

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in Council Chamber, Council Headquarters,
Newtown St Boswells on Thursday, 8 March
2018 at 10.00 am

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

Apologies:- Councillor J Fullarton.

In Attendance:- Chief Financial Officer, Pensions and Investment Manager, HR Shared
Services Team Leader, Mr A Hodgson and Mr A Singh (KPMG), Democratic
Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 4 December 2017.

DECISION

NOTED for signature by the Chairman.

MEMBER

Councillor Aitchison joined the meeting.

2. **PENSION FUND WEBSITE - PRESENTATION**

2.1 The Chairman welcomed to the meeting Mr Peter Feerick, from Hymans Robertson, who was in attendance to introduce the Pension Fund Committee and Pension Board's new website. He explained that the website would include 110 pages of standard content on the Local Government Pension Scheme (LGPS) with 10 pages customised to the Scottish Borders Council Pension Fund. These webpages could be updated by officers when required. The Committee and Board then viewed the site and Mr Feerick highlighted the various options available on the site, including information on membership contributions and how the scheme worked.

2.2 In response to questions, the Pensions and Investment Manager, Mrs Robb, advised that information on the Pension Fund Committee and Pension Board membership had been included and there were links to the Committee and Board's agendas and minutes on Modern.Gov. However, private content would only be accessible by members of the Committee and Board. In the future, there would be information added to enable employees to calculate their individual pension entitlement; in the meantime staff were referred to the Council's pension specialists who were part of the HR shared services team and their contact information was included on the website. There had been a £2,000 setting up fee for the website and the annual maintenance charge was £4,000. The website would be launched on 31 March 2018. Mrs Robb would liaise with the Council's Communications department to arrange publicising and promoting the website to staff.

DECISION

NOTED the new Pension Fund Website.

3. **RISK REGISTER UPDATE**

With reference to paragraph 3 of the Minute of 4 December 2017, there had been circulated a report by the 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 review was undertaken on 10 May 2017 and the revised Risk Register was approved by the Joint Pension Fund Committee and Pension Board on 22 June 2017. Appendix 1 to the report detailed the risks within the approved Risk Register which have been identified as management actions and the progress of these actions to date. Mrs Robb advised that the five risks detailed in the report, associated with the Communication Strategy, would be rescored following the launch of the website content. With regard to Risk 4.6, Liquidity, KPMG were investigating investment manager's projections and a report would be presented to the June meeting of the Pension Fund Committee and Pension Board. Risks 1.1 and 1.4 - ensuring members of the Committee and Board had the required skills and knowledge to manage the Fund, would be reduced as all members completed the Trustee Toolkit modules. The Committee and Board agreed that Risk 6.2, Regulatory & Compliance, be scored higher because of the lack of information from the Scheme Advisory Board on the governance and structure review.

DECISION

(a) AGREED:

- (i) To a full risk review during June 2018:**
- (ii) To request Risk 6.2 Regulatory and Compliance, be amended to reflect concerns around potential changes in governance and structure.**

(b) NOTED:

- (i) Management actions progress as contained in Appendix 1 to the report;**
- (ii) The website going live on 31 March 2018 would complete five of the agreed actions;**
- (iii) A report on cash flow actions would be presented to the Committee and Board in June 2018; and**
- (iv) No new quantifiable risks had been identified since the last review.**

4. BUDGET MONITORING TO 31 DECEMBER 2017

With reference to paragraph 5 of the Minute of 4 December 2017, there had been circulated a report by the Chief Financial Officer providing the Pension Fund Committee and Pension Board with an update position of the Pension Fund budget to 31 December 2017 including projections to 31 March 2018. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards, a budget was approved on 16 March 2017, following the standard presentation recommended by the CIPFA accounting guideline headings. The report was the third quarterly monitoring report of the approved budgets and detailed the total expenditure to 31 December was £0.623m with a projected total expenditure of £8.208m. This was against an approved budget of £3.928m giving a negative projected variance of £4.280m. Mrs Robb highlighted that the negative variance was mainly due to the increased fees associated with the increased value of the Fund and one off transaction costs associated with stamp duty incurred due to the rebalancing of the Fund to allocate resources to Long Lease property as per the investment strategy. Members expressed concern that transaction costs had not been reported when they had considered changes to the investment strategy. Mr Hodgson, KPMG, advised that the charge was not quoted on the documentation they had received

from Blackrock. However, the cost would be recouped through performance of the Fund. Going forward such charges would be shown under the Transparency Code for investment management fees.

DECISION

(a) AGREED the budgets were amended to reflect the projected out-turn.

(b) NOTED the actual expenditure to 31 December 2017.

5. INFORMATION UPDATE

5.1 There had been circulated a briefing paper by the Chief Financial Officer providing the Committee and Board with an update on a number of areas which were being monitored and areas where work was progressing. Full reports on individual actions would be tabled as decisions and areas were required. In summary:-

5.2 GMP Reconciliation

The HR Shared Services Team Leader advised that Stage 1 of the Guarantee Minimum Pension (GMP) reconciliation had been completed by ITM Limited. It was noted that 28% of fund members had been reconciled, 31% were out with the scope for reconciliation and 41% were still to be reconciled. The next stage of the project was the reconciliation of discrepancies between HMRC and the Council. Monthly updates on progress would be received from ITM Limited.

5.3 Progress on Investment Strategy Implementation Managers

The revised Investment Strategy was now fully invested in Long Lease Property. Investment in Private Credit would be drawn down over the next two years. With regard to Infrastructure investment, this continued to be implemented as and when suitable opportunities arose.

5.4 Scheme Advisory Board Update

A meeting had been held on 24 January, items on the agenda included governance and structure review. There were four possible options for the structure review although no details had been supplied. The Chairman had written to the Minister Derek Mackay expressing concern at the lack of meaningful consultation with Council's and Administering Authorities regarding the review options and requested improved engagement in the future. Councillor Mountford advised that the next meeting of SAB was scheduled for 13 April; hopefully this would include feedback on the consultation process.

5.5 Training Opportunities

The training policy required all members of the Board and Committee to complete the Trustee Toolkit within six months. It was noted that three members still needed to complete the training. The monitoring of this target would be reported to the June joint meeting and all members were requested to complete the training requirement by that date.

5.6 Future Meeting Dates

Mrs Robb advised that owing to the increase in Investment Managers, an additional Performance & Investment Sub-Committee was required. The three new meeting dates would be advised as soon as agreed.

Joint Pension Fund Committee and Pension Fund Board:

14 June 2018
13 August 2018
6 December 2018
7 March 2019

DECISION

NOTED:

(a) the information update;

(b) That dates for the Pension Fund Performance & Investment Sub-Committee meetings be advised.

6. GENERAL DATA PROTECTION REGULATIONS (GDPR)

6.1 There had been circulated a report by the Chief Officer Human Resources advising on the requirements for the General Data Protection Regulation (GDPR) due to come into force on 25 May 2018 and the implications for the Pension Fund. The Scottish Borders Council Pension Fund, as part of a public authority, was required to comply with the regulations and implement the changes as required. Scottish Borders Council had established a project to assess the GDPR regulations and its impact on the Council as a whole. The project would also determine any gaps in existing controls and sought to implement a robust framework for managing compliance into and post 2018. The considerations of the GDPR for the Pension Fund would be taken into account under the project being progressed by the Council and any recommendations for change would follow whilst taking account of specific advice from a Pension perspective, specifically guidance due to be issued by the Local Government Association (LGA).

6.2 The Committee and Board noted that an additional comment had been received since publication of the report as follows: "The GDPR project had identified risks which were managed following the Corporate Risk Management Policy and Framework. The GDPR Project Board provided the required governance and oversaw these risks with regular reporting from the project manager. In addition the Information Governance Group also held a risk register where the strategic GDPR risks have been identified and managed. The Pension Fund would undertake the required actions identified by the GDPR project and by following the Pensions specific advice from the Local Government Association to ensure compliance with the legislation." In response to a question the Chief Financial Officer confirmed the project was on course.

DECISION

(a) AGREED that the Pension Fund would follow the direction of Scottish Borders Council whilst taking account of advice specific from a Pension perspective.

(b) NOTED the new requirements under the General Data Protection Regulations effective from 25 May 2018.

7. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Mr Hodgson, KPMG gave a review of the Funds Environmental, Social and Governance (ESG) policy, a copy of KPMG's overview had been circulated with the Agenda. Mr Hodgson began by advising that recent regulatory changes required Local Government Pension Schemes (LGPS) to address issues of responsible investment. He referred to differing options the Committee and Board could consider to incorporate ESG into the Fund's investment strategy. He explained that doing nothing was not an option as this carried financial and reputational risk. Presently, the Committee and Board encouraged Investment Managers to sign up to the United Nations Principles Responsible Investment (UNPRI) Stewardship Code. All equity managers with active portfolios had signed up, with the exception of Harris Associates who were exploring the opportunity of becoming a signatory. Mr Hodgson suggested that the Committee and Board might wish to consider undertaking a more detailed review of each investment manager's approach to ESG, if there was any financial risk and the merit of exploring different passive indices. During the ensuing discussion it was agreed that the preference was for a light touch approach to managing ESG. However, it was important to evidence, to Pension Fund members, the management and monitoring of ESG. Mrs Robb advised that the Pension Fund Investment & Performance Sub-Committee received annual presentations from

investment managers and were able to engage proactively with managers at these meetings. A report on the Investment Strategy would also be presented to the Committee and Board at the June meeting, which would include detail on how ESG was monitored and managed to ensure that Investment Managers were fulfilling the Fund's ESG responsibilities.

DECISION

NOTED the report.

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 4 December 2017.

10. **QUARTER PERFORMANCE UPDATE TO 31 DECEMBER 2017**

The Committee noted a private report by the KPMG.

The meeting concluded at 11.45 am