

Scottish Borders Council Pension Fund

Business Plan 2019/20 – 2021/22

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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

- **£733.6m Net Assets** under management
- **114%** of estimated liabilities as 31 March 2017 funded – per Triennial Actuarial Valuation
- 13 Investment Managers managing funds under 21 different mandates
- Investments in Equities, Gilts & Bonds, Alternative Assets, Private Credit, Property and infrastructure
- Accounting and Administration of Investments undertaken by the Council's Pensions and Investments Team
- AVC option provided by Standard Life

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 and Investment Adviser
- Governance arrangements set out in Governance Policy and Compliance Statement

Pensions Administration

- **10,961 members** – 4,376 actively contributing to the Fund
- **3,707 pensioners** in receipt of LGPS pension from the scheme amounting to **£22.8m p.a. in pension benefit payments**
- 17 Employer Bodies – Scottish Borders Council with 82.5% 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 2018 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 2016	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"> Annual Benefit Statements issued on time GMP reconciliation project proceeding as planned Review carried out and implementation of manual off-system processes 	<ul style="list-style-type: none"> Continue to improve engagement with Employers and potential scheme members Continue the development and engagement with Members and potential members via website. Development of online access/ information for members via self service Changes to the models of service delivery will require increased focus on the admitted bodies and their agreements
Pension Funding and Investments	<ul style="list-style-type: none"> 114% funding position Triennial Actuarial Valuation at 31 March 2017 Strong 3 year performance to March 2019 with investment returns of 11.3% on a rolling 3 year annualised basis compared to a benchmark of 10.0% Progress made toward implementation of revised Investment Strategy. Stability of Employer Contribution Rates over successive Triennial Valuations Development and approval of Responsible Investment strategy 	<ul style="list-style-type: none"> Further understand the implications of the membership profile projections and investment income on the Funds cashflow and investment strategy. Monitoring of changes in the Pensions landscape in relation to the “freedom of choice” agenda Implement monitoring to Responsible Investment Ensure the continued effectiveness of the Pension Fund Investment and Performance Sub-Committee
Pension Fund Governance	<ul style="list-style-type: none"> Completion of 2018/19 Training program Regular reviews of Risk Register No actions arising from External Audit of the Annual Report & Accounts 2017/19 	<ul style="list-style-type: none"> Continue to develop the knowledge and skills for all members of Pensions Committee and Board Updating of all Policy and Strategy documents in line with the legislative changes

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 in compliance with regulations**

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 14 June 2018 with actions monitored and new risks added where required throughout the year. The table below summarises the risk register, as at 31 March 2019, 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	4	6	-	-	7	3
Employer	-	4	-	-	1	3
Resource & Skill	-	5	-	-	2	3
Liquidity	2	4	-	-	2	4
Administrative	-	8	-	-	1	7
Regulatory & Compliance	3	2	-	1	2	2
Reputation	2	4	-	-	2	4
Total Number of Risks	11	33	0	1	19	24

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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
6.2 Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	25	Existing Controls: Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly, Involvement with COSLA discussions on Pensions and monitoring and highlighting actions and decisions from scheme advisory board; Mitigating Actions: Seek to input into any of the legislative change through active membership of COSLA.	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	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 – Northern Trust	
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 – Hymans Robertson	
	Legal Advisors	
	Software Suppliers	
	Tax Advisers	

Our Resources

As at the 31 March 2019 the Fund's Net Assets were valued at **£733.6m**

Investment Manager	Asset Description	31-Mar-19	
		£'000	%
Baillie Gifford	UK Equities	38,060	5.2
Baillie Gifford	Global Equities	148,348	20.2
UBS	Managed Fund - UK Equities - Passive	67,559	9.2
UBS	Managed Fund - Property	38,463	5.2
Blackrock	Managed Fund – Long Lease Property	60,629	8.2
Morgan Stanley	Managed Fund - Global Equities	99,850	13.6
LGT	Managed Fund - Alternatives	51,678	7.0
M&G	Managed Fund - Diversified Income	110,038	15.0
M&G	Managed Fund – Index Linked	45,512	6.2
Permira	Managed Fund – Private Credit	27,745	3.8
Partners Group	Managed Fund – Private Credit	19,867	2.7
Macquarie	Infrastructure Debt	9,199	1.5
Various (through LPFI)	Infrastructure	12,251	1.6
Cash	Internal	4,428	0.6
		733,627	100

During the financial year 2018/19 the benefits payable and contributions receivable from members and employers within the Fund were as follows:

	2018/19	
	Benefits Payable	Contributions Receivable
	£'000	£'000
Scottish Borders Council	(20,958)	14,121
Scheduled Bodies	(373)	738
Admitted Bodies	(1,463)	4,526
Total	(22,794)	19,384

Managing Our Performance

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

Pension Administration

- The **Pension Administration Strategy** updated (approved in September 2018) 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 13 June 2019) sets out the target long term annual investment return for the Fund's assets of at least 3.7% above the Consumer Price Index (CPI). It also details the performance targets for each of the investment fund managers used by the Fund to benchmark returns, the 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 at least one of the 4 monthly meetings 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 2017 and reported a certified 114% funding level and stability of employer contributions for open and active employer bodies. The next valuation will be undertaken as at 31 March 2020.

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.

Statutory returns

The Fund makes a number of statutory and other returns to Scottish Government, the 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 service to provide additional analysis to assess investment performance relative to the market at a Fund, asset class and investment manager level.

Officers participate in the Scottish Pensions Liaison and Investments & Governance Groups which shares 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 Fund’s own benchmark:

Return on Investment as at 31/3/2019	1 year rolling return		3 year rolling return	
	Fund %	Bench ¹ %	Fund %	Bench ¹ %
Total Fund excluding Currency Hedging	7.6	7.7	11.3	10.0
Global Equities including UK	12.6	12.8	17.1	15.3
UK Equities	6.0	6.4	10.0	9.5
Bonds	2.0	4.0	4.3	4.1
Property	5.5	4.9	5.6	5.8
Alternatives	5.0	4.8	5.0	4.6
Cash				

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	19/20	20/21	21/22	
P 1	Review Pension Strategies informed by 2017 and 2020 Triennial Valuation Results							
		Monitor and report investment performance	P1-A1	P&I Manager	•	•	•	
		Undertake and complete Triennial valuation.	P1-B1 P1-B2	HRSS Manager P&I Manger		•		•
		Approval and implementation of 2020 Triennial Valuation employer contribution results, including update of Funding Strategy Statement	P1-C1 P1-C2	HRSS Manager P&I Manager			•	•
P 2	Maximise investment performance							
		Ensure Fund reclaims all tax possible	P2-A1 P2-A2	P&I Manager		•		
		Review opportunities to ensure assets working to maximum, whilst ensuring asset secure	P2-B1	P&I Manager	•			

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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P1-A1	Fund Investment Performance at Benchmark	Attain or Exceed Benchmark return on annualised 3 Year Rolling Basis		•	
P1-B1	Triennial Actuarial Valuation Funding Level of assets against liabilities	100%	As at 31/3/20 reported by 31/3/21		
P1-B2	Data provision review to meet the requirements of newly appointed Actuary	By 31/3/20			
P1-C1	Correct employer contribution rates in Pensions System for each employer	By 30/6/19			•
P1-C2	Pension Fund Committee approval of Funding Strategy Statement	By 30/6/19			•
P2-A1	Undertake review of current taxation position	By 31/12/19			
P2-A2	Implement actions from taxation review	By 30/6/20			
P2-B1	Review Stock lending opportunities	By 31/12/19			

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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	19/20	20/21	21/22	
P 3	Develop and Implement an effective Communication Strategy for the Pension Fund							
		Review Communication Strategy and Action Plan in line with best practice and technological advancements	P3-A1	HRSS Manager	•	•	•	•
		Continue to proactively manage and engage Pension Fund Employers	P3-A2	HRSS Manager	•	•	•	
		Review all forms and communication material, including annual benefit statements	P3-A3	HRSS Manager	•	•	•	•
P 4	Development of Cessation and Discretion Policy							
		Develop and gain approval of Cessation and Discretion Policy	P4-A1	HRSS Manager/P&I Manager	•			
P 5	Ensure successful admission of new Admitted Bodies as required							
		Develop formal policy for Admitted Bodies	P5-A1	HRSS Manager	•			

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Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	19/20	20/21	21/22	EIA
P 6	Ensure accuracy of Pension Records							
		Undertake full reconciliation of Guaranteed Minimum Pension (GMP) amounts between Fund and HMRC	P6-A1 P6-A2	HRSS Manager	•			
P 7	Implementation of self service facility							
P		Progress contract renewal of Pensions Admin system	P7-A1	HRSS Manager	•			
		Implementation of review results	P7-A2	HRSS Manager		•		
		Implementation of Self Service facility	P7-A3	HRSS Manager		•		

PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P3- A1	Review of Communications strategy and action plan	31/9/19			
P3-A2	Hold Annual Employer Liaison Meeting	1 meetings by 31/3/20			•
P3-A3	Annual review of all forms, communication material, including annual benefit statements	31/09/19			•
P4-A1	Development of Cessation and Discretion Policy	31/12/19			
P5-A1	Development and approval of formal policy for new Admitted Bodies	31/12/19			
P6-A1	Complete full reconciliation of Guaranteed Minimum Pension between Fund & HMRC	31/12/19			
P6-A2	Creation of rectification plan measuring of Common and Specific Data following annual review and return to The Pension Regulator.	30/09/19			
P7-A1	Progress contract renewal for Pensions Admin system	31/9/19			
P7-A2	Implementation of review of current contract	31/9/20			
P7-A3	Implementation and roll out of self service to all members	31/6/21			

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What we want to achieve ... (Objective)

Ensure that Scottish Borders Pension Fund is managed effectively, transparently and in compliance with regulation

How?			By whom?	By when?			EIA	
Action No.	How we will achieve our objective ... (Action)	Key Tasks	PI ref.	Owner	19/20	20/21	21/22	
P 8	Continue to develop robust governance and risk management							
		Review and update Governance Policy and Compliance Statement	P8-A1	C F Manager	•			•
		Develop and deliver 2019/20 Training Programme	P8-A2 & A4	C & I Manager	•			
		Implement annual monitoring of Responsible Investment Policy	P8-A5	C & I Manager	•			
		Review and update Pensions Administration Strategy	P8-A3	HRSS Manager	•			•
P 9	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	P9-A1	P & I Manager	•			

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PI ref.	How we will know we have achieved our objective ... (Performance Indicator)	Target	Mth	Qtr	Ann
P8-A1	Pension Fund Committee approval of Governance Policy and Compliance Statement 2018	30/06/19			•
P8-A2	Pension Fund Committee approval of Training Policy 2018 and Training Programme 2019/20	30/06/19			•
P8-A3	Pension Fund Committee approval of Pensions Administration Strategy	30/09/19			•
P8-A4	Training Needs Self-Assessment Levels from 2018/19 to 2019/20	30/06/19			•
P8-A5	Develop and implement annual monitoring of Responsible Investment Policy	30/09/19			•
P9-A1	Undertake annual assessment of Investment Adviser and Officer Support to Committee and Board	31/03/20			•

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 Scottish Borders Council Pension Fund website via the following link:

www.scottishborderscouncilpensionfund.org

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.

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