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PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 14 JUNE 2018

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in
COMMITTEE ROOMS 2 AND 3, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on
THURSDAY, 14 JUNE 2018 at 10.00 AM

J. J. WILKINSON,
Clerk to the Council,

7 June 2018

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 5 - 10) Minute of Meeting held on 8 March 2018 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 Performance Sub-Committee held on 26 February 2018. (Copy attached).	2 mins
6.	Triennial Valuation as at 31 March 2017 (Pages 13 - 22) Consider report by Chief Financial Officer (Copy attached).	10 mins
7.	Fund Strategy Statement 2018 (Pages 23 - 38) Consider report by Chief Financial Officer. (Copy attached).	10 mins
8.	Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2017/18 (Pages 39 - 42) Consider report by Chief Officer Audit & Risk. (Copy attached).	10 mins
9.	Governance Policy & Compliance Statement 2018 (Pages 43 - 60) Consider report by Chief Financial Officer. (Copy attached)	10 mins

10.	Pension Administration Performance 2017/18 (Pages 61 - 68) Consider report by Chief Officer Human Resources. (Copy attached).	10 mins
11.	Training Plan 2018/19 (Pages 69 - 82) Consider report by Chief Financial Officer. (Copy attached).	10 mins
12.	Business Plan 2018/19 to 2020/21 (Pages 83 - 106) Consider report by Chief Financial Officer. (Copy attached).	15 mins
13.	Risk Register Update (Pages 107 - 122) Consider report by Chief Financial Officer. (Copy attached).	10 mins
14.	Pension Fund Budget Monitoring to 31 March 2018 and Budget 2018/19 (Pages 123 - 128) Consider report by Chief Financial Officer. (Copy attached).	10 mins
15.	Draft Annual Report & Accounts 2017/18 Consider report by Chief Financial Officer. (To follow).	10 mins
16.	Information Update (Pages 129 - 132) Consider briefing paper by Chief Financial Officer. (Copy attached).	10 mins
17.	Any Other Items Previously Circulated	
18.	Any Other Items which the Chairman Decides are Urgent	
19.	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 Part 1 of Schedule 7A to the aforementioned Act.”	
20.	Minute (Pages 133 - 134) Private Section of Minute of Meeting held on 8 March 2018 to be noted and signed by the Chairman. (Copy attached).	2 mins
21.	Pension Fund Investment Performance Sub-Committee (Pages 135 - 140) To note the private minute of the Pension Fund Investment Performance Sub-Committee held on 26 February 2018	2 mins
22.	Quarter Performance Update (Pages 141 - 188) Consider report by KPMG. (Copy attached).	45 mins
23.	Infrastructure Investment Update (Pages 189 - 196) Consider report by Chief Financial Officer. (Copy attached).	20 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, Ms K M Hughes, Ms L Ross, Mr P Smith, Ms C Stewart and Mr J Terras

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SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

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

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

MINUTES of Meeting of the PENSION FUND
INVESTMENT AND PERFORMANCE SUB-
COMMITTEE held in KPMG, Saltire Court,
20 Castle Street, Edinburgh EH1 2EG on
Monday, 26 February 2018 at 11.00 am

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

1. **MINUTE**

The Committee noted the Minute of the meeting of 21 August 2017.

2. **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

3. **PRIVATE MINUTE**

The Sub-Committee noted for signature the Private Minute of 21 August 2017.

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

The Committee noted the report by KPMG.

5. **PRESENTATION - M & G INVESTMENTS**

The Committee noted the presentation by M&G Investments.

6. **PRESENTATION - LGT CAPITAL PARTNERS**

The Committee noted the presentation by LGT Capital Partners.

7. **PRESENTATION - PARTNERS GROUP**

The Committee noted the presentation by Partners Group.

8. **PRESENTATION - PERMIRA DEBT MANAGERS**

The Committee noted the presentation by Permira Debt Managers.

9. **PRESENTATION - BLACKROCK UK LONG LEASE PROPERTY FUND**

The Committee noted the presentation by Blackrock.

The meeting concluded at 5.05 pm.

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TRIENNIAL VALUATION AS AT 31 MARCH 2017

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

14 June 2018

1 PURPOSE AND SUMMARY

- 1.1 **This report details the outcome of the triennial valuation of the Scottish Borders Council Pension Fund as at the 31 March 2017 and proposes the employer contribution rates for the next three years.**
- 1.2 The full Valuation Report prepared by the Fund actuary Barnett Waddingham is contained in **Appendix A** and concludes that the Scottish Borders Council Pension Fund has a funding level of 114% compared to the previous 2014 valuation of 101%. This equates to a funding surplus of £80.6m.
- 1.3 The revised "Primary rate" calculated has increased from 18% to 20.6%. However to allow employer contributions to remain stable the Actuary has recommended the surplus be utilised over a 53 year period. This will allow the "Pool" rate to remain at 18% of payroll for most employers who participate in the scheme on an open basis.
- 1.4 Scottish Borders Housing Association (SBHA) and CGI are both operating as closed funds with new employees unable to join the fund. Due to the increased risk with these employers, individual rates are recommended by the Actuary. The recommended rates from 1st April 2018 for these are 21.1% for SBHA and 19.8% for CGI.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Fund Valuation Report as at 31 March 2017 as set out in Appendix A and the resulting employer contributions rates proposed are approved, and applied from 1 April 2018.**

3 BACKGROUND

- 3.1 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 three years. The regulation requires the methodology used for the valuation "must have regard to" the following requirements:-
- Desirability of maintaining as nearly constant a primary rate as possible
 - The current version of the administering authority's funding strategy statement
 - The requirement to secure the solvency of the pension fund; and
 - The long term cost efficiency of the Scheme, so far as relating to the pension fund.
- 3.2 The valuation is based on the membership data, benefits accrued and estimates of futures benefits as well as the value of assets held and the future performance of these assets. Key assumptions are agreed with the Actuary around future pay increases, inflation and future performance of assets. The previous valuation as at 31 March 2014 showed a funding position of 101%.
- 3.3 The valuation also set the contribution rate for employers for the next three years. The valuation undertaken as at 31 March 2014 resulted in the common pool contribution rate of 18% of payroll, 15.5% for Leisure Trust pool and 19% for SBHA a closed fund.
- 3.4 Since the 2014 valuation BSLT has restructured into LIVE Borders and returned to the common pool rate of 18%. Jedburgh Leisure has also decided to return to the common pool. The Leisure Trust Funding Pool is therefore no longer required.

4 TRIENNAIL VALUATION AS AT 31 MARCH 2017

- 4.1 The valuation shows that the **funding level of the Fund as at 31 March 2017 is 114%** which compares with 101% at the previous 31 March 2014 valuation date and 96% at the March 2011 valuation. The detailed Valuation Report is contained in **Appendix A**.
- 4.2 The key assumptions adopted in the valuation, by the Actuary are set out in the table below

Financial Assumption	31 March 2017	31 March 2014
Discount rate	5%	5.5%
Pay Increases	3.8%	4.6%
Pension Increase	2.8%	2.8%

- 4.3 The following table summarises the position of the overall valuation result for the Fund:

Valuation	31 March 2017 £m	31 March 2014 £m
Value of Scheme Liabilities	573.3	487.6
Smoothed Asset Value	653.9	490.5
Surplus/(deficit)	80.6	2.8
Funding Level	114%	101%

- 4.4 The improvement of the funding position since the previous valuation is mainly due to a stronger return on investment than that assumed in the previous valuation.
- 4.5 Changes to the assumptions around demographics and mortality have also been made. These changes increased the future liabilities of the fund but were offset by the increased investment returns.
- 4.6 Based on the current funding position of the fund and the prudent assumptions used in the valuation the average primary rate has increased from 18% to 20.6%. However to allow overall contributions to remain stable and due to the surplus of £80.6m held the actuary has recommend an element of the surplus is utilised to reduce employer contribution rates. The table below details the employer contribution rates for each employer to be applied from 1st April 2018. All employers have been notified of these rates.

Employer	2018/19 rate %	Previous rate %
Scottish Borders Council Funding Pool		
Scottish Borders Council	18.0	18.0
Borders College	18.0	18.0
LIVE Borders	18.0	18.0
SB Cares	18.0	18.0
AMEY	18.0	18.0
Visit Scotland	18.0	18.0
Jedburgh Leisure Trust	18.0	15.5
Individual Employers		
Scottish Borders Housing Association	20.3	19.0
CGI	21.1	19.8

- 4.7 Individual Employer rates have been set for both SBHA and CGI due these funds being closed to new entrants.

5 IMPLICATIONS

5.1 Financial

This report contains the recommendations on the future employer contribution rates for the Council for the next 3 years. The recommendation is that these do not change from the current level and therefore there will be no additional financial consequences relating to these contributions for all employers with the exception of SBHA and CGI which are both closed to new entrants.

5.2 Risk and Mitigations

- (a) The triennial valuation process is part of the risk management framework for the Pension Fund and ensures that the assets and liabilities are assessed to determine the ability of the Pension Fund to meet its future pension liabilities.
- (b) The March 2017 Valuation is based on a series of actuarial assumptions including the level of investment returns, mortality and ill health rates and retirement date assumptions. Any deviations from these assumptions over time may have positive and negative effects on the funding levels of the Pension Fund.
- (c) The continuing uncertainty in the global economic climate means that investment returns, in particular, are subject to short and medium term volatility. As a result the impact of this on employers' contribution rates will continue to be monitored during the inter-valuation period.

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 significant impacts on the economy, community or environment arising from the proposals contained in this report.

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 be made to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals contained in 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 incorporated into the final report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee, 4 December 2017

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

Contact us at Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

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Scottish Borders Council Pension Fund

2017 valuation – Individual employer results

Introduction

We are currently in the process of carrying out the actuarial valuation of the Scottish Borders Council Pension Fund (the Fund) as at 31 March 2017. The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2018 to 31 March 2021 as required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 (the Regulations) as amended.

This note sets out the initial contribution results for the active employers in the Fund and further considerations to be made in respect of these employers.

This note is addressed to Scottish Borders Council as administering authority to the Fund and is intended to be used in considering the appropriate rates to be set for each employer as part of the 2017 valuation.

The results in this note are based on the methods and assumptions set out in our Initial results and assumptions advice (dated 16 November 2017) and should be read in conjunction with that report.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

Proposed contribution rates

The purpose of the valuation is to set appropriate contribution rates for each employer in the Fund. The total contribution rate is made up of:

- The primary rate which, as defined by Regulation 60(5) is the contribution required in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund so as to secure its solvency; and
- The secondary rate which, as defined by Regulation 60(7) is an adjustment to the primary rate to reflect an employer's own situation and which then results in the employer's total contribution rate.

At the 2014 valuation, some employers were pooled for funding purposes. This means that they shared experience of risks within their funding pool. Assets were reallocated within each funding pool to ensure each employer in the pool had the same funding level, and each employer in the pool was certified the same level of contributions.

The table below sets out our proposed contributions for the period 1 April 2018 to 31 March 2021 if the pooling of these employers remains the same.

Current rate for the period to 31 March 2018			Proposed rate for the period starting 1 April 2018		
Code	Employer		Primary rate	Secondary rate	Total rate
Scottish Borders Council Funding Pool					
11	Visit Scotland	18.0%	20.6%	(2.6%)	18.0%
13	Borders College	18.0%	20.6%	(2.6%)	18.0%
16	Scottish Borders Council	18.0%	20.6%	(2.6%)	18.0%
24	AMEY	18.0%	20.6%	(2.6%)	18.0%
25	SB Cares	18.0%	20.6%	(2.6%)	18.0%
Leisure Trust Funding Pool					
21	Jedburgh Leisure Facilities Trust	15.5%	21.0%	(5.5%)	15.5%
22	LIVE Borders	18.0%	21.0%	(3.0%)	18.0%
Individual Employers					
19	Scottish Borders Housing Association	19.0%	22.9%	(3.9%)	19.0%
27	CGI	19.8%	23.7%	(4.7%)	19.0%

The assessment of each employer's assets and liabilities revealed a surplus and therefore the secondary rate adjustment is included to utilise some of this surplus to maintain the total contribution rates at the current level. The secondary rate adjustment has been set at a level which maintains the contribution rates payable by each employer without adopting too short a surplus spreading period and helping to maintain future contribution stability for each employer.

With the exception of the results for Scottish Borders Housing Association and CGI, the Projected Unit Method has been adopted for the results shown above. This method assumes the employer still admits new employees to the Fund. For Scottish Borders Housing Association and CGI, the Attained Age Method is adopted as we understand the employer is closed to new entrants and so this method assesses the cost of benefits over the expected remaining working lifetime of its members. Further details of these methods can be found in our Initial results and assumptions advice document.

Change in pooling

The results set out above assume that the pooling arrangements are to remain in line with those adopted for the 2014 valuation. However, events have taken place over the intervalation period which may merit a change in pooling arrangement and this, and the results in light of the changes, are set out below.

Leisure Trust Funding Pool

At the 2014 valuation, the Leisure Trust Funding Pool was formed of LIVE Borders (formerly Borders Sport and Leisure Trust) and Jedburgh Leisure Facilities Trust. Over the intervalation period, there was a large transfer of staff from Scottish Borders Council to the former Borders Sport and Leisure Trust to form LIVE Borders. As a result of this, the assets and liabilities of LIVE Borders are now significantly higher than those of Jedburgh Leisure Facilities Trust so it may not be appropriate to pool these two employers together as the results would be very heavily weighted towards the larger employer.

Please note that following the transfer of staff to form LIVE Borders, a rate of 18.0% of payroll p.a. became payable by LIVE Borders. The rate for Jedburgh Leisure Facilities Trust remained at 15.5% of payroll p.a. Please let us know if this is not the case

Valuing both employers individually would lead to the following results:

Code	Employer	Current rate for the period to 31 March 2018	Proposed rate for the period starting 1 April 2018		
			Primary rate	Secondary rate	Total rate
21	Jedburgh Leisure Facilities Trust	15.5%	20.1%	(4.6%)	15.5%
22	LIVE Borders	18.0%	21.0%	(3.0%)	18.0%

Another option would be to add Jedburgh Leisure Facilities Trust to the Scottish Borders Council Funding Pool in which case the employer's contribution rate would be the same as that of all other employers in this Pool, i.e. a total rate of 18.0% of payroll p.a.

Amey

It may be appropriate to not pool Amey together with the other employers in the Scottish Borders Council Funding Pool due to its admission body status. It is common that admission bodies in the LGPS do not stay in the LGPS permanently which may justify them not participating in a funding pool. This means that the costs paid by the short term employer will be in relation to its own experience rather than potentially subsidising another employer's experience in the Fund.

If Amey is to be taken out of the Scottish Borders Council Funding Pool and is treated as an individual employer in the Fund then the primary rate would be 25.2% of payroll p.a.

If the Fund wishes to maintain stability of Amey's current rate, a secondary rate adjustment of -7.2% of payroll p.a. would be required to give a total rate of 18.0% of payroll p.a.

SB Cares

This employer joined the Fund on 1 April 2015 following a transfer of staff from Scottish Borders Council. There is a special arrangement in place such that the responsibility for the liabilities in relation to pre-transfer service ultimately remains with Scottish Borders Council. By being in the Scottish Borders Council Funding Pool, SB Cares is sharing its responsibility for the post-transfer liabilities with the rest of the employers in the pool rather than being solely responsible. We therefore think it may be appropriate to treat SB Cares as an individual employers in the Fund, such that the contributions payable by the employer are based only on the post-transfer liabilities and the employer's own experience.

Based on SB Cares being an individual employer in the Fund, the primary rate would be 21.3% of payroll p.a. This would be the rate required to cover the cost of future accrual of benefits. Please note that this assumes SB Cares is open to new members; if the employer is closed to new members then this primary rate should be updated.

The valuation has revealed a deficit attributable to the post-transfer benefits accrued with SB Cares. The main reason for this is more ill health retirements since the employer joined the Fund than assumed. We have assumed that the additional cost in respect of members receiving retiring due to ill health post-transfer falls with SB Cares. If this is not the case then please let us know.

The deficit attributable to the post-transfer benefits of SB Cares is £336k, corresponding to a funding level of 94%.

Based on a deficit recovery period of 20 years, an additional 0.3% of payroll p.a. would be required from SB Cares to target a fully funded position by the end of the deficit recovery period. This would give a total rate of 21.6% of payroll p.a.

We would be happy to answer any questions arising from this note and look forward to discussing this with you further.



Alison Hamilton FFA
Partner
Barnett Waddingham LLP



FUND STRATEGY STATEMENT 2018

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

14 June 2018

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Funding Strategy Statement (FSS) for 2018. This document should be kept under review and be updated and approved annually in line with the Pension Fund's business plan. This report discharges that requirement.**
- 1.2 The Pension Fund is required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Funding Strategy Statement and to review it on a regular basis. A full review of the FSS has been undertaken following the 2017 valuation and to reflect changes to recent guidance.
- 1.3 The LGPS regulations and guidance from CIPFA recommends the Funding Strategy Statement is consulted on with all participating employers and members. All participating employers have been circulated the draft FSS and it has been made available to members via the Scottish Borders Council Pension Fund website.
- 1.4 **Appendix A** contains the Funding Strategy Statement.

2 RECOMMENDATIONS

- 2.1 **It is recommended that committee approve:**
 - (a) **the Funding Strategy Statement set out in Appendix A.**

3 BACKGROUND

- 3.1 It is a requirement of the Local Government Pension Scheme (LGPS) Regulations that the Pension Fund maintains a Funding Strategy Statement and keeps this under review.
- 3.2 Following the completion of the 2017 Valuation and the changes in the LGPS Regulations over the past 2 years, it is appropriate to review and update the previous Funding Strategy Statement which was approved by the Pension Fund Committee on 22 June 2017.
- 3.3 The LGPS regulations also requires that a consultation is undertaken with all persons as the authority considers appropriate. The appropriate persons are considered to be all employer organisations, members and the Scheme Actuary.

4 FUNDING STRATEGY STATEMENT

- 4.1 Following the triennial valuation and recent changes to guidance a full review has been undertaken of the FSS previously approved on 22 June 2017. The following updates have been made.
 - Additional section added for Aims and Purposes of the Fund (1.2-1.3) required under the revised guidance
 - Additional section added for Consultation (2.1 – 2.3) required under the revised guidance to show consultation undertaken.
 - Addition of Scheme Members within the Key Parties (3.4)
 - Expansion of the Fund Actuary role responsibilities to reflect full responsibilities of the actuary.
 - Addition of Solvency and Maturity section (4) as required under the revised guidance
 - Update to 5.4 to reflect the 2017 valuation results
 - Update to 5.13 Future Price Inflation to reflect assumptions used in the 2017 valuation.
 - Update to 5.14 Future Pay Inflation to reflect assumptions used in the 2017 valuation
 - Update to 5.15 Future Pension Increase to reflect assumptions used in the 2017 valuation
 - Update to 5.16 Future Investment Returns/Discount rate to reflect assumptions used in the 2017 valuation
 - Update to 5.23 Deficit recovery/surplus amortisation period updated to reflect the agreed use of the surplus, following the 2017 valuation, to allow contribution rates to remain stable.
 - Update to 5.24-5.26 Pooling of individual employers to reflect the movement of LIVE Borders back into the main pool and CGI becoming a closed fund.
 - Update to 5.30 to reflect next valuation date of 31 March 2020
 - Update to 7.3 Financial Risks – to reflect sensitivity analysis undertaken as part of the 2017 valuation
 - Update to 7.6 Demographic risks to reflect sensitivity analysis undertaken as part of the 2017 valuation.

4.2 The revised Funding Strategy Statement is contained in **Appendix A**.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report. Any substantive changes arising from future actuarial valuations and revisions to funding objectives and/or strategies could potentially have an impact on employer's contribution rates.

5.2 Risk and Mitigations

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

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

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

6.2 As required by the Pension regulations all participating employers and Barnett Waddingham have been consulted on the draft Funding Strategy Statement. The draft has also been published on the Scottish Borders Council Pension Fund Web site as part of the consultation process.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager

Background Papers:

Previous Minute Reference: Pension Fund Committee, 22 June 2017

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SCOTTISH BORDERS COUNCIL PENSION FUND FUNDING STRATEGY STATEMENT 2018

Finance

**Chief Executive
draft – Pension Fund Committee 14 June 2018**

Introduction

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

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

This version of the FSS was agreed by the Pension Fund Committee (the Committee) on 14 June 2018.

1. Purpose of the Funding Strategy Statement

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

- to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to take a prudent longer-term view of funding those liabilities;
- to ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that secures the solvency of the Fund and the long term cost efficiency of the Scheme; and
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible.

Aims and purposes of the Fund

1.2 The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the administering authority and employers alike; and
- seek returns on investment within reasonable risk parameters.

1.3 The purposes of the Fund are to:

- pay pensions, lump sums and other benefits to scheme members as provided for under the Regulations;
- meet the costs associated in administering the Fund; and
- receive contributions, transfer values and investment income.

Funding Objectives

- 1.4 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.
- 1.5 The funding objectives are to:
- set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund;
 - build up the required assets in such a way that produces levels of employer contribution that are as stable as possible, with consideration of the long-term cost efficiency objective;
 - ensure effective and efficient management of employers' liabilities; and
 - allow the return from investments to be maximised within reasonable risk parameters.

2 Consultation

- 2.1 In accordance with Regulation 56(3), all employers participating within the Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.
- 2.2 In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations), as required by Regulation 56(4)(b)
- 2.3 The Fund Actuary, Barnett Waddingham, has also been consulted on the contents of this Statement.

3 Key Parties

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

The Administering Authority

- 3.2 The Administering Authority for the Scottish Borders Council Pension Fund is Scottish Borders Council. The main responsibilities of the Administering Authority are as follows:
- collect and account for employee and employer contributions;
 - pay the benefits to Scheme members as they fall due;
 - invest the Fund's assets ensuring sufficient cash is available to meet liabilities as and when they become due;
 - manage the Actuarial Valuation process in conjunction with the Fund Actuary;
 - effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme Employer;

- prepare and maintain this FSS and also the SIP after consultation with other interested parties; and
- monitor all aspects of the Fund's performance and funding and ensure that the FSS and SIP are updated as necessary.

Individual Employers

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

- collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales;
- promptly notify the Administering Authority of any new Scheme members and any other membership changes;
- exercise any discretions permitted under the Regulations;
- meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures;
- pay any exit payments due on ceasing participation in the Fund; and
- provision of relevant information and data in order for the Fund Actuary facilitate the Valuation process, .

Scheme members

3.4 Active scheme members are required to make contributions into the Fund as set out in the Regulations.

Fund Actuary

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

- prepare the Actuarial Valuation including setting employers' contribution rates at a level to help secure Fund solvency and long-term cost efficiency of the Scheme, after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations;
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.;
- provide advice and valuations on the exiting of employers from the Fund;
- provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and

- advise on other actuarial matters affecting the financial position of the Fund.

4 Solvency and Maturity

- 4.1 The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities in respect of service prior to the measurement date when measured using 'ongoing' actuarial methods and assumptions.
- 4.2 Ongoing actuarial methods and assumptions are taken to be measured by use of the Projected Unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.
- 4.3 The financial assumptions used to assess the financial position will have regard to the yields available on long-term fixed interest and index linked gilt-edged investments and an allowance for the higher long-term returns that are expected from equity type investments based on the Fund's long-term investment strategy. The Administering Authority understands the risks of such an approach if those additional returns fail to materialise.
- 4.4 Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement.
- 4.5 The Fund is mature such that new contributions from employers and employees are not sufficient to meet all benefit payments falling due. In order to meet the short term cashflow requirements the income generated by some investments will be realised.

5 Funding Strategy

- 5.1 The funding strategy seeks to achieve (via employee and employer contributions and investment income) **three key objectives**:
 - **A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations;**
 - **Ensuring the solvency of the Fund and the long-term cost efficiency of the Scheme; and**
 - **As stable an employer contribution rate as is practical.**
- 5.2 The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements and investment income, and the employer contribution has to be adjusted to a level sufficient to maintain the pension scheme's solvency and to achieve a funding level of 100% over the longer term.
- 5.3 The Actuarial Valuation process is essentially a projection of future cashflows to and from the Fund. The main purpose of the Valuation is to determine the level of employers' contributions that should be paid over an agreed period to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.
- 5.4 The last Actuarial Valuation was carried out as at 31 March 2017 with the **assets of the Fund found to represent 114% of the accrued liabilities for the Fund**; this compares with 101% at

the 2014 Actuarial Valuation. The primary rate required to cover the employer cost of future benefit accrual was 20.6% of payroll p.a.

Funding Method

- 5.5 The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.
- 5.6 The funding target is to have sufficient assets to meet the accrued liabilities for each employer in the Fund. The funding target may, however, also depend on certain employer circumstances and will, in particular, have regard to whether an employer is an "open" employer (which allows new recruits access to the Fund), or a "closed" employer (which no longer permits new staff access to the Fund). The expected period of participation by an employer in the Fund may also affect the chosen funding target.
- 5.7 For **open employers**, the actuarial funding method that was adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the Valuation date ("past service") and benefits in respect of service expected to be completed after the Valuation date ("future service"). This approach focuses on:-
- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members' pay and pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; a funding level of less than 100% indicates a deficit.
 - The future service funding rate (also referred to as primary rate as defined in Regulation 60(5) of the Regulations) i.e. the level of contributions required from the individual employers which together with employee contributions are expected to support the cost of benefits accruing in future.
- 5.8 The key feature of this method is that in assessing the future service cost the primary contribution rate represents the cost of one year's benefit accrual.
- 5.9 For **closed employers** an alternative funding method that may be adopted is known as the Attained Age Method. The key difference with this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.
- 5.10 For **closed limited-term employers** such as some Transferee Admission Bodies, a modified version of the Projected Unit Method with a control period equal to the remaining term of the contract may be used and this usually gives results between the pure Projected Unit Method and the Attained Age Method.

Valuation Assumptions and Funding Model

- 5.11 In completing the Actuarial Valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.
- 5.12 The assumptions adopted at the Valuation can therefore be considered as:-
- the statistical assumptions which generally speaking are estimates of the likelihood of benefits and contributions being paid; and,
 - the financial assumptions which generally speaking will determine the estimates of the amount of benefits and contributions payable and their current or present value.

5.13 *Future Price Inflation*

The base assumption in any Valuation is the future level of Retail Price Inflation (RPI). This is derived by considering the average difference in yields from conventional and index linked gilts during the 6 months straddling the Valuation date using the Bank of England Inflation Curves. The resultant RPI increase assumption used in the 2017 valuation is 3.7% per annum.

5.14 Future Pay Inflation

As benefits are linked to pay levels at retirement it is necessary to make an assumption as to future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation in the longer term. The long-term pay increase assumption adopted for the 2017 valuation was CPI plus 1% per annum.

5.15 Future Pension Increases

The pension increase orders are linked to changes in the level of the Consumer Price Index (CPI) rather than RPI. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. It was therefore assumed for the 2017 valuation that CPI increases will be 0.9% less than the RPI increase assumption.

5.16 Future Investment Returns/Discount Rate

- i. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.
- ii. The discount rate adopted depends on the funding target adopted for each employer.
- iii. For open employers, the discount rate applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the 6 months straddling the Valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. At the 2017 Valuation the ongoing discount rate was 5.0% per annum.
- iv. For closed employers, with no individual active membership, an adjustment may be made to the discount rate in relation to the remaining liabilities once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission requires it.
- v. The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- vi. The adjustment to the discount rate is essentially to set a higher funding target at the projected termination date so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis to minimise the risk of deficits arising after the termination date.

Asset Valuation

- 5.17 For the purposes of the valuation, the asset valuation is based on the market value of the accumulated Fund at the Valuation date adjusted to reflect average market conditions during the 6 months straddling the Valuation date.

Statistical Assumptions

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

5.19 Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

Deficit Recovery/Surplus Amortisation Periods

5.20 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

5.21 Where the Actuarial Valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

5.22 The period that is adopted for any particular employer will depend upon

- the significance of the surplus or deficit relative to that employer's liabilities;
- the covenant of the individual employer and any limited period of participation in the Fund; and
- the implications in terms of stability of future levels of employers' contribution.

5.23 At the 2017 Valuation there was no requirement for a deficit recovery period for any employer in the Fund. Although the Primary rate calculated at the 2017 valuation had increased from previous levels, due to the level of surplus revealed it was possible to apply a negative secondary rate adjustment in order to help maintain a stable level of employer contribution.

Pooling of Individual Employers

5.24 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly contribution rates are set for individual employers to reflect their own particular circumstances.

5.25 However, certain groups of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small. Employers with weak financial covenants would be liable for enhanced contributions. Currently all employers are within the main funding pool other than CGI and SBHA who are closed funds.

5.26 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross subsidy of pension cost amongst pooled employers

Cessation Valuations

5.27 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. It also depends on what will happen to the current active members of the Fund and whether they will continue to be active members on cessation or not.

5.28 In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous Valuation to protect the other

employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

- 5.29 The basis used by the actuary to determine the cessation amount will depend on where the future responsibility will lie for the accrued liabilities. It will also depend on the market conditions at the time and as mentioned above, what will happen to the current active members.

Next Valuation

- 5.30 The next Actuarial Valuation is due as at 31 March 2020.

6 Links with the Statement of Investment Principles

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

7 Risks and Counter Measures

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

Financial Risks

- 7.3 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors including market returns being less than expected and/or the chosen fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets. The Valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the liabilities by 2% and decrease/increase the required employer contribution by around 0.6% of payroll.
- 7.4 The Pension Fund Committee regularly monitor the investment returns achieved by the fund managers and seek advice from the Fund Actuary and independent advisers on investment strategy. In the inter-valuation period 2014 to 2017 such monitoring activity saw investment returns perform better than assumed in the 2014 valuation.
- 7.5 In addition the Fund Actuary provides funding updates between Valuations to check whether that the funding strategy continues to meet the funding objectives.

Demographic Risks

- 7.6 Allowance is made in the funding strategy via the actuarial assumptions of a continuing improvement in life expectancy. However the main risk to the funding strategy is that it might

underestimate the continuing improvement in mortality. For example an increase of 1 year to life expectancy of all members in the Fund will reduce the funding level by around 3%.

- 7.7 The actual mortality of pensioners in the Fund is however monitored by the Fund Actuary at each Actuarial Valuation and assumptions kept under review.
- 7.8 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 7.9 However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory Risks

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

Governance

- 7.13 Several different employers participate in the Fund. Accordingly it is recognised a number of employer specific events could impact on the funding strategy including:
 - structural changes in an individual employer's membership;
 - an individual employer deciding to close the Scheme to new employees; and
 - an employer ceasing to exist without having fully funded their pension liabilities.
- 7.14 However, the Administering Authority monitors the position of employers participating in the Fund, particularly who may be susceptible to the aforementioned events and takes advice from the Fund Actuary when required.
- 7.15 In addition the Administering Authority keeps in close touch with all individual employers participating in the Fund and holds an annual meetings with employer to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations and also to keep individual employers fully briefed on funding and related issues. Employers and Trade Union representatives are on the new Pensions Board (the Board), and participate in the joint Board/Committee meetings held by the Administering Authority and participate in discussions on all agenda items.

8 Monitoring and Review

- 8.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial Actuarial Valuation process.

- 8.2 The Administering Authority will monitor the financial and funding position of the Fund on an appropriate basis at regular intervals between valuations and will discuss with the Actuary whether any significant changes have arisen that require action

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2015 1.0	Draft for Barnett Waddingham Review updating previous FSS for the 31 March 2014 Valuation.	1 June 2015	L Mirley
2015 2.0	Final Draft for Pension Fund Committee Approval	10 June 2015	L Mirley
2017 1.0	Final Draft for Pension Fund Committee Approval	22 June 2017	K Robb
2018.10	Draft for Consultation following 31 March 2017 Valuation		K Robb

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SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2017/18

Report by Chief Officer Audit & Risk

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

14 June 2018

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to the Pension Fund Committee and the Pension Fund Board the Internal Audit Annual Assurance Report for the year to 31 March 2018 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Annual Governance Statement.
- 1.3 To meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2017/18 includes the Internal Audit annual opinion, provides details of the Internal Audit activity during the year to support the opinion, and states the conformance of the Internal Audit service with the PSIAS.
- 1.4 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control within the Scottish Borders Council Pension Fund are operating satisfactorily, and governance and risk management arrangements are effective with evidence of improvement during the year.
- 1.5 The independent assurance opinion has been used to inform the Pension Fund's Annual Governance Statement 2017/18.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee and Pension Fund Board consider the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2017/18 and provide any commentary thereon.**

3 BACKGROUND

- 3.1 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2017/18

- 4.1 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control within the Scottish Borders Council Pension Fund are operating satisfactorily, and governance and risk management arrangements are effective with evidence of improvement during the year including the introduction of budget monitoring of the Fund administration and investment costs.
- 4.2 Internal Audit work over the systems and controls in place at Scottish Borders Council covers the same systems for the Pension Fund. Specifically the findings of Business World ERP System Key Controls, incorporating Payroll, Sales to Cash, Procure to Pay, and Record to Report (core General Ledger and Management Reporting) system processes, were reported to SBC's Audit and Scrutiny Committee on 14 May 2018, including the levels of assurance and recommended improvement actions. The introduction of the Business World ERP system is extremely complicated and demanding on project resource and time, and a balance has been achieved between business as usual (for example, payroll payments being processed on time and supplier payments being made) and project development and implementation.
- 4.3 Through attendance at the Joint meetings of the Pension Fund Committee and Pension Fund Board to observe planning, approval, monitoring and review activity of Scottish Borders Council Pension Fund, the Internal Audit opinion is that the Fund has effective governance arrangements in place that support scrutiny and transparency of decisions made, and that Risk Management is fully embedded into the culture of the Pension Fund with evidence of risk deliberations in decision making and regular reviews / updates of Pension Fund risk register being carried out, in accordance with the Council's Risk Management Policy and Framework, and reported to the Committee and Board for scrutiny and oversight of risk management.
- 4.4 The Internal Audit Annual Assurance Report 2017/18 provides assurances in relation to the Pension Fund's corporate governance framework that is a key component in underpinning delivery of its plans and has been used to inform the Pension Fund's Annual Governance Statement 2017/18, and the Governance Policy and Compliance Statement.
- 4.5 The annual internal self-assessment demonstrates sufficient evidence that Scottish Borders Council's Internal Audit section conforms with the PSIAS Definition of Internal Auditing, Code of Ethics, and the Standards.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this assurance report.

5.2 Risk and Mitigations

This report provides assurance, including assurance on arrangements for managing risks in section 4, as part of the governance framework to manage the operation of the Pension Fund and reflects best practice.

5.3 Equalities

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

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

5.5 Carbon Management

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

5.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

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 Officer Audit & Risk's independent opinion on the Pension Fund's systems of internal control, governance, and risk management has been used to inform the Pension Fund's Annual Governance Statement 2017/18.

6.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council, and Corporate Risk Officer have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey
Chief Officer Audit & Risk

Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files

Previous Minute Reference:

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GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2018**Report by Chief Financial Officer**

**JOINT MEETING OF PENSION FUND COMMITTEE AND
PENSION FUND BOARD****14 June 2018**

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. It also requests approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2017/18.**
- 1.2 Appendix 1 contains the revised Governance Policy and Compliance Statement for the Pension Fund.
- 1.3 The Governance Compliance Statement is included in Appendix B to the policy and demonstrates that the Pension Fund is in full compliance with the best practice guidance.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the revised Governance Policy and Compliance Statement 2018 is approved and the Governance Compliance Statement is agreed for inclusion in the Pension Fund Annual Report and Accounts 2017/18.**

3 BACKGROUND

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

4 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

- 4.1 A review of the Governance Policy was undertaken and resulted in only minor changes. The revised Policy and Statement are contained in Appendix 1.
- 4.2 Section 10 has been updated to reflect the new Pension Fund website which contains all the key governance documents for the Pension Fund.
- 4.3 The Governance Compliance Statement is contained in Appendix B of the document and reviewed and updated to reflect increased number of meetings for the Performance and Investment Sub Committee and the new Pension Fund Website. It is proposed that this Statement is incorporated into the Pension Fund Annual Report and Accounts 2018 in order to comply with the LGPS regulations.

5 IMPLICATIONS

5.1 Financial

There are no financial implications relating to this proposal.

5.2 Risk and Mitigations

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

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council have been consulted on the report and their comments have been fully incorporated to the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee, 22 June 2017

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SCOTTISH BORDERS COUNCIL PENSION FUND

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

2018

**Finance
Chief Executive
Version: 2018 1.0
draft: Pension Fund Committee 14 June 2018**

Introduction

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

1. Administering Authority

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

2. Regulatory Framework

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

3. Pension Fund Committee

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

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

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

Convener

Four members of the Administration

Two members from the Opposition

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

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

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

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

4. Pension Board

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

4.2 The Objectives of the Board are as follows:

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

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

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

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

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

follows:

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

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

5. Meetings

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

6. Administration and Management of the Fund

6.1 Chief Financial Officer

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

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

6.3 Chief Officer Human Resources

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

7. Professional Advisers and External Service Providers

- 7.1 Barnett Waddingham has been appointed to act as Actuary to the Fund. The services provided include advice on funding and actuarial valuations.
- 7.2 KPMG is the Independent Investment Consultant employed by the Council to advise the Committee on investment strategy.
- 7.3 The Fund has appointed investment managers who have responsibility for the selection, retention and realisation of individual investments. Where appropriate, they also implement the Committee's policy in relation to corporate socially responsible investment and corporate governance.
- 7.4 Northern Trust is the global custodian for the Fund and is responsible for the safekeeping of the assets including transaction processing and making tax claims.

8. Internal and External Review

- 8.1 The annual financial statement of the Council, including the Fund, is subject to external audit. The auditors are appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.
- 8.2 The Council's Audit and Risk Committee oversees the output of the Annual Audit process in relation to the Pension Fund.
- 8.3 The Council provides internal audit arrangements to the Fund both as a tool of management and with direct reporting to the Council's Audit and Risk Committee.

9. Risk Management

- 9.1 The Council has a corporate risk management policy which includes the maintenance and regular review of a risk register.
- 9.2 Risk awareness is embedded into the investment performance management process.

10. Access to Information

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

11. Review and Compliance with Best Practice

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

Appendix A

Scottish Borders Council Pension Fund

Scheduled and Admitted Bodies

Scheduled Bodies

- Borders College
- Scottish Borders Council
- Visit Scotland

Admitted Bodies

Active Admitted Bodies

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

Admitted bodies with Deferred or Retired Members only

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

Appendix B

GOVERNANCE COMPLIANCE STATEMENT

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

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

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

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

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

Committee Membership and Representation

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

Principle		Full Compliance	Comments
Selection and role of lay members			
A	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Yes	For elected members this is part of Council's Code of Governance along with Member induction programme. In addition the Fund's Training Policy provides for an annual training needs assessment, and an annual programme of training to be made available to all members of the Committee and Board. All new members of the Committee and Board are also required, within 6 months of joining, to complete the Pension Regulator Trustee Toolkit.
B	At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Yes	Part of Council's Code of Governance requires the declaration of members' interests as a standard agenda item on all committees.
Voting			
A	The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	This is set out in the Council's Scheme of Administration and the Board's Constitution
Training/Facility time/Expenses			
A	In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	The Members Expenses are managed under the Council's policies. The Training Policy also covers the reimbursement of Training Related Expenses.
B	Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of	Yes	Training policy for all members of Pension Fund Board and Committee approved by Board and Committee annually in June.

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

Principle		Full Compliance	Comments
			relevant Local Government Pension Scheme legislation and the requirements of the Pension Regulator.

Principle		Full Compliance	Comments
Publicity			
A	Administering authorities have published details of their governance arrangements in such a way that stakeholders, with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Scottish Borders Council Pension Fund has a standalone website with all governance documents and fund information. A link is provided to Minutes and Public papers available via Council website.

VERSION CONTROL TABLE

Version	Nature of Amendment	Date of Change	Author
2010 1.0	Creation of Governance Statement	24 February 2010	L Mirley
2010 1.1	Final Draft for Pension Fund Sub-Committee	2 March 2010	L Mirley
2010 2.0	Sub-Committee Approved Version	11 March 2010	L Mirley
2011 1.0	Final Draft for Pension Fund Sub-Committee and Annual Report	30 August 2011	L Mirley
2012 1.0	Updated for amendment to Scheme of Administration and update of Pension Fund Annual Report and Accounts 2011/12	12 June 2012	L Mirley
2013 1.0	Final Draft to reflect proposed changes to Scheme of Administration	18 June 2013	L Mirley
2013 2.0	PFC approved version	19 June 2013	K Robb
2014 1.0	Final Draft for Pension Fund Committee and Annual report.	17 June 2014	K Robb
2015 1.0	Final Draft for Pension Fund Committee updated to reflect the introduction of Pension Boards	1 June 2015	L Mirley
2016 1.0	Final draft for Pension Fund Committee updated to reflect post implementation of Pension Board	05 May 2016	K Robb
2017 1.0	Final draft for Pension Fund Committee updated to reflect Pension Boards fully	21 March 2017	K Robb
2018 1.0	Final draft for Pension Fund Committee updated to reflect website	14 June 2018	K Robb

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PENSION ADMINISTRATION PERFORMANCE 2017/18

Report by Chief Officer Human Resources

**JOINT MEETING OF PENSION FUND COMMITTEE AND
PENSION BOARD****14 June 2018**

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the Pensions Administration Performance for 2017/18 and requests the Committee's approval of its inclusion in the Annual Report for the Fund.**
- 1.2 **Appendix 1** contains the Pensions Administration Performance for 2017/18 as it will be included in the Fund's Annual Report and Accounts.
- 1.3 During 2017/18 there was an improvement in the payments being made on time, to the extent that all were received on time.
- 1.4 Performance has not been at the same high standard as in previously reported years, this has been due to the replacement of the long standing payroll system within Scottish Borders Council, the retiral of two members of the Pensions Team and a period of long term absence at a key point in the year.
- 1.5 The Annual Benefit Statements were issued 7 days later than required, with this being reported to the Pensions Regulator who confirmed that there was no further action to be taken by them due to the clear rectification plan that was in place.
- 1.6 There was another successful Employer Liaison Meeting held during 2017/18 and agreement reached that this would be a useful event to hold on an annual basis, which will be scheduled in due course.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Committee:-**
 - (a) **Notes the Pension Administration Performance for 2017/18 as set out in Appendix 1 and approves its inclusion in the Pension Fund Annual Report and Accounts 2017/18;**

3 BACKGROUND

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

4 PENSIONS ADMINISTRATION PERFORMANCE 2017/18

- 4.1 **Appendix 1** contains the Pensions Administration Performance Report for 2017/18 as it will be included in the Fund's Annual Report and Accounts.
- 4.2 Performance in general has not been at the same high standard as in previously reported years. This has been mainly due to Scottish Borders Council replacing their long standing payroll system, which resulted in delays in the provision of starter information to the Pension Fund. All leavers and death in service were still received in time from the Council ensuring that those due to receive monies were paid on time. The Team were also faced with the retirement and replacement of two members of staff in the same year, resulting in a period of upskilling the new team members in the intricacies of the Local Government Pension Scheme.
- 4.3 The Pensions Team were not able to comply with the requirement to issue all benefit statements by the end of August, as a result this was reported to the Pensions Regulator. Due to the action plan that we had in place to have all statements issued by the 7th September 2017 no follow up action was received from the Pensions Regulator. There were 6,575 benefit statements due to be issued, 2,399 deferred member statements were issued prior to the end of August deadline, 4,162 active member statements were issued between the 1st and 5th September and the final 14 deferred member statements were issued on 7th September 2017.
- 4.4 During 2017/18 HR Shared Services recorded 2,066 instances where contact was made with the team to query information relating to their Pension. In 99.75% of these instances a final response was provided to the individual, be this in writing or face to face, within the 5 target days, with the vast majority being provided on the same day. There was a improvement in performance with meeting the 20 day target for responding to the Annual Benefit Statement queries, with all responses meeting the target.
- 4.5 **Employer Performance Measures**
During 2017/18 there were no instances where payments were received late, this is a significant improvement over previous years. This will continue to be monitored on an ongoing basis.
- 4.6 **Administering Authority Performance Measures**
The key performance targets are set out in the **Appendix 1**. The performance achieved this year was very similar to the previous reporting year. The main area that continues to be behind target is in relation to Transfers. The performance in this area was detrimentally impacted through the long term absence of a member of the Pension Team coupled with the staff turnover challenge that the Team faced.

- 4.7 During 2017/18 an Employer Liaison meeting was held, to discuss the changes to the year end reporting for the scheme and to discuss any operational challenges that the bodies were facing. This was a successful meeting and was beneficial to all parties. It was agreed that this will continue to be an annual event and it would be helpful if this was timed around February/March, where the Fund could advise employers of changes for the coming year and remind them of their responsibility for the year end.
- 4.8 During 2017/18, 38,765 payments were processed, an increase from 37,092 in 2016/17, to pensioners for a total of £16.003m. In addition to this, 129 payments were also processed, an increase from 120 payments in 2016/17, to pensioners who now reside overseas for a total of £53,211, these payments are processed via Western Union, providing pensioners with a cost effective means of transferring a sterling pension payment into the appropriate local currency.

4.9 **Employer Contribution Rates**

The following table outlines the employer contribution rates that are effective from 1st April 2018 in line with the previous triennial valuation and/or reports received from the Fund Actuary on the admission of new Bodies.

Employer	Employer Contribution %
Visit Scotland	18.00
Borders College	18.00
Scottish Borders Council	18.00
SB Cares	18.00
AMEY	18.00
CGI	21.10
Live Borders	18.00
Jedburgh Leisure Facilities Trust	18.00
Scottish Borders Housing Association	20.30

5 **IMPLICATIONS**

5.1 **Financial**

There are no financial implications relating to this report.

5.2 **Risk and Mitigations**

This report is part of the governance reporting framework to manage the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risks regarding the administration of the Pension Fund have been identified are included on the Pension Fund and HR risk registers, being managed and controlled following the Corporate Risk Management Framework.

5.3 **Equalities**

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

5.4 **Acting Sustainably**

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

5.5 **Carbon Management**

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

5.6 **Rural Proofing**

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

5.7 **Changes to Scheme of Administration or Scheme of Delegation**

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

6 CONSULTATION

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

Approved by

Clair Hepburn
Chief Officer Human Resources

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Board 3
September 2015

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

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

APPENDIX 1

PENSION ADMINISTRATION PERFORMANCE 2017/18

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

Employer Performance Measures

Service Standards

Standard – target completion 90%	Volume	%age Met
New starts notification – within 20 working days	573	6.80%
Retirement info – at least 20 working days before	237	100%
Early leaver notification – within 20 working days	465	9.89%
Death in service notification – within 10 working days	9	100%
Query responses – within 5 working days	1,999	99.75%
Year-end queries – within 20 working days	67	100%

Scottish Borders Council implemented a new payroll system in April 2017 with a fully developed reporting solution for New Starters and Leavers not being fully developed until later in the year. As a result there has been a significant reduction in the percentage levels met for reporting these groups within the 20 working day deadline. The reporting of Retirements and Deaths in Service were not affected due to manual work around that was put in place. The Pensions Administration Team are assured that Scottish Borders Council now has a robust reporting mechanism in place for ensuring that all New Starters and Leavers will be reported within the timescales.

Contribution Payments

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

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

All contribution payments were received on time during 2017/18. These continue to be monitored on a monthly basis to ensure all bodies continue to comply with the deadlines for payments.

Administering Authority Performance Measures

Service Standards

Standard	Volume	Target	%age Met
Estimates – Transfer In	39	20 days	15.38%
Estimates – Transfer Out	98	20 days	29.59%
Estimate – All Other	825	10 days	89.82%

The Pensions Team and members of the HR Shared Services Helpdesk record when they have had contact in relation to Pension be this by email, in person or telephone and the headline reason of the enquiry. The following table summarises the queries received during 2017/18.

Type of Query	Volume	Target	%age Met
Admitted/Scheduled Bodies Employer Queries	67	5 days	100%
Advice on AVC applications	41	5 days	100%
Advice on Nominations and/or Death Grant	26	5 days	100%
Advice on Options at Retirement	105	5 days	100%
Annual Benefit Statement Queries	67	20 days	100%
Assistance with form completion e.g. retirement declaration	110	5 days	100%
Change of Address/Bank Details	185	5 days	100%
Divorce	7	5 days	100%
DWP requesting details of Pensioner Payments	20	5 days	90.00%
Enquiries in relation to Deceased Pensioners	490	5 days	100%
ER/VS general advice	37	5 days	97.30%
Flexible Retirement	120	5 days	99.17%
General advice	120	5 days	100%
Internal forms requesting details of Pensioner Payments	41	5 days	100%
Opting In to LGPS	32	5 days	100%
Opting Out of LGPS	62	5 days	100%
Pension Payment queries including tax issues	206	5 days	100%
Refunds Enquiry	46	5 days	100%
Retiral Enquiry	204	5 days	99.51%
Service Breaks	4	5 days	100%
Transfer In Enquiry	37	5 days	100%
Transfer Out Enquiry	39	5 days	100%
Total	2,066		

Other Measures

Area	Measure	Completed
Employer Liaison Meetings	1 per annum	1 meeting
Benefit Statements	by end of August	7 th September 2017

The fourth liaison meeting with all Admitted and Scheduled Bodies was held during 2017/18 and covering the changes that had been made to the annual reporting for the 2017/18 year end and affording the employers the chance to ask questions to the Pensions Team. Going forward we will continue to hold the liaison meeting towards the end of the financial year where we will discuss up-coming legislative changes and requirements for the year end processing.

The Pensions Team were not able to comply with the requirement to issue all benefit statements by the end of August, as a result this was reported to the Pensions Regulator. Due to the action plan that we had in place to have all statements issued by the 7th September 2017 no follow up action was received from the Pensions Regulator. There were 6,575 benefit statements due to be issued, 2,399 deferred member statements were issued prior to the end of August deadline, 4,162 active member statements were issued between the 1st and 5th September and the final 14 deferred member statements were issued on 7th September 2017.

Key Administration Tasks

Task	Total received
New entrants	573
Early leavers	465
Retirements	237
Deaths in service	9
Deaths in deferment	8
Deaths in retirement	103
New Widows(ers), Child Pensions	51
Estimates	825
Pension credit members	-

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TRAINING PLAN 2018/19

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION FUND BOARD

14 June 2018

1 PURPOSE AND SUMMARY

- 1.1 This report compares the actual 2017/18 attendance for Pension Fund Committee and Board Members to the requirements detailed in the current Training Policy approved in June 2017 and proposes key areas of training for 2018/19 in-line with the policy and based on the Skills Knowledge assessment recently undertaken.**
- 1.2 In line with this Policy, the Pension Fund agreed to undertake an annual knowledge and skills self-assessment to identify the key areas for the future years training plan.
- 1.3 The Training Knowledge and Skills Assessments were undertaken in April 2018 and summarised in Appendix 2.
- 1.4 The proposed Training areas for 2018/19 are summarised in para 6.2 for approval and members are strongly encouraged to actively participate in all training events to demonstrate their commitment to enhancing the governance of the Pension fund and to support effective decision making.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Joint Pension Fund Committee and Board:**
 - (a) Notes the Training Policy in Appendix 1**
 - (b) Notes the outcome of the 2017/18 training programme and the attendance levels for training and meetings**
 - (c) Notes the outcome of the Knowledge and Skills Self-Assessment for 2018/19; and**
 - (d) Approves the Training areas for 2018/19 set out in para 6.2 and agrees that all members should prioritise attendance at training events wherever practicable.**

3 BACKGROUND

- 3.1 At the June 2017 joint meeting of the Pension Fund Committee and Board, the Training Policy (the policy) was updated and agreed. A copy of the policy is contained in Appendix 1.
- 3.2 The best practice guidance indicates that the annual report should include an assessment of the performance of the Committee in terms of:
- (a) Attainment of the standards set down in CIPFA's knowledge and skills framework; and
 - (b) Achievement of required training outcomes.
- 3.3 One of the key elements of the Policy is that all Members of the Pension Fund Committee and the Board commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision-making role. Officers maintain a log on behalf of members to demonstrate the training activities.

4 TRAINING POLICY ANNUAL UPDATE

- 4.1 The 2017/18 training programme approved at the June 2017 Pension Fund Committee and Board covered the following:
- (a) Financial Markets and Investment Products.
 - (b) Role of the Custodian.
 - (c) General Pension Fund Regulatory environment.
 - (d) LGPS Regulatory environment
- 4.2 All training events were open to members of the Pension Fund Committee and Pension Fund Board.
- 4.3 The table over shows the four training events offered and areas covered. All areas identified in June 2017 were covered. The Regulatory environment, relating to the topics, was highlighted and incorporated within the individual topics covered.

Organiser	Training Provided
SBC Internal	Fiduciary responsibilities & ESG
Local Government Chronical	Infrastructure investments, Investment issues, Fiduciary duties, Pooling England & Wales
Local Government Pension Scheme (Scot) Officers Group	Role of Custodian, Introduction to LGPS, Governance & Fiduciary duty, Triennial valuations. Investment strategies and Corporate Governance/Stewardship.
Pension & Lifetime Savings Association	Investment governance and investments

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

No of Events	Committee Members		Board Members	
	%	No of Members	%	No of Members
4		-		-
3	57.1	4	25	2
2	28.6	2	50	4
Less than 2	14.3	1	25	2

- 4.5 85.7% Members of the Pension Fund Committee and 75% of the Pension Fund Board have fully met the training requirements. Members are recommended to prioritise their attendance at training sessions wherever possible to ensure they can participate in the complicated activities of the committee with the benefit of detailed knowledge imparted through these sessions.
- 4.6 The training policy introduced in June 2017 the additional requirement for all Members of the Pension Fund Committee and Pension Fund Board to fully complete the Pension Regulators Trustees Toolkit within 6 months of taking up the role. The toolkit has been completed by 5 members of the Committee and 7 members of the Board. The remaining members are currently working towards fully completing the toolkit with a target completion date of August 2018.
- 4.7 A further target within the Training Policy was that every member attended at least 2 Committees per year. The table below shows the attendance rates for both the Pension Fund Committee and Board Members:

No of meetings	Committee Members		Board Members	
	%	No of Members	%	No of Members
4	57.1	4	12.5	1
3	42.9	3	50.0	4
2	-	-	12.5	-
Less than 2	-	-	25.0	3

- 4.8 80.0% of the total Members of the Pension Fund Committee and Board have met the attendance requirements. Following the Local elections in May 2017 a number of meetings dates were rearranged resulting in some members being unable to meet the required attendance level.

5 TRAINING NEEDS ANALYSIS

- 5.1 To ensure training needs are met for all members of the Pension Fund Committee and Board, a knowledge and skills assessment questionnaire has been completed by them. An analysis of this is contained in Appendix 2 for those returns completed. This information has been used to inform the future training programme.
- 5.2 The completed knowledge and skills assessment returns for 2018 have shown an improvement from the 2017 returns in all areas.

6 TRAINING PROGRAMME

- 6.1 The areas highlighted for further training, from the returned skills assessments, are shown in the table below. These will form the training requests to the development of the next IGG Group training event. The IGG Group training event will be supplemented by in-house training events for areas not covered.

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

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

7 IMPLICATIONS

7.1 Financial

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

7.2 Risk and Mitigations

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

7.3 Equalities

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

7.4 Acting Sustainably

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

7.5 Carbon Management

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

7.6 Rural Proofing

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

7.7 Changes to Scheme of Administration or Scheme of Delegation

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

8 CONSULTATION

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

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: 22 June 20176 – Joint Pension Fund Committee and Pension Fund Board

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SCOTTISH BORDERS COUNCIL PENSION FUND TRAINING POLICY

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

1. Introduction

- 1.1 This training policy documents the Scottish Borders Council Pension Fund (the Fund) responsibilities in relation to members and observer members of the Pension Fund Committee and Board.
- 1.2 The policy has been drawn up:
 - i To identify the level of knowledge and skills required by members, and
 - ii To outline the training arrangements for the Committee and its members
- 1.3 This version of the Training Policy was approved by the Pension Fund Committee of Scottish Borders Council on 22 June 2017.
- 1.4 For the avoidance of any doubt, the term members in relation to this Policy will refer to all members of the Pension Board and the Pension Fund Committee irrespective of voting rights, as set out in the amendment to the Scheme of Administration agreed by Council on 2 April 2015.

2. Myners Principles

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

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

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

3. Governance Compliance

- 3.1 Guidance on governance matters and training has been issued between 2009 and 2014 by the Pensions Regulator, CIPFA and the Scottish Public Pensions Agency. This training policy has been drafted in line with the collective guidance.

- 3.2 To underline the Fund's commitment to the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, the following policy statement has been adopted:

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

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

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

4. Training

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

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

5. Reporting and Review Arrangements

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

6. Reimbursement of Expenses

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

APPENDIX A

CIPFA Knowledge and Skills Framework

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

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

VERSION CONTROL TABLE

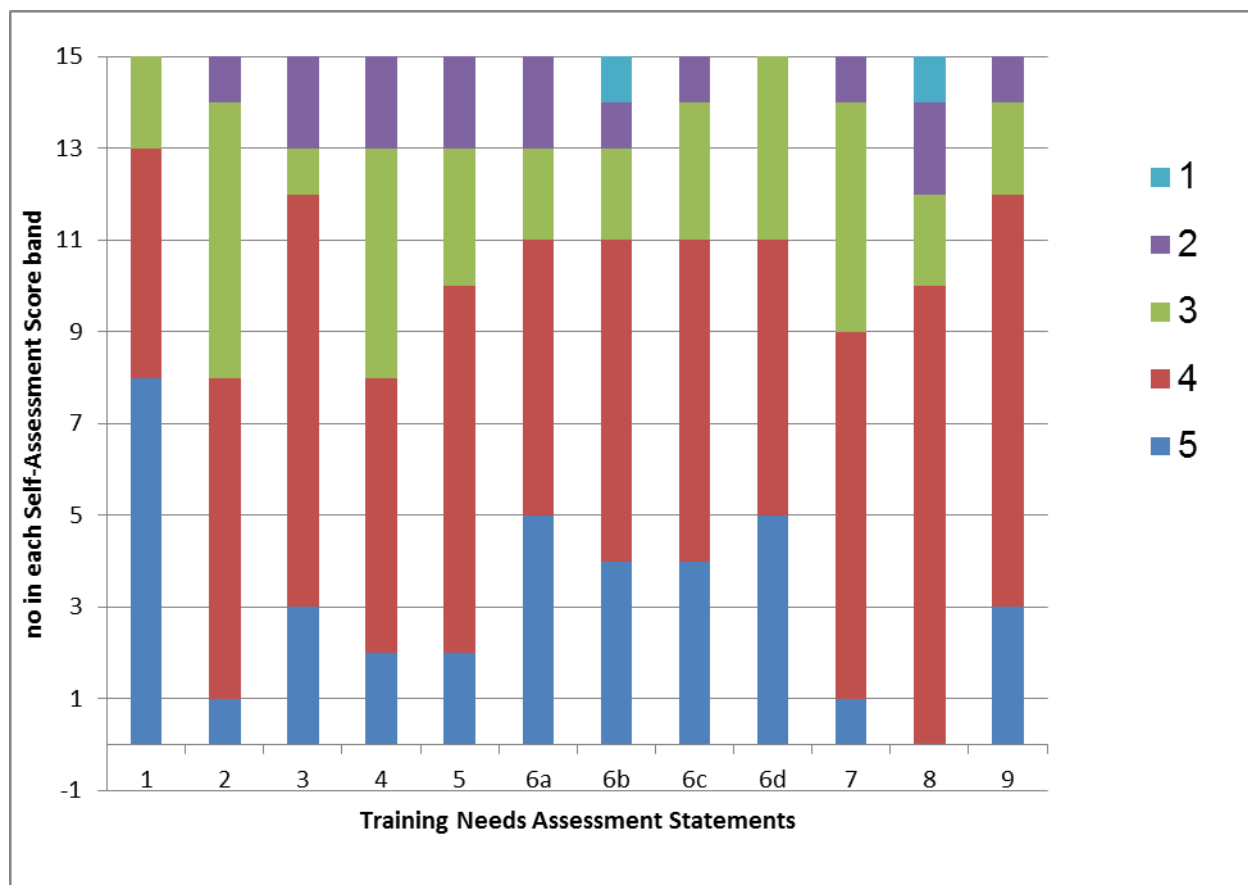
Version	Nature of Amendment	Date of Change	Author
2012 1.0	Creation of Training Policy	30 August 2012	Lynn Mirley
2012 2.0	Approved by Pension Fund Committee	13 September 2012	Lynn Mirley
2013 1.0	Updated for changes to Scheme of Administration	11 June 2013	Lynn Mirley
2013.2	Approved by Pension Fund Committee	18 June 2013	Kirsty Robb
2015.1	Update for revised Governance structure	18 June 2015	Kirsty Robb
2017.1	Inclusion of mandatory completion of Pension Regulator Trustee Toolkit	15 June 2017	Kirsty Robb

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APPENDIX 2

Knowledge & Skills Assessment – 2017



Training Needs Assessment Statements

Statement	Members Average Score
1 Understanding of responsibilities as a member of the Pension Fund Committee	4.40
2 Knowledge of the financial markets and investment products	3.53
3 Confidence with Pension Fund investment concepts and terminology	3.87
4 Understanding of the regulatory environment for Pension Funds in general	3.53
5 Understanding of the regulatory environment for Local Government Pension Scheme (LGPS) Pension Funds	3.67
6 Awareness of the following key documents:	
a) Governance Statement	3.93
b) Statement of Investment Principles (SIP)	3.80
c) Funding Strategy Statement (FSS)	3.93
d) Annual Report and Accounts for the Pension Fund	4.07
7 Understanding of the LGPS Benefits structure	3.60
8 Understanding of the role of the Global Custodian	3.40
9 Understanding of the role of the Actuary	3.93

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BUSINESS PLAN 2018/19 – 2020/21

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

14 June 2018

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Pension Fund Business Plan 2018/19 – 2020/21.**
- 1.2 Best practice suggests that having a business plan for the pension fund is a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1 contains the first Pension Fund Business Plan, covering the period 2018/19 – 2020/21.
- 1.3 The Business Plan 2018/19 – 2020/21 identifies an Action Plan that will be delivered during the next three years to support the aims and objectives of the Pension Fund.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Pension Fund Business Plan 2018/19 – 2020/21 as set out in Appendix 1 is approved.**

3 BACKGROUND

- 3.1 Local Government Pension Scheme (LGPS) administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These are referred to as the "Myners Principles" which are set out in the Statement of investment principles elsewhere on the committee agenda.
- 3.2 Best practice suggests that having a business plan for the Pension Fund is a good way of demonstrating compliance with the "Myners Principle" that relates to effective decision making.

4 PENSION FUND BUSINESS PLAN 2018/19- 2020/21

- 4.1 Appendix 1 contains the proposed Pension Fund Business Plan 2018/19 – 2020/21 (the Business Plan).
- 4.2 The Business Plan has been developed by officers in Human Resources and Finance and uses the template developed for the Council, with some adjustments to meet the specific needs of the Pension Fund.
- 4.3 The sections of the Business Plan are:
 - (a) Overview of the Pension Fund;
 - (b) A summary of what must be done;
 - (c) A summary of successes and areas for improvement;
 - (d) The Fund's aims and objectives;
 - (e) Management of Risk Summary;
 - (f) Key stakeholders;
 - (g) An overview of the Fund's resources;
 - (h) How Performance is managed;
 - (i) The Fund's Action Plan, including performance indicators for 2018/19 – 2020/21.
- 4.4 The Action Plan (page 13 of Appendix 1) is split into three objectives which support the Strategic Aims and Objectives of the Fund. These are:
 - (a) Set levels of employer contributions that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund, and invest in assets that grows the Fund's assets in such a way that produces levels of employer contribution that are as stable as possible.
 - (b) Deliver a High Quality Pension Service to Members.
 - (c) Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with legal requirements.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council are being consulted on the report and their comments have been incorporated into the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Board, 4 December 2017

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

Contact us at Pension & Investments Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA
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Scottish Borders Council Pension Fund

Business Plan 2018/19 – 2020/21

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

About the Pension Fund

This section gives an overview of our services.

Local Government Pension Scheme

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

Pension Fund Funding & Investments

- **£684.9m Net Assets** under management
- **114%** of estimated liabilities as 31 March 2017 funded – per Triennial Actuarial Valuation
- 10 Investment Managers managing funds under 15 different mandates
- Investments in Equities, Gilts & Bonds, Alternative Assets, Private Credit, Property and infrastructure
- Accounting and Administration of Investments undertaken by the Council's Pensions and Investments Team
- AVC option provided by Standard Life

Pension Fund Governance

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

Pensions Administration

- **10,667 members** – 4,409 actively contributing to the Fund
- **3,507 pensioners** in receipt of LGPS pension from the scheme amounting to **£20m p.a. in pension benefit payments**
- 17 Employer Bodies – Scottish Borders Council with 82.5% of the membership
- Administration of Pension Benefits undertaken by the Council's HR Shared Services Team

What we *must* do

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

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

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

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

Our Successes, Areas for Improvement and Self-Assessment

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

	Successes	Areas for Improvement/Development
Pensions Administration	<ul style="list-style-type: none"> Processing of Pension Payments from Business World implemented from 1st April 2017 per implementation plan. Successful training and development of new staff following staff retirements within the team. All contributions received from all Employer Bodies on time. Launch of Scottish Borders Council Pension Fund website. 	<ul style="list-style-type: none"> Continue to improve engagement with Employers and potential scheme members Continue the development and engagement with Members and potential members via website. Development of online access/ information for members via self service Changes to the models of service delivery will require increased focus on the admitted bodies and their agreements
Pension Funding and Investments	<ul style="list-style-type: none"> 114% funding position Triennial Actuarial Valuation at 31 March 2017 Strong 3 year performance to March 2017 with investment returns of 8.6% on a rolling 3 year annualised basis compared to a benchmark of 7.20% Progress made toward implementation of revised Investment Strategy. Stability of Employer Contribution Rates over successive Triennial Valuations 1st stage of cashflow modelling completed 	<ul style="list-style-type: none"> Further understand the implications of the membership profile projections and investment income on the Funds cashflow and investment strategy. Understand implications of changes in the Pensions landscape in relation to the “freedom of choice” agenda Finalise approach to Social, Responsible Investment Ensure the continued effectiveness of the Pension Fund Investment and Performance Sub-Committee
Pension Fund Governance	<ul style="list-style-type: none"> Completion of 2017/18 Training program Regular reviews of Risk Register No actions arising from External Audit of the Annual Report & Accounts 2017/18 	<ul style="list-style-type: none"> Continue to develop the knowledge and skills for all members of Pensions Committee and Board Updating of all Policy and Strategy documents in line with the legislative changes

Our Aims and Objectives

Primary Aim of the Pension Fund

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

Achieved through the following Objectives:

Funding Objectives of the Pension Fund

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

Pensions Administration Objectives of the Pension Fund

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

Governance Objectives of the Pension Fund

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

Managing Our Risk

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

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

A full copy of the Risk Register was approved at the joint Pension Fund Committee and Board meeting on governance held on 22 June 2017 and actions monitored and new risks added where require throughout the year. The table below summarises the risk register, as at 31 March 2018, by the Chartered Institute of Public Finance Accountants (CIPFA) Pension risk categories:

Risk Category	Risk Assessment					
	Before Controls/Mitigating Actions			After Controls/Mitigating Actions		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	4	6	-	-	7	3
Employer	-	4	-	-	1	3
Resource & Skill	-	5	-	-	2	3
Liquidity	2	4	-	-	3	3
Administrative	-	8	-	-	2	6
Regulatory & Compliance	3	2	-	1	2	2
Reputation	1	4	-	-	2	3
Total Number of Risks	10	33	-	1	19	23

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

Risk	Inherent Risk Score	Controls/Mitigating Action(s)	Residual Risk Score
6.2 Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	25	<p>Existing Controls: Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly, Involvement with COSLA discussions on Pensions and monitoring and highlighting actions and decisions from scheme advisory board;</p> <p>Mitigating Actions: Seek to input into any of the legislative change through active membership of COSLA.</p>	16

Our Key Stakeholders

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

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

Our Resources

As at the 31 March 2018 the Fund's Net Assets were valued at **£684.9 m.**

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Investment Manager	Asset Description	31-Mar-18	
		£'000	%
Baillie Gifford	UK Equities	40.0	5.8
Baillie Gifford	Global Equities	157.5	23.0
Harris	Global Equities	50.9	7.4
UBS	Managed Fund - UK Equities - Passive	63.9	9.3
UBS	Managed Fund - Property	36.6	5.4
Blackrock	Managed Fund – Long Lease Property	59.8	8.7
Morgan Stanley	Managed Fund - Global Equities	86.0	12.6
LGT	Managed Fund - Alternatives	49.7	7.3
M&G	Managed Fund - Diversified Income	69.5	10.2
M&G	Managed Fund – Index Linked	34.6	5.0
Permira	Managed Fund – Private Credit	15.9	2.3
Partners Group	Managed Fund – Private Credit	15.9	2.3
Various	Infrastructure	3.8	0.6
Internal	Internal	0.8	0.1
		684.9	100.00

During the financial year 2017/18 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

	2017/18	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	20,708	14,917
Scheduled Bodies	334	724
Admitted Bodies	1,147	3,969
Total	22,189	19,610

Managing Our Performance

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

Pension Administration

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

Investment Performance

- The **Statement of Investment Principles** (approved 22 June 2017) sets out the target long term annual investment return for the Fund's assets of at least 2.7 % above the Consumer Price Index (CPI). It also details the performance targets for each of the investment fund managers used by the Fund benchmark returns service standards that Employers can expect from the Fund and those expected from each Employer within the Fund.
- The quarterly performance report by the Investment Adviser is reviewed at the joint Pension Fund Committee/Board meetings. In addition all of the investment managers attend the six monthly meeting of the Pension Fund Investment and Performance Sub-Committee to present a more comprehensive update on their performance.
- The Fund's Annual Report and Accounts will report the annual position and the annualised three year rolling average performance of the Fund and compare this against the Fund's benchmark and other Local Authority Pension Fund performance.

Funding Levels

- The **Funding Strategy Statement** sets a target of 100% funding level and stable employer contributions; this is assessed every three years by the Fund's Actuary.
- The last triennial valuation was undertaken as at 31 March 2017 and reported a certified 114% funding level and stability of employer contributions for open and active employer bodies. The next valuation will be undertaken as at 31 March 2020.

Governance

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

Statutory returns

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

Benchmarking

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

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

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

Return on Investment as at 31/3/2018	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund excluding Currency Hedging	5.6	3.4	8.6	7.2
Global Equities including UK	5.5	2.1	11.8	9.4
UK Equities	3.3	1.2	6.6	5.9
UK Government Bonds	3.0	2.6	4.3	4.1
UK Corporate Bonds	1.2	0.6	4.2	3.4
Pooled Bonds	3.4	3.6	3.8	3.8
Property	9.7	8.7	7.3	7.6
Alternatives	2.3	4.3	2.7	4.5
Cash	-	-	-	-

Our Action Plan

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

What we want to achieve ... (Objective)

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

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How?					By whom?	By when?			EIA
Action No.		How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	18/19	19/20	20/21	
P	1	Review Pension Strategies informed by 2017 and 2020 Triennial Valuation Results							
			Monitor and report investment performance	P1-A1	P&I Manager	•	•	•	
			Undertake and complete Triennial valuation.	P1-B1	P&I Manger			•	•
			Approval and implementation of 2017 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P-1-C1 P-1-C2	HRSS Manager P&I Manager	•			•

Scottish Borders Council Pension Fund

Draft Business Plan 2018/19 – 2020/21

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P-1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis		•	
P-1-B1	Triennial Actuarial Valuation Funding Level of assets against liabilities	100%	As at 31/3/20 reported by 31/3/21		
P-1-C1	Correct employer contribution rates in Pensions System for each employer	By 30/6/18			•
P-1-C2	Pension Fund Committee approval of Funding Strategy Statement	By 30/6/18			•

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What we want to achieve ... (Objective)

Deliver a High Quality Pension Service to Members

How?					By whom?	By when?			EIA
Action No.		How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	18/19	19/20	20/21	
P	2	Develop and Implement an effective Communication Strategy for the Pension Fund							
			Develop and gain approval Communication Strategy and Action Plan	P2-A1	HRSS Manager	●			●
			Continue to proactively manage and engage Pension Fund Employers	P2-A2	HRSS Manager	●			
			Review all forms and communication material, including annual benefit statements	P2-A3	HRSS Manager	●	●	●	●
P	3	Review Additional Voluntary Contribution Scheme Provision							
			Conduct a strategic review of the AVC provision for the Fund	P3-A1	HRSS Manager/P&I Manager	●			
			Procurement of AVC providers	P3-A2	HRSS Manager/P&I Manager	●			
			Implementation and Promotion of AVC scheme	P3-A3	HRSS Manager	●			
P	4	Ensure successful admission of new Admitted Bodies as required							
			Develop formal policy for Admitted Bodies	P4-A1	HRSS Manager	●			

Scottish Borders Council Pension Fund

Draft Business Plan 2018/19 – 2020/21

Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	18/19	19/20	20/21	EIA
P 5	Ensure accuracy of Pension Records							
		Undertake full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC	P5-A1	HRSS Manager	•			
P 6	Implementation of self service facility							
P		Review of current Pensions Admin system	P6-A1	HRSS Manager	•			
		Implementation of review results	P6-A2	HRSS Manager		•		
		Implementation of Self Service facility	P6-A3	HRSS Manager			•	

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P2- A1	Development of Communications strategy and action plan	31/9/18			
P2-A2	Hold Annual Employer Liaison Meeting	1 meetings by 31/3/19			•
P2-A3	Annual review of all forms, communication material, including annual benefit statements	31/07/18			•
P3-A1	Provide report to Pension Fund Committee on recommended provision of AVC providers	30/06/18			
P3-A2	Undertake any necessary procurement exercise	31/12/18			
P3-A3	Implement and promote AVC provider	31/03/19			
P4-A1	Development and approval of formal policy for new Admitted Bodies	31/03/19			
P5-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	31/12/18			
P6-A1	Review of Pension Admin provider and current contract	31/9/18			
P6-A2	Implementation of review of current contract	31/9/19			
P6-A3	Implementation and roll out of self service to all members	31/3/21			

What we want to achieve ... (Objective)

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

How?					By whom?	By when?			EIA
Action No.		How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	18/19	19/20	20/21	
P	7	Continue to develop robust governance and risk management							
			Review and update Governance Policy and Compliance Statement	P7-A1	C F Manager	•			•
			Develop and deliver 2018/19 Training Programme	P7-A2 & A4	C & I Manager	•			
			Review and update Environmental, Social and Governance section of Statement of Investment Principles.	P7-A5	C & I Manager	•			
			Review and update Pensions Administration Strategy	P7-A3	HRSS Manager	•			•
P	8	Review services provided externally to ensure that these represent best value to the Fund							
			Develop and implement an annual assessment cycle of Investment Adviser and Officer support to the Pension Fund Committee and Pension Fund Board	P8-A1	P & I Manager	•			
			Identify requirement for Actuarial Services and procure new contract	P8-A2	P&I Manager	•			

Scottish Borders Council Pension Fund

Draft Business Plan 2018/19 – 2020/21

Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	18/19	19/20	20/21	
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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P7-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2016	30/06/18			•
P7-A2	Pension Fund Committee approval of Training Policy 2017 and Training Programme 2017/18	30/06/18			•
P7-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/18			•
P7-A4	Training Needs Self-Assessment Levels from 2017/18 to 2018/19	30/06/18			•
P7-A5	Review of Environmental, Social & Governance completed and approved for inclusion in Statement of Investment Principles	30/12/18			
P8-A1	Undertake first annual assessment of Investment Adviser and Officer Support to Committee and Board	31/03/19			•
P8-A2	Identify requirement for Actuarial Services and procure new contract	30/12/18			

Additional Information

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

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

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

www.scottishborderscouncilpensionfund.org

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

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RISK REGISTER UPDATE**Report by Chief Financial Officer**

**JOINT MEETING OF PENSION FUND COMMITTEE AND
PENSION BOARD****14 June 2018**

1 PURPOSE AND SUMMARY

- 1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an updated full register and proposed management actions to mitigate the risks.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A full risk workshop was held on 1 May 2018 with Officers from relevant departments to review and update the full risk register. The output of this is shown in Appendix 1.
- 1.4 Two new risks has been identified to reflect the review being undertaken by The Scheme Advisory Board on the structure of LGPS funds across Scotland and the fiduciary responsibilities of the Fund of ESG factors.
- 1.5 In line with the Council's Risk Management Policy (2015) a paper to be presented at the September 2019 meeting will report progress on the management actions and present any new risks for consideration.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Agrees the updated Full Risk register as contained in Appendix 1; and**
 - (b) **Agrees to an update on progress of management actions to be presented in September 2018.**

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 2018/19 – 2020/21, to be presented for approval on 14 June 2018, sets out the aims and objectives of the Pension Fund. These aims and objectives were fully considered and recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

Level of risk	Risk score
RED	High –Risk Score Range 15-25
AMBER	Medium – Risk Score Range 6 – 12
GREEN	Low – Risk Score Range 1 - 5

- 3.5 To comply with the Council's revised policy of risk management and best practice, a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:

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

4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 1 May 2018 by Officers from the Pension and Investment Team, Human Resources Shared Services Team and Audit & Risk Team in order to ensure that the risk register's contents were

still relevant and up-to-date. The outcome of the workshop is detailed in Appendix 1.

- 4.2 There are 44 risks identified in the register of which eight are red risks prior the application of internal controls. The current identified controls reduce the red risks to one. There are 15 risks with identified management actions which will improve and add to the current controls.
- 4.3 A new risk (6.5) has been included to reflect the current consultation work being undertaken by The Scheme Advisory Board around possible structure changes to LGPS funds across Scotland.
- 4.4 A new risk (7.6) has been included to reflect the increased awareness of the Funds ESG responsibilities. A review of the current policy and reporting is currently underway and will form a key part of the controls once complete.
- 4.5 The progress of the individual management actions identified in the risk register, detailed in Appendix 1, will be reported on a quarterly basis at future meetings.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

The purpose of providing the update to the Committee and Board is to improve the risk management framework for the Pension Fund and demonstrate that the Members of the Pension Fund Committee and the Pension Board understand the risks faced and how it is proposed to manage, mitigate or tolerate these risks. The Additional Proposed Actions as contained in Appendix 1, and recommended for approval by the Committee and Board in this report, are designed to directly enhance the management of risks.

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

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

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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

Background Papers:

Previous Minute Reference: Pension Fund Committee and Pension Board 8 March 2018

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

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Pension Fund - Full Risk Register

APPENDIX 1

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

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

Pension Fund - Full Risk Register

Pension Fund - Full Risk Register							Original Risk			Controls		Current Risk			
No.		Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
1.9		Asset & Investment	Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap.	Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy	future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	3	9	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. As part of this assess requirement for Investment strategy to be reviewed and updated accordingly. TREAT Additional Actions Proposed: Undertake a full investment strategy review following 2017 valuation.	Effective	2	2	4
1.10	Page 110	Asset & Investment	Failure of Funds investment returns to keep pace with growth in liabilities due to pay and CPI Inflation increase, which may lead to Funding Levels falling and potentially requiring increases in employer contribution rates.	General economic climate results in higher CPI inflation and investment returns do not keep pace due global investment markets and economies	Funding levels fall, SBC pay more contributions into Fund.	ongoing	Chief Financial Officer	4	5	20	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation and introduction of other asset types; Regular dialogue with Fund Actuary; Actuary attendance at Pension Fund Committee on an annual basis between triennial valuations. Monitor and evaluation of inflation and pay awards TOLERATE	Effective	3	4	12
2.1		Employer	Failure to apply and demonstrate fairness in the treatment of different fund employers may lead to improper management of the Fund and result in inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates or cross-subsidisation of employers out with the agreed pooling arrangements leading to a shortfall of funding or over charging of an employer.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2014 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. /SBHA & CGI to reflect employer situations. Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. Annual declaration now required from each employer. Annual Declaration includes changes of to scheme membership for current and future year. TOLERATE	Effective	3	1	3
2.2		Employer	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers may result in improper management of the Fund and result in inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Ongoing	Pension Fund Committee/ Chief Financial Officer	3	4	12	Full actuarial valuation undertaken on Triennial basis, 2014 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. SBHA & CGI to reflect employer situations; Annual declaration made by each Employer for forth coming changes Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TREAT Undertake next valuation for 2020	Effective	2	2	4

Pension Fund - Full Risk Register

							Original Risk			Controls		Current Risk		
No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
2.3	Employer	Failure of a Scheme Employer may lead to a shortfall in the funding levels of whole Fund resulting in increases for all other employers contributions	Scheme employer ceasing to operate	Shortfall in fund as a whole with increases required in all other employers contributions	Ongoing	Pension Fund Committee/ Chief Financial Officer	4	3	12	Full actuarial valuation undertaken on Triennial basis; Bonds in place for Amey, and Council agreement in place for Live Borders CGI and SB Cares; Guarantee in place with SG for Visit Scotland; Contribution rates based on open/closed status of employer; Updated Admission Agreement and formal consideration of support at initial set up now implemented; Movement to closed scheme requires actuarial review, results then implemented. TOLERATE	Effective	3	2	6
2.4	Employer	Failure to understand and be involved in proposed structural changes in employers' engagement in the Scheme may lead to failure to manage the transition to a different level/type of participation by the employer in the Fund resulting in inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer.	Failure by employer to notify the fund of significant changes of membership; Changes to composition of employees; Fund participation no longer affordable to an employer.	Failure to manage the transition to a different level/type of participation by the employer in the Fund; Inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer. Fund reaches maturity more quickly; Adverse impact on cash flow and funding levels	Ongoing	Pension Fund Committee/ Service Director of HR	3	4	12	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Communication strategy approved and website launched 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. TOLERATE;	Effective	2	2	4
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	3	4	12	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Teams structured to reduce single points of failure and manage succession planning. Procedure notes written tested, system of regular review agreed TOLERATE.	Effective	2	2	4
3.2	Resources & skills	Failure to provide appropriate training and support and/or secure Board/Committee Member engagement in Training Programme may lead to ineffective management of the Fund as a result of poorly informed decision making.	Availability of members to attend training; Inappropriate training programme.	Ineffective management of the Fund as a result of poorly informed decision making.	Ongoing	Pension Fund Committee/ Chief Financial Officer	2	4	8	Approved Training Policy; Training assessment informs the annual training plan; Training opportunities are made available to members of Board and Committee; Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees; Access to the Pension Regulator's website; Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board TOLERATE	Effective	3	3	9

Pension Fund - Full Risk Register

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

Pension Fund - Full Risk Register

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

Pension Fund - Full Risk Register

APPENDIX 1

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

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

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

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No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
6.4	Regulatory & Compliance	Changes in national jurisdictions may lead to changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes	Changes in national jurisdictions	Changes in the regulatory and tax environment under which the Scheme operates and this may affect the Fund's ability to reclaim taxes e.g. Withholding Tax	Ongoing	Corporate Finance Manager	3	5	15	Monitoring of political position via news releases and group networks. TOLERATE	Partially Effective	2	5	10
6.5	Regulatory & Compliance	Changes in LGPS Structures	Review by Scheme Advisory Board on LGPS structures	Fund may cease to exist, assets may be pooled, Administration could pooled	Ongoing	Chief Financial Officer	4	4	16	Monitoring of political position via Scheme Advisory Board TREAT Additional actions proposed - Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12
7.1	Reputation	Conflict of interest for Elected Members on Pension Fund Committee and Board between Council priorities and Pension Fund Management priorities may result in failure to make the best decision for the Pension Fund	Conflicts of interest; Lack of understanding of their role on the Pension Fund.	Failure to achieve Pension Fund objectives; Failure to make the best decision for the Pension Fund; Referral to the Scheme Advisory Board and/or Pension Regulator; Legal challenge.	Ongoing	Chief Financial Officer	4	4	16	Members are clear on their respective responsibilities to the Council and Pension Fund (Constitution and Code of Conduct) through training; Officers and Investment Adviser provide additional clarity and support to avoid these situations; Skills and knowledge assessment undertaken annually; Pension Board role to ensure compliance with regulatory environment. TOLERATE	Effective	3	2	6
7.2	Reputation	Failure of the Fund's Governance arrangements may lead to ineffective management of the Fund resulting in reputational damage	Changes in legislation that are implemented incorrectly; Failure to follow Governance arrangements.	Ineffective management of the Fund; Reputational damage; Loss of employer confidence; Referral to Scheme Advisory Board and/or Pension Regulator; Legal Challenge.	Ongoing	Chief Financial Officer	3	3	9	Up to Date constitution for Pension Board and Scheme of Administration for Pension Fund Committee; Review of Governance structures undertaken on annual basis as part of Accounts process via compliance statement; Active participation and monitoring of changes required from LGPS 2015. Pensions Board role to support this agenda. TOLERATE	Effective	2	2	4
7.3	Reputation	Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers	Lack of capacity of Officers to monitor.	Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge	Ongoing	Chief Financial Officer/ Service Director of HR	2	3	6	Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian for 2017 TREAT Additional Actions proposed: Implement annual review of Advisers;	Effective	2	2	4
7.4	Reputation	Delays in implementation of decisions resulting in reducing the effectiveness of the decision and potentially adversely impacting on the ability to maximise investment returns	Competing priorities; Lack of resources.	Reducing the effectiveness of the decision; Potentially adversely impacting on the ability to maximise investment returns; Loss incurred or reduced income received.	Ongoing	Chief Financial Officer/ Service Director of HR	3	3	9	Decisions minuted and appropriate staff assigned to implement; Agreed actions monitored by Democratic Services; Implementation timescales priorities according to risk levels and available resources levels; 3 year Business Plan developed and approved on an annual basis and monitored in year by Pension Fund Committee and Board. TOLERATE	Partially Effective	3	2	6

Pension Fund - Full Risk Register

APPENDIX 1

Pension Fund - Full Risk Register							Original Risk			Controls		Current Risk			
No.		Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Impact	Likelihood	Score	Current Controls	Control Assessment	Impact	Likelihood	Score
7.5	Reputation	Ultra vires pension fund actions resulting in a failure to manage the pension fund properly	Fraudulent activity; Lack of skills and knowledge;	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Chief Financial Officer	4	2	8	Training provided to Members and Officers to ensure legal framework understood; Use of external advisers and contact with SPPA. TOLERATE	Effective	2	1	2	

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PENSION FUND BUDGET MONITORING TO 31 MARCH 2018 AND BUDGET 2018/19

Report by Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

14 June 2018

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 31 March 2018 including proposed budget for 2018/19.**
- 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 standard presentation recommended by the CIPFA accounting guidelines. This report is the third quarterly monitoring report of the approved budget.
- 1.4 The total expenditure to 31 March 2018 is £8.743m against a budget of £8.208m. The variance of £0.535m has resulted from improved transparency on the investment manager expenses.
- 1.5 The budget of £6.389m is proposed for 2018/19 reflecting the current asset allocation and transparency code. The budget will need to be reviewed if the asset allocation is revised.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:-**
 - (a) Notes the actual expenditure to 31 March 2018 and**
 - (b) Agrees the proposed budget for 2018/19.**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 require Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report compliance with these standards within its Annual Report. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 The 2017/18 budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 16 March 2017. 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.

- 3.3 There has been growing pressure to improve the level of transparency of fees for investors. The Scheme Advisory Board for England and Wales has also been working on this area and has produced a Code of Transparency which the Scheme Advisory Board Scotland has recommended funds adopt the code. Scottish Borders Pension Fund has, for the last few years, been disclosing both fees paid direct and fees deducted at source. This code requires the Fund to also show any additional lower level transaction costs previously not shown as this data has not previously been available from investment managers.

4 MONITORING TO 31 MARCH 2018

- 4.1 The table below shows the actual expenditure to 31 March 2018 and proposed budget for 2018/19.

	Actual Expenditure to 31 March 18 £000's	2017/18 Budget £000's	2017/18 Variance £000's	2018/19 Proposed Budget £000's
Investment Management Fees	8,218	7,594	624	5,792
Administration	296	385	(89)	368
Oversight & Governance	229	229	-	241
Total	8,743	8,208	535	6,389

- 4.2 The LGPS Code of Transparency was introduced during 2017/18 and required all fund managers to provide information on their management fees, performance fees, transaction costs, custody cost and any other fees incurred by the funds. The table below breaks the fees down to the required code level.

2016/17 £000's		2017/18 £000's
2,878	Management Fees	3,787
-	Performance related fees	75
59	Transaction Costs	4,222
102	Custody Fees	65
12	Other Fees	69
3,051	Total	8,218

- 4.3 All the Fund's managers have completed the required template but several have noted caveats concerning the information due to the complexity of their funds and the guidance. The improved transparency over fees has highlighted costs of £688k that previously were not subject to disclosure. These costs were also incurred in previous years but were not disclosed separately in arriving at net investment performance. All fees whether disclosed or not are however fully taken into account in reporting of performance information for each fund, with investment gains being reported after deducting, i.e. net of all fees.
- 4.4 The costs shown above under the heading of "transaction costs" includes the one off stamp duty tax incurred by the Fund's investment in long lease property, and also reflects the increased level of transactions incurred by the Fund due to the rebalancing investments in line with the approved asset allocation.

- 4.5 Based on the approved asset allocation, and assuming the level of fee transparency remains the same, the proposed budget for 2018/19 for investment management fees is £5.792m. If the asset allocation is revised or further disclosure changes are made to the transparency code, the budget may be required to be updated.
- 4.6 The variance in Administration is due to the timing of the ongoing work by ITM on the GMP reconciliation. The 2018/19 proposed budget includes the completion of this one off piece of work
- 4.7 The Oversight and Governance budget proposed for 2018/19 has been increased to reflect additional Advisor fees for key pieces of work to be undertaken and the additional meeting scheduled of the Performance and Investment Sub Committee.

5 IMPLICATIONS

5.1 Financial

There are no costs attached to any of the recommendations contained in this report its content relating to the disclosure of fees already incurred by the pension fund in 2017/18.

5.2 Risk and Mitigations

This report is part of the governance framework of the Pension Fund and reflects compliance with the best practice recommendation.

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	Pension & Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 8 March 2018

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

Contact us at Contact us at: Pension & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825249 Fax 01835 825166.
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INFORMATION UPDATE

Briefing Paper by Chief Financial Officer

PENSION FUND COMMITTEE & PENSION BOARD

14 June 2018

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 GMP RECONCILIATION

- 2.1 Stage 2 of the GMP Reconciliation is progressing by ITM Limited on behalf of Scottish Borders Council. This stage of the project is the reconciliation of discrepancies between HMRC and Scottish Borders Council pension records for Active or Deferred members and Pensioners.
- 2.2 Scottish Borders Council received the latest report from ITM on 23 May 2018 and these are summarised below:-

35%	Percentage of fund members have been reconciled
44%	Percentage of fund members who are out with the scope for reconciliation. Generally members who have no liability under the scheme having either pre 6 April 1978 service only or only post 5 April 2016 service.
21%	Percentage of fund members who are still unreconciled. These are awaiting data from HMRC or further investigation is required by gathering historic payroll details
100%	

- 2.3 As at 23 May 2018 a total of 49.02% of the discrepancies have been resolved and a further 28.24% are currently under review. These are either currently with HMRC or queries sent to SBC for further clarification of employment and cessation dates.

- 2.4 Scottish Borders Council continue to receive monthly updates on the progress of the GMP Reconciliation exercise from ITM Limited and meet with the ITM Project Manager to discuss.

3 GDPR UPDATE

- 3.1 FAQs for LGPS members went LIVE on the Pension Fund Website on 5th June 2018.
- 3.2 A Privacy notice in relation to the LGPS is currently being prepared by the Employee Relations Manager who is also a member of the GDPR project board. This information will be LIVE on the website by 14 June 2018.
- 3.3 All members of the LGPS will be notified by the end of June where to find the privacy notice.
- 3.4 SBC Pensions Team have made contact with their suppliers Barnett Waddingham, Heywood and Standard Life and are satisfied that they comply with GDPR. This information has been passed to the Interim Information Manager who is currently collating data.

4 ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY (ESG)

- 4.1 There is a responsibility of the fund to ensure it has adequate monies available to pay pensions as they fall due. This objective must be achieved in a cost effective way for members, employers and the taxpayer. Moreover, in reaching decisions, the fund must comply with its fiduciary responsibilities whilst recognising its ESG responsibilities.
- 4.2 ESG has over the last year transformed with new requirements to address ESG and stewardship activity and it is expected further regulation may be imposed during 2018. These changes increase the requirements of Pension Funds to clearly address issues of responsible investment.
- 4.3 The Pension Fund has been reviewing its current policy and investigating how it will fulfil the requirement to demonstrate it is monitoring the Fund Managers approach to ESG against the policy.
- 4.4 The work is currently progressing and it is proposed an updated policy and a recommended process of monitoring will be presented to the Joint Committee and Board on 13 September. Additional time will be given to ensure a full discussion of the proposals. The outcome of the discussion will then be incorporated into the Statement of Investment Principles (SIP) which will be presented on 11 December for approval.

5 SCHEME ADVISORY BOARD UPDATE

- 5.1 The Scheme Advisory Board met on 26th April 2018, included on the agenda were the following items:
- Scheme Advisory Work Plan
 - Structural Review
 - Pensions update from Pension Regulator
 - SPPA Regulations update
 - Financial report
- 5.2 The published note of the meeting is attached for information.

6 SCOTTISH FUTURES TRUST (SFT) INFRASTRUCTURE

- 6.1 There has been a political desire for Local Government Pension Funds to invest in Scottish infrastructure. The ability to do this however has not been available due to regulatory restrictions and the availability of funds to invest in that provides an appropriate balance between risk and return for the pension fund.
- 6.2 Scottish Futures Trust (SFT) has been asked to progress the development of an investment vehicle to allow pension funds to invest in infrastructure including schools, hospitals, housing etc. across Scotland.
- 6.3 SFT has commissioned CBRE to undertake a review of the possible options which would allow LGPS funds to invest in Scottish infrastructure through a specific fund.
- 6.4 SFT are currently consulting with all the LGPS funds across Scotland and hope to publish a final recommended way forward by end May beginning of June.
- 6.5 The early indications is that the fund proposed however is weighted more towards housing than wider public infrastructure and this is unlikely to provide a vehicle by which Pension Funds can invest in assets such as Schools etc.

7 TRAINING OPPORTUNITIES

- 7.1 Baillie Gifford hold an Investment conference every two years. The next one is scheduled for 25-27 September 2018 and will be held in Edinburgh. We will have a limited number of places for this but if you wish to attend please note your interest with Kirsty Robb.
- 7.2 The annual training event organised by the Pension Fund Officers is currently being developed and will take place on 10 September at the COSLA offices in Edinburgh. The agenda items are currently being developed and information will be circulated when available. There will be unlimited number of places for this.

- 7.3 The Pension and Lifetime Savings Association (PLSA) hold an annual investment conference in Edinburgh over 3 days. The dates for the next conference are 6-8 March 2019. To assist members of the Committee and Board to attend the Joint meeting on will be held at KPMG's offices in Edinburgh on the 7th March.

8 FUTURE MEETING DATES

- 8.1 The next meeting is 13th September. The dates of the future meetings were approved at Council 29 March 2018, with a couple of minor changes have been required due to Public holidays and meeting clashes, and updated dates are shown in the table below.

Meeting	Date
Joint Pension Fund Committee and Pension Fund Board	14 June 2018
	13 September 2018
	11 December 2018
	7 March 2019
	13 June 2019
Performance & Investment Sub Committee	22 August 2018
	29 October 2018
	25 February 2019
	24 June 2019

Author(s)

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