

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, 13
September 2018 at 10.00 am

Present:- Councillors D. Parker (Chairman), J. Brown, S. Scott, S. Aitchison,
Mr E Barclay, Mr M Drysdale, Ms K M Hughes, Ms L Ross, Mr P Smith and
Ms C Stewart Ms L Ross, Ms C Stewart.

Apologies:- Councillor G Edgar, D Moffat, Mr J Terras

In Attendance:- Chief Financial Officer, Pension and Investment Manager, HR Shared
Services Manager, Chief Officer Audit & Risk, HRSS Team Leader, Mr A
Singh (KPMG), Democratic Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 14 June 2018.

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 22 August 2018.

DECISION

NOTED the Minute.

3. **PENSION FUND BUDGET MONITORING TO 30 JUNE 2018**

With reference to paragraph 12 of the Minute of 14 June 2018, there had been circulated
copies of a report by the Chief Financial Officer. The report provided an update on the
Pension Fund budget to 30 June 2018, including projections to 31 March 2019. 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 14 June 2018, following the recommendations within the CIPFA accounting
guidelines headings. The report was the third quarterly monitoring report of the approved
budgets and showed the total expenditure to 30 June 2018 was £0.080m with a projected
total expenditure of £6.839m, which was in line with the budget.

DECISION

NOTED:

- (a) **The actual expenditure to 30 June 2018; and**
- (b) **The projected expenditure.**

4. **RISK REGISTER UPDATE**

- 4.1 With reference to paragraph 11 of the Minute of 14 June 2018, there had been circulated
copies of a report by the Chief Financial Officer which formed part of the risk review
requirements. The report provided the Pension Fund Committee and Pension Board with
an update of the progress of actions taken by management to mitigate these risks, a
review of any new risks and highlighted changes to any of the 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. A full risk review had been undertaken on 1 May 2018 and the revised risk register was approved by the joint Pension Fund Committee and Pension Board on 14 June 2018. Appendix 1 to the report, detailed the risks within the approved risk register, actions and progress of these actions to date. The report explained that two risks had been rescored: Risk 4.1 - Liquidity – had identified additional controls around cashflow which had impacted the overall score to 4. Risk 5.5 - Administrative - had been reduced to 4 following the completion of work required under the new General Data Protection Regulations (GDPR).

- 4.2 In response to a question regarding the impact on the Fund of a reduction in the workforce, the Chief Financial Officer, Mr Robertson, explained that the Fund being 114% funded, proposed changes to the Investment Strategy and auto-enrolment meant that the Fund would meet its objectives in the future. With regard to staff transferring out of the Fund, the HR Shared Services Team Leader, Ms Green, advised that by informing staff of the benefits of the Fund they were encouraged to remain; an update would be provided at the next meeting with further detail. With regard to risk scoring, the Chief Officer Audit & Risk, Ms Stacey, clarified that the scoring followed the Council's Standard Risk Management process guide.

DECISION

(a) NOTED

- (i) The management actions progress as contained in Appendix 1, to the report;**
 - (ii) The revised scores for risk 4.1 and 5.5;**
 - (iii) No new quantifiable risks had been identified since the last review; and**
 - (iv) That further information on reasons for staff opting out of the Scheme be provided at the next meeting.**
- (b) AGREED to a key risk review being undertaken in December 2018 and reporting of progress on the risk management actions.**

5. PENSION ADMINISTRATION STRATEGY

There had been circulated a report by Service Director Human Resources proposing the revised Pension Administration Strategy for Scottish Borders Council Pension Fund. The Pension Fund was required by the Local Government Pension Scheme (Scotland) Regulations 2018 to have an up-to-date Pension Administration Strategy. The report explained that the Strategy, attached as Appendix 1 to the report, contained only minor amendments to the previously approved document – mainly Appendix A 'Scheduled and Admitted Bodies' and updated references from the 2014 to 2018 regulations.

DECISION

AGREED the Pension Administration Strategy as set out in Appendix 1 to the report.

6. LGPS STRUCTURE CONSULTATION

- 6.1 There had been circulated copies of the Scottish Local Government Pension Scheme Advisory Board Consultation on the Review of the Structure of the Scottish Local Government Pension Fund. Mr Robertson explained that the Pension Fund Committee and Pension Board had been invited to submit feedback on the four options contained in the consultation documentation.

- 6.2 To facilitate discussion, Mr Robertson advised that the Scottish Borders Pension Fund was maintaining a good level of funding and investment performance over the short, medium and longer term. He referred to the four options detailed in the documentation: Option 1 'Retain the current structure with 11 funds'; Option 2 – 'Promote cooperation in investing and administration between the 11 funds'; Option 3 – Pool investments between the 11 funds; and, Option 4 'Merge the funds into one or more new funds', summarising the advantages and disadvantages of each option. It was noted that officers considered that there were significant disadvantages with the full merger option and that the consultation documentation did not provide sufficient information on the impact this would have on funding arrangements. Full merger would also require a new asset strategy, governance arrangements, TUPE transfer for pension staff and it was likely that local decision making would be severed. Officers felt that it was illogical to make changes when the present arrangements were working well. There was also a concern that restructuring might unsettle the membership, causing staff to transfer out of the Fund or make alternative pension arrangements.
- 6.3 There followed a discussion and a number of points were raised including: concerns at the start-up costs of merging funds; lack of clarity as to what the savings would be and the benefit to members; there was also evidence, from England and Wales, which showed that full merger of funds was not working. It was also felt that the consultation document supported Option 4. It was noted that COSLA supported Option 1 or Option 2, and that the preference from the other Scottish Funds, apart from Lothian, was for Options 1 or 2. In response to a question regarding fee transparency, Mr Robertson explained that all investment managers in the Scottish Borders Pension Fund had signed up to the Fee Transparency Code.
- 6.4 The Pension Fund Committee and Pension Board were advised that Unison was one of the biggest drivers for Option 4 - full merger. Mrs Robb advised that she would circulate Unison's response to the consultation for information. It was also acknowledged that in the future, Options 3 and 4 could be revisited when clearer outcomes were known.
- 6.5 Mrs Robb further advised that a response to the consultation, incorporating feedback from the meeting would be circulated for comments. The next meeting of the Pension Fund Committee and Pension Board would also be brought forward in order that the final response could be submitted prior to the deadline of 7 December 2018. Following which, the Pensions Institute would collate all responses and the National Pension Scheme Advisory Board would determine the submission to Scottish Ministers.

DECISION AGREED

- (a) To request that officers prepare a response to the Consultation on the Review of the Structure of the Scottish Local Government Pension Fund and circulate for comments;**
- (b) To request that the final response to the consultation to be presented to the next meeting of the Pension Fund Committee and Pension Board;
and**
- (c) That Unison's response to the consultation be circulated for consideration.**

7. STRATEGIC INVESTMENT REVIEW

- 7.1 There had been circulated copies of a report by the Chief Financial Officer with an update on the outcome of the Strategic Investment Review, presenting recommendations for the revised asset allocation. The report explained that the Investment Strategy was key to ensuring assets continued to grow to meet the long term liabilities of the Fund and that as far as possible contribution rates from employers remained stable. A review of the current strategy has been undertaken by KPMG in consultation with officers and findings had been detailed in the Appendix, to the report.

7.2 Mr Singh, KPMG Executive Consultant, highlighted that the objective was to deliver a return that delivered full funding with as little volatility as possible to maintain stable contributions. The existing Strategy was robust, however, KPMG considered there were opportunities for the Fund to reduce its equity exposure risk further and move to more illiquid assets, which would provide an element of inflation linkage. The new suggested Strategy recommended an investment in Infrastructure Debt and Mr Singh referred to Appendix 1 of the report, which detailed the findings of the review and the proposed changes to the asset allocation. In response to a question regarding potential allocation to Diversified Growth Fund (DSG), Mr Singh advised that KPMG believed the Fund already had access to a diverse range of asset classes. With regard to alternatives for holding capital earmarked for Infrastructure Debt, he suggested various options such as remaining in equities and drawing down as required, holding in diversified credit or holding in inflation linked gilts. The Committee and Board agreed the new revised strategy and the delegation of authority required to implement the changes, noting that a reduction in equities would mean a reduction in investment managers.

DECISION

AGREED:

(a) **the revised Investment Strategy as follows:-**

Equities 40.0%
Diversified Alternatives 7.5%
Balance Property 5.0%
Long Lease Property 10.0%
Direct Lending 10.0%
Infrastructure (including Junior Infrastructure Debt) 7.5%
Index Linked Gilts 5.0%
Diversified Credit 10.0%
Infrastructure Debt (senior) 5.0%

(b) **To delegate authority to the Chief Financial Officer, in consultation with the Chair of the Pension Fund Committee and based on the advice of the Investment Advisor to implement the outcome of a review of the number of managers; and**

(c) **To delegate authority to the Chief Financial Officer, in consultation with the Chair of the Pension Fund Committee, and based on the Investment Advisor to implement the revised Investment Strategy.**

8. INFORMATION UPDATE

8.1 There had been circulated copies of 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:-

8.2 Guarantee Minimum Pension (GMP) Reconciliation

With reference to paragraph 14.2 of the minute of 14 June 2018, reconciliation of discrepancies continued.

8.3 The Local Government Pension Scheme (Scotland) Regulations

The new regulations had inadvertently revoked the Regulations relating to the rule of 85. Administering authorities had been advised by the SPPA to proceed on the basis that the previous regulations were still effective.

- 8.4 **Additional Voluntary Contributions (AVC) Review**
Officers have identified a shared cost scheme for AVCs which would allow both employers and employees to gain additional savings. Further details would be included in the report to the next meeting of the Pension Fund Committee and Pension Board
- 8.5 **Actuary Procurement**
It had been agreed in the Business Plan to undertake actuary procurement. Tender documents had been issued with presentations to officers scheduled for 13 November 2018.
- 8.6 **Training Opportunities**
LCG were providing training in Edinburgh on 23 and 24 October a number of members of the Committee and Board would be attending. The Pension and Lifetime Savings Association (PLSA) investment conference would be held in Edinburgh from 6-9 March 2019.

DECISION

NOTED the information update.

9. **STATEMENT OF RESPONSIBLE INVESTMENT/ESG POLICY**

- 9.1 There had been circulated a report by Chief Financial Officer to aid the Pension Fund Committee and Pension Board in its discussion around responsible investment. The report explained that following the Pension Fund Committee and Pension Board's review of Environmental, Social and Governance (ESG) matters, it had been agreed that a separate Statement of Responsible Investment would fulfil ESG responsibilities appropriately. The document attached in Appendix 1 to the report, was a draft of a Statement of Responsible Investment for the Pension Fund Committee and Pension Board's consideration.
- 9.2 In response to questions, Mr Robertson clarified that there were no investment restrictions placed on Investment Managers with regard to ESG responsibilities. However, they had all been encouraged to take account of ESG when making investment choices. Fund managers were also encouraged to engage with companies to ensure ESG policies always complied with acceptable standards and fully exercised their voting rights at company meetings. The Pension Fund Committee and Pension Board requested that signing up to the United Nations Principles Responsible Investment (UNPRI) Stewardship Code, should be a requirement in any future procurement exercise and that this be included in the Statement of Responsible Investment document.

DECISION

AGREED that the final Statement of Responsible Investment for the Scottish Borders Pension Fund be brought to the next meeting for approval.

10. **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

11. **MINUTE**

The Committee noted the Private Minute of the meeting of 14 June 2018

12. **PENSION FUND INVESTMENT PERFORMANCE SUB-COMMITTEE**
The Committee noted and agreed the Private Minute of the Pension Fund Investment and Performance Sub Committee on 22 August 2018.
13. **QUARTER PERFORMANCE UPDATE**
The Committee considered a Private report by KPMG.

The meeting concluded at 12.25 pm