

# Scottish Borders Council Pension Fund

Business Plan 2017/18 – 2019/20

## Contents

Page No.

About The Pension Fund	3
What we <i>must</i> do	4
Our Successes, Areas for Improvement and Self-Assessment	5
Our Aims and Objectives	6
Managing Our Risk	7
Our Key Stakeholders	9
Our Resources	10
Managing Our Performance	11
Our Action Plan	13

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

### About the Pension Fund

This section gives an overview of our services.

#### Local Government Pension Scheme

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

#### Pension Fund Funding & Investments

- **£653.2m Net Assets** under management
- **101%** of estimated liabilities as 31 March 2014 funded – per Triennial Actuarial Valuation
- 9 Investment Managers managing funds under 11 different mandates
- Investments in Equities, Gilts & Bonds, Alternative Assets and Property
- Accounting and Administration of Investments undertaken by the Council's Capital and Investments Team

#### Pension Fund Governance

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

#### Pensions Administration

- **10,432 members** – 4,466 actively contributing to the Fund
- **3,314 pensioners** in receipt of LGPS pension from the scheme amounting to **£20.0 p.a. in pension benefit** payments
- 17 Employer Bodies – Scottish Borders Council with 82.9% of the membership
- Administration of Pension Benefits undertaken by the Council's HR Shared Services Team

### What we *must* do

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

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

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

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

### Our Successes, Areas for Improvement and Self-Assessment

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

	Successes	Areas for Improvement/Development
Pensions Administration	<ul style="list-style-type: none"> <li>• Issuing of all Annual Benefit Statements by end of August deadline, incorporating the new CARE benefits for the first time</li> <li>• Testing of Business World for processing of Pension payments in advance of the 1<sup>st</sup> April 2017 implementation</li> <li>• Successful admission of additional Bodies to the Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to improve engagement with Employers and potential scheme members</li> <li>• Improved web presence and online access/ information for members via self service</li> <li>• Changes to the models of service delivery will require increased focus on the admitted bodies and their agreements</li> </ul>
Pension Funding and Investments	<ul style="list-style-type: none"> <li>• <b>101%</b> funding position Triennial Actuarial Valuation at 31 March 2014</li> <li>• <b>Strong 3 year performance</b> to March 2016 with investment returns of 10.9% on a rolling 3 year annualised basis compared to a benchmark of 10.0%</li> <li>• Successful procurement and implementation of new Custodian and Performance Monitoring services</li> <li>• Full Investment Strategy Review completed</li> <li>• Stability of Employer Contribution Rates over successive Triennial Valuations</li> <li>• Commenced review of cashflow modelling</li> </ul>	<ul style="list-style-type: none"> <li>• Further understand the implications of the membership profile projections on the Funds cashflow and investment strategy.</li> <li>• Understand implications of changes in the Pensions landscape in relation to the “freedom of choice” agenda</li> <li>• Finalise approach to Social, Responsible Investment</li> <li>• Ensure the continued effectiveness of the Pension Fund Investment and Performance Sub-Committee</li> </ul>
Pension Fund Governance	<ul style="list-style-type: none"> <li>• Completion of 2016/17 Training program</li> <li>• Regular reviews of Risk Register</li> <li>• No actions arising from External Audit of the Annual Report &amp; Accounts 2016/17</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to develop the knowledge and skills for all members of Pensions Committee and Board</li> <li>• Updating of all Policy and Strategy documents in line with the legislative changes</li> </ul>

### Our Aims and Objectives

#### Primary Aim of the Pension Fund

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

Achieved through the following Objectives:

#### Funding Objectives of the Pension Fund

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

#### Pensions Administration Objectives of the Pension Fund

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

#### Governance Objectives of the Pension Fund

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

## Managing Our Risk

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

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

A full copy of the Risk Register was approved at the joint Pension Fund Committee and Board meeting on governance held on 18 June 2016 and actions monitored and new risks added where require throughout the year. The table below summarises the risk register, as at 31 March 2017, by the Chartered Institute of Public Finance Accountants (CIPFA) Pension risk categories:

Risk Category	Risk Assessment					
	Before Controls/Mitigating Actions			After Controls/Mitigating Actions		
	Red	Amber	Green	Red	Amber	Green
Asset & Investment	3	6	-	-	7	2
Employer	-	4	-	-	3	1
Resource & Skill	-	5	-	-	3	2
Liquidity	2	4	-	1	4	1
Administrative	-	8	-	-	3	5
Regulatory & Compliance	1	3	-	1	1	2
Reputation	1	4	-	-	2	3
<b>Total Number of Risks</b>	<b>7</b>	<b>34</b>	<b>-</b>	<b>2</b>	<b>23</b>	<b>16</b>

# Scottish Borders Council Pension Fund

## Draft Business Plan 2017/18 – 2019/20

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

Risk	Inherent Risk Score	Controls/Mitigating Action(s)	Residual Risk Score
<p>4.1 Changes in composition of Pension Fund membership i.e. active/ deferred/ pensioners may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due potentially increasing employers contribution levels and changes to the investment strategy.</p>	20	<p><b>Existing Controls:</b> Implementation of Auto enrolment for the Council met in July 2013; Pension Administration Strategy in place and monitored.</p> <p><b>Mitigating Actions:</b> Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; Review of cashflow scenarios to identify timelines and impact.</p>	16
<p>6.2 Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels, benefits and administrative and governance burdens.</p>	25	<p><b>Existing Controls:</b> Active participation in Scottish pension investment and administration networks; Involvement with COSLA discussions on Pensions.</p> <p><b>Mitigating Actions:</b> Seek to input into any of the legislative change through active membership of COSLA.</p>	16



### Our Key Stakeholders

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

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

## Our Resources

This section gives an overview of our resources.

As at the 31 March 2017 the Fund's Net Assets were valued at **£654.4 m**, of which £653.2m were held in investment assets :

Investment Manager	Asset Description	31-Mar-17	
		£'000	%
UBS	UK Equities - Passive	74,745	11.44
Baillie Gifford	UK Equities	44,112	6.75
Baillie Gifford	Global Equities	151,003	23.12
Harris	Global Equities	69,221	10.6
UBS	Property	33,257	5.09
Morgan Stanley	Managed Fund - Global Equities	105,284	16.12
LGT	Managed Fund - Alternatives	98,734	15.12
M&G	Managed Fund - Diversified Income	42,814	6.55
M&G	Managed Fund - Bonds	20,379	3.12
Partners Group	Managed Fund – Private Credit	11,588	1.77
Internal	Internal	2,070	0.32
		<b>653.2</b>	<b>100.00</b>

During the financial year 2016/17 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

	2016/17	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	18,869	13,684
Scheduled Bodies	275	657
Admitted Bodies	843	4,032
<b>Total</b>	<b>19,987</b>	<b>18,373</b>

### Managing Our Performance

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

#### Pension Administration

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

#### Investment Performance

- The **Statement of Investment Principles** (approved June 2015) sets out the target long term annual investment return for the Fund's assets of at least 2.7 % above the Consumer Price Index (CPI). It also details the performance targets for each of the investment fund managers used by the Fund benchmark returns service standards that Employers can expect from the Fund and those expected from each Employer within the Fund.
- The quarterly performance report by the Investment Adviser is reviewed at the joint Pension Fund Committee/Board meetings. In addition all of the investment managers attend the six monthly meeting of the Pension Fund Investment and Performance Sub-Committee to present a more comprehensive update on their performance.
- The Fund's Annual Report and Accounts will report the annual position and the annualised three year rolling average performance of the Fund and compare this against the Fund's benchmark and other Local Authority Pension Fund performance.

#### Funding Levels

- The **Funding Strategy Statement** sets a target of 100% funding level and stable employer contributions; this is assessed every three years by the Fund's Actuary.
- The last triennial valuation was undertaken as at 31 March 2014 and reported a certified 101% funding level and stability of employer contributions for open and active employer bodies. The next valuation will be undertaken as at 31 March 2017.

#### Governance

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

# Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

## Statutory returns

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

## Benchmarking

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

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

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

Return on Investment as at 31/3/2017	1 year rolling return		3 year rolling return	
	Fund %	Bench <sup>1</sup> %	Fund %	Bench <sup>1</sup> %
<b>Total Fund including Currency Hedging</b>	<b>21.5</b>	<b>19.5</b>	<b>10.9</b>	<b>10.0</b>
<b>Total Fund excluding Currency Hedging</b>	<b>22.9</b>	<b>20.9</b>	<b>11.9</b>	<b>11.3</b>
Global Equities including UK	31.0	29.6	<b>16.6</b>	15.4
UK Equities	22.0	22.0	<b>7.9</b>	7.7
UK Government Bonds	6.6	6.6	<b>11.6</b>	10.5
UK Corporate Bonds	11.8	9.2	<b>7.8</b>	7.4
Pooled Bonds	6.9	3.3	<b>n/a</b>	n/a
Property	1.9	3.7	<b>10.0</b>	10.2
Alternatives	7.5	4.5	<b>5.4</b>	4.5

### Our Action Plan

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

#### What we want to achieve ... (Objective)

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

How?			By whom?	By when?			EIA
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	17/18	18/19	19/20
P 1	Review Pension Strategies informed by 2014 and 2017 Triennial Valuation Results						
		Undertake and complete Triennial valuation.	p-1-c1		•		•
		Approval and implementation of 2017 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P-1-B1 P-1-B2 P-1-B3	C F Manager		•	•

# Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P-1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis		•	
P-1-B1	Pension Fund Committee approval of employer contribution rates	By 30/6/17			•
P-1-B2	Correct employer contribution rates in Pensions System for each employer	By 30/6/17			•
P-1-B3	Pension Fund Committee approval of Funding Strategy Statement	By 30/6/17			•
P-1-C1	Triennial Actuarial Valuation Funding Level of assets against liabilities	100%	As at 31/3/17 reported by 31/3/18		

# Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

## What we want to achieve ... (Objective)

Deliver a High Quality Pension Service to Members

How?			By whom?	By when?			EIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	17/18	18/19	19/20	
P	2	Develop and Implement an effective Communication Strategy for the Pension Fund						
		Develop and gain approval Communication Strategy and Action Plan	P-2-A1	HRSS Manager	•			•
		Continue to proactively manage and engage Pension Fund Employers	P-2-A2	HRSS Manager	•			
		Review all forms and communication material, including annual benefit statements		HRSS Manager	•			•
		Develop content of Pensions presence on the Council's website	P-2-A3	HRSS Manager/ C & I Manager	•			•
P	3	Review Additional Voluntary Contribution Scheme Provision						
		Conduct a strategic review of the AVC provision for the Fund	P-2-A4	HRSS Manager/C&I Manager	•			
		Procurement of AVC providers		HRSS Manager/C&I Manager	•			
		Implementation and Promotion of AVC scheme		HRSS Manager	•			

# Scottish Borders Council Pension Fund

## Draft Business Plan 2017/18 – 2019/20

Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	17/18	18/19	19/20	EIA
P 4	Ensure accuracy of Pension Records							
		Implement the Self-Service for Members to access their pension information online		HRSS Manager		•		•
		Undertake full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC		HRSS Manager	•			
P 5	Ensure successful admission of new Admitted Bodies as required							

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P-2-A1	Pension Fund Committee approved Communication Strategy and Action Plan	30/9/17			•
P-2-A2	Hold Annual Employer Liaison Meeting	1 meetings by 31/3/18			•
P-2-A3	Updated content on Pensions website	30/9/17			•
P-2-A4	Provide report to Pension Fund Committee on recommended provision of AVC providers	31/3/18			



# Scottish Borders Council Pension Fund

Draft Business Plan 2017/18 – 2019/20

## What we want to achieve ... (Objective)

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

How?				By whom?	By when?			EIA
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	17/18	18/19	19/20	
P 6	Continue to develop robust governance and risk management							
		Review and update Governance Policy and Compliance Statement	P-6-A1	C F Manager	•			•
		Develop and deliver 2017/18 – 2018/19 Training Programme	P-6-A2 & A5	C & I Manager	•			
		Develop and Implement separate Financial Regulations for the Pension Fund	P-6-A4	C & I Manager		•		
		Review and update Environmental, Social and Governance section of Statement of Investment Principles.	P-6-A6	C & I Manager	•			
		Review and update Pensions Administration Strategy	P-6-A3	HRSS Manager		•		•
P 7	Review services provided externally to ensure that these represent best value to the Fund							
		Develop and implement an annual assessment cycle of Investment Adviser and Officer support to the Pension Fund Committee and Pension Fund Board	P-7-A1	C & I Manager		•		

# Scottish Borders Council Pension Fund

## Draft Business Plan 2017/18 – 2019/20

Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	17/18	18/19	19/20	
	<i>Review services provided externally to ensure that these represent best value to the Fund (continued)</i>	Identify requirements for investment and performance advisory services and procure new contract(s)		C & I Manager		•		

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P-6-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2016	30/6/17			•
P-6-A2	Pension Fund Committee approval of Training Policy 2017 and Training Programme 2017/18	30/6/17			•
P-6-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/9/18			•
P-6-A4	Audit & Risk Committee and Pension Fund Committee approval of Pension Fund Financial Regulations	31/3/18			•
P-6-A5	Training Needs Self-Assessment Levels from 2017/18 to 2019/20	Improve knowledge assessment			•
P-6-A6	Review of Environmental, Social & Governance completed and approved for inclusion in Statement of Investment Principles	30/12/2017			
P-7-A1	Undertake first annual assessment of Investment Adviser and Officer Support to Committee and Board	31/3/19			•

## **Additional Information**

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

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

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

<http://www.scotborders.gov.uk/pensions>

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

Contact us at Kirsty Robb, Capital & Investments Manager, Council HQ, Newtown St Boswells

01835 825249, [krobb@scotborders.gov.uk](mailto:krobb@scotborders.gov.uk)