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PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 22 JUNE 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, 22 JUNE 2017 at 1.30 PM

Lunch will be available at 1.00 pm in the Council Chamber for Pension Fund and Pension Board Members.

J. J. WILKINSON,
Clerk to the Council,

15 June 2017

| BUSINESS | | |
|-----------------|---|---------|
| 1. | Welcome and Introductions | 2 mins |
| 2. | Apologies for Absence | |
| 3. | Order of Business | |
| 4. | Declarations of Interest | |
| 5. | Appointment of Vice Chair To appoint a Vice Chair for the Pension Fund Committee. | 2 mins |
| 6. | Minute (Pages 5 - 10) Minute of Meeting held on 16 March 2017 to be noted and signed by the Chairman. (Copy attached). | 2 mins |
| 7. | Presentation - Overview of Pension Fund Presentation by Capital and Investments Manager | 30 mins |
| 8. | Governance Policy and Compliance Statement 2017 (Pages 11 - 28) Consider report by Chief Financial Officer. (Copy attached). | 20 mins |
| 9. | Funding Strategy Statement & Statement of Investment Principles 2017 (Pages 29 - 44) Consider report by Chief Financial Officer. (Copy attached). | 20 mins |

| | | |
|-----|--|---------|
| 10. | Pension Administration Performance 2016/17 (Pages 45 - 54) Consider report by Chief Officer Human Resources. (Copy attached). | 20 mins |
| 11. | Training Plan 2017/18 (Pages 55 - 68) Consider report by Chief Financial Officer. (Copy attached). | 10 mins |
| 12. | Business Plan 2017/2018 - 2019/2020 (Pages 69 - 92) Consider report by Chief Financial Officer. (Copy attached). | 15 mins |
| 13. | Risk Register Update (Pages 93 - 106) Consider report by Chief Financial Officer (Copy attached). Paper copies of the Appendix will be available at the meeting. | 20 mins |
| 14. | Draft Annual Report (including Annual Accounts) (Pages 107 - 192) Consider report by Chief Financial Officer. (Copy attached) | 20 mins |
| 15. | Information Update (Pages 193 - 196) Consider briefing note by Chief Financial Officer and Scheme Advisory Bulletin (Copy attached). | 10 mins |
| 16. | Any Other Items Previously Circulated | |
| 17. | Any Other Items which the Chairman Decides are Urgent | |
| 18. | Items Likely To Be Taken In Private Before proceeding with the private business, the following motion should be approved:- "That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act." | |
| 19. | Minute (Pages 197 - 200) Private Section of Minute of Meeting held on 16 March 2017 to be noted and signed by the Chairman. (Copy attached). | 2 mins |
| 20. | Quarter Performance Update to 31 March 2017 (Pages 201 - 242) Consider report by KPMG. (Copy attached). | 45 mins |

NOTES

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

Membership of Committee:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, S. Mountford, D. Moffat, J. A. Fullarton, S. Scott, 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

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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, 16 March
2017 at 2.00 pm

Present:- Councillors B White (Chairman), J. Campbell, G. Edgar, G. Logan,
J. G. Mitchell, S. Mountford, Mr M Drysdale, Mr A Barclay, Ms L Ross,
Ms C Stewart and Ms K M Hughes.

Apologies:- Councillors M. J. Cook, S. Aitchison, Mr C Hogarth and Mr P Smith.

In Attendance:- Director of Finance (Items 1,2, 1-13). Capital and Investment Manager,
Democratic Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 8 December 2016.

DECISION

NOTED for signature by the Chairman.

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

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee dated 27 February 2017.

DECISION

NOTED the Minute.

3. **ASSET ALLOCATION**

3.1 The Chairman welcomed the Pension Fund's Actuary, Alison Hamilton, Barnett Waddingham LLP to the meeting. Ms Hamilton was in attendance to give a presentation on the 2017 Actuarial Valuation, a presentation was circulated at the meeting. Ms Hamilton began by advising that the Actuarial Valuation took place every three years. The last valuation was in 2014, when the Pension Fund's funding level had been 101%, with a £2.8m surplus and an 18% contribution rate. The regulations had changed since 2014 with the introduction of Section 13 of the Pension Act which required additional scrutiny of Pension Funds by the Actuary. The purpose of the 2017 valuation was to set employer contribution rates for the period 1 April 2018 to 31 March 2021. This was calculated by determining the value of assets less the value of liabilities; the surplus, or deficit then determined the total contributions. Ms Hamilton explained that to determine the Fund's liabilities, she analysed the Fund's commitments to date and projected all possible future benefit payments, attaching probabilities to those payments, for each individual member of the Fund.

3.2 Ms Hamilton explained that she had to make certain assumptions to determine the valuation. The model used assessed a six month period spanning the valuation date. For example, recognising public sector pay restraints, the long term salary increase assumption was a rise of 1% over the Consumer Price Index (CPI). She also had to estimate the mortality of the Fund's membership and how this might change in the future. Ms Hamilton then went on to advise that in June 2016 she had reviewed and approved the Fund's revised investment strategy. Mr O'Hara reminded members that the rationale behind the proposed change to the strategy, was to retain the position of the Fund, reduce risk and give additional inflation protection. Ms Hamilton concluded her

presentation by advising that the Fund was now 104% funded and contribution rates should remain at 18% for the three year period.

- 3.3 In response to a question regarding infrastructure investment, Ms Hamilton advised that a return of 5.4% above CPI would be prudent. Regarding mortality assumptions, she clarified that this was analysed on a regional basis and there was good longevity in the Scottish Borders in comparison with the rest of Scotland. Regarding monitoring the Fund's performance, she stated that there was now an online toolkit available and members could monitor the valuation of the Fund, on a daily basis if required. The Chairman thanked Ms Hamilton for attending the meeting and for the interesting presentation.

DECISION NOTED.

MEMBER

Councillor Campbell joined the meeting during consideration of the above report.

4. ENVIRONMENTAL SOCIAL GOVERNANCE

- 4.1 The Capital and Investment Manager, Kirsty Robb, then gave a presentation on the Environmental Social Governance (ESG) Policy. Mrs Robb explained that the ESG policy covered wide and varied areas including climate change, deforestation, working conditions, child labour, bribery and corruption. Mrs Robb advised that officers often received requests from pension fund members that the Fund be discouraged from investing in certain companies, for example armament companies, or companies that used child labour. However, in response, it was explained that fiduciary considerations meant that the Pension Fund could not specifically exclude the choice of investment purely based on non-financial considerations and there was no policy in place that could restrict choice. The Pension Fund Committee sought to obtain the best return for the Fund while acting prudently.
- 4.2 The Fund's current position, in relation to ESG, was contained in Section 6 of the Statement of Investment Policy (SIP). The SIP recognised the Committee's responsibility to exercise voting rights, which had been delegated to the Fund's Investment Managers. Mrs Robb stated that other pension funds in Scotland were signing up to the United Nations Principles Responsible Investment (UNPRI) Stewardship Code, which was mandatory in England and Wales. If members agreed, then this could be added to the ESG governance arrangements requiring all Fund Managers signed the Code and could be included as a standard requirement for any future appointment of Fund Managers. In response to a question, Mrs Robb advised that by requesting Fund Managers to sign up to the Code there would be no financial or administration burden for officers. In response to a question regarding the Code restricting investment opportunities, Mr O'Hara advised that the Code did not exclude areas of investment. However, Fund Managers would engage with companies and encourage them to address ESG considerations. For example, if a company used child labour the Fund Manager would consider that as a risk which could impact on stock price and therefore encourage the company to address their concerns.
- 4.3 Mrs Robb went on to advise that to improve monitoring of ESG, the Pension Fund could consider the appointment of a Voting Consultant. KPMG presently, in their report, included information on Fund Manager's voting decisions. However, a Voting Consultant would give more detail and background information, explaining the rationale behind voting choices. This would further enhance the Committee and Board's monitoring role. The Pension Fund and Board discussed the appointment of a Voting Consultant and requested that a report be presented to the next meeting detailing the cost involved. It was also requested that a Voting Consultant be asked to attend the meeting to give a briefing on their role and the benefits to the Pension Fund.

DECISION

AGREED:

- (a) **To request that the Capital and Investment Manager arrange for an Voting Consultant to brief the June Meeting of the Pension Fund Committee and Pension Board;**
- (b) **To request a report detailing the cost of appointing a Voting Consultant; and**
- (c) **To update the Statement of Investment Policy to reflect that Fund Managers be requested to sign up to the United Nations Principles Responsible Investment (UNPRI) Stewardship Code and bring back to the June meeting for approval.**

5. RISK REVIEW UPDATE

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. Mrs Robb highlighted that the transition to Northern Trust had been completed and a full reconciliation undertaking. With regard to members training, all but one member had met the full training requirement. Mrs Robb further advised that the communication strategy had been delayed until September 2017 due to Enterprise Resource Planning (ERP) implementation.

DECISION

(a) NOTED

- (i) **The management actions progressed as contained in Appendix 1 to the report; and**
- (ii) **No new quantifiable risks had been identified since the last review.**

(b) AGREED to a key risk review being undertaken in June 2017.

6. INFORMATION UPDATE

6.1 Tri-Annual Valuation

The next tri-annual valuation would take place on 31 March 2017. The final outcome would be presented to the December meeting.

6.2 Government Actuary Department (GAD) Section 13 Dry Run

The Government Actuary Department (GAD) would undertake a review following the 2017 valuation. GAD were discussing with Actuaries to ensure consistent use of terms and presentation of findings. They had also requested additional information which would require a change to the Pension Administration system. There was no anticipated changes to the information or the way the valuation was carried out.

6.3 Currency Hedge

With reference to paragraph 2 of the Minute of 15 September 2016, the currency hedge had been reduced during November and fully removed on 14 December 2016.

6.4 New Managers

With reference to paragraph 13 of the Private Minute of 13 December 2016, the appointment of Blackrock for Long Lease Property and Permira and Partners for Private

Credit was noted. Blackrock had completed their review of the documents and the account was now active. Funds would be drawn down over a three to six month period with the initial drawdown anticipated in March. Permira and Partners had completed their final sign off for the documents submitted.

6.5 **Training**

Training events had all been well attended and all but one member had fully met their training requirements.

6.6 **Co-habiting partners**

A recent ruling at the Supreme Court removed the requirement for a member to nominate a co-habiting partner. The ruling could have possible consequences for wider public sector schemes. There would be little impact on Local Government Schemes as regulations changed on 1 April 2015. However, there might be a risk from cases prior to April 2015 being claimed. Mrs Robb advised that there were no known claims for the Scottish Borders Pension Fund. Mr O'Hara added that going forward; the Actuary would need to capture data on co-habiting partners for valuation purposes.

6.7 **Enterprise Resource Planning (ERP) Implementation**

ERP would 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.

6.8 **Community Justice**

The Community Justice Service (CJS) was being amalgamated into a new body Community Justice Scotland which would be established on 1 April 2017. Staff currently employed by CJS would be made redundant. The Scottish Government had agreed to meet all costs proposed with the severance of these staff.

6.9 **Governance Review**

KPMG had undertaken a review of Pension Governance. The findings of the review were presented to the Scheme Advisory Board on 23 February and were detailed in the report attached with the Agenda. Mrs Robb highlighted that with regard to the annual training plan, she proposed to arrange drop in training sessions. There was also the possibility of an annual public sector conference for Pension Boards which would mean another opportunity for training. The Scheme Advisory Board had also recommended that the diversity of members be reflected in the composition of the Board and that pensioners should be represented on Pension Boards. Other recommendations included the establishment of formal distribution of minutes between Pension Boards and their respective Scheme Advisory Boards. It was also noted that all Pension Board members be encouraged to attend other Pension and Scheme Advisory Board meetings wherever this was practicable. The Chairman thanked officers for the informative report.

DECISION

NOTED the information update.

7. **PENSION FUND BUDGET**

There had been circulated a report by Chief Financial Officer providing the Committee and Board with a proposed 2017/18 budget for the Pension Fund which would be reported to the Committee on a quarterly basis. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out standards that were to be measured against. Best practice suggested that budget setting and monitoring for the Pension Fund was a good way to demonstrate compliance with the governance requirements within 2014 regulations. CIPFA accounting guidelines recommended three categories for the reporting and monitoring of costs – Investment Management, Administration and Oversight and Governance. The management costs of which were £3.33m, £0.268m and £0.213m respectively. The 2017/18 approved budgets would be monitored during the year with

quarterly budget monitoring reports being presented to the Joint Pension Fund Committee and Pension Board.

DECISION

(a) **AGREED** the budget of £3.33m for Investment Management, £0.286m for Administration and £0.213m for Oversight and Governance.

(b) **NOTED** that budget monitoring reports would be presented to future meetings.

8. **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

9. **MINUTE**

The Committee noted the Private Minute of the meeting of 8 December 2016.

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

The Committee noted the Private Minute of the Pension Fund Investment Performance Sub-Committee of 27 February 2017.

11. **QUARTER 4 PERFORMANCE UPDATE**

The Committee noted the Private Minute of the Pension Fund Investment Performance Sub-Committee of 27 February 2017.

12. **INFRASTRUCTURE INVESTMENT**

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

PUBLIC BUSINESS

13. **NEXT MEETING**

The Chairman, Councillor White, thanked Pension Board and Pension Fund Members for their contribution and to the Committee over the past five years. Mr Barclay, on behalf of the Pension Board, thanked all Members for their support and extended best wishes to Members, whether standing for re-election or retiring.

DECISION

NOTED.

The meeting concluded at 4.30 pm

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GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2017

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 This report proposes the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. It also requests approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2016/17.**
- 1.2 Appendix 1 contains the revised Governance Policy and Compliance Statement for the Pension Fund.
- 1.3 The Governance Compliance Statement is included in Appendix B to the policy and demonstrates that the Pension Fund is in full compliance with the best practice guidance.

2 RECOMMENDATIONS

- 2.1 It is recommended that the revised Governance Policy and Compliance Statement 2017 is approved and the Governance Compliance Statement is agreed for inclusion in the Pension Fund Annual Report and Accounts 2016/17.**

3 BACKGROUND

- 3.1 It is a requirement of the LGPS Regulations that the Pension Fund maintains a Governance Policy and Compliance Statement.
- 3.2 The Public Services Pension Act 2013 introduced the requirement for Pensions Boards and the Council approved the constitution for the Fund's Pension Board on 2 April 2015.
- 3.3 At the same meeting the Council approved changes to the Scheme of Administration which introduced the requirement for the Pension Board and Pension Fund Committee to have joint meetings and for the introduction of a Pension Fund Investment & Performance Sub-Committee.
- 3.4 The introduction of the Pension Board and the new LGPS regulations approved during 2015 were reflected and approved in the Governance Policy and Compliance Statement approved on 16 June 2016.

4 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

- 4.1 Appendix 1 contains the revised Governance Policy and Compliance Statement.
- 4.2 The main changes to the Policy are to reflect the completion of the implementation of the Pension Fund Board.
- 4.3 Section 7 has been updated to reflect the appointment of Northern Trust as the Custodian and the removal of the currency hedge.
- 4.4 Sections 8 and 9 have been updated to reflect the audit assurance and risk management support arrangements in place
- 4.5 The Governance Compliance Statement is contained in Appendix B of the document and has been updated to reflect the embedded Pension Fund Board. It is proposed that this Statement is incorporated into the Pension Fund Annual Report and Accounts 2017 in order to comply with the LGPS regulations.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this proposal.

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 no 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 on the report and their comments have been fully incorporated to the 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: Pension Fund Committee, 16 June 2016

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

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

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SCOTTISH BORDERS COUNCIL PENSION FUND

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

2017

**Finance
Chief Executive
Version: 2017 1.0
Approved: Pension Fund Committee 22 June 2017**

Introduction

This Statement documents the governance arrangements for the pension scheme administered by Scottish Borders Council. This version of the Governance Policy and Compliance Statement was approved by the Pension Fund Committee on 16 June 2016 and reflects the introduction of the Pension Board.

1. Administering Authority

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

2. Regulatory Framework

- 2.1 The Public Services Pensions Act 2013 set out the UK framework for the governance of Public Service Pensions and states that the responsible authority for LGPS (Scotland) scheme regulations is Scottish Ministers, and they have set out these within the Local Government Pensions Scheme (Scotland) Regulations 2014.
- 2.2 The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 provides the framework for the governance arrangements for the Scottish LGPS Funds.
- 2.3 The legislation referred to above identifies that the Pensions Regulator (TPR) has oversight of the Fund and requires compliance with the TPR's requirements.
- 2.4 The Scottish Public Pensions Agency (SPPA) is responsible for supporting the Scottish Ministers in their role as responsible authority.
- 2.5 The Fund is open to all employees of scheduled bodies except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is attached in **Appendix A**.
- 2.6 The Pension Fund Committee (the Committee) is a formal committee of Scottish Borders Council through which it exercises its role as Administering Authority.
- 2.7 The Pension Board (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework.
- 2.8 Financial affairs are conducted in compliance with the Council's Financial Regulations which have been formally adopted by the Pension Fund in 2012.
- 2.9 Funds are invested in compliance with the Fund's Statement of Investment Principles.

3. Pension Fund Committee

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

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

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

Depute Leader (Finance)

Executive Member for HR and Corporate Improvement

Three members of the Administration

Two members from the Opposition

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

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

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

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

4. Pension Board

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

4.2 The Objectives of the Board are as follows:

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

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

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

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

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

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

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

5. Meetings

- 5.1 While the statutory roles and function of the Committee and Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pension Fund Committee chairing the concurrent meeting.
- 5.2 The process for resolving any differences between the two bodies is set out in the Council’s Scheme of Administration and the Board’s Constitution.

6. Administration and Management of the Fund

6.1 Chief Financial Officer

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

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

6.3 Chief Officer Human Resources

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

7. Professional Advisers and External Service Providers

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

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

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

7.4 Northern Trust is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

8. Internal and External Review

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

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

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

9. Risk Management

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

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

10. Access to Information

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

11. Review and Compliance with Best Practice

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

Appendix A

Scottish Borders Council Pension Fund

Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council
- Visit Scotland

Admitted Bodies

Active Admitted Bodies

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

Admitted bodies with Deferred or Retired Members only

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

Appendix B

GOVERNANCE COMPLIANCE STATEMENT

The Pension Fund sets out its governance arrangements within the Governance Policy and Compliance Statement (as amended 16 June 2016).

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

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

| Principle | | Full Compliance | Comments |
|-----------|--|-----------------|--|
| | | | of the 7 elected members from the Committee and 2 (non-voting) members from the Board. |

| Principle | | Full Compliance | Comments |
|-----------|---|-----------------|--|
| C | Where a secondary committee or panel has been established, the structure ensures effective communication across both levels | Yes | Minutes of the Sub-Committee and any other Sub-Groups are submitted to Committee for approval. 2 members from the Board and all members of the Committee are part of the Sub-Committee which has a remit to monitor investment performance. |
| D | Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel. | Yes | The Scheme of Administration states that any Sub-Group established will have member(s) of the Committee as part of its membership. |

Committee Membership and Representation

| | | | |
|---|---|-----|--|
| A | All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members), (iii) where appropriate, independent professional observers, and (iv) expert advisors (on an ad-hoc basis) | Yes | The Board and Committee meets jointly ensuring employer and member (trade union) representation at meetings. The Investment Sub-Committee has two non-voting members from the Board. The Independent Investment Consultant and key Finance and HR Officers also attend in an advisory capacity. |
| B | Where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Yes | All members of the Committee and Board are covered equally by the Training Policy (as amended annually in June). The Board was established by Council on 2 April 2015. Scheme of Administration for the Committee and Board Constitution provide for the joint meetings with equal rights to receive papers and access meetings in the same way. |

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

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

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

VERSION CONTROL TABLE

| Version | Nature of Amendment | Date of Change | Author |
|----------|---|------------------|----------|
| 2010 1.0 | Creation of Governance Statement | 24 February 2010 | L Mirley |
| 2010 1.1 | Final Draft for Pension Fund Sub-Committee | 2 March 2010 | L Mirley |
| 2010 2.0 | Sub-Committee Approved Version | 11 March 2010 | L Mirley |
| 2011 1.0 | Final Draft for Pension Fund Sub-Committee and Annual Report | 30 August 2011 | L Mirley |
| 2012 1.0 | Updated for amendment to Scheme of Administration and update of Pension Fund Annual Report and Accounts 2011/12 | 12 June 2012 | L Mirley |
| 2013 1.0 | Final Draft to reflect proposed changes to Scheme of Administration | 18 June 2013 | L Mirley |
| 2013 2.0 | PFC approved version | 19 June 2013 | K Robb |
| 2014 1.0 | Final Draft for Pension Fund Committee and Annual report. | 17 June 2014 | K Robb |
| 2015 1.0 | Final Draft for Pension Fund Committee updated to reflect the introduction of Pension Boards | 1 June 2015 | L Mirley |
| 2016 1.0 | Final draft for Pension Fund Committee updated to reflect post implementation of Pension Board | 05 May 2016 | K Robb |
| 2017 1.0 | Final draft for Pension Fund Committee updated to reflect Pension Boards completed implementation | 21 March 2017 | K Robb |

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01835 825016, treasuryteam@scotborders.gov.uk



FUND STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES 2017

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) for 2017. Both these documents should be kept under review and be updated and approved annually in line with the Pension Fund's business plan. This report discharges that requirement.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles. 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 15th September 2016. The asset allocation was further adjusted on 8th March 2017 to include an allocation for infrastructure investment.
- 1.3 **Appendix A** contains the Funding Strategy Statement
- 1.4 **Appendix B** contains the revised Statement of Investment Principles (SIP) for approval.

2 RECOMMENDATIONS

- 2.1 **It is recommended that committee approve:**
 - (a) **the Funding Strategy Statement set out in Appendix A and**
 - (b) **the Statement of Investment Principles set out in Appendix B**

3 BACKGROUND

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

3.2 Local Government Pension Scheme (LGPS)GPS administering authorities are also required by regulation 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 of compliance with these principles, must be included in the SIP.

3.3 **Myners Principle 2: Clear Objectives** states that:

1. An overall investment objective(s) should be set out for the fund that takes account of the schemes liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

and

Myners Principle 3: Risk and Liabilities states that:

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

3.4 An authority can demonstrate compliance with these Myners Principles through the review of its investment objectives and the strategic asset allocation in light of updated actuarial valuations of the Fund's liabilities.

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

"To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis."

- 3.6 Following the appointment of KPMG as investment advisor in March 2016 a full review was undertaken of the Funding Strategy and the strategic asset allocation. The outcome of this review was approved by the Joint Pension Fund Board and Committee on 15 September 2016 with a further change on 8th December 2016 for the inclusion of infrastructure.

4 FUNDING STRATEGY STATEMENT

- 4.1 **Appendix A** contains the Funding Strategy Paper as approved by the Pension Fund Committee on 18 June 2015. The review undertaken during 2016 did not result in any changes to the Funding Strategy Statement.

5 STATEMENT OF INVESTMENT PRINCIPLES

- 5.1 **Appendix B** contains the revised Statement of Investment Principles (SIP).
- 5.2 While it is not proposed to change the Funding Objectives set out in the SIP a number of revisions to the document are set out below.
- 5.3 The main areas of change in the SIP are detailed below:
- (a) Sections 4.10 – 4.18 Investment Management Arrangements
This has been updated to reflect the changes in investment managers since the previously approved SIP.
 - (b) Section 4.24 Currency risk has been updated to reflect removal of currency hedge arrangements in December 2016. The fund is no longer hedged against fluctuations in the value of its overseas investments.
 - (c) Section 5.1 Types of investments has been updated to reflect the inclusion of Private credit and Infrastructure assets...
 - (d) Para 6.7 has been added to reflect the decision of elected members to encourage all Fund Managers to sign the United Nations Principles of Responsible Investments stewardship code.
 - (e) Appendix 3 – Strategic Asset Allocation
Updated to reflect the revised strategic asset allocation approved on 8th December 2016 and new Fund managers appointed since the previously approved SIP.
 - (f) Appendix 4 – Investment Management Arrangements
Updated to reflect revised strategic asset allocation approved on 8th December 2016 and new Fund managers appointed since the previously approved SIP.

6 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ISSUES

- 6.1 There has recently been significant external interest in the Fund's approach to Socially Responsible investment, in particular the approach to investment in firms who may be involved in the manufacture of components which may be used in the development of armaments and in companies whose activities are considered to have a potentially significant impact on the environment.
- 6.2 Work has also been undertaken during 2016 resulting in the decision to encourage all Fund Managers to sign the UNPRI stewardship code. Further work has been identified within the Business Plan for 2017 that will enhance the Fund's approach to socially responsible investment ensuring it continues to meet its fiduciary duties.

7 IMPLICATIONS

7.1 Financial

- (a) , There may be costs involved in undertaking a review of the Fund's approach to Socially Responsible Investment, if so estimates of these costs will be included in a future report which will seek approval for the approach to be taken.
- (b) The Statement of Investment Principles sets out the strategic framework to deliver the target returns required to meet the Fund's funding objectives. Successful delivery of these principles should ensure the stability of the funding position of the Pension Fund and therefore the stability of employer contribution rates.

7.2 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.

7.3 Equalities

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

7.4 Acting Sustainably

Social and environmental issues are set out in Section 6 of this report which demonstrates that the Council is acting sustainably.

7.5 Carbon Management

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

7.6 Rural Proofing

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

7.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

8 CONSULTATION

8.1 The Monitoring Officer, the Chief Legal Officer, Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and comments incorporated within the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

| Name | Designation and Contact Number |
|-------------|--------------------------------|
| Kirsty Robb | Capital & Investment Manager |

Background Papers:

Previous Minute Reference: Pension Fund Committee, 8 December 2016

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

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APPENDIX A



SCOTTISH BORDERS COUNCIL PENSION FUND FUNDING STRATEGY STATEMENT 2017

Finance

**Chief Executive
Version: 2017 v1**

Introduction

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

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

This version of the FSS was agreed by the Pension Fund Committee (the Committee) on [22 June 2017].

1. Purpose of the Funding Strategy Statement

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

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

1.2 The purpose of the Fund is to:

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

Funding Objectives

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

1.4 The funding objectives are to:

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

2 Key Parties

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

The Administering Authority

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

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

Individual Employers

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

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

Fund Actuary

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

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

3 Funding Strategy

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

Funding Method

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

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

Valuation Assumptions and Funding Model

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

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

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

3.12 Future Price Inflation

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

3.13 Future Pay Inflation

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

3.14 Future Pension Increases

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

3.15 Future Investment Returns/Discount Rate

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

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

Asset Valuation

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

Statistical Assumptions

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

Deficit Recovery/Surplus Amortisation Periods

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

Pooling of Individual Employers

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

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

Cessation Valuations

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

2017 Valuation

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

4 Links with the Statement of Investment Principles

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

5 Risks and Counter Measures

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

Financial Risks

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

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

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

Demographic Risks

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

Regulatory Risks

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

Governance

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

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

6 Monitoring and Review

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

VERSION CONTROL TABLE

| Version | Nature of Amendment | Date of Change | Author |
|----------|--|----------------|----------|
| 2015 1.0 | Draft for Barnett Waddingham Review updating previous FSS for the 31 March 2014 Valuation. | 1 June 2015 | L Mirley |
| 2015 2.0 | Final Draft for Pension Fund Committee Approval | 10 June 2015 | L Mirley |
| 2017 1.0 | Final Draft for Pension Fund Committee Approval | 22 June 2017 | K Robb |

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PENSION ADMINISTRATION PERFORMANCE 2016/17

Report by Chief Officer Human Resources

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the Pensions Administration Performance for 2016/17 and requests the Committee's approval of its inclusion in the Annual Report for the Fund.**
- 1.2 **Appendix 1** contains the Pensions Administration Performance for 2016/17 as it will be included in the Fund's Annual Report and Accounts.
- 1.3 During 2016/17 there was an increase in the number of payments being received late when compared to 2015/16, with the late payments being made by Live Borders and Jedburgh Leisure Facilities Trust.
- 1.4 Performance in general has been comparable with the previous year, the issuing of the 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 a par with the previous reporting year.
- 1.5 There was another successful Employer Liaison Meeting held during 2016/17 year and agreement reached that this would be a useful event to hold on an annual basis, which will be scheduled in due course.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee:-**
 - (a) **Notes the Pension Administration Performance for 2016/17 as set out in Appendix 1 and approves its inclusion in the Pension Fund Annual Report and Accounts 2016/17;**

3 BACKGROUND

- 3.1 It is a requirement of the current LGPS Regulations and best practice that the Pension Fund maintains a Pensions Administration Strategy. At the joint meeting of the Committee and Board on 3 September 2015 the latest version of the Pension Administration Strategy for the Fund was approved.
- 3.2 In accordance with the Pension Administration Strategy a number of administration function performance measures were introduced to evaluate the performance of both the Fund and Employers.
- 3.3 A further requirement is that the performance against the Strategy is reported in the annual Report and Accounts for the Fund.

4 PENSIONS ADMINISTRATION PERFORMANCE 2015/16

- 4.1 **Appendix 1** contains the Pensions Administration Performance Report for 2016/17 as it will be included in the Fund's Annual Report and Accounts.
- 4.2 Performance in general has been comparable with the previous year, the issuing of the 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 a par with the previous reporting year. This has been achieved at the same time as working with the new scheme regulations that were introduced on 1 April 2015, which resulted in more complex calculations and explanations required for estimates and annual benefit statements.
- 4.3 During 2016/17 HR Shared Services recorded 1,050 instances where contact was made with the team to query information relating to their Pension. In each of these instances a final response was provided to the individual, be this in writing or face to face, within the 5 target days, with the vast majority being provided on the same day. There was a reduction in performance with meeting the 20 day target for responding to the Annual Benefit Statement queries, however, this was as a result of the growing complexity of queries with them now covering up to three sets of scheme benefits.

4.4 **Employer Performance Measures**

During 2015/16 there was 1 payment that did not meet the payment timescale this has increased to 8 payments during 2016/17. The majority of the late payments made were from Live Borders, who have been reminded of their requirement to make payments by 19th of the month. The other late payments were made by Jedburgh Leisure Facilities Trust. The controls continue to be monitored on a monthly basis.

4.5 **Administering Authority Performance Measures**

The key performance targets are set out in the **Appendix 1**. The performance achieved this year was very similar to the previous reporting year. The main area that continues to be behind target is in relation to Transfers. However, all Scottish Pension Funds will have suffered delays with the transfer process this year, due to legislative changes (change to CARE scheme, "discount rate" announced in the budget), and the resultant change in methodology to calculate transfer values. The issue of GAD (Government Actuaries Department) guidance and translation into pension

administration software has delayed the turnaround of transfer requests.

- 4.6 During 2016/17 an Employer Liaison meeting was held, to discuss the changes to the year end reporting for the scheme and further review the operational impact of the changes that were effective from 1 April 2015. This was a successful meeting and was beneficial to all parties. It was agreed that this will continue to be an annual event and it would be helpful if this was timed around February/March, where the Fund could advise employers of changes for the coming year and remind them of their responsibility for the year end. There was also a presentation given by the Pensions Administration to 28 employees of Scottish Borders Housing Association who were considering Early Retirement/Voluntary Severance.
- 4.7 Annual Benefit statements were issued to the 6,515 active and deferred scheme members during August 2016, meeting the requirements of the scheme regulations. This was a significant challenge this year with this being the first instance where CARE benefits were included in the annual statements.
- 4.8 During 2016/17, 37,092 payments were processed, an increase from 35,779 in 2015/16, to pensioners for a total of £15.179m. In addition to this, 120 payments were also processed, an increase from 106 payments in 2015/16, to pensioners who now reside overseas for a total of £43,263, these payments are processed via Western Union, providing pensioners with a cost effective means of transferring a sterling pension payment into the appropriate local currency.
- 4.9 **Employer Contribution Rates**

The following table outlines the employer contribution rates that are effective from 1st April 2017 in line with the previous triennial valuation and/or reports received from the Fund Actuary on the admission of new Bodies.

| Employer | Employer Contribution % |
|--------------------------------------|--------------------------------|
| Visit Scotland | 18.00 |
| Borders College | 18.00 |
| Scottish Borders College | 18.00 |
| AMEY | 18.00 |
| CGI | 18.00 |
| Live Borders | 18.00 |
| Jedburgh Leisure Facilities Trust | 15.50 |
| Scottish Borders Housing Association | 19.00 |

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this report.

5.2 Risk and Mitigations

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

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

No effect on carbon emissions are anticipated from the recommendation of this report.

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

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

Approved by

Clair Hepburn
Chief Officer Human Resources

Signature

Author(s)

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

Background Papers:

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

Joint Pension Fund Committee and Board 3

September 2015

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Contact us at Ian Angus, HR Shared Services Manager, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA; Tel: 01835 826696; Fax: 01835 825011; E-mail iangus@scotborders.gov.uk.

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APPENDIX 1

PENSION ADMINISTRATION PERFORMANCE 2016/17

In accordance with the Pension Administration Strategy, approved 3 September 2015, the following performance measures have been compared against the targets set within the said strategy document.

Employer Performance Measures

Service Standards

| Standard – target completion 90% | Volume | %age Met |
|--|--------------------------|----------|
| New starts notification – within 20 working days | 530 | 100% |
| Changes notified – within 20 working days | 571 | 100% |
| Retirement info – at least 20 working days before | 206 | 100% |
| Early leaver notification – within 20 working days | 544 | 100% |
| Death in service notification – within 10 working days | 3 | 100% |
| Query responses – within 5 working days | 1,050 | |
| Year-end queries – within 20 working days | Included in above figure | |

As well as the changes noted in the above table there was also the transfer of pension scheme members from Scottish Borders Council as an employer to Live Borders and CGI as employers that was carried out within the pension administration system. These changes were notified in accordance with the 20 working day target and have not been included in the figures to provide a like to like comparison between this and previous years.

Contribution Payments

The following tables compare the date contribution payments are received against the target date, of 19th of the month, for each of the Scheduled and Active Admitted Bodies.

| Employer Body | By Target Date | Late | % On Time |
|--------------------------------------|----------------|------|-----------|
| Scottish Borders Council | 12 | - | 100% |
| Visit Scotland | 12 | - | 100% |
| Borders College | 12 | - | 100% |
| Scottish Borders Housing Association | 12 | - | 100% |
| Jedburgh Leisure Facilities Trust | 10 | 2 | 83.33% |
| Borders Sport and Leisure Trust | 6 | 6 | 50% |
| AMEY Community Limited | 12 | - | 100% |
| SB Cares | 12 | - | 100% |
| CGI | 6 | - | 100% |

There has been a reduction in the number of payments being received on time during 2016/17, with 8 payments being made after the target date, compared with 1 late payment in the previous year. As a result of this Live Borders have been written to reminding them of their responsibility to make payments by 19th of the month. The payments dates continue to be monitored on a monthly basis.

Administering Authority Performance Measures

Service Standards

| Standard | Volume | Target | %age Met |
|--------------------------|--------|---------|----------|
| Estimates – Transfer In | 80 | 20 days | 21.25% |
| Estimates – Transfer Out | 59 | 20 days | 25.42% |
| Estimate – All Other | 875 | 10 days | 90.40% |

The Pensions Team and members of the HR Shared Services Helpdesk record when they have had contact in relation to Pension be this by email, in person or telephone and the headline reason of the enquiry. The following table summarises the queries received during 2016/17.

| Type of Query | Volume | Target | %age Met |
|---|--------|---------|----------|
| Admitted/Scheduled Bodies Employer Queries | 20 | 5 days | 100% |
| Advice on AVC applications | 18 | 5 days | 100% |
| Advice on Nominations and/or Death Grant | 14 | 5 days | 100% |
| Advice on Options at Retirement | 90 | 5 days | 100% |
| Annual Benefit Statement Queries | 78 | 20 days | 46.15% |
| Assistance with form completion e.g. retirement declaration | 40 | 5 days | 100% |
| Change of Address/Bank Details | 190 | 5 days | 100% |
| Divorce | 7 | 5 days | 100% |
| DWP requesting details of Pensioner Payments | 5 | 5 days | 100% |
| Enquiries in relation to Deceased Pensioners | 174 | 5 days | 100% |
| ER/VS general advice | 36 | 5 days | 100% |
| Flexible Retirement | 48 | 5 days | 100% |
| General advice | 110 | 5 days | 100% |
| Internal forms requesting details of Pensioner Payments | 5 | 5 days | 100% |
| Opting In to LGPS | 14 | 5 days | 100% |
| Opting Out of LGPS | 29 | 5 days | 100% |
| Pension Payment queries including tax issues | 55 | 5 days | 100% |
| Refunds Enquiry | 14 | 5 days | 100% |
| Retiral Enquiry | 72 | 5 days | 100% |
| Service Breaks | 1 | 5 days | 100% |
| Transfer In Enquiry | 20 | 5 days | 100% |
| Transfer Out Enquiry | 10 | 5 days | 100% |
| Total | | 5 days | |

Other Measures

| Area | Measure | Completed |
|---------------------------|------------------|-------------|
| Employer Liaison Meetings | 1 per annum | 1 meeting |
| Benefit Statements | by end of August | August 2016 |

The third liaison meeting with all Admitted and Scheduled Bodies was held during 2016/17 and covering the changes that had been made to the annual reporting for the 2016/17 year end and affording the employers the chance to asks questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

In addition to the annual liaison meeting for all Bodies a separate briefing session and presentation was held for 28 employees of Scottish Borders Housing Association who were considering Early Retirement/Voluntary Severance.

All 6,515 Benefit Statements were issued by the end of August 2016, the 2,272 deferred members statements on 22nd August 2016 and the 4,243 active members statements on 29th August 2016. This was the second annual statements issued under the new deadlines, which was challenging following the implementation of the CARE scheme and the increase in work required for the year end postings.

Key Administration Tasks

| Task | Total received |
|---------------------------------|----------------|
| New entrants | 581 |
| Changes | 571 |
| Early leavers | 544 |
| Retirements | 206 |
| Deaths in service | 3 |
| Deaths in deferment | 1 |
| Deaths in retirement | 86 |
| New Widows(ers), Child Pensions | 43 |
| Estimates | 1,014 |
| Pension credit members | 2 |

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TRAINING PLAN 2017/18

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 This report compares the actual 2016/17 attendance for Pension Fund Committee and Board Members to the requirements detailed in the current Training Policy approved in June 2016 and proposes key areas of training for 2017/18 in-line with the policy and based on the Skills Knowledge assessment recently undertaken.**
- 1.2 In December 2016 the Pension Fund Committee and Board agreed the completion of the Pension Regulator Trustee Toolkit should be a mandatory requirement for all members. The Training Policy has been updated to reflect this and a copy of the revised policy is contained in Appendix 1.
- 1.3 In line with this Policy, the Pension Fund agreed to undertake an annual knowledge and skills self assessment which will identify the key areas for the future years training plan.
- 1.4 The Training Knowledge and Skills Assessments were undertaken in May 2017 and summarised in Appendix 2.
- 1.5 The proposed Training areas for 2017/18 are summarised in para 6.2 for approval and members are strongly encouraged to actively participate in all training events to demonstrate their commitment to building the knowledge to support effective decision making.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Joint Pension Fund Committee and Board:**
 - (a) Notes the outcome of the Knowledge and Skills Self-Assessment; and**
 - (b) Agrees the revised Training Policy in Appendix 1**
 - (c) Notes the mandatory requirement for completion of the Pension Fund Regulator Trustee**
 - (d) Approves the Training areas for 2017/18 set out in para 6.2 and agrees that all members should prioritise attendance at training events wherever practicable.**

3 BACKGROUND

- 3.1 At the June 2015 joint meeting of the Pension Fund Committee and Board, the Training Policy (the policy) was updated and agreed. A further discussion in December 2016 agreed to include within the policy the mandatory requirement to undertake the Pension Regulator Trustee toolkit. The Policy has been updated to reflect this and was prepared in line with the best practice guidance. A copy of the revised policy is contained in Appendix 1.
- 3.2 The best practice guidance indicates that the annual report should include an assessment of the Committee in terms of:
 - (a) Attainment of the standards set down in CIPFA's knowledge and skills framework; and
 - (b) Achievement of required training outcomes.
- 3.3 One of the key elements of the Policy is that all Members of the Pension Fund Committee and the Board commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision-making role. Officers maintain a log on behalf of members to demonstrate the training activities.

4 TRAINING POLICY ANNUAL UPDATE

- 4.1 The 2016/17 training programme approved at the June 2016 Pension Fund Committee and Board covered the following:
 - (a) Financial Markets and Investment Products.
 - (b) Role of the Custodian.
 - (c) General Pension Fund Regulatory environment.
 - (d) LGPS Regulatory environment
- 4.2 All training events were open to members of the Pension Fund Committee and Pension Fund Board.
- 4.3 The table over shows the six training events offered and areas covered. All areas identified in June 2016 were covered. The Regulatory environment, relating to the topics, was highlighted and incorporated within the individual topics covered.

| Organiser | Training Provided |
|---|--|
| SBC Internal | Long Lease property, Private Credit and Index Linked gilts investments |
| Baillie Gifford | Investments - various |
| Local Government Chronical | Infrastructure investments, Investment issues, Fiduciary duties, Pooling England & Wales |
| Local Government Pension Scheme (Scot) Officers Group | Role of Custodian, legislation and Pension Administration, Infrastructure investment and Environmental, Social & Governance Policy (ESG) |
| Pension & Lifetime Savings Assoc | Investment Governance and investments |
| SBC Internal | Fiduciary Responsibilities |

- 4.4 The target is to have members of the Pension Fund Committee and Board attend at least two training sessions each year. The table below shows the attendance rates for both:

| No of Events | Committee Members | | Board Members | |
|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | % | No of Members | % | No of Members |
| Over 4 | 28.6% | 2 | 37.5% | 3 |
| 3 | 42.8% | 3 | 62.5% | 5 |
| 2 | 14.3% | 1 | | 0 |
| Less than 2 | 14.3% | 1 | | 0 |

- 4.5 All Members of the Pension Fund Board have fully met the training requirements. The full training requirements have not been met by all Members of the Pension Fund Committee. Members are recommended to prioritise their attendance at training sessions wherever possible to ensure they can participate in the complicated activities of the committee with the benefit of detailed knowledge imparted through these sessions.

- 4.6 A further target within the Training Policy was that every member attended at least 2 Committees per year. The table below shows the attendance rates for both the Pension Fund Committee and Board Members:

| No of meetings | Committee Members | | Board Members | |
|-----------------------|--------------------------|----------------------|----------------------|----------------------|
| | % | No of Members | % | No of Members |
| 4 | 28.6% | 2 | 12.5% | 1 |
| 3 | 42.8% | 3 | 50% | 4 |
| 2 | 14.3% | 1 | 25% | 2 |
| Less than 2 | 14.3% | 1 | 12.5% | 1 |

- 4.7 86.7% of the total Members of the Pension Fund Committee and Board have met the attendance requirements. Due to illness and conflicting commitments two members did not meet the required attendance level.

5 TRAINING NEEDS ANALYSIS

- 5.1 To ensure training needs are met for all members of the Pension Fund Committee and Board, a knowledge and skills assessment questionnaire has been completed by them. An analysis of this is contained in Appendix 2 for those returns completed. This information has been used to inform the future training programme.
- 5.2 Due to the level of new members on the Pension Fund Committee the training needs analysis for 2017/18 will form the base line measurement for future improvement. The Board have shown an increase in the level of skills and knowledge from 2016/17 analysis in all areas.

6 TRAINING PROGRAMME

- 6.1 To facilitate completion of the Pension Regulator Trustee Toolkit drop in sessions will be available to all members. The drop in sessions will assist members with any modules they are requiring assistance to complete and will take place during August and September.
- 6.2 The areas highlighted from the returned skills assessments are shown in the table below. These will form the training requests to the development of the next two IGG Group training events. The IGG Group training events programme will be supplemented by in-house training events for areas not covered.

| Topic | Training Objective |
|---|---|
| Financial Markets and Investment Products | To increase understanding of current markets and investment products and also highlight new investment products and markets |
| Role of Custodian | To increase knowledge and understanding of the role of custodian |
| General Pension Fund Regulatory environment | To increase general knowledge and awareness of the regulatory environment for general Pensions. |
| LGPS regulatory environment | To increase general knowledge and awareness of the regulatory environment for LGPS's |

- 6.3 The formal training events will also be supplemented by the continuation of the informal meetings prior to the Pension Fund Investment and Performance Committee meetings to allow members to be properly briefed by officers and the independent investment adviser on relevant matters prior to the meeting with the Fund Manager.
- 6.4 Additional external training opportunities that occur during the year will augment the proposed training programme. The Capital and Investment Manager will highlight these to the Pension Fund Committee and the Board for agreement on relevance and nominations of attendees.

7 IMPLICATIONS

7.1 Financial

The cost of the delivery of the training programme will be borne by the Pension Fund and a budget will be developed to provide an annual amount to support ongoing training needs.

7.2 Risk and Mitigations

The development of a Training Policy and associated training plan and reporting mechanism is part of the framework to ensure effective decision making for the Pension Fund.

7.3 Equalities

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

7.4 Acting Sustainably

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

7.5 Carbon Management

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

7.6 Rural Proofing

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

7.7 Changes to Scheme of Administration or Scheme of Delegation

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

8 CONSULTATION

- 8.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are being consulted on the report and their comments will be incorporated.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: 16 June 2016 – Pension Fund Committee

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SCOTTISH BORDERS COUNCIL PENSION FUND TRAINING POLICY

**Finance
Chief Executives Department
Version: Draft
Draft: Pension Fund Committee 22 June 2017**

1. Introduction

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

2. Myners Principles

- 2.1 The desirability of pension fund decision making being overseen by persons with the right skills and expertise was recognised in 2001 in the UK Government's *Institutional Investment in the United Kingdom: A Review*, undertaken by Paul Myners and reaffirmed in the *Updating the Myne's Principles: A Response to Consultation* in October 2008.
- 2.2 The revised Myners principles following the 2008 review are the accepted code of practice applying to local government pension funds throughout the United Kingdom and these principles apply to all pension committee members (elected and other appointments) and officers.
- 2.3 The first Myners principle explicitly states that:
 - i Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
 - ii Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
- 2.4 The best practice guidance from CIPFA in relation to demonstrating this first principle indicates that *"the committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals in relation to the scope of its work and the pensions issues that are most relevant.The adoption of a training plan and an annual update of training and development needs (including monitoring progress made) would represent good practice in demonstrating that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made."*¹

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

3. Governance Compliance

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

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

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

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

4. Training

- 4.1 On joining the Committee or Board, members must attend a training session to understand the details of roles and responsibilities to allow them to participate in decision making or scrutiny of complex pension issues.
- 4.2 All members must within 6 months of joining the Committee or Board complete the Pension Regulator Trustee Toolkit.
- 4.3 An Induction File will also be provided to members when they start with the Committee or Board, and it will contain key documents relevant to the Fund and other information that is deemed useful. The members will be expected to use this information and have read the key

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

documents.

- 4.4 A training needs analysis will be undertaken for each member of the Committee and Board and this will be used to inform annual training plans. This analysis will be repeated annually to monitor progress and inform the updating of the training plans.
- 4.5 Annual training plans will be prepared for the Committee and members that will be commensurate with their respective roles and responsibilities and will be aligned to the CIPFA Skills and Knowledge Framework contained in **Appendix A**.
- 4.6 A training log will be retained for each member in line with the best practice standard.
- 4.7 For the Pension Fund Investment and Performance Sub Committee an informal meeting of the Sub Committee with the Fund's external Investment Adviser immediately prior to the formal meeting will be held to enable all members of the Sub Committee to be appropriately briefed and better prepared to question the Fund Managers in depth following their presentation.
- 4.8 As part of their commitment to good scheme governance, Members, will be expected to attend at least two Committee meetings each year and two training sessions each year. The two training sessions are over and above any training given at the pre-meeting to the Pension Fund Investment and Performance Sub-Committee.
- 4.9 Training Opportunities for the Committee and Board members will include the following events:
 - i Internal training events;
 - ii Seminars and conferences offered by industry wide bodies, e.g. the LAPF annual conference;
 - iii Seminars and training events offered by the Fund's investment managers and advisors;
 - iv Online training; and
 - v Professional reading.
- 4.10 The Pension Regulator online toolkit ([tpr.gov.uk/public-service schemes](http://tpr.gov.uk/public-service-schemes)) is recommended for all Committee and Board Members and completion of modules will be noted in the training register.
- 4.11 A record of attendance at meetings and training events will be maintained and published in the Pension Fund Annual Report and Accounts. Officers will identify appropriate training opportunities and bring these to the attention of the Committee and Board.
- 4.12

5. Reporting and Review Arrangements

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

6. Reimbursement of Expenses

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

APPENDIX A

CIPFA Knowledge and Skills Framework

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

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

VERSION CONTROL TABLE

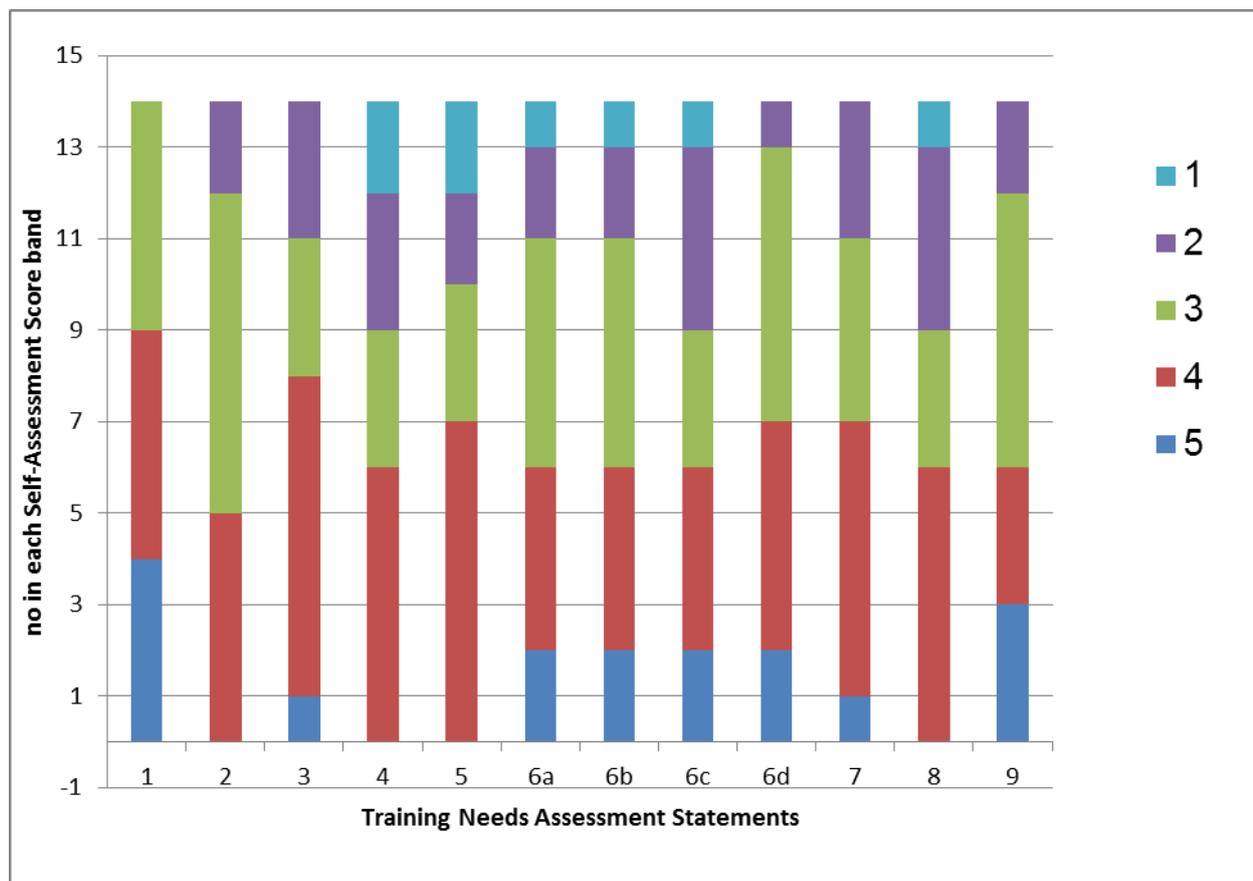
| Version | Nature of Amendment | Date of Change | Author |
|----------|--|-------------------|-------------|
| 2012 1.0 | Creation of Training Policy | 30 August 2012 | Lynn Mirley |
| 2012 2.0 | Approved by Pension Fund Committee | 13 September 2012 | Lynn Mirley |
| 2013 1.0 | Updated for changes to Scheme of Administration | 11 June 2013 | Lynn Mirley |
| 2013.2 | Approved by Pension Fund Committee | 18 June 2013 | Kirsty Robb |
| 2015.1 | Update for revised Governance structure | 18 June 2015 | Kirsty Robb |
| 2017.1 | Inclusion of mandatory completion of Pension Regulator Trustee Toolkit | 15 June 2017 | Kirsty Robb |
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Contact us at Treasury & Capital Team, Council HQ, Newtown St Boswells, TD6 0SA
 01835 825016, treasuryteam@scotborders.gov.uk

APPENDIX 2

Knowledge & Skills Assessment – 2017



Training Needs Assessment Statements

| Statement | Members Average Score |
|--|-----------------------|
| 1 Understanding of responsibilities as a member of the Pension Fund Committee | 3.92 |
| 2 Knowledge of the financial markets and investment products | 3.21 |
| 3 Confidence with Pension Fund investment concepts and terminology | 3.42 |
| 4 Understanding of the regulatory environment for Pension Funds in general | 2.92 |
| 5 Understanding of the regulatory environment for Local Government Pension Scheme (LGPS) Pension Funds | 3.07 |
| 6 Awareness of the following key documents: | |
| a) Governance Statement | 3.28 |
| b) Statement of Investment Principles (SIP) | 3.28 |
| c) Funding Strategy Statement (FSS) | 3.14 |
| d) Annual Report and Accounts for the Pension Fund | 3.57 |
| 7 Understanding of the LGPS Benefits structure | 3.57 |
| 8 Understanding of the role of the Global Custodian | 3.00 |
| 9 Understanding of the role of the Actuary | 3.50 |



BUSINESS PLAN 2017/18 – 2019/20

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Pension Fund Business Plan 2017/18 – 2019/20.**
- 1.2 Best practice suggests that having a business plan for the pension fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 contains the first Pension Fund Business Plan, covering the period 2017/18 -2019/20.
- 1.3 The Business Plan 2017/18 – 2019/20 identifies an Action Plan that will be delivered during the next three years to support the aims and objectives of the Pension Fund.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Business Plan 2017/18 – 2019/20 as set out in Appendix 1 is approved.**

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" which are set out in the Statement of investment principles elsewhere on the committee agenda.
- 3.2 Best practice suggests that having a business plan for the Pension Fund is a good way of demonstrating compliance with the "Myners Principle" that relates to effective decision making.

4 PENSION FUND BUSINESS PLAN 2017/18 – 2019/20

- 4.1 Appendix 1 contains the proposed Pension Fund Business Plan 2017/18 – 2019/20 (the Business Plan).
- 4.2 The Business Plan has been developed by officers in Human Resources and Finance and uses the template developed for the Council, with some adjustments to meet the specific needs of the Pension Fund.
- 4.3 The sections of the Business Plan are:
 - (a) Overview of the Pension Fund;
 - (b) A summary of what must be done;
 - (c) A summary of successes and areas for improvement;
 - (d) The Fund's aims and objectives;
 - (e) Management of Risk Summary;
 - (f) Key stakeholders;
 - (g) An overview of the Fund's resources;
 - (h) How Performance is managed;
 - (i) The Fund's Action Plan, including performance indicators for 2017/18 – 2019/20.
- 4.4 The Action Plan (page 13 of Appendix 1) is split into three objectives which support the Strategic Aims and Objectives of the Fund. These are:
 - (a) Set levels of employer contributions that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund's assets in such a way that produces levels of employer contribution that are as stable as possible.
 - (b) Deliver a High Quality Pension Service to Members.
 - (c) Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with legal requirements.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications arising from this report, The actions required by the Business Plan may have financial implications and these will be reported as they arise.

5.2 Risk and Mitigations

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

5.3 Equalities

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

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 Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments have been incorporated into the 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: Joint Pension Fund Committee and Pension Board, 8 December 2016

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Contact us at Capital & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA

Tel: 01835 825016

email: treasuryteam@scotborders.gov.uk

Scottish Borders Council Pension Fund

Business Plan 2017/18 – 2019/20

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

About the Pension Fund

This section gives an overview of our services.

Local Government Pension Scheme

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

Pension Fund Funding & Investments

- **£653.2m Net Assets** under management
- **101%** of estimated liabilities as 31 March 2014 funded – per Triennial Actuarial Valuation
- 9 Investment Managers managing funds under 11 different mandates
- Investments in Equities, Gilts & Bonds, Alternative Assets and Property
- Accounting and Administration of Investments undertaken by the Council's Capital and Investments Team

Pension Fund Governance

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

Pensions Administration

- **10,432 members** – 4,466 actively contributing to the Fund
- **3,314 pensioners** in receipt of LGPS pension from the scheme amounting to **£20.0 p.a. in pension benefit** payments
- 17 Employer Bodies – Scottish Borders Council with 82.9% of the membership
- Administration of Pension Benefits undertaken by the Council's HR Shared Services Team

What we *must* do

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

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

| | Legislative power | Duty to ... | Other Directive(s) ... | Mandatory | Discretionary | Partnership / Service Level Agreement (SLA) |
|---------|---|---|--|-----------|---------------|---|
| Page 76 | Public Service Pensions Act 2013 | Sets out the parameters of the Public Service Pension Schemes, the design of the benefits and the governance arrangements including the identification of The Pensions Regulator as the regulator for Public Service Pension Schemes. | Guidance Published by The Pensions Regulator | ✓ | | |
| | Local Government Pension Scheme (Scotland) Regulations 2014 and subsequent Amendments | Sets out the benefits payable and the duties of the Council as administering authority of for a pension scheme for persons working in local government service | | ✓ | | |
| | Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 | Sets out the transitional arrangements for the Council in relation to the transition to the new scheme set out in the 2014 regulations | | ✓ | | |
| | Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 | Sets out the requirements for Scheme Advisory Boards and Pension Boards | | ✓ | | |
| | Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 | Sets out the parameters around the management and investment of the pension assets and the creation of a separate bank account. | | ✓ | | |

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

Our Successes, Areas for Improvement and Self-Assessment

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

| | Successes | Areas for Improvement/Development |
|--|--|--|
| Pensions Administration | <ul style="list-style-type: none"> • Issuing of all Annual Benefit Statements by end of August deadline, incorporating the new CARE benefits for the first time • Testing of Business World for processing of Pension payments in advance of the 1st April 2017 implementation • Successful admission of additional Bodies to the Fund | <ul style="list-style-type: none"> • Continue to improve engagement with Employers and potential scheme members • Improved web presence and online access/ information for members via self service • Changes to the models of service delivery will require increased focus on the admitted bodies and their agreements |
| Pension Funding and Investments | <ul style="list-style-type: none"> • 101% funding position Triennial Actuarial Valuation at 31 March 2014 • Strong 3 year performance to March 2016 with investment returns of 10.9% on a rolling 3 year annualised basis compared to a benchmark of 10.0% • Successful procurement and implementation of new Custodian and Performance Monitoring services • Full Investment Strategy Review completed • Stability of Employer Contribution Rates over successive Triennial Valuations • Commenced review of cashflow modelling | <ul style="list-style-type: none"> • Further understand the implications of the membership profile projections on the Funds cashflow and investment strategy. • Understand implications of changes in the Pensions landscape in relation to the “freedom of choice” agenda • Finalise approach to Social, Responsible Investment • Ensure the continued effectiveness of the Pension Fund Investment and Performance Sub-Committee |
| Pension Fund Governance | <ul style="list-style-type: none"> • Completion of 2016/17 Training program • Regular reviews of Risk Register • No actions arising from External Audit of the Annual Report & Accounts 2016/17 | <ul style="list-style-type: none"> • Continue to develop the knowledge and skills for all members of Pensions Committee and Board • Updating of all Policy and Strategy documents in line with the legislative changes |

Our Aims and Objectives

Primary Aim of the Pension Fund

To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

Achieved through the following Objectives:

Funding Objectives of the Pension Fund

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

Pensions Administration Objectives of the Pension Fund

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

Governance Objectives of the Pension Fund

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

Managing Our Risk

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

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

A full copy of the Risk Register was approved at the joint Pension Fund Committee and Board meeting on governance held on 18 June 2016 and actions monitored and new risks added where require throughout the year. The table below summarises the risk register, as at 31 March 2017, by the Chartered Institute of Public Finance Accountants (CIPFA) Pension risk categories:

| Risk Category | Risk Assessment | | | | | |
|------------------------------|------------------------------------|-----------|----------|-----------------------------------|-----------|-----------|
| | Before Controls/Mitigating Actions | | | After Controls/Mitigating Actions | | |
| | Red | Amber | Green | Red | Amber | Green |
| Asset & Investment | 3 | 6 | - | - | 7 | 2 |
| Employer | - | 4 | - | - | 3 | 1 |
| Resource & Skill | - | 5 | - | - | 3 | 2 |
| Liquidity | 2 | 4 | - | 1 | 4 | 1 |
| Administrative | - | 8 | - | - | 3 | 5 |
| Regulatory & Compliance | 1 | 3 | - | 1 | 1 | 2 |
| Reputation | 1 | 4 | - | - | 2 | 3 |
| Total Number of Risks | 7 | 34 | - | 2 | 23 | 16 |

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

| Risk | Inherent Risk Score | Controls/Mitigating Action(s) | Residual Risk Score |
|--|---------------------|--|---------------------|
| 4.1 Changes in composition of Pension Fund membership i.e. active/ deferred/ pensioners 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. | 20 | <p>Existing Controls: Implementation of Auto enrolment for the Council met in July 2013; Pension Administration Strategy in place and monitored.</p> <p>Mitigating Actions: Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Review of cashflow scenarios to identify timelines and impact.</p> | 16 |
| 6.2 Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels, benefits and administrative and governance burdens. | 25 | <p>Existing Controls: Active participation in Scottish pension investment and administration networks; Involvement with COSLA discussions on Pensions.</p> <p>Mitigating Actions: Seek to input into any of the legislative change through active membership of COSLA.</p> | 16 |

Our Key Stakeholders

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

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

Our Resources

This section gives an overview of our resources.

As at the 31 March 2017 the Fund's Net Assets were valued at **£654.4 m**, of which £653.2m were held in investment assets :

| Investment Manager | Asset Description | 31-Mar-17 | |
|--------------------|-----------------------------------|--------------|---------------|
| | | £'000 | % |
| UBS | UK Equities - Passive | 74,745 | 11.44 |
| Baillie Gifford | UK Equities | 44,112 | 6.75 |
| Baillie Gifford | Global Equities | 151,003 | 23.12 |
| Harris | Global Equities | 69,221 | 10.6 |
| UBS | Property | 33,257 | 5.09 |
| Morgan Stanley | Managed Fund - Global Equities | 105,284 | 16.12 |
| LGT | Managed Fund - Alternatives | 98,734 | 15.12 |
| M&G | Managed Fund - Diversified Income | 42,814 | 6.55 |
| M&G | Managed Fund - Bonds | 20,379 | 3.12 |
| Partners Group | Managed Fund – Private Credit | 11,588 | 1.77 |
| Internal | Internal | 2,070 | 0.32 |
| | | 653.2 | 100.00 |

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During the financial year 2016/17 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

| | 2016/17 | |
|--------------------------|------------------|--------------------------|
| | Benefits Payable | Contributions Receivable |
| | £'000 | £'000 |
| Scottish Borders Council | 18,869 | 13,684 |
| Scheduled Bodies | 275 | 657 |
| Admitted Bodies | 843 | 4,032 |
| Total | 19,987 | 18,373 |

Managing Our Performance

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

Pension Administration

- The **Pension Administration Strategy** (approved in September 2015) sets out the service standards that Employers can expect from the Fund and those expected from each Employer within the Fund.
- The annual performance against these service standards and performance measures set out in the Pensions Administration Strategy will be reported to the joint Pension Fund Committee/Pension Board meeting and then incorporated into the Fund's Annual Report and Accounts.

Investment Performance

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

Funding Levels

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

Governance

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

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Statutory returns

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

Benchmarking

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

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

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

| Return on Investment as at 31/3/2017 | 1 year rolling return | | 3 year rolling return | |
|---------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| | Fund % | Bench ¹ % | Fund % | Bench ¹ % |
| Total Fund including Currency Hedging | 21.5 | 19.5 | 10.9 | 10.0 |
| Total Fund excluding Currency Hedging | 22.9 | 20.9 | 11.9 | 11.3 |
| Global Equities including UK | 31.0 | 29.6 | 16.6 | 15.4 |
| UK Equities | 22.0 | 22.0 | 7.9 | 7.7 |
| UK Government Bonds | 6.6 | 6.6 | 11.6 | 10.5 |
| UK Corporate Bonds | 11.8 | 9.2 | 7.8 | 7.4 |
| Pooled Bonds | 6.9 | 3.3 | n/a | n/a |
| Property | 1.9 | 3.7 | 10.0 | 10.2 |
| Alternatives | 7.5 | 4.5 | 5.4 | 4.5 |

Our Action Plan

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

What we want to achieve ... (Objective)

Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund's assets in a such a way that produces levels of employer contribution that are as stable as possible

| How? | | | By whom? | By when? | | | EIA | |
|------------|---|---|----------------------------|-------------|-------|-------|-------|---|
| Action No. | How we will achieve our objective ... (Action) | Key Tasks | PI ref. | Owner | 17/18 | 18/19 | 19/20 | |
| P 1 | Review Pension Strategies informed by 2014 and 2017 Triennial Valuation Results | | | | | | | |
| | | Undertake and complete Triennial valuation. | p-1-c1 | | • | | | • |
| | | Approval and implementation of 2017 Triennial Valuation employer contribution results, including update of Funding Strategy Statement | P-1-B1 P-1-B2 P-1-B3 | C F Manager | | • | | • |

Scottish Borders Council Pension Fund

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| PI ref. | How we will know we have achieved our objective ... (Performance Indicator) | Target | Mth | Qtr | Ann |
|---------|---|--|-----------------------------------|-----|-----|
| P-1-A1 | Fund Investment Performance at Benchmark | Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis | | • | |
| P-1-B1 | Pension Fund Committee approval of employer contribution rates | By 30/6/17 | | | • |
| P-1-B2 | Correct employer contribution rates in Pensions System for each employer | By 30/6/17 | | | • |
| P-1-B3 | Pension Fund Committee approval of Funding Strategy Statement | By 30/6/17 | | | • |
| P-1-C1 | Triennial Actuarial Valuation Funding Level of assets against liabilities | 100% | As at 31/3/17 reported by 31/3/18 | | |

Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

What we want to achieve ... (Objective)

Deliver a High Quality Pension Service to Members

| How? | | | By whom? | By when? | | | EIA | |
|------------|--|--|----------|--------------------------------|-------|-------|-------|---|
| Action No. | How we will achieve our objective ... (Action) | Key Tasks | PI ref. | Owner | 17/18 | 18/19 | 19/20 | |
| 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 | • | | | • |
| | | Continue to proactively manage and engage Pension Fund Employers | P-2-A2 | HRSS Manager | • | | | |
| | | Review all forms and communication material, including annual benefit statements | | HRSS Manager | • | | | • |
| | | Develop content of Pensions presence on the Council's website | P-2-A3 | HRSS Manager/ C & I Manager | • | | | • |
| P 3 | Review Additional Voluntary Contribution Scheme Provision | | | | | | | |
| | | Conduct a strategic review of the AVC provision for the Fund | P-2-A4 | HRSS Manager/C&I Manager | • | | | |
| | | Procurement of AVC providers | | HRSS Manager/C&I Manager | • | | | |
| | | Implementation and Promotion of AVC scheme | | HRSS Manager | • | | | |

Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

| Action No. | How we will achieve our objective ... (Action) | Key Tasks | PI ref. | Owner | 17/18 | 18/19 | 19/20 | EIA |
|------------|--|---|---------|--------------|-------|-------|-------|-----|
| P 4 | Ensure accuracy of Pension Records | | | | | | | |
| | | Implement the Self-Service for Members to access their pension information online | | HRSS Manager | | • | | • |
| | | Undertake full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC | | HRSS Manager | • | | | |
| P 5 | Ensure successful admission of new Admitted Bodies as required | | | | | | | |
| | | | | | | | | |

| PI ref. | How we will know we have achieved our objective ... (Performance Indicator) | Target | Mth | Qtr | Ann |
|---------|--|-----------------------|-----|-----|-----|
| P-2-A1 | Pension Fund Committee approved Communication Strategy and Action Plan | 30/9/17 | | | • |
| P-2-A2 | Hold Annual Employer Liaison Meeting | 1 meetings by 31/3/18 | | | • |
| P-2-A3 | Updated content on Pensions website | 30/9/17 | | | • |
| P-2-A4 | Provide report to Pension Fund Committee on recommended provision of AVC providers | 31/3/18 | | | |

Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

What we want to achieve ... (Objective)

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

| How? | | | By whom? | By when? | | | EIA | |
|------------|---|---|-------------|---------------|-------|-------|-------|---|
| Action No. | How we will achieve our objective ... (Action) | Key Tasks | PI ref. | Owner | 17/18 | 18/19 | 19/20 | |
| P 6 | Continue to develop robust governance and risk management | | | | | | | |
| | | Review and update Governance Policy and Compliance Statement | P-6-A1 | C F Manager | • | | | • |
| | | Develop and deliver 2017/18 – 2018/19 Training Programme | P-6-A2 & A5 | C & I Manager | • | | | |
| | | Develop and Implement separate Financial Regulations for the Pension Fund | P-6-A4 | C & I Manager | | • | | |
| | | Review and update Environmental, Social and Governance section of Statement of Investment Principles. | P-6-A6 | C & I Manager | • | | | |
| | | Review and update Pensions Administration Strategy | P-6-A3 | HRSS Manager | | • | | • |
| P 7 | Review services provided externally to ensure that these represent best value to the Fund | | | | | | | |
| | | Develop and implement an annual assessment cycle of Investment Adviser and Officer support to the Pension Fund Committee and Pension Fund Board | P-7-A1 | C & I Manager | | • | | |

Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

| Action No. | How we will achieve our objective ... (Action) | Key Tasks | PI ref. | Owner | 17/18 | 18/19 | 19/20 | |
|------------|--|--|---------|---------------|-------|-------|-------|--|
| | <i>Review services provided externally to ensure that these represent best value to the Fund (continued)</i> | Identify requirements for investment and performance advisory services and procure new contract(s) | | C & I Manager | | • | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

| PI ref. | How we will know we have achieved our objective ... (Performance Indicator) | Target | Mth | Qtr | Ann |
|---------|---|------------------------------|-----|-----|-----|
| P-6-A1 | Pension Fund Committee approval of Governance Policy and Compliance Statement 2016 | 30/6/17 | | | • |
| P-6-A2 | Pension Fund Committee approval of Training Policy 2017 and Training Programme 2017/18 | 30/6/17 | | | • |
| P-6-A3 | Pension Fund Committee approval of Pensions Administration Strategy | 30/9/18 | | | • |
| P-6-A4 | Audit & Risk Committee and Pension Fund Committee approval of Pension Fund Financial Regulations | 31/3/18 | | | • |
| P-6-A5 | Training Needs Self-Assessment Levels from 2017/18 to 2019/20 | Improve knowledge assessment | | | • |
| P-6-A6 | Review of Environmental, Social & Governance completed and approved for inclusion in Statement of Investment Principles | 30/12/2017 | | | |
| P-7-A1 | Undertake first annual assessment of Investment Adviser and Officer Support to Committee and Board | 31/3/19 | | | • |

Additional Information

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

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

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

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

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

Contact us at Kirsty Robb, Capital & Investments Manager, Council HQ, Newtown St Boswells

01835 825249, krobb@scotborders.gov.uk

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RISK REGISTER UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2017

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 updated full register and proposed management actions to mitigate the risks.**
- 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 A full risk workshop was held on 10 May 2017 with Officers from relevant departments to review and update the full risk register. The output of this is shown in Appendix 1.
- 1.4 In line with the Council's Risk Management Policy (2015) a paper to be presented at the September 2017 meeting will report progress on the management actions and present any new risks for consideration.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Agrees the updated Full Risk register as contained in Appendix 1; and**
 - (b) **Agrees to an update on progress of management actions to be presented in September 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 2017/18 – 2019/20, to be presented for approval on 22 June 2017, sets out the aims and objectives of the Pension 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 10 May 2017 by Officers from the Capital and Investment Team, Human Resources Shared Services Team and Audit & Risk Team in order to ensure that the risk register's contents were still relevant and up-to-date. The outcome of the workshop is detailed in Appendix 1.
- 4.2 There are 42 risks identified in the register of which eight are red risks prior the application of internal controls. The current identified controls reduce the red risks to two. There are 16 risks with identified management actions which will improve and add to the current controls.
- 4.3 The progress of the individual management actions identified in the risk register, detailed in Appendix 1, will be reported on a quarterly basis at future meetings.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

The purpose of providing the update to the Committee and Board is to improve the risk management framework for the Pension Fund and demonstrate 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.

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 of 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 are being consulted and their comments will be included in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee and Pension Board 16 March 2017

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 - Full Risk Register

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

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Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|--------------------|--|--|---|-----------|--|---------------|------------|-------|--|---------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 1.4 | Asset & Investment | Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels | Committee ignores advice provided by expert adviser; External adviser provides inappropriate/inaccurate/insufficient advice to Committee/Officers. | Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates. | Ongoing | Pension Fund Committee/ Chief Financial Officer | 5 | 4 | 20 | Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually 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 | Effective | 4 | 2 | 8 |
| 1.5 | Asset & Investment | Failure to manage Currency risk may lead to an inability to maximise the returns from investments with the agreed risk parameters resulting in an adverse impact on valuation of investment assets and assessment of Fund's future liabilities | Adverse movements in market/economic conditions impacting on currency rates | Adverse impact on valuation of investment assets and assessment of Fund's future liabilities | Ongoing | Chief Financial Officer | 3 | 4 | 12 | Follow advice of external advisers that fund should take long term view of currency fluctuations; TOLERATE | Partially Effective | 3 | 3 | 9 |
| 1.6 | Asset & Investment | Failure to react to major changes in market/economic conditions may lead to an inability to manage the fund properly resulting in significant adverse impact on valuation of investment assets and assessment of Fund's future liabilities | Adverse movements in market/economic conditions | Adverse impact on valuation of investment assets and assessment of Fund's future liabilities | Ongoing | Chief Financial Officer | 4 | 5 | 20 | Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Diversification of asset classes and investment managers; Scrutiny of Strategic Asset Allocation and Investment performance by Investment & Performance Sub-Committee; | Effective | 3 | 3 | 9 |
| 1.7 | Asset & Investment | Underperformance of Investment Manager(s) may lead to financial losses for the Fund resulting in the inability to achieve the target investment returns set out in the Statement of Investment Principles which over the longer term may lead to significant increased employer contribution rates and costs of implementing changes in investment managers. | Underperformance/ negative returns from investments under management as a result of individual management approach/actions. | Financial loss which may lead to significant increased employer contribution rates and costs of changing investment managers | Ongoing | Corporate Finance Manager/ Pension Fund Committee/ Chief Financial Officer | 3 | 4 | 12 | Robust procurement processes around the managers placed on short lists; Diversification of investment managers; Continual monitoring of investment performance against benchmark, targets and tolerance; Engagement with Investment Adviser in relation to monitoring external environment and setting benchmarks in respect of the individual investment managers; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Monitoring of financial media; Immediate action would be considered and removal of funds to Transition Manager. TOLERATE | Effective | 2 | 3 | 6 |
| 1.8 | Asset & Investment | Insufficient scrutiny of manager mandates and terms of business may lead to a failure to manage the Fund properly resulting in inappropriate fee levels and other costs. | Lack of information from fund managers; Lack of capacity within pension fund team and advisers; | Inappropriate fee levels and other costs. | Ongoing | Capital & Investments Manager | 2 | 3 | 6 | Detailed monitoring in place for the investment managers where direct investments held, higher level monitoring for unitised funds; TOLERATE | Partially Effective | 1 | 3 | 3 |

Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|------|-------------------------------|---|--|---|-----------|---|---------------|------------|-------|--|--------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 1.9 | Asset & Investment | Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap. | Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy | future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap. | Ongoing | Pension Fund Committee/ Chief Financial Officer | 3 | 3 | 9 | Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. As part of this assess requirement for Investment strategy to be reviewed and updated accordingly. TREAT Additional Actions Proposed: Undertake a full investment strategy review following 2017 valuation. | Effective | 2 | 2 | 4 |
| 1.10 | Page 99 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 | | 4 | 5 | 20 | Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards TOLERATE | Effective | 3 | 4 | 12 |
| 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 | 3 | 4 | 12 | Full actuarial valuation undertaken on Triennial basis, 2014 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. Live Borders/SBHA to reflect employer situations. Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. Annual Declaration includes changes of to scheme membership for current and future year. TOLERATE | Effective | 3 | 1 | 3 |
| 2.2 | Employer | Adoption of either an inappropriately slow or rapid pace of funding rates for different employers may result in improper management of the Fund and result in inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities. | Failure by employer to notify the fund of significant changes of membership. | Improper management of the Fund; Inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities. | Ongoing | Pension Fund Committee/ Chief Financial Officer | 3 | 4 | 12 | Full actuarial valuation undertaken on Triennial basis, 2014 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. Live Borders/SBHA to reflect employer situations; Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TREAT Undertake final valuation for 2017 | Effective | 3 | 2 | 6 |

Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|--------------------|---|---|---|-----------|--|---------------|------------|-------|--|--------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 2.3 | Employer | Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions | Scheme employer ceasing to operate | Shortfall in fund as a whole with increases required in all other employers contributions | Ongoing | Pension Fund Committee/ Chief Financial Officer | 4 | 3 | 12 | Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey and CGI, and Council agreement in place for Live Borders and SB Cares; Guarantee in place with SG for Visit Scotland; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. | Effective | 3 | 2 | 6 |
| 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 | Ongoing | Pension Fund Committee/ HR Shared Services Manager | 3 | 4 | 12 | Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year. TREAT Additional Actions Proposed: Full communications strategy being developed during 2017/18 to further improve Employer Engagement; | Effective | 2 | 3 | 6 |
| 3.1 | Resources & skills | Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively. | Available resource; Requirement to maintain admin costs; Absence of succession management in relation to supporting crucial aspects of the operation of the Fund. | May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively. | Ongoing | Chief Financial Officer/ Chief Officer Human Resources | 3 | 4 | 12 | Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Restructure of teams to reduce single points of failure and manage succession planning. TREAT Additional Action Proposed: Improvement in quality of procedure notes for officers. | Effective | 2 | 3 | 6 |
| 3.2 | Resources & skills | Failure to provide appropriate training and support and/or secure Board/Committee Member engagement in Training Programme may lead to ineffective management of the Fund as a result of poorly informed decision making. | Availability of members to attend training; Inappropriate training programme. | Ineffective management of the Fund as a result of poorly informed decision making. | Ongoing | Pension Fund Committee/ Chief Financial Officer | 2 | 4 | 8 | Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. TOLERATE | Effective | 2 | 3 | 6 |

Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|--------------------|---|---|---|-----------|---|---------------|------------|-------|--|---------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 3.3 | Resources & skills | Over reliance on key Members of the Board or Committee may lead to lack of challenge and objectivity in decision making resulting in failure to manage the Fund effectively. | Knowledge and experience gap of new members. | Failure to manage the Fund effectively. | Ongoing | Pension Fund Committee/ Pension Fund Board Chairs | 3 | 3 | 9 | All Members of the Pension Fund Committee and Pension Board are actively involved in the discussions with External Advisers and have access to the same information and training opportunities; Clear scheme of administration and constitutions established for the Committee and Board providing clarity of roles and responsibilities; Training Policy sets out skills and knowledge responsibilities for members. Pension Fund Committee and nominated reps of Board are actively involved in discussions with investment managers. | Effective | 2 | 2 | 4 |
| 3.4 | Resources & skills | Lack of sufficient knowledge and expertise on Pension Fund Committee and Board members to discharge their duties could lead to failure to manage the Fund effectively as a result of poorly considered decision making. | Knowledge and experience gap of new members. | Poorly considered decision making. | Ongoing | Pension Fund Committee/ Chief Financial Officer | 3 | 4 | 12 | Pension Fund committee and Board have access to External Advisers and Council Officers to help advise and inform them; Pension Fund committee and nominate representatives of Board have access to Investment Managers via the Investment and Performance sub committee Members Training Policy for Pensions Fund established, monitored and reported on annually; Annual training programme in place; Skills and training assessment undertaken annually. | Effective | 2 | 2 | 4 |
| 3.5 | Resources & skills | Failure of Officers to maintain sufficient level of competence to discharge their duties could lead to failure to manage the Fund effectively as a result of their inability to provide appropriate decision making support and advice. | Changes in legislation; New investment types and vehicles; Lack of documented procedures. | Failure to manage the Fund effectively. | Ongoing | Chief Financial Officer/ Chief Officer Human Resources | 3 | 3 | 9 | Use of External Advisers provides additional resilience and resources; PRD process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Regular engagement with external Investment Managers to supplement knowledge. | Partially Effective | 2 | 3 | 6 |

Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|-----------|--|---|---|-----------|-------------------------|---------------|------------|-------|--|---------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 4.1 | Liquidity | Changes in composition of Pension Fund membership, i.e. active/deferred/pensioners may lead to insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy. | Variance between CPI rates and pay increases; Fewer people joining; Other employers close funds; Economic drivers to reduce workforce. | Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due potentially increasing employers contribution levels and changes to the investment strategy. | Ongoing | Chief Financial Officer | 5 | 4 | 20 | Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met; Use of an Investment Adviser and Actuarial services as and when required; Implementation of Auto-enrolment with final transition being completed by July 2017; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; TREAT <u>Additional Actions Proposed:</u> Continue review of cashflow scenarios to identify timelines and impact of changing | Partially Effective | 4 | 4 | 16 |
| 4.2 | Liquidity | If employees can no longer afford to participate in the scheme then there may be reduced income into Fund resulting in a change being required to the Funding and Investments Strategy due to changes in participation levels. | Economic circumstances; Potential increases to employee contributions due to central Govt. decisions; Changes to tax relief on pensions. | Reduced income into Fund resulting in a change being required to the Funding and Investments Strategy | Ongoing | Chief Financial Officer | 4 | 4 | 16 | Limited measures in place. Nationally negotiated rates/benefits with employee representatives (i.e. Trade Unions) on minimising employee contribution increases; Pay awards now being given, economy now improving; LGPS changes implementation of 50/50 option; Trade Union involvement in the Pension Board and Scheme Advisory Board; Communication issued with annual benefits statements. TREAT <u>Additional Actions Proposed:</u> Ensure regular information is issued to employees setting out the continued benefits of scheme membership e.g. tax relief on contributions/employers contribution; Communication strategy being developed. | Partially Effective | 4 | 3 | 12 |
| 4.3 | Liquidity | Significant differences between Actuarial Assumptions in the Triennial Valuation Reports and reality may lead to setting Funding and Investment Strategies which may result in insufficient cashflow to fund current obligations or insufficient funding to cover future liabilities | CPI inflation; Mortality levels; Investment Returns. | Setting Funding and Investment Strategies; Insufficient cashflow to fund current obligations or insufficient funding to cover future liabilities; Increased employer contributions. | Ongoing | Chief Financial Officer | 3 | 3 | 9 | Full actuarial valuation undertaken on Triennial basis; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions. Any strain on fund incurred paid by employer at point of retirement; Regular monitoring of investment performance and where medium to long term trend in returns is identified then this will be reviewed. TOLERATE | Effective | 2 | 3 | 6 |

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Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|----------------|--|---|---|-----------|--|---------------|------------|-------|---|---------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 4.4 | Liquidity | Number and value of early retirements increases to levels in excess of the actuarial assumptions, which may lead to incorrect employer contributions being set, resulting in insufficient funding for future liabilities. | Reducing workforce. | Insufficient funding for future liabilities. | Ongoing | Chief Financial Officer | 3 | 4 | 12 | Full actuarial valuation undertaken on Triennial Valuation; Detailed dialogue with Actuary ahead of valuation to agree evidence based assumptions to be used; Regular information provided by Actuary on differences as they occur from assumptions; Ensure Employers contribution to strain on the fund is correctly calculated and received into the Fund; Reduction in applications being supported seen in recent tranches of ER/VS; Continue to monitor ER/VS applications and impacts. TOLERATE | Effective | 2 | 2 | 4 |
| 4.5 | Liquidity | New pension access reforms ("freedom of choice") may lead to pension fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential for a significant change in the liability profile for the Fund. | Changes in legislation and increase in awareness. | Requirement to release large amounts of cash to members; Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position; Scheme sanction charges for any transfer to unapproved scheme. | Ongoing | Chief Financial Officer/ Chief Officer Human Resources | 3 | 3 | 9 | Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area. TREAT <u>Additional Actions Proposed:</u> Development of communication strategy. | Effective | 2 | 3 | 6 |
| 4.6 | Liquidity | Failure to manage the liquidity required for the Fund's cashflows may lead to assets being sold at unattractive times or investment opportunities missed due to unavailability of cash, resulting in an adverse impact on the valuation of the Fund's assets. | Higher than anticipated levels of retirement; Higher levels of lump sums commutation taken on retirement. | Requirement to divest investment assets at an unattractive time or missing investment opportunities which result in an adverse impact on the value of the Fund's assets | Ongoing | Capital & Investments Manager | 4 | 3 | 12 | Daily and weekly monitoring of Pension Fund's Cashflows; TREAT <u>Additional Actions Proposed:</u> Improve quality of medium term cashflow forecasting for the Fund; Asset allocation review to review cash flow projections requirements; New Treasury Management system to improve cash flow projections. | Partially Effective | 2 | 2 | 4 |
| 5.1 | Administrative | Failure to process pension payments and lump sums on time may lead to financial distress for retiring staff and potential referral to the Pensions Regulator and/or external auditor resulting in the possibility of additional penalty costs and reputational damage. | Insufficient information from member or employer; Lack of access to pension fund system information; Absence of specialist pension admin. | Financial distress for retired staff; Potential referral to the Pensions Regulator and/or external auditor; Additional penalty costs; Reputational damage. | Ongoing | HR Shared Services Manager | 3 | 3 | 9 | Pension administration system implemented; Business World now to be used for pension payments; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained. TOLERATE | Effective | 2 | 2 | 4 |

Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|----------------|---|---|--|-----------|----------------------------|---------------|------------|-------|--|---------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 5.2 | Administrative | Failure to collect and account for contributions from employers and employees on time may lead to adverse cashflow implications for the Fund potentially resulting in adverse external audit opinion, referral to the Pensions Regulator, reputational damage and requirement to divest investments to fund the cashflow deficit. | External employers not remitting contributions on time. | Adverse cashflow implications for the Fund; Adverse external audit opinion; Referral to the Pensions Regulator; Reputational damage; Requirement to divest investments to fund the cashflow deficit. | Ongoing | HR Shared Services Manager | 3 | 4 | 12 | Pension administration system implemented; Business World used for pension payments; Pensions Administration Strategy sets out performance standards and performance against these is monitored annually; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; TOLERATE | Effective | 2 | 2 | 4 |
| 5.3 | Administrative | Failure to provide pensions administration service due to major operational disruption could lead to inability to provide a high quality pension service to members | Loss of main office; Computer system; Staff absence. | Ability to process payments on time; Financial distress to members; Reputational risk. | Ongoing | HR Shared Services Manager | 4 | 3 | 12 | Robust business continuity processes in place across the Council around key business processes, including a disaster recovery IT site. Reviewed regularly. Pensions Administration System is hosted system, along with Windows 7 provides improved ability for homeworking; TOLERATE | Effective | 2 | 3 | 6 |
| 5.4 | Administrative | Failure to prevent fraud or misappropriation by scheme member, employee or scheme employer within the Fund may lead to loss of funds. | Lack of monitoring; Lack of segregation of duties. | Inability to provide a high quality pension service to members; Financial loss to the Fund; Impact on benefits paid to members. | Ongoing | HR Shared Services Manager | 3 | 3 | 9 | Robust segregation of duties and other internal controls to mitigate against this risk; Immediate action taken upon discovery of fraud; Internal & External Audit programme also picks up the monitoring of this risk. TOLERATE | Effective | 2 | 2 | 4 |
| 5.5 | Administrative | Failure to hold personal data securely resulting in personal data loss, reputational damage and potential financial penalty | Lack of controls; Lack of monitoring; Lack of procedures; Lack of training and awareness. | Data lost or compromised; Reputational risk; Potential financial Penalty from Information Commissioner. | Ongoing | HR Shared Services Manager | 2 | 3 | 6 | Pension administration system implemented; Business World used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained in mandatory Data Protection and fully compliant with SBC Info. Governance requirements. TOLERATE | Effective | 2 | 2 | 4 |
| 5.6 | Administrative | Failure to keep pension records up to date and accurate may lead to incorrect pensions information being issued or incorrect benefits calculations or payments | Lack of info from members and employers; Human error; IT systems failure. | Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid. | Ongoing | HR Shared Services Manager | 3 | 4 | 12 | Pension administration system implemented; Business World 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 |

Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|-------------------------|--|--|--|-----------|---|---------------|------------|-------|---|---------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 5.7 | Administrative | Failure to communicate effectively with stakeholders in Pension Fund resulting in inability to provide high quality pensions service | Failure to issue information in a timely manner and in an easily understandable format. | Scheme members not aware of their rights resulting in bad decisions; Employers not aware of regulations, procedures, etc. | Ongoing | HR Shared Services Manager/ Capital & Investments Manager | 3 | 3 | 9 | Engagement in Scottish pension networks; Union and Admitted body representation on the Pension Fund Board; Publication of annual report via website and printed copies to all Scheduled and Admitted bodies; Annual reporting or performance of issuing Benefits Statements to Pension Fund Committee and Board. TREAT Additional Action Proposed: Implementation of Communications Strategy. | Effective | 2 | 3 | 6 |
| 5.8 | Administrative | Failure to ensure pension transfer payments due to/payable by the fund are calculated accurately and received/paid resulting in incorrect funds being held within the Fund to pay future benefits to individuals | Failure to ensure pension transfer payments due to the fund are calculated accurately and received | Insufficient funds transferred/received to meet future obligations; Failure to protect the solvency of the fund and equivalent rights acquired are transferring members in accordance with the regulations; Referral to the Pension Regulator; Reputational damage; Financial penalty. | Ongoing | HR Shared Services Manager | 2 | 3 | 6 | Pension administration system continues to provide automated support in calculation, using nationally approved scheme based on number of standard assumptions at point of transfer. TOLERATE | Effective | 2 | 2 | 4 |
| 6.1 | Regulatory & Compliance | Failure to administer and manage Fund in line with requirements of legislation and other regulations e.g. LGPS regulations, HMRC may lead to benefits calculated incorrectly and/or breach legislation | Changes to legislation; Lack of staff training; Lack of knowledge and skills | Wrong pension payments made or estimates given; Breach of regulations; Prosecution. | Ongoing | HR Shared Services Manager/ Capital & Investments Manager | 2 | 3 | 6 | Compliance with new accounting standards and pension fund regulations are subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks and CIPFA updates; External Audit review extends beyond financial controls; Pension Board review of decisions; PRD process implemented to identify training and development requirements. TOLERATE | Effective | 2 | 2 | 4 |
| 6.2 | Regulatory & Compliance | Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures | Central Govt. legislation changes. | Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members. | Ongoing | Chief Financial Officer/ Chief Officer Human Resources | 5 | 5 | 25 | Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; TREAT Additional Actions Proposed: Seek to input into any of the legislative change through active membership of COSLA; | Partially Effective | 4 | 4 | 16 |
| 6.3 | Regulatory & Compliance | Failure to produce accounts, notices and publications correctly or on time resulting in inability to manage the fund effectively and compliantly. | Lack of capacity; Conflicting operational demands, including Transformational activity. | Accounts qualified by External Auditors; Referral to Pensions Regulator or Scheme Advisory Board | Ongoing | Corporate Finance Manager | 3 | 3 | 9 | Compliance subject to robust internal and external audit review and reporting; Participation in the active Scottish Pensions networks; Staff training requirements identified via PRD and attendance at appropriate training events. TOLERATE | Effective | 2 | 2 | 4 |
| 6.4 | Regulatory & Compliance | Changes in national jurisdictions may lead to changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes | Changes in national jurisdictions | Changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes e.g. Withholding Tax | Ongoing | Corporate Finance Manager | 2 | 3 | 6 | Monitoring of political position via news releases and group networks. TOLERATE | Effective | 2 | 5 | 10 |

Pension Fund - Full Risk Register

| No. | Category | Risk | Risk Factor/Cause | Effect/Consequences | Proximity | Risk Owner | Original Risk | | | Controls | | Current Risk | | |
|-----|------------|---|---|--|-----------|---|---------------|------------|-------|--|---------------------|--------------|------------|-------|
| | | | | | | | Impact | Likelihood | Score | Current Controls | Control Assessment | Impact | Likelihood | Score |
| 7.1 | Reputation | Conflict of interest for Elected Members on Pension Fund Committee and Board between Council priorities and Pension Fund Management priorities may result in failure to make the best decision for the Pension Fund | Conflicts of interest; Lack of understanding of their role on the Pension Fund. | Failure to achieve Pension Fund objectives; Failure to make the best decision for the Pension Fund; Referral to the Scheme Advisory Board and/or Pension Regulator; Legal challenge. | Ongoing | Chief Financial Officer | 4 | 4 | 16 | Members are clear on their respective responsibilities to the Council and Pension Fund (Constitution and Code of Conduct) through training; Officers and Investment Adviser provide additional clarity and support to avoid these situations; Skills and knowledge assessment undertaken annually; Pension Board role to ensure compliance with regulatory environment. TOLERATE | Effective | 3 | 2 | 6 |
| 7.2 | Reputation | Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in reputational damage | Changes in legislation that are implemented incorrectly; Failure to follow Governance arrangements. | Ineffective management of the Fund; Reputational damage; Loss of employer confidence; Referral to Scheme Advisory Board and/or Pension Regulator; Legal Challenge. | Ongoing | Chief Financial Officer | 3 | 3 | 9 | Up to Date constitution for Pension Board and Scheme of Administration for Pension Fund Committee; Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement; Active participation and monitoring of changes required from LGPS 2015. Pensions Board role to support this agenda. TOLERATE | Effective | 2 | 2 | 4 |
| 7.3 | Reputation | Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers | Lack of capacity of Officers to monitor. | Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge | Ongoing | Chief Financial Officer/Chief Officer Human Resources | 2 | 3 | 6 | Identify requirements of external advisers and appoint appropriately. TREAT Additional Actions Required: Implement annual review of Advisers; | Effective | 2 | 2 | 4 |
| 7.4 | Reputation | Delays in implementation of decisions resulting in reducing the effectiveness of the decision and potentially adversely impacting on the ability to maximise investment returns | Competing priorities; Lack of resources. | Reducing the effectiveness of the decision; Potentially adversely impacting on the ability to maximise investment returns; Loss incurred or reduced income received. | Ongoing | Chief Financial Officer/Chief Officer Human Resources | 3 | 3 | 9 | Decisions minuted and appropriate staff assigned to implement; Agreed actions monitored by Democratic Services; Implementation timescales priorities according to risk levels and available resources levels; 3 year Business Plan developed and approved on an annual basis and monitored in year by Pension Fund Committee and Board. TOLERATE | Partially Effective | 3 | 3 | 9 |
| 7.5 | Reputation | Ultra vires pension fund actions resulting in a failure to manage the pension fund properly | Fraudulent activity; Lack of skills and knowledge; | Failure to manage the Pension Fund properly; Financial loss; Reputation damage. | Ongoing | Chief Financial Officer | 4 | 2 | 8 | Training provided to Members and Officers to ensure legal framework understood; Use of external advisers and contact with SPPA. TOLERATE | Effective | 2 | 1 | 2 |

DRAFT ANNUAL REPORT AND ACCOUNTS 2016/17

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

22 June 2017

1 PURPOSE AND SUMMARY

- 1.1 **The attached Draft Annual Report and Accounts for the Pension Fund for 2016/17 is being presented as part of the consultation process prior to submission of the Report to the Audit Committee and the External Auditors.**
- 1.2 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specify the elements which must be contained in the Annual Report and Accounts, the list of these are contained in para 4.1. The draft Report and Accounts contained in Appendix 1 fully meets these requirements.
- 1.3 The draft Report and Accounts are still subject to Audit, which will commence early July. Following the statutory Audit process the final Report and Accounts will be circulated to the joint Committee and Board.

2 STATUS OF REPORT

- 2.1 This report is presented to enable members to consider the draft Annual Report and Accounts (the Annual Report) prior to External Audit Inspection by the statutory deadline of 30 June 2017.
- 2.2 This report was not circulated to consultees within the recommended timeframe and as a result their comments have not been able to be included in the report, but will be presented to the Joint Committee and Board meeting. The late preparation of the report is related to the significant work involved in producing the Annual Report

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Pension Fund Annual Report and Accounts 2016/17 contained in Appendix 1 is considered prior to the submission to Audit and Scrutiny Committee on the 28 June 2017 and the subsequent statutory audit process.**

4 BACKGROUND

- 4.1 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specifies that the Annual report must contain:
- a) report on the management and financial performance during the year,
 - b) statement on the investment policy for the Fund,
 - c) pensions administration arrangements during the year,
 - d) actuarial valuation statement,
 - e) governance compliance statement,
 - f) fund account and net asset statement,
 - g) annual report on pension administration strategy, and
 - h) details of where to access current Funding Strategy Statement and Statement of Investment Principles.

5 ANNUAL REPORT AND ACCOUNTS 2016/17

- 5.1 The draft Annual Report and Accounts for 2016/17 (the Annual Report) is attached at **Appendix 1**. The Annual Report will be submitted to Audit and Scrutiny Committee on the 28 June 2017 for review prior to submission to the external auditors, Audit Scotland, by 30 June 2017. .
- 5.2 The Annual Report will also be made available for public inspection for a 3 week period commencing 30 June 2017.
- 5.3 It should be noted that the Annual Report remains draft and the conclusion of the year end work including the external audit may result in changes to it.
- 5.4 The Committee will receive a copy of the final report at the end of the statutory external audit process prior to its submission to Council and publication.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this proposal.

6.2 Risk and Mitigations

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

6.3 Equalities

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

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and any comments will be included into the version presented to the Audit and Scrutiny Committee on 28 June 2017.

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: Pension Fund Committee and Board 16 June 2016

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

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

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UNAUDITED ANNUAL REPORT AND ACCOUNTS

Scottish Borders Council Pension Fund

For year to 31 March 2017

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REPORT BY CHAIRMAN OF PENSION FUND COMMITTEE

Introduction

Welcome to the Annual Report and Accounts for the Scottish Borders Council Pension Fund for the year ended 31 March 2017. This Annual Report has been produced to provide Elected Members, Scheme Members and Employers and other interested parties with information concerning the administration and performance of the Fund in financial year 2016/17.

Highlights for the Year

Pension Fund Committee/Pension Board

The Pension Fund Committee has worked hard during the year in response to the continually growing governance agenda and increasingly complex pension administration environment that the Fund operates within.

The Committee members have engaged with training events both locally and nationally to expand their knowledge and understanding. The recent local elections has resulted in change of Membership for the Committee going forward but due to the hard work and dedication of the out-going Members the fund is in a strong position.

The Joint meetings of the Committee and Board continued during 2016/17 to be productive and informative due to the positive engagement of all members.

The Investment and Performance Sub-Committee, has met all investment managers twice during the year, which has allowed the committee full scrutiny of funds managed.

Investment Assets

Following the strong market recovery and strong performance from key fund managers over the last couple of years, 2016 has proved to be challenging but successful time. The level of volatility across markets,

especially global equities has continued to be unprecedented. Despite this the fund has managed to increase in value by £112m during the year.

The overall performance of the Fund was 21.5% for 2016/17, outperforming the benchmark by 1.0%.

Procurement Activity

Following the completion of the Strategic Asset Allocation review 3 new managers were successfully appointed to the Fund. The Fund has also entered an agreement to work along with Lothian Pension Fund to access the Infrastructure market.

Cashflow Modelling

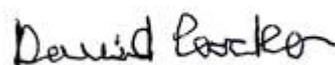
Work has continued during 2016 modelling the Funds cashflow position. This work will continue into 2017 as the Fund continues to mature and the balance between contributions and expenditure continues to widen.

Pensions Administration

During the year the Pensions Administration Team successfully issued all of the Annual Benefit statements to Employees, by the required deadline, and incorporating the new CARE scheme.

Acknowledgement

I would like to thank the Members of the Pension Fund Committee, Pension Fund Board, officers within the Council, our investment managers, KPMG and Barnett Waddingham for their hard work during the year and their ongoing commitment to ensuring the Fund's continued success.



**Chairman, Pension Fund Committee
Scottish Borders Council**

MANAGEMENT COMMENTARY

Management and Financial Performance

Scottish Borders Council Pension Fund

2016/17 Key Highlights

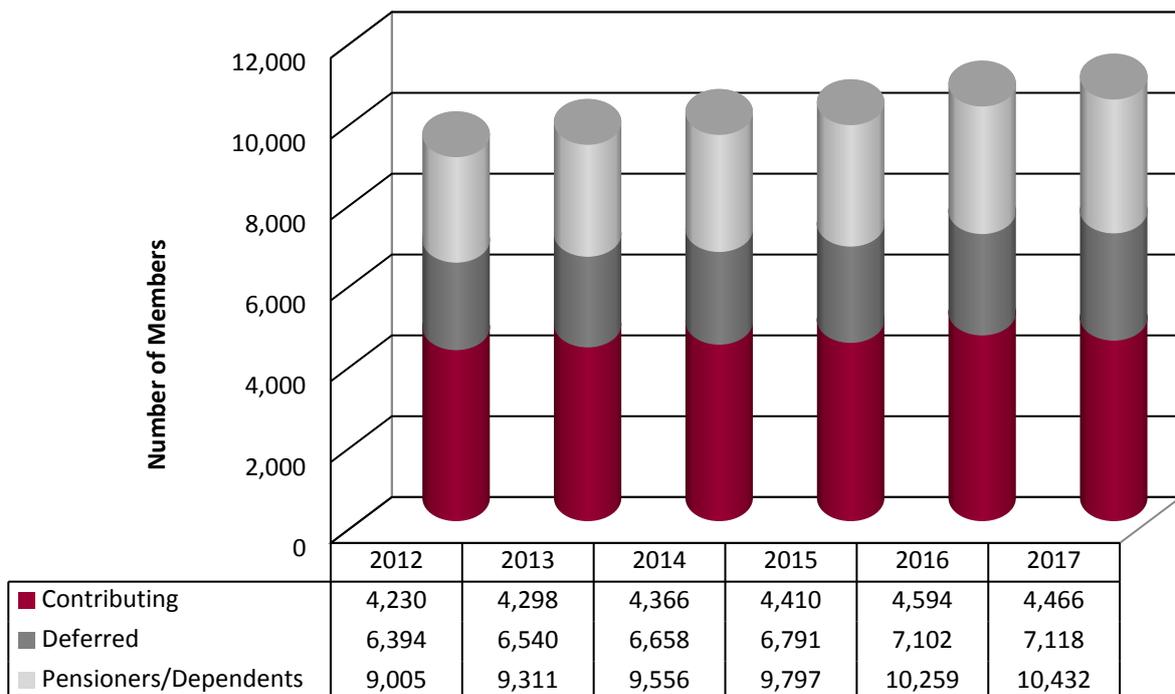
£654m Net Assets, a increase of £112m on 2015/16
Strong performance return of 21.5% for 2016/17 and 10.9% for the rolling 3 year period
Continued sound governance of the Fund and good engagement of Members in the training programme
10,432 Members, an increase of 173 on previous year

The Scottish Borders Council Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS) is administered by Scottish Borders Council (the Administering Authority). Note 1 to the Annual Accounts, page 28 provides a description of the Fund.

The Note sets out information in relation to the Fund's regulatory environment, funding, benefits and membership.

Overview of Fund Membership

Current membership of the Fund is 10,432 of which 4,466 are actively contributing and 3,314 are in receipt of pension benefits. The following chart summarises the trends in membership:



The chart on the previous page demonstrates that although there has been a relatively static position in relation to active contributing membership, there has been a continuing rise in the number of pensioners. Since 2012 the total membership has increased by 1,254 members (a 14% increase overall). During this period the number of pensioners and their dependants has increased by 19%, and the number of active contributing members has increased by 9%. This presents a challenge to the Fund to ensure that it manages its future cash flows effectively as the fund matures. This was included as part of the considerations when undertaking the full investment review.

A full reconciliation of the movement in membership during 2016/17 is included in Note 19 to the Accounts, page 44.

Financial Performance

The Financial Statements for the Fund are set out from page 26.

Key Figures from these are set out below:

| | Restated 2015/16 £'000 | 2016/17 £'000 |
|---|---------------------------------------|--------------------------|
| Net (Withdrawals) from Dealings with Members | (1,971) | (2,229) |
| Net Return on Investments | 2,018 | 118,278 |
| Net Increase/(decrease) in the Fund during the Year | (3,225) | 112,493 |
| Closing Net Assets of the Scheme | 541,900 | 654,393 |

These highlight two key messages in relation to the Financial Position of the Fund:

- ***Strong financial returns from Fund Managers have resulted in increase of £112m in Net Assets***
- ***A Net Withdrawal position in relation to dealing with Fund Members***

The strong asset position, along with the 2014 Triennial Valuation of funding levels, demonstrates that the Fund is well placed to meet its future pension and other benefit liabilities.

The slightly increasing net withdrawal position supports the trend that is seen in the membership chart as outlined on page 3.

Recent changes in the legislation around what pensioners are able to do with their pension benefit entitlements have increased individual freedom to withdraw from the Fund potentially triggering significant transfer movements. The fund has not however seen any significant withdrawal from the fund as a result of this legislation but is continuing to monitor this position.

Governance and Decision Making

Following the significant changes required in the governance arrangements which came into force on 1 April 2015 the Pension Fund Board was established. Joint meetings of the Pension Fund Committee and Pension Fund Board have been held regularly during 2016/17.

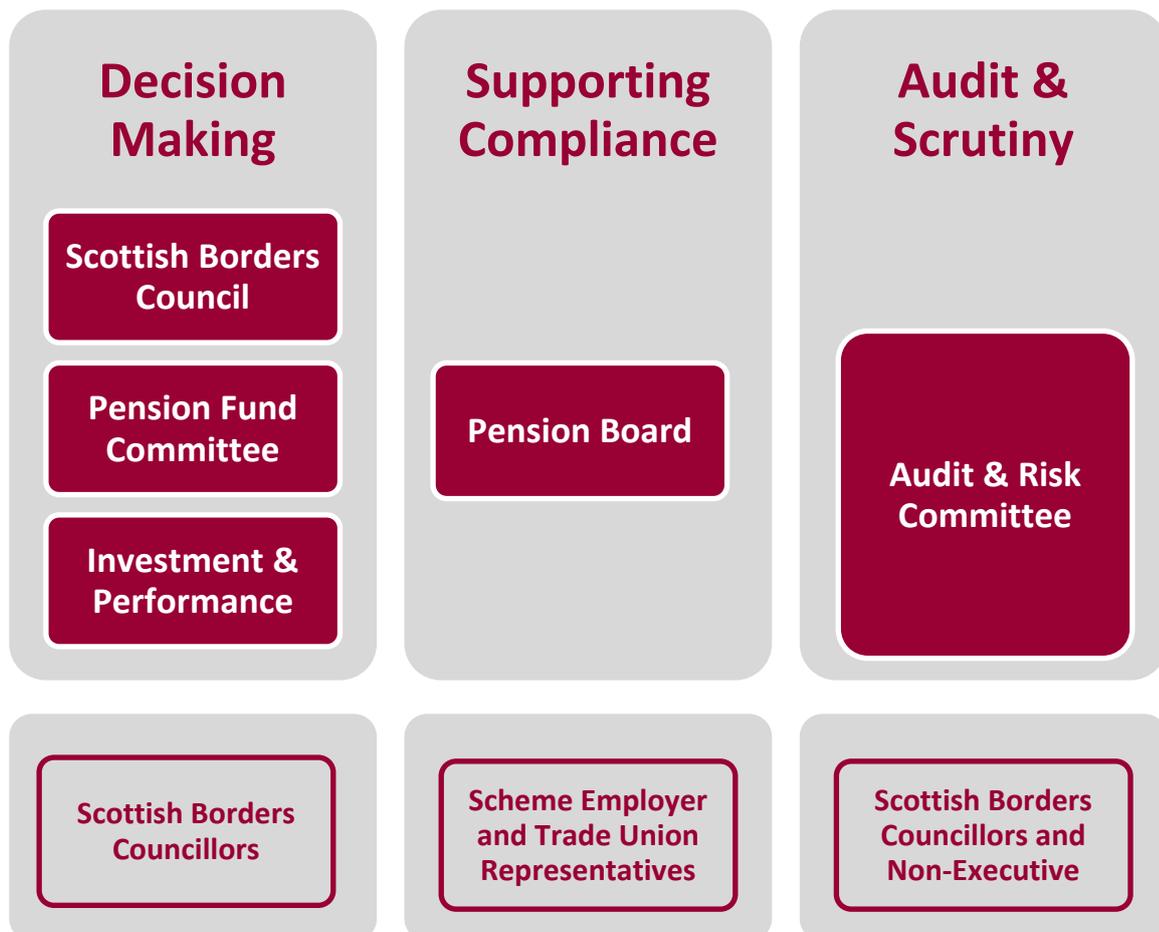
The remit of the Pension Fund Board is to assist the Council (as administering authority) in relation to:

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

This body is made up of four scheme employer representatives and four trade union representatives.

The membership of the Pension Fund Committee comprises elected members from the administering authority, Scottish Borders Council.

The governance of the Fund is as follows:



The Annual Governance Statement and Governance Compliance Statement 2017 can be found on pages 17 to 23.

Knowledge and Skills

The Training Policy for the Fund was updated and agreed on 16 June 2016 reflecting the governance arrangements set out on page 5.

Following the annual training needs assessment, the 2016/17 training programme was developed. It was delivered to all members of both the Pension Fund Committee and the Pension Fund Board and covered the following areas:

- Financial Markets and Investment Products
- Role of Custodian
- General Pension Fund regulatory environment
- LGPS regulatory environment

The Training Policy sets out a target for all members of the Pension Fund Committee and Pension Fund Board in relation to attendance at Committee meetings and training events. The 2016/17 performance is set out below.

| <i>Pension Fund Committee</i> | Number of Members Attending | |
|-------------------------------|------------------------------------|-----------------------------------|
| % Attendance | Committee (Target – 2 meetings) | Training (Target – 2 sessions) |
| 100% (4 sessions or more) | 2 | 2 |
| 75% (3 sessions) | 3 | 3 |
| 50% (2 sessions) | 1 | 1 |
| ≤ 25% (1 or no sessions) | 1 | 1 |

| <i>Pension Fund Board</i> | Number of Members Attending | |
|---------------------------|------------------------------------|-----------------------------------|
| % Attendance | Committee (Target – 2 meetings) | Training (Target – 2 sessions) |
| 100% (4 sessions or more) | 1 | 3 |
| 75% (3 sessions) | 4 | 5 |
| 50% (2 sessions) | 2 | - |
| ≤ 25% (1 or no sessions) | 1 | - |

The Policy also requires members of the Pension Fund Board and Committee to attend at least two meetings per year and two training events. All Members of the Pension Fund Board fully met the training targets set in the Training Policy and 87.5% met the attendance target. 85.7% of the Pension Fund Committee met the training and attendance target.

The Fund is able to demonstrate full compliance with the relevant best practice standards and this is set out in the Governance Compliance Statement from page 19.

Fund's Aims and Objectives

Primary Aim of the Fund

To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefits basis.

Funding Objectives

Set levels of employer contribution that will **build up a fund of assets that will be sufficient to meet all future benefit payments** from the Fund.
Build up the required assets in such a way that ensure levels of **employer contribution that are stable**

Pensions Administration

Deliver a **High Quality Pension Service to Members.**

Governance

Ensure that Scottish Borders Pension Fund is **managed effectively, transparently and remains compliant.**

The Fund approved a Business Plan for the period covering 2016/17 – 2018/19 on 16 June 2016 and this presented the action plan associated with supporting the delivery of these aims and objectives. The key following actions were completed during 2016/17.

- ***Full review of Investment Strategy based on asset and liability modelling completed***
- ***Strategic Asset Allocation review completed and new fund managers appointed***
- ***Custodian procurement complete and services transferred successfully to Northern Trust***
- ***Annual Report and Financial Statements produced within prescribed timescales with no audit qualifications***

A full copy of the Business Plan can be found at www.scotborders.gov.uk/pensions.

MANAGEMENT COMMENTARY

Investment Strategy

The Statement of Investment Principles (SIP) approved on the 18 June 2015 sets out the Fund's current Investment Strategy and a copy of this document can be found at: www.scotborders.gov.uk/pensions. An extract of the key elements of the SIP are included in Annex 1 and the Investment Strategy is summarised below:



The following table indicates the actual position at 31 March 2017 in relation to asset allocation versus the revised benchmark which was agreed as part of the Investment Strategy:

| Asset Class | Asset Allocation at 31/3/16 % | Asset Allocation at 31/3/17 % | Strategic Benchmark % |
|---------------|-------------------------------|-------------------------------|-----------------------|
| UK Equity | 18.8 | 18.2 | 14.0 |
| Global Equity | 46.8 | 49.8 | 33.5 |
| Bonds | 10.8 | 9.7 | 15.0 |
| Alternatives | 17.0 | 16.9 | 22.5 |
| Property | 6.1 | 5.1 | 15.0 |
| Cash | 0.5 | 0.3 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 |

As can be seen from the table on the above there has not been any major changes in the position of the allocation of assets between 2015/16 and 2016/17. The Fund has taken a deliberate decision to run underweight in the Bonds allocation due to the current market conditions. A revised asset allocation was agreed in December 2016 with greater focus on index linked assets including long leased property, with some initial reallocation of fund taking place before 31 March and it is anticipated the required transfers will be implemented during 2017/18

The strategic benchmark represents the asset allocation split as approved in December 2016 and contained with the 2017 Statement of Investment Principles.

MANAGEMENT COMMENTARY

Review of Investment Performance

2016/17 in Numbers

Strong 3 year annualised investment performance of 10.9%, 0.9% above benchmark

Strong 1 year performance to March 2017 with investment returns of 21.5% in the year to a benchmark of 19.5%

Key Successes 2016/17

Investment Markets

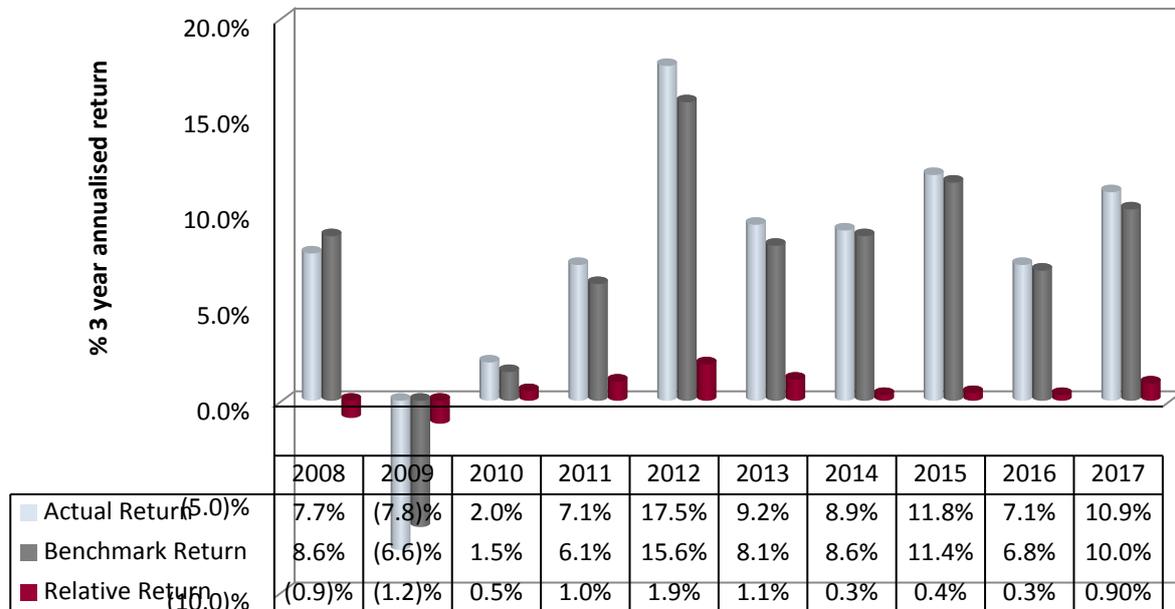
During 2016/17 there was an unprecedented level of volatility across a number of markets due largely to global political events. Over the 1 year rolling period a positive return was experienced in Equities both UK and Global. The 3 year rolling period is still positive compared to its benchmark, although lower due to the lower than benchmark returns during 2015/16. The factors affecting the markets were:

- Election of new US administration with promise of fiscal stimulus led to strong “risk on” environment as global equities rallied from 2015/16 levels.
- Uncertainty around BREXIT resulted in an element of volatility during the year but following the outcome markets have remained positive..
- Corporate bonds performed positively amidst a backdrop of improving global economic growth.

Investment Performance

The Fund's performance against benchmark over the past 10 years is highlighted in the chart below. This chart demonstrates that the rolling 3 year annualised relative return (i.e. Fund's return achieved compared with the benchmark) since 2010 has been positive, and that over the 10 year period there has only been one year of negative returns overall for the Fund and that was during the financial crisis.

3 Year Annualised Returns ending 31 March



Including the impact of the passive currency hedge, the overall fund return over 3 years was 10.9% p.a. versus the benchmark of 10.0% p.a., and the Fund return over 1 year was 21.5% p.a. compared to a benchmark of 19.5% p.a. Excluding the impact of the currency hedge, the fund return over 3 years was 11.9% p.a. versus the benchmark of 11.3% p.a. and the fund return over 1 year was 22.9% p.a. versus the benchmark of 20.9% p.a.

The Fund achieved these favourable returns in 2016/17 despite the volatile period in the markets during the year. The fluctuations in currency and the resulting currency hedge payments pulled the overall performance of the fund down by 1.4% during the year and 1% over the 3 year period. The currency hedge was fully removed from the fund in December 2016.

Each quarter the Investment Consultants, KPMG, reported on the Fund's quarterly performance by individual investment manager and mandate to the Joint Pension Fund Committee, and Pension Board. The Investment and Performance Sub Committee also met each Manager twice during the year giving members an opportunity to gain a deeper understanding of the investments, the decision making process and their performance.

The following table provides an analysis of how the Fund's investments performed against the Funds Benchmark.

| Return on Investment as at 31/3/2017 | 1 year rolling return | | 3 year rolling return | |
|--|-----------------------|----------------------|-----------------------|----------------------|
| | Fund % | Bench ¹ % | Fund % | Bench ¹ % |
| Total Fund including Currency Hedging | 21.5 | 19.5 | 10.9 | 10.0 |
| Total Fund excluding Currency Hedging | 22.9 | 20.9 | 11.9 | 11.3 |
| Global Equities including UK | 31.0 | 29.6 | 16.6 | 15.4 |
| UK Equities | 22.0 | 22.0 | 7.9 | 7.7 |
| UK Government Bonds | 6.6 | 6.6 | 11.6 | 10.5 |
| UK Corporate Bonds | 11.8 | 9.2 | 7.8 | 7.4 |
| Pooled Bonds | 6.9 | 3.3 | n/a | n/a |
| Property | 1.9 | 3.7 | 10.0 | 10.2 |
| Alternatives | 7.5 | 4.5 | 5.4 | 4.5 |

Key:

¹ **Bench:** Benchmark Return which reflects the overall performance of the individual markets available to the manager within the mandate given to them.

The performance of the Fund overall has exceeded the rolling 1 year and 3 year benchmark. The rolling 1 year performance was aided by strong performance from Harris Associates in global equities, off-setting an under performance from Morgan Stanley in global equities and UBS Property portfolios.

Top 20 Direct Equity Holdings at 31 March 2017

| Company | Market Value of Holding £ m | Company | Market Value of Holding £ m |
|----------------------------|-----------------------------|--------------------|-----------------------------|
| Prudential | 6.8 | Glencore | 3.4 |
| Amazon | 6.7 | Allianz SE | 3.3 |
| Royal Caribbean Cruises | 5.2 | Richemont | 3.3 |
| Naspers | 4.6 | CNH Industrial | 3.3 |
| Taiwan Semicon.SPN.ADR.1:5 | 4.2 | Anthem Inc | 3.2 |
| SAP | 4.0 | Credit Suisse | 3.2 |
| Moodys Corp | 3.9 | Daimler | 3.1 |
| ADR Baidu | 3.5 | CRH PLC | 3.0 |
| Alphabet Inc | 3.5 | AIA Group | 2.9 |
| BNP Paribas | 3.4 | Samsung Electronic | 2.8 |

MANAGEMENT COMMENTARY

Funding Position

**2014
Valuation**

**101 % Funding Level for the Fund
Stable Common Employer Contribution Rates at 18%**

Triennial Valuation 2014

The Triennial Funding Valuation as at the March 2014 was undertaken during 2014/15 and the final certified report was presented to the joint meeting of the Pension Fund Committee and Pension Board on 18 June 2015. A copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

The outcome of the 2014 Valuation was a funding level of 101% and a Fund which is no longer in a funding deficit position. As a result there was no change in the overall Fund common employer contribution rate, although some individual employer rates did change for specific circumstances.

| Valuation Date as at 31 March | Past Service Funding Position – Scottish Borders Council Pension Fund | | |
|---------------------------------|---|---------------|-------------|
| | 2008 £m | 2011 £m | 2014 £m |
| Value of the Scheme Liabilities | (310.1) | (402.2) | (487.6) |
| Smoothed Asset Value | 299.2 | 384.8 | 490.5 |
| Surplus/ (Deficit) | (10.9) | (17.4) | 2.9 |
| Funding Level | 96% | 96% | 101% |

Note 23 to the Statement of Accounts on page 46, contains details of the outcome and assumptions used in the 2014 Valuation and the impact that it had on employer contribution rates.

This is the first valuation that has taken into account the move to an LGPS based on career average earnings rather than final salary which came into effect on 1 April 2015.

A major contributing factor to the improvement in the funding level has been the strong investment performance that the Fund has achieved over the past 3 years.

Valuation for Statutory Accounts at 31 March 2017

Note 24 to the Statement of Accounts on page 47, contains the actuarial present value valuation for the Fund as required by the International Accounting Standard (IAS) 26. This shows a net liability for the Fund of £254.2m. However the liabilities for this figure are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation because IAS 19 stipulates a specific discount rate to enable comparability rather than a rate that reflects the market rate for investment returns on the Fund's assets. It is therefore not appropriate to use this as a measure for setting employer contribution rates or assessing the overall long term funding health of the fund.

MANAGEMENT COMMENTARY

Pensions Administration Update

2016/17 in Numbers

18 Scheme Employers
£21.7m of Pension and Other Benefits paid during year
£19.4m of Contributions Received from 4,466 Active Members
and their Employers
6,515 Benefits Statements issued

All Annual Benefit Statements issued by deadline,
incorporating the new CARE benefits
Testing of Business World fro processing Pension payment
achieved in advance of 1st April 2017 implementation

Key Successes 2016/17

Scheme Employer Liaison

The Scheme Employer Liaison meeting was held during 2016/17 and covered the requirements for the year end returns, requirements for the triennial valuation and an overview of investments. The opportunity was also taken to reinforce the scheme changes and the impact of these for the Fund and employers.

The good relationship with the main Scheme Employers also has resulted in the continued involvement of 4 employers as representatives in the new Pension Board.

MEMBERSHIP

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Teachers are not included as they come within other national pension schemes. There are 18 employer organisations within the Fund including the Council itself and membership by employer is analysed over the page.

| Membership Details as at 31 March 2017 | Number of Contributors | Pensioners | Deferred Pensioners | Total |
|---|------------------------|--------------|---------------------|---------------|
| Scheduled Bodies: | | | | |
| Scottish Borders Council | 3,246 | 3,067 | 2,344 | 8,657 |
| Borders College | 182 | 66 | 96 | 344 |
| Visit Scotland (Scottish Borders) | 1 | 6 | 9 | 16 |
| | 3,429 | 3,139 | 2,449 | 9,017 |
| Active Admitted Bodies: | | | | |
| Scottish Borders Housing Association | 100 | 84 | 67 | 251 |
| LIVE Borders | 209 | 16 | 29 | 254 |
| SBCares | 673 | 43 | 89 | 805 |
| Jedburgh Leisure Facilities Trust | 2 | | 2 | 4 |
| L&B Community Justice Authority | 2 | 1 | 5 | 8 |
| Amey Community Limited | 6 | 5 | 3 | 14 |
| CGI | 45 | | | 45 |
| | 1,037 | 149 | 195 | 1,381 |
| Admitted Bodies with No Active Contributing Members: | | | | |
| Gala Youth Project | | 1 | 1 | 2 |
| Scottish Borders Careers | | 1 | 3 | 4 |
| Others | | 24 | 4 | 28 |
| | 0 | 26 | 8 | 34 |
| Total | 4,466 | 3,314 | 2,652 | 10,432 |

Member Engagement

This has been identified as an area for development within the Pension Fund Business Plan 2016/17 – 2018/19. The development of a Communication Policy and associated action plan is included as an action for delivery within the next three year period. This will include exploiting the use of the web to engage with members via self-service interaction with the new pension administration system and improved information being available on the website.

Trade Unions as member representatives have also shown good engagement through their attendance at the Pension Fund Committee and also by securing 4 representatives for the Pension Board and identifying several substitutes.

Pensions Administration Strategy

The Fund's Pensions Administration Strategy was approved in September 2015. This sets out scheme employer and administering authority roles and responsibilities and defines the service performance standards.

How have we done?

A comprehensive report on Pensions Administration performance for 2016/17 was presented to the joint meeting of the Pension Fund Committee and Pension Board on 15 June 2017 and a copy of the report is available via the Council's committee papers website <http://scottishborders.moderngov.co.uk/>.

Administering Authority Performance Measures

Many of the performance standards have been met in 2016/17 and are comparable with the positive performance in the previous year. During 2015/16 the target performance days for responding to general queries was reduced from 10 to 5 days and 100% of queries were replied to within this new target.

Service Standard - Estimates

| Standard | Volume of Requests | Target Response | 2016/17 % on Target |
|--------------------------|--------------------|-----------------|---------------------|
| Estimates – Transfer In | 80 | 20 Days | 21.25% |
| Estimates – Transfer Out | 59 | 20 Days | 25.42% |
| Estimate – All Other | 875 | 10 Days | 90.40% |
| Total Estimates | 1,014 | | |

Service Standard – Query Response Turnaround

| Standard | 2015/16 | | 2016/17 | |
|--|-------------------|-------------|-------------------|-------------|
| | Volume of Queries | % on Target | Volume of Queries | % on Target |
| Query responses – within 5 working days | 1,075 | 100% | 972 | 100% |
| Benefit Statement queries – within 20 working days | 55 | 100% | 78 | 46% |
| Total | 1,130 | | 1,050 | |

Service Standard - Other

| Area | Measure | Completed |
|---------------------------|------------------|-----------|
| Employer Liaison Meetings | 1 per annum | Yes |
| Benefit Statements | by end of August | Yes |

Employer Performance Measures

Service Standard – Employer Notifications

| Standard | Volume of Notifications | Target % | % Achieved |
|--|-------------------------|----------|------------|
| New starts notification - within 20 working days | 530 | 90% | 100% |
| Changes notified – within 20 working days | 571 | 90% | 100% |
| Retirement info – at least 20 working days before | 206 | 90% | 100% |
| Early leaver notification – within 20 working days | 544 | 90% | 100% |
| Death in service notification – within 10 working days | 3 | 90% | 100% |

Service Standard – Pension Contribution Payments

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

| Employer Body | Number of Monthly Payments Received | | |
|--------------------------------------|---|------|-----------|
| | By Target Date (19 th of Month) | Late | % On Time |
| Scottish Borders Council | 12 | - | 100% |
| Visit Scotland | 12 | - | 100% |
| Borders College | 12 | - | 100% |
| Scottish Borders Housing Association | 12 | - | 100% |
| Jedburgh Leisure Facilities Trust | 10 | 2- | 83% |
| LIVE Borders | 6 | 6- | 50% |
| AMEY Community Limited | 12 | - | 100% |
| SBCares | 12 | | 100% |
| CGI | 6 | | 100% |

During 2016/17 there was an increase in the number of payments being received late when compared to 2015/16, due to the repeat nature of late payments made by Live Borders they were written to and reminded of their responsibility to make payment on time. The payments dates continue to be monitored on a monthly basis.

David Robertson
Chief Financial Officer
Scottish Borders Council

30 June 2017

GOVERNANCE

Annual Governance Statement 2016/17

Introduction

The Local Government Pension Scheme (Scotland) Regulations 2014 require Administering Authorities to measure their governance arrangements set out against standards set by Scottish Ministers. These standards are established via a number of best practice principles.

The key document summarising the governance arrangements for the Pension Fund is the Governance Policy and Compliance Statement (as amended on 18 June 2015) which is available on the website www.scotborders.gov.uk/pensions.

The Governance Framework

The key elements of the Pension Fund's governance arrangements include:

- a) Scottish Borders Council is the Administering Authority for the Local Government Pension Scheme set up for the Scottish Borders geographic area.
- b) The Council has delegated its responsibilities as Scheme Manager to the Pension Fund Committee. The members of the Committee act as quasi-trustees and oversee the management of the Scottish Borders Council Pension Fund.
- c) The introduction of the Pensions Board, which meets jointly with the Committee, formalises the involvement of the employers and trade unions representing the membership. All members of the Committee and Board are covered equally by the Training Policy to give them full opportunity to contribute effectively.
- d) The approval the first Pension Fund Business Plan covering the period 2016/17 – 2018/19 to improve planning and monitoring of the performance of the Fund and to demonstrate the “Myners Principle” relating to effective decision making. The business plan supports the delivery of the objectives of the Fund which are to deliver a high quality pension service to members that was managed effectively, transparently and was compliant.
- e) The Pension Fund appoints professional advisers and external service providers.
- f) The system of internal financial control operates within a financial strategy and is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular, the system includes comprehensive accounting systems that record income and expenditure for both member and investment activities, regular reviews of investment reports that measure investment returns against agreed benchmarks, regular reviews of investment manager reports that measure performance against agreed targets, and independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.
- g) The Pension Fund follows the Council's approach to risk management and assesses risk using a scoring methodology and subjects the risk register to regular review.
- h) The Chief Financial Officer (Section 95 officer) for the Council is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate professional advice is sought and is given to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

- i) The Chief Officer HR for the Council is responsible for the pension benefit policy oversight and day-to-day administration of member benefits in accordance with statutory legislation and the approved pensions' administration strategy.
- j) The Chief Officer Audit & Risk (Head of Internal Audit) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review in conformance with the Public Sector Internal Audit Standards.
- k) The Pension Fund responds to findings and recommendations of external audit and internal audit, as appropriate. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council as Administering Authority of the Pension Fund conducts an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Risk Committee whose role includes high level oversight of the Pension Fund's governance, risk management, and internal control arrangements.

The review is informed by the work of an officer assessment of the Fund's compliance with the best practice principles and the detail of this is set out in the Governance Compliance Statement 2016/17, Annex 1 (pages 19 – 23).

The review of the effectiveness of the system of internal financial control is informed by the work of professional accountancy staff within the Council, the assurances from the Chief Officer Audit & Risk's annual internal audit opinion and report on the work of internal audit, and by the external auditors' reports.

The review cycle for the risk register is undertaken in line with agreed practice and the current status is summarised in the Risk Management Statement.

The conclusion from the review activity outlined above is that in 2016/17 the Pension Fund continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective.

Improvement Areas of Governance

The review has identified some areas where further improvements can be made to enhance the existing governance arrangements:

- a) Development of a communications plan to improve awareness and understanding of stakeholders and encourage maximum membership of the Fund.
- b) Continue to monitor the implications of new national policy on freedom of choice of pension sums.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council Pension Fund's systems of internal control and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Pension Fund's Governance Policy is operating effectively and that the Pension Fund fully complies with the best practice principles as demonstrated in the Governance Compliance Statement, Annex 1 (pages 19 – 23).

GOVERNANCE

Governance Compliance Statement 2016/17

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

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

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

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

| Principle | | Full Compliance | Comments |
|------------------------------------|---|-----------------|---|
| C | The Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. | Yes | Annual Training Plan produced and logs of training are being maintained. |
| Meetings (frequency/quorum) | | | |
| A | An administering authority's main committee or committees meet at least quarterly. | Yes | The joint meetings of the Committee and Board are quarterly. |
| B | An administering authority's secondary committee or panel meet at least twice a year and is synchronised with dates when the main committee sits. | Yes | Investment Sub-Committee meets every six months in between main joint Committee/Board meetings. |
| C | An administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Not applicable | Pension Board formally provides for the stakeholders engagement. |
| Access | | | |
| A | Subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Yes | Papers sent to all Committee/Board members detailed in Scheme of Administration. |

| Principle | | Full Compliance | Comments |
|------------------|--|-----------------|---|
| Scope | | | |
| A | Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Yes | The Scheme of Administration sets out that the Committee as having a remit which covers all matters relating the Council's role as the Administering Authority for the Scottish Borders Council Pension Fund, within the terms of all relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator. |
| Publicity | | | |
| A | Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Yes | Minutes and Public papers available via Council website, as are various governance and scheme policy documents. |

GOVERNANCE

Risk Management Statement

The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately.

The Risk Register for the Pension Fund has been developed in line with the Council's approach to risk management and assesses risk using a scoring methodology based on likelihood and impact.

A full risk review was undertaken in June 2016 and subsequent reviews have followed the Council's cycle, as shown below was followed:

| Level of risk (Inherent risk score) | Reporting and Review Cycle |
|--|--|
| RED -Very High (15-25) | 3 monthly reviews of action progress throughout the year |
| AMBER – High (6-12) | 6 monthly review |
| GREEN – Low (1-5) | Annual review |

The headings under which the Council consider risk are set out below and the analysis of the level and number of risks are set out below:

| Risk Category | Risk Assessment | | | | | |
|------------------------------|-----------------|-----------|----------|----------------|-----------|-----------|
| | Before Controls | | | After Controls | | |
| | Red | Amber | Green | Red | Amber | Green |
| Asset & Investment | 3 | 6 | - | - | 7 | 2 |
| Employer | - | 4 | - | - | 3 | 1 |
| Resource & Skill | - | 5 | - | - | 3 | 2 |
| Liquidity | 2 | 4 | - | 1 | 4 | 1 |
| Administrative | - | 8 | - | - | 3 | 5 |
| Regulatory & Compliance | 1 | 3 | - | 1 | 1 | 2 |
| Reputation | 1 | 4 | - | - | 2 | 3 |
| Total Number of Risks | 7 | 34 | - | 2 | 23 | 16 |

The two risks that remain at red assessment i.e. high risk as at 31 March 2017 are:

- ***Change in the composition of the Pension Fund Membership between active/deferred/pensioners***
- ***Legislation Changes impacting on the Fund***

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Scottish Borders Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- Manage the affairs of the Fund to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts of the Fund (in Scotland, the audited accounts must be laid before a meeting of the Authority within two months of receipt of the audit certificate)

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014, as updated by the Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) and supporting guidance issued by the Scottish Government.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Scottish Borders Council Pension Fund as at 31 March 2017, and of its income and expenditure for the year ended 31 March 2017.

David Robertson (CPFA)
Chief Financial Officer
Scottish Borders Council

30 June 2017

STATEMENT OF ACCOUNTS 2016/17 FUND ACCOUNT

| Restated 2015/16 £'000 | | 2016/17 £'000 | Notes |
|------------------------------|--|------------------|-------|
| | Dealings with members, employers and others directly involved in the scheme: | | |
| 18,642 | Contributions | 18,373 | 7 |
| 411 | Transfers in from other pension funds | 1,074 | 8 |
| 19,053 | | 19,447 | |
| (20,357) | Benefits | (19,986) | 9, 10 |
| (667) | Payments To And On Account Of Leavers | (1,690) | 11 |
| (21,024) | | (21,676) | |
| (1,971) | Net Additions/(Withdrawals) from Dealings with Members | (2,229) | |
| (3,272) | Management expenses | (3,555) | 12 |
| | Return on Investments: | | |
| 6,451 | Investment Income | 8,292 | 13 |
| (4,282) | Profits and (Losses) on Disposal of Investments and Changes in the Market Value of Investments | 110,098 | 14 |
| (151) | Taxes on Income | (113) | |
| 2,018 | Net Return on Investments | 118,277 | |
| | | | |
| (3,225) | Net Increase/(Decrease) in the Fund during the Year | 112,493 | |
| 545,125 | Opening Net Assets of the Scheme | 541,900 | |
| 541,900 | Closing Net Assets of the Scheme | 654,393 | |

NET ASSETS STATEMENT as at 31 March 2017

| Restated 2016 £'000 | | 2017 £'000 | Notes |
|---------------------------|---|----------------|-------|
| | Investment Assets | | |
| 203,952 | Equities | 257,512 | 16 |
| | Managed Funds: | | |
| 32,546 | Property | 32,169 | |
| 82,947 | Global Equities | 105,284 | |
| 62,415 | UK Equities- Passive | 74,744 | |
| 18,643 | Bonds | 20,379 | |
| 39,913 | Diversified Fixed Income | 42,814 | |
| 92,526 | Alternatives | 110,322 | |
| 1,674 | Open Ended Investment Contracts | 1,825 | |
| 1,447 | Derivatives – Forward Foreign Exchange | - | |
| 5,715 | Cash Deposits | 8,158 | |
| 541,778 | Total Investment Assets | 653,207 | |
| 926 | Other Investment Balances | 1,355 | |
| | Current Assets & Liabilities | | |
| 1,365 | Cash Balances | 1,507 | |
| 210 | Contributions due from Employers | 251 | |
| 387 | Other Current Assets | 340 | |
| (2,766) | Other Current Liabilities | (2,267) | |
| 122 | | 1,186 | |
| 541,900 | Net Assets | 654,393 | |

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in the Actuarial Statement in Note 21.

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 29 September 2016.

David Robertson CPFA
Chief Financial Officer
30 June 2017

NOTES TO THE STATEMENT OF ACCOUNTS

1 DESCRIPTION OF THE FUND

A) GENERAL

The Scottish Borders Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Scottish Borders Council.

The LGPS scheme is governed by the Public Service Pensions Act 2013. The fund is administered by the Council in accordance with the following secondary legislation:

- The Local Government Pension Scheme (Scotland) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014
- The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010
- The Local Government Pension Scheme (Governance)(Scotland) Regulations 2015

It is a contributory defined benefit pension scheme administered by Scottish Borders Council to provide pensions and other benefits for pensionable employees of Scottish Borders Council and a range of other scheduled and admitted bodies within the Scottish Borders area.

Organisations participating in the Fund include:

- Scheduled Bodies – which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted Bodies – which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

B) FUNDING

Pensions and other benefits are funded by contributions from employees, employers and investment earnings.

The Pension Fund is subject to a triennial valuation by an independent, qualified Actuary, whose report indicates the required future employer's contributions, which for 2016/17 were based on the valuation undertaken as at the 31 March 2014 as amended by specific changes agreed by the Committee relating to an individual employer. The overall contribution rate was 18% for the Fund as a whole; however employer contribution rates during 2016/17 ranged from 15.5% to 19.0%.

Contributions from active members of the Fund are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier. These rates are made in accordance with the 2008 Regulations and ranged from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2017. *From 1 April 2015 these contributions will be based on the LGPS Regulations 2014 in line with the updated LGPS Scheme.*

C) BENEFITS

Prior to 1 April 2015, pension benefits under the LGPS have been based on final pensionable pay and length of pensionable service as summarised below:

| | Service before 1 April 2009 | Service after 31 March 2009 until 31 March 2016 |
|-----------------|--|---|
| Pension | Each year worked is worth 1/80 th x final pensionable salary | Each year worked is worth 1/60 th x final pensionable salary |
| Lump Sum | Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A one off payment of £12 is paid for each £1 of pension given up. |

From the 1 April 2015, the scheme will become a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements summarise the Fund's transactions for the 2016/17 financial year and its position as at the 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. In addition, consideration has been given to the *Local Government Pension Scheme Fund Accounts 2016/17 - example accounts and disclosure checklist* published by the Chartered Institute of Public Finance Accountants (CIPFA).

The financial statements also present the net assets available to pay pension benefits. These do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. Local authorities responsible for administering a pension fund that forms part of the LGPS are required by The Local Government Pension Scheme (Scotland) Regulations 2014 to publish a pension fund annual report, which is required to include a Fund Account and Net Assets Statement prepared in accordance with proper accounting practices.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account

Accruals Basis

In accordance with the Code, the Fund's Financial Statements are generally prepared on an accruals basis. The Net Assets Statement does not include liabilities to pay pensions and benefits after the end of the Fund year and the accruals concept is applied accordingly. Receipts and payments in respect of the transfer of benefits from and to other schemes are treated on a cash basis.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when the member liability is accepted or discharged.

Investment Income

i) Interest income

Interest is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Sch 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administration Expenses

All administration expenses are accounted for on an accruals basis. Central Support Costs from Scottish Borders Council have been recharged to the Fund on the basis of time spent by staff on the service.

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates or subscription agreements governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Assets Statement

Valuation of Investments

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments – Investments listed on recognised Stock Exchanges are valued at the bid price on the closing business day.
- Unquoted investments – Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The

valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement

- Pooled investment vehicles – are valued at bid price on the closing business day

The processes of the fund managers, who are listed in Note 15, page 38 are subject to external audit and verification and this is reported in their respective assurance reports on internal controls (in accordance with Technical Release AAF 01/06).

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks (in particular currency) arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of the derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 26, calculated in line with IAS 19 and relevant actuarial standards.

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 21, page 47).

Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions are invested separately from the main Fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. All AVCs are managed by Standard Life and the value at 31 March 2017 was £1.037m (2015/16 £0.846m). During the year contributions totalled £0.153m, while payments out of the AVC fund totalled £0.056m. In accordance with regulation 4(2) (b) of the Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2009 (SI 2009/3093), AVCs are not included in the Pension Fund accounts.

4 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICES

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2017 was £17.8m.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary (currently Barnett Waddingham), with annual updates in the intervening years. The methodology used is in line with the accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 21, page 47. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the financial statements at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|--|--|
| Actuarial Present Value of Promised Retirement Benefits (Note 21) | Estimation of the net liability to pay pensions in the future depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham is engaged to provide the Fund with expert advice about the assumptions to be applied. | <p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <ul style="list-style-type: none"> - A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £44m - A 0.5% increase in the Consumer Price Index assumption for inflation would increase the value of the liabilities by £27m - A 0.5% increase in the long-term rate of salary increase would increase value of the liabilities by £6m, and - A 1.25% increase in assumed life expectancy would increase the deficit by £5m <p><i>Source – Triennial Valuation 2014</i></p> |
| Portfolio of alternative assets held in a fund of funds | The alternative assets fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds directors or independent administrators judge necessary. The fund of funds is not publically listed and as such there is a degree of estimation involved in the valuation. | The total portfolio of alternative assets held in a fund of funds is valued in the Financial Statements at £98.7m. There is a risk that this investment may be under- or overstated in the accounts. |

6 EVENTS AFTER THE REPORTING DATE

There are no known events since the 31 March 2017

7 CONTRIBUTIONS RECEIVABLE

| 2015/16 | | | | 2016/17 | | |
|--------------------|------------------|----------------|-----------------------------|--------------------|------------------|----------------|
| Employers £'000 | Members £'000 | Total £'000 | | Employers £'000 | Members £'000 | Total £'000 |
| 13,373 | 4,401 | 17,774 | Normal | 13,627 | 4,514 | 18,141 |
| 772 | - | 772 | Special/Pension Fund Strain | 202 | - | 202 |
| - | 96 | 96 | Additional Voluntary | - | 30 | 30 |
| 14,145 | 4,497 | 18,642 | Total | 13,829 | 4,544 | 18,373 |

8 TRANSFERS IN

There were no group transfers in to the scheme during 2016/17 or 2015/16 and the total of £1.074m (2015/16: 0.411m) represents the total of transfer values in respect of individual members joining the scheme.

9 BENEFITS PAYABLE

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------------|------------------|
| 15,234 | Pension Payments | 15,910 |
| 5,123 | Lump Sums/Death Benefits | 4,076 |
| 20,357 | | 19,986 |

10 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

| 2015/16 | | | 2016/17 | |
|---------------------------|-----------------------------------|--------------------------|---------------------------|-----------------------------------|
| Benefits Payable £'000 | Contributions Receivable £'000 | | Benefits Payable £'000 | Contributions Receivable £'000 |
| 19,340 | 14,811 | Scottish Borders Council | 18,869 | 13,684 |
| 261 | 594 | Scheduled Bodies | 275 | 657 |
| 756 | 3,237 | Admitted Bodies | 843 | 4,032 |
| 20,357 | 18,642 | Total | 19,987 | 18,373 |

11 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|---------------------------------------|------------------|
| 68 | Contributions Returned | 88 |
| 599 | Individual Transfers to Other schemes | 1,602 |
| 667 | | 1,690 |

12 MANAGEMENT EXPENSES

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------------------|------------------|
| 301 | Administrative costs | 263 |
| 2,754 | Investment management expenses | 3,051 |
| 217 | Oversight and governance costs | 241 |
| 3,272 | Total | 3,555 |

12(a) INVESTMENT MANAGEMENT EXPENSES

| 2015/16 £'000 | | 2016/17 £'000 |
|------------------|--------------------------|------------------|
| 2,543 | Management Fees | 2,878 |
| - | Performance Related Fees | - |
| 51 | Transaction Costs | 59 |
| 145 | Custody Fees | 102 |
| 15 | Other Fees | 12 |
| 2,754 | Total | 3,051 |

13 INVESTMENT INCOME

| Restated 2015/16 £'000 | | 2016/17 £'000 |
|------------------------------|--|------------------|
| (5,661) | Dividends from equities | (7,142)) |
| (771) | Income from Pooled Investment Vehicles | (1,133)- |
| (19) | Interest on Cash Deposits | (17) |
| (6,359) | | (8,292) |

14 (PROFITS) AND LOSSES ON DISPOSAL OF INVESTMENTS AND REALISED CURRENCY PROFITS AND LOSSES

| Restated 2015/16 £'000 | | 2016/17 £'000 |
|------------------------------|------------|------------------|
| 1,025 | Realised | 17,514 |
| 2,494 | Unrealised | 92,584 |
| 3,519 | | 110,098 |

15 AUDITOR'S REMUNERATION

In 2016/17 the agreed audit fee for the year was £19,710. There were no other fees during 2016/17 paid to Audit Scotland, the Pension Fund's auditor.

16 ANALYSIS OF NET INVESTMENT ASSETS

| Market Value at 31 March 2016 | | | | Market Value at 31 March 2017 | | |
|-------------------------------|----------------|----------------|-------------------------------------|-------------------------------|----------------|----------------|
| UK | Overseas | Total | | UK | Overseas | Total |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | | Investment Assets | | | |
| 46,438 | 157,515 | 203,953 | Equities | 53,389 | 204,219 | 257,608 |
| | | | Managed Funds: | | | |
| 32,546 | - | 32,546 | Property | 32,072 | | 32,072 |
| 64,089 | 82,947 | 82,947 | Equities | 76,569 | 105,284 | 181,853 |
| 18,643 | - | 18,643 | Bonds | 20,379 | | 20,379 |
| - | 39,913 | 39,913 | Diversified Fixed Income | | 42,814 | 42,814 |
| - | 92,526 | 92,526 | Alternatives | | 110,322 | 110,322 |
| 3,936 | 1,778 | 5,714 | Cash Deposits | 6,826 | 1,332 | 8,158 |
| 165,652 | 374,679 | 540,331 | Total Investment Assets | 189,235 | 463,971 | 653,206 |
| | | | Investment Liabilities | | | |
| 1,447 | - | 1,447 | Derivative - Passive Currency Hedge | | | |
| 167,099 | 374,679 | 541,778 | Net Investment Assets | 189,235 | 463,971 | 653,206 |

Alternative asset portfolio at 31 March 2017

The investment in the alternative asset portfolio, managed by LGT Capital Partners and valued at £98.734m at 31 March 2017, is allocated to the following asset classes at 31 March 2016: Convertible Bonds, Emerging Markets Debt, High Yield (Bonds), Commodities, Insurance-Linked Securities, Property, GTAA/Global Macro, Event Oriented, Market Neutral, Thematic Opportunities, Infrastructure and Private Equity.

Investment Movement Reconciliation

| | Opening Market Value | Purchases & Derivative Payments | Sales & Derivative Receipts | Other Movements | Closing Market Value |
|---|----------------------|---------------------------------|-----------------------------|-----------------|----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Investment Assets | | | | | |
| Equities | 203,952 | 46,538 | (43,747) | 50,805 | 257,548 |
| Managed Funds: | | | | | |
| Property | 32,546 | 7,888 | (3,741) | (4,524) | 32,169 |
| Equities | 147,036 | 109 | (1,240) | 35,948 | 181,853 |
| Bonds | 18,643 | | | 1,736 | 20,379 |
| Diversified Fixed Income | 39,913 | 1,133 | | 1,768 | 42,814 |
| Alternatives | 92,526 | 11,588 | | 6,208 | 110,322 |
| Derivative Contracts: | | | | | |
| Passive Currency Hedge | 1,447 | | (1,447) | | 0 |
| Net Investments exc. Cash Deposits | 536,063 | 67,256 | 50,175 | 91,941 | 645,085 |

Significant Transactions during the year:

Following strategic asset allocation review £11.5m initial funding made to Private credit allocation with Alternatives.

Investments representing more than 5% of Net Assets

The value of the following investments exceeds 5% of the total value of the net assets of the Pension Fund at 31 March 2017. Each of the investments comprises units in a managed fund.

| Value as at 31 March 2016 | £'000 |
|------------------------------------|---------|
| M&G Alpha Opportunities Fund | 42,814 |
| Morgan Stanley Global Brands Fund | 105,284 |
| LGT Crown SBC Segregated Portfolio | 98,734 |
| UBS UK Passive Equities | 74,744 |

Investment Analysed by Fund Manager

Investment Management was undertaken on behalf of the Fund during the financial year by six firms of investment managers: UBS Global Asset Management, Baillie Gifford & Co, Morgan Stanley, Harris Associates and M&G, Partners Group and LGT Capital Partners. The Fund's passive currency hedging programme to December 2017 was provided by State Street Global Advisors. As at 31 March 2016 the market value of the assets under management, broken down by manager and mandate (including cash held within each mandate) was:

| 31-Mar-16 | | | | 31-Mar-17 | |
|----------------|---------------|-----------------|---------------------------------------|----------------|---------------|
| £'000 | % | | | £'000 | % |
| 62,415 | 11.49 | UBS | UK Equities - Passive | 74,745 | 11.44 |
| 39,111 | 7.20 | Baillie Gifford | UK Equities | 44,112 | 6.75 |
| 120,370 | 22.16 | Baillie Gifford | Global Equities | 151,003 | 23.12 |
| 50,278 | 9.26 | Harris | Global Equities | 69,221 | 10.60 |
| 82,947 | 15.27 | Morgan Stanley | Managed Fund - Global Equities | 105,284 | 16.12 |
| 39,913 | 7.35 | M&G | Managed Fund - Diversified Income | 42,814 | 6.55 |
| 18,643 | 3.43 | M&G | Managed Fund - Bonds | 20,379 | 3.12 |
| 32,812 | 6.04 | UBS | Property | 33,257 | 5.09 |
| 92,337 | 17.00 | LGT | Managed Fund - Alternatives | 98,734 | 15.12 |
| 1,447 | 0.27 | State Street | Derivatives - Passive Currency Hedge | | |
| | | Partners Group | Managed Fund – Private Credit | 11,588 | 1.77 |
| 2,871 | 0.53 | Internal | Internally Managed Cash & Investments | 2,070 | 0.32 |
| 543,144 | 100.00 | | | 653,207 | 100.00 |

The benchmarks and performance targets for each manager as at the 31 March 2017 are contained in Annex 1, Section 4.3, page 65 for information.

Fund Performance

The total Fund return for the year was 21.5% including the currency hedging. The hedging arrangements had a negative impact, decreasing the return by 1.4%. Excluding the currency hedging, the return on the Fund was 22.9% with a relative return over benchmark of 2.0%.

Over three years the Fund has generated an annualised return of 10.9% per annum, including the currency hedging, with a relative return over benchmark of 0.9% per annum. Further information on this is contained in the Management Commentary – Review of Investment Performance, page 9.

17 STOCK LENDING

As at 31 March 2017 no stock had been released to a third party under a stock lending arrangement.

18 FAIR VALUE HIERARCHY

Assets and liability valuations are classified into three levels according to quality and reliability of information used to determine fair values.

- Level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Prices are quoted at bid prices.
- Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

| Values as at 31 March 2017 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|--|---------------------|-------------------------|--------------------------------------|----------------|
| | level 1 £'000 | level 2 £000's | level 3 £000's | £000's |
| Designated as fair value through fund account | 494,027 | 34,427 | 116,547 | 645,001 |
| Loans & receivables | 6,099 | 5,015 | 38 | 11,152 |
| Financial liabilities at fair value through fund account | | (1,490) | | (1,490) |
| Net Investment Assets | 500,126 | 37,952 | 116,585 | 644,663 |

| Values as at 31 March 2016 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
|--|---------------------|-------------------------|--------------------------------------|----------------|
| | level 1 £'000 | level 2 £000's | level 3 £000's | £000's |
| Designated as fair value through fund account | 407,870 | 34,220 | 92,526 | 534,616 |
| Loans & receivables | 4,295 | 2,786 | 1,447 | 8,528 |
| Financial liabilities at fair value through fund account | - | - | - | - |
| Net Investment Assets | 412,165 | 37,006 | 93,973 | 543,144 |

19 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

RISK AND RISK MANAGEMENT

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for managing the Fund's risk rests with the Pension Fund Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces and the key messages from this process are covered in the Risk Management Statement on page 24. The Market Risk and Credit Risk aspects below come under the risk category of Assets and Investment in the Risk Register, whilst Liquidity Risk is a separate category of risk.

In addition, the Funding Strategy Statement and Statement of Investment Principles address risk management considerations as they apply to the particular objectives of each document.

A) MARKET RISK

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its Investment Consultants undertake appropriate monitoring of market conditions and benchmark analysis.

(i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's independent provider of performance and analytical data (WM), it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

| Asset Type | Potential Market Movement +/- (% p.a.) |
|------------------------|---|
| UK Equities | 10.76 |
| Global Pooled Equities | 10.72 |
| UK Bonds | 6.84 |
| Cash | 0.01 |
| Property | 1.88 |
| Alternatives | 1.97 |

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price could have been as follows:

| Asset Type | Value as at 31 Mar 17 £'000 | +/- % Change* | Value on Increase £'000 | Value on Decrease £'000 |
|---|-----------------------------------|------------------|-------------------------------|-------------------------------|
| UK Equities | 118,857 | 20.2 | 142,866 | 94,848 |
| Global Equities | 325,508 | 20.5 | 392,238 | 258,779 |
| Total Bonds | 63,193 | 6.1 | 67,048 | 59,338 |
| Cash | 2,070 | 1.1 | 2,093 | 2,047 |
| Property | 33,257 | 13.0 | 37,580 | 28,934 |
| Alternatives | 110,322 | 17.9 | 130,070 | 90,574 |
| Total Assets Exc. Currency Hedge | 653,207 | | 771,894 | 534,520 |

*The percentage change for total assets includes the impact of correlation across asset classes.

(ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Consultants, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2017 is set out below and includes investment and operational cash balances. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset Type | At 31 March 2016 £'000 | At 31 March 2017 £'000 |
|---------------------------|------------------------------|------------------------------|
| Cash and Cash Equivalents | 7,080 | 9,665 |
| Fixed Interest Securities | 58,556 | 63,193 |
| | 65,636 | 72,858 |

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

| Asset Type | Value as at 31 Mar 17 £'000 | Effect on Asset Values | |
|---------------------------|--------------------------------|---|--|
| | | Favourable Rate Move + 100 BPS £'000 | Unfavourable Rate Move -100 BPS £'000 |
| Cash and Cash Equivalents | 9,665 | 97 | (97) |
| Fixed Interest Securities | 63,193 | 632 | (632) |
| | 72,858 | 729 | (729) |

(iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in equities overseas that are denominated in currencies other than £UK. To help manage this risk, the Fund hedges 50% of its exposure to equities denominated in certain major foreign currencies through the operation of a passive currency overlay programme, operated by State Street.

The following table summarises the Fund's currency exposure at 31 March 2016:

| Currency exposure by asset type | As 31 March 2016 £'000 | As 31 March 2017 £'000 |
|---------------------------------|---------------------------|---------------------------|
| Overseas Equities | 243,370 | 309,504 |
| Diversified Bonds | 39,913 | 42,814 |
| Alternatives | 92,526 | 110,322 |
| Cash - Foreign Currency | 1,778 | 1,332 |
| Total | 377,587 | 463,972 |

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with KPMG the likely volatility associated with foreign exchange movements on an individual currency basis is shown on the table on the following page. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket'.

| Currency | Value as at 31 Mar 17 £'000 | +/- % Change | Value on Increase £'000 | Value on Decrease £'000 |
|-------------------------|--------------------------------|-----------------|----------------------------|----------------------------|
| Australian Dollar | 970 | 12.15% | 1,088 | 852 |
| Brazilian Real | 991 | 17.55% | 1,165 | 817 |
| Canadian Dollar | 1,197 | 10.24% | 1,319 | 1,074 |
| Chinese Yuan | 1,886 | 10.33% | 2,081 | 1,691 |
| Danish Krone | 2,404 | 9.22% | 2,625 | 2,182 |
| EURO * | 41,461 | 9.25% | 45,471 | 37,771 |
| Hong Kong Dollar | 4,114 | 10.29% | 4,538 | 3,691 |
| Japanese Yen * | 12,598 | 15.19% | 14,512 | 10,684 |
| Mexican Peso | 2,303 | 13.54% | 2,615 | 1,991 |
| Norwegian Krone | 1,285 | 11.68% | 1,435 | 1,135 |
| South African Rand | 5,005 | 17.25% | 5,868 | 4,141 |
| South Korean Won | 907 | 14.14% | 1,035 | 779 |
| Swedish Krona | 17,402 | 11.49% | 19,402 | 15,403 |
| Swiss Franc | 6,313 | 12.23% | 7,085 | 5,541 |
| Taiwan Dollar | 611 | 10.01% | 672 | 550 |
| US Dollar | 176,184 | 10.57% | 194,807 | 157,561 |
| Total Currency * | 275,791 | | 305,718 | 245,863 |

* The % change for Total Currency includes the impact of correlation across the underlying currencies.

B) CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund is separately mentioned within the Council's Annual Treasury Strategy and this document sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its internal treasury management arrangements at 31 March 2016, including current account cash, was £2.78m (31 March 2015: £3.14m). This was held with the following institutions:

| | Rating | Balance at 31 March 2016 £'000 | Balance at 31 March 2017 £'000 |
|------------------------------|--------|--------------------------------------|--------------------------------------|
| Money Market Accounts | | | |
| Ignis | AAA | 355 | 505 |
| Scottish Widows | AAA | 355 | 505 |
| Blackrock | AAA | 355 | 505 |
| Prime Rate | AAA | 355 | 505 |
| Bank Current Accounts | | | |
| Bank of Scotland | A | 1,365 | 1,507 |
| Total | | 3,138 | 3,527 |

C) LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its internally managed Pension Fund cash holdings through use of instant access accounts or money market funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2016, the Fund's only illiquid assets under this definition are some of the Property fund of funds holdings which are only tradable in the secondary market.

20 RELATED PARTY TRANSACTIONS

During the year, the Pension Fund had an average balance of £1.797m (2015: £6.603m) of cash administered by Scottish Borders Council within separate external banking arrangements, which earned interest of £0.010m (2015: £0.022m). The Council charged the Pension Fund £0.339m in respect of expenses incurred in administering the Fund. There are no additional related party transactions that require to be disclosed. The Pension Fund balance due from Scottish Borders Council to the Pension Fund at the balance sheet date and disclosed in the net assets statement was as follows:

| As at 31 March | 2016 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Due (to)/from Scottish Borders Council | (671) | 168 |

Governance

All members of the Pension Fund Committee were active member of the pension fund during 2016/17. None of the Pension Fund Committee were in receipt of pension benefits from the Fund.

21 KEY MANAGEMENT PERSONNEL

The key management personnel of the fund is Scottish Borders Council Chief Financial Officer. Total remuneration payable is set out below

| 31 March 2016 £000's | | 31 March 2017 £000's |
|-------------------------|--------------------------|-------------------------|
| 85 | Short-term benefits | 86 |
| - | Post-employment benefits | |
| 2- | Other long-term benefits | 2 |
| - | Termination benefits | - |
| - | Share-base payments | - |
| 87 | Total | 88 |

22 MEMBERSHIP RECONCILIATION 2016/17

| | Membership Reconciliation – Number of Members | | | |
|---------------------------------------|---|--------------|---------------------|---------------|
| | Contributing Members | Pensioners | Deferred Pensioners | Total |
| Number at 31 March 2016 | 4,594 | 3,157 | 2,508 | 10,259 |
| Adjustments (late notifications etc.) | (33) | (1) | (11) | (45) |
| New Members | 530 | | 2 | 532 |
| Transfers to Other Schemes | (9) | | (13) | (22) |
| Refunds of Contributions | (264) | | | (264) |
| Retirement of Contributing Members | (142) | 142 | | 0 |
| Transfer to Deferred Pensioners | (258) | | 258 | 0 |
| Re-employed Deferred Pensioners | 51 | | (27) | 24 |
| Retirement of Deferred Pensioners | | 64 | (64) | 0 |
| Dependants' Pensions | | 43 | | 43 |
| Deaths | (3) | (86) | (1) | (90) |
| Commutation (trivial pensions) | | | | 0 |
| Ill Health Grant | | | | 0 |
| End of Entitlement | | (5) | | (5) |
| Number at 31 March 2017 | 4,466 | 3,314 | 2,652 | 10,432 |

23 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2014, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period.

The Actuarial Valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate.

The Funding Strategy Statement

The latest Funding Strategy Statement (FSS) was approved by the Pension Fund Committee on 22 June 2017 and a copy of this document can be found at: www.scotborders.gov.uk/pensions. Key elements of the FSS are the Funding Objectives and Funding Strategy for the Pension Fund and these have been extracted and included below:

Funding Objectives (Section 1, page 2 of FSS)

To:

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

Funding Strategy (Section 3, page 4 of FSS)

The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
- As stable an employer contribution rate as is practical

2014 Actuarial Valuation

The 2014 Actuarial Valuation was undertaken for the Fund as at 31 March 2014 and was completed during the financial year 2014/15 by the Fund's actuaries, Barnett Waddingham. It has been undertaken in accordance with Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The funding level of the Fund as at the 31 March 2014 was 101%, above the valuation as at 31 March 2011 and this corresponded to a surplus of £2.9m. The following table summarises the funding position.

| Past Service Funding Position – Scottish Borders Council Pension Fund | | |
|--|--------------------|--------------------|
| Valuation Date as at 31 March | 2011 £m | 2014 £m |
| Value of the Scheme Liabilities | (402.2) | (487.6) |
| Smoothed Asset Value | 384.8 | 490.5 |
| Surplus/ (Deficit) | (17.4) | 2.9 |
| Funding Level | 96% | 101% |

The value of the scheme liabilities is an estimate of the assets required to pay pensions over the coming years. The smoothed asset value is the contributions received from employers and members as well as investment returns. The surplus or deficit on the Fund is the difference between the two.

The next detailed actuarial valuation will be carried out for the Fund as at 31st March 2017.

New LGPS Benefits Impact on Benefits Projections

The Actuarial Valuation Report identified the estimated additional pension and lump sum benefits projected to come into the payments of benefits in each year during the period 1 April 2015 to 31 March 2018 as a result of the changes to the LGPS benefits. These are set out as follows:

| Financial year | Additional Retirement Benefits | Increase versus 2014/15 Base |
|---------------------------|---------------------------------------|-------------------------------------|
| 2014/15 Base (per Note 8) | | 19.1 |
| 2015/16 | 3.4 | 17.8% |
| 2016/17 | 5.2 | 27.2% |
| 2017/18 | 5.4 | 28.3% |

Valuation Assumptions

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial Assumptions

The principal assumptions used in the last triennial valuation (to March 2014) were:

| | 2011 Valuation | | 2014 Valuation | |
|--------------------------------|-----------------------|--------------------|-----------------------|--------------------|
| | % p.a. | Real % p.a. | % p.a. | Real % p.a. |
| Investment Return | | | | |
| Equities/absolute return funds | 6.9 | 3.4 | 5.9 | 2.6 |
| Gilts | 4.3 | 0.8 | 3.6 | - |
| Bonds | 5.5 | 2.0 | 4.1 | 0.5 |
| Property | 5.5 | 2.0 | 5.5 | 1.9 |
| Multi Asset Fund | - | - | 5.9 | 2.3 |
| Expense Allowance | | | | |
| Retail Price Inflation (RPI) | 3.5 | - | 3.6 | - |
| Pay Increases – Long Term | 5.0 | 1.5 | 4.6 | 2.0 |
| Pension Increases | 3.0 | (0.5) | 2.8 | (0.8) |
| Discount Rate | 6.4 | 2.9 | 5.5 | 1.9 |

Mortality assumptions

The mortality assumptions used and applied to all members are those underlying the S1PA mortality tables allowing for Continuous Mortality Investigation (CMI) 2013 projections, with a long term rate of improvement 1.5%.

Commutation Assumption

It is assumed that future retirees will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules.

Employer Contribution Rates

As part of the 2014 Actuarial Valuation, the actuary certified the common rate of contribution as 18% of payroll for the next three years.

Individual and pooled employers' rates vary from the common contribution rate (18.0%) depending on the demographic and actuarial factors particular to each employer. The table below highlights the key employer contribution rates (i.e. the rate which employers in the Fund pay):

| Employers Contribution Grouping | Employers Contribution Rate | |
|---|-----------------------------|---------|
| | 2015/16 | 2016/17 |
| Scottish Borders Council Common Pool | 18.0% | 18.0% |
| Leisure Trusts Common Pool * | 15.5% | 15.5% |
| LIVE Borders | | 18.0% |
| Scottish Borders Housing Association – Individual | - | 19.0% |

* During the inter-valuation period the Pension Fund Committee agreed, in consultation with the actuary, to reduce the rate for Borders Sport and Leisure Trust in order that they would undertake work to open up the LGPS scheme to their employees again. This was set at 15.5%. The amalgamation of BSLT and the Council Culture services into LIVE Borders however resulted in a revised rate of 18%.

24 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the Triennial Funding Valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities (actuarial present value of promised retirement benefits) at the accounting date as required by International Accounting Standard (IAS) 26, and calculated in line with IAS 19 assumptions.

This uses the same base data as the Triennial Funding Valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund employer contribution rates and the Fund Account does not take account of liabilities to pay pensions and other benefits in the future.

The actuarial present values, calculated in line with IAS 19, are set out in the table below.

| | Net Pension Asset as at: | | |
|--|--------------------------|---------------------|---------------------|
| | 31 March 2015 £m | 31 March 2016 £m | 31 March 2017 £m |
| Present value of the defined benefit obligations | (716.6) | (696.9) | (906.9) |
| Fair Value of Fund Assets* (bid value) | 537.4 | 542.7 | 652.7 |
| Net Asset/(Liability) | (179.2) | (154.2) | (254.2) |

This figure is used for statutory accounting purposes by the Fund and complies with the requirements of IAS 26. The assumptions underlying the figure are detailed below:

| | At 31 March 2015 | | At 31 March 2016 | | At 31 March 2017 | |
|------------------------------|---------------------|--------|---------------------|----------------|---------------------|----------------|
| | % p.a. | % p.a. | % p.a. | Real % p.a. | % p.a. | Real % p.a. |
| Discount Rate | 3.3 | 0.1 | 3.7 | 0.4 | 2.7% | 0.0% |
| Retail Price Inflation (RPI) | 3.2 | - | 3.3 | - | 2.7% | - |
| Pay Increases – Long Term | 4.2 | 1.0 | 4.2 | 0.9 | 3.7% | 1.0% |
| Pension Increases | 2.4 | (0.8) | 2.4 | (0.9) | 2.7% | 0.0% |

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2014 Triennial Funding Valuation (see Note 20) because IAS 19 stipulates a discount rate rather than a rate that reflects the market rate for investment returns on the Fund's assets.

25 CONTINGENT ASSETS

One of the admitted body employers in the Pension Fund holds an insurance bond to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

26 POST BALANCE SHEET EVENTS

INDEPENDENT AUDITOR'S REPORT



SCOTTISH BORDERS COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES 2017

**Finance
Chief Executive
Version: 2017 Pension Fund Committee**

Introduction

This is the Statement of Investment Principles (the SIP) adopted by the Scottish Borders Council to govern the investment operations of its Pension Fund. It covers the matters required by regulations together with certain other aspects of investment management, which it is felt should be included for the sake of completeness.

This version of the SIP was agreed by the Pension Fund Committee (the Committee) on 22 June 2017.

1. The statutory requirements concerning the SIP

1.1 The Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 as amended require administering authorities to prepare, maintain and publish a Statement of Investment Principles (SIP) that includes the policy on:

- The types of investment to be held
- The balance between different types of investment
- The risk considerations, including the ways in which risks are to be measured and managed¹
- The expected return on investments
- Realising of investments
- Taking account of social, environmental or ethical considerations in investments
- Exercising the rights (including voting rights) attaching to investments
- Stock Lending¹

1.2 The Statement must also state the extent of compliance with guidance given by the Scottish Ministers. This guidance requires reference to the 6 principles of investment practice published by CIPFA in December 2009.¹

¹ “Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)”

2. Governance

- 2.1 Scottish Borders Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Scottish Borders geographic area, the Scottish Borders Council Pension Fund (the Fund).
- 2.2 The Council has delegated its pension's functions to the **Pension Fund Committee** (the Committee) which has ultimate responsibility for making decisions in relation to the maintenance and revision of the SIP, and approving decisions in relation to changes in fund manager, investment adviser or custodian.
- 2.3 The **Pension Fund Investment and Performance Sub-Committee** (the Investment Sub-Committee) is a sub-committee established to undertake specific investment monitoring responsibilities as set out in **Appendix 1**.
- 2.4 The **Pension Board** (the Board) is established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 with the remit to securing the Fund's compliance with the Regulatory Framework. A constitution has been agreed for the Board with the responsibilities set out in **Appendix 2**.
- 2.5 The SIP sets out the principles governing decisions about the investments of the Fund. The Fund recognises the importance of corporate governance and responsibility in ensuring the long term financial performance of the organisations in which they invest.
- 2.6 The SIP forms part of a governance framework that includes:
 - The Statutory Regulations
 - The Pension Fund Committee
 - The Pension Fund Investment & Performance Sub-Committee
 - The Pension Board
 - The Fund's Advisers
 - The Funding Strategy Statement²²and
 - The Governance Policy and Compliance Statement².
- 2.7 Underlying the SIP and the Council's related decision making processes is the requirement that the Council must obtain and consider "proper advice" and this is provided by Council Officers and expert, professional advisers under contract to the Council.

² Funding Strategy Statement and Governance Policy and Compliance Statement can be found at www.scotborders.gov.uk/pensions

3. The Fund's Objectives

Primary Aim

3.1 The primary aim of the Fund is:

“To provide for members’ pension and lump sum benefits on their retirement or for their dependants’ benefits on death before or after retirement, on a defined benefits basis.”

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

Funding Objectives

3.2 The funding objectives are set out in the Funding Strategy Statement (the FSS) and are as follows:

- i To set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- ii To build up the required assets in a way that produces employer contributions, which are as stable as possible.

3.3 The funding objectives must complement the Fund's investment strategy so that the appropriate amount of risk is adopted in the pursuit of investment returns.

4. Investment Policy

Investment Strategy

- 4.1 The Committee sets an Investment Strategy for the Fund, taking into account the funding status and liabilities. The strategy is subject to regular review and, as appropriate, asset liability modelling techniques are used to assist in these reviews.
- 4.2 The Investment Strategy's primary aim is to deliver the funding objective in Section 3.2 ii) above which is to build up the required assets in a way that produces stable employer contributions to the Fund.
- 4.3 The Committee in pursuing this primary aim will, as far as is practicable and as an aid to long-term stability, seek to maintain a positive ratio of assets to liabilities at each actuarial valuation.
- 4.4 The Funding Strategy Statement (FSS) states that the discount rate that is adopted in the actuarial valuation of the Fund's liabilities is derived by considering the expected return from the underlying investment strategy but makes no allowance for additional returns from active management. The strategic benchmark that is established for the Fund's investment strategy is therefore expected to produce a return over the long term in excess of the investment return assumed in the triennial Actuarial Valuations.
- 4.5 The Fund presently has a marginal positive cash flow and currently has more actively contributing members compared to members receiving pensions. It however also has 2,652 deferred members which are currently neither contributing nor receiving – as a result it is not mature and therefore need not, at present, provide a high level of annual income to meet the cost of benefits. It will therefore continue to seek capital growth to meet future liabilities.
- 4.6 The Investment Strategy for the Fund has been developed with the support of external investment consultants who have supported the Committee in their decision making process. The approved investment strategy is presented as a strategic asset allocation which sets benchmark percentage allocations across the various asset classes.
- 4.7 In establishing strategic asset allocations the Committee recognises that it is not possible at reasonable cost to consistently hold investments of a type that maintains an exact match with the Fund's liabilities to pensioners and other members.
- 4.8 The Committee undertook a full review exercise in 2013, taking into account the funding status and liabilities and using asset liability modelling. A further review was again undertaken in August 2016 resulting in the revised strategy contained in this SIP. The Committee will review the strategy, if appropriate, at least once per three year period.
- 4.9 **Appendix 3** contains a summary of the strategic asset allocation benchmark for the Fund.

Investment Management Arrangements

- 4.10 The Investment Strategy is implemented by employing external investment managers currently UBS Global Asset Management (UBS), LGT Partners (LGT), Morgan Stanley Investment Management (Morgan Stanley), M&G Investments (M&G), Harris Associates (Harris), Partners Group, Blackrock, Permira and Baillie Gifford, as appropriate.
- 4.11 The objective is to employ a combination of managers and investment mandates that will deliver, in aggregate, the target performance for the Fund.

- 4.12 The Committee sets the target for the Fund and this overall target is expressed as an out performance against the Fund's strategic benchmark which is a composite of the various benchmarks for the different managers and asset allocations.
- 4.13 The pursuit of a target implies active management of a substantial part of the Fund and the acceptance of a degree of risk in managing investments.
- 4.14 The Fund's current **total target is to generate a return of at least 2.7% above CPI inflation** assumed as the real discount rate at the actuarial valuation as at 31 March 2014.
- 4.15 The investment managers are responsible for the selection of individual holdings within each type of investment category within the parameters set out in their agreement which includes the need to achieve targets which are measured.
- 4.16 The Fund holds some temporary cash on short term deposit or in money market funds, which are managed by Finance staff.
- 4.17 The Committee determines the distribution of the Fund for investment purposes from time to time.
- 4.18 **Appendix 4** contains details of the investment arrangements that are in place at the 31 March 2015.

Risk Measurement and Management

4.19 *Asset Allocation*

- i The key investment risks are recognised as arising from asset allocation. The investment strategy of lowest funding risk would be 100% investment in duration, matched index-linked government bonds, i.e. the most natural "matching" asset for pensions liabilities. However, this is not necessarily the most cost-effective approach.
- ii In the long-term, investment in assets of calculated risk is likely to produce higher returns and therefore reduce the overall cost of funding the pension liabilities. Following this rationale, the Fund deliberately runs an unmatched strategy which is heavily biased towards "growth" assets such as equities, property and other alternative assets.
- iii The asset allocation risks are assessed triennially, typically using asset liability modelling techniques following the actuarial valuation of the Fund, after which the Committee take advice on the continued appropriateness of the existing investment strategy.
- iv As these risks were assessed as part of the asset and liability modelling exercise undertaken in 2016 by the Fund's investment consultant, it is envisaged that this will next be done during 2018/19 following the actuarial valuation as at 31 March 2017.
- v The retrospective impact of investment risk on the Fund's funding position is monitored on a quarterly basis via investment reports prepared by the Fund's investment managers, the Fund's performance monitoring company and the investment consultants.

4.20 *Investment Managers*

- i To reduce the risk that the Fund significantly underperforms, performance and risk targets and controls are set for each manager relative to their benchmark. These are set out in formal Investment Management Agreements or Subscription Agreements with each of the appointed managers.

- ii The managers are required to provide data monthly and report quarterly on portfolio management issues. This information is reported to the Committee on a quarterly basis. The monitoring includes assessing their achievement of performance that meets or outperforms their individual targets.
- iii The managers must also provide data to Northern Trust, the company chosen by the Committee to provide it with independent performance comparisons.
- iv The managers are also required to attend at the Pension Fund Investment and Performance Sub-Committee at least once a year to give an account of their activities and performance.
- v The managers must comply with all lawful instructions given to them by the Committee (in accordance with the mandates agreed) and their contracts can be terminated at no more than one month's notice.
- vi All manager mandates will always impose the investment restrictions contained in the Local Government Pension Scheme Regulations.

4.21 *Proper Advice*

- i The Committee is required to secure proper advice to ensure that their decision making processes are appropriately informed. The current advisers to the Fund are:

| | |
|-----------------------|--------------------|
| Investment Consultant | KPMG |
| Actuaries | Barnett Waddingham |

4.22 *Concentration Risk and Diversification*

- i Concentration risk arises from the failure of any investments which constituted a significant proportion of the Fund's assets. In order to reduce this risk a spread of assets is held. The diversification is both within, and across, the major asset classes and will be enhanced through investment in alternative asset classes.
- ii Diversification is used to manage the risk involved in pursuing an active management approach to a substantial part of the fund.
- iii This is achieved through diversification of investment over various types of asset, by the use of at least two managers with different styles or specialism, and by requiring a wide range of individual stocks and shares to be held.

4.23 *Transition Management Arrangements*

- i A specialist transition manager, currently State Street Global Markets (State Street), will be employed to manage complex changes in investment strategy and/or manager(s).
- ii The use of these specialists is intended to reduce the cost of transition to the Fund and minimise the overall impact on the Fund value at the point of transition.

4.24 *Currency Risk*

- i During 2016 the Committee approved the full removal of the Passive Currency Hedging mandate. As long term investors the overseas currency exposure will act as an offset against losses in severely stressed market environments.

4.25 *Safe Keeping of Assets*

- i The services of a global custodian, currently Northern Trust, are employed to ensure the safeguarding of the Fund's assets and ensure that all associated income is collected.
- ii The Fund is provided with statements of assets, cashflow and transactions, which Finance staff reconcile to data reported by the managers.
- iii The custodian also has a responsibility for keeping the Council informed of any concerns arising in its dealings with the investment managers.
- iv Investment in pooled funds managed by UBS, Morgan Stanley, M&G, Partners Group, Blackrock, Permira and LGT gives the Fund a right to the cash value of the units rather than to the underlying assets. The managers of the pooled funds, are responsible for the appointment and monitoring of the custodian of the pooled funds' assets.

4.26 *Cashflow Risk and Realisation of Investments/Liquidity*

- i The overall liquidity of the Fund is considered in the light of potential demands for cash. The Fund will hold sufficient cash to meet the likely benefit payments. Additionally, the Fund will hold sufficient assets in liquid or readily realisable form to meet any unexpected cashflow requirements so that the realisation of assets will not disrupt the Fund's overall policy.
- ii The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required.
- iii A small proportion of the Fund's investments, in particular Property, and future investments in other alternative assets would take longer to be realised.

5. Types of Investment

5.1 The Fund has approval from the Committee to use the following different types of investment and income generating mechanisms to achieve the overall investment objectives:

- Equities (UK, Overseas and Global mandates including direct holdings, Managed Funds, Unit trusts, Investment Trusts, Open Ended Investment Companies)
- Bonds
- Property
- Currency
- Alternative assets such as commodities, hedge funds, infrastructure, emerging market debt, private equity, high yield debt, Private Credit and convertible bonds.
- Cash (including Treasury Bills and Money Market Funds)
- Derivatives and other Managed transactions
- Infrastructure

5.2 Stock Lending is not currently authorised by the Committee for the directly held investments under the custody of its custodian. For the Fund's investments in pooled funds managed by UBS, UBS participate in a stock lending programme where the revenue is reflected in the unit price. UBS AG (the parent company) acts as the principal counterparty so irrespective of the end borrower UBS' counterparty risk is only to UBS AG. Security is provided for the

stock loaned by the borrower transferring ownership of other collateral assets to UBS for the period of the loan.

6. Environmental, Social and Corporate Governance Issues

- 6.1 The Committee has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund members. It is aware that in doing so the financial contributions required of Fund employers will be minimised.
- 6.2 The Committee believes that environmental, social and governance issues can affect the financial performance of companies and that it has a responsibility to take these issues seriously and where appropriate, to act upon them.
- 6.3 The Committee considers engagement with companies in which the Fund invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies. The investment managers for the Fund are therefore encouraged to constructively engage with companies on issues which are consistent with the Fund's fiduciary responsibilities.
- 6.4 The Committee recognises its responsibility to exercise voting rights to ensure transparency and accountability in corporate governance.
- 6.5 The Fund's investment managers maintain close contact with the management of companies in which investments are held or contemplated and subject their affairs to considerable analysis and skilled scrutiny. In recognition of this activity, the Sub-Committee delegates to its managers all voting and other rights attaching to Fund investments.
- 6.6 The investment managers have delegated powers to exercise such rights in the best financial interests of the Fund and would in particular expect them to vote appropriately at company Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs).
- 6.7 To demonstrate their commitment to ESG Fund Managers are encouraged to sign the United Nations Principles of Responsible Investment (UNPRI) Stewardship Code.
- 6.8 The Committee has, however, drawn the attention of managers to its general concern that the remuneration practices of companies should be patently fair and reasonable. It has asked that managers reflect such concern when voting shares in companies in which the Fund is directly invested. The Committee is content to allow its managers discretion on the voting of in-house pooled fund shares subject to referring any matters relating to the remuneration of Fund managers to it for direction
- 6.9 The key highlights in terms of voting actions taken by investment managers is included as part of the quarterly investment manager report to the Committee its investment consultant.

7. Audit responsibilities

- 7.1 The Pension Fund is subject to review by both the Council's external auditors and the Internal Audit team, and comes within the remit of the Council's Audit and Risk Committee.
- 7.2 The external auditors are responsible for reporting on whether the Council's Statement of Accounts gives a true and fair view of the financial position of the Council's Pension Fund, for the year then ended. Their audit report is formally presented to the Council each year. A detailed Annual Report of the Pension Fund is produced in addition and circulated to

employers and other interested parties. This derives information from both audited accounts and unaudited sources of background information.

- 7.3 The Internal Audit team carries out a programme of work designed to re-assure the Chief Executive and Chief Financial Officer that Pension Fund investment systems and records are properly controlled and that Pension Fund assets are safeguarded.

8. Compliance with the Myners principles

- 8.1 In October 2008 the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) created the requirement for Local Government Pension Scheme (LGPS) administering authorities to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.
- 8.2 In December 2009, CIPFA issued *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*.
- 8.3 The LGPS regulations require the SIP to contain a statement of compliance with the six principles.
- 8.4 The six principles are:
- i Effective Decision Making
 - ii Clear Objectives
 - iii Risk and Liabilities
 - iv Performance Assessment
 - v Responsible Ownership
 - vi Transparency and Reporting
- 8.5 **Appendix 5** contains this statement of compliance.

Appendix 1

Pension Fund Investment and Performance Sub-Committee

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

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

Appendix 2

Pension Board

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

1. The Objectives of the Board are as follows:

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

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

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

- d) Reports produced for the Pension Fund Committee;
- e) Seek reports from the Scheme Manager on any aspect of the Fund;
- f) Monitor investments and the investment principles/strategy/guidance;
- g) The Annual Report and Accounts for the Fund;
- h) External voting and engagement provisions in relation to investments;
- i) Pension Fund Administrative Strategy and associated performance;
- j) Actuarial reports and valuations;
- k) Funding Strategy Statement and associated policy; and
- l) Any other matters that the Board deems appropriate within the responsibilities set out in 1 above.

Appendix 3

Strategic Asset Allocation

| Asset Class | Manager | Strategic Benchmark % | Permitted Range / Tolerance % |
|----------------------------------|--------------------|-----------------------|-------------------------------|
| UK Equity | UBS ¹ | 9.0% | |
| | Baillie Gifford | 5.0% | |
| | Sub Total | 14.0% | 12% - 16% |
| Global Equity | Harries Associates | 7.0% | |
| | Baillie Gifford | 16.0% | |
| | Morgan Stanley | 10.5% | |
| | Sub Total | 33.5% | 30% - 37% |
| Total Equity | | 47.5% | 42% - 53% |
| Bonds | | | |
| Alpha Opportunities | M&G | 10.0% | |
| Index Linked Gilts | | 5.0% | |
| | Total | 15.0% | 12% - 17% |
| Alternatives ² | | | |
| Multi-Asset Alternatives Fund | LGT Partners | 7.5% | |
| Private Credit | Permira | 5.0% | |
| | Partners Group | 5.0% | |
| Infrastructure | | 5.0% | |
| | Total | 22.5% | 20% - 25% |
| Property | | | |
| Balanced Property | UBS | 5.0% | |
| Long Lease Property | Blackrock | 10.0% | |
| | Total | 15.0% | 12% - 17% |
| Cash | | 0.0% | |
| Total | | 100.0% | |

Note:

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

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

Appendix 4

Investment Management Arrangements

| Asset Class | Manager | | Performance Objective (net of fees) | Benchmark Indices Used |
|--------------------------------------|--------------------|------------------|-------------------------------------|--|
| UK Equity | UBS | Benchmark Return | +0.0% | FTSE All-Share Index |
| | Baillie Gifford | Benchmark Return | +1.0% | FTSE All-Share Index |
| Global Equity | Harries Associates | Benchmark Return | +2.5% | MSCI All Country World Index |
| | Baillie Gifford | Benchmark Return | +2.5% | MSCI AC World Index |
| | Morgan Stanley | Benchmark Return | Not Defined | MSCI World Net Index |
| Bonds | | | | |
| Alpha Opportunities | M&G * | Benchmark Return | +3.5% - 5% | 1 Month LIBOR |
| Govt Fixed Interest Bonds | M&G | Benchmark Return | +0.75% | FTSE Actuaries UK Conventional Gilts All Stock Index |
| Corporate Fixed Interest Bonds | M&G * | Benchmark Return | +0.8% | iBoxx Sterling Non-Gilts Index |
| Index Linked Gilts | TBC | TBC | TBC% | TBC |
| Multi-Asset Alternatives Fund | LGT Partners | Benchmark Return | +4.0% | LIBOR |
| | Permira | Benchmark Return | +4.0% | 1 month LIBOR (Cash) |
| | Partners Group | Benchmark Return | +4.0% | 1 month LIBOR (cash) |
| | Infrastructure | | +3.5% | RPI |
| Property | UBS | Benchmark Return | +0.75% | IPD UK PPFI All Balanced Funds Index |
| | Blackrock | Benchmark Return | +2.5% | RPI |

Statement of Compliance with Myners Principles

This table summarises the principles, best practice guidance as provided by CIPFA and the Fund's current status in relation to compliance .

| Principle | Best Practice Guidance | Fund's Current Status |
|---|---|--|
| <p>1. Effective Decision-Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. <p>1. Effective Decision-Making (contd.)</p> | <ul style="list-style-type: none"> • The administering authority should have a designated committee of members responsible for the management of the pension fund and wherever possible appointments to the committee should take account of relevant skills, experience and continuity. • The committee should have terms of reference, and where investment decisions are delegated the process should be recorded, with the roles of members, officers, advisers and managers specified. • The committee should have appropriate skills for, and is run in a way that facilitates, effective decision-making. • There are sufficient internal resources and access to external resources for the administering authorities and Members to make effective decisions. • It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making. | <p>Full Compliance</p> <ul style="list-style-type: none"> • The Fund has a designated committee – the Committee - with the experience and skills to take decisions. • The Committee's terms of reference is contained within the Scheme of Administration for the Council. • The Committee receives training either during meetings or at specific training sessions, including on investment issues. • Induction training is provided for new Members and Officers. • The Committee has an appointed investment consultant to provide specific investment advice. • The Chief Financial Officer and other senior officers provide advice and support to the Sub-Committee • The Investment and Performance Sub-Committee with terms of reference contained within the Scheme of Administration for the Council to enhance the focus on performance monitoring and investment decision making. • The Committee carry out regular reviews of the Fund and compliance with regulations. • The Investment Consultant, |

| Principle | Best Practice Guidance | Fund's Current Status |
|-----------|---|---|
| | <ul style="list-style-type: none"> • The committee should obtain proper advice at reasonable intervals from suitably qualified persons. • The Chief Financial Officer should be given responsibility for developing a training plan for committee members. • A business plan should be in place which should include milestones and should review level of resources needed. • Members allowances should be published and reviewed regularly. • Meeting papers should be clear and circulated sufficiently in advance of the meetings. | <p>Custodian, Actuary, Investment Managers and legal advisers all input into the provision of proper advice. The Investment Adviser attends all meetings of the Committee and Sub-Committee.</p> <ul style="list-style-type: none"> • The Committee's legal advisers and any other relevant parties review any new investment contracts put in place. • There is an approved Training Policy for the Fund and an annual Training Needs Analysis undertaken for all Committee and Board members. • Members' training is the responsibility of the Clerk to the Council with input from the Chief Financial Officer • A business plan was agreed by the Committee on 16 June 2016 • Members' Allowances are regularly published as required by the Local Government (Allowances and Expenses) (Scotland) Regulations 2007. • Meeting papers are circulated 7 days in advance of meeting and public papers are published on the Council's internet site. |

| Principle | Best Practice Guidance | Fund's Current Status |
|--|--|---|
| <p>2. Clear Objectives</p> <ul style="list-style-type: none"> An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. | <ul style="list-style-type: none"> The committee should set an overall investment objective considering the fund's liabilities in the context of net cashflow, the funding position and maturity of liabilities. The desirability of asset liability modelling should be considered. Proper advice should be taken where appropriate. Specialist advice should be sought as to how the objective might be expressed as an expected, or required, rate of return. Peer group benchmarks should be avoided. | <p>Full compliance</p> <ul style="list-style-type: none"> The Committee makes decisions on the strategy, structure and managers following advice from their investment consultant, and in doing so periodically considers the results of asset liability modelling and appetite for risk of the administering authority and scheme employers to inform the Investment Strategy. The Fund has a scheme specific benchmark. Investment objectives are stated in the Statement of Investment Principles (SIP). The assets are generally managed under individual mandates where the Committee set the investment managers individual mandate objectives and risk parameters. An explicit mandate is in place with the fund managers which include clear time horizons for performance measurement and evaluation. Both short and long-term performance is measured quarterly against scheme specific benchmarks and the fund managers are required to attend twice per year to discuss performance against those indices. The Committee regularly reviews the investment |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|---|
| <p>2. Clear Objectives (contd)</p> | <ul style="list-style-type: none"> • Appetite for risk should be considered. Asset allocation decisions should consider all asset classes currently available. • Strategic asset allocation decisions, in particular the equity: bond split, diversification of the assets and why some asset classes may be excluded should be given most attention. • The general and strategic impact of funding levels on tax should be considered and whether sub-funds should be established. • Transaction and transition costs should be fully understood. | <p>structure of the Fund, including different asset classes, styles of management and follows the appropriate procurement regulations for the appointment of managers which includes a review of cost, objectives and mandates (including risk).</p> <ul style="list-style-type: none"> • The Fund considers the full range of asset classes and has decided to add investments in alternative assets such as private equity, infrastructure, commodities and currencies to its portfolio. • At the time of undertaking the Triennial Actuarial Valuation the Committee considers the impact of funding levels on the contribution levels and therefore on the impact on local taxpayers. • When evaluating new investment managers, the Total Expenses Ratio as well as fees are scored. • As part of any transition the costs are reported to Committee and compared with the target level set prior to transition. |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|--|
| <p>3. Risk and Liabilities</p> <ul style="list-style-type: none"> In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. | <ul style="list-style-type: none"> The committee should have a clear policy on willingness to accept underperformance due to market conditions. Acceptable tolerances from market index benchmarks returns should be stated. Benchmarks which are absolute in nature or relative to cash returns or RPI might result in underperformance relative to market indices. Overall fund objectives should be expressed in terms which relate to the liabilities. The committee must receive an assessment of the risks associated with their liabilities, valuation and management. The annual report should include an overall risk assessment. | <p>Full compliance</p> <ul style="list-style-type: none"> The Committee does not necessarily make changes to the Fund's asset allocation or investment managers due to underperformance, as long as the reasons for this are explained and justified. Advice is taken from the investment consultant regarding any changes to investment policy. Factors affecting long-term performance and advice on how these impact on the Fund are considered as part of the triennial valuation process and when making changes to investment strategy. Advice is received from the Fund's advisors. The overall Fund investment objective is expressed in terms which relate to the liabilities. The Committee carried out an investment strategy review using asset liability modelling in 2016. This involved taking account of the form and structure of the liabilities and aiming to reduce risk where appropriate through increased diversification in the strategies or managing specific risks such as currency risk. It has agreed to undertake a similar review during 2017 following the 2017 Actuarial valuation.. The annual report includes a Risk Management Statement |

| Principle | Best Practice Guidance | Fund's Current Status |
|--|---|---|
| 3. Risk and Liabilities (contd) | <ul style="list-style-type: none"> The committee should satisfy itself on levels of internal controls. Effective internal controls are a responsibility of the Chief Financial Officer. The committee should ensure the investment strategy is consistent with the scheme employers ability to pay. | <ul style="list-style-type: none"> The Committee regularly review and develop where necessary their internal controls. In addition investment managers provide annual statements on their controls. The Committee periodically reviews the appropriateness of the investment strategy to achieve the required objectives, taking account of employers ability to pay. |

| Principle | Best Practice Guidance | Fund's Current Status |
|---|---|--|
| <p>4. Performance Assessment</p> <ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members. | <p>Investments</p> <ul style="list-style-type: none"> • The committee should consider the appropriateness of index benchmarks and whether active or passive management is more appropriate, and where active management is felt more appropriate set targets and risk controls. • The mandate provided to each investment manager should cover the investment objective, risk parameters, performance targets and measurement timescales. • Constraints on active managers should not be overly narrow or overly wide. • Investment activity should be monitored and returns measured quarterly in line with regulations, but also over longer time periods. • Variations in returns from the benchmark should be attributed to asset allocation, stock selection, sector selection and currency. <p>Advisers</p> <ul style="list-style-type: none"> • Assessment should take account of the extent of decisions delegated. | <p>Full compliance</p> <ul style="list-style-type: none"> • The Committee consider, with input from the investment consultant, the suitability of active or passive management for each mandate. • Investment management agreements with each investment manager cover the investment objective, risk parameters, and performance target. • The Strategic Asset Allocation and Investment Management Benchmarks set out the tolerances and performance is considered over 3 – 5 year periods. • The performance of the investment managers is measured quarterly by an independent performance monitoring company. • A comprehensive quarterly performance report is presented to the Committee. • Variations in returns from the benchmark are attributed to asset allocation, stock selection, sector selection and currency within these reports. • The Committee take all significant decisions relating to the management of the Fund. Delegations to officers are contained within the Council's Scheme of Administration or in specific report recommendations. |

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

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|--|
| <p>5. Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • includes a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities. | <ul style="list-style-type: none"> • Policies regarding responsible ownership should be disclosed in Statement of Investment Principles contained in the annual report. • The administering authority should consider its approach to environmental, social and governance issues and the potential for engagement in environmental, social and governance issues to add value when formulating investment strategy and selecting investment managers. • The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company. • The committee should ensure its policies are not overridden by an investment manager's general policies. • The committee should ensure that investment consultants adopt the Institutional Shareholder Committee's (ISC) Statement of Practice relating to consultants. • The ISC's Statement of Principles on the | <p>Full compliance</p> <ul style="list-style-type: none"> • The Committee are aware of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional shareholders and have confirmed that their investment managers adopt the Statement of Principles on the responsibilities of shareholders and agents. • The Committee consider environmental, social and governance issues when formulating investment strategy and selecting investment managers but do not give precedent to this factor over other factors which have greater financial implications for the Fund. • The Statement of Investment Principles includes a statement of the Committee's policy on responsible ownership. • Voting on underlying shareholdings is delegated to the fund manager. • Details of the investment manager's house strategy are requested from the manager. • Feedback on interventions to be provided during meeting with manager (minimum of once per annum). • The investment consultant has confirmed that it does adopt the ISC Statement of Practice relating to consultants. |

responsibilities of Institutional shareholders should be noted.

| Principle | Best Practice Guidance | Fund's Current Status |
|---|--|---|
| <p>6. Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and provide regular communication to scheme members in the form they consider most appropriate. | <p>Reporting ensures that:</p> <ul style="list-style-type: none"> An integrated approach to governance should be built and governance compliance statements should be maintained regularly. The Fund's communication statement must set out the policy on the provision of information, the format and the promotion of the scheme. Examples of good communication from other funds should be sought. Annual report content should be compared to the regulations. Funding strategy statement, statement of investment principles and governance compliance statement should be noted as core sources of information. The governance compliance statement should include information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with CLG guidance. The committee should know its stakeholders and the interests they have. | <p>Full compliance</p> <ul style="list-style-type: none"> The Annual Report including the Funding Strategy Statement, Statement of Investment Principles and Governance Statement are published each year. Examples of good communication from other funds are sought. Communications are sent to members whenever important changes to the Fund take place, or to provide updates. The Fund operates transparently and enhances accountability to scheme members. The Fund's Governance Statement includes information on the extent the administering authority has delegated functions to a committee, and to the extent this complies with Scottish Ministers guidance. |

VERSION CONTROL TABLE

| Version | Nature of Amendment | Date of Change | Author |
|----------------|---|----------------|---|
| 2000 1.0 | SIP – created | March 2000 | A Bowman |
| 2006 1.0 | SIP – update | March 2006 | A Bowman |
| 2010 1.0 | Draft SIP – updated to reflect updated FSS and new Myners Principles | March 2010 | L Mirley in collaboration with Aon Consulting |
| 2010 2.0 | Final Draft of SIP to present to Pension Fund Sub-Committee | June 2010 | L Mirley |
| 2013 1.0 | Final Draft of SIP to present to Pension Fund Committee | Dec 2013 | K Robb |
| DRAFT 2015 1.0 | Draft of SIP to present to Pension Fund Committee – updated to reflect new governance arrangements and introduction of Pension Board, and new fund managers | June 2015 | L Mirley |
| DRAFT 2015 2.0 | Final Draft of SIP to present to Pension Fund Committee post AON Hewitt Review | June 2015 | L Mirley |
| Draft 2017 1.0 | Final draft of SIP to present to Pension Fund Committee on 22 June 2017 | June 2017 | K Robb |

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

Contact us at Kirsty Robb, Capital & Investments Manager, Council HQ, Newtown St Boswells
01835 825249, treasuryteam@scotborders.gov.uk

GLOSSARY OF TERMS

ACTIVE MANAGEMENT

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or *asset allocation*. Compare this with *Passive Management*.

ASSET ALLOCATION

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short term tactical changes might be made to achieve short-term advantage.

ALTERNATIVE ASSETS

This is any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. Due to the unconventional nature of alternative assets, valuation of some of these assets can be difficult.

BALANCED MANAGEMENT

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with *specialist management*.

BENCHMARK RETURN

This is calculated against the Fund's chosen "benchmarking" group, which comprises a composite of different market indices. The indices in use cover all the markets in which the Fund is invested.

CONTRIBUTING MEMBER

This is someone who is currently employed by a scheduled or admitted body and is making contributions from pay to the Pension Scheme. Such a person is sometimes referred to as an "active" member.

DEFERRED MEMBER

This is someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.

GROWTH MANAGER

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with *value manager*.

INVESTMENT MANAGER/FUND MANAGER

A person or organisation that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients

MANDATE

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

PASSIVE MANAGEMENT

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with *active management*.

PENSIONER/DEPENDENT MEMBER

This is someone who is receiving benefits from the Fund either as a former contributor or as a dependent of a former contributor who has deceased.

POOLED FUND

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

REALISED GAIN OR LOSS

Only when an investment is sold does the Fund actually make a profit or loss.

Realised profits and losses are those that have actually arisen via sales throughout the year.

RETURN

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

RISK

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

SEGREGATED FUND

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

SPECIALIST MANAGEMENT

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

UNREALISED GAIN OR LOSS

The Statements of Accounts are based on the market value of investments at 31 March 2016. This means that these show what profit or loss would have made if the Fund had sold all its investments on that day. The result is a notional "unrealised" profit or loss.

VALUE MANAGER

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

VESTED/NON VESTED OBLIGATIONS

Vested obligations refer to employee benefits that are not conditional on future employment. Non vested obligations refer to employee benefits that are conditional on future employment.

PENSION FUND STRAIN

The cost to employers of the early release of pension benefits.

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on our website, www.scotborders.gov.uk/pensions, including the following documents:

- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Training Policy
- Business Plan 2015/16 to 2017/18
- Actuarial Valuation Statement 2014

Fund Advisers

| | |
|---|---|
| Actuaries: | Barnett Waddingham |
| Auditors: | KPMG |
| Bankers: | Bank of Scotland |
| Investment Consultancy: | AON Hewitt to 31 March 2016, KPMG from 12 April 2016 |
| Investment Custodians: | JP Morgan to 30 Nov 2106, Northern Trust from 1 Dec 2016 |
| Investment Managers: | Baillie Gifford, UBS, Morgan Stanley, LGT Partners, M&G, Partners Group and Harris Associates |
| Additional Voluntary Contributions (AVC) Managers: | Standard Life |

Contact Details

For further information and advice on administration, benefits and scheme membership please contact

| | | |
|---------------|---|----------|
| Graeme Wilson | Telephone 01835 – 824000 | Ext 5341 |
| | E-mail gwilson@scotborders.gov.uk | |

Scheme members should have a copy of the “Employees’ Guide to the Local Government Pension Scheme Administered by the Scottish Borders Council”, and can obtain their own copy of an Annual Report on request.

or visit Scottish Borders Council Pension Fund website at: www.scotborders.gov.uk/pensions

For further information on the Fund’s investments, please contact

| | |
|------------------------------|---|
| Kirsty Robb | Telephone 01835 – 825249 |
| Capital & Investment Manager | E-mail krobb@scotborders.gov.uk |

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INFORMATION UPDATE
Briefing Paper by Chief Financial Officer

PENSION FUND COMMITTEE & PENSION BOARD
22 June 2017

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 to assess the level of future employer contributions and the underlying funding position of the pension fund. The next valuation is due to take place during 2017 based on data 31 March 2017 data.
- 2.2 Initial discussions have been held with Barnet Waddingham to agree the timetable for data collection and the assumptions to be used. The data is currently being prepared for submission to Barnet Waddingham. Initial findings are anticipated to be available in October and the final outcome of the valuation will be presented at the December meeting.

3 ON BOARDING OF NEW MANAGERS

- 3.1 The Joint Committee and Board approved the appointment of Blackrock for Long Lease Property and Permira and Partners for Private Credit.
- 3.2 Blackrock have to date made one drawdown of £5.099m on 19th June. This leaves a balance of £60m still to be invested.
- 3.3 Permira have completed their final sign off for the documents in December but have not yet drawn down any funds. The initial investment of estimated at £9.5m (30% of allocated funds) is anticipated to be drawn down in June although call notice has not yet been received.
- 3.4 Partners Group have to date made two drawdowns totalling £15.m. £11.5m was invested on 30 March with a further £3.6m on 16th June. This is the full amount allocated for the year 1 investment with Partners Group.

4 INVESTMENT IN INFRASTRUCTURE

- 4.1 All necessary documentation has been completed for the collaborative working agreement with Lothian Pension Fund.
- 4.2 The information and documentation required to ensure any opportunity are fully assessed and delegated authority followed have been developed in-line with the paper agreed on 16 March 2017.
- 4.3 One possible investment opportunity was considered but due to the vacant Pension Fund Committee Chair position the fund was unable to make the necessary commitment with the required time frame.

5 ERP IMPLEMENTATION

- 5.1 ERP went live on 1st April. Payments to Pensioners have been made successfully for each subsequent pensioners payroll. This included the payment of the Annual Pension Increase. We have still to develop a strategy to allow Pensioners to have online access to view their payslips online.

6 SCHEME ADVISORY BOARD UPDATE

- 6.1 The Scheme Advisory Board met on 21st April. The bulletin of the meeting is attached for information.
- 6.2 A discussion was held following the report provided by the working group on the structure review of LGPS funds. It was agreed at the meeting to present the report to Ministers with no specific recommendations.
- 6.3 Following the recent local elections the membership of the Scheme Advisory Board representing the Employer side is currently unknown.

7 FUTURE MEETING DATES

- 7.1 The table below provides the dates of the future meetings.

| Meeting | Date |
|--|-------------------|
| Joint Pension Fund Committee & Board | 14 September 2017 |
| | 7 December 2017 |
| | 8 March 2018 |
| | 14 June 2018 |
| Performance & Investment Sub Committee | 21 August 2017 |
| | 26 February 2018 |

Author(s)

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

May 2017

BULLETIN

GAD s13 Dry Run Report

The Public Service Pensions Act provides for an independent review of the valuation and employer contribution rates in pension schemes and the Government Actuary's Department (GAD) has been appointed to do this for the SLGPS. GAD reported to the last SAB on their first 'dry run'.

Their report states that all our funds operate in accordance with the SLGPS regulations. They identified differences in the way information is presented and work is ongoing amongst actuarial firms and funds to address inconsistencies. They noted different financial assumptions, which may reflect local circumstances, although the evidence at this stage is limited.

GAD has developed a solvency dashboard that identifies risks, although there are relatively few of these in the SLGPS. They also concluded that employer contributions are set at an appropriate level to ensure the long-term cost efficiency of the scheme.

Overall there were few significant concerns and the first formal report will be undertaken following the 2017 valuations.

Structure Review

The working group on the structural review of pension funds in Scotland presented an options paper to the SAB. It was agreed to present these options with no specific recommendations to the Cabinet Secretary for Finance and discuss with him arrangements for wider stakeholder consultation.

Pensionable Pay

Agreement has been reached on revised wording for the HR guide on the treatment of pay protection as pensionable pay. The revised guide gives examples of what is, and what is not pensionable pay, to assist local negotiations.

GMP indexation/equalisation

HM Treasury is consulting over three options. The SAB's response expressed a preference for the option which would convert the GMP element into the scheme on a 1:1 basis, with indexation applied to the full pension. It also argues that the additional cost burden should be met by the UK Government.

Governance Review

The public sector pension governance review has been published with a series of recommendations to strengthen governance in all schemes. The SAB has responded to the report and will give further consideration to the relevant recommendations.

Pension Developments

The SAB was updated on the recommendations of the Cridland review of the State Pension age which has implications for the Normal Retirement Age in the SLGPS.

The Financial Conduct Authority is consulting over measures to address investment management fee transparency and competition.

The Scottish Government is consulting over a new severance policy for Scotland. This has implications for the redundancy provisions of the SLGPS.

Further details on our website www.lgpsab.scot

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