

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE & PENSION BOARD

MINUTE of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in the Waverley Room, Transport
Interchange, Galashiels on Thursday, 16
June, 2016 at 10.00 am

Present:- Councillors B White (Chairman), S Aitchison, M J Cook, G Edgar, G Logan,
J Mitchell, S Mountford, Mr M Drysdale, Ms L Ross.
Apologies:- Councillor J Campbell, Ms C Stewart, Mr C Hogarth and Mr P Smith
In Attendance:- Chief Financial Officer, HR Shared Services Manager, Treasury & Capital
Manager, Mr C Brunton-Smith, Mr D O'Hara (KPMG), Democratic Services
Officer (J Turnbull).

1. 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.

2. MINUTE

There had been circulated copies of the Minute of the Meeting of 23 March 2016.

DECISION

NOTED for signature by the Chairman.

3. KPMG

- 3.1 The Chairman welcomed Mr David O'Hara and Mr Calum Brunton-Smith from KPMG, who had been appointed Investment Advisors to Scottish Borders Council's Pension Fund. Mr O'Hara and Mr Brunton-Smith thanked Members for their appointment. They advised that they both had many years of experience in the investment market managing risks. Their clients including Strathclyde and Lothian Local Government Pension Funds (LGPS), as well as private clients. They considered that the structure of the Scottish Borders Council's Pension Fund had performed well and they would provide guidance to ensure that the Fund continued to evolve to reflect current market conditions.
- 3.2 In response to a question regarding the pooling of pension fund assets, Mr O'Hara advised that reform of LGPS was taking place in England and Wales to stimulate investment in infrastructure projects. KPMG would support and advise on this issue going forward. Mr Robertson added one of the reasons for the pooling of pension fund resources was that in England and Wales the funding levels tended to be much lower, in some cases 60 – 70%; the Scottish Borders Fund was 101%. Scottish Funds recognised the political drive to pool assets and invest in infrastructure projects and representatives had met to discuss joint investment opportunities. However, this should only be considered if there were lower fees and the ability to maximise returns for the Fund. Officers were presently exploring opportunities with other Scottish LGPS funds, for joint investments in infrastructure, but this would, it was thought, be on a voluntary, not a pooled basis. Mr Robertson emphasised that it would ultimately be for the Committee and Board to decide whether to pursue any collaboration projects and he would continue to update Members at meetings.

DECISION

NOTED the report.

MEMBER

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

4. TRAINING PLAN 2016/17

- 4.1 There had been circulated a report by Chief Financial Officer comparing the actual 2015/16 attendance for Pension Fund Committee and Board Members to the requirements detailed in the current Training Policy approved in June 2015 and proposing key areas of training for 2016/17, in-line with the policy and based on the Skills Knowledge assessment recently undertaken. In June 2015 the Pension Fund Committee and Board agreed an updated Training Policy which reflected the revised governance structure. A copy of the revised policy was contained in Appendix 1 to the report. In line with this Policy, the Pension Fund agreed to undertake an annual knowledge and skills self-assessment which would identify the key areas for the future years' training plan. The Training Knowledge and Skills Assessment had been undertaken in April and was summarised in Appendix 2 of the report. The proposed Training areas for 2016/17 were detailed for approval and Members were strongly encouraged to actively participate in all training events to demonstrate their commitment to building the knowledge to support effective decision making.
- 4.2 Mrs Robb advised that the target was for Members of the Pension Fund Committee and Pension Board to attend at least two training sessions each year. All Members of the Pension Fund Committee had fully met the training requirement. However, the training requirement had not been met by Members of the Pension Board, in part due to changes of membership to the Board. Mrs Robb further advised that Members would be invited to attend an event in September covering various areas including the Role of Custodian, information would be circulated when received. Baillie Gifford were also hosting a Seminar on 5 and 6 October. There would also be a further event – 'Generating Growth for Your Fund' on 27 and 28 October (two half days) in Edinburgh, details would be circulated to Members. Mrs Robb would also investigate holding a drop-in session on use of the online toolkit.

DECISION

- (a) **AGREED to approve the Training areas for 2016/17 set out in para 6.1 of the report and that all Members should prioritise attendance at training events whenever practicable.**
- (b) **NOTED the outcome of the Knowledge and Skills Self-Assessment.**

5. PENSION ADMINISTRATION PERFORMANCE 2015/16

- 5.1 There had been circulated a report by Chief Officer Human Resources presenting the Pensions Administration Performance for 2015/16 and requesting the Committee's approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report, contained the Pensions Administration Performance for 2015/16 as it would be included in the Fund's Annual Report and Accounts. During 2015/16 there was a decrease in the number of payments being received late when compared to 2014/15 with only one late payment being made by Scottish Borders Housing Association. Performance in general had improved when compared to last year, particularly with the issuing of benefit statements in August rather than late October and estimates provided being on a par with the previous reporting year. There had been another successful Employer Liaison Meeting held during 2015/16 and agreement reached that this would be a useful event to hold on an annual basis, which would be scheduled in due course.
- 5.2 Mr Angus, HR Shared Services Manager, was in attendance and in answer to questions advised that with regard to auto-enrolment the majority of members had elected to remain in the Fund. There had also been an increase in active members due to the Unions promoting the benefits of LGPS. He further advised that primarily transfers out of the Fund had been to other local authority pension schemes.

DECISION

- (a) **AGREED** the inclusion of the Pension Administration Performance for 2015/16 in the Pension Fund Annual Report and Accounts 2015/16.
- (b) **NOTED** the Pension Administration Performance for 2015/16 as set out in Appendix 1 to the report.

6. GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2016

There had been circulated a report by Chief Financial Officer proposing the revised Governance Policy and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following implementation of the 2015 regulatory changes. The report also requested approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2015/16. Appendix 1 to the report contained the revised Governance Policy and Compliance Statement for the Pension Fund. The Governance Compliance Statement was included in Appendix 1 to the policy and demonstrated that the Pension Fund was in full compliance with the best practice guidance. Mrs Robb highlighted that the main change to the Statement was the appointment of KPMG as Investment Advisor to the Pension Fund and the removal of the performance services provided by WM Company.

DECISION

AGREED the revised Governance Policy and Compliance Statement 2016 and the Governance Compliance Statement for inclusion in the Pension Fund Annual Report and Accounts 2015/16.

7. BUSINESS PLAN 2016/17 - 2018/19

- 7.1 There had been circulated a report by Chief Financial Officer proposing the Pension Fund Business Plan 2016/17 – 2018/19. Best practice suggested that having a business plan for the Pension Fund was a good way of demonstrating compliance with the “Myners Principle” relating to effective decision making. Appendix 1, to the report, contained the first Pension Fund Business Plan, covering the period 2016/17 – 2018/19. The Business Plan identified an Action Plan that would be delivered during the next three years to support the aims and objectives of the Pension Fund.
- 7.2 Mrs Robb highlighted the appointment of KPMG as Investment Advisor to the Fund and that the procurement of Custodian was progressing. These appointments ensured that external services provided to the Fund represented best value. In answer to a question regarding social responsible investment, Mrs Robb advised that officers were developing a policy which would be presented to the Committee and Board for discussion. Mr Angus added that online Self-Service would be available later this year or early next year. This would enable Fund members to access their pension information, obtain projections and ensure the accuracy of Pension Records.

DECISION

AGREED the Pension Fund Business Plan 2016/17 – 2018/19 as set out in Appendix 1 to the report.

8. RISK REGISTER UPDATE

- 8.1 There had been circulated a report by Chief Financial Officer which formed part of the risk review requirements and provided Members of the Pension Fund Committee and Pension Board with an updated 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 under CIPFA's guidance “Delivering Governance in Local Government Framework 2007”. It was further reflected and enhanced in the ‘Local Government Pension Scheme’ published by CIPFA. A full risk workshop had been held on 30 May 2016 with officers from relevant

departments reviewing and updating the full risk register. The output of this was shown in Appendix 1 to the report. In line with the Council's Risk Management Policy (2015) a paper, to be presented at the September 2016 meeting, would report progress on management actions and present any new risks for consideration.

- 8.2 Following discussion on the residual red risks, Mrs Robb advised that Risk was being managed by participation in CIPFA and the Scottish Pension Network, this allowed changes and impacts to be identified quickly. Additional actions proposed included the input of legislative changes through active membership of COSLA and investigating joint investment opportunities with other LGPS funds. With regard to Risk 4.1, Mr Robertson stated that prior to a request for ERVS being considered by Council it had been through a rigorous process to ensure that the needs of the Council continued to be met. An additional action proposed in the Risk Register to monitor early retiral decisions, was that the impact on the Pension Fund be included as part of the Council report and this was welcomed by Members.

**DECISION
AGREED:-**

- (a) **The updated Full Risk register as contained in Appendix 1 to the report; and**
- (b) **To update on progress of management actions to be presented in September 2016.**

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

- 9.1 There had been circulated a report by Chief Financial Officer presenting the Draft Annual Report and Accounts for the Pension Fund 2015/16 as part of the consultation process prior to submission of the Report to the Audit Committee and the External Auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations specified elements which must be contained in para 4.1. The draft Report and Accounts contained in Appendix 1 to the report, fully met those requirements. The draft Report and Accounts were still subject to Audit, which would commence early July. Following Audit sign-off, the final Report and Accounts would be circulated to the joint Committee and Board.
- 9.2 Mrs Robb referred to the overview of the Fund membership which showed that in 2016 the current membership was 10,259 of which 4,594 were actively contributing and 3,157 were in receipt of pension benefits. There had also been an increase in the Admitted Bodies with the addition of SBCares. The closing net asset as at 31 March 2016 was £542,260,000. Mrs Robb advised that officers were working with KPMG and the Custodian on taxation and actively pursuing outstanding tax refunds.

DECISION

AGREED the Pension Fund Annual Reporting and Accounts 2015/16 contained in Appendix 1, with minor amendments, prior to the submission to Audit and Risk Committee on 28 June 2016 and the subsequent statutory audit process.

10. **CUSTODIAN PROCUREMENT**

- 10.1 There had been circulated a report by Chief Financial Officer providing the Committee and Board with an update on the procurement for the Pension Funds Custodian. Identified within the Business Plan approved at Committee on 16 June 2016 was the requirement to undertake a tender process for Custodian services. It was also previously approved on 10 December 2015 that the procurement would be undertaken using the Norfolk Framework. A review of the current services provided by the current custodian JP Morgan against the requirements from both an asset security and accounting perspective was undertaken which highlighted the requirement to expand the services to be procured. This would include Performance monitoring information previously provided by WM Performance Services. Officers would work with Members of the Pension Fund

Appointment Sub Group to evaluate the tenders and agree a recommendation to the September 2016 Joint Pension Fund Committee and Pension Board.

- 10.2 In response to a question, Mrs Robb confirmed that there would be an increased cost for the additional Investment Accounting service. The Capital and Investment Team currently undertook the work required and this was proving more challenging each year and the risk of error was increasing. Consequently, there was considered a requirement to source accounting and performance services as part of the procurement of a new Custodian. The final costs would be reported to the Committee and Board at the September meeting.

DECISION:-

(a) **AGREED the revised services to be procured.**

(b) **NOTED:-**

- (i) **the timetable for the procurement as detailed in para 4.3 of the report; and**
- (ii) **A further report and update would be provided at the September meeting.**

11. **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.

12. **MINUTE**

The Committee noted the Private Minute of the meeting of 23 March 2016.

The meeting was adjourned at 11.35 am and reconvened at 11.45 am.

13. **TIMETABLE FOR INVESTMENT STRATEGY REVIEW (ASSET ALLOCATION)**

The Committee noted a report by KPMG.

14. **INVESTMENT REPORT - QUARTER TO 31 MARCH 2016**

The Committee noted a report by KPMG.

15. **INFRASTRUCTURE INVESTMENTS**

The Committee noted a report by Chief Financial Officer.

16. **URGENT BUSINESS**

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to keep Members informed.

17. **CURRENCY HEDGE**

The Committee noted a report by Chief Financial Officer.

The meeting concluded at 1.15 pm