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PENSION FUND COMMITTEE AND PENSION BOARD TUESDAY, 10 MARCH 2020

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on TUESDAY, 10 MARCH 2020 at 10.00 AM

J. J. WILKINSON,
Clerk to the Council,

3 March 2020

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 3 - 6) Minute of Meeting held on 17 December 2019 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Pension Fund Investment and Performance Sub-Committee (Pages 7 - 8) To note the Minute of the Pension Fund Investment and Performance Sub-Committee held on 10 February 2020. (Copy attached).	2 mins
6.	Risk Register Update (Pages 9 - 16) Consider report by Executive Director of Finance and Regulatory. (Copy attached).	5 mins
7.	Pension Fund Budget Monitoring to 31 December 2019 and Budget 2020/21 (Pages 17 - 20) Consider report by Executive Director of Finance and Regulatory. (Copy attached).	5 mins
8.	Scottish Borders Council Pension Fund Internal Audit Annual Plan 2020/21 (Pages 21 - 24) Consider report by Chief Officer Audit and Risk. (Copy attached).	15 mins
9.	Information Update (Pages 25 - 42)	5 mins

	Consider briefing paper by Chief Executive. (Copy attached).	
10.	Any Other Items Previously Circulated	
11.	Any Other Items which the Chairman Decides are Urgent	
12.	<p>Items Likely To Be Taken In Private</p> <p>Before proceeding with the private business, the following motion should be approved:-</p> <p>“That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”</p>	
13.	<p>Minute (Pages 43 - 44)</p> <p>Private Section of Minute of Meeting held on 17 December 2019 to be noted and signed by the Chairman. (Copy attached).</p>	2 mins
14.	<p>Pension Fund Investment & Performance Sub-Committee (Pages 45 - 48)</p> <p>To note the Private Minute of the Pension Fund Investment and Performance Sub-Committee held on 10 February 2020. (Copy attached).</p>	2 mins
15.	<p>Quarter Performance Update (Pages 49 - 90)</p> <p>Consider report by KPMG. (Copy attached).</p>	30 mins
16.	<p>Exit Strategy SBCares (Pages 91 - 98)</p> <p>Consider report by Service Director HR and Communications. (Copy attached).</p>	5 mins
17.	<p>Infrastructure Update (Pages 99 - 102)</p> <p>Consider report by Executive Director of Finance and Regulatory. (Copy attached).</p>	5 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, C. Hamilton, D. Moffat, S. Mountford, S. Scott, S. Aitchison, Mr E Barclay, Mr M Drysdale, Mr M Everett, Ms K M Hughes, Ms L Ross, Ms C Stewart and Ms H Robertson

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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 Cleaning Academy (Opposite Council Headquarters) Newtown St Boswells on Tuesday, 17 December 2019 at 10.15 am

Present:- Councillors S Mountford (Chairman), J Brown, G Edgar, C Hamilton, D Moffat, S Scott, Mr A Barclay, Mr M Drysdale, Mr M Everett, Ms H Robertson and Ms L Ross

Apologies:- Councillor S Aitchison, D Parker, Ms C Stewart, Ms K M Hughes.

In Attendance:- HR Shared Services Manager, Pension & Investments Manager, Mr D O'Hara (KPMG), Ms J West (Hymans Robertson), Ms A Fitzgerald (Audit Scotland)

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 12 September 2019

DECISION

NOTED for signature by the Chairman.

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

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 30 September 2019.

DECISION

NOTED.

3. **RISK REGISTER UPDATE**

With reference to paragraph 5 of the Minute of 12 September there had been circulated copies of 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 has been undertaken on 15 April 2019 and the revised risk register approved by the Joint Pension Fund Committee and Pension Board on 13 June 2019, with an update of the actions undertaken on 12 September 2019. Appendix 1 to the report detailed the risks within the approved risk register which had been identified as management actions to date. Mrs Robb advised, that with regard to Risks 1.1 and 1.4, the majority of Pension Fund Committee and Pension Board members had completed the minimum requirement attending two training events this year. Regarding Risk 1.9, work had commenced in preparation for the 2020 valuation.

DECISION

(a) **NOTED:**

(i) **The management actions progressed as contained in Appendix 1 to the report;**

(ii) That no new quantifiable risks have been identified since the last review.

(b) **AGREED to a key risk review being undertaken in March 2020 and reporting of progress on the risk management actions.**

4. **BUSINESS PLAN PERFORMANCE UPDATE**

With reference to paragraph 7 of the Minute of 13 June 2019, there had been circulated copies of a report by the Chief Financial Officer providing members of the Pension Fund Committee and Pension Board with an update on delivery of the actions within the approved Business Plan. The 2019/20 – 2021/22 Business Plan for the Pension Fund was approved on 13 June 2019. Included within the Plan were key objectives and actions with target dates. As part of the risk register update approved on 12 September 2019, it was agreed a mid-year progress report on the Business Plan actions would be presented at the December 2019 meeting and a further progress report and update at the June 2020 meeting. The report explained that there were 19 key tasks due for completion during 2019/20. Of these 11 were fully completed, four were on track to be completed by the approved target date and four required revised dates as detailed below. In response to a question regarding the Cessation and Discretion Policy, the HR Shared Services Manager, Mr Angus, advised that this was to ensure that if any individual employers ceased to be part of the Fund, there would be no adverse effect.

DECISION

(a) **NOTED the progress of the 2019/20 actions within the Business Plan.**

(b) **AGREED:**

- (i) **A revised target date of 31 March 2020 for completion of action P2-A1 - review of current taxation position;**
- (ii) **A revised target date of 31 March 2020 for completion action P4-A1 - develop and gain approval for Cessation and Discretion Policy;**
- (iii) **A revised target date of 31 March 2020 for completion of P6-A1 – complete full reconciliation of Guaranteed Minimum Pension between Fund and HMRC;**
- (iv) **A revised target date of 31 March 2020 for completion of action P6 – A1 – complete full reconciliation of Guaranteed Minimum Pension between the Fund and HMRC;**
- (v) **A revised target date of 31 December 2019 for completion of action P6-A2 – creation of rectification plan measuring of Common and specific data following annual review and return to the Pension Regulator; and**
- (vi) **A further update be presented at the June 2020 meeting.**

5. **PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2019**

With reference to paragraph 10 of the Minute of 12 September, there had been circulated copies of a report by the Chief Financial Officer providing the Pension Fund Committee and Pension Board with an update of the Pension Fund budget to 30 September 2019 including projections to 31 March 2020. The Local Government Pension Scheme (Scotland) Regulations 2014 required Administrating Authorities to ensure strong governance arrangements and sets out the standards they were to be measured against. To ensure the Fund met the standards a budget was approved on 7 March 2019 following the recommended structure within the CIPFA accounting guideline headings. The report was the second quarterly monitoring report of the approved budgets. The report detailed the total expenditure to 30 September 2019 was £0.067m with a projected total expenditure of £6.458m against a budget of £6.458m. There was no projected variance. Mrs Robb highlighted that the Cost Transparency Initiative detailed in the report, was part of the process of monitoring Investment Managers' fees, with some managers now providing quarterly returns in the new format. All, except for one manager, had confirmed

they would provide the necessary information in the requested template format for the 2019/20 accounts.

DECISION

NOTED the actual expenditure to 30 September 2019 and the projected budget outturn to 31 March 2020.

6. INFORMATION UPDATE

6.1 There had been circulated copies of a briefing paper by the Chief Financial Officer providing members of the Committee and Board with updates on a number of areas which were being monitored and where work was progressing. Full reports on individual actions would be tabled as decision and actions were required.

6.2 GMP Reconciliation

With reference to paragraph 12.2 of the Minute of 12 September 2019, it was noted that the final report from HM Revenue and Customs was still awaited.

6.3 AVC Update

Mr Angus advise that there had been an increase to 58 employees who had joined the Shared Cost AVC scheme. The scheme would continue to be promoted.

6.4 SBCares Reintegration with Scottish Borders Council

All employees of SB Cares transferred to Scottish Borders Council from 1 December 2019. Policy documents would be updated to reflect the change of status from an active to closed admitted body.

6.5 Scheme Advisory Board

With reference to paragraph 12.5 of the Minute of 12 September 2019, copies of the Scheme Advisory Board (SAB) consultation report had been circulated with the agenda. The Chairman advised that the preference from the majority of pension schemes in Scotland was for the status quo to remain with more collaboration. The option of pooling had been rejected unanimously. However, the Minister has asked for it to remain an option for the next stage of the review. Further research on the different options was required and an update would be provided at the next meeting. In response to a questions, the Chair advised that pooling of funds would require primary legislation. Mrs Robb added that pooling set up was expensive with an anticipated 15-20 years to recoup costs. If Funds decided to merge, protection could be built in to allow for employers to have differing employer contribution rates.

6.6 McCloud Update

Following a ruling by the Court of Appeal, Mr Angus explained that there was no further information in respect of transitional protection and this could have an effect on LGPS. The Fund Actuary, Ms West, added that only those employees with high salary growth during the period might find an impact on their pensions.

6.7 Auto-enrolment

The report explained that opt outs had been received from 23 of the 55 employees who had been re-enrolled, resulting in 58% of those enrolled remaining in the scheme,

6.8 Training Opportunities

It was noted that any member interested in attending the PSLA Investment Conference from 11 – 12 March 2020 should advise Mrs Robb out with the meeting.

DECISION

NOTED.

7. 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

8. **MINUTE**
The Committee noted the Private Minute of the meeting of 12 September 2019.
9. **PENSION FUND INVESTMENT & PERFORMANCE SUB COMMITTEE**
The Committee noted the Private Minute of the meeting of 30 September 2019.
10. **KPMG UPDATE**
The Committee and Board received a verbal report from the Investment Manager regarding KPMG.
11. **QUARTER PERFORMANCE UPDATE**
The Committee noted a private report by the Chief Financial Officer which updated on infrastructure investment made by the Fund under delegated authority.
12. **INFRASTRUCTURE UPDATE**
The Committee noted a private report by the Chief Financial Officer which updated on infrastructure investment made by the Fund under delegated authority.

The meeting concluded at 11.30 am

**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 on Monday, 10 February 2020 at 1.25 pm

Present:- Councillors D Parker (Chairman), G Edgar, C Hamilton, D Moffat, S Mountford, S Scott, Ms K M Hughes and Ms L Ross.
Apologies:- Councillor J Brown.
In Attendance:- Chief Financial Officer, Pension & Investments Manager, Mr A Singh and Mr A Ross (KPMG) and Democratic Services Officer (J Turnbull).

1. **WELCOME**

The Chairman welcomed everyone to the meeting.

2. **ORDER OF BUSINESS**

The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

3. **MINUTE**

The Committee noted the Minute of the meeting of 30 September 2019.

DECISION

NOTED for signature by the Chairman.

4. **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 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

5. **PRIVATE MINUTE**

The Sub-Committee noted for signature the Private Minute of 30 September 2019.

6. **MANAGER BRIEFING**

The Committee noted a Manager Briefing Paper by KPMG.

7. **PRESENTATION - LGT CAPITAL PARTNERS**

The Committee noted a presentation by LGT Capital Partners.

8. **PRESENTATION - PARTNERS GROUP**

The Committee noted a presentation by Partners Group.

9. **RETAIL PRICE INDEX INFLATION REFORM**

The Committee considered a briefing paper by KPMG.

10. **PRESENTATION - PERMIRA DEBT MANAGERS**
The Committee noted a presentation by Permira Debt Mangers.

The meeting concluded at 5.00 pm

RISK REGISTER UPDATE

Report by Executive Director Finance & Regulatory

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

10 March 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an update of the progress of the actions taken by Management to mitigate these risks, a review of any new risks and highlights changes to any of the risks contained in the Risk Register.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A full risk review was undertaken on 15 April 2019 and the revised Risk Register was approved by the Joint Pension Fund Committee and Pension Fund Board on 13 June 2019, with an update of the actions undertaken on 10 March 2020.
- 1.4 Appendix 1 details the risks within the approved risk register which have been identified management actions and the progress of these actions to date.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Note the management actions progress as contained in Appendix 1;**
 - (b) **Notes no new quantifiable risks have been identified since the last review; and**
 - (c) **Agrees to a key risk review being undertaken in June 2020 and reporting of progress on the risk management actions.**

3 BACKGROUND

- 3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.3 The Pension Fund's Business Plan 2019/20 – 2021/22 was approved on 13 June 2019, setting out the aims and objectives of the Pension Fund. These aims and objectives recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

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

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

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

4 RISK REGISTER UPDATE

- 4.1 A full risk Workshop was undertaken on 15 April 2019 by Officers in order to ensure that the Risk Register's contents were still relevant and up to date. The outcome of the Workshop was then considered and approved at the Committee/Board meeting on 13 June 2019. The updates on the actions reported to Committee/Board on 12 September and 17 December.
- 4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.
- 4.3 Following discussion with the Fund Actuary it has been determined that the creation of the Cessation Policy for the Fund would be best considered alongside the Funding Strategy Statement (FSS) review. However, the FSS review will not be considered until December, therefore, discussions with the Fund Actuary are happening week commencing 24 February 2020 and the Cessation Policy will be presented to the June meeting. This is a delay from the position that had been presented at the previous meeting.
- 4.4 No new risks have been identified during the period.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

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

5.3 Equalities

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

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 The Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk, the Service Director HR & Communications and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson

Executive Director Finance & Regulatory 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 17
December 2019

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.

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

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls			Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 10/03/2020	
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/ Exec Dir Finance & Regulatory	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 - Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	Effective	4	3	12	Training requirements being actioned as part of Training plan to ensure have required skills and knowledge to enable challenge. Performance reporting information agreed with Northern Trust and KPMG.	
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/ Exec Dir Finance & Regulatory	Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role TREAT Ongoing training for elected members of the Pension Board and Committee	Effective	4	2	8	Training requirements being actioned as part of Training plan to ensure have required skills and knowledge to enable challenge.	
1.9	Asset & Investment	Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap.	Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy	future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap.	Ongoing	Pension Fund Committee/ Exec Dir Finance & Regulatory	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 - Undertake a full investment strategy review following 2020 valuation.	Effective	2	2	4	Timetable for valuation agreed with Hyman Robertson, figures to be ready November 2020, investment strategy to commence after valuation signed off	
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/ Exec Dir Finance & Regulatory	Full actuarial valuation undertaken on Triennial basis, 2017 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 forthcoming 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	Timetable and data requirement agreed with Hyman Robertson	

Pension Fund - Full Risk Register

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 10/03/2020
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/ Exec Dir Finance & Regulatory	<p>Full actuarial valuation undertaken on Triennial basis;</p> <p>Bonds in place for Amey, and Council agreement in place for Live Borders CGI and SB Cares;</p> <p>Guarantee in place with SG for Visit Scotland;</p> <p>Contribution rates based on open/closed status of employer;</p> <p>Updated Admission Agreement and formal consideration of support at initial set up now implemented;</p> <p>Movement to closed scheme requires actuarial review, results then implemented.</p> <p>TREAT - Development of cessation policy.</p>	Effective	3	2	6	Work sill to be completed, following discussion with Fund Actuary appropriate to consider creation of Cessation Policy to be presented at June 2020 meeting
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/ Exec Dir Finance & Regulatory	<p>Approved Training Policy;</p> <p>Training assessment informs the annual training plan;</p> <p>Training opportunities are made available to members of Board and Committee;</p> <p>Members have access to External Adviser and Council Officers to help advise and inform them in relation to decisions taken by the Committees;</p> <p>Access to the Pension Regulator's website;</p> <p>Participation in training is published in Annual Report. All new members required to complete Trustee Toolkit within 6 months of joining Committee or Board</p> <p>TREAT - annual monitoring and reporting undertaken</p>	Effective	3	3	9	Annual review completed and findings reported 13 June 2019. Annual training plan approved 13 June 2019 to address required training areas. All members on target to meet training requirement for 2019/20
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	Exec Dir Finance & Regulatory/ Service Director of HR & Communications	<p>Use of External Advisers provides additional resilience and resources;</p> <p>Competency appraisal process implemented to identified training and development requirements;</p> <p>Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Procedural notes completed</p> <p>Regular engagement with external Investment Managers to supplement knowledge.</p> <p>TREAT - Improvement in quality of procedure notes for officers.</p> <p>Implementation of Competency Framework for all staff</p>	Partially Effective	2	3	6	Procedural notes being implemented for Business World processes. Wider process reviews are being processed by Admin. Competency Framework to be implemented for all staff upon official launch of Framework and appraisal process

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 10/03/2020
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	Exec Dir Finance & Regulatory/ Service Director of HR & Communications	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 TREAT - Review and watch to be placed on advice and guidance issued from The Pension Regulator and Government.	Effective	2	2	4	Continue to monitor advice and information from The Pension Regulator and Government bodies.
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	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; TREAT - in line with core HR risk review full business continuity review to be undertaken.	Effective	2	3	6	Work to commence on business continuity review Roll out of Windows 10 has commenced for some members of staff
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	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 - to request from each External Employers audited accounts to provide assurance on their internal controls	Effective	2	2	4	Annual assurance review requests scheduled to be issued November 2019.
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/ Pension & Invest Manager	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. TREAT - Implementation of Competency Framework to all staff	Effective	2	2	4	Competency Framework to be implemented for all staff upon official launch of Framework and appraisal process
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	Exec Dir Finance & Regulatory/ Service Director of HR & Communications	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 Seek to input into any of the legislative change through active membership of COSLA;	Partially Effective	4	4	16	Responding to all consultations and participating in all national groups. Chief Financial Officer active member of Director of Finance group. Monitoring Scheme Advisory Board web site on monthly basis

Pension Fund - Full Risk Register

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 10/03/2020
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	Exec Dir Finance & Regulatory/ Service Director of HR & Communications	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. TREAT - Implementation of Competency Framework to all staff	Effective	2	2	4	Competency Framework to be implemented for all staff upon official launch of Framework and appraisal process
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 be pooled	Ongoing	Exec Dir Finance & Regulatory	Monitoring of political position via Scheme Advisory Board TREAT - Actively engage with Scheme Advisory Board and consultants undertaking review	Partially Effective	3	4	12	Minutes of SAB tabled as meetings for information when available
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	Exec Dir Finance & Regulatory/ Service Director of HR & Communications	Identify requirements of external advisers and appoint appropriately. Annual review undertaken with Investment Advisor and Custodian. TREAT - Implement annual review of Advisers;	Effective	2	2	4	Review meetings held with Northern Trust and KMPG
7.6	Reputation	Pension Fund does not fulfil its fiduciary duties with appropriate regard with its ESG responsibilities	Lack of skills & knowledge Lack of information from Managers Lack of clear policy	Failure to manage the Pension Fund properly; Financial loss; Reputation damage.	Ongoing	Exec Dir Finance & Regulatory	Training provided to Members and Officers on their roles and fiduciary responsibility; Monitoring on quarterly basis of Segregated Portfolios voting Policy contained with Statement of Investment Principles including support for UNPRI. Responsible Investment policy approved TREAT - monitoring arrangements to be implemented	Partially Effective	2	2	4	First annual monitoring report presented to Committee/Board 12 Sept 2019



PENSION FUND BUDGET MONITORING TO 31 DECEMBER 2019 AND BUDGET 2020/21

Report by Executive Director Finance and Regulatory Services

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

10 March 2020

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 December 2019 and seek agreement of the proposed budget for 2020/21.**
- 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 for financial year 2019/20 was approved on 7 March 2019 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 December 2019 is £0.84m with a projected total expenditure of £6.437m against a budget of £6.458m with the majority of charges by Fund Managers still to be reflected in the expenditure figures.
- 1.5 A budget of £6.894m is proposed for 2020/21 reflecting the further implementation of the revised asset allocation strategy approved in September 2018. The budget proposed allows for the implementation of Members Self Service portal.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:-**
 - (a) Agrees the project expenditure for 2019/20 as the revised budget for 2019/20 and**
 - (b) Agrees the proposed budget of £6.894m set out in table 4.1 for financial year 2020/21.**

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 2019/20 budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 7 March 2019. 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 Following the launch of the Cost Transparency Initiative (CTI) the English and Welsh Scheme Advisory Board has contracted with Byhiras to provide an online system for the submission of fees from Managers. The Scottish Scheme Advisory has agreed to also participate in the Byhiras project. This will allow the collation of the fees information from the Fund's managers and should thereby provide better information for benchmarking going forward.
- 3.4 All fund managers have been contacted for the provision of fees and they have agreed information for 2019/20 will be available for the production of the Annual Report and Accounts.

4 MONITORING TO 31 DECEMBER 2019

- 4.1 The table below shows the actual expenditure to 31 December 2019 and proposed budget for 2020/21.

	Actual Expend to 31 Dec 19 £000's	2019/20 Projected Expend £000's	2019/20 Budget £000's	2019/20 Variance £000's	2020/21 Proposed Budget £000's
Investment Management Fees	410	5,750	5,750	0	6,198
Administration	269	425	446	(21)	401
Oversight & Governance	162	262	262	0	295
Total	841	6,437	6,458	(21)	6,894

- 4.2 Investment Management fees are charged in arrears based on the value of assets held on a quarterly basis or as with many of the Funds Managers topped sliced at source and currently available only at the year end. Investment management fees for Baillie Gifford and UBS only, for quarters 1 and 2, are reflected in the expenditure to 31 December figure above.
- 4.3 The proposed budget for 2020/21 reflects the further implementation of the strategic asset allocation approved at the Joint meeting on 13 September 2018. The proposed budget has assumed an 8% increase in the value of assets under management and also reflects a reduced fee for LGT resulting from the move from a segregated to their pooled fund.
- 4.5 The budget variance in 2019/20 for Administration reflects a timing movement for the training implementation phase of Member Self Service.
- 4.4 The proposed 2020/21 budget for Administration has reduced due to removal of additional one off costs budgeted for the implementation of Member Self Service. An allowance of £27k has been included for the remaining phases of the implementation.
- 4.5 The proposed budget for Oversight and Governance reflects assumptions for pay awards, an additional post in the investment team and increased costs of performance monitoring due to the increased number of fund managers.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

This report is part of the governance framework to manager the operation of the Pension Fund and reflects the compliance with the best practice recommendations. Risk are managed in line with the Corporate Risk Management framework, with risks and controls monitored and reported on a quarterly basis.

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 Chief Legal Officer (Monitoring Officer), the Chief Officer Audit and Risk, the Service Director HR & Communications and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson

Executive Director Finance & Regulatory

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 17 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 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

**SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL
AUDIT ANNUAL PLAN 2020/21****Report by Chief Officer Audit & Risk**

**JOINT PENSION FUND COMMITTEE AND PENSION FUND
BOARD****10 March 2020**

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present for approval the Internal Audit Annual Plan 2020/21 for the Scottish Borders Council Pension Fund to enable the Chief Officer Audit & Risk to provide the required audit opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to set out the areas of Internal Audit activity, consistent with the objectives of the Pension Fund.
- 1.3 A fundamental role of the Internal Audit function is to provide senior management and members with independent and objective assurance, which is designed to add value and improve the organisation's operations. In addition, the CAE is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment.
- 1.4 The proposed Internal Audit Annual Plan 2020/21 for the Pension Fund in Section 4.2 sets out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework.
- 1.5 There are resources currently in place to achieve the Internal Audit Annual Plan 2020/21 for the Pension Fund and to meet its objectives.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee and Pension Fund Board approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2020/21.**

3 BACKGROUND

- 3.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 (updated 2017). The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- Standard 2010 – Planning which states that “the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”
 - Standard 2020 – Communication and Approval which states that “the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”
- 3.2 Key components of the audit planning process include a clear understanding of the Pension Fund Committee and Board roles and responsibilities, priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the potential range and breadth of audit areas for inclusion within the plan, consistent with the organisation’s goals. This exercise is informed by key developments at both a national and local level and other relevant background information.
- 3.3 The Internal Audit work for 2020/21 has been informed by the risks, controls and mitigation actions as set out within the Pension Fund’s Risk Register to ensure that Internal Audit plans are risk-based and provide relevant assurance for the Pension Fund.
- 3.4 The Council’s Executive Director Finance & Regulatory, Service Director HR, HR Shared Services Manager, and Pension and Investment Manager have been consulted to capture potential areas of risk and uncertainty more fully. These discussions will continue on a regular basis to ensure Internal Audit assurance meet the needs of Management and other key stakeholders of the Pension Fund.
- 3.5 Internal Audit resources are outlined in the Council’s Internal Audit Annual Plan 2020/21 to be approved by SBC’s Audit and Scrutiny Committee on 9 March 2020. A total of 5 days have been allocated to provide Internal Audit services to the Scottish Borders Council Pension Fund, which reflects the Council’s contribution of corporate support resources.
- 3.6 Staff assigned to perform the Pension Fund Internal Audit work hold relevant professional qualifications and have the necessary experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to deliver the plan.

4 SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL PLAN 2020/21

- 4.1 In summary the Internal Audit work for 2020/21 is designed to encompass:
- a) An appraisal of the operation of corporate governance and risk management arrangements;
 - b) A review of key controls including pension administration and financial management arrangements in place;
 - c) A review of performance against objectives, including relevant performance information.

4.2 The plan below gives an indication of the areas we plan to cover:

Category	Our planned audit approach and coverage within 2020/21
Internal Audit assurance on corporate governance and risk management	<p>We will attend 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.</p> <p>We will assess the Pension Fund’s corporate governance and risk management arrangements in place to deliver its objectives set out in its Business Plan. We will use the Pension Fund’s Governance Policy and Compliance Statement (most recently presented within the Annual Report and Accounts 2018/19) as an integrated toolkit to test key elements to determine whether these are operating as described.</p> <p>We will consider and apply National Reports that give rise to introducing best practice arrangements or lessons learned from other organisations to enable Management to evidence improvements in practices on a continuous basis.</p>
Internal Audit assurance on financial governance and key controls	<p>We will use Internal Audit work over the systems and controls in place at Scottish Borders Council that cover the same systems for the Pension Fund to ensure transactions are valid, complete and accurate. Specifically the Business World ERP System Key Controls, an integration of 4 audits relating to the work streams Record to Report (core General Ledger and Management Reporting), Procure to Pay; Payroll (including Pensioner Payments), and Sales to Cash.</p> <p>We will follow-up on progress on areas of improvement recommended in 2019/20 audit assurance work.</p>
Internal Audit assurance on performance management	<p>We will assess whether the Business Plan is aligned to Pension Fund priorities and objectives, the systems and procedures for preparing, monitoring and controlling the budget are robust, the roles and responsibilities of budget holders are clear, and there is transparency of reporting to Pension Fund Committee and Board Members.</p> <p>We will assess the alignment of performance measures to key priorities and objectives. We will validate the performance measures and benchmarking information, specifically to ensure accuracy of data, and the evidence of improvement arising from key actions.</p>

5 REPORTING OF INTERNAL AUDIT RESULTS

- 5.1 The Internal Audit Annual Plan 2020/21 for the Pension Fund includes sufficient work to enable SBC’s Chief Officer Audit & Risk to prepare an annual independent and objective audit opinion on the adequacy of the arrangements for risk management, governance and control.
- 5.2 At the end of the year, the Internal Audit Annual Assurance Report 2020/21 for the Pension Fund will be presented to Management and to the Pension Fund Committee and Board, for governance and scrutiny purposes. The assurance report will include: the statutory audit opinion based on the Internal Audit work during the year; the results from each audit category outlining the risks, controls and conclusions; progress with implementation and outcomes of agreed improvement actions; and any recommendations that have been made, with the associated Management response, responsible owner and timescale for implementation.
- 5.3 The Internal Audit findings and annual opinion will be used to inform the Pension Fund’s Governance Compliance Statement for inclusion in the Pension Fund’s Annual Report and Accounts.

6 IMPLICATIONS

6.1 Financial

There are no financial implications relating to this assurance report.

6.2 Risk and Mitigations

This report sets out the Internal Audit plan in section 4 that will provide assurance, including assurance on arrangements for managing risks, as part of the governance framework to manage the operation of the Pension Fund and reflects best practice.

6.3 Equalities

There are no direct equalities issues with this report.

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 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.

6.7 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.

7 CONSULTATION

7.1 The Council's Executive Director Finance & Regulatory, Service Director HR, HR Shared Services Manager, and Pension and Investment Manager have been consulted to capture potential areas of risk and uncertainty more fully. These discussions will continue on a regular basis to ensure Internal Audit assurance meet the needs of Management and other key stakeholders of the Pension Fund.

7.2 The Council's Executive Director Finance & Regulatory, Chief Legal Officer (Monitoring Officer), Service Director HR, Clerk to the Council, and Communications team 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:

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

INFORMATION UPDATE

Briefing Paper by Executive Director Finance & Regulatory

PENSION FUND COMMITTEE & PENSION BOARD

10 March 2020

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 RECONCILATON

- 2.1 There has been no progress since the previous meeting as we are still waiting on the final report from HM Revenue and Customs.

3 CESSATION POLICY

- 3.1 Following discussion with the Fund Actuary, and in line with custom and practice of other Funds, that it is more appropriate to have details regarding the cessation actions within the Admission Policy and the Funding Strategy Statement. Both of these will be reviewed and presented to the next Pension Fund Committee and Board meeting. This results in a delay from the position that had been presented at the previous meeting.

4 MEMBER SELF SERVICE

- 4.1 Following discussion with Aquila Heywood, the Pensions Administration software provider, an outline plan has been agreed for the implementation of the above. In summary: -

March 2020 – Project kick off and initial design work
 May 2020 – Onsite Training for Pensions Admin Team
 May 2020 – 3 weeks of User Acceptance Testing
 June 2020 – Go Live

The design of the system will see the application of the same colour schemes and images as currently used within the Scottish Borders Council Pension Fund website.

5 DATA QUALITY – COMMON DATA

- 5.1 Details of the individual records where there is an issue with the data held within the Pensions Administration, where compared to the Common Data

requirements of the Pension Regulator, have been received. Due to the relatively low level of cases involved there has been no formal data rectification plan developed and these have been addressed as part of the business as usual within the Team. There are a few instances where it is not possible to rectify the data to meet the Common Data requirements, namely the missing National Insurance number where these are not available due to the recipient of the pension benefit being under the age of 16 and the number not having yet been allocated.

6 LOCAL GOVERNMENT VALUATION - CONSULTATION

- 6.1 The SPPA recently launched a consultation for the frequency of future valuation cycle. The consultation looks at an option to extend it from the current 3 yearly cycle to 4 yearly in line with the non fund public schemes. Consultation letter is attached in Appendix 2
- 6.2 Due to the consultation responses closing date of the 9th March 2020 the responses could not be tabled to the Joint Pension Fund Committee and Board prior to submission. Officers in conjunction with the scheme actuary agreed the submission in Appendix 3 on behalf of the fund.

7 SCHEME ADVISORY BOARD

- 7.1 The Scheme Advisory Board held a meeting on 29th January. Agenda items were as follows, a note of the meeting is contained in appendix 1.
- GAD presentation on Section 13 Report
 - Structure Review – Scoping
 - Transparency On-line Data Portal
 - Cessation Issues
 - Firefighters & Judges Employment Tribunal
 - Non-joining rates

8 TRAINING OPPORTUNITIES

- 8.1 All members will have completed their minimum training requirements for 2019/20 following attendance at the PSLA investment conference on 11 to 13 March. The annual training assessment review will be circulated to all Members shortly for completion and to identify training areas for 2020/21.

9 FUTURE MEETINGS

- 9.1 The dates of future meetings are given below for information
11th June 2020

Author(s)

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

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February 2020

BULLETIN

“Section” 13 Report

As previously reported, GAD has prepared its “Section 13 “ report on the 2017 valuations for the 11 pension funds in Scotland, and this has now been published [here](#). Funds will shortly be asked their views on implementing the recommendation to ensure consistency of reporting.

Structures Review

The SAB has a working group to oversee the preparation of business cases for different options for the structure of the 11 LGPS funds in Scotland, looking at merger, pooling, co-operation and the status quo. A detailed scoping of the work was discussed, and given the scale of the work it was decided to finalise the timescale and detail of the tender process for the next meeting in March.

Cost transparency on-line data portal

Byhiras gave a presentation to the SAB on the online data portal for reporting and comparing investment fees and charges. When launched at the end of March, it will record and validate information from investment managers, and allow comparisons against average returns. As the first example of such a system in the world, it provides a common foundation for developing data collection and analysis in future, to help drive down costs.

Cessation Issues

A SAB working group has been looking at liability payments when an employer exits the scheme. This especially affects third sector employers. A consultation [here](#) on whether to give administering authorities the option of suspending an employer’s liability to pay an exit payment when they leave the scheme is being run by the SPPA, and closes on 9 March 2020.

Firefighters and Judges Employment Tribunal

The Court of Appeal decided that transitional protections provided in the Judicial and Firefighters pension scheme unlawfully discriminated against younger workers. HM Treasury has been leading cross-scheme work on a resolution, but the LGPS issue is just with the statutory underpin in the transitional regulations applying only to those within ten years of retirement. A cross LGPS-scheme approach that will remove this discrimination and clarify a number of other issues identified is currently being finalised.

Non-joining rates

When considering data returns from funds for its annual report, the SAB highlighted an increase in non-joining rates. It was not immediately obvious why these had risen, and further information is being sought to help identify the potential reasons behind this.

Further details on our website www.lgpsab.scot.

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Local Government Pension Scheme Stakeholders

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Kimberly.linge@gov.scot

21 January 2020

Dear Colleagues

THE LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND)

1. The purpose of this letter is to seek the views of stakeholders about possible changes to the local fund valuation cycle. In 2019, the UK Government directed that the LGPS schemes' statutory valuations should move to a quadrennial (four yearly) cycle, and our consultation asks whether scheme and local valuations should be aligned.

2. Secondly, we are seeking to assess the impact of changes introduced in 2018 to the provisions in Regulation 61, which provide administering authorities with the option of suspending an employer's liability to pay an exit payment when managing the process of an employer exiting the scheme.

Background – Local Government Valuations

3. In November 2018, HM Treasury issued amendments to the Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014, which set out the process for statutory public service pension scheme valuations. The Directions moved the statutory Local Government Pension Scheme valuations on to a quadrennial cycle in line with the other public service schemes. In May 2019, Ministry of Housing, Communities and Local Government consulted on proposed changes to the LGPS local fund valuation cycle and is currently reviewing feedback. Scottish Ministers are now inviting views on the merit of introducing changes to the local fund valuation cycles in Scotland, to bring the two processes in line.

4. The UK Government has taken the view that aligning the valuations for the LGPS schemes in Scotland and England and Wales with the unfunded public sector schemes will allow for a fuller analysis of outcomes across the public sector. The statutory report required by Section 13 of the Public Service Pensions Act 2013, which analyses Funds' solvency and long term cost efficiency, as well as compliance and consistency of approach in fund valuations, is also currently a three-yearly requirement.

5. The statutory cost cap valuation process for the LGPS measures, at macro-level, the cost of benefits being accrued in the funds. The employer cost cap mechanism in the LGPS works in the same way as other public sector schemes. Where the government actuary finds the costs of benefits have moved beyond two percentage points, adjustments must be made to return the schemes to the target costs. Regulation 101 provides that in such circumstances the Scottish Ministers must consult with the Scottish Scheme Advisory Board to agree the remedial procedure, with a default position being a change to the scheme accrual rate. This remedy would impact the local fund valuations which are used to set employer contribution rates.

6. The UK Government has suspended the statutory cost cap valuation dated 31 March 2017 whilst the Employment Tribunal considers how the discrimination introduced to the reformed public service pension schemes, identified by the Court of Appeal in the McCloud case, and should be addressed. In addition, the UK Government is reviewing the cost-cap mechanism and expects to conclude this review before the end of the next four year cycle in 2023.

7. The next triennial valuation for the Local Government Pension Scheme (Scotland) is due on 31 March 2020, the same date as the statutory valuation. We would therefore welcome views on the continuing alignment of statutory and local fund valuations from 2020.

8. **Background – Suspension notices**

The Local Government Pension Scheme (Scotland) Regulations 2018 introduced a new part to Regulation 61 (Special circumstances where revised actuarial valuations and certificates must be obtained). This was in recognition that for some employers, especially smaller 'Third Sector' employers, the cost of exiting the scheme when there are no longer any active members, is a significant issue.

9. The exit payment provisions are in place to protect scheme employers who remain in the scheme, to ensure that they are not burdened by the exiting employer's liabilities. However, it is recognised that the basis on which exit payments are calculated can be onerous and in some cases pose a risk to the employer's ongoing viability, with implications for employees and the delivery of key services to local communities.

Regulation 61(3) and (4) provide that;

“(3) An administering authority may by written notice (“suspension notice”) to an employer suspend that employer’s liability to pay an exit payment starting from the date when that employer would otherwise become an exiting employer.

(4) If an administering authority serves a suspension notice the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits for the employer’s current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn.”

10. Under Regulation 56 of The Local Government Pension Scheme (Scotland) Regulations 2018, each administering authority must publish a Funding Strategy statement in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) statutory guidance. The purpose of this is to ensure the solvency and long-term cost efficiency of the fund, as defined by the Public Service Pensions Act 2013. The funding strategy statements outline each fund's general position on exit payments.

11. The suspension notice provisions in Regulation 61(3) and (4) of the regulations were designed to allow some flexibility in the settling of the employer's exit payment, whilst protecting other employers in the scheme. We are interested to learn how they are functioning in practice, in order to review their use and effectiveness.

12. Separately, the Scheme Advisory Board is continuing to monitor the experience of third sector employers and admission bodies, and work is underway to evaluate the scale of the issue. SPPA will collate feedback from administering authorities and employers in this consultation to support the Board's considerations in providing advice to the Scottish Ministers on any recommended changes.

13. The questions are set out in the attached Annex A.

Consultation

14. You can respond to this consultation by completing the Consultation Response Form attached at Annex A which can be submitted electronically to SPPAPolicy@gov.scot or by post to the following address:

Local Government Pensions Consultation
SPPA Policy
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

The consultation will close on 9 March 2020 and we ask that anyone wishing to respond does so by then.

Completed information

19. The completed Respondent Information Form and any comments you wish to make should be returned, by 9 March 2020, to Kimberly Linge, Policy Manager, Scottish Public Pension Agency, 7 Tweedside Park, Tweedbank, Galashiels TD1 3TE.

20. Copies of the proposals and Respondent Information form can be accessed on the [Local Government Scheme Governance and Legislation](#) area of the SPPA website. Your responses and completed Respondent Information form can be sent electronically to SPPAPolicy@gov.scot. If you would prefer to have a set of these consultation documents and draft regulations sent to you in hard copy, please contact SPPAPolicy@gov.scot to request a set.

Yours faithfully

Kimberly Linge
Policy Manager, LGPS

The Local Government Pension Scheme (Scotland) Regulations 2018



RESPONDENT INFORMATION FORM

Please Note this form **must** be returned with your response to ensure that we handle your response appropriately

1. Name/Organisation

Organisation Name

Scottish Borders Council Pension Fund

Title Mr x Ms Mrs Miss Dr Please tick as appropriate

Surname

Robertson

Fore

name

David

2. Postal Address

Council Headquarters		
Newtown St Boswells		
Melrose		
Postcode TD6 0SA	Phone 01835 825012	Email : David.Robertson@scotborders.gov.uk

1. Permissions - I am responding as...

Individual

/ Group/Organisation

Please tick as appropriate

- (a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please tick as appropriate Yes No

- (b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please tick **ONE** of the following boxes

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available but not my address

- (c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please tick as appropriate Yes No

- (a) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please tick as appropriate Yes No

Questions: Quadrennial valuations

Q1. Should the local fund valuation cycles move from the current three year cycle to a four year cycle in line with the statutory valuation cycle?

If not, why not?

No. Lengthening the valuation would introduce greater risk for the LGPS particularly given multi-employer nature of many funds. This proposal has already been rejected in England and Wales and we can see no advantage to the LGPS in Scotland in moving to a four year cycle.

Q2. If the local and statutory valuation processes were to remain out of sync, do you think there will be any issues in providing the necessary data for the statutory valuation from 2024 on?

No. There are no anticipated difficulties for the fund in providing the data. There may be an impact on the Authority due to the level of data analysis required to complete both the FRS102 & IAS19, which are required annually and based on a roll forward of the valuation information, if the space between valuations is longer this will bring into question the use of the roll forward basis.

Q3. If local valuations were changed to a quadrennial cycle, would you expect to see additional powers to allow funds to undertake an interim valuation and/or reassess employer contribution rates in between valuations e.g. following covenant checks or a significant change in liabilities?

Yes, if local valuation periods were to be lengthened then there will be increased risk for funds. A local power to reassess employer contribution rates between valuations would be helpful, both for the whole fund and individual employer bodies.

Q4. If stakeholders are in agreement with moving to a quadrennial basis, views are also sought on what measures would be needed to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face?

We do not agree with the proposal; however, if this were to be enacted please see answer to Q3.

Q5. Are there any other issues or risks to consider in making changes to the local valuation cycle?

Any move to a four year local valuation cycle should only be undertaken following a full risk assessment of the possible impact and any changes required to legislation to address these. Robust three yearly valuation is a key control in the Fund's risk register

Questions – Suspension Notices

Local Government Pension Scheme (Scotland) Regulations 2018
Regulations 61(3) & (4)

Q6. Have administering authorities used the option of suspending the employer's liability to pay an exit payment when an employer leaves the scheme?

If the answer is 'yes' - how often have you used this option?

No

and b) has this action been effective in managing the exit from the scheme?

N/A

If the answer is 'no' - please provide reasons why

No requests have been made to the Fund.

and b) what other interventions are being used & why?

N/A

Annex A

Q7. Does the wording of the regulations provide sufficient clarity for administering authorities and employers? If not, can you identify changes that might improve the

provision?

The thrust of this question is not clear. The provisions relating to cessation of employers for the LGPS requires to be clarified.

Q8 a) Would guidance be helpful and effective in providing for a more consistent approach across the Scottish funds?

Flexibility re payment periods and security over assets would be two options that could be considered. Any flexibility should be designed to be cost neutral to remaining employers.

b) If so, what body is best placed to provide this guidance?

Q9. Are there any other mechanisms that could be considered to allow some flexibility in the settling of the employer's exit payment, whilst protecting other employers in the scheme?

Guidance helps to provide clarity and is always welcome. It will help to provide consistency.

LGA with reference to the SPPA.

Thank you for your comments.

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