

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in Committee Rooms 2 and 3, Council
Headquarters, Newtown St Boswells on
Thursday, 14 June 2018 at 10.00 am

Present:- Councillors S Mountford (Chairman), J. Brown, G. Edgar, S. Scott,
S. Aitchison, Mr E Barclay, Mr M Drysdale, Ms L Ross, Ms C Stewart.
Apologies:- Councillors D Parker, J Fullarton, D Moffat, Ms K M Hughes, Mr J Terras, Mr
P Smith.
In Attendance:- Chief Financial Officer, Pension and Investment Manager, HR Shared
Services Manager, (Para 8) Mr D O'Hara (KPMG), Mr Singh (KPMG),
Democratic Services Officer (J Turnbull).

1. WELCOME

The Chairman welcomed those present to the meeting and advised that Mr Campbell Hogarth, Unison representative on the Pension Board, had resigned and had been replaced by Mr Jim Terras. On behalf of the joint Committee and Board, the Chairman thanked Mr Hogarth for his valuable contribution to the Pension Fund Committee, Pension Board and Pension Fund Investment Performance Sub-Committee.

DECISION

NOTED the resignation of Mr Campbell Hogarth and the appointment of Mr Jim Terras as Unison representative on the Pension Board.

2. MINUTE

There had been circulated copies of the Minute of the Meeting of 8 March 2018.

DECISION

NOTED for signature by the Chairman.

3. PENSION FUND INVESTMENT PERFORMANCE SUB-COMMITTEE

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee dated 26 February 2018.

DECISION

NOTED the Minute.

4. TRIENNIAL VALUATION AS AT 31 MARCH 2017

There had been circulated copies of a report by the Chief Financial Officer, detailing the outcome of the triennial valuation of the Scottish Borders Council Pension Fund as at the 31 March 2017 and proposing the employer contribution rates for the next three years. The full Valuation Report, prepared by the Fund actuary Barnett Waddingham, was contained in Appendix A to the report. The report concluded that the Scottish Borders Council Pension Fund had a funding level of 114% compared to the previous 2014 valuation of 101%. This equated to a funding surplus of £80.6m. The revised "Primary rate" calculated had increased from 18% to 20.6%. However, to allow employer contributions to remain stable the Actuary recommended the surplus be utilised over a 53 year period. This would allow the "Pool" rate to remain at 18% of payroll for most employers who participated in the scheme on an open basis. It was noted that Scottish Borders Housing Association (SBHA) and CGI were both operating as closed funds with new employees unable to join the Fund. Due to the increased risk with these employers,

individual rates were recommended by the Actuary. The recommended rates from 1st April 2018 for these were 20.3% for SBHA and 19.8% for CGI. In response to a question, Mr O'Hara, Investment Advisor, KPMG, advised that relative to other Scottish Funds the Scottish Borders Pension Fund was performing well and with the changes to the Investment Strategy, this was expected to continue.

DECISION

AGREED the Fund Valuation Report as at 31 March 2017 as set out in Appendix A to the report and the resulting employer contributions rates proposed and applied from 1 April 2018.

5. FUND STRATEGY STATEMENT 2018

There had been circulated copies of a report by the Chief Financial Officer proposing the revised Funding Strategy Statement (FSS) for 2018. The report explained that the Pension Fund was required by the Local Government Pension Scheme (LGPS) Regulations to have an up to date FSS, attached as Appendix A to the report, which should be kept under review and updated and approved annually. A full review of the FSS had been undertaken following the 2017 valuation to reflect changes to recent guidance. The Local Government Pension Scheme (LGPS) regulations and guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) recommended the FSS be consulted on with all participating employers and members. All participating employers had been circulated with the draft FSS and it had been made available to members via the Scottish Borders Pension Fund website. Ms Robb, Pension and Investment Manager, highlighted that the FSS had been updated to reflect that LIVE Borders had moved back into the main pool and that CGI was now a closed Fund.

DECISION

AGREED the Funding Strategy Statement set out in Appendix A to the report.

6. SCOTTISH BORDERS COUNCIL PENSION FUND INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2017/18

There had been circulated copies of a report by the Chief Officer Audit & Risk presenting the Internal Audit Annual Assurance Report for the year to 31 March 2018. The Report included the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Scottish Borders Council Pension Fund's overall control environment. The report explained that that Public Sector Internal Audit Standards (PSIAS) required that the Chief Officer Audit & Risk provided an annual internal audit opinion and report on the adequacy and effectiveness of the Pension Fund's governance, risk management and internal controls to support the preparation of the Pension Fund's Annual Governance Statement. To meet the requirements of the PSIAS the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2017/18 included the Internal Audit annual opinion, provided details of Internal Audit activity during the year to support the opinion, and stated the conformance of the Internal Audit service with the PSIAS. The Chief Officer Audit & Risk's opinion was that, based on Internal Audit reviews and knowledge, the systems of internal control within the Scottish Borders Council Pension Fund were operating satisfactorily, and governance and risk management arrangements were effective with evidence of improvement during the year. The independent assurance opinion had been used to inform the Pension Fund's Annual Governance Statement 2017/18. In response to questions, Mr Robertson acknowledged that implementation of Business World had been challenging and a number of modifications had been made to the system. He confirmed that the Council would only be charged for enhancements to the system, not any rectifications which had been required. Members noted that Business World would be fully operational by September 2018.

DECISION

NOTED the Scottish Borders Council Pension Fund Internal Audit Annual Assurance Report 2017/18.

7. **GOVERNANCE POLICY & COMPLIANCE STATEMENT 2018**

There had been circulated copies of a report by the Chief Financial Officer which proposed 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 revised Governance Compliance Statement, included in Appendix B to the report, for inclusion in the Pension Fund's Annual Report and Accounts 2017/18. The Governance Compliance Statement, included in Appendix 1 to the Policy, demonstrated that the Pension Fund was in full compliance with best practice guidance. Mr Robertson highlighted that the Pension Fund now had a standalone website which detailed governance arrangements and Fund information. An interactive site was proposed for 2020/21 which would allow for pension quotations to be provided. Members requested that as the interactive site would assist the workload of the Pension Team, an earlier implementation date should be considered. In response to a question regarding SB Supports LLP, Mr Robertson clarified that limited liability partnerships had been set up to establish partnership working with the Council and that SB Supports LLP held a small number of administration personnel.

DECISION

AGREED the revised Governance Policy and Compliance Statement 2018 and the Governance Compliance Statement for inclusion in the Pension Fund Annual Report and Accounts 2017/18.

8. **PENSION ADMINISTRATION PERFORMANCE 2017/18**

There had been circulated copies of a report by the Chief Officer Human Resources presenting the Pension Administration Performance 2017/18 and requesting the Committee's approval for its inclusion in the Annual Report for the Fund. Appendix 1 to the report contained the Pension Administration Performance for 2017/18 as it would be included in the Fund's Annual Report and Accounts. The report explained that during 2017/18 there had been an improvement in payments, to the extent that all were received on time. However, performance had not been at the same high standard as in previously reported years, this has been due to the replacement of the long standing payroll system within Scottish Borders Council, the retiral of two members of the Pensions Team and a period of long term absence at a key point in the year. The Annual Benefit Statements had been issued seven days later than required and this had been reported to the Pensions Regulator who confirmed that there was no further action to be taken by them due to the clear rectification plan that was in place. The report advised that there had been another successful Employer Liaison Meeting held during 2017/18 and that this event would be held on an annual basis. In response to questions Mr Angus, HR Shared Services Manager, advised that there were no instances where payments had been late and that from February 2018, Annual Benefit Statement queries were answered within the required 20 day target period. Mr Angus also advised that discussion on a self-service enhancement to the website had commenced and the joint Committee and Board would be updated on progress.

DECISION

(a) NOTED the Pension Administration Performance for 2017/18 as set out in Appendix 1, to the report.

(b) AGREED the inclusion of the Pension Administration Performance for 2017/18 in the Pension Fund Annual Report and Accounts 2017/18.

9. **TRAINING PLAN 2018/19**

There had been circulated copies of a report by the Chief Financial Officer comparing the actual 2017/18 attendance for Pension Fund Committee and Pension Board Members to the requirements detailed in the current Training Policy approved in June 2017. In line with this Policy, the Pension Fund agreed to undertake an annual Knowledge and Skills Self-Assessment to identify key areas for the future year's training plan and the report proposed key areas of training for 2018/19. The Training Knowledge and Skills

Assessments had identified key areas of training including: the role of the Custodian, LGPS Benefit structure, understanding of the regulatory environment, knowledge of financial markets and investment products. Members were strongly encouraged to actively participate in all training events to demonstrate their commitment to enhancing the governance of the Pension Fund and to support effective decision making. In response to a question regarding completion of the Trustee Toolkit, Ms Robb advised that this was mandatory and required to be completed within six months of joining the Committee or Board. With regard to any sanctions that could be imposed on members who did not attend training events or the required number of Committee meetings, Ms Robb explained that it was for the joint Committee and Board to decide what sanctions, if any, to impose. Following discussion, the joint Committee and Board asked that the Chairman write to all Pension Fund Committee and Pension Board members reminding them of their responsibility to attend meetings and to undertake training as required.

DECISION

(a) NOTED:

- (i) The Training Policy in Appendix 1 to the report;**
- (ii) The outcome of the 2017/18 training programme and the attendance levels for training and meetings; and**
- (iii) The outcome of the Knowledge and Skills Self-Assessment for 2018/19.**

(b) AGREED:

- (i) The training areas for 2018/19 set out in paragraph 6.2 of the report and that all members should prioritise attendance at training events whenever practicable; and**
- (ii) To request that the Chairman write to all members of the Pension Fund Committee and Pension Board reminding them of their responsibility to attend meetings and undertake training as required.**

10. BUSINESS PLAN 2018/19 TO 2020/21

There had been circulated a report proposing the Pension Fund Business Plan 2018/19 and 2020/21 be approved. 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 2018/10 – 2020/21. The Business Plan 2018/19 – 2020/21 identified an Action Plan which would be delivered during the next three years to support the aims and objectives of the Pension Fund. Mr Robertson, highlighted Action No. 6 – Implementation of self-service facility, explaining that one of the decisions required to progress this action would be a review of the current Pension Administration system.

DECISION

AGREED that the Pension Fund Business Plan 2018/19 – 2020/21 as set Appendix 1 to the report.

11. RISK REGISTER UPDATE

- 11.1** With reference to paragraph 3 of the Minute of 8 March 2018, there had been circulated 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 workshop was undertaken

on 1 May 2018 with officers from relevant departments to review and update the full risk review, the output of which 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 2018 meeting would report progress on the management actions and present any new risk for consideration.

- 11.2 The report explained that two new risks had been identified. Risk 6.5 – Changes in LGPS Structures, concerned the review being undertaken by The Scheme Advisory Board (SAB) on the structure of the LGPS Funds across Scotland. Ms Robb advised that the next SAB meeting was scheduled for 27 June 2018. The Pension Fund Committee Chair and Vice-Chair would attend and Ms Robb encouraged other members to attend to give their views as part of the consultation. Following discussion, Ms Robb highlighted one of the options being consulted on was pooling which could if following the English and Welsh model, be for the whole of Scotland,. It was noted that these pooling arrangements had incurred huge administration costs and that Funds would need to deliver enhanced performance to cover these costs. The benefit envisaged by the pooling of funds was to reduce asset manager's fees. However, Mr O'Hara advised that the majority of asset managers were already providing fee saving benefits.
- 11.3 The second new risk category was Risk 7.6 – Reputation. This risk concerned ultra vires Pension Fund actions which resulted in failure to manage the Pension Fund properly. Ms Robb explained that this related to the Pension Fund not fulfilling its judiciary duties with regard to Environmental, Social and Governance (ESG) considerations. This risk would be controlled by providing training for members and officers on their fiduciary responsibilities. It was also proposed to review ESG policy and future monitoring arrangements. In response to a question regarding the risk of losing senior administration staff, Mr Robertson advised that this was covered in Risk 3.1 but that additional controls would be added to this risk.

**DECISION
AGREED:**

- (a) **The updated Full Risk register as contained in Appendix 1, to the report;
and**
- (b) **To an update on progress of management actions be presented in
September 2018.**
12. **PENSION FUND BUDGET MONITORING TO 31 MARCH 2018 AND BUDGET 2018/19**
With reference to paragraph 4 of the Minute of 8 March 2018, there had been circulated a report by the Chief Financial Officer providing the Pension Fund Committee and Pension Board with an update position of the Pension Fund budget to 31 March 2018 including proposed budget for 2018/19. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured against. To ensure the Fund met the standards a budget was approved on 16 March 2017, following the recommendations within the CIPFA accounting guidelines. The report was the third quarterly monitoring report of the approved budgets and detailed the total expenditure to 31 March 2018 was £8.743m against a budget of £8.208m. The variance of £0.535m had resulted from improved transparency on the investment manager expenses. The budget of £6.389m was proposed for 2018/19 reflecting the current asset allocation and transparency code. The budget would need to be reviewed if the asset allocation was revised.

DECISION

- (a) **AGREED the proposed budget for 2018/19.**
- (b) **NOTED the actual expenditure to 31 March 2018.**

13. **DRAFT ANNUAL REPORT & ACCOUNTS 2017/18**

There had been circulated copies of a report by the Chief Financial Officer presenting for consultation, the draft Annual Report and Accounts for the Pension Fund for 2017/18 prior to submission of the report to Audit & Scrutiny Committee and external auditors. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, the list of these were contained in paragraph 4.1 of the report. The draft Report and Accounts, contained in Appendix 1 to the report, fully met these requirements. The draft Report and Accounts was still subject to statutory Audit, which would commence early July 2018. Following the statutory Audit process the final Report and Accounts would be circulated to the joint Committee and Board. Mr Robertson, referring to Appendix 1 of the report, advised that since publication the net assets had increased to £684.5m with a performance return of 5.6% for 2017/18. Members in receipt of benefits had increased to 3,507. However, the Fund's strong asset position meant that the Fund was well placed to meet its future pension liabilities. Mr Robertson went on to advise that in terms of the Investment Strategy, the Fund was still overweight in equities and that absolute performance of the Fund Managers had been positive. In response to questions, Mr Robertson advised that auto-enrolment had been a positive contribution to the Fund. In terms of Amey Community Limited, he explained that this was an admitted body and included janitors and cleaners transferred to Amey under TUPE regulations.

DECISION

NOTED the Pension Fund Annual Report and Accounts 2017/18, contained in Appendix 1 to the report, prior to submission to Audit and Scrutiny Committee on the 26 June 2018 and the subsequent statutory audit process.

14. **INFORMATION UPDATE**

14.1 There had been circulated a briefing paper by the Pension & Investment Manager and HR Shared Services Team Leader providing members with an update on a number of areas which were being monitored and where work was progressing. Full reports on individual actions would be tabled as decisions and actions were required. In summary:-

14.2 **Guarantee Minimum Pension (GMP) Reconciliation**

With reference to paragraph 5.2 of the Minute of 8 March 2018, Stage 2 of the GMP Reconciliation was progressing by ITM Limited on behalf of Scottish Borders Council (SBC). As at 23 May 2018 at total of 49.02% of discrepancies had been resolved with a further 28.24% under review. SBC continued to receive a monthly update on progress from ITM Limited.

14.3 **General Data Protection Regulations (GDPR) Update**

With reference to paragraph 6 of the Minute of 8 March 2018, FAQs for LGPS members went live on the Pension Fund website on 5 June 2018. A privacy notice in relation to LGPS was currently being prepared and would be available on the website from 14 June 2018.

14.4 **Environmental, Social and Governance Policy (ESG)**

With reference to paragraph 7 of the Minute of 8 March 2018, the Pension Fund was reviewing its current policy and investigating how it would monitor the Fund Managers' approach to ESG against this policy. An updated policy and a recommended process would be presented to the joint Pension Fund Committee and Pension Board on 13 September 2018.

14.5 **Scheme Advisory Board**

With reference to paragraph 5.4 of the Minute of 8 March 2018, the Scheme Advisory Board met on 26 April 2018, a note of the meeting had been attached to the briefing paper for information.

14.6 **Scottish Futures Trust (SFT) Infrastructure**

SFT had been asked to progress the development of an investment vehicle to allow pension funds to invest in infrastructure including schools, hospitals, etc., and were consulting with all LGPS funds across Scotland. Mr O'Hara explained that SFT's consultation had shown that most funds were keen to collaborate to enable infrastructure investment but that SFT had been unable to identify suitable projects. A report from SFT on the way forward would be issued next week and there would be an update at the next meeting.

14.7 **Training Opportunities**

Baillie Gifford were holding an Investment conference on 25-27 September 2018. There would also be a Pension Fund officers' annual training event on 10 September; an agenda would be circulated when available. The Pension and Lifetime Savings Association (PLSA) conference would be held on 6 – 8 March 2019. Pension Fund Members and Board Members were asked to contact Ms Robb if they were interested in attending any of the above mentioned training events.

14.8 **Future Meeting Dates**

The next meeting was scheduled to be held on 13 September. There had been a couple of minor changes to meeting dates and they were now confirmed as follows:-

Joint Pension Fund Committee and Pension Fund Board:	14 June 2018
	13 September 2018
	11 December 2018
	7 March 2019
	13 June 2019

Performance & Investment Sub-Committee	22 August 2018
	29 October 2018
	25 February 2019
	24 June 2019.

DECISION

NOTED the information update.

15. **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

16. **MINUTE**

The Committee noted the Private Minute of the meeting of 8 March 2018

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

The Committee noted and agreed the Private Minute of the Pension Fund Investment and Performance Sub Committee on 26 February 2018.

18. **QUARTER PERFORMANCE UPDATE**

The Committee considered a Private report by KPMG.

The meeting was adjourned at 12.30 pm and resumed at 12.50 pm

19. **INFRASTRUCTURE INVESTMENT UPDATE**

The Committee noted a private report by the Chief Financial Officer regarding an infrastructure investment made by the Fund under delegated authority.

The meeting concluded at 1.05 pm