

SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE
AND PENSION BOARD

MINUTE of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in Council Chamber, Council Headquarters,
Newtown St Boswells on Thursday, 10
December, 2015 at 9.30 am

Present:- Councillors J Mitchell (Chairman), J Campbell, M Cook, G Edgar, G Logan, S Mountford, Mr A Barclay, Ms R Black, Mr M Drysdale, Mr P Smith.

Apologies:- Councillors: S Aitchison, B White, Ms Linda Ross.

In Attendance:- Chief Financial Officer, HR Shared Services Manager (Items 1-3)
Treasury & Capital Manager, Chief Officer Audit & Risk, Mr K Ettles –
AON Hewitt Consulting, Democratic Services Officer (J Turnbull).

1. **ORDER OF BUSINESS**

The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

2. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 3 September 2015.

DECISION:

NOTED for signature by the Chairman.

3. **COMMUNICATION STRATEGY**

Mr Ian Angus, HR Shared Services Manager was in attendance to give a briefing on the implementation of a Communications Strategy. Within the Pension Fund Business Plan it had been agreed that the Fund would develop and gain approval for the implementation of a Communications Strategy and Action Plan during 2015/16. The Strategy would consider engagement with existing scheme members and information made available to potential scheme members. Additionally, communication with Scheduled and Admitted Body employers would be explored and provision of access to relevant forms and documents they required to provide a quality service to their employees. Mr Angus advised that the Council's Communications team would provide their skills and expertise to assist with the development of the Action Plan and Strategy. The first decision required was the most appropriate place for hosting the Pension Fund information. There were a number of options to consider: SBC's website; a new website specifically for the Pension Fund; Self Service site for the Pension Administration system; or, the new Staff Benefits portal. Once these options had been appraised a further report would be brought to a meeting of the Pension Fund Committee and Pension Board for consideration. In answer to a question regarding regular Freedom of Information (FOI) requests, Mr Robertson advised that FOIs were not presently charged, the cost being met within officer time. Mrs Robb added that publication of a list of Fund holdings would be considered, any FOI requests for this information could then be directed to the appropriate section on the website.

DECISION

NOTED

(a) Progress on the implementation of a Communication Strategy; and

- (b) That a further report on the Communications Strategy would be presented to a future joint meeting of the Pension Fund Committee and Pension Board.**

MEMBER

Councillor Cook joined the meeting during consideration of the above item.

4. RISK REGISTER UPDATE

- 4.1 With reference to paragraph 6 of the minute of 3 September 2015, there had been circulated a report by the Chief Financial Officer providing Members of the Committee and Board with an update on the progress of management actions to mitigate risks, a review of new risks and highlighting 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 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. Appendix 1, to the report detailed the risks within the approved Risk Register. In line with the Council's Risk Management Policy (2015) a paper would be presented to the June 2016 meeting demonstrating progress with a fully reviewed Risk Register, including consideration of any new risks. It was noted that a full Risk Workshop had been undertaken on 3 September 2015 to ensure that the Risk Register's content was up to date and no new risks had been identified.
- 4.2 Mr Robertson advised that there had been discussion at UK national level on the pooling of pension funds and a drive to increase investment in infrastructure. Officers were undertaking further work to evaluate possible implications for the Pension Fund and would report back to the Committee and Board at the March 2016 meeting. Mr Robertson referred to Risk 4.1, that changes to the composition of the Pension Fund membership might lead to there being insufficient assets in the Fund to meet future liabilities. Mr Robertson explained that this was indicative of the Fund maturing. There followed a discussion on the long term consequences of Early Retirement Voluntary Service (ERVS) in relation to the Fund. If this policy continued it was considered that it would have a significant impact on the Fund going forward. It was important to encourage younger employees to join the Fund to offset the number of Fund members retiring early. In answer to questions, Mr Robertson clarified that the Actuary's methodology, calculated what was expected in terms of loss to the Pension Fund when requests for ERVS were considered by Council. The Pension Fund was then compensated based on the Actuary's calculation. Mr Robertson highlighted that changes to the cash requirement of the Fund to pay pensions altered the structure of the Fund, it was therefore essential to ensure the correct balance of liquid and illiquid assets. Mr Robertson suggested that the Actuary be invited to a meeting of the Committee and Board to give a presentation on the impact of ERVS on the Pension Fund and this was welcomed. It was noted that Risk 4.1 and Risk 2.5 were connected and Mr Robertson would look at the future presentation of these two risks on the Risk Register.

DECISION

- (a) AGREED**
- (i) To the additional actions proposed in Appendix 1 to the report;**
 - (ii) To a full review of the Risk Register being undertaken in June 2016 to include progress on risk management actions and consideration of any new risks; and**
 - (ii) To receive a presentation by the Actuary on the impact of ERVS on the Pension Fund.**
- (b) NOTED**
- (i) The management actions progress as contained in Appendix 1, to the report;**
 - (ii) That further information would be provided at the March 2016 meeting on the pooling of funds and infrastructure investments; and**
 - (iii) No new risks had been identified since the last review.**

5. **BUSINESS PLAN PERFORMANCE UPDATE**

There had been circulated a report by Chief Financial Officer providing members of the Committee and the Board with an update on the actions within the approved Business Plan. The 2015/16 – 2017/18 Business Plan for the Pension Fund was approved by the Committee and Board on 18 June 2015. Included within the Plan were key objectives and actions with target dates. As part of the risk register update, approved at the Committee and Board on 3 September, it was agreed a mid-year progress report on the Business Plan actions would be presented to Members at the December meeting and a further progress report and update at the June 2016 meeting. There were 13 performance measures with target dates during 2015/16 contained within the Business Plan. These were detailed in Appendix 1 to the report. As at 10 December, six performance measurements had been completed, six were on track to complete within their targeted timescales and one was currently behind target but progressing.

DECISION

- (a) **AGREED a further update be presented at the June 2016 meeting; and**
- (b) **NOTED the progress of the 2015/16 actions with the Business Plan.**

MEMBER

Councillor Campbell joined the meeting during consideration of the above item.

6. **PROCUREMENT UPDATE**

6.1 There had been circulated a report by Chief Financial Officer providing Members with an update on the various procurement activities to be undertaken for the Pension Fund over the next 12 months. Identified within the Business Plan, approved by Committee on the 18 June 2015, there were three procurements to be undertaken. These were Investment Advisor, Custodian and Currency Manager. The current split of services procured by the Fund required to be reviewed prior to the commencement of the procurements to ensure the Fund could meet its statutory reporting requirements and ensure best value from all services was obtained. The Appointments Sub-Committee would work with officers during the procurements and make recommendations to the Pension Fund Committee and Board on the individual preferred bidders. To reduce timescales, without adversely affecting the quality of the procurement, it was proposed for the Investment Advisor and Custody services to use the Norfolk Framework. To reduce timescales for the currency hedge manager an Investment Management Agreement (IMA) was being developed. This would reduce the risks and time required for clarifications and final contract award.

6.2 In answer to questions, Mr Robertson explained that the current Custodian provided a limited service, augmented with quarterly performance reports provided from Aon Hewitt. This arrangement had worked well for the fund in the past. However, due to increased complexity of the statutory reporting requirements and the increased number of fund managers there was a need to review the current service procured. The use of the Norfolk framework would allow for a shortened procurement exercise without affecting the quality of the procurement check. It was proposed that the procurement process would commence in January with the shortlisted companies being considered by the Appointments Sub Committee in March. Recommendations would then be presented to the Pension Board and Pension Fund Committee on 23 March 2016.

DECISION

- (a) **AGREED**
 - (i) **The use of the Norfolk framework for the Investment Advisor and Custody procurements; and**
 - (ii) **The payment of the joining fees.**
- (b) **NOTED further reports and updates would be provided at the March meeting.**

MEMBER

Councillor Edgar left the meeting prior to consideration of the above item.

(Note: Mr K Ettles, Aon Hewitt, left the meeting during consideration of the above item.)

7. EMPLOYER CESSATIONS

There had been circulated a briefing paper by Chief Financial Officer providing members of the Committee and the Board with an update on the current issue some pension funds were facing with cessations and explaining the national discussion around these. Under the Local Government Pension Scheme (Scotland) Regulations 2014 there were certain circumstances where revised actuarial valuations and certificates must be obtained. This included where a scheme employer ceased to be part of the scheme or no longer had active members contributing to the fund. The Employer became an “exiting employer” under the regulations and was liable to pay an exit payment. For each “exiting employer” the administering authority must obtain an actuarial valuation of the liabilities, as at the exit date, in respect of the employer’s current and former employees. This valuation revised contribution rates and provided an exit payment in respect of the benefits liability. To ensure the Pension Fund was not at risk for these liabilities the “exiting employer” was then required to either pay the exit payment or provide an indemnity, bond or guarantee. Mr Robertson explained that there were issues around the unintended consequences of the changes to the regulations in terms of “exiting employers”. Concerns had been raised by the “exiting employers” regarding the impact and the value of the required payment in relation to the organisations’ total budget. Scottish Government would ensure that changes to the regulations to assist both administering bodies and “exiting employers” would be in force in December 2015. However, the Deputy First Minister’s letter, a copy of which was attached to the Agenda, instructed cognizance of the changes now when considering any cessation liabilities. In answer to questions, Mr Robertson clarified that an “exiting employer” referred to a body that had been admitted to the fund but had no new active members. There were currently seven employers within the Pension Fund who had no active members, deferred members in this category being 0.36% of the total membership. Mr Robertson advised that the briefing paper had been brought for information, when further details were available a further report would be presented to the Committee and Board.

**DECISION
NOTED.**

8. SCHEME ADVISORY BOARD – WORK PLAN

There had been circulated copies of the Scheme Advisory Board Bulletin together with the Pension Fund Statement of Investment Principles 2013 and 2015, for information.

**DECISION
NOTED.**

9. INVESTMENT IN INFRASTRUCTURE

There had been circulated copies of correspondence from the Local Government and Regeneration Committee of the Scottish Parliament – Response by Scottish Borders Council. In addition, copies of the Report on Pension Fund Investment in Infrastructure and City Deal Spend had also been circulated. The documentation explained that Scottish Parliament’s Local Government and Regeneration Committee had sought information on investments made and any current barriers to investing in infrastructure projects and city or region deals. As well as the submission provided from Scottish Borders Council (SBC) to the Committee, Mr Robertson had been invited to give evidence in terms of the operation and ability of the Scottish Borders Pension Fund and in particular investment in infrastructure. Mr Robertson advised that when given evidence, he had highlighted, the legal difference between pension funds and the local authority and the tension between maximising pension fund returns and infrastructure investment by the Council. He had also explained that the Committee, in noting that there were significant assets in pension funds, should also remember there were considerable liabilities. The

Pension Fund Committee and Pension Board discussed the report and unanimously agreed that their role was to maximise returns in relation to the Pension Fund, to protect the interest of the Pension Fund and the membership. Mr Robertson advised that the Pension Fund Committee and Pension Board would be kept updated for a response to be made, if required.

**DECISION
NOTED.**

10. **ITEM LIKELY TO BE TAKEN IN PRIVATE**

DECISION

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 3 September 2015.

12. **QUARTER PERFORMANCE UPDATE**

The Committee noted a report by AON Hewitt Consulting.

13. **PROPERTY INVESTMENT UPDATE.**

There Committee noted a report by Chief Financial Officer.

The meeting concluded at 12.00 pm