

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in Council Chamber, Council Headquarters,
Newtown St Boswells on Thursday, 16 March
2017 at 2.00 pm

Present:- Councillors B White (Chairman), J. Campbell, G. Edgar, G. Logan,
J. G. Mitchell, S. Mountford, Mr M Drysdale, Mr A Barclay, Ms L Ross,
Ms C Stewart and Ms K M Hughes.

Apologies:- Councillors M. J. Cook, S. Aitchison, Mr C Hogarth and Mr P Smith.

In Attendance:- Director of Finance (Items 1,2, 1-13). Capital and Investment Manager,
Democratic Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 8 December 2016.

DECISION

NOTED for signature by the Chairman.

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

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee dated 27 February 2017.

DECISION

NOTED the Minute.

3. **ASSET ALLOCATION**

3.1 The Chairman welcomed the Pension Fund's Actuary, Alison Hamilton, Barnett Waddingham LLP to the meeting. Ms Hamilton was in attendance to give a presentation on the 2017 Actuarial Valuation, a presentation was circulated at the meeting. Ms Hamilton began by advising that the Actuarial Valuation took place every three years. The last valuation was in 2014, when the Pension Fund's funding level had been 101%, with a £2.8m surplus and an 18% contribution rate. The regulations had changed since 2014 with the introduction of Section 13 of the Pension Act which required additional scrutiny of Pension Funds by the Actuary. The purpose of the 2017 valuation was to set employer contribution rates for the period 1 April 2018 to 31 March 2021. This was calculated by determining the value of assets less the value of liabilities; the surplus, or deficit then determined the total contributions. Ms Hamilton explained that to determine the Fund's liabilities, she analysed the Fund's commitments to date and projected all possible future benefit payments, attaching probabilities to those payments, for each individual member of the Fund.

3.2 Ms Hamilton explained that she had to make certain assumptions to determine the valuation. The model used assessed a six month period spanning the valuation date. For example, recognising public sector pay restraints, the long term salary increase assumption was a rise of 1% over the Consumer Price Index (CPI). She also had to estimate the mortality of the Fund's membership and how this might change in the future. Ms Hamilton then went on to advise that in June 2016 she had reviewed and approved the Fund's revised investment strategy. Mr O'Hara reminded members that the rationale behind the proposed change to the strategy, was to retain the position of the Fund, reduce risk and give additional inflation protection. Ms Hamilton concluded her

presentation by advising that the Fund was now 104% funded and contribution rates should remain at 18% for the three year period.

- 3.3 In response to a question regarding infrastructure investment, Ms Hamilton advised that a return of 5.4% above CPI would be prudent. Regarding mortality assumptions, she clarified that this was analysed on a regional basis and there was good longevity in the Scottish Borders in comparison with the rest of Scotland. Regarding monitoring the Fund's performance, she stated that there was now an online toolkit available and members could monitor the valuation of the Fund, on a daily basis if required. The Chairman thanked Ms Hamilton for attending the meeting and for the interesting presentation.

DECISION NOTED.

MEMBER

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

4. ENVIRONMENTAL SOCIAL GOVERNANCE

- 4.1 The Capital and Investment Manager, Kirsty Robb, then gave a presentation on the Environmental Social Governance (ESG) Policy. Mrs Robb explained that the ESG policy covered wide and varied areas including climate change, deforestation, working conditions, child labour, bribery and corruption. Mrs Robb advised that officers often received requests from pension fund members that the Fund be discouraged from investing in certain companies, for example armament companies, or companies that used child labour. However, in response, it was explained that fiduciary considerations meant that the Pension Fund could not specifically exclude the choice of investment purely based on non-financial considerations and there was no policy in place that could restrict choice. The Pension Fund Committee sought to obtain the best return for the Fund while acting prudently.
- 4.2 The Fund's current position, in relation to ESG, was contained in Section 6 of the Statement of Investment Policy (SIP). The SIP recognised the Committee's responsibility to exercise voting rights, which had been delegated to the Fund's Investment Managers. Mrs Robb stated that other pension funds in Scotland were signing up to the United Nations Principles Responsible Investment (UNPRI) Stewardship Code, which was mandatory in England and Wales. If members agreed, then this could be added to the ESG governance arrangements requiring all Fund Managers signed the Code and could be included as a standard requirement for any future appointment of Fund Managers. In response to a question, Mrs Robb advised that by requesting Fund Managers to sign up to the Code there would be no financial or administration burden for officers. In response to a question regarding the Code restricting investment opportunities, Mr O'Hara advised that the Code did not exclude areas of investment. However, Fund Managers would engage with companies and encourage them to address ESG considerations. For example, if a company used child labour the Fund Manager would consider that as a risk which could impact on stock price and therefore encourage the company to address their concerns.
- 4.3 Mrs Robb went on to advise that to improve monitoring of ESG, the Pension Fund could consider the appointment of a Voting Consultant. KPMG presently, in their report, included information on Fund Manager's voting decisions. However, a Voting Consultant would give more detail and background information, explaining the rationale behind voting choices. This would further enhance the Committee and Board's monitoring role. The Pension Fund and Board discussed the appointment of a Voting Consultant and requested that a report be presented to the next meeting detailing the cost involved. It was also requested that a Voting Consultant be asked to attend the meeting to give a briefing on their role and the benefits to the Pension Fund.

DECISION

AGREED:

- (a) **To request that the Capital and Investment Manager arrange for an Voting Consultant to brief the June Meeting of the Pension Fund Committee and Pension Board;**
- (b) **To request a report detailing the cost of appointing a Voting Consultant; and**
- (c) **To update the Statement of Investment Policy to reflect that Fund Managers be requested to sign up to the United Nations Principles Responsible Investment (UNPRI) Stewardship Code and bring back to the June meeting for approval.**

5. RISK REVIEW UPDATE

With reference to paragraph 4 of the Minute of 8 December 2016, there had been circulated a report by Chief Financial Officer which formed part of the risk review requirements. The report provided members with an update on the progress of the management actions to mitigate risks, a review of new risks and highlighted changes to risks contained in the Risk Register. 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. Appendix 1, to the report, detailed the risks within the approved Risk Register which identified management actions and the progress of these actions to date. Mrs Robb highlighted that the transition to Northern Trust had been completed and a full reconciliation undertaking. With regard to members training, all but one member had met the full training requirement. Mrs Robb further advised that the communication strategy had been delayed until September 2017 due to Enterprise Resource Planning (ERP) implementation.

DECISION

(a) NOTED

- (i) **The management actions progressed as contained in Appendix 1 to the report; and**
- (ii) **No new quantifiable risks had been identified since the last review.**

(b) AGREED to a key risk review being undertaken in June 2017.

6. INFORMATION UPDATE

6.1 Tri-Annual Valuation

The next tri-annual valuation would take place on 31 March 2017. The final outcome would be presented to the December meeting.

6.2 Government Actuary Department (GAD) Section 13 Dry Run

The Government Actuary Department (GAD) would undertake a review following the 2017 valuation. GAD were discussing with Actuaries to ensure consistent use of terms and presentation of findings. They had also requested additional information which would require a change to the Pension Administration system. There was no anticipated changes to the information or the way the valuation was carried out.

6.3 Currency Hedge

With reference to paragraph 2 of the Minute of 15 September 2016, the currency hedge had been reduced during November and fully removed on 14 December 2016.

6.4 New Managers

With reference to paragraph 13 of the Private Minute of 13 December 2016, the appointment of Blackrock for Long Lease Property and Permira and Partners for Private

Credit was noted. Blackrock had completed their review of the documents and the account was now active. Funds would be drawn down over a three to six month period with the initial drawdown anticipated in March. Permira and Partners had completed their final sign off for the documents submitted.

6.5 **Training**

Training events had all been well attended and all but one member had fully met their training requirements.

6.6 **Co-habiting partners**

A recent ruling at the Supreme Court removed the requirement for a member to nominate a co-habiting partner. The ruling could have possible consequences for wider public sector schemes. There would be little impact on Local Government Schemes as regulations changed on 1 April 2015. However, there might be a risk from cases prior to April 2015 being claimed. Mrs Robb advised that there were no known claims for the Scottish Borders Pension Fund. Mr O'Hara added that going forward; the Actuary would need to capture data on co-habiting partners for valuation purposes.

6.7 **Enterprise Resource Planning (ERP) Implementation**

ERP would 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.

6.8 **Community Justice**

The Community Justice Service (CJS) was being amalgamated into a new body Community Justice Scotland which would be established on 1 April 2017. Staff currently employed by CJS would be made redundant. The Scottish Government had agreed to meet all costs proposed with the severance of these staff.

6.9 **Governance Review**

KPMG had undertaken a review of Pension Governance. The findings of the review were presented to the Scheme Advisory Board on 23 February and were detailed in the report attached with the Agenda. Mrs Robb highlighted that with regard to the annual training plan, she proposed to arrange drop in training sessions. There was also the possibility of an annual public sector conference for Pension Boards which would mean another opportunity for training. The Scheme Advisory Board had also recommended that the diversity of members be reflected in the composition of the Board and that pensioners should be represented on Pension Boards. Other recommendations included the establishment of formal distribution of minutes between Pension Boards and their respective Scheme Advisory Boards. It was also noted that all Pension Board members be encouraged to attend other Pension and Scheme Advisory Board meetings wherever this was practicable. The Chairman thanked officers for the informative report.

DECISION

NOTED the information update.

7. **PENSION FUND BUDGET**

There had been circulated a report by Chief Financial Officer providing the Committee and Board with a proposed 2017/18 budget for the Pension Fund which would be reported to the Committee on a quarterly basis. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out standards that were to be measured against. Best practice suggested that budget setting and monitoring for the Pension Fund was a good way to demonstrate compliance with the governance requirements within 2014 regulations. CIPFA accounting guidelines recommended three categories for the reporting and monitoring of costs – Investment Management, Administration and Oversight and Governance. The management costs of which were £3.33m, £0.268m and £0.213m respectively. The 2017/18 approved budgets would be monitored during the year with

quarterly budget monitoring reports being presented to the Joint Pension Fund Committee and Pension Board.

DECISION

(a) **AGREED** the budget of £3.33m for Investment Management, £0.286m for Administration and £0.213m for Oversight and Governance.

(b) **NOTED** that budget monitoring reports would be presented to future meetings.

8. ITEMS LIKELY TO BE TAKEN IN PRIVATE

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business contained in the following items on the ground that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of the part 1 of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

9. MINUTE

The Committee noted the Private Minute of the meeting of 8 December 2016.

10. PENSION FUND INVESTMENT PERFORMANCE SUB-COMMITTEE

The Committee noted the Private Minute of the Pension Fund Investment Performance Sub-Committee of 27 February 2017.

11. QUARTER 4 PERFORMANCE UPDATE

The Committee noted the Private Minute of the Pension Fund Investment Performance Sub-Committee of 27 February 2017.

12. INFRASTRUCTURE INVESTMENT

The Committee noted and agreed a report by Chief Financial Officer.

PUBLIC BUSINESS

13. NEXT MEETING

The Chairman, Councillor White, thanked Pension Board and Pension Fund Members for their contribution and to the Committee over the past five years. Mr Barclay, on behalf of the Pension Board, thanked all Members for their support and extended best wishes to Members, whether standing for re-election or retiring.

DECISION

NOTED.

The meeting concluded at 4.30 pm