
INFORMATION UPDATE

Briefing Paper by Chief Financial Officer

PENSION FUND COMMITTEE & PENSION BOARD

16 March 2017

1 PURPOSE AND SUMMARY

- 1.1 **This briefing paper is to provide members of the Committee and the Board with an update on a number of areas which are being monitored and areas where work is progressing. Full reports on the individual areas will be tabled as decisions and actions are required.**

2 TRI-ANNUAL VALUATION

- 2.1 It is a requirement of the LGPS Regulations that the Pension Fund undertakes an actuarial valuation of the assets and liabilities of the Fund every 3 years. The next valuation is due to take place on the 31 March 2017 data.
- 2.2 Initial discussions have commenced with Barnet Waddingham to agree the timetable for data collection and the assumptions to be used. The final outcome of the valuation will be presented at the December meeting.

3 GOVERNMENT ACTUARY DEPARTMENT (GAD) SECTION 13 DRY RUN

- 3.1 The Government Actuary was appointed by the Scottish Public Pensions Agency (SPPA) on behalf of the Scottish Ministers to report under section 13 of the Public Service Pension Act 2013. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate.
- 3.2 Information was provided to GAD from all Scottish Pension Funds and their actuarial advisors used to undertake the 2014 valuation. The aim of reviewing the 2014 valuation was to assist Administering authorities and their actuarial advisors in preparation for the 2017 valuation.
- 3.3 The review looked at four main areas which were compliance, consistency, solvency and long term cost efficiency. The table below

summaries the findings:

Compliance	No evidence of non-compliance with scheme regulations
Consistency	Inconsistencies between terms, approach taken, assumptions and disclosures. This made meaningful comparison unnecessarily difficult.
Solvency	No issues were raised under solvency. Only area flagged was if an asset shock event occurred.
Long term cost efficiency	All in surplus on the GAD standardised basis, no concerns.

- 3.4 The exercise will be undertaken again following the 2017 valuation. GAD is in discussion with Actuaries to ensure consistent use of terms and presentation of findings. They have also requested additional information is provided which will require a change to the Pension Administration system. There are no other anticipated changes to the information or way the valuation is carried out.

4 CURRENCY HEDGE

- 4.1 Committee approved on 15 September 2016 the removal of the currency hedge. Delegated powers were given to the Chief Financial Officer, in agreement with the Chair of the Pension Fund Committee and based on advice of the Investment Advisor, to implement the removal of the hedge at the most appropriate time.
- 4.2 The currency hedge was reduced during November 2016 and then fully removed on 14 December.

5 ON BOARDING OF NEW MANAGERS

- 5.1 The Joint Committee and Board approved the appointment of Blackrock for Long Lease Property and Permira and Partners for Private Credit.
- 5.2 Blackrock have completed their review of the documents and the account is now active. They have indicated the funds will be drawn down over a 3 to 6 month period in 2-3 individual capital calls. The initial drawdown is anticipated to be during March.
- 5.3 Permira are completed their final sign off for the documents submitted and are looking to draw down around 10% of the allocation late April.
- 5.4 Partners Group currently being reviewed and anticipated final approval on 20th March. The first draw down of 75% of the funds will be in March with the 25% balance in June.

6 TRAINING

- 6.1 Since 31 March 2016 there have been three training opportunities open to all members of the Committee and Board. These have all been well attended and have covered areas mainly around investment. Thirteen members have now met their training requirements for the year.
- 6.2 The final training session on Fiduciary duties was undertaken prior to the Joint meeting. It is anticipated that attendance at this will ensure all members have fully met their training requirement for the year.

7 CO-HABITING PARTNERS

- 7.1 A recent ruling at the Supreme Court ruled on a case in Northern Ireland regarding the non-payment of survivor's pension due to the lack of a nomination form. The ruling removed the requirement for a member to nominate a co-habiting partner (the relationship does still have to meet the other criteria listed for the partner to receive a pension).
- 7.2 This ruling was reported to have possible consequences for the wider Public sector schemes as partners previously denied a pension due to lack of nomination form may bring forward a claim.
- 7.3 This however will have little impact on the Local Government Schemes as regulations were changed on 1 April 2015, no longer requiring a formal nomination to be in place. The survivor partner would only be required to meet the criteria listed to be able to receive the pension. There may however be a risk from cases prior to April 2015 being claimed. There are currently no known claims for the Scottish Borders Pension Fund.

8 ERP IMPLEMENTATION

- 8.1 ERP will continue to provide Pensioners with the ability to sign up to view payslips online and make changes to bank details through a secure self-service portal.

9 COMMUNITY JUSTICE

- 9.1 The Community Justice service is being amalgamated into a new body, Community Justice Scotland which will be established on 1 April 2017. Staff currently employed by the Community Justice Service will be made redundant.
- 9.2 Lothian and Borders Community Justice Authority (LBCJA) are currently an admitted body within the Pension Fund with 4 active, 3 deferred and 1 pensioner. The amalgamation will move LBCJA to an "exiting employer" and under the regulations liable for an exit payment.
- 9.3 The Scottish Government has agreed to meet all costs proposed with the severance of these staff which includes any strain on funds and cessation costs. The costs are currently being calculated by the Actuary for the Fund.

10 GOVERNANCE REVIEW

- 10.1 KPMG were appointed to undertake a review of Pensions Governance. This review covered both the funded and unfunded schemes. The review involved face to face interviews with 47 individuals with all Board members being invited to complete an online questionnaire of which 104 were submitted.
- 10.2 The findings of the review were presented to the Scheme Advisory Board on 23 February. In total there are 18 recommendations split over 6 categories. The table below details the findings for funded schemes.

<p>Roles & Responsivities</p> <p>Scottish Government to consider tasking the LGPS Scheme Advisory Board to demonstrate that the local LGPS Pension Boards have achieved a reasonable working balance between the oversight of the local pension funds and the good governance and administration of the schemes, as required by the Public Service Pensions Act 2013 ('the 2013 Act') and the Pensions Regulator's Code of Practice 14.</p>
<p>Training</p> <p>SPPA, in its role as Scheme Manager, together with Local Authorities filling the same role for the LGPS, should ensure an annual training plan is in place for all Board members. This should cover those subjects common to all Boards as well as addressing issues specific to the challenges faced by different Boards.</p> <p>All Pension Board and Scheme Advisory Board members should be required to undertake the Pensions Regulator on-line training as part of their induction training.</p> <p>Training logs from all Boards should be submitted on a regular basis to SPPA (for unfunded Scheme Pension Boards and Scheme Advisory Boards and the LGPS Scheme Advisory Board) or the LGPS Scheme Advisory Board (for LGPS Pension Boards).</p>
<p>Support for Boards</p> <p>Scheme Manager to ensure a consistently high standard of support is provided to the Boards it supports, preferably from dedicated staff to enable a consistency in approach. All Boards should issue papers and agendas and publish minutes within agreed timescales, thus allowing members sufficient time to prepare themselves for meetings.</p> <p>All relevant information concerning public service pension Boards, including the LGPS Boards, should be published in one central location (for example the SPPA website). This website should include the Terms of Reference for each Board, meeting minutes, annual reports and details of all Board members.</p> <p>It would also be helpful if references to each of the LGPS Pension Boards used a common naming convention.</p> <p>Such a depository of information will enable members of pension schemes and the general public to easily find relevant information and facilitate comparison where appropriate.</p>
<p>Board Composition</p> <p>In consultation with Board members, and in particular Board Chairs, a succession plan is put in place for each Board to ensure a balance is struck between ensuring sufficient experience is retained whilst also introducing new blood to the Boards.</p> <p>In the absence of an alternative suggestion, tenures of three years are proposed, with the opportunity to serve an additional term if agreed.</p> <p>It is recommended that the Scottish Government takes steps to ensure that its Boards reflect the diversity of the members that they represent.</p> <p>In particular, pensioners should be represented on Boards as member representatives.</p>
<p>Board Interaction</p> <p>Consideration should be given to establishing a formal distribution of minutes between Pension Boards and their respective Scheme Advisory Boards.</p>

All Pension Board members and Scheme Advisory Board members should be encouraged to attend other Pension and Scheme Advisory Board meetings wherever this is practicable and at least once during their tenure
An annual public service pensions conference should be organised for all Board members to attend SPPA is probably best placed to take on this task

- 10.3 The final recommendations and implementation of these are currently unknown. Officers will however continue to monitor the review and present reports of any possible implications to future meetings.

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