantified. Further reports and updates would therefore be provided as these implications became known. The Committee and Board highlighted that one of the risks to the Pension Fund was governance and the turnover of elected Members following an election. Mr Robertson advised this risk was mitigated by professional advisors, officers, succession planning and training.

MEMBER

Councillor Aitchison left the meeting during consideration of the above report.

DECISION :-

- (a) **AGREED to a key risk review being undertaken in December 2016 and reporting of progress on risk management actions.**
- (b) **NOTED:-**
- (i) **The management actions progress as contained in Appendix 1 to the report; and**
- (ii) **The emerging position with regard to 'Brexit' continued to create uncertainty; no new quantifiable risks have been identified since the last review.**

5. ANNUAL ACCOUNTS UPDATE

Mr Robertson advised that KPMG had concluded their audit of the annual accounts and these would now be presented to Audit Committee on 26 September. KPMG's audit had highlighted that the financial position of the Fund was 101%. The number of pensioners had increased in the year with a corresponding net withdrawal to the Fund. KPMG had also noted that the Fund continued to perform well and exceeded the benchmark return. They considered that governance arrangements and transparency were satisfactory.

**DECISION
NOTED.**

MEMBER

Councillor Aitchison returned to the meeting following consideration of the above report.

6. **TRAINING UPDATE**

With reference to paragraph 4 of the Minute of 16 June, Mrs Robb advised that there was an additional place, as a day attendee, at the training event in September. Any member interested should advise her by 16 September. There were eight places for the 'Generating Growth for your Fund' training event on the 27 and 28 October

**DECISION
NOTED.**

7. **SCHEME ADVISORY UPDATE**

There had been circulated the Scottish Local Government Pension Scheme Advisory Board's first Annual Report 2015/16 and Bulletin (June 2016) for information. Councillor Mitchell was the Fund's representative on the Board and advised that the next meeting would be held on 29 September. The Board had begun to investigate investment fees and pooling. Mrs Robb added that she would forward the Board's website link to members following the meeting.

DECISION

AGREED to request the Scottish Local Government Pension Scheme Advisory Board's website link be forwarded to members.

8. **PUBLIC SERVICE PENSION ACT 2013 - GOVERNANCE REVIEW CONSULTATION**

There had been circulated correspondence from the Scottish Public Pension Agency (SPPA) regarding the forthcoming Review of the effectiveness of the operation of governance arrangements introduced under the Public Service Pensions Act 2013. The main objectives of the Review included good practice, clarity of Board purpose, role and responsibility; diversity of the Board and the frequency and location of meetings. Mrs Robb stated that a few LGPS Pension Funds had noted the difficulty with achieving a quorum at Pension Board meetings.

**DECISION
NOTED.**

9. **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.

10. **MINUTE**

The Committee noted the Private Minute of the meeting of 16 June 2016.

11. **PENSION FUND APPOINTMENT SUB-GROUP**

The Committee noted the Private Minute of the Meeting of the Pension Fund Sub-Committee of 16 June 2016.

12. **PENSION FUND INVESTMENT PERFORMANCE SUB-COMMITTEE**

The Committee noted and agreed the Private Minutes of the Meetings of the Pension Fund Investment Sub Committees on:-

- (a) 24 August 2015.
- (b) 22 February 2016.
- (c) 22 August 2016.

13. **INVESTMENT REPORT - QUARTER TO 31 JUNE 2016**

The Committee noted a report by KPMG.

14. **CUSTODIAN PROCUREMENT**

The Committee noted and agreed a report by Chief Financial Officer.

The meeting concluded at 1.00 pm.

This page is intentionally left blank

BUSINESS PLAN PERFORMANCE UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

8 December 2016

1 PURPOSE AND SUMMARY

- 1.1 **This report is to provide members of the Committee and the Board with an update on delivery of the actions within the approved Business Plan.**
- 1.2 The 2016/17 – 2018/19 Business Plan for the Pension Fund was approved by the Committee/Board on 16th June 2016. Included within the plan were key objectives and actions with target dates.
- 1.3 As part of the risk register update approved at Committee/Board on 15 September 2016 it was agreed a mid-year progress report on the business plan actions would be presented to Members at the December 2016 meeting and a further progress report and update at the June 2017 meeting.
- 1.4 There are 14 performance measures with target dates during 2016/17 contained within the business plan. These are detailed in Appendix 1 with a progress update. Of these 5 performance measurements have been completed, 3 remain on track to be completed within their targeted timescales and 6 are currently behind target.
- 1.5 Due to the implementation of ERP and the resulting resource constraints the actions for the Communication Strategy and review of Additional Voluntary Contribution Scheme Provision will not meet the target dates. Revised targets dates of Sept 2017 and March 2018 are therefore recommended.

2 RECOMMENDATIONS

- 2.1 **It is recommend that the Pension Fund Committee and Pension Board:-**
 - (a) **Notes the progress of the 2016/17 actions within the business plan**

- (b) Agrees the revised target date of 30 Sept 2017 for development and implementation of an effective Communication Strategy:**
- (c) Agrees the revised target date of 31 March 2018 for the review of Additional Voluntary Contribution Scheme Provision**
- (b) Agrees a further update be presented at the June 2017 meeting**

3 BACKGROUND

- 3.1 Local Government Pension Scheme (LGPS) administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the "Myners Principles" and the reporting on compliance, as required by the LGPS Regulations, must be included in the Statement of Investment Principles.
- 3.2 Best practice indicates that having a business plan for the Pension Fund is a good way of demonstrating compliance with the "Myners Principle" that underpin effective decision making. The Pension Fund Committee and Board approved the 2016/17 – 2018/19 business plan on 16 June 2016.
- 3.3 As part of the risk register update approved by Committee/Board on 15 September 2016 it was agreed a progress report on the actions contained within the business plan would be reported to the Committee and Board at the December 2016 meeting

4 ACTION PLAN

- 4.1 The action plan detailed how the achievement of the objectives would be measured. Appendix 1 shows the actions to be completed in 2016/17 and provides an update on each individual measure.
- 4.2 There are 14 performance measurements due for completion during 2016/17. Of these 5 are fully complete, 3 are on track to be completed by the approved target date and 6 are currently behind schedule.
- 4.3 To ensure the targets are met for the implementation of the new ERP system key staff are required to be released for development and testing. This has resulted in a resource constraint in key areas and delays in the implementation of the actions required to complete the Communication Strategy and the review of Additional Voluntary Contribution Provision. This situation will continue until June 2017, it is therefore recommended the target delivery dates are 30 September 2017 and 31 March 2018.

5 IMPLICATIONS

- 5.1 **Financial**
There are no financial implications to this report.
- 5.2 **Risk and Mitigations**
The monitoring of the delivery of actions within the Business Plan including identification of responsible officer and timescales, as set out in this report, is part of the governance framework to manage the operation of the Pension Fund and ensure effective decision making. Some of the actions are designed to directly enhance the management of risks.
- 5.3 **Equalities**
No equalities issues have been identified for the measures currently undertaken with the Business Plan. If any future measures identifies where there is a potential for the requirement for an Equalities Impact Assessment, this will be undertaken at the time of undertaking the work proposed in the Plan.

5.4 Acting Sustainably

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

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 are required as a result of this report.

6 CONSULTATION

6.1 The Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted on the report and their comments have been incorporated.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers: Pension Fund Business Plan 2016/17 – 2018/19

Previous Minute Reference: Joint meeting Pension Fund Committee and Pension Fund Board, 16 June 16

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

What we want to achieve ... (Objective)						
Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund’s assets in a such a way that produces levels of employer contribution that are as stable as possible						
How?				By whom?		
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	Target	Progress
P 1	Review Pension Strategies informed by 2014 and 2017 Triennial Valuation Results					
Page 13		Undertake and implement a full review Pension Fund's Investment Strategy based on asset and liability modelling and future membership profiles analysis	P-1-B4	C & I Manager	By 31/3/17	Review completed and reported to Committee 15 Sept.
		Review and identify the appropriate approach to Socially Responsible Investment for the Fund	P-1-B5	C F Manager	By 31/3/17	Work commenced

What we want to achieve ... (Objective)

Deliver a High Quality Pension Service to Members

How?			By whom?			
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	Target	Progress
P 2	Develop and Implement an effective Communication Strategy for the Pension Fund					
		Develop and gain approval Communication Strategy and Action Plan	P-2-A1	HRSS Manager	31/12/16	Delayed due to ERP
		Continue to proactively manage and engage Pension Fund Employers	P-2-A2	HRSS Manager	1 meeting by 31/3/17	Date to be arranged early 2017
		Review all forms and communication material, including annual benefit statements		HRSS Manager		Work commenced
		Develop content of Pensions presence on the Council's website	P-2-A3	HRSS Manager/ C & I Manager	31/3/17	Delayed due to ERP
P 3	Review Additional Voluntary Contribution Scheme Provision					
		Conduct a strategic review of the AVC provision for the Fund		HRSS Manager/C&I Manager	31/3/17	Delayed due to ERP
		Procurement of AVC providers		HRSS Manager/C&I Manager	31/3/17	Delayed due to ERP
		Implementation and Promotion of AVC scheme		HRSS Manager	31/3/17	Delayed due to ERP
P 4	Ensure accuracy of Pension Records					
		Undertake full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC		HRSS Manager	31/3/17	Delayed due to ERP
P 5	Ensure successful admission of new Admitted Bodies as required					
		Completion of admission agreement for CGI to the Fund	P-6-A1	HRSS Manager	31/3/17	Complete

What we want to achieve ... (Objective)

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

How?			By whom?			
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	Target	Progress
P 6	Continue to develop robust governance and risk management					
		Review and update Governance Policy and Compliance Statement	P-6-A1	C F Manager	30/6/16	Approved 16/6/16
		Develop and deliver 2016/17 – 2017/18 Training Programme	P-6-A2 & A5	C & I Manager	30/6/16	Training Plan approved 16/6/16
P 7	Review services provided externally to ensure that these represent best value to the Fund					
		Identify requirements for Actuarial Services and procure new contract		HRSS Manager/ C&I Manager	31/3/17	Reviewed and contract extended to 31/3/2019

Page 15

This page is intentionally left blank

RISK REGISTER UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

8 December 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 March 2017 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • 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. The progress of the actions and update review was presented and approved on 15 September. This report provides an update on all areas required for bi-annual review except for the mid-year progress of the Business Plan which is reported in a separate report.
- 4.2 The progress of the individual management actions identified in the current risk register are detailed in Appendix 1. The action for the development of a Communication Plan has been delayed until September 2017 due to the staff resources required for the implementation of the new ERP system.
- 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. The LGPS Convenors Group is due to meet on the 22nd November where this will be discussed.
- 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, continue to monitor but as yet there is no clarity of the impact available. The situation will continue to be monitored and Officers 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 review update on 15 September. 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 15 September 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

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Controls		Residual Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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	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	Training requirements being actioned as part of Training plan to ensure have required skills and knowledge to enable challenge. Reviewing performance monitoring and accounting information which will be available from new custodian contract.
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	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	Northern Trust appointed as new custodian. Transition has commenced, transition of assets completed on 1st December. Working to finalise performance and accounting reports.
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	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 Custodian services to include Performance reporting.	Effective	4	2	8	Training requirements being actioned as part of Training plan to ensure Members have required skills and knowledge to enable challenge. Northern Trust appointed as Custodian, finalising performance reports templates.

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Controls		Residual Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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	Passive Currency hedge in place for directly held equity investments on major currencies; Monthly review of hedge levels. TREAT <u>Additional Actions Proposed:</u> Review currency hedge requirements and use.	Partially Effective	3	3	9	Removal of currency hedge agreed 15 September on phased basis, delegated to Chief Financial Officer and Chair of Pension Committee.
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	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 <u>Additional Actions Proposed:</u> 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	Revised Investment strategy approved 15 Sept. Implementation of new asset groups underway.
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	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	Revised Investment strategy approved 15 Sept. Implementation of new asset groups underway.
1.10	Asset & Investment	Failure of Funds investment returns to keep pace with growth in liabilities due to pay and CPI Inflation increase, which 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		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	Revised Investment strategy approved 15 Sept which included effect on liabilities. Implementation underway and monitoring of cashflow to continue.

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Controls		Residual Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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 out with 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 out with the agreed pooling arrangements leading to a shortfall of funding or over charging of an employer.	Ongoing	Pension Fund Committee/ Chief Financial Officer	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	To be included in the 2016/17 annual returns from Employers in April 2017
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	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 Additional Actions Proposed: 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	To be included in the 2016/17 annual returns from Employers in April 2017. Communication strategy delayed until Sept 2017 due to ERP implementation.
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	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 Additional Action Proposed: Improvement in quality of procedure notes for officers.	Effective	2	3	6	Action plan for the development and updating of procedure notes currently being developed. Will prioritise for perceived high risk and possible quick wins. Implementation of ERP systems will result in changes, these will be incorporated once known.

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Controls		Residual Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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	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	Action plan for the development and updating of procedure notes currently being developed. Will prioritise for perceived high risk and possible quick wins. Implementation of ERP systems will result in changes, these will be incorporated once known.
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	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	Revised Investment strategy approved 15 Sept which included effect on liabilities. Implementation underway and monitoring of cashflow to continue. Monitoring of early retiral proposals continuing
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	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	Annual benefit statements issued on time, including details of the Care Scheme for the first time. Communication strategy will pick up other elements when fully developed by Sept 2017.

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Controls		Residual Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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	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 <u>Additional Actions Proposed:</u> Development of comms strategy.	Effective	2	3	6	Communication strategy delay until Sept 2017 due to ERP implementation.
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	Daily and weekly monitoring of Pension Fund's Cashflows; Currency Hedge requirements monitored ahead of cash requirements. TREAT <u>Additional Actions Proposed:</u> 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	Cashflow information considered as part of Asset Allocation review reported and approved on 15 September. New Treasury system implemented and reviewing areas of improvements for cashflow projections.
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	Pension administration system implemented; Resourcelink continued to be used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained mandatory Data Protection and fully compliant with SBC Info. Governance requirements; Annual Statements issued to active and deferred members, including list of beneficiaries. TREAT <u>Additional Action Proposed:</u> Communication plan to be put in place to ensure employees notify employers of any changes.	Partially Effective	2	3	6	Annual information sent to all members each August. Communication plan to further highlight to employees the importance of the requirement for accurate information. Plan delayed until Sept 2017 due to ERP Implementation.

Pension Fund - Risk Register

No.	Category	Risk	Causes/Triggers	Consequences	Proximity	Risk Owner	Controls		Residual Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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	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	Communication strategy delay until Sept 2017 due to ERP implementation.
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	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	Responding to all consultations and participating in all national groups. Chief Financial Officer active member of Director of Finance group. Convenors Group meeting 22 November to discuss Infrastructure opportunities.
7.3	Reputation Page 26	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	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	Annual assessment of Advisor scheduled for March 2017. Custodian procurement complete transition completed 1st December 2016.
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	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	Business plan approved in June 2016 and separate report included as agenda item on the progress of required actions.

**Scottish Local Government
Pension Scheme**
www.lgpsab.scot

**Scheme
Advisory
Board**

Trade Union Side Secretary
Dave Watson
UNISON
UNISON House
14 West Campbell St
Glasgow G2 6RX
Tel: 0141 342 2840
d.watson@unison.co.uk

Employers Side Secretary
Hayley Wotherspoon &
Jonathan Sharma
COSLA
Verity House, 19 Haymarket Yards
Edinburgh EH12 5BH
Tel: 0131 474 9269
hayley.wotherspoon@cosla.gov.uk

October 2016

BULLETIN

Structure Review

The working group on the structural review of pension funds in Scotland updated the SAB on progress with the project. This included Terms of Reference for the review, which were agreed. The working group is aiming to produce an options paper for the February meeting of the SAB.

Transparency Code

In February, the SAB received a presentation on the transparency of investment costs from Dr Chris Sier. The England and Wales SAB has now developed a code and template for cost reporting and it was agreed to follow this approach in Scotland.

Fiduciary Duty

The SAB has now published guidance on fiduciary duty together with the legal opinion commissioned by the board. These are available on the board's website www.lgpsab.scot.

Brexit

The Pensions Regulator has asked all pension schemes to consider the risks of Brexit for their schemes. It is likely that the IORP2 Directive will be implemented before Brexit and this strengthens EU rules on good governance (including ESG issues), information to scheme members and scheme transparency. Many financial regulations are founded in EU law, although others are global provisions. The SAB also recognised that uncertainty could have an impact on asset performance and agreed to keep this issue under review.

Valuations

The SAB received a presentation on the 2017 valuation outlook. While asset returns since 2014 have been very positive, the outlook is for much lower returns in future. This matters because a 1% lower return on assets, translates into an 8% increase in employer contributions.

Scheme Governance

KPMG has been appointed to undertake the governance review of public sector pension schemes in Scotland. It will be led by Ian Pollitt, who worked on the Hutton Report.

Cessation Valuations

The recommended changes to the regulations may take some time, so it was agreed to issue some interim best practice guidance to funds on this issue.

People

Frank Gray (UCATT) will be replacing Harry Frew, and Tony Dowling (GMB) will be replacing Alex McLuckie as trade union side members of the SAB.

This page is intentionally left blank



INFORMATION UPDATE

Briefing Paper by Chief Financial Officer

PENSION FUND COMMITTEE & PENSION BOARD

8 December 2016

1 PURPOSE AND SUMMARY

- 1.1 **This briefing paper is to provide members of the Committee and the Board with an update on a number of areas which are being monitored and areas where work is progressing. Full reports on the individual areas will be tabled as decisions and actions are required.**

2 INFASTRUCTURE

- 2.1 Lothian Pension Fund presented to the IGG Group in October their current Infrastructure investment strategy which has been producing strong returns and is managed mainly in house. Lothian Pension Fund has also just been granted FCA authorisation which make it possible for like-minded institutions to invest alongside them. Officers have been exploring whether this vehicle provides opportunities for the SBC pension fund. If so this will be reported to members in due course.
- 2.2 The LGPS Conveners Group met in Edinburgh on 22nd November and included on the agenda was investment ins Scottish infrastructure. The meeting was attended by Councillor White and Kirsty Robb.

3 CURRENCY HEDGE

- 3.1 Committee approved on 15 September 2016 the removal of the currency hedge. Delegate powers were given 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 removal of the hedge at the most appropriate time.

- 3.2 Following an update from KPMG and a conference call between KPMG, David Robertson and Councillor White it was agreed to reduce the hedge in November by 50%. This has resulted in the hedge being reduced to 12% against the US Dollar, 25% against the Euro and 25% against the Japanese Yen.

4 BREXIT

- 4.1 There remains little clarity around the timing of implications of the Brexit vote. Officers are working with the Custodian Northern Trust and the Investment Advisor to ensure implications can be assessed as soon as things are known.
- 4.2 Officers continue attending national groups where the implications of Brexit are discussed but again while there is much speculation in the media there is as yet no certainty as to the actual impact of Brexit. The national groups will continue to be attended and monitored.

5 TRAINING

- 5.1 Since 31 March 2016 there have been three training opportunities open to all members of the Committee and Board. These have all been well attended and have covered areas mainly around investment. Nine members have now met their training requirements for the year.
- 5.2 A new training opportunity on 12 December in Edinburgh has been circulated and 9 members have noted an interest. The training will cover the following areas:
- Role of custodian
 - Pension administration
 - Investment in Infrastructure and Alternatives
 - Environmental, Social, Governance Policies
- 5.4 The Pensions and Lifetime Savings Association is organising a conference for 8th to 10th March 2017 in Edinburgh. As the fund is a member these places are free. The actual agenda and timings are currently not yet known but will be circulated once known.
- 5.3 A further in house training session is planned for March that will cover Fiduciary Duties - centred on the advice given to the Scheme Advisory Board. The session will be prior to the meeting on 16th March 2017.

6 VISIT SCOTLAND GUARANTEE

- 6.1 Visit Scotland are a scheduled body within the Pension Fund and have 16 members currently in Scottish Borders Council Pension Fund of which only 1 is active. They are also scheduled bodies across a number of other LGPS funds. If the active members ceases to be active this will move Visit Scotland into a "exiting employer" position and would require them to pay an exit payment or provide an indemnity, bond or guarantee.

- 6.2 There has been much discussion recently around cessation valuations resulting in the Scottish Government requesting the Scheme Advisory Board to undertake a detailed assessment of the issue. This work has been undertaken but updated guidance has not been formally issued.
- 6.3 Visit Scotland in recognition of their position within a number of LGPS funds have contacted all LGPS funds offering a guarantee to the Fund against all damages, penalties, fines, costs, claims, losses, demands, liabilities and expenses. The guarantee is being provided by Scottish Ministers on behalf of Visit Scotland.
- 6.4 The guarantee requests Visit Scotland are treated as an open fund for valuation purposes, even if no active members within in the fund. The guarantee would provide the required protection to the fund.

7 ERP IMPLEMENTATION

- 7.1 The ERP implementation continues to progress. The overall status of the project is amber but with increasing confidence. Significant work has been undertaken recently to prepare for the important User Acceptance testing phase of the project. While challenges, particularly concerning project resources change management and benefit realisation strategy exist, these are being managed and the project remains on track to go live in April 2017.

8 AUTO ENROLMENT

- 8.1 Scottish Borders Council has gone through the process of re-enrolling employees who had previously opted out of the Pension Scheme where they satisfied the Auto Enrolment criteria. This saw 21 employees re-enrolled into the scheme.
- 8.2 For Scottish Borders Council there are 3,284 out of 3,640 employee posts holding with contractual hours, who are members of the Pension Scheme, this represents 90.22% who are scheme members. Out of those who are not currently members of the scheme 236 had auto enrolment duties postponed until September 2017.
- 8.3 For SB Cares, there are 653 out of 742 employee post holdings with contractual hours who are members of the Pension Scheme; this represents 88.01% who are scheme members. The auto enrolment duties for SB Cares do not commence until 1 October 2017.

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital & Investment Manager, 01835 825249
Ian Angus	HR Shared Services Manager, 01835 826696

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank