

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
Via Microsoft Teams on Thursday, 4 March
2021 at 10.00 am

Present:- Councillors D Parker, S Aitchison, J Brown, G Edgar, C Hamilton, D Moffat, S Mountford S Scott, Mr D Bell, Mr M Drysdale, Mr M Everett, Ms K Hughes, Ms H Robertson Ms L Ross, Ms C Stewart.

Apologies:- Mr M Everett

In Attendance: Executive Director Finance & Regulatory, Pensions and Investment Manager, HR Shared Services Manager, Chief Officer Audit & Risk, Democratic Services Officer (J Turnbull).

Also in Attendance: Mrs J West, Hymans Robertson, Mr A O'Hara and Mr A Singh, Isio.

1. **MINUTE**

There had been circulated copies of the Minute of the Meetings of 11 December 2020.

DECISION

NOTED for signature by the Chairman the Minute of the Meeting held on 11 December 2020.

2. **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 16 February 2021

DECISION

NOTED.

3. **FUNDING STRATEGY STATEMENT**

There had been circulated copies of a report by Executive Director Finance and Regulator proposing the revised Funding Strategy Statement following completion of the 2020 Triennial Valuation. The report explained the Pension Fund was required by the Local Government Pension Scheme Regulations to have an up-to-date Funding Strategy Statement (FSS). The 2020 Triennial Valuation of the Fund triggered a review and revision of the existing document. The review of the FSS has been undertaken in collaboration with Hymans Robertson the Funds' Actuary and active employers within the Fund have been consulted. The revised FSS, shown in Appendix 1 to the report has been developed to be transparent and to clearly set out the objectives of the Fund, the methodology used in the valuations and the key policies of the Fund in a number of areas. Within the 2020-21 Business Plan it was agreed that a Cessation Policy should be developed. Based on advice from the Fund Actuary it was determined that it was more appropriate that this be included within the FSS and this had now been incorporated in the revised version submitted for Committee Approval.

DECISION

AGREED to approve the Funding Strategy Statement contained in Appendix 1 to the report.

4. **TRIENNIAL VALUATION AS AT 31 MARCH 2020**

- 4.1 There had been circulated copies of a report by Executive Director Finance and Regulatory detailing the results from the Triennial Valuation for the Scottish Borders Council Pension Fund as at the 31 March 2020 which proposed the employer contribution rates for the next three financial years. The full Valuation Report, prepared by the Fund Actuary, Hymans Robertson, was contained in Appendix 1 to the report. The report concluded that the Scottish Borders Council Pension Fund had a funding level of 110% compared to the previous 2017 valuation of 114%. This equated to a funding surplus of £63m. The revised "Primary rate" calculated had increased from 20.6% to 21.9% and the surplus had reduced to £63m. However, to allow employer contributions for those in the Scottish Borders Council Pool to remain stable for the first two years the Actuary recommended the surplus be utilised and the rates increased in year 3 by 0.5% to mitigate for uncertainties. The report explained that there were a number of uncertainties, such as McCloud and the Cost Cap Mechanism, for which the impact to the Fund was unknown. The 0.5% common pool rate increase provided an element of mitigation. The full impact would be monitored for possible implications to the liabilities and consequent contribution rates. 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. South of Scotland Enterprise has been admitted to the Fund in 2020. In accordance with the admission agreement they were not within the Scottish Borders Council Pool. Therefore, individual rates had been calculated with a recommended increase in 2021/22 of 0.5% and further increase of 0.5% in 2023/24.
- 4.2 In response to questions the Pensions and Investment Manager, Mrs Robb, advised that with regard to the 3.8% investment assumption the Actuary had been prudent in determining this return. Mrs West added that this allowed for future different scenarios and an element of outperformance. Returns were anticipated to be in excess of 3.8% but because of uncertainties they made an allowance when setting the rate. Mrs West further advised that the Funding Strategy determined the contribution rates for each employer in the Fund and was based on the individual circumstances of each employer. With regard to CGI, the rate reflected that the CGI Fund was closed to new entrants and that payroll and contributions would decrease. The Pension Fund Committee and Pension Board thanked the Fund Actuary Hymans Robertson for the work preparing the Triennial Valuation.

DECISION

(a) NOTED the Fund Valuation Report as at 31 March 2020 as set out in Appendix 1;

(b) AGREED:

- (i) the recommended Scottish Borders Council Pool rates of 18.0% for 2021/22 and 2022/23 and 18.5% for 2023/24;**
- (ii) the recommended rates for SBHA of 20.3% 2021/22, 20.8% for 2022/23 and 21.3% for 2023/24;**
- (iii) the recommended rate for CGI of 22% from 1st April 2021 with additional one of payments of £16,500 for 2021/22 and 2022/23 and £21,000 for 2023/24; and**
- (iv) the recommended rates for SOSE of 21.1% for 2021/22 and 2022/23 and 21.6% for 2023/24.**

5. RISK REGISTER UPDATE

With reference to paragraph 4 of the Minute of 11 December, there had been circulated copies of a report by the Executive Director Finance and Regulatory. The report formed part of the risk review requirements of the Pension Fund Committee and Pension Board with an update on progress of the actions taken by management to mitigate 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 was undertaken on 15 May 2020 and the revised Risk Register approved by the joint Pension Fund Committee and Pension Board on 22 June 2020, with an update of the actions undertaken on 24 September 2020 and 11 December 2021. Appendix 1 to the report detailed the new risks added to the Risk Register. Appendix 2 detailed the risks within the approved Risk Register which have been identified management actions and the progress of these actions to date. Mrs Robb discussed the new risks detailed in Appendix 1 of the report explaining the actions proposed to mitigate each risk. The Chief Officer Audit & Risk, Mrs Stacey, advised that internal audit had carried out a review around the Council's systems in relation to cyber security, the findings of which had been reported to the September 2020 Audit & Scrutiny Committee and the Risk Register had recognised the scoring in place. With regard to the demographics' liquidity risk, Mrs Robb advised that this was also included and would be evaluated in the full risk review to be presented to the June meeting.

DECISION

- a) **NOTED:**
 - (i) **the new risks in Appendix 1 identified since the last review;**
 - (ii) **the management actions progress as contained in Appendix 2, to the report; and**

- b) **AGREED to a key risk review being undertaken in June 2021.**

6. PENSION FUND BUDGET MONITORING TO 30 SEPTEMBER 2020

With reference to paragraph 6 of the Minute of 11 December, there had been circulated copies of a report by Executive Director Finance and Regulatory providing an update on the Pension Fund budget to 31 December 2020 including projections to 31 March 2021. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and sets out the standards that were to be measured against. To ensure the Fund met the standards a budget was approved on 10 March 2020 following the recommendations within the CIPFA accounting guidelines headings. This report was the third quarterly monitoring report of the approved budgets. The total expenditure to 31 December 2020 was £0.694m with a projected total expenditure of £6.906m against a budget of £6.906m. The estimated budget for 2021/22 was estimated at £7.079m based on key assumptions detailed in paragraphs 4.4 to 4.6 of the report. In response to questions Mrs Robb advised that managers' fees were a fixed percentage rate applied to the value of the funds managed, their total fees therefore increased or decreased depending on Fund performance. Mrs Robb further advised that the Scheme Advisory Board (SAB) had been unable to estimate the amount required from the Fund to undertake the structure review.

DECISION

- (a) **NOTED the actual expenditure to 31 December 2020.**

- (b) **AGREED the 2021/22 budget of £7.079m.**

7. INTERNAL AUDIT ANNUAL PLAN 2021-22

There had been circulated copies of a report by the Chief Officer Audit & Risk presenting for approval the Internal Audit Plan 2021/22 for the Scottish Borders Council Pension Fund. The Plan enabled the Chief Officer Audit & Risk to provide the required audit opinion on the adequacy of the Scottish Borders Pension Fund's overall control environment. The report explained the Public Sector Internal Audit Standards (PSIAS) required the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to set out the areas of Internal Audit activity, consistent with the objectives of the Pension Fund. A fundamental role of the

Internal Audit function was to provide senior management and members with independent and objective assurance, designed to add value and improve the organisation's operations. In addition, the CAE was also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment. The proposed Internal Audit Annual Plan 2021/22 for the Pension Fund in Section 4.2 of the report set out the range and breadth of audit areas and sufficient audit activity to enable the CAE to prepare an Internal Audit annual opinion for the Pension Fund. Key components of the audit planning process included a clear understanding of the organisation's functions, associated risks, and assurance framework. There were resources currently in place to achieve the Internal Audit Annual Plan 2021/22 for the Pension Fund and to meet its objectives. In response to a question regarding cyber security, Mr Angus advised that pension administration used Aquila Heywood and Business World, both of which included disaster recovery and business continuity in their respective systems.

DECISION

AGREED to approve the Scottish Borders Council Pension Fund Internal Audit Annual Plan 2021/22.

8. INFORMATION UPDATE

- 8.1 There had been circulated copies of a briefing paper by Executive Director Finance and Regulatory providing 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 Pensions Administration System
Mr Angus advised that Aquila Heywood had been taken over by Blackrock Long Term Private Capital.
- 8.3 Scheme Advisory Board
The Appendix to the briefing paper contained the bulletin from the SAB meeting held on 10 December 2020, and provided updates on Cost Cap, cessation costs, structure review and fee transparency. The Chairman, Councillor Parker, advised the SAB had delegated a sub-group to appoint a specialist to lead on the future structure of LGPS funds. Councillor Mountford added that with regard to cessation, the SAB Working Group had made some recommendations and the Unions were in discussion with the Working Group.
- 8.4 Training Opportunities
Mrs Robb gave an update on future training events: The PLSA seminar would take place on 9-11 March. Mrs Robb asked that anyone attending the meeting tested the link received, prior to the seminar. The LGC Seminar would take place on 18-19 March and a link to join the Seminar would follow.
- 8.5 Future Meetings
Joint Pension Fund Committee and Pension Board had been scheduled for:
- Thursday, 10 June 2021
 - Thursday, 16 September 2021
 - Thursday, 14 December 2021
 - Thursday, 17 March 2022
 - Wednesday, 29 June 2022
- Pension Fund Investment Performance Sub-Committee had been scheduled for:
- Tuesday, 29 June 2021.
 - Monday, 27 September 2021
 - Monday, 27 February 2021
 - Tuesday, 28 June 2022

DECISION

NOTED the briefing paper.

9. **PRIVATE BUSINESS**

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to excluded 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 paragraph 6 and 8 of Part 1 of Schedule 7A to the Act.

10. **MINUTE**

The Committee noted the Private Minute of the meetings of 11 December 2020.

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

The Committee considered a report by the Executive Director Finance & Regulatory and approved the recommendations

12. **QUARTER PERFORMANCE UPDATE**

The Committee considered a private report by Isio.

13. **PROCUREMENT UPDATE - INVESTMENT ADVISOR**

The Committee considered a report by the Executive Director Finance & Regulatory and approved the recommendations.

The meeting concluded at 11.45 am.