

SCOTTISH BORDERS COUNCIL **PENSION FUND COMMITTEE**

MINUTE of JOINT MEETING of the PENSION FUND COMMITTEE and PENSION BOARD held in the Council Chamber, Council Headquarters, Newtown St. Boswells on 18 June 2015 at 10.00 am.

Present:- Councillors: B White (Chairman), S Aitchison, J Campbell, M Cook, G Edgar, G Logan, Mountford, Mr A Barclay, Ms C Stewart, Ms L Ross, Mr P Smith.

Apologies:- Councillor J Mitchell, Ms R Black, Ms N Wood.

In Attendance:- Chief Financial Officer, HR Shared Services Manager, Treasury & Capital Manager, Financial Analyst, Mr K Ettles – AON Hewitt Consulting, Democratic Services Officer (J Turnbull).

WELCOME AND INTRODUCTIONS

1. The Chairman welcomed members of the Pension Fund Committee and the Pension Board to the first joint meeting.

MINUTE

There had been circulated copies of the Minute of the Meeting of 5 March 2015.

DECISION:

NOTED for signature by the Chairman.

TRIENNIAL VALUATION AS AT 31 MARCH 2015

1. There had been circulated a report by Chief Financial Officer detailing the outcome of the triennial valuation of the Scottish Borders Pension Fund as at 31 March 2014 and proposing the employer contribution rates for the next three years. The full Valuation Report was contained in Appendix A to the report and concluded that the Scottish Borders Council Pension Fund had a funding level of 101% compared to the previous valuation of 96%. In general the Valuation Report concluded that the overall employer contribution rates could remain at their current levels. This meant that the Leisure Trust rate would be 15.5% of employee payroll, and the other open membership employers in the Pension Fund would be at a common contribution rate of 18% of employee payroll. However, the Scottish Borders Housing Association, following its decision to close membership, would have a contribution rate of 19%. The Chief Financial Officer, highlighted that on 31 March there had been a £2.8m surplus mainly due to good investment returns and the deficit contributions paid by employers. With reference to paragraph 5.11 of the report, he advised that all organisations listed were a scheduled or admitted body under the LGPS regulations. Members queried the inclusion of AMEY in this list and it was confirmed that's support staff previously employed by SBC and transferred under TUPE arrangements under the PPP contract for the three high schools, had retained their pension benefits under an approved admission agreement. With respect to membership composition it was noted that the average age of the membership of the fund was increasing; the Fund's actuary, Barnett Waddingham, had taking into account these changes and other changes to determine future contribution rates. It was noted that as at 1 April 2015 pension benefits had changed from a final salary scheme to a career average scheme and were now accruing at the rate of 1/49th salary each year. Scheme members' benefits built up before the 2015 changes were protected and would be calculated based on the applicable regulations pertaining at the time benefit was accrued. It was noted that the new scheme provided for a 50:50 option (50% contribution, 50% pension benefits). In

response to members' questions it was confirmed that there had been no requests for this option to date.

DECISION:

AGREED that the Fund Valuation Report as at 31 March 2014 as set out in Appendix A and the resulting employer contribution rates proposed were covered, and that these rates would apply from 1 April 2015.

FUNDING STRATEGY STATEMENT 2015

2. There had been circulated copies a report by Chief Financial Officer proposing the revised Funding Strategy Statement following completion of the 2014 Triennial Valuation. The Pension Fund was required by the Local Government Pension Scheme Regulations to have an up-to-date Funding Strategy Statement. The 2014 Triennial Valuation of the Fund had triggered a review and revision of the existing document. Appendix 1, to the report, contained the revised Funding Strategy Statement which contained only minor amendments to the previously approved document. The Chief Financial Officer highlighted the two key objectives of the Strategy: A funding level of 100% as assessed by the Fund's appointed actuary, triennially in accordance with the regulations; and, as stable an employer contribution as was practical.

DECISION:

AGREED the Funding Strategy Statement as set out in Appendix 1 to the report.

STATEMENT ON INVESTMENT PRINCIPLES 2015

3. There had been circulated copies of a report by Chief Financial Officer which proposed the revised Statement of Investment Principles. The Pension Fund was required by the Local Government Pension Scheme (LGPS) Regulations to have an up-to-date Statement of Investment Principles. The 2014 Triennial Valuation of the Fund, transition to new fund managers during 2014/15 and the changes in the LGPS governance regulations had triggered a review and revision of the existing document. Appendix A, to the report, contained the revised Statement of Investment Principles for approval. The report proposed that, following on from the strong results reported in the 2014 Triennial Valuation, a full investment strategy review was undertaken by an external consultant. In light of the recent external focus on socially responsible investment, the Chief Financial Officer advised that it was proposed to undertake a review as to the most appropriate policy towards these issues and consult on the position to be taken. A full impact assessment would be required to ensure any changes were understood in relation to the objective to maximise investment returns to the fund. Tenders for the estimated costs involved in undertaking the review would be brought back to the Committee with a recommended approach for approval. The Treasury and Capital Manager added that the investment consultancy procurement process would be completed prior to the commencement of the review.

DECISION

AGREED:-

- (a) The Statement of Investment Principles as set out in Appendix A, to the report;**
- (b) A procurement for investment consultancy support to the Fund;**
- (c) That following this appointment a full strategic review of the investment strategy of the Fund was undertaken by the Pension Fund Investment & Performance Sub-Committee prior to recommendations being brought to Committee for approval by 31 March 2016; and**
- (d) A review of the Fund's approach to environmental, social and corporate governance for the investments it holds was undertaken and that a report outlining the approach to be taken was brought to Committee for approval.**

TRAINING PLAN 2015/16

4. There had been circulated copies of a report by Chief Financial Officer proposing an update to the current Training Policy, previously approved in June 2013, and proposing a training plan for 2015/16, in-line with the policy and based on the skills knowledge assessment recently undertaken. In June 2013 the Committee agreed a Training Policy; this had been updated to reflect the revised governance structure. A copy of the revised policy was contained in Appendix 1 to the report. In line with this Policy, the Pension Fund had agreed to undertake an annual knowledge and skills assessment which would identify the key areas for the future years' training plan. The Training Knowledge and Skills Assessment had been undertaken in April and was summarised in Appendix 2 to the report. The proposed Training Plan for 2015/16 had been included in Appendix 3, to the report, for approval. Members were strongly encouraged to actively participate in this to demonstrate their commitment to building their knowledge to support effective decision making. The Treasury and Capital Manager advised that the target was that members of the Committee attended two training sessions each year. Training with other organisations e.g. Teachers Training Board, would also qualify towards the training requirement. A further target was that every member attended at least two Pension Fund Committee meetings each year; all seven members had met this target. However, it was agreed that this should be amended to "every member should attend at least 50% of meetings each year". Appendix 2 to the report identified the key areas requiring further training e.g. Role of Global Custodian and Investment Performance Monitoring. It was proposed to hold a half day training session at Council Headquarters in the near future. Following the meeting, all members of the Committee would be provided with packs which would include key documents to assist with their training requirements.

DECISION

AGREED:-

- (a) the revised Training Policy contained in Appendix 1, subject to amendments;**
(b) the Training Programme for 2015/16 set out in Appendix 3 to the report; and
(c) that all members should prioritise attendance at these training dates wherever practicable.

PENSION ADMINISTRATION PERFORMANCE 2014/15

5. There had been circulated copies of a report by Chief Officer Human Resources presenting the Pensions Administration Performance for 2014/15 and requesting approval for the inclusion in the Annual Report for the Fund. Appendix 1 to the report, contained the Pensions Administration Performance for 2014/15 as it would be included in the Fund's Annual Report and Accounts. During 2014/15 there had been an increase in the number of payments being received late, specifically by Scottish Borders Housing Association, action had been taken by HR Shared Services to address this issue. HR Shared Services had implemented an improved method for collection of data regarding queries received in relation to the Local Government Pension Scheme, regrettably this had not been updated at all times throughout the year resulting in gaps in the information recorded. The HR Shared Services Manager advised that they had introduced log sheets which had addressed this issue. Performance in general had been affected during the reporting period due to the implementation of the new Pensions Administration system, Triennial Valuation and preparation for implementation of the new Pension scheme, all achieved with no additional resources. The Annual Benefit statements had been issued on 1 November to scheme members, one day later than target. The Committee discussed the Employer Performance Measures against the standards set within the Strategy and it was agreed to include the number of days taken to respond to queries as a service standard.

DECISION

- (a) NOTED the Pension Administration Performance for 2014/15 as set out in Appendix 1 to the report.**

(b) AGREED:-

- (i) the inclusion of the Pension Administration Performance for 2014/15 in the Pension Fund Annual Report and Accounts 2014/15; and
- (ii) to include a Service Standard for the number of days taken to respond to queries within the Employer Performance Measures.

MEMBER

Councillor M Cook left the meeting during consideration of the above report.

GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2015

8. There had been circulated copies of a report by Chief Financial Officer proposing the revised Governance and Compliance Statement for the Scottish Borders Council Pension Fund (the Pension Fund) following the 2015 regulatory changes. It also requested approval of the Governance Compliance Statement for inclusion in the Pension Fund's Annual Report and Accounts 2014/15. There had been significant regulatory changes to the Local Government Pension Scheme (LGPS), one of these had been the introduction of Pension Boards. This was a significant change and had required a revision of the Statement. Appendix 1 to the report, contained the revised Governance Policy and Compliance Statement for the Pension Fund. The Treasury and Capital Manager advised that the Pension Fund was fully compliant with the new regulations, the first Pension Board meeting had been held prior to the joint meeting, Councillor S Aitchison had been elected Chairman and Mr A Barclay, Vice Chairman. The Committee thanked Officers for their work in implementing the new governance arrangements.

DECISION

AGREED:

- (a) the revised Governance Policy and Compliance Statement 2015, as amended, and
- (b) the revised Governance Policy and Compliance Statement's, as amended, inclusion in the Pension Fund Annual Report and Accounts 2014/15.

MEMBER

Councillor M Cook returned to the meeting.

RISK REGISTER UPDATE

9. There had been circulated copies of a report by Chief Financial Officer which provided the Pension Fund Committee with an updated Risk Register for approval. Identifying and managing risk was a corner stone of effective management and was required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. With reference to Appendix 1, attached to the report, the Treasury and Capital Manager advised that the format of the Risk Register had changed and was now shown in categories e.g. Employer, Liquidity, Administration etc. The full risk review had been postponed until the September meeting to allow new members to become familiar with their roles and the current Risk Register. The Committee requested that an A3 copy of the Risk Register should be supplied for future meetings. The Chief Officer Audit and Risk was in attendance and advised that the Council had updated the Risk Management Policy to embed risk management into management practice and the Pension Fund might wish to consider adopting the same policy framework. The Chief Financial Officer advised that the Pension Fund had separate governance arrangements and members of the committee were required to make their own decision as to risks and the most appropriate way to manage these. Adoption of the Council's Risk Management Policy would be explored at the risk workshop in September.

DECISION:

- (a) NOTED the Current Risk Register as contained in Appendix 1 to the report;

(b) AGREED

- (i) To a full risk workshop on 3 September 2015 prior to the Pension Fund Committee;
- (ii) To a Red Risk review being undertaken in December 2015;
- (iii) To a Red and Amber Risk review being undertaken in March 2016; and
- (iv) A full Risk Review be undertaken in June 2016.

ADMINISTERING AUTHORITY DISCRETIONS

10. There had been circulated copies of a report by Chief Human Resources Officer proposing the revised Administering Authority Discretions for the Scottish Borders Council Pension Fund. The Pension Fund was required by the Local Government Pension Scheme Regulations to have Administering Authority Discretions in place. Appendix 1, to the report, contained the revised Administering Authority Discretions policies. There was a statutory requirement to publish a statement of discretionary policy three months after the commencement of the new scheme, i.e. no later than 30 June 2015. The HR Shared Services Manager advised that with regard to Regulation A64 the Council no longer applied abatement of pensions. Regulation 59, Communication Strategy Statement would be developed and brought back to a future meeting of the Committee. The Committee discussed Regulation R98, Inward transfer of pension rights, and requested that the term 'exceptional circumstances' be defined and added to the Policy.

DECISION:

(a) **AGREED** the revised Administering Authority Discretions as set out in Appendix 1 to the report as amended; and

(b) **NOTED** the Communication Strategy would be presented to a future meeting.

BUSINESS PLAN 2015/16 – 2017/18

11. There had been circulated a report by Chief Financial Officer proposing the Pension Fund Business Plan 2015/16 – 2017/18 for approval. Best practice suggested that having a business plan for the Pension Fund was a good way of demonstrating the "Myners Principle" relating to effective decision making. Appendix 1 to the report contained the first Pension Fund Business Plan, covering the period 2015/16 – 2017/18. The Business Plan 2015/16 – 2017-18 identified an Action Plan that would be delivered during the next three years to support the aims and objectives of the Pension Fund. The Action Plan included development and implementation of an effective Communication Strategy. The objectives of the Fund were to deliver a high quality pension service to members that was managed effectively, transparently and was compliant.

DECISION:

AGREED the Pension Fund Business Plan 2015/16 – 2017/18 as set out in Appendix 1 to the report.

MEMBER

Mr P Smith left the Meeting during consideration of the above item.

DRAFT ANNUAL REPORT AND ACCOUNTS 2014/15

12. There had been circulated copies of a report by Chief Financial Officer presenting the Draft Annual Accounts for the Pension Fund for 2014/15 as part of the consultation process prior to submission of the report to the Audit Committee and external auditors. The full Valuation Report was contained in Appendix 1 to the report, and concluded that the Scottish Borders Council Pension Fund had a funding level of 101% compared to the previous valuation of 96%. In general the Valuation Report concluded that the overall employer contribution rates could remain at their current levels. This meant that the Leisure Trust rate would be 15.5% of employee payroll, and the other open membership employers in the Pension Fund would be at a common contribution rate of 18% of employee payroll. However, the Scottish Borders Housing Association, following its decision to close membership, would have a contribution rate of 19%. The primary aim of the Fund was highlighted and the funding

objectives – to set levels of employment contribution that would build up a fund of assets that would be sufficient to meet all future benefit payments from the Fund and to build up the required assets in such a way that produced levels of employers contribution that were as stable. The report included an overview of the fund membership and showed the financial performance at the end of the financial year as having net assets of £545m an increase of £59m on the previous financial year which showed the positive performance of the Fund. The Committee congratulated Officers for their work implementing the changes required under LGPS scheme and undertaking the Triennial Valuation.

DECISION:

(a) NOTED the unaudited Pension Fund Annual Report and Accounts 2014/15 contained in Appendix 1 to the report; and

(b) AGREED that a copy of the final audited accounts would be provided to the Board and Committee and the end of the audit process.

PRIVATE BUSINESS

DECISION

13. **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 grounds that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of part 1 of Schedule 7A to the Act.**

SUMMARY OF PRIVATE BUSINESS

1. Minute

The Committee noted the Private Minute of the meeting of 5 March 2015.

2. Quarter Performance Update

The Committee noted a report by AON Hewitt Consulting.

The meeting concluded at 12.40 pm.