

# Public Document Pack



## PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 16 MARCH 2017

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on THURSDAY, 16 MARCH 2017 at 2.00 PM.

**Fiduciary Training for will commence at 1.00 pm in the Council Chamber. Pension Fund Committee and Pension Board members are requested to attend.**

J. J. WILKINSON,  
Clerk to the Council,

9 March 2017

BUSINESS		
1.	<b>Apologies for Absence</b>	
2.	<b>Order of Business</b>	
3.	<b>Declarations of Interest</b>	
4.	<b>Minute</b> (Pages 3 - 6)  Minute of Meeting held on 8 December 2016 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	<b>Pension Fund Investment Performance Sub-Committee</b> (Pages 7 - 8)  To note the Minute of the Pension Fund Investment Performance Sub-Committee held on 27 February 2017. (Copy attached).	2 mins
6.	<b>Asset Allocation</b>  Presentation by Actuary.	30 mins
7.	<b>Environmental Social Governance</b>  Presentation by Capital and Investment Manager.	30 mins
8.	<b>Risk Review Update</b> (Pages 9 - 18)  Consider report by Chief Financial Officer (Copy attached).	10 mins

9.	<b>Information Update</b> (Pages 19 - 24) Consider briefing note by Chief Financial Officer. (Copy attached).	20 mins
10.	<b>Pension Fund Budget</b> (Pages 25 - 28) Consider report by Chief Financial Officer. (Copy attached).	10 mins
11.	<b>Any Other Items Previously Circulated</b>	
12.	<b>Any Other Items which the Chairman Decides are Urgent</b>	
13.	<b>Items Likely To Be Taken In Private</b>  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.”	
14.	<b>Minute</b> (Pages 29 - 32)  Private Section of Minute of Meeting held on 8 December 2016 to be noted and signed by the Chairman. (Copy attached).	2 mins
15.	<b>Pension Fund Investment Performance Sub-Committee</b> (Pages 33 - 40)  To note the Private Minute of 27 February 2017. (Copy attached).	2 mins
16.	<b>Quarter 4 Performance Update</b> (Pages 41 - 80)  Consider report by KPMG. (Copy attached).	30 mins
17.	<b>Infrastructure Investment</b> (Pages 81 - 92)  Consider report by Chief Financial Officer. (Copy attached).	20 mins

## NOTES

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

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**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

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

MINUTES of Meeting of the PENSION FUND COMMITTEE AND PENSION BOARD held in Council Chamber, Council Headquarters, Newtown St Boswells. on Thursday, 8 December 2016 at 10.00 am

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Present:- Councillors B White (Chairman), J. Campbell, G. Edgar, S. Mountford, S. Aitchison, Mr M Drysdale, Ms C Stewart, Ms K M Hughes and Mr P Smith.  
Apologies:- Councillors M. J. Cook, G. Logan, J. G. Mitchell, Mr E Barclay, Ms L Ross and Mr C Hogarth, J Mitchell, Mr A Barclay, Mr C Hogarth, Ms L Ross.  
In Attendance:- Capital & Investments Manager, Chief Officer – Audit & Risk, Mr D O’Hara and Mr T Hodgson (KPMG), Mr A Haseeb (Audit Scotland), Democratic Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 15 September 2016.

**DECISION**

**NOTED for signature by the Chairman.**

2. **MATTERS ARISING FROM THE MINUTE**

With reference to paragraph 2.5 of the Minute, the Chief Financial Officer, Mr Robertson, advised that the Actuary had been consulted and had agreed to the proposed changes to the Fund’s strategy. A report would now be presented to the March meeting of the Pension Fund Committee and Pension Board.

**DECISION**

**NOTED that the report on the new investment strategy would now be presented to the 16 March 2017 joint meeting.**

3. **BUSINESS PLAN PERFORMANCE UPDATE**

3.1 There had been circulated a report by Chief Financial Officer providing members of the Committee and Board with an update on delivery of actions within the approved Business Plan. The 2016/17 – 2018/19 Business Plan for the Pension Fund was approved by the Committee and Board on 16 June 2016. Included within the plan were key objectives and actions with target dates. As part of the Risk Register update, approved at the Committee and Board on 15 September 2016, it had been agreed that a mid-year progress report on the Business Plan actions would be presented at the December 2016 meeting. A further progress report and update would also be presented to the June 2017 meeting.

3.2 There were 14 performance measures and target dates during 2016/17 contained within the Business Plan. These were detailed in Appendix 1 to the report, with a progress update. Of these, five performance measures had been completed, three remained on track to be completed within their targeted timescales and six were currently behind target. Due to the implementation of the (ERP) Enterprise Resource Planning system and the resulting resource constraints, the actions for the Communication Strategy and review of Additional Voluntary Contribution Scheme provision would not meet the target dates. Revised target dates of September 2017 and March 2018 were therefore recommended.

- 3.3 In answer to questions, Mr Robertson explained that to ensure targets were met for implementation of the new ERP system; key staff were managing two systems to enable parallel testing to take place in a live environment. This had resulted in resource constraints and delays in the implementation of the actions required to complete the Communication Strategy and the review of Additional Voluntary Contribution Provision. Mrs Robb confirmed that the Action Update, presented to the June meeting, would be amended to include when an action had been completed.

#### **DECISION**

(a) **NOTED the progress of the 2016/17 actions within the Business Plan.**

(b) **AGREED**

(i) **The revised target date of 30 September 2017 for development and implementation of an effective Communication Strategy;**

(ii) **The revised target date of 31 March 2018 for the review of Additional Voluntary Contribution Scheme Provision; and**

(iii) **A further update be presented at the June 2017 meeting.**

#### **4. RISK REGISTER UPDATE**

4.1 With reference to paragraph 4 of the Minute of 8 December 2016, 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 the 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 which identified 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 become known.

4.2 Members noted that one of the key actions was the appointment of Northern Trust as the new Custodian from 1 December 2016. Risk 4.1 - changes in composition of Pension Fund membership was discussed. Mr Robertson advised that the majority of staff were already enrolled in the Fund. The risk was to the liquidity of the Fund, and there being insufficient assets to meet future liabilities, which was an ongoing issue. He highlighted that further restructuring of local government in Scotland would be a major risk to the Fund. It was hoped that there would be a full consultation by the Scheme Advisory Board on any changes which might affect the Pension Fund's investment returns, cost and efficiency. The Fund and Board would be kept updated.

#### **DECISION**

(a) **NOTED**

(i) **The management actions progressed as contained in Appendix 1; and**

(ii) **The emerging position with regard to "Brexit" continued to create uncertainty; no new quantifiable risks had been identified since the last review.**

(b) **AGREED to a key risk review being undertaken in March 2017 and reporting of progress on risk management actions.**

5. **SCHEME ADVISORY UPDATE**

There had been circulated the Scottish Local Government Pension Scheme Advisory Bulletin (October 2016) for information. With regard to the Structure Review, the Capital and Investment Manager, Mrs Robb, advised that the second draft had been produced. Officers from Lothian and Strathclyde Pension Funds were on the working group for this. The recommendations contained in the Review ranged from one fund to the status quo and assumptions were more robust than seen in previous reviews. Mrs Robb further advised that the Transparency Code was progressing and Fund Managers had been asked to provide information. Mrs Robb went on to discuss training and that Fiduciary Duty training would be provided prior to the meeting on 16 March. The training would be provided in-house by the Council's legal team. Members were also asked to note that KPMG had undertaken the governance review and were preparing their report to be delivered to the Scheme Advisory Board. The best practice guidance on cessation valuations had not yet been issued.

**DECISION**

**NOTED the updates.**

6. **INFORMATION UPDATE**

- 6.1 There had been circulated a briefing paper by Chief Financial Officer. In summary: Lothian Pension Fund had been granted Financial Conduct Authority (FCA) authorisation. The Chief Financial Officer was exploring whether there would be opportunities for joint working and investment in their Infrastructure Investment Strategy.
- 6.2 The Local Government Pension Scheme (LGPS) Conveners' Group had discussed investment in Scottish Infrastructure. The next meeting was scheduled for 21 December; the Chief Financial Officer would be attending.
- 6.3 Nine members of the Pension Fund and Board had fully met their training requirements. Information on a training event on 12 December had been circulated. The training would cover: Role of Custodian; Pension Administration; Investment in Infrastructure and Alternatives; and, Environment, Social, Governance Policies. The Pensions and Lifetime Savings Association would also host a conference on 8 – 10 March 2017. Members were not required to attend all days, but could select their preference. An agenda would be circulated when received.
- 6.4 Due to Visit Scotland nearing "exiting employee" status they wished to put a bond in place to avoid a cessation valuation being required. They are proposing this across all Pension Funds they were members of. The Bond was being underwritten by Scottish Government and was being prepared. It was also noted that the Auto Enrolment of employees, who had previously opted out, had resulted in 21 employees being re-enrolled into the scheme. Members appreciated the update and it was agreed that it be presented to every meeting.

**DECISION**

**AGREED to present an Information Update to every meeting of the Pension Fund Committee and Pension Board.**

7. **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.**

8. **MINUTE**

The Committee noted the Private Minute of the meeting of 15 September 2016.

9. **ACTION SHEET UPDATE**  
The Committee noted the master Action Sheet update.
10. **PENSION FUND APPOINTMENT SUB-GROUP**  
The Committee noted the Private Minute of the Meeting of the Pension Fund Sub-Committee of 3 November 2016.
11. **INVESTMENT REPORT - QUARTER TO 30 SEPTEMBER 2016**  
The Committee noted the Private Minute of the Meeting of the Pension Fund Sub-Committee of 3 November 2016.
12. **PROPERTY INVESTMENT UPDATE**  
The Committee noted and agreed a report by Chief Financial Officer.
13. **PROCUREMENT UPDATE AND IMPLEMENTATION**  
The Committee noted and agreed a report by Chief Financial Officer.

***The meeting concluded at 11.50 am***

**SCOTTISH BORDERS COUNCIL  
PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

MINUTES of Meeting of the PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE held at KPMG, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG on Monday, 27 February 2017 at 10.00 am

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Present:- Councillors B White (Chairman), J Campbell, J G Mitchell, S Mountford, Mr P Smith.  
Apologies:- Councillors M J Cook, G Edgar, G Logan and Mr C Hogarth.  
In Attendance:- Chief Financial Officer, Capital & Investments Manager Mr D O'Hara, Investment Advisor (KPMG), Mr Calum Brunton-Smith (KPMG) and Democratic Services Officer (J Turnbull).

1. **WELCOME AND INTRODUCTIONS**

The Chairman welcomed Mr Andrew Imrie and Mr Bruce Miller from Lothian Pension Fund who were in attendance to give a presentation on Infrastructure Investment.

2. **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.

3. **MINUTE**

The Committee noted the Minute of the meeting of 22 February 2016.

**DECISION**

**NOTED for signature by the Chairman.**

4. **ITEMS LIKELY TO BE TAKEN IN PRIVATE  
DECISION**

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

**SUMMARY OF PRIVATE BUSINESS**

5. **PRIVATE MINUTE**

The Sub-Committee noted for signature the Private Minute of 22 February 2016.

6. **INFRASTRUCTURE INVESTMENT OPPORTUNITY**

The Committee considered a presentation by Lothian Pension Fund and agreed a report should be presented to the next joint meeting of Pension Fund Committee and Pension Board.

7. **QUARTER PERFORMANCE UPDATE AND MANAGER BRIEFING.**

Owing to time constraints the report was not discussed. However, officers from KPMG referred the Sub-Committee to their report prior to each Fund Manger's presentation.

8. **PRESENTATION - BAILLIE GIFFORD**  
The Committee noted the presentation by Baillie Gifford.
9. **PRESENTATION - LGT**  
The Committee noted the presentation by LGT.
10. **PRESENTATION - HARRIS ASSOCIATES**  
The Committee noted the presentation by Harris Associates.
11. **PRESENTATION - MORGAN STANLEY**  
The Committee noted the presentation by Morgan Stanley.
12. **PRESENTATION - UBS**  
The Committee noted the presentation by UBS.
13. **PRESENTATION - M & G ASSOCIATES**  
The Committee noted the presentation by M & G Associates.

***The meeting concluded at 5.45 pm***

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## **RISK REGISTER UPDATE**

**Report by Chief Financial Officer**

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

**16 March 2017**

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#### **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 actions taken by management to mitigate these 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.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Committee and Board:**
  - (a) **note the management actions progress as contained in Appendix 1;**
  - (b) **notes no new quantifiable risks have been identified since the last review; and**
  - (c) **agrees to a full review being undertaken in June 2017.**

### 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
<b>RED</b>	High – Risk Score Range 15-25
<b>AMBER</b>	Medium – Risk Score Range 6 – 12
<b>GREEN</b>	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"> <li>Quarterly Investment Performance Report.</li> <li>Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee.</li> <li>Update on progress of risk management action delivery.</li> </ul>  |
| Bi-Annually | <ul style="list-style-type: none"> <li>Mid-Year Progress report on Business Plan Actions.</li> <li>Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee.</li> <li>Update on progress of risk management action delivery.</li> </ul>  |
| Annually    | <ul style="list-style-type: none"> <li>Annual Governance Meeting with Annual Report and Policy/ Strategy Performance Reports.</li> <li>Annual reporting on progress with Business Plan and approval of updated Business Plan.</li> <li>Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks.</li> </ul> |

## **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 and 8 December. This report provides an update on all areas required for quarterly update.
- 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. A separate paper will be presented highlighting an opportunity to undertake collaborative working with Lothian Pension Fund for Infrastructure.
- 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 A recent report commissioned by the Scheme Advisory Board is looking at possible structure changes to the Scottish LGPS funds. The report is at an early stage and is looking at options from the status quo, collaborative working, pooling funds and wholesale merger of funds. Officers will monitor the situation and report updates to Joint Board and Committee as they become clearer. The Council is represented on the board and feedback concerning structural change to the management of the LGPS there must be clear evidence on the impact of the investment returns and effect on costs of each option.
- 4.6 No new quantifiable risks have been identified since the approval of the risk review update on 8 December. 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 8 December

**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.

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# 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 16/03/2017
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. <b>TREAT</b> <b>Additional Actions Proposed:</b> 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 June 2017 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. Working with new custodian on format of performance and accounting reports
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. <b>TREAT</b> <b>Additional Actions Proposed:</b> Procurement of revised custodian services	Effective	3	2	6	Transition to Northern Trust completed and full reconciliation undertaken. 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 <b>TREAT</b> 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 have required skills and knowledge to enable challenge. Working with new custodian on format of performance and accounting reports

# 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 16/03/2017
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. <b>TREAT</b> <u>Additional Actions Proposed:</u> Review currency hedge requirements and use.	Partially Effective	3	3	9	Currency hedge terminated fully 14 December 2016
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;  <b>TREAT</b> <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. Possible opportunity for Infrastructure Investment identified and included on agenda
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.  <b>TREAT</b> <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. Possible opportunity for Infrastructure Investment identified and included on agenda. Revised strategy reviewed by Actuary to confirm no adverse effect on overall funding strategy.
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.  <b>TREAT</b> <u>Additional Actions Proposed:</u> Continued monitoring and evaluation of inflation and pay awards	Effective	3	4	12	Revised Investment strategy approved 15 Sept. Implementation of new asset groups underway. Possible opportunity for Infrastructure Investment identified and included on agenda

# 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 16/03/2017
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.  <b>TREAT</b> <b>Additional Actions Proposed:</b> 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.  <b>TREAT</b> <b>Additional Actions Proposed:</b> 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.  <b>TREAT</b> <b>Additional Action Proposed:</b> 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 16/03/2017
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.  <b>TREAT</b> <b>Additional Action Proposed:</b> 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.  <b>TREAT</b> <b>Additional Actions Proposed:</b> 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. Implementation of new asset groups underway. Possible opportunity for Infrastructure Investment identified and included on agenda. Revised strategy reviewed by Actuary to confirm no adverse effect on overall funding strategy. Tri-annual valuation to be undertaken during 2017/18
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.  <b>TREAT</b> <b>Additional Actions Proposed:</b> 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 16/03/2017
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.  <b>TREAT</b> <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.  <b>TREAT</b> <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.  <b>TREAT</b> <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 16/03/2017
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.  <b>TREAT</b> <b>Additional Action Proposed:</b> 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;  <b>TREAT</b> <b>Additional Actions Proposed:</b> 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. Monitoring discussions of Scheme Advisory Board for possible areas of review
7.3	Reputation Page 18	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.  <b>TREAT</b> <b>Additional Actions Required:</b> Implement annual review of Adviser; Procurement of custodian for independent performance monitoring of Fund.	Effective	2	2	4	Annual assessment of Advisor scheduled for June 2018. Custodian transition completed 1st December 2016 and full reconciliation undertaken.
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.  <b>TREAT</b> 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, update on actions presented December 2016. 2017 Business Plan to be presented 15 June 2017.



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## **INFORMATION UPDATE**

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### **Briefing Paper by Chief Financial Officer**

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## **PENSION FUND COMMITTEE & PENSION BOARD**

**16 March 2017**

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### **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 TRI-ANNUAL VALUATION**

- 2.1 It is a requirement of the LGPS Regulations that the Pension Fund undertakes an actuarial valuation of the assets and liabilities of the Fund every 3 years. The next valuation is due to take place on the 31 March 2017 data.
- 2.2 Initial discussions have commenced with Barnet Waddingham to agree the timetable for data collection and the assumptions to be used. The final outcome of the valuation will be presented at the December meeting.

### **3 GOVERNMENT ACTUARY DEPARTMENT (GAD) SECTION 13 DRY RUN**

- 3.1 The Government Actuary was appointed by the Scottish Public Pensions Agency (SPPA) on behalf of the Scottish Ministers to report under section 13 of the Public Service Pension Act 2013. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate.
- 3.2 Information was provided to GAD from all Scottish Pension Funds and their actuarial advisors used to undertake the 2014 valuation. The aim of reviewing the 2014 valuation was to assist Administering authorities and their actuarial advisors in preparation for the 2017 valuation.
- 3.3 The review looked at four main areas which were compliance, consistency, solvency and long term cost efficiency. The table below

summaries the findings:

Compliance	No evidence of non-compliance with scheme regulations
Consistency	Inconsistences between terms, approach taken, assumptions and disclosures. This made meaningful comparison unnecessarily difficult.
Solvency	No issues were raised under solvency. Only area flagged was if an asset shock event occurred.
Long term cost efficiency	All in surplus on the GAD standardised basis, no concerns.

- 3.4 The exercise will be undertaken again following the 2017 valuation. GAD is in discussion with Actuaries to ensure consistent use of terms and presentation of findings. They have also requested additional information is provided which will require a change to the Pension Administration system. There are no other anticipated changes to the information or way the valuation is carried out.

#### **4 CURRENCY HEDGE**

- 4.1 Committee approved on 15 September 2016 the removal of the currency hedge. Delegated 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.
- 4.2 The currency hedge was reduced during November 2016 and then fully removed on 14 December.

#### **5 ON BOARDING OF NEW MANAGERS**

- 5.1 The Joint Committee and Board approved the appointment of Blackrock for Long Lease Property and Permira and Partners for Private Credit.
- 5.2 Blackrock have completed their review of the documents and the account is now active. They have indicated the funds will be drawn down over a 3 to 6 month period in 2-3 individual capital calls. The initial drawdown is anticipated to be during March.
- 5.3 Permira are completed their final sign off for the documents submitted and are looking to draw down around 10% of the allocation late April.
- 5.4 Partners Group currently being reviewed and anticipated final approval on 20<sup>th</sup> March. The first draw down of 75% of the funds will be in March with the 25% balance in June.

## **6 TRAINING**

- 6.1 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. Thirteen members have now met their training requirements for the year.
- 6.2 The final training session on Fiduciary duties was undertaken prior to the Joint meeting. It is anticipated that attendance at this will ensure all members have fully met their training requirement for the year.

## **7 CO-HABITING PARTNERS**

- 7.1 A recent ruling at the Supreme Court ruled on a case in Northern Ireland regarding the non-payment of survivor's pension due to the lack of a nomination form. The ruling removed the requirement for a member to nominate a co-habiting partner (the relationship does still have to meet the other criteria listed for the partner to receive a pension).
- 7.2 This ruling was reported to have possible consequences for the wider Public sector schemes as partners previously denied a pension due to lack of nomination form may bring forward a claim.
- 7.3 This however will have little impact on the Local Government Schemes as regulations were changed on 1 April 2015, no longer requiring a formal nomination to be in place. The survivor partner would only be required to meet the criteria listed to be able to receive the pension. There may however be a risk from cases prior to April 2015 being claimed. There are currently no known claims for the Scottish Borders Pension Fund.

## **8 ERP IMPLEMENTATION**

- 8.1 ERP will continue to provide Pensioners with the ability to sign up to view payslips online and make changes to bank details through a secure self-service portal.

## **9 COMMUNITY JUSTICE**

- 9.1 The Community Justice service is being amalgamated into a new body, Community Justice Scotland which will be established on 1 April 2017. Staff currently employed by the Community Justice Service will be made redundant.
- 9.2 Lothian and Borders Community Justice Authority (LBCJA) are currently an admitted body within the Pension Fund with 4 active, 3 deferred and 1 pensioner. The amalgamation will move LBCJA to an "exiting employer" and under the regulations liable for an exit payment.
- 9.3 The Scottish Government has agreed to meet all costs proposed with the severance of these staff which includes any strain on funds and cessation costs. The costs are currently being calculated by the Actuary for the Fund.

## 10 GOVERNANCE REVIEW

- 10.1 KPMG were appointed to undertake a review of Pensions Governance. This review covered both the funded and unfunded schemes. The review involved face to face interviews with 47 individuals with all Board members being invited to complete an online questionnaire of which 104 were submitted.
- 10.2 The findings of the review were presented to the Scheme Advisory Board on 23 February. In total there are 18 recommendations split over 6 categories. The table below details the findings for funded schemes.

<p><b>Roles &amp; Responsivities</b></p> <p>Scottish Government to consider tasking the LGPS Scheme Advisory Board to demonstrate that the local LGPS Pension Boards have achieved a <b>reasonable working balance between the oversight of the local pension funds and the good governance and administration of the schemes</b>, as required by the Public Service Pensions Act 2013 ('the 2013 Act') and the Pensions Regulator's Code of Practice 14.</p>
<p><b>Training</b></p> <p>SPPA, in its role as Scheme Manager, together with Local Authorities filling the same role for the LGPS, should <b>ensure an annual training plan is in place</b> for all Board members. This should cover those subjects common to all Boards as well as addressing issues specific to the challenges faced by different Boards.</p> <p>All Pension Board and Scheme Advisory Board members should be <b>required to undertake the Pensions Regulator on-line training</b> as part of their induction training.</p> <p><b>Training logs</b> from all Boards should be <b>submitted on a regular basis</b> to SPPA (for unfunded Scheme Pension Boards and Scheme Advisory Boards and the LGPS Scheme Advisory Board) or the LGPS Scheme Advisory Board (for LGPS Pension Boards).</p>
<p><b>Support for Boards</b></p> <p>Scheme Manager to ensure a <b>consistently high standard of support</b> is provided to the Boards it supports, preferably from <b>dedicated staff</b> to enable a consistency in approach. All Boards should issue papers and agendas and publish minutes within agreed timescales, thus allowing members sufficient time to prepare themselves for meetings.</p> <p>All relevant information concerning public service pension Boards, including the LGPS Boards, should be <b>published in one central location</b> (for example the SPPA website). This website should include the Terms of Reference for each Board, meeting minutes, annual reports and details of all Board members.</p> <p>It would also be helpful if references to each of the LGPS Pension Boards used a <b>common naming convention</b>.</p> <p>Such a depository of information will enable members of pension schemes and the general public to easily find relevant information and facilitate comparison where appropriate.</p>
<p><b>Board Composition</b></p> <p>In consultation with Board members, and in particular Board Chairs, a <b>succession plan</b> is put in place for each Board to ensure a balance is struck between ensuring sufficient experience is retained whilst also introducing new blood to the Boards.</p> <p>In the absence of an alternative suggestion, <b>tenures of three years</b> are proposed, with the opportunity to serve an additional term if agreed.</p> <p>It is recommended that the Scottish Government takes steps to ensure that its Boards <b>reflect the diversity</b> of the members that they represent.</p> <p>In particular, <b>pensioners should be represented</b> on Boards as member representatives.</p>
<p><b>Board Interaction</b></p> <p>Consideration should be given to <b>establishing a formal distribution of minutes</b> between Pension Boards and their respective Scheme Advisory Boards.</p>

All Pension Board members and Scheme Advisory Board members should be encouraged to <b>attend other Pension and Scheme Advisory Board meetings</b> wherever this is practicable and at least once during their tenure
An <b>annual public service pensions conference</b> should be organised for all Board members to attend SPPA is probably best placed to take on this task

- 10.3 The final recommendations and implementation of these are currently unknown. Officers will however continue to monitor the review and present reports of any possible implications to future meetings.

**Author(s)**

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## **PENSION FUND BUDGET 2017/18**

**Report by Chief Financial Officer**

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### **JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD**

**16 March 2017**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **The purpose of this report is to provide the Committee and Board with a proposed 2017/18 budget for the Pension Fund which will be reported to the Committee on a quarterly basis.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 Best practice suggests that budget setting and monitoring for the Pension Fund is a good way to demonstrate compliance with the governance requirements within the 2014 regulations. CIPFA accounting guidelines recommends 3 categories for the reporting and monitoring of costs. These categories are detailed in para 4.1 with proposed budgets for 2017/18 detailed in para 4.2.
- 1.4 The 2017/18 approved budgets will be monitored during the year with quarterly budget monitoring reports being presented to the Joint Pension Fund Committee and Pension Board.

#### **2 RECOMMENDATIONS**

- 2.1 **It is recommended that the Joint Pension Fund Committee and Pension Fund Board:-**
  - (a) **Approve the budget of £3.33m for Investment Management, £0.286m for Administration and £0.213m for oversight and governance**
  - (b) **Note budget monitoring reports will be presented to future meetings.**

### 3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report on an annual basis within its Annual Report if it has met these standards. One area where the Pension Fund has not demonstrated full compliance is in setting a budget for the fund.
- 3.2 Best practice suggests that budget setting and monitoring for the Pension Fund is a good way to demonstrate compliance with the governance requirements within the 2014 regulations.
- 3.3 Accounting for Local Government Pension Scheme management costs guidance issued by CIPFA encouraged administering authorities to improve management and transparency of costs, including investment management fees.

### 4 2017/18 BUDGET

- 4.1 CIPFA accounting guidance recommends the management costs of the Pension Funds are categories into 3 groups. These categories and the costs included in each category are shown in the table below.

<b>Category</b>	<b>Costs included</b>
Investment Management	All expenses incurred in relation to management of pension fund assets. Including costs invoiced direct and fees deducted from fund assets. Custody and performance fees also included
Administration	Costs incurred in administration of the fund including staff, IT costs and associated overheads, benefits consultants and re
Oversight and governance	Costs incur in the selection & appointment of managers, audit fees, investment advisory services, tax advisory, accounting services, banking service and support to the pensions committee and board.

4.2 Proposed budget for the above categories are shown below:

<b>Category</b>	<b>£000's</b>	
Investment Management	3,330	Fees based on revised asset allocation, current asset manager fee agreements and assumption of 5% asset growth of fund.
Administration	286	Staffing and IT costs of Pension Admin department
Oversight & Governance	213	Based on current levels of service from Advisor, Finance staff support, 2017/18 External audit fee, accounting and performance services from Northern Trust. Allowance of £10k included for training of members of Committee and Board.
Total	3,829	

4.3 The investment management fees are charged on the value of the fund at a given time through the year. If the value of the funds held increase in value the fees will correspondingly increase.

4.4 Monitoring reports, including projections will be provided on a quarterly basis to the Joint Pension Fund Committee and Board meetings.

## **5 IMPLICATIONS**

### **5.1 Financial**

There are no costs attached to any of the recommendations contained in this report.

### **5.2 Risk and Mitigations**

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

### **5.3 Equalities**

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

### **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**

There are not changes to the Scheme of Administration or the Scheme of Delegation 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 any comments received have been incorporated into the final report.

**Approved by**

**David Robertson**  
**Chief Financial Officer**

**Signature .....**

**Author(s)**

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

**Background Papers:**  
**Previous Minute Reference:**

**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](mailto:treasuryteam@scotborders.gov.uk)

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