

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, 12
September 2019 at 10.00 am

Present:- Councillors D. Parker (Chairman), J. Brown, C. Hamilton, D. Moffat,
S. Mountford, S. Scott, Mr E Barclay, Mr M Drysdale, Mr M Everett,
Ms K M Hughes, Ms L Ross, Ms C Stewart and Ms H Robertson.

Apologies:- Councillors S Aitchison

In Attendance:- Chief Financial Officer, Pension and Investment Manager, HR Shared
Services Manager, Mr T Hodgson (KPMG), Democratic Services Officer (J
Turnbull).

1. **WELCOME AND INTRODUCTION**

The Chair welcomed Ms Robertson, Borders College, and Mr Everett, Unison, new members to the Pension Board.

**DECISION
NOTED**

2. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 13 June 2019

**DECISION
NOTED for signature by the Chairman.**

3. **PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE**

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 24 June 2019.

**DECISION
NOTED.**

4. **PENSION ADMINISTRATION SYSTEM**

There had been circulated copies of a report by Service Director HR and Communications requesting approval to delegate the responsibility for the procurement of the Pension Administration System for the Scottish Borders Council Pension Fund to the Chief Financial Officer. The report explained that Lothian Pension Fund had carried out a full tender exercise for the Pension Administration system. Scottish Borders Council Pension Fund had expressed an interest in being included, with a view to using the same terms and conditions following the outcome of the tender exercise and appointment of the preferred supplier. Aquila Heywood was the preferred bidder and our current supplier, therefore, the Fund was looking to enter into a new contractual relationship with the supplier. Costs for the procurement and implementation of the additional functionality for the Pensions Administration System would be capped at £815,601 over the following five years. Officers were continuing discussions with the supplier in an effort to reduce these costs. The system was an essential administrative tool that supported the provision of a high quality administrative service for the Pension Fund, allowing the Fund to continue to

address the complexity of legislative changes that have been added in recent years without the need to review staffing levels. The System provided an opportunity to implement a modernised application with functionality to provide an improved experience and service for members of the Pension Fund. The implementation of Members Self Service functionality would address a deliverable from the Business Plan and Communication Policy previously agreed. The additional i-Connect would streamline processing of all starters, leavers and changes, along with the removal of the annual return, which in turn would be an improved experience for employers and lead to more accurate up to date information being available for members using the Members Self Service functionality. In response to a question regarding cost and value for money, the HR Shared Services Manager, Mr Angus, advised that the Service would improve communication with all members to allow them to obtain their own pension estimates. He further advised that all other Pension Funds in Scotland were currently using the Service. The Pension and Investments Manager, Mrs Robb, added that from a governance perspective, the Service met all the necessary requirements in terms of data quality.

DECISION

AGREED the delegation of responsibility for the procurement of the contract renewed for the Aquila Heywood Pensions Administration System to the Chief Financial Officer, with costs restricted to a maximum of £815,610 over the five year term of the contract, including implementation costs for the new functionality.

5. RISK REGISTER UPDATE

With reference to paragraph 8 of the Minute of 13 June 2019, 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 review had been undertaken on 15 April 2019 and the revised risk register approved by the Joint Pension Fund Committee and Pension Board on 13 June 2019. Appendix 1 to the report detailed the risks within the approved risk register which had been identified as management actions to date. The report advised that with the possible deadline for the withdrawal of the UK from membership of the EU without an agreed deal drawing close, guidance had been issued by the Pension Regulator and the Pensions and Lifetime Savings Association on the actions Pension Funds should consider to prepare for this eventuality. The Fund had reviewed these documents and paragraph 5.5 of the report, detailed the actions taken. With regard to risk 1.9, Mrs Robb advised that Hymans Robertson would be undertaking the next triannual actuarial valuation. Prior to the next meeting they would give a training session for Pension Fund Committee and Pension Board members.

DECISION

- (a) **NOTED:**
- (i) **The management actions progressed as contained in Appendix 1, to the report;**
 - (ii) **The work undertaken in preparation for the UK potentially exiting the EU without an agreed deal; and**
 - (iii) **No new quantifiable risks have been identified since the last review; and**
- (b) **AGREED to a key risk review being undertaken in December 2019 and reporting of progress on the risk management actions.**

6. SECURITIES LENDING

There had been circulated copies of a report by Chief Financial Officer proposing that the Pension Fund undertook securities lending to enhance the future returns available from the Fund's equity investments. The report explained that securities lending was where securities were loaned on a temporary basis to a borrower for a return. Although there was an absolute transfer of title of the securities, the Fund remained the beneficial owner, with the "borrower" obligated to reimburse economic benefits during the period of the loan. Northern Trust, the Fund's custodian, had ran a securities lending programme since 1981 demonstrating long term experience in this area of activity. The programme met the required Local Government Pension Scheme regulations. Based on the current level of equity assets held by the Fund, which fell within the securities lending programme, it was estimated on a prudent basis that the Fund would gain £20k per annum additional income from participation. In response to questions, Mrs Robb advised that nine out of the 11 LGPS Funds had signed up to the security lending programme. Mr Hodgson, KPMG, clarified that securities lending was a way for the Fund to receiving additional income mitigated by indemnification risk, and would not affect the Fund's investment strategy.

DECISION

AGREED

- (a) **The implementation of a securities lending programme; and**
- (b) **To delegate to the Chief Financial Officer the implementation of the programme with Northern Trust.**

7. PENSION ADMISSION POLICY

There had been circulated copies of a report by Service Director HR and Communications proposing the adoption of the Pension Admission policy for the Scottish Borders Council Pension Fund. The report explained that the Pension Fund Business Plan, as approved at the June 2019 meeting, included the creation of a Pension Admission Policy for the Fund, to ensure the successful admission of new Admitted Bodies as required. Appendix A, to the report, contained the Pension Admission Policy, which met the legislative requirements of the Local Government Pension Scheme (Scotland). This would be referred to for any future admission requests to the Fund. Hymans Robertson, the Fund Actuary, and Pinsent Mason, external legal advisors used by the Fund, have been consulted during the preparation of this Policy on the basis that there was a significant requirement to involve them in the determination of suitability, based on risk to the Fund, to become an Admitted Body to the Fund.

DECISION

AGREED the Pension Admission Policy as set out in Appendix A to the report.

8. SOUTH OF SCOTLAND ENTERPRISE ADMISSION REQUEST

There had been circulated copies of a report by Service Director HR and Communications requesting approval for the admission of South of Scotland Enterprise (SOSE) into the Local Government Pension Scheme to enable access to the scheme for prospective employees of SOSE. The South of Scotland Enterprise Act 2019 was passed by the Scottish Parliament on 5 June 2019 and received Royal Assent on 12 July 2019, with Provision 12 of the Act establishing the SOSE. Scottish Borders Council Pension Fund would enter into an admission agreement, including the requirement for a Guarantee to be in place with the SOSE. No changes could be made to the status of the Fund, pension benefit for employees or employer contribution rate without the written agreement of the Pension Fund. Mr Angus confirmed that any TUPE employees would be automatically transferred to the Scottish Borders Council Pension Fund.

DECISION

AGREED to enter into an appropriate agreement with South of Scotland Enterprise to admit the body to membership of the Pension Fund on terms and conditions to the satisfaction of the Chief Financial Officer.

9. COMMUNICATION STRATEGY REVIEW

There had been circulated copies of a report by Service Director HR and Communications providing a review of the Communication Strategy and updating on the review of forms and communication, including annual benefit statements. In line with the Pension Fund Business Plan the Strategy should be reviewed on an annual basis. This report discharged that requirement. There were no proposed changes to the Communication Strategy, which reflected the current position of the Fund and made use of available technologies. The Pension Fund website had proven to be a useful resource and had been visited on a regular basis. This continued to be updated to reflect the current Regulations and any relevant documents or news stories were published accordingly. The Pensions Administration team had carried out a review of the supporting information provided along with the Annual Benefit Statements for this year. Work was also ongoing to review processes and associated Forms. In response to a question, Mr Angus advised that employee interest in Additional Voluntary Contributions (AVCs) had been positive; he would bring back further details to the next meeting of the Pension Fund Committee and Pension Board.

DECISION

NOTED:

- (a) **That there were no changes to the Communication Strategy at this time;**
- (b) **The website performance over the last 14 months; and**
- (c) **That work had commenced on the review of Forms and the Annual Benefit statement documentation had been reviewed prior to issue.**

10. PENSION FUND BUDGET MONITORING TO 30 JUNE 2019

There had been circulated copies of a report by the Chief Financial Officer providing the Pension Fund Committee and Pension Fund Board with an update on the Pension Fund budget to 30 June 2019 including projections to 31 March 2020. 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 7 March 2019 following the recommendations within the CIPFA accounting guideline headings. The report detailed the total expenditure to 30 June 2018 was £0.012m, with a projected total expenditure of £6.458m against a budget of £6.402m. This projected a budget variance of £56k which represented professional advisors costs and increased cost for the Pension Fund Administration IT system. In response to a question regarding investment management fees, Mrs Robb advised that fees were kept continually under review and the fees paid reflected managers' performance.

DECISION

- (a) **AGREED the projected out-turn as the revised budget.**
- (b) **NOTED the actual expenditure to 30 June 2019.**

11. RESPONSIBLE INVESTMENT MONITORING

There had been circulated copies of a report by Chief Financial Officer providing the Committee and Board with the first annual monitoring report which detailed the extent to which the Fund's Investment Managers have complied with the requirements of the agreed Statement of Responsible Investment Policy. The report explained that the Pension Fund, as part of its fiduciary duties, was required to ensure appropriate consideration was given to Environmental, Social and Governance (ESG) issues as part of its investment decisions, whilst acting in the best interest of the scheme beneficiaries. The Pension Fund approved a Responsible Investment Policy on 30 November 2018. Annual monitoring was required under the terms of the policy. All fund managers appointed since the approval of the Policy, were signatories of the United Nations Principles of Responsible Investment Code (UNPRI) and eleven out of 12 existing managers were signatories. Information had been provided by Fund Managers and scored against questions listed in paragraph 4.5 of the report, with scores for each manager shown in paragraph 4.6. Officers would work with Fund Managers who scored 15 or less to improve their performance and fully meet the objectives of the ESG policy.

Climate Action 100+ was an investor led initiative to engage greenhouse gas emitting companies to improve their emissions. The initiative had two levels of participation. It was recommended the Pension Fund signed the statement shown in paragraph 5.5 of the report to become a supporter of the initiative. This support would help demonstrate the Fund's commitment to tackling climate change and reducing carbon emissions. In response to a question regarding deforestation for the production of palm oil, Mr Robertson explained that the Fund did not invest in any companies associated with deforestation. There were examples of palm oil now being farmed on a sustainable basis without the need for de-forestation.

DECISION

(a) **NOTED the first annual performance report regarding compliance with the Pension Fund's policy on responsible investment and the scores for each of the managers.**

(b) **AGREED to become a supporter of the Climate Change 100+ initiative.**

12. INFORMATION UPDATE

12.1 There had been circulated copies of a briefing paper by the Chief Financial Officer providing members of the Committee and Board updates 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.

12.2 GMP Reconciliation

With reference to paragraph 11.2 of the Minute of 13 June 2019, the report advised that 0.11% (22 members) remained unreconciled. These were awaiting data from HMRC or further investigation of historic payroll details. Once completed, the Committee and Board would be advised.

12.3 Annual Benefit Statement

In accordance with LGPS regulations, all Annual Benefit Statements had been issued prior to the 31 August 2019 deadline to active and deferred members.

12.4 Pension Administration Strategy

The annual review of the Pension Administration Strategy had been carried out and no changes were required.

12.5 Scheme Advisory Board

With reference to paragraph 11.3 of the Minute of 13 June 2019, it was noted that the Scheme Advisory Board (SAB) had not held any meetings since 24 April 2019 and the note from that meeting was still unavailable. It was noted that their next meeting was scheduled for the 30 October 2019. The SAB had agreed further analysis of fund merging and the next meeting would consider the way forward. An update would be provided at the next meeting of the Committee and Board.

12.6 Plastics Engagement

With reference to paragraph 11.4 of the Minute of 13 June 2019, The Fund was working with Strathclyde Pension Fund and Sustainalytics to encourage high plastic users to reduce plastic use. Apple were one of the companies proving reluctant to participate. Scottish Borders Council had agreed to support a campaign letter to Apple encouraging them to engage with the Sustainalytics.

12.7 Training Opportunities

With reference to paragraph 11.5 of the Minute of 13 June 2019, Baillie Gifford would hold their Training and Seminar event on 9-10 October 2019. The Local Government Chronicle were holding their annual seminar on 24-25 October. Information for both events would be emailed direct to those attending.

12.8 Future Meetings

Prior to the next meeting, on the 29 November, there would be presentation from Hymans Robertson on the triannual actuarial valuation process.

DECISION

NOTED the information update.

13. 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

14. MINUTE

The Committee noted the Private Minute of the meeting of 13 June 2019.

15. PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE

The Committee noted the Private Minute of the meeting of 13 June 2019,

16. QUARTER PERFORMANCE UPDATE

The Committee considered a private report by KPMG.

The meeting concluded at 11.45 am