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PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 14 SEPTEMBER 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, 14 SEPTEMBER 2017 at 10.00 AM

Lunch will be available at 12.30 pm in the Council Chamber for Pension Fund Committee and Pension Board Members.

J. J. WILKINSON,
Clerk to the Council,

7 September 2017

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 5 - 10) Minute of Meeting held on 22 June 2017 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Pension Fund Investment & Performance Sub-Committee (Pages 11 - 12) To note the Minute of the Pension Fund Investment and Performance Sub-Committee held on 21 August 2017. (Copy attached).	2 mins
6.	Environmental Social Governance (Pages 13 - 22) Presentation by Capital and Investment Manager. (Copy attached).	15 mins
7.	Voting Consultant - PIRC Presentation by Head of Public Policy and Engagement Services Manager, PIRC. (To follow).	45 mins
8.	Baillie Gifford Presentation by Andrew Cave, Baillie Gifford. (To follow)	45 mins
9.	Risk Register Update (Pages 23 - 30) Consider report by Chief Financial Officer. (Copy attached).	5 mins

10.	Guaranteed Minimum Pension (GMP) Reconciliation (Pages 31 - 36) Consider report by Chief Officer Human Resources. (Copy attached).	5 mins
11.	Budget Monitoring to 30 June 2017 (Pages 37 - 40) Consider report by Chief Financial Officer. (Copy attached).	5 mins
12.	Markets in Financial Instruments Directive (MiFID II) (Pages 41 - 44) Consider report by Chief Financial Officer. (Copy attached).	5 mins
13.	Communication Strategy (Pages 45 - 50) To consider report by Chief Financial Officer. (Copy attached).	20 mins
14.	Information Update (Pages 51 - 54) Consider briefing paper by Chief Financial Officer. (Copy attached).	10 mins
15.	Any Other Items Previously Circulated	
16.	Any Other Items which the Chairman Decides are Urgent	
17.	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."	
18.	Minute (Pages 55 - 56) Private Section of Minute of Meeting held on 22 June 2017 to be noted and signed by the Chairman. (Copy attached).	2 mins
19.	Pension Fund Investment & Performance Sub-Committee (Pages 57 - 60) To note the Private Minute of the Pension Fund Investment and Performance Sub-Committee held on 21 August 2017. (Copy attached).	2 mins
20.	Quarter Performance Update (Pages 61 - 100) Consider report by KPMG. (Copy attached).	30 mins
21.	Property Investment Update (Pages 101 - 104) To consider report by Chief Financial Officer. (Copy attached).	5 mins
22.	Infrastructure Investment - Project (Pages 105 - 110) Consider report by Chief Financial Officer. (Copy attached).	10 mins

NOTES

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

Membership of Committee:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, J. A. Fullarton, D. Moffat, S. Mountford, S. Scott, S. Aitchison, Mr E Barclay, Mr M Drysdale, Mr C Hogarth, Ms K M Hughes, Ms L Ross, Mr P Smith and Ms C Stewart

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

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

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

1. WELCOME AND INTRODUCTIONS

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

2. APPOINTMENT OF VICE CHAIR

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

DECISION

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

3. MINUTE

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

DECISION

NOTED for signature by the Chairman.

4. PRESENTATION - OVERVIEW OF PENSION FUND

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

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

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

DECISION

(a) **AGREED to request the Capital and Investment Manager circulate the presentation; and**

(b) **NOTED the presentation.**

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

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

DECISION

AGREED:

(a) **The revised Governance Policy and Compliance Statement 2017; and**

(b) **That the Governance Compliance Statement be included in the Pension Fund Annual Report and Accounts 2016/17.**

6. **FUNDING STRATEGY STATEMENT & STATEMENT OF INVESTMENT PRINCIPLES 2017**

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

DECISION

AGREED:

(a) **The Funding Strategy Statement set out in Appendix A, to the report; and**

(b) **The Statement of Investment Principles set out in Appendix B to the report.**

7. **PENSION ADMINISTRATION PERFORMANCE 2016/17**

There had been circulated a report by Chief Officer Human Resources presenting the Pensions Administration Performance for 2016/17 and requesting the Committee's approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report contained the Pensions Administration Performance for 2016/17 as it would be included in

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

DECISION

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

8. TRAINING PLAN 2017/18

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

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

DECISION

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

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

9. BUSINESS PLAN 2017/2018 - 2019/2020

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

DECISION

AGREED

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

10. RISK REGISTER UPDATE

- 10.1 With reference to paragraph 5 of the Minute of 16 March 2017, there had been circulated a report by Chief Financial Officer which formed part of the risk review requirements and provided the Pension Fund Committee and Pension Board with a full register and proposed management actions to mitigate risks. Identifying and managing risk was a corner stone of effective management and was required under the Council’s Risk Management Policy and process guide and CIPFA’s guidance “Delivering Governance in Local Government Framework 2007”. It was further reflected and enhanced in the “Local Government Pension Scheme” published by CIPFA. A full risk workshop was held on 10 May 2017, the output of this was shown in Appendix 1 to the report. In line with the Council’s Risk Management Policy (2015) a report to be presented at the September 2017 meeting would report progress on the management actions and present any new risks for consideration.
- 10.2 Members discussed Risk 4.1, relating to changes in the composition of Pension Fund membership, which might result in there being insufficient assets in the Fund to meet future liabilities. Mr Robertson advised that one of the options being considered for this Risk was changing the Fund’s Strategy to realise more income generating assets. Mr Robertson further advised that the impact of early retiral requests on the Pension Fund were also being closely monitored. Regarding Risk 6.2 – changes in legislation and regulatory frameworks which might impact adversely on the Fund, the risk was being managed by participation in CIPFA and the Scottish Pension Network, which ensured changes and impacts could be identified quickly.

DECISION

AGREED:-

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

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

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

DECISION

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

12. **INFORMATION UPDATE**

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

12.2 **Tri-Annual Valuation**

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

12.3 **On Boarding of New Managers**

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

12.4 **Investment in Infrastructure**

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

12.5 **ERP Implementation**

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

12.6 **Scheme Advisory Board Update**

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

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

12.8 **Future Meeting Dates**

Joint Pension Fund and Pension Board meetings were scheduled for:

Thursday, 14 September 2017
Thursday, 7 December 2017
Thursday, 8 March 2018
Thursday, 14 June 2018

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

DECISION

NOTED the information update.

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

SUMMARY OF PRIVATE BUSINESS

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

The meeting concluded at 3.35 pm

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

MINUTE of Meeting of the PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE held in KPMG, Saltire Court, 20 Castle Terrace, Edinburgh on Monday, 21 August 2017 at 10.30 am

Present:- Councillors D Parker (Chairman), J Brown, G Edgar, J A Fullarton, S Mountford, S Scott, Ms L Ross, Ms K M Hughes.
Apologies:- Councillor D Moffat, Mr C Hogarth, Mr P Smith.
In Attendance:- Chief Financial Officer, Capital & Investments Manager, Mr D O'Hara, Investment Advisor (KPMG), Mr A Singh, Support Consultant (KPMG) and Democratic Services Officer (J Turnbull).

1. **WELCOME AND INTRODUCTIONS**

The Chairman, Councillor Parker, welcomed officers and members to the Pension Fund Investment and Performance Sub-Committee and there was a round of introductions.

2. **MINUTE**

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

DECISION

NOTED for signature by the Chairman.

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

DECISION

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

SUMMARY OF PRIVATE BUSINESS

4. **PRIVATE MINUTE**

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

5. **INVESTMENT STRATEGY TRAINING**

The Sub-Committee received a presentation from KPMG on the role of the Investment Advisory, Evolution of the Fund and Strategic Allocation.

6. **QUARTER PERFORMANCE UPDATE TO 30 JUNE 2017**

To consider report on the Fund's Investment Performance by KPMG.

7. **PRESENTATION - MORGAN STANLEY**

The Committee noted the presentation by Morgan Stanley.

8. **PRESENTATION - UBS**

The Committee noted the presentation by UBS

9. **PRESENTATION - BAILLIE GIFFORD**

The Committee noted the presentation by Baillie Gifford.

10. **PRESENTATION - HARRIS ASSOCIATES**
The Committee noted the presentation by Harris Associates.

The meeting concluded at 4.45 pm.

SCOTTISH BORDER COUNCIL PENSION FUND

ESG

14 September 2017

ESG - Background

- Recent Legal Fiduciary Opinion
- ESG – currently form part of Statement of Investment Principles (SIP)
- Business Plan identified requirement to update ESG policy

FIDUCIARY DUTY

- Meaning of Fiduciary Duty
- Why does it effect Pensions Committee?
- Who is the duty owed to?

FIDUCIARY CONSIDERATIONS

- Any policy should not specifically exclude the choice of investment purely based on non-financial considerations
- Pension Committee should seek to obtain the best return for the fund while acting prudently
- There should be no policy in place that would restrict choice of investments available to the LGPS.

Effect of Fiduciary duty on Committee

- Statutory Framework
 - IORP
 - Investment Regulations
 - Prudent Man Test

ESG

Environmental	Social	Governance
<ul style="list-style-type: none"> • climate change • greenhouse gas (GHG) emissions • resource depletion, including water • waste and pollution • deforestation 	<ul style="list-style-type: none"> • working conditions, including slavery and child labour • local communities, including indigenous communities • conflict • health and safety • employee relations and diversity 	<ul style="list-style-type: none"> • executive pay • bribery and corruption • political lobbying and donations • board diversity and structure • tax strategy

Current Position

Contained with section 6 of SIP

- Committee recognises its responsibility to exercise voting rights
- Voting rights delegated to Fund Managers
- Investment managers encouraged to constructively engage with companies
- Attention drawn to remuneration packages
- Encourage Fund Managers to sign the United Nations Principles of Responsible Investment stewardship code

ESG Monitoring

CURRENT POSITION

- Information provided by Fund Managers on Votes
- Information summarised within quarterly performance monitoring reports by Investment Advisor

QUESTION – Is this enough?

ESG – next steps

- Conformation from current managers of adoption of UNPRI
- Improve monitoring of voting undertaken
- Inclusion in Decisions in SIP

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RISK REGISTER UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

14 September 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 update of the progress of the actions taken by management to mitigate these risks, a review of any new risks and highlights changes to any of the risks contained in the risk register..**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A full risk review was undertaken on 10 May 2017 and the revised risk register was approved by the Joint Pension Fund Committee and Pension Fund Board on 22 June 2017.
- 1.4 Appendix 1 details the risks within the approved risk register which have been identified management, actions and the progress of these actions to date.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Note the management actions progress as contained in Appendix 1;**
 - (b) **Notes no new quantifiable risks have been identified since the last review; and**
 - (c) **Agrees to a key risk review being undertaken in December 2017 and reporting of progress on the risk management actions.**

3 BACKGROUND

- 3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.3 The Pension Fund's Business Plan 2017/18 – 2019/20 was approved on 22 June 2017, setting out the aims and objectives of the Pension Fund. These aims and objectives 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 in order to ensure that the risk register's contents were still relevant and up-to-date. The outcome of the workshop was then considered and approved at the Committee/Board meeting on 22 June 2017. This report provides the quarterly review of risks and the progress of the actions.
- 4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.
- 4.3 No new quantifiable risks have been identified since the approval of the risk register on 22 June 2017. The risks previously identified and scored remain unchanged.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

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 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 or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been 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 22 June 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

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
1.1	Asset & Investment	Failure to achieve the target investment returns set out in the Statement of Investment Principles over the longer term may lead to significant increased employer contribution rates and costs of implementing changes to the investment strategy.	Inappropriate strategic asset allocation for Fund's requirements; Inappropriate investment approaches within asset class; Underperformance/ negative investment returns from investments under management; Significant and sustained market and economic events creating adverse movements in valuations; Investment Strategy inconsistent with Funding Strategy.	Significant rises in the employer contributions; Costs involved in implementing changes to investment strategy; Funding Deficit for Fund.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Actuary reports included element of prudence. TREAT Additional Actions Proposed: Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	Effective	4	3	12	Training requirements being actioned as part of Training plan to ensure have required skills and knowledge to enable challenge. Finalising performance monitoring and accounting information available from Custodian.
1.2	Asset & Investment	Failure of Fund's Custodian may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Inaccurate recording of asset transactions; Financial or internal controls fail to prevent fraud or misappropriation; Organisational failure resulting in closure of business/cessation of trading.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Robust procurement processes around the custodian; Reconciliation of Custodian to Investment Manager Records; Monitor custodian performance and credit rating; Monitoring of financial media; Covered by legal contract; Regulated by FCA, assets not on custodian balance sheet; Receipt of annual controls reports from Custodian's External Auditors; Annual External Audit Process; Legal recourse within contracts. TREAT Additional Actions Proposed: Annual review of Custodian performance	Effective	3	2	6	Annual review meeting scheduled for 13 Sept 2017
1.4	Asset & Investment	Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels	Committee ignores advice provided by expert adviser; External adviser provides inappropriate/inaccurate/insufficient advice to Committee/Officers.	Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Robust procurement processes around the recruitment and appointment process; 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	Training requirements being actioned as part of Training plan to ensure Members have required skills and knowledge to enable challenge.
1.9	Asset & Investment	Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap.	Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy	future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. As part of this assess requirement for Investment strategy to be reviewed and updated accordingly. TREAT Additional Actions Proposed: Undertake a full investment strategy review following 2017 valuation.	Effective	2	2	4	Initial findings of valuation due December 2017, Review of investment strategy to follow finalisation of valuation

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Pension Fund - Full Risk Register

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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	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	Data finalised and submitted to Actuary. Initial findings due December 2017 and finalised March 2018.
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/ Service Director of HR	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 <u>Additional Actions Proposed:</u> Full communications strategy being developed during 2017/18 to further improve Employer Engagement;	Effective	2	3	6	Separate paper to be presented at meeting to agree the Communication strategy and its implementation.
3.1	Resources & skills	Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively.	Available resource; Requirement to maintain admin costs; Absence of succession management in relation to supporting crucial aspects of the operation of the Fund.	May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively.	Ongoing	Chief Financial Officer/ Service Director of HR	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Restructure of teams to reduce single points of failure and manage succession planning. TREAT <u>Additional Action Proposed:</u> Improvement in quality of procedure notes for officers.	Effective	2	3	6	Action plan for the development and updating of procedure notes currently being developed following implementation of Business World. Will prioritise for perceived high risk and possible quick wins.
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/ Service Director of HR	Use of External Advisers provides additional resilience and resources; PRD process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Regular engagement with external Investment Managers to supplement knowledge. TREAT <u>Additional Action Proposed:</u> Improvement in quality of procedure notes for officers.	Partially Effective	2	3	6	Action plan for the development and updating of procedure notes currently being developed following implementation of Business World. Will prioritise for perceived high risk and possible quick wins.

Pension Fund - Full Risk Register

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
4.1	Liquidity	Changes in composition of Pension Fund membership, i.e. active/deferred/pensioners may lead to insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy.	Variance between CPI rates and pay increases; Fewer people joining; Other employers close funds; Economic drivers to reduce workforce.	Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due potentially increasing employers contribution levels and changes to the investment strategy.	Ongoing	Chief Financial Officer	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met; Use of an Investment Adviser and Actuarial services as and when required; Implementation of Auto-enrolment with final transition being completed by July 2017; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; TREAT Additional Actions Proposed: Continue review of cashflow scenarios to identify timelines and impact of changing legislation.	Partially Effective	4	4	16	Work partially completed for the cashflow modelling, remaining elements to be completed during 2017. Scenarios being identified for possible impacts of Pension Freedom and ERVS
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	Limited measures in place. Nationally negotiated rates/benefits with employee representatives (i.e. Trade Unions) on minimising employee contribution increases; Pay awards now being given, economy now improving; LGPS changes implementation of 50/50 option; Trade Union involvement in the Pension Board and Scheme Advisory Board; Communication issued with annual benefits statements. TREAT Additional Actions Proposed: Ensure regular information is issued to employees setting out the continued benefits of scheme membership e.g. tax relief on contributions/employers contribution; Communication strategy being developed.	Partially Effective	4	3	12	Separate paper to be presented at meeting to agree the Communication strategy and its implementation.
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/ Service Director of HR	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 Additional Actions Proposed: Development of communication strategy.	Effective	2	3	6	Separate paper to be presented at meeting to agree the Communication strategy and its implementation.

Pension Fund - Full Risk Register

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 08/12/2016
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	Daily and weekly monitoring of Pension Fund's Cashflows; TREAT Additional Actions Proposed: 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	Work currently underway to develop cashflow modelling. Scenarios being identified for possible impacts of Pension Freedom and ERVS. This will highlight any further possible changes required to asset allocation
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	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 Additional Action Proposed: Communication plan to be put in place to ensure employees notify employers of any changes.	Partially Effective	2	3	6	Separate paper to be presented at meeting to agree the Communication strategy and its implementation.
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	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	Separate paper to be presented at meeting to agree the Communication strategy and its implementation.
6.2	Regulatory & Compliance	Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	Central Govt. legislation changes.	Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members.	Ongoing	Chief Financial Officer/ Service Director of HR	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	Responding to all consultations and participating in all national groups. Chief Financial Officer active member of Director of Finance group. Monitoring Scheme Advisory Board web site on monthly basis
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/ Service Director of HR	Identify requirements of external advisers and appoint appropriately. TREAT Additional Actions Required: Implement annual review of Advisers;	Effective	2	2	4	Review meeting with Investment Advisor being scheduled for September

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GMP RECONCILIATION

Report by Chief Officer Human Resources

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

14 September 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to seek approval to engage external support to progress the reconciliation of Guaranteed Minimum Pension figures between the Pension Fund and Her Majesty's Revenue and Customs.**
- 1.2 The Business plan approved on 22 June 2017 agreed to the carrying out of a full reconciliation of Guaranteed Minimum Pension (GMP) amounts between the Pension Fund and Her Majesty's Revenue and Customs, this report now gives consideration as to how the Fund can achieve this.
- 1.3 The reconciliation exercise should be carried out for Stage 1 and Stage 2 as outlined in paragraph 4.4 through the use of external resource, with Stage 3 to be completed in house.
- 1.4 The appointment of external assistance to meet the deadline of 31 December 2018 is proposed to be undertaken via procurement under the Norfolk framework by direct award.

2 STATUS

- 2.1 Due to competing deadlines and the information gathering required for this report the consultation procedure was not complete prior to issuing the report to Committee. Comments received during the consultation will be highlighted at the meeting.

3 RECOMMENDATIONS

3.1 It is recommended that the Pension Fund Committee;

- (a) Agrees the use of the Norfolk Framework for the procurement;**
- (b) Agrees to the delegation of responsibility for the direct award of external resource to complete the GMP reconciliation exercise, capped at a maximum of £99,000 to the Chief Financial Officer.**

4 GMP RECONCILIATION

- 4.1 In 2014 it was announced that Pension Funds would be required to carry out a reconciliation exercise to validate the figures that they are holding for Guaranteed Minimum Pension (GMP) against those held by Her Majesty's Revenues and Customs (HMRC) following the abolition of contracting out for defined benefit schemes in April 2016. Due to conflicting demands, mainly dealing with the implementation of the new scheme rules this has not been progressed to date for the Fund.
- 4.2 There is a deadline of 31st December 2018 for completion of this exercise, at which time HMRC will no longer answer any enquiries around GMP and Pension Funds will be left with the liability for any individuals where there is a variance between Fund and HMRC figures. Thereafter, HMRC will be writing to all those individuals who will be affected by this to clarify the GMP they will receive and confirm which Fund will be responsible for paying it.
- 4.3 The process of reconciling data will be a resource intensive task and one that we have been unable to devote the required resource to due to conflicting priorities, mainly around the implementation of the new scheme legislation. With the deadline for completion of this exercise now looming large it is imperative that we look at how this exercise can be completed to ensure that the Fund are not left facing liabilities that should be met by another Fund.
- 4.4 There are generally three defined stages to the reconciliation process, as follows: -

Stage	Action
1	Comparison of HMRC records with those held on Altair, the Pensions Administration System, to establish the extent of the discrepancies between HMRC and Scottish Borders Pension Fund records
2	Reconciliation of discrepancies between HMRC and Scottish Borders records for Active, Deferred and Pensioners
3	Rectification of benefits for members where it has been confirmed in stage 2 that incorrect figures have been used in the administration process, this may be amending figures held for future use or adjusting payments that have been processed

- 4.5 The key stages in terms of date constraints are stage 1 and 2, these must be completed by 31 December 2018 to ensure the Fund is not left with any liabilities that should be met by other Funds, with HMRC not accepting any new queries from Funds after October 2018.
- 4.6 The Pensions Administration Team for the Fund is a small team and do not have capacity to deal with this time consuming exercise on top of day to day tasks. It is generally recognised the administration of the LGPS has become increasingly complex following wave after wave of scheme reforms, this has placed administering authorities under immense pressure and stretched resources to their limits.

- 4.7 To ensure best value in the appointment of the provider it is proposed the Norfolk framework is used. This framework allows for a streamlined process of procurement due the work previously undertaken in developing the framework shortlist. With the timeframe that we are working within it is proposed that we use a direct award approach in order to maximise the available time for completion of the reconciliation.

5 IMPLICATIONS

5.1 Financial

- (a) To allow the Fund to utilise the Norfolk Framework there is a one off joining fee of £1,500. This will allow the fund access to undertake any procurement under the framework for "Pensions Administration Support Services". This cost will be fully met from the Pension Fund. This is not an additional cost to that proposed in the Communication Strategy Paper.
- (b) The cost for undertaking the GMP reconciliation for Stage 1 and 2 is estimated at a maximum of £99,000, this is based on a proposal that we have had from one of the providers named on the Norfolk Framework. These costs will be fully met from the Pension Fund.

5.2 Risk and Mitigations

The failure to undertake the GMP reconciliation may lead to the Pension Fund being left with paying liabilities that are not actually the responsibility of the Fund.

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk and the Clerk to the Council are being consulted on and comments received will be reported at the meeting.

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 & Board, 22 June 2017

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PENSION FUND BUDGET MONITORING TO 30 JUNE 2017

Report by Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

14 September 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 30 June 2017 including projections to 31 March 2018.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards a budget was approved on 16 March 2017 following the recommendations within the CIPFA accounting guidelines headings. This report is the first quarterly monitoring report of the approved budgets.
- 1.4 The total expenditure to 30 June 2017 is £0.026m with a projected total expenditure of £3.928m. This is against an approved budget of £3.829m giving a negative variance of £0.099m. The variance has resulted from the externalisation of the GMP reconciliation as detailed in a separate report.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:-**
 - (a) Notes the actual expenditure to 30 June 2017; and**
 - (b) Agrees the projected expenditure of £3.928m as the revised budget.**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report on an annual basis within its Annual Report if it has met these standards. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 A budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 16 March 2017 for 2017/18. The approved budget follows the Local Government Pension Scheme management costs guidance issued by CIPFA into the following 3 categories.

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

4 MONITORING TO 30 JUNE 2017

- 4.1 The table below shows the expenditure to 30 June 2017, projected out-turn to 31 March, full year budget

	Expenditure to 30 June 17 £000's	Projected to 31 March 18 £000's	2017/18 Budget £000's	2017/18 Variance £000's
Investment Management	28	3,330	3,330	0
Administration	14	385	286	(99)
Oversight & Governance	(16)	213	213	0
Total	26	3,928	3,829	(99)

- 4.2 Investment Management fees are charged on a quarterly basis in arrears based on the value of assets held on a quarterly basis. The first quarter investment management fees are not therefore included in the expenditure to 30 June 2017 totals.

4.3 The projected overspend for administration represents the additional cost to the fund for the externalisation of the GMP reconciliation. A separate report on this is included on the agenda.

5 IMPLICATIONS

5.1 Financial

There are not costs attached to any of the recommendations contained in this report.

5.2 Risk and Mitigations

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

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

There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

6 CONSULTATION

6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been 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: Joint Pension Fund Committee and Pension Fund Board 16 March 2017

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MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE- (MiFID II)

Report by Chief Finance Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

14 September 2017

1 PURPOSE AND SUMMARY

- 1.1 This report provides information on the rules for implementation of the Markets in Financial Instruments Directive (MiFID II), which is effective from 3 January 2018.**
- 1.2 Following a review by the European Commission the rules for Markets in Financial Instruments Directive (MiFID) is due to change on 3rd January 2018. The change will result in all UK Local Authority pension funds being automatically reclassified from "professional investors" to "retail" clients by default.
- 1.3 The re-classification of "retail" will result in the Fund being unable to invest any financial instrument including the Fund's current investments as set out in Funds Investment Strategy. To allow continued investment in the required classes the Fund requires to apply to "opt-up" to "professional" status.
- 1.4 The Local Government Association is currently developing a reporting template in conjunction with the Investment Association, which the Fund will be able to utilise for the "opt up" process.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:**
 - (a) Notes the pending reclassification of the Fund to "retail" status under MiFID II**
 - (b) Agrees the Fund will complete the required documentation to "opt up" and:**
 - (c) Agrees to notify the Fund's Investment Managers and the Custodian of the intention to "opt-up"**

3 BACKGROUND

- 3.1 The European Commission has previously instigated a review of MiFID due to the increasing complexity of financial products and issues related to the 2008 financial crisis. The outcome of the review was a revised Directive, MiFID II, which is to take effect from 3 January 2018.
- 3.2 During 2016 and early 2017, the FCA consulted on the implementation proposals for MiFID II. On 3 July 2017, the FCA published a policy statement setting out the final rules on a number of matters.
- 3.3 It is a MiFID II requirement for local authorities (currently treated as professional investors) to be classified as "retail" clients by default. Under such a classification, Fund managers would be unable to deal with the Council acting on behalf of the fund; LGPS Funds would face a reduced investment opportunity set in future and face the potential need to sell assets in advance of MiFID II coming into effect.
- 3.4 The FCA has acknowledged this and, recognising that the LGPS already has its own governing regulations and oversight bodies, has revised its criteria for opting-up with the aim of making it easier for local authorities investing on behalf of a local government pension fund to opt-up to "professional" client status.

4 NEXT STEPS

- 4.1 To ensure the Fund can continue to access a wide range of investment opportunities required to maintain the returns the Pension Fund will require to apply to Opt-up to "professional" status.
- 4.2 The FCA has established a combination of quantitative and qualitative tests. These are shown below

Quantitative test
Portfolios minimum size requirement of £10m

AND

One of the following tests:

- has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters.
- Person authorised to carry out transactions on behalf of the client works, or has worked in the financial sector for at least one year in a professional position which requires knowledge of the provision of services envisaged.
- The client is an "administering authority" of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity.

- 4.3 The qualitative test requires an adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged that the client is capable of making his own investment decisions and understanding of the risks involved. However, in acknowledgement to typical LGPS governance arrangements (including the role of the elected committees), the final policy statement states that firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions.
- 4.4 The FCA's final Policy Statement gives greater clarity regarding LGPS funds and the actions to be taken for local authorities to opt up to professional status. Officers are comfortable that the Pension Fund has the requisite knowledge and experience to meet the criteria required to gain professional investor status.
- 4.5 The LGA are developing a reporting template with the Investment Association to simplify the opting-up process for investment managers. Once these documents become available, officers will complete them and apply for professional status. In the meantime the Chief Financial Officer will inform Investment Managers of the funds intention to opt-up to professional status.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications arising from this report

5.2 Risk and Mitigations

- (a) If the Fund chooses not to, or is unable to, opt-up to professional status the fund would be required to disinvest from all fund managers. The only option for investment under this scenario would be Term deposits or general bank deposits which would not produce the returns or risk profile required to meet the Fund's objectives.
- (b) The custodian Northern Trust has notified all its clients that it is unable under the FCA rules to provide services to "retail" status clients. To ensure the Fund is able to retain the services of Northern Trust requires the Fund to Opt-up to professional status.

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**

There are 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 Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference:

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COMMUNICATION STRATEGY

Report by Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

14 September 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to approve the Communication strategy for the Pension Fund which will improve engagement with its members and enhance the availability of information via the establishment of a website for the Pension Fund.**
- 1.2 The Business plan approved on 22 June 2017 agreed to the development of a Communication strategy and establishment of a web site for the Pension Fund.
- 1.3 The overarching communication strategy is detailed in paragraph 4.2 of the report and covers communication with all stakeholders.
- 1.4 The implementation of the communication strategy and its website is proposed to be undertaken via a procurement under the Norfolk framework. The key dates of the procurement are detailed in paragraph 4.6.
- 1.5 Under the procurement a shortlist of bidders will be asked to present to Members of the Pension Fund Appointment Sub-Group with the final recommendations being presented to the Joint Pension Fund Committee and Pension Fund Board on 8th March 2018.

2 STATUS

- 2.1 Due to competing deadlines and the information gathering required for this report the consultation procedure was not complete prior to issuing the report to Committee. Comments received during the consultation will be highlighted at the meeting

3 RECOMMENDATIONS

3.1 It is recommended that the Pension Fund Committee;

- (a) Agrees the Communication strategy as detailed in paragraph 4.2;**
- (b) Agrees the use of the Norfolk Framework for the procurement;**
- (c) Agrees the timetable as detailed in paragraph 4.6; and**
- (d) Notes a further report and update will be provided at future meetings.**

4 COMMUNICATION STRATEGY

- 4.1 The Business Plan approved on 22 June 2017 by the Joint Pension Fund Committee and Board agreed to the action to "Develop and implement an effective communication strategy for the Pension Fund"
- 4.2 The overarching communication strategy for the Pension Fund is proposed below:
- To Communicate clearly with all Pension Fund Stake holders;
 - To highlight the benefits of membership and maximise participation in the Fund;
 - To encourage/inform members of the options open to them in planning their retirement;
 - To provide clear information regarding the Fund's performance, investments and governance arrangements; and
 - To ensure members can access high quality information regarding their pension.
- 4.3 Information is currently available via the Scottish Borders Council website including the Annual Report, Statement of Investment Principles, Minutes of meetings etc. They are however not all contained in one area and are at times difficult to locate.
- 4.4 A number of other LGPS Funds currently have dedicated websites for their Funds including Falkirk, Tayside, Lothian and Strathclyde. The websites provide full details of the Fund for all stakeholders including Members and Employers. The websites for a number of the Funds are hosted by Hymans Robertson who supply and update the scheme information for changes in legislation.
- 4.5 It is was agreed within the Business Plan on 22 June 2017 that the Scottish Borders Pension Fund would establish a similar web presence to provide a similar high quality single point of reference for all stakeholders regarding the Pension Fund. It is proposed this is hosted and maintained by an external provider, due to the resources and complexity of the information required for the web site.

- 4.6 To ensure best value in the appointment of the provider it is proposed the Norfolk framework is used. This framework allows for a streamlined process of procurement due the work previously undertaken for companies to be included in the framework. The table below details the proposed timetable for the procurement

Activity	Target Date
Completion of procurement documentation	10 November 2017
Issue of tender documents	30 November 2017
Deadline for clarification questions	5 January 2018
Issue responses to clarifications	12 January 2018
Deadline for tenders	31 January 2018
Bidder Presentations	TBA
Tender Evaluation	16 February 2018
Recommendation to Pension Fund Committee	8 th March 2018

- 4.7 The Pension Fund Appointment Sub-Group with Officers will undertake the evaluation and provide a recommendation to the Joint Committee and Board on 8th March 2018.

5 IMPLICATIONS

5.1 Financial

- (a) To allow the Fund to utilise the Norfolk framework there is a one off joining fee of £1,500. This will allow the Fund access to undertake any procurement under the framework for "Pensions Administration Support Services". This cost will be fully met from the Pension Fund.
- (b) The establishment of a website will incur one off set up and recurring maintenance costs. The set up costs are estimated at £20k and the recurring costs estimated at £3k per annum. These costs will be fully met from the Pension Fund.
- (c) Once approved these costs will be reflected in the budget and projections shown in future "Budget Monitoring" reports

5.2 Risk and Mitigations

The communication strategy and its implementation is a key area of improvement identified in the Pension Funds risk register. The implementation of the strategy will provide improved mitigation on a number 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 Service Director HR and the Clerk to the Council is being consulted on and comments received will be reported at the meeting.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Capital and Investment Manager, 01835 8252479
Ian Angus	HR Shared Services Manager, 01835 826696

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee & Board, 22 June 2017

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INFORMATION UPDATE

Briefing Paper by Chief Financial Officer

PENSION FUND COMMITTEE & PENSION BOARD
14 September 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. Initial data has been submitted to Barnet Waddingham who will undertake a data cleanse process, which may produce queries. All queries and data will be completed by end Sept to allow the findings to be reported the Joint Pension Fund Committee and Pension Fund Board on 4th December 2017.

3 PROGRESS ON INVESTMENT STRATEGY IMPLEMENTATIONMANAGERS

- 3.1 The revised Investment Strategy approved in September 2016 and then updated on 16 March 2017 to include an allocation to infrastructure resulted in a 3 new managers and the requirement to rebalance a number of investment categories.
- 3.2 Following a procurement process new managers were appointed for Private Credit and Long Lease Property. All the necessary documentation being completed during December 2016.
- 3.3 Due to the nature of the new investments and also the notice period for disinvestment of funds from LGT for the Alternative allocation the implementation of the full Strategy will take a couple of years.

3.4 The table below details the progress to date on the movements up to 30 August 2017.

Category	Manager	Required move	Position
Alternatives	LGT	Reduction from 15% to 7.5%	Full reduction complete
Long Lease Property	Blackrock	New allocation of 10%	£13.5m invested, balance to draw down £53m
Private Credit	Partners/Permira	New allocation of 10%	£22.5 invested, balance to draw down £44m
Index Linked Gilts	M&G	New allocation of 5%	Full allocation complete
Corporate Bonds	M&G	Reduce allocation from 2.25% to 0%	Paper work submitted will complete 2 Oct 17
Fixed Income Gilts	M&G	Reduce allocation from 2.25% to 0%	Paper work submitted will complete 2 Oct 17
Diversified Credit	M&G	Increase allocation to 10%	Paper work submitted will complete 2 Oct 17
Infrastructure	Collaboration with Lothian Pension Fund	New allocation of 5%	Initial allocation of £1.5m complete, balance of £31m to invest

4 SCHEME ADVISORY BOARD UPDATE

- 4.1 Following the recent local elections the membership of the Scheme Advisory Board, representing the Employer side, is currently being finalised. Nominations have been submitted to COSLA from most parties; however nomination from one party is currently outstanding.
- 4.2 Following receipt of the final nomination formal appointment letters will be issued by SPPA. The first meeting of the new Board is anticipated to be early October.

5 TRAINING OPPORTUNITIES

- 5.1 Investment training opportunity provided by LGC has been circulated to all Members of the Board and Committee. Training is two half days on **31 October** and **1st November** in Edinburgh. The following individuals have been registered to attend D Parker, S Mountford, G Edgar, J Fullarton, J Brown, S Scott, P Smith, E Barclay, M Drysdale, K Hughes and C Hogarth.

- 5.2 The IGG Group which is a Pension Fund Officer group for LGPS's in Scotland and Northern Ireland is currently in the process of organising a training event on **21 November 2017**. This will take place at COSLA Offices in Edinburgh and the agenda will be circulated once finalised.
- 5.3 To assist Members of the Board and Committee to complete their Pension Fund Regulator Trustee model Officers will be available in the Old Convenors office **17th and 18th October** to assist. Members are welcome to drop in at any time.

6 FUTURE MEETING DATES

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

Meeting	Date
Joint Pension Fund Committee & Board	4 December 2017
	8 March 2018
	14 June 2018
Performance & Investment Sub Committee	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

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