

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTE of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in Committee Room 2, Council
Headquarters, Newtown St Boswells on
Thursday, 22 June 2017 at 2.00 pm

Present:- Councillors D Parker (Chairman), J Brown, G Edgar, J A Fullarton, D Moffat,
S Mountford, Mr A Barclay, Mr M Drysdale, Ms L Ross.
Apologies:- Councillors Aitchison, Scott, Mr C Hogarth, Ms K Hughes, Mr P Smith, Ms C
Stewart.
In Attendance:- Chief Financial Officer, Capital and Investment Manager, HR Shared Services
Manager, Chief Officer Audit & Risk, Mr D O'Hara (KPMG), A Haseeb (Audit
Scotland), Democratic Services Officer (J Turnbull).

1. WELCOME AND INTRODUCTIONS

The Chairman, Councillor Parker, welcomed officers and members to the joint meeting of the Pension Fund Committee and Pension Board and there was a round of introductions.

2. APPOINTMENT OF VICE CHAIR

Councillor Edgar, seconded by Councillor Brown, moved that Councillor Mountford be appointed as Vice-Chairman and this was unanimously agreed.

DECISION

AGREED that Councillor Mountford be appointed as Vice-Chairman of the Pension Fund Committee.

3. MINUTE

There had been circulated copies of the Minute of the Meeting of 16 March 2017.

DECISION

NOTED for signature by the Chairman.

4. PRESENTATION - OVERVIEW OF PENSION FUND

4.1 The Chief Financial Officer, Mr Robertson, gave a brief presentation to the Pension Fund Committee and Pension Board. He began by explaining that the Pension Fund received contributions from employees and employers. The Fund paid pensions to pensioners and their dependents in accordance with the benefit structure of the Local Government Pension Scheme (LGPS). The Fund was a Funded Scheme i.e. investments supported future pensions. The Pension Fund Committee oversaw the management of the Scottish Borders Council Pension Fund and had an overriding duty to ensure the best possible outcomes for the Fund and its members. The last valuation, at 31 March 2014, determined that the Fund was 101% funded and that the employer contribution rate be 18% of employee salary, a further valuation was due this year. As at 31 March 2017, total invested assets were approximately £654m.

4.2 In answer to questions, Mr Robertson advised that changes to the Fund's strategy had been completed with new allocations to Long Lease Property, Private Credit, Inflation Linked Gilts and Infrastructure. The Fund was moving towards the target allocations within the revised strategy. Mr Robertson further advised that there had recently been external interest in the Fund's approach to investment in armaments' companies. He explained that the Fund did not invest in armaments' manufacturing companies.

However, the Fund did invest in large multi-national companies, a minority of which might manufacture components which were used by other companies in the development of armaments.

DECISION

- (a) **AGREED to request the Capital and Investment Manager circulate the presentation; and**
- (b) **NOTED the presentation.**

5. **GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2017**

There had been circulated a report by Chief Financial Officer which proposed the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. The report requested approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2016/17. Appendix 1 to the report, contained the revised Governance Policy and Compliance Statement for the Pension Fund. The Governance Compliance Statement was included in Appendix B to the policy and demonstrated that the Pension Fund was in full compliance with best practice guidance. Mrs Robb highlighted the changes since the 2016 Statement as the appointment of Northern Trust as the Custodian and the removal of the currency hedge.

DECISION

AGREED:

- (a) **The revised Governance Policy and Compliance Statement 2017; and**
 - (b) **That the Governance Compliance Statement be included in the Pension Fund Annual Report and Accounts 2016/17.**
6. **FUNDING STRATEGY STATEMENT & STATEMENT OF INVESTMENT PRINCIPLES 2017**

There had been circulated a report by Chief Financial Officer which proposed the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2017. Both these documents were kept under review and updated and approved annually in line with the Pension Fund's Business Plan. The Pension Fund was required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles. Following the appointment of KPMG as the Fund's Investment Advisor a full review was undertaken of the strategic asset allocation with the revised allocation approved on 15 September 2016. The asset allocation was further adjusted on 8 March 2017 to include an allocation for infrastructure investment. Appendix A to the report contained the Funding Strategy Statement. Appendix B to the report contained the revised Statement of Investment Principles (SIP) for approval. Mrs Robb highlighted that work had been undertaken to encourage all Fund managers to sign up to the United Nations Principles Responsible Investment (UNPRI) Stewardship Code. This would enhance the Fund's approach to socially responsible investment, ensuring the Fund continued to meet its fiduciary duties.

DECISION

AGREED:

- (a) **The Funding Strategy Statement set out in Appendix A, to the report; and**
 - (b) **The Statement of Investment Principles set out in Appendix B to the report.**
7. **PENSION ADMINISTRATION PERFORMANCE 2016/17**
- There had been circulated a report by Chief Officer Human Resources presenting the Pensions Administration Performance for 2016/17 and requesting the Committee's approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report contained the Pensions Administration Performance for 2016/17 as it would be included in

the Fund's Annual Report and Accounts. During 2016/17 there had been an increase in the number of payments being received late when compared to 2015/16, with late payments being made by Live Borders and Jedburgh Leisure Facilities Trust. Performance in general had been comparable with the previous year. The issuing of benefit statements in August 2016 was achieved again despite the challenge of the inclusion of CARE for the first time and estimates provided being on par with the previous reporting year. There had been another successful Employer Liaison meeting held during 2016/17 and agreement reached that this would be a useful event to hold on an annual basis. Mr Angus, HR Shared Services Manager, was in attendance and advised that there were two areas which needed improvement going forward - responses to Annual Benefit Statement queries and Transfers in and out of the Fund.

DECISION

- (a) NOTED the Pension Administration Performance for 2016/17 as set out in Appendix 1 to the report.**
- (b) AGREED the inclusion of the Pension Administration Performance 2016/17 in the Pension Fund Annual Report and Accounts 2016/17.**

8. TRAINING PLAN 2017/18

8.1 There had been circulated a report by Chief Financial Officer comparing the actual 2016/17 attendance for Pension Fund Committee and Pension Board members with the requirements detailed in the current Training Policy approved in June 2016. The report proposed key areas of training for 2017/18 in-line with the policy and based on the Skills Knowledge assessment recently undertaken. In December 2016 the Pension Fund Committee and Board agreed that completion of the Pension Regulator Trustee Toolkit should be a mandatory requirement for all members. The Training Policy had been updated to reflect this and a copy of the revised policy was contained in Appendix 1 to the report. In line with this Policy, the Pension Fund agreed to undertake an annual knowledge and skills self-assessment which would identify key areas for the future year's training plan. The Training Knowledge and Skills Assessments had been undertaken in May 2017 and was summarised in Appendix 2 to the report. The proposed Training areas for 2017/18 were summarised in paragraph 6.2 of the report and members were strongly encouraged to actively participate in all training events to demonstrate their commitment to building the knowledge to support effective decision making.

8.2 Mrs Robb advised that each member must complete the Pension Regulator Trustee Toolkit within six months. Drop-in sessions would be arranged for any members requiring assistance completing the modules. The Toolkit would be forwarded to all members following the meeting. Mrs Robb further advised that the training programme for 2017/18 would cover: Financial Markets and Investment Products; Role of the Custodian; General Pension Fund Regulatory Environment and LGPS Regulatory Environment. All training events would be open to Pension Fund and Pension Board members.

DECISION

- (a) AGREED**
 - (i) The revised Training Policy in Appendix 1 to the report;**
 - (ii) The Training areas for 2017/18 set out in paragraph 6.2 of the report and that all members should prioritise attendance at training events wherever practicable; and**
 - (iii) To forward the Pension Regulator Trustee Toolkit to all members.**
- (b) NOTED**
 - (i) The outcome of the Knowledge and Skills Self-Assessment; and**

(ii) The mandatory requirement for completion of the Pension Fund Regulator Trustee Toolkit.

9. BUSINESS PLAN 2017/2018 - 2019/2020

- 9.1 There had been circulated a report by Chief Financial Officer which proposed the Pension Fund Business Plan 2017/18 – 2019/20. Best practice suggested that having a Business Plan for the Pension Fund was a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 to the report, contained the first Pension Fund Business Plan, covering the period 2017/18 - 2019/20. The Business Plan 2017/18 – 2019/20 identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund.
- 9.2 The Committee and Board noted that resource constraints had resulted in delays to the implementation of the Communication Strategy. It was acknowledged that external expertise would be beneficially to progress the Strategy. It was agreed to request officers investigate options to deliver the Communication Strategy and report back to the next meeting.

DECISION

AGREED

- (a) **The Pension Fund Business Plan 2017/18 – 2019/20 as set out in Appendix 1 of the report; and**
- (b) **To report back to the next meeting options for delivery of the Communication Strategy and an action plan for implementation.**

10. RISK REGISTER UPDATE

- 10.1 With reference to paragraph 5 of the Minute of 16 March 2017, there had been circulated a report by Chief Financial Officer which formed part of the risk review requirements and provided the Pension Fund Committee and Pension Board with a full register and proposed management actions to mitigate risks. Identifying and managing risk was a corner stone of effective management and was required under the Council’s Risk Management Policy and process guide 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. A full risk workshop was held on 10 May 2017, the output of this was shown in Appendix 1 to the report. In line with the Council’s Risk Management Policy (2015) a report to be presented at the September 2017 meeting would report progress on the management actions and present any new risks for consideration.
- 10.2 Members discussed Risk 4.1, relating to changes in the composition of Pension Fund membership, which might result in there being insufficient assets in the Fund to meet future liabilities. Mr Robertson advised that one of the options being considered for this Risk was changing the Fund’s Strategy to realise more income generating assets. Mr Robertson further advised that the impact of early retiral requests on the Pension Fund were also being closely monitored. Regarding Risk 6.2 – changes in legislation and regulatory frameworks which might impact adversely on the Fund, the risk was being managed by participation in CIPFA and the Scottish Pension Network, which ensured changes and impacts could be identified quickly.

DECISION

AGREED:-

- (a) **The updated Full Risk register as contained in Appendix 1; and**
- (b) **To an update on progress of management actions to be presented in September 2017.**

11. **DRAFT ANNUAL REPORT (INCLUDING ANNUAL ACCOUNTS)**

There had been circulated a report by Chief Financial Officer presenting the draft Annual Report and Accounts for 2016/17 prior to submission to Audit Committee and external auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in paragraph 4.1 of the report. The draft Report and Accounts were still subject to Audit, which would commence early July. Following the statutory audit process the final Report and Accounts would be circulated to the joint Committee and Board. Mr Robertson advised that 2016 had seen the Funds value increase, outperforming the benchmark by 1.0%, with closing net assets of £655.4m net. The Triennial Valuation in 2014 determined a funding level of 101% a major contributor to this improvement has been the strong investment performance the Fund has achieved over the last three years. In answer to a question regarding the current funding level, Mr Robertson advised that initial discussion with the Actuary indicated that the position was stable with no decline in funding levels.

DECISION

NOTED the Pension Fund Annual Report and Accounts 2016/17 contained in Appendix 1 to the report, prior to submission to Audit and Scrutiny Committee and the subsequent statutory audit process.

12. **INFORMATION UPDATE**

12.1 There had been circulated a briefing note by Chief Financial Officer together with the May 2017 Scheme Advisory Bulletin, summarised below:

12.2 **Tri-Annual Valuation**

The next valuation would take place in 2017 based on 31 March 2017 data. The final outcome of the valuation would be presented to the December meeting.

12.3 **On Boarding of New Managers**

The Joint Committee and Board approved and had appointed Blackrock for Long Lease Property and Permira and Partners for Private Credit.

12.4 **Investment in Infrastructure**

One possible investment opportunity had been considered but due to the vacancy of Pension Fund Committee Chair, the Fund was unable to make the necessary commitment within the required timeframe.

12.5 **ERP Implementation**

ERP went live on 1 April 2017. A strategy had still to be developed to enable pensioners to have access to view their payslips online.

12.6 **Scheme Advisory Board Update**

A discussion had been held on the structure of LGPS funds and the Scheme Advisory Board had been agreed to present their report to Ministers with no specific recommendations.

12.7 Following the recent local elections, the membership of the Scheme Advisory Board representing the employer side was still unknown.

12.8 **Future Meeting Dates**

Joint Pension Fund and Pension Board meetings were scheduled for:

Thursday, 14 September 2017

Thursday, 7 December 2017

Thursday, 8 March 2018

Thursday, 14 June 2018

- 12.9 Performance and Investment Sub-Committees would be held on Monday, 21 August 2017 and Monday 26 February 2018.

DECISION

NOTED the information update.

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

SUMMARY OF PRIVATE BUSINESS

14. **MINUTE**
The Committee noted the Private Minute of the meeting of 16 March 2017.
15. **QUARTER PERFORMANCE UPDATE TO 31 MARCH 2017**
The Committee noted a Private report by KPMG.

The meeting concluded at 3.35 pm